# CHAPTER III: ECONOMIC SECTOR
(State Public Sector Undertakings)

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# ECONOMIC SECTOR
# (STATE PUBLIC SECTOR UNDERTAKINGs)

## 3.1 Functioning of State Public Sector Undertakings

### Introduction

**3.1.1** The State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. The SPSUs are established to carry out activities of commercial nature keeping in view the welfare of people and also to occupy an important place in the State economy. As on 31 March 2016, there were 14 SPSUs in Tripura. None of these SPSUs was listed on the Stock exchange. During the year 2015-16, no new SPSU was incorporated and none was closed down. The details of the SPSUs in Tripura as on 31 March 2016 are given in table below.

**Table No. 3.1.1: Total number of SPSUs as on 31 March 2016**

| Type of SPSUs | Working SPSUs | Non-working SPSUs[1] | Total |
|---|---|---|---|
| Government Companies[2] | 12 | 1 | 13 |
| Statutory Corporations | 1 | - | 1 |
| **Total** | **13** | **1** | **14** |

The working SPSUs registered a turnover of ₹ 706.39 crore as per their latest finalised accounts as of September 2016. This turnover was equal to 2.13 *per cent* of the Gross State Domestic Product (GSDP) of ₹ 33,189.03 crore[3] for 2015-16, which was higher by 7.33 *per cent* as compared to the GSDP for 2014-15. The working SPSUs incurred an aggregate loss of ₹ 139.05 crore as per their latest finalised accounts as of September 2016, as compared to the aggregate loss of ₹ 126.63 crore incurred by the working SPSUs during 2014-15. The overall losses of working SPSUs were mainly on account of heavy loss (₹ 106.73 crore) incurred by the power sector SPSU {*viz.,* Tripura State Electricity Corporation Limited (TSECL)} as discussed under **Paragraph No. 3.1.15**. The SPSUs had employed 7,642[4] employees as at the end of March 2016.

As on 31 March 2016, there was one non-working SPSU, which was existing for the last 45 years and having investment of ₹ 4 lakh. This was a critical area as the investment in the non-working SPSU did not contribute to the economic growth of the State.

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[1] Non-working SPSUs are those which have ceased to carry on their operations.

[2] Government companies include Other Companies referred to in Section 139(5) and 139(7) of the Companies Act 2013.

[3] GSDP figures taken as per Quarterly Review Report of the Finance Minister, Government of Tripura for the 3rd quarter of 2015-16.

[4] As per the details provided by working SPSUs.

## Accountability framework

**3.1.2** The audit of the financial statements of a Company in respect of financial years commencing on or after 1st April, 2014 is governed by the provisions of the Companies Act, 2013. However, the audit of a Company in respect of financial years that commenced earlier than 1st April, 2014 continued to be governed by the Companies Act, 1956.

According to Section 2 (45) of the Companies Act, 2013 (Act), a Government Company is one in which not less than 51 *per cent* of the paid up capital is held by the Central and/or State Government(s) and includes subsidiary of a Government Company. The process of audit of Government Companies under the Act is governed by respective provisions of Section 139 and 143 of the Act.

## Statutory Audit

**3.1.3** The financial statements of a Government Company (as defined in Section 2 (45) of the Companies Act, 2013) are audited by the Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 139 (5) or (7) of the Companies Act. These financial statements are subject to Supplementary Audit to be conducted by the CAG under the provisions of Section 143 (6) of the Act.

Further, the Statutory Auditors of any other Company (Other Company) owned or controlled, directly or indirectly, by the Central and/or State Government (s) are also appointed by the CAG as per the provisions of Section 139 (5) or (7) of the Act.

As per the provisions of Section 143 (7) of the Act, the CAG, in case of any Company (Government Company or Other Company) covered under sub-section (5) or sub-section (7) of Section 139 of the Act, if considers necessary, cause test audit to be conducted of the accounts of such Company (Government Company or Other Company) then the provisions of Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 (CAG's DPC Act) shall apply to the report of such test audit.

Audit of Statutory Corporations is governed by their respective legislations. The CAG is the sole auditor for the only Statutory Corporation in the State, *viz.,* Tripura Road Transport Corporation (TRTC).

## Role of Government and Legislature

**3.1.4** The State Government exercises control over the affairs of these SPSUs through its administrative departments. The Chief Executive and Directors on the Board of the SPSUs are appointed by the State Government.

The State Legislature also monitors the accounting and utilisation of State Government investment in the SPSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of State Government Companies and Separate Audit Reports (SARs) issued by the CAG in case of Statutory Corporations are to be placed before the Legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of the CAG are submitted to the Government under Section 19A of the CAG's DPC Act.

## Stake of State Government of Tripura

**3.1.5** The State Government has a large financial stake in these SPSUs. This stake is of mainly three types:

- **Share capital and loans-** In addition to the Share capital contribution, State Government also provides financial assistance by way of loans to the SPSUs from time to time.
- **Special financial support-** State Government provides budgetary support by way of grants and subsidies to the SPSUs as and when required.
- **Guarantees-** State Government also guarantees the repayment of loans (with interest) availed by the SPSUs from Financial Institutions.

## Investment in state PSUs

**3.1.6** As on 31 March 2016, the investment (capital and long-term loans) in 14 SPSUs was ₹ 1,431.63 crore[5] as per details given in table below.

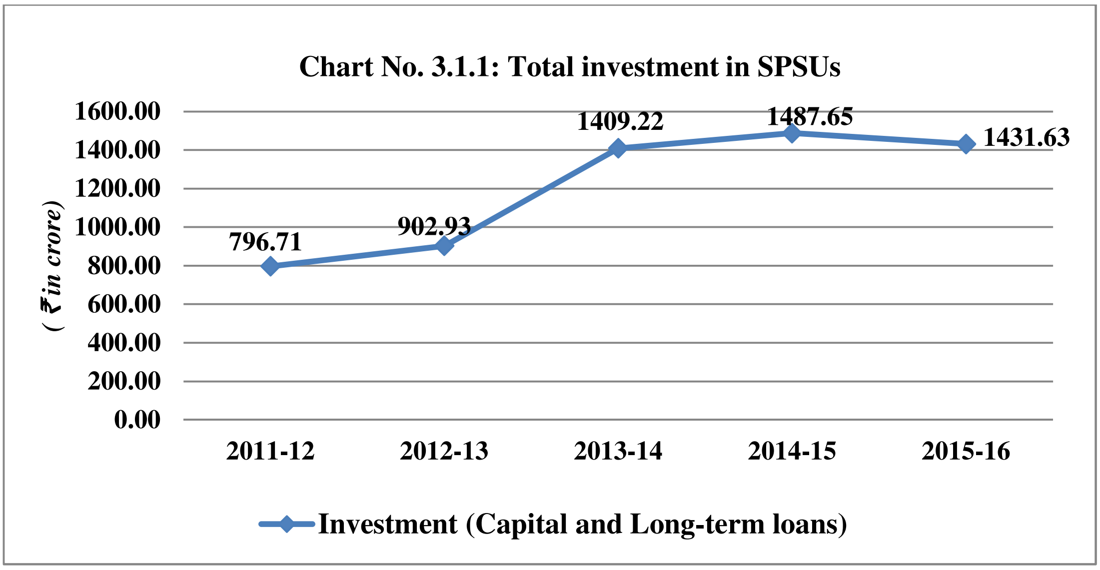
**Table No. 3.1.2: Total investment in SPSUs**

*(₹ in crore)*

| Type of SPSUs | Government Companies | | | Statutory Corporations | | | Grand total |
|---|---|---|---|---|---|---|---|
| | Capital | Long term loans | Total | Capital | Long term loans | Total | |
| Working SPSUs | 1,131.27 | 140.31 | 1,271.58 | 159.76 | 0.25 | 160.01 | 1,431.59 |
| Non-working SPSUs | 0.04 | 0.00 | 0.04 | 0.00 | 0.00 | 0.00 | 0.04 |
| **Total** | **1,131.31** | **140.31** | **1,271.62** | **159.76** | **0.25** | **160.01** | **1,431.63** |

Out of the total investment of ₹ 1,431.63 crore in SPSUs as on 31 March 2016, 99.99 *per cent* was in working SPSUs and the remaining 0.01 *per cent* in one non-working SPSU(*viz.,* Tripura State Bank Limited). This total investment consisted of 90.18 *per cent* towards capital and 9.82 *per cent* in long-term loans. The investment has grown by 79.69 *per cent* from ₹ 796.71 crore (2011-12) to ₹ 1,431.63crore (2015-16) as shown in the **Chart No. 3.1.1**.

[5] Information as furnished by the SPSUs excepting one SPSU (Sl. No. A 12 of **Appendix - 3.1.2**) investment figures for which have been adopted from their finalised accounts for 2015-16.



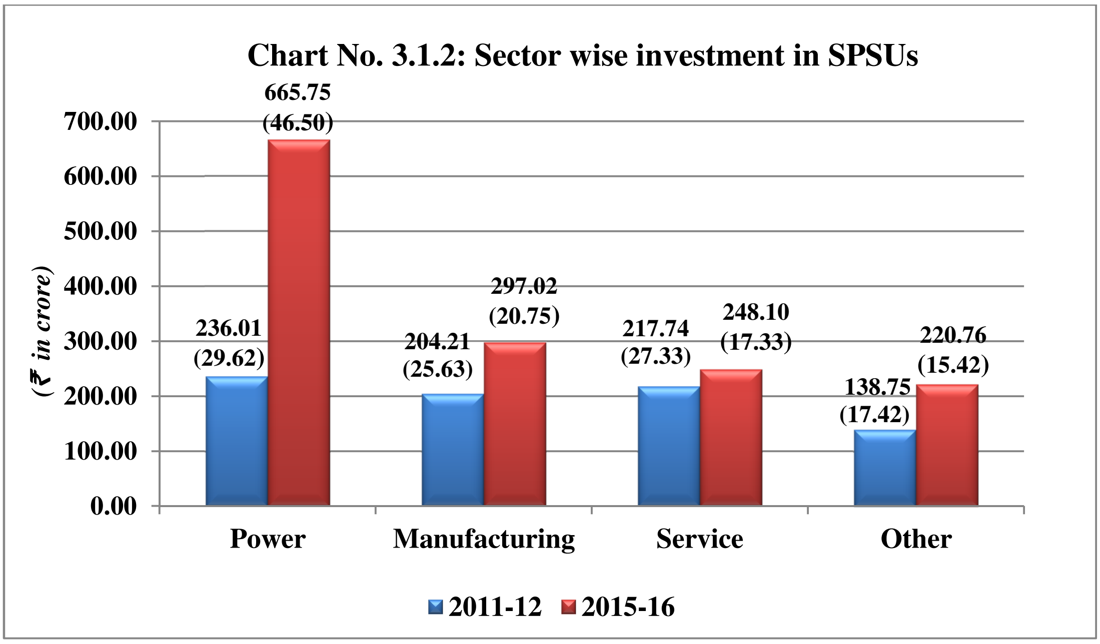

**3.1.7** The sector wise summary of investments in the SPSUs as on 31 March 2016 is given in table below:

**Table No. 3.1.3: Sector-wise investment in SPSUs**

| Name of Sector | Government / Other[6] Companies | | Statutory Corporations | Total | Investment |
|---|---|---|---|---|---|
| | Working | Non-Working | Working | | (*₹in crore*) |
| Power | 1 | 0 | 0 | 1 | 665.75 |
| Manufacturing | 2 | 0 | 0 | 2 | 297.02 |
| Finance | 1 | 1 | 0 | 2 | 144.62 |
| Miscellaneous | 1 | 0 | 0 | 1 | 14.77 |
| Service | 3 | 0 | 1 | 4 | 248.10 |
| Agriculture & Allied | 4 | 0 | 0 | 4 | 61.37 |
| **Total** | **12** | **1** | **1** | **14** | **1431.63** |

The investment in four significant sectors and percentage thereof at the end of 31 March 2012 and 31 March 2016 are indicated in the **Chart No. 3.1.2**. The thrust of investment in SPSUs was mainly in power sector which increased from 29.62 *per cent* to 46.50 *per cent* during 2011-12 to 2015-16.

[6] 'Other Companies' as referred to under Section 139 (5) and 139 (7) of the Companies Act, 2013.




**(Figures in brackets show the percentage of total investment)**

As compared to the investment position in SPSUs during 2011-12, investments have increased in all the sectors as of 2015-16. Major increase in investment was in the power sector by ₹ 429.74 crore (182.09 *per cent*) which was mainly due to conversion of capital reserve[7] amounting to ₹ 545.46 crore into equity and issuing of share capital there against by TSECL in favour of the State Government during the year 2012-13.

The increase of investment (45.45 *per cent*) under manufacturing sector was mainly due to equity contribution of ₹ 92.81 crore extended by the State Government to Tripura Jute Mills Limited (₹ 79.19 crore) and Tripura Small Industries Corporation Limited (₹ 13.62 crore) during the period 2011-16.

## Special support and returns during the year

**3.1.8** The State Government provides financial support to SPSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and interest waived in respect of SPSUs are given in table below for three years ended 2015-16.

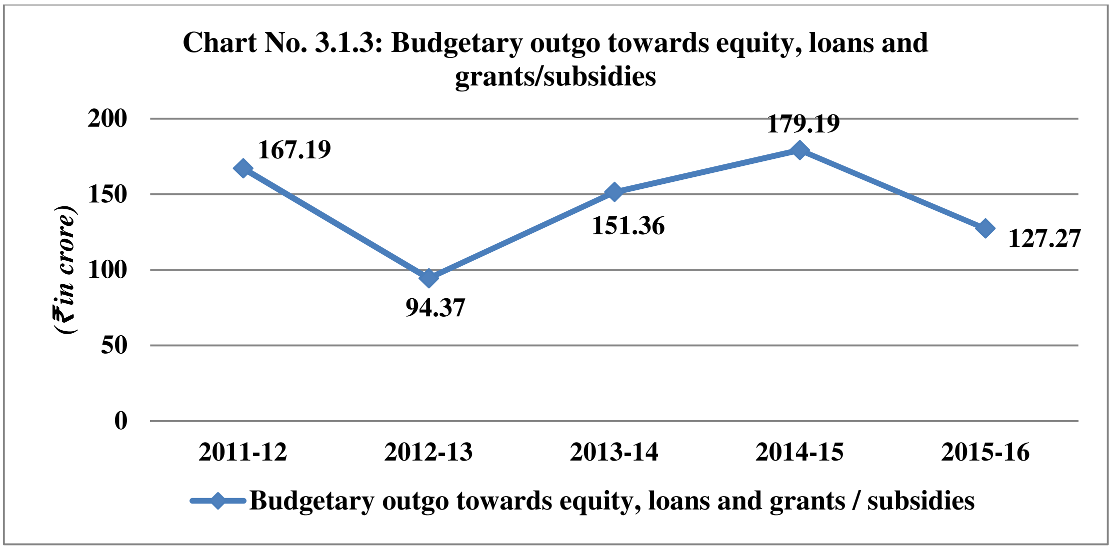
[7] This represents the value of assets transferred by State Government (Power Department) to TSECL (Company) when the activities in power sector were transferred (2007) to the Company.

**Table No. 3.1.4: Details regarding budgetary support to SPSUs**

*(₹ in crore)*

| Sl. No. | Particulars | 2013-14 | | 2014-15 | | 2015-16 | |
|---|---|---|---|---|---|---|---|
| | | No. of SPSUs | Amount | No. of SPSUs | Amount | No. of SPSUs | Amount |
| 1. | Equity capital outgo from budget | 7 | 41.27 | 6 | 38.88 | 6 | 38.48 |
| 2. | Loans given from budget | - | 0.00 | 1 | 12.00 | - | - |
| 3. | Grants/subsidy from budget | 5 | 110.09 | 6 | 128.31 | 5 | 88.79 |
| **4.** | **Total Outgo (1+2+3)[8]** | **9** | **151.36** | **11** | **179.19** | **10** | **127.27** |
| 5. | Waiver of loans and interest | - | - | - | - | - | - |
| 6. | Guarantees issued | - | - | - | - | - | - |
| 7. | Guarantee commitment | 1 | 2.63 | - | - | - | - |

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




It may be observed that the budgetary outgo to the SPSUs in the form of equity, loans, grants/subsidies, etc. had shown a mixed trend during 2011-12 to 2015-16. The budgetary outgo to SPSUs was at the peak in five years during 2014-15 at ₹ 179.19 crore and lowest during 2012-13 at ₹ 94.37 crore. During 2015-16, however, the budgetary outgo to SPSUs (₹ 127.27 crore) was significantly low (by 28.97 *per cent*) as compared to the budgetary outgo (₹ 179.19 crore) extended during 2014-15. The major beneficiaries of budgetary outgo during 2015-16 were TSECL (grant/subsidy: ₹ 69.00 crore), Tripura Jute Mills Limited (equity: ₹ 20.00 crore), TRTC (grants: ₹ 17.69 crore) and Tripura Handloom and Handicrafts Development Corporation Limited (equity: ₹ 10.00 crore).

## Reconciliation with finance accounts

**3.1.9** The figures in respect of equity and loans as per records of SPSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case

8 Actual number of SPSUs, which received equity, loans, grants/subsidies from the State Government.

the figures do not agree, the SPSUs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard as on 31 March 2016 is stated in the table below.

**Table No. 3.1.5: Equity, loans, guarantees outstanding as per the Finance Accounts *vis-à-vis* records of SPSUs**

*(₹ in crore)*

| Outstanding in respect of | Amount as per Finance Accounts | Amount as per records of SPSUs | Difference |
|---|---|---|---|
| Equity | 1217.60 | 1285.85 | 68.25 |
| Loans | 43.50[9] | 129.46 | 85.96 |
| Guarantee | - | - | - |

Audit observed that the differences occurred in respect of 11[10] SPSUs. During 2015-16, the differences in the figures of equity and loans were to the tune of ₹ 68.25 crore and ₹ 85.96 crore respectively. Corresponding differences in the figures of equity and loans during the year 2014-15 were to the tune of ₹ 54.96 crore and ₹ 85.69 crore respectively. Thus, the unreconciled differences in investment of State Government in equity of SPSUs had increased by ₹ 13.49 crore (24 *per cent*), while the same for loans decreased by ₹ 0.27 crore (0.32 *per cent*) during the year 2015-16. The State Government and the SPSUs should take concrete steps to reconcile the differences in a time-bound manner.

## Arrears in finalisation of accounts

**3.1.10** The financial statements of the Companies for every financial year are required to be finalised within six months from the end of the relevant financial year *viz.,* by September end in accordance with the provisions of Section 96 (1) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Act. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

The table below provides the details of progress made by working SPSUs in finalisation of accounts as of 30 September 2016.

**Table No. 3.1.6: Position relating to finalisation of Accounts of working SPSUs**

| Sl. No. | Particulars | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|
| 1. | Number of working PSUs | 13 | 13 | 13 | 13 | 13 |
| 2. | Number of Accounts finalised during the year | 22 | 19 | 12 | 11 | 16 |
| 3. | Number of Accounts in arrears | 26 | 20 | 21 | 23 | 20 |
| 4. | Number of Working PSUs with arrears in Accounts | 13 | 10 | 11 | 12 | 12 |
| 5. | Extent of arrears (number in years) | 1 to 6 years | 1 to 3 years | 1 to 5 years | 1 to 6 years | 1 to 2 years |

9 Loans represents State Government loan to TSECL for power projects.
10 SPSUs at Sl. Nos. A.1, A.2 and A.4 to A.11 and B.1 of **Appendix 3.1.2.**

From the table, it could be observed that the number of accounts in arrears has decreased from 26 (2011-12) to 20 (2015-16). As on 30 September 2016, only one[11] out of 13 working SPSUs had prepared the upto date accounts and the accounts of remaining 12 working SPSUs had a backlog of 20 accounts for periods ranging from one to two years. The arrear of 20 accounts during 2015-16 included backlog of two accounts each in respect of seven Companies and one Statutory Corporation, and one accounts each in respect of four Companies as detailed in **Appendix- 3.1.2**.

The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by the SPSUs within the stipulated period. During the period 2015-16 (upto September 2016), the Ministries/departments concerned were informed (December 2015 and July 2016) regularly of the arrears in finalisation of accounts by these SPSUs. In addition, the Accountant General had also taken up (February 2016) the matter with the Chief Secretary, Government of Tripura for liquidating the arrears of accounts and drawing special attention to the importance of preparation of accounts on time. Despite all these efforts, however, the arrears of accounts of working SPSUs as of September 2016 stood at 20 accounts in respect of 12 working SPSUs.

**3.1.11** The State Government had invested ₹ 208.99 crore in 10 SPSUs {equity: ₹ 56.36 crore (eight SPSUs) and grants ₹ 152.63 crore (five SPSUs)} during the years for which these SPSUs have not finalised their accounts as detailed in **Appendix - 3.1.1**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not and thus State Government's investment in such SPSUs remained outside the control of State Legislature.

## Placement of Separate Audit Reports

**3.1.12** The position depicted below show the status of placement of SARs issued by the CAG (up to 30 September 2016) on the accounts of the only Statutory Corporation in the State Legislature.

**Table No. 3.1.7: Status of placement of SARs in Legislature**

| Sl. No. | Name of Statutory Corporation | Year up to which SARs placed in Legislature | Year for which SARs not placed in Legislature | |
|---|---|---|---|---|
| | | | Year of SAR | Date of issue to the Government/Reasons for not placing in Legislature |
| 1. | Tripura Road Transport Corporation | 2011-12 | Nil | |

The SARs issued by the CAG on the accounts of TRTC for the years upto 2011-12 were placed in the State Legislature by the Government. The audit of the accounts of the Corporation for the subsequent two years (*viz.*, 2012-13 and 2013-14) was completed and SARs were also issued (November 2016).

[11] Tripura Natural Gas Company Limited.

## Impact of non-finalisation of accounts

**3.1.13** As pointed out above (**Paragraph Nos. 3.1.10** to **3.1.11**), the delay in finalisation of accounts may result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant Statutes. In view of the above state of arrears of accounts, the actual contribution of SPSUs to the GSDP for the year 2015-16 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

**It is, therefore, recommended that:**

- **The State Government may set up a cell to oversee the clearance of arrears and set the targets for individual SPSUs, which would be monitored by the cell.**
- **The State Government may ensure that existing vacancies in the accounts department of SPSUs are timely filled up with persons having expertise and experience.**

## Performance of SPSUs as per their latest finalised accounts

**3.1.14** The financial position and working results of working State Government Companies and the only Statutory Corporation are detailed in **Appendix- 3.1.2**. A ratio of SPSU turnover to GSDP shows the extent of SPSU activities in the State economy. The table below provides the details of working SPSU turnover and GSDP for a period of five years ending 2015-16.

**Table No. 3.1.8: Details of working SPSUs turnover *vis-à-vis* GSDP**

***(₹ in crore)***

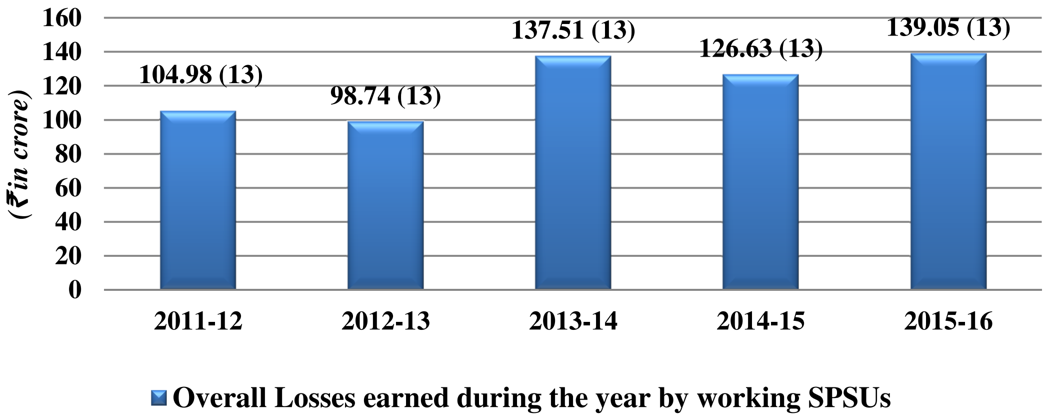
| Particulars | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|
| Turnover[12] | 419.52 | 466.52 | 539.43 | 548.84 | 706.39 |
| GSDP[13] | 18795.53 | 21289.38 | 25039.40 | 29113.19 (P) | 33189.03 (A) |
| Percentage of Turnover to GSDP | 2.23 | 2.19 | 2.15 | 1.88 | 2.13 |

As can be noticed from the table, the turnover of the working SPSUs showed a continuous growth during 2011-12 to 2015-16. The overall contribution of SPSU turnover to GSDP in terms of year-wise percentage of turnover to the GSDP however had shown a decreasing trend during four years from 2011-12 to 2014-15. This was indicative of the fact that the growth in the turnover of the SPSUs during 2011-15 was not very encouraging as compared to the year wise growth in the GSDP figures during these years. The percentage of SPSU turnover over GSDP during 2015-16, however, had increased to 2.13 *per cent* from 1.88 *per cent* (2014-15) due to increase of 28.70 *per cent* (₹ 157.55 crore) in SPSU turnover during 2015-16. The increase in SPSU turnover was mainly due to significant increase of 45 *per cent* (₹ 160.68 crore) in the turnover of the power sector Company (*viz*., TSECL) during 2015-16.

[12] Turnover as per the latest finalised accounts of SPSUs as on September 2016.
[13] GSDP figures taken as per Quarterly Review Report of the Finance Minister for the 3rd quarter of 2015-16; (P)=Provisional, (A)=Advance.

**3.1.15** Overall losses[14] incurred by 13 working SPSUs during 2011-12 to 2015-16 are given below in **Chart No. 3.1.4**

**Chart No. 3.1.4: Losses of working SPSUs (No. of working PSUs)**




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

From the chart above, it can be seen that the working SPSUs incurred losses in all the five years during 2011-12 to 2015-16. Significant overall losses incurred by working SPSUs during 2011-12 to 2015-16 were mainly due to heavy losses incurred by the power sector SPSU *viz.,* TSECL.

During the year 2015-16, out of 13 working SPSUs, five SPSUs earned aggregate profit of ₹ 16.00 crore, while eight SPSUs incurred loss of ₹ 155.05 crore. Major contributors to profit of SPSUs were Tripura Natural Gas Company Limited (₹ 9.36 crore) and Tripura Forest Development & Plantation Corporation Limited (₹ 4.61 crore). Heavy losses were incurred by TSECL (₹ 106.73 crore), Tripura Jute Mills Limited (₹ 19.44 crore), Tripura Industrial Development Corporation Limited (₹ 11.66 crore) and Tripura Handloom and Handicrafts Development Corporation Limited (₹ 10.39 crore).

**3.1.16** Some other key parameters pertaining to SPSUs based on their latest finalised accounts as at the end of September of the respective year are given in table below.

**Table No. 3.1.9: Key parameters of State PSUs**

*(₹ in crore)*

| Particulars | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|
| Return on total Capital Employed (*per cent*) | Negative | Negative | Negative | Negative | Negative |
| Debt | 203.77 | 276.20 | 205.91 | 245.46 | 140.56 |
| Turnover[15] | 419.52 | 466.52 | 539.43 | 548.84 | 706.39 |
| Debt/Turnover Ratio | 0.49:1 | 0.59:1 | 0.38:1 | 0.45:1 | 0.20:1 |
| Interest Payments | 9.37 | 10.33 | 10.50 | 10.54 | 0.69 |
| Accumulated losses | 348.01 | 348.03 | 489.43 | 634.48 | 762.48 |

[14] As per the latest finalised accounts of working SPSUs as on 30 September of the respective year.
[15] Turnover of working SPSUs as per their latest finalised accounts as of 30 September of the respective year.

From the **Table No. 3.1.9** it can be noticed that during 2011-16 the overall debt position of the SPSUs showed a mixed trend. The outstanding debt of SPSUs during 2015-16 mainly consisted of the borrowings (₹ 128.41 crore) of one SPSU, *viz.,* Tripura Industrial Development Corporation Limited. The accumulated losses of SPSUs had increased by 45.64 *per cent* during 2011-16 from ₹ 348.01 crore (2011-12) to ₹ 762.48 crore (2015-16). The accumulated losses of SPSUs had increased significantly by ₹ 414.45 crore (102 *per cent*) after 2012-13 mainly due to the aggregate losses of ₹ 214.17 crore incurred by the power sector SPSU (*viz.,* TSECL) as per its accounts finalised during 2014-15and 2015-16. The return on total capital employed during last five years from 2011-16 had been negative due to high losses incurred by the SPSUs.

**3.1.17** The State Government had not formulated any dividend policy regarding payment of minimum dividend by the SPSUs. As per their latest finalised accounts as on 30 September 2016, five SPSUs earned an aggregate profit of ₹ 16.00 crore. None of these SPSUs however, had declared any dividend during the year 2015-16.

## Winding up of non-working SPSUs

**3.1.18** As on 31 March 2016, there was only one non-working SPSU (*viz.,* Tripura State Bank Limited) which had been non-functional since 1971. The said SPSU was in the process of liquidation under Section 560 of the Companies Act, 1956. The State Government may expedite the process of winding up of the non-working SPSU.

## Accounts Comments

**3.1.19** Nine working Companies had forwarded 14 accounts to the Accountant General, Tripura during the year 2015-16 (October 2015 to September 2016). All these 14 accounts of nine Companies were selected for Supplementary Audit. The audit reports of Statutory Auditors appointed by the CAG and the Supplementary Audit conducted by the CAG indicate that the quality of maintenance of SPSU accounts needs to be improved substantially. The details of aggregate money value of comments of Statutory Auditors are given in table below.

**Table No. 3.1.10: Impact of audit comments on working Companies**

***(₹ in crore)***

| Sl. No. | Particulars | 2013-14 | | 2014-15 | | 2015-16 | |
|---|---|---|---|---|---|---|---|
| | | No. of accounts | Amount | No. of accounts | Amount | No. of accounts | Amount |
| 1. | Decrease in profit | 1 | 1.93 | 2 | 1.13 | 5 | 6.32 |
| 2. | Increase in loss | 7 | 8.39 | 2 | 6.98 | 6 | 7.16 |
| 3. | Non-disclosure of material facts | 2 | 102.61 | - | - | 1 | 16.39 |
| 4. | Errors of classification | 1 | 0.95 | - | - | 6 | 16.79 |

During the year, the Statutory Auditors had given qualified certificates on all 14 accounts. The compliance of Companies with the Accounting Standards (AS) remained poor as there were 15 instances of non-compliance with the Accounting Standards in 11 accounts during the year. The audit comments were based mainly on the non-compliance with the Accounting Standards *viz.,* AS-1 (Disclosure of Accounting Policies), AS-5 (Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies), AS-6 (Depreciation Accounting), AS-10 (Accounting for Fixed Assets), AS-12 (Accounting for grants), AS-15 (Employee Benefits), AS-16 (Borrowing Costs), AS-20 (Earnings Per Share), AS-22 (Accounting for Taxes on Income)and AS-26 (Intangible Assets).

Similarly, the only working Statutory Corporation in the State (*viz.,* Tripura Road Transport Corporation) for which the CAG is the sole auditor, had forwarded two accounts to Accountant General, Tripura during the year 2015-16. The audit of the accounts forwarded by the Corporation had been completed and qualified audit certificates on both the accounts were issued (November 2016).

## Response of the State Government to Audit

### Performance Audits and Paragraphs

**3.1.20** For the Economic Sector (PSUs) Chapter of the Report of the CAG for the year ended 31 March 2016, one Performance Audit report on "Working of Tripura Small Industries Corporation Limited", Agartala functioning under the administrative control of Industries and Commerce Department, Government of Tripura was issued (September 2016) to the Principal Secretary of the Department. The replies of the State Government to the Performance Audit report were received in November 2016.

## Follow up action on Audit Reports

### Replies outstanding

**3.1.21** The Reports of the CAG represent the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Tripura issued (July 1993) instructions to all administrative departments to submit replies/explanatory notes to paragraphs/performance audits included in the Audit Reports of the CAG within a period of three months of their presentation to the Legislature, in the prescribed format without waiting for any questionnaires from the Committee on Public Undertakings (COPU). The position of replies/explanatory notes to paragraphs/performance audits pending to be received from the State Government/administrative department concerned is given in table below:

**Table No. 3.1.11: Explanatory notes not received (as on 30 September 2016)**

| Year of the Audit Report (Commercial/ SPSU) | Date of placement of Audit Report in the State Legislature | Total performance audits and paragraphs in the Audit Report | | Number of performance audits/paragraphs for which explanatory notes were not received | |
|---|---|---|---|---|---|
| | | Performance audits | Paragraphs | Performance audits | Paragraphs |
| 2010-11 | 06-03-2012 | 1 | 2 | Nil | 2 |
| 2011-12 | 27-09-2013 | 1 | 3 | Nil | 3 |
| 2012-13 | 02-09-2014 | 1 | 3 | 1 | 2 |
| 2013-14 | 10-08-2015 | 1 | 3 | 1 | 3 |
| 2014-15 | 23-03-2016 | 1 | 2 | 1 | 2 |
| **Total** | | **5** | **13** | **3** | **12** |

From the above, it could be seen that out of 18 paragraphs/performance audits, explanatory notes to 15 paragraphs/performance audits in respect of four departments, which were commented upon, were awaited (September 2016).

### Discussion of Audit Reports by COPU

**3.1.22** The status as on 30 September 2016 of performance audits and paragraphs relating to SPSUs that appeared in the SARs and discussed by the COPU was as given in table below.

**Table No. 3.1.12: Performance audits/paras appeared in State Audit Reports *vis-à-vis* discussed by COPU as on 30 September 2016**

| Period of Audit Report | Number of performance audits/paragraphs | | | |
|---|---|---|---|---|
| | Appeared in Audit Report | | Paras discussed | |
| | Performance audits | Paragraphs | Performance audits | Paragraphs |
| 2007-08 | 2 | 4 | 2 | 4 |
| 2008-09 | 1 | 4 | 1 | 4 |
| 2009-10 | 1 | 2 | 1 | 2 |
| 2010-11 | 1 | 2 | Nil | 2 |
| 2011-12 | 1 | 3 | Nil | Nil |
| 2012-13 | 1 | 3 | Nil | Nil |
| 2013-14 | 1 | 3 | Nil | Nil |
| 2014-15 | 1 | 2 | Nil | Nil |
| **Total** | **9** | **23** | **4** | **12** |

### Compliance to Reports of the COPU

**3.1.23** Action Taken Notes (ATNs) to 50 recommendations pertaining to nine reports of the COPU presented to the State Legislature between November 2010 and February 2015 had not been received (September 2016) as indicated in table below:

**Table No. 3.1.13: Compliance to COPU reports**

| Year of the COPU report | Total number of COPU reports | Total no. of recommendations in COPU report | No. of recommendations where ATNs not received |
|---|---|---|---|
| 2010-11 | 4 | 22 | 13 |
| 2011-12 | 3 | 14 | 14 |
| 2012-13 | Nil | Nil | Nil |
| 2013-14 | 1 | 10 | 10 |
| 2014-15 | 1 | 4 | 4 |
| 2015-16 | Nil | Nil | Nil |
| **Total** | **9** | **50** | **41** |

The above reports of COPU contained recommendations in respect of Paragraphs pertaining to five departments of the State Government, which appeared in the reports of the CAG for the years 1989-90 to 2008-09.

**It is recommended that the State Government may ensure: (a) sending of replies to inspection reports/draft paragraphs/performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule; (b) recovery of loss/outstanding advances/overpayments within the prescribed period; and (c) revamping of the system of responding to audit observations.**

## Coverage of this report

**3.1.24** This report contains one Performance Audit *viz.,* "Working of Tripura Small Industries Corporation Limited" involving financial effect of ₹ 1.95 crore.

## Disinvestment, restructuring and privatisation of SPSUs

**3.1.25** No disinvestment, privatisation or restructuring of SPSUs occurred in the State of Tripura during the year 2015-16.

# INDUSTRIES AND COMMERCE DEPARTMENT

## (Tripura Small Industries Corporation Limited)

## 3.2 Working of Tripura Small Industries Corporation Limited

***The Tripura Small Industries Corporation Limited was incorporated in April 1965 with the aim to finance, protect and promote small enterprises in the State of Tripura. At present, the activities of the Company include production of bricks, blending and sale of rectified spirit, marketing of miscellaneous items, etc. The Performance Audit was taken up to assess the performance of the Company covering the period of five years from 2011-12 to 2015-16 with focus on economy, efficiency and effectiveness of its operations.***

### Highlights

**The Company's turnover shrunk from ₹ 25.94 crore in 2011-12 to ₹ 14.69 crore in 2015-16. Only two branches *viz.,* Country Spirit and Marketing earned profits during 2011-12 to 2014-15 but the same were not enough to meet the total expenses of the Company during these years.**

***(Paragraph 3.2.9)***

**The Company had not prepared action plan to overcome the problems of shortage in working capital, excess manpower and dependence on the Government of Tripura (State Government). The State Government provided (2011-16) financial assistance (₹ 15.62 crore) to the Company as per the commitment made in the Memorandum of Understandings (MoUs) signed between the Company and the State Government. However, the financial assistance was not even sufficient to absorb cash loss (₹ 16.87 crore) of the Company during 2011-16. Turnover targets under MoUs were fixed without reference to actual performance of the Company.**

***(Paragraph 3.2.10, 3.2.12)***

**The Company did not maintain complete and up-to-date database of Micro, Small and Medium Enterprises (MSME) vendors enlisted during the past five years for supply of various items to State Government departments/agencies, leaving scope for defaults in supply.**

***(Paragraph 3.2.17)***

**The Company had neither prescribed any method or periodicity of price revision for wooden and steel furniture nor had cross checked the rates submitted by vendors with reference to the prevailing rates/indices obtained from various Government sources. As a result the Government buyers ended up paying higher prices.**

***(Paragraph 3.2.19)***

**The Company incurred loss on production of bricks during the period 2011-15. The reasons for loss were inadequate production of bricks, damage to green bricks and production of sub-standard bricks beyond norms and excess consumption of coal, etc.**

***(Paragraphs 3.2.22, 3.2.23, 3.2.25 & 3.2.27)***

**The Company had not complied with the statutory requirements in respect of several brickfields. Further, the Company approached Tripura State Pollution Control Board (TSPCB) for obtaining "consent to establish" the Country Spirit blending and packing plant at the Bonded warehouse in Badharghat only in September 2014 although the Company had been in the business of blending the rectified spirit into country spirit since 1990.**

***(Paragraphs 3.2.32& 3.2.33)***

**There were no manuals in existence for various functional areas like accounts, establishment, etc. No internal audit had been conducted by the Company during 2011-16.**

***(Paragraph 3.2.34)***

## Introduction

**3.2.1** The Tripura Small Industries Corporation Limited (Company) was incorporated (April 1965) as a wholly-owned State Government Company with the aim to finance, protect and promote small enterprises in the State of Tripura. The main objectives of the Company were:

- to provide small industries in Tripura with capital, credit, means, resources and technical/managerial assistance;
- to enter into contracts with State Government as well as their agencies for manufacture/supply of goods by sub-contracting;
- to promote and operate schemes for development of small industries in Tripura;
- to manufacture, buy, sell or deal in materials, goods of any description.

**3.2.2** At present, the activities of the Company include production of bricks, blending and sale of rectified spirit to licensed vendors as country spirits, marketing of wooden/steel furniture, trading of miscellaneous items like stationery, computers, etc., disposal of building/metal scrap, sale of auto spares, repairing of furniture at the State Secretariat and operation of electronic weighbridge. These activities are under separate business verticals referred to as branches.

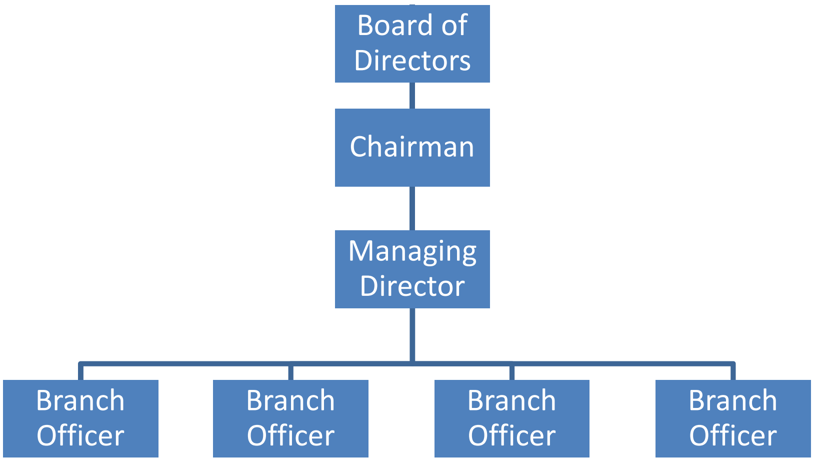
## Organisational set-up

**3.2.3** The Company operates under the administrative control of Industries and Commerce Department, Government of Tripura. The Management of the Company is vested in a Board of Directors (BoDs). As of March 2016, the BoDs consisted of five Directors including the Chairman and the Managing Director (MD), all appointed by

State Government. The MD is the Chief Executive and is assisted by four Branch Officers in charge of the Company's functions/operations.

As of 31 March 2016, the Company was having four divisional units called business verticals or branches. Each branch was headed by a Branch Officer.

**Chart No. 3.2.1: Organisational Chart**




## Scope of audit

**3.2.4** The performance of the Company covering the period of five years (1992-93 to 1996-97) was featured in the Report of the CAG for the year ended 31 March 1997, Government of Tripura. The Report was discussed (January 2002) by the Committee on Public Undertakings (COPU) and its recommendations were placed (18 January 2006) in the Tripura Legislative Assembly (TLA).

**3.2.5** The present status on the compliance by the Company to the recommendations of COPU has been discussed under **Paragraph No. 3.2.35.**

The audit was conducted between May and August 2016 and covered the activities of the Company for the period of five years from 2011-12 to 2015-16. Out of total 13 branches of the Company, only seven branches were functional as of March 2016. Out of these seven functional branches, three branches (*viz.,* Bricks, Jirania branch; Country Spirits, AD Nagar branch and Marketing at Head Office) representing 95 *per cent* of total turnover of the Company during 2011-16, were selected as sample for detailed examination based on 'Judgmental Sampling method'.

## Audit objectives

**3.2.6** The present PA was carried out to assess whether:

- an adequate planning mechanism existed for promoting and developing small industries in the State and also for suitably addressing the shortcomings, if any, in achievement of goals;

- the Company was able to achieve the objectives envisaged in the MoU with the State Government;
- the activities taken up by the Company were in sync with it's objectives and executed in an efficient, economic and effective manner;
- an effective internal control and monitoring mechanism was in place to ensure achievement of the Company's objectives.

## Audit criteria and methodology

**3.2.7** The following audit criteria were adopted to evaluate the performance of the Company:

- Industrial policy of State Government;
- Directions of State Government issued from time to time;
- Micro, Small and Medium Enterprises (MSME) Development Act 2006 and other relevant Acts;
- Annual targets set by State Government under the MoUs entered with the Company;
- Agenda and minutes of meetings of BoDs of the Company;
- Policies, procedures, circulars and other instructions issued by the Company from time to time;
- Best industrial practices;
- Standard practices relating to Corporate Governance and internal control.

**3.2.8** An entry conference was held (6 May 2016), wherein the audit objectives, scope and methodology were explained to the Management of the Company. The draft report was issued to the State Government in August 2016. An exit conference was held with the Special Secretary, Industries and Commerce Department on 18 October 2016. During discussion, the Special Secretary, Industries and Commerce Department while accepting the audit findings had assured to take appropriate remedial action on the deficiencies pointed out in the Report. The replies submitted (November 2016) by the State Government/Company to the draft Audit Report have been suitably considered while finalising the Report. Audit acknowledges the co-operation extended by the State Government/Company during the course of the audit.

## Audit findings

## Financial performance

**3.2.9** As of September 2016, the Company had finalised its annual accounts upto 2013-14 and its accounts for two years (*viz.,* 2014-15 and 2015-16) were in arrears. The working results of the Company for the five years from 2011-12 to 2015-16 are given in **Table No. 3.2.1**.

**Table No. 3.2.1: Working results, contribution and loss from 2011-12 to 2015-16**

*(₹in crore)*

| Sl. No. | Particulars | 2011-12 | 2012-13 | 2013-14 | 2014-15 (P) | 2015-16 (P) |
|---|---|---|---|---|---|---|
| 1 | No. of functional branches (total branches) | 11 (13) | 10 (13) | 8 (13) | 8 (13) | 7 (13) |
| 2 | Revenue from operations (Turnover) | 25.94 | 22.96 | 18.74 | 17.41 | 14.69 |
| 3 | Variable cost | 24.67 | 22.21 | 16.65 | 16.81 | 13.88 |
| 4 | Contribution (2-3) | 1.27 | 0.75 | 2.09 | 0.60 | 0.81 |
| 5 | Profit Volume (P/V) Ratio (Percentage) (4/2)x100 | 4.90 | 3.27 | 11.15 | 3.45 | 5.51 |
| | **Fixed Costs** | | | | | |
| 6 | Employee Benefits Expense | 3.49 | 3.18 | 5.19 | 3.72 | 4.11 |
| 7 | Depreciation &Amortisation | 0.22 | 0.11 | 0.13 | 0.16 | 0.15 |
| 8 | Other Expenditure | 2.14 | 1.87 | 0.73 | 0.73 | 0.84 |
| **9** | **Total Fixed Costs (6+7+8)** | **5.85** | **5.16** | **6.05** | **4.61** | **5.10** |
| 10 | Other Income | 1.35 | 0.71 | 0.77 | 0.50 | 0.28 |
| 11 | Total fixed cost to be recovered from contribution (9-10) | 4.50 | 4.45 | 5.28 | 4.11 | 4.82 |
| 12 | Loss for the year (4-9+10) | 3.23 | 3.70 | 3.19 | 3.51 | 4.01 |
| **13** | **Break-even revenue from operations* (11/(4/2))** | **91.91** | **136.23** | **47.34** | **119.26** | **87.41** |
| 14 | Break even revenue to actual revenue for the year (No. of times) (13/2) | 3.54 | 5.93 | 2.53 | 6.85 | 5.95 |

**Source:** Annual Accounts for 2011-12 to 2015-16; (P – Provisional)

* Break-even revenue = (Total fixed costs to be recovered from contribution/PV ratio)

It can be seen from the table that -

- The number of functional branches of the Company had reduced from 11 (2011-12) to 7 (2015-16) with corresponding reduction in the turnover by 43.37 *per cent* from ₹ 25.94 crore (2011-12) to ₹ 14.69 crore (2015-16). The downward trend in the turnover of the Company was mainly attributable to its dependence on the work/supply orders from the State Government as discussed under **Paragraph No. 3.2.16**.

- The Company's break-even turnover was very high during the years from 2011-12 to 2015-16 and increased from 3.54 (2011-12) to 5.95 (2015-16) times of actual turnover. The main reason for this high level of 'break-even' was high level of fixed costs (mainly the employee related expenses) and low contribution[16] ranging between 3.27 *per cent* (2012-13) and 11.15 *per cent* (2013-14) of the turnover, which was insufficient to recover the fixed costs in all five years under reference. The profitability analysis of the branches of the Company

[16] Contribution represents the revenue earned by the Company after meeting the variable costs *i.e.*, cost of materials and labour.

further revealed that only two branches (*viz.,* Country Spirit and Marketing) of 13 had earned profits during the four years from 2011-12 to 2014-15. During the year 2015-16, however, the Country Spirit had incurred a loss (₹ 9.21 lakh) while the figures of the Marketing branch for 2015-16 were not available. The profits earned by the branches during 2011-12 to 2014-15 were however, inadequate to meet the total expenses of the Company during these years.

## Inadequate planning to promote and develop small industries in the State

### Planning for fulfilment of objectives

**3.2.10** The Tripura Industrial Investment Promotion Policy 2007 (TIIPP) stipulated that the main functions of the Company would be to aid and promote small industries in the State and also to render marketing assistance to MSMEs in the State. The Company was, however, facing the problems of working capital shortage, excess manpower and dependence on equity support from State Government for maintaining its regular activities. To overcome these problems, the Company as per the stipulations made in TIIPP was required to prepare a five-year action plan to reduce its financial dependence on State Government by reducing equity support by 10 *per cent* annually. This was to be achieved by increasing the Company's business activities and by restructuring the organisation structure. It was observed that despite clear stipulations in this regard under TIIPP, the Company did not prepare any action plan till March/December 2015. On insistence by the Chief Secretary of the State and Directorate of Industries and Commerce Department, Government of Tripura, the Company finally submitted (August/December 2015) three year action plans for two consecutive terms (2015-18 and 2018-19) to State Government**.**

Further, during the years 2011-12 to 2014-15, the State Government had also submitted[17] Annual Plans at the request of the erstwhile Planning Commission, Government of India (GoI). These plans specified consolidated physical and financial targets for different activities of State Government including the annual turnover targets to be met by the Company. As the GoI had disbanded the Planning Commission from 1 January 2015, there was no request for Annual Plan 2015-16. Since the disbursement of funds by GoI was no longer tied to submission of an Annual State Plan, State Government did not prepare Annual Plans from 2015-16 onwards.

Scrutiny of records of the Company revealed that it had never prepared any action plan, perspective plan or vision statement to attain the annual turnover targets.

It was also observed that to promote industrial development in small scale sector and also to improve the performance of the Company, State Government annually entered into MoU with the Company from the XI$^{th}$ Five Years Plan period beginning in April 2007. These MoUs laid down annual objectives/specified criteria to be attained each year by the Company as well as the corresponding role/responsibilities of State Government in facilitating the Company to attain the said objectives. The performance

[17] 2011-12: 12 October 2010, 2012-13: 25 November 2011, 2013-14: 4 January 2013, 2014-15: 2 December 2013.

of the Company was to be reviewed on annual basis by the Industries and Commerce Department, Government of Tripura against the criteria fixed for operating manufacturing units, etc. on quarterly basis.

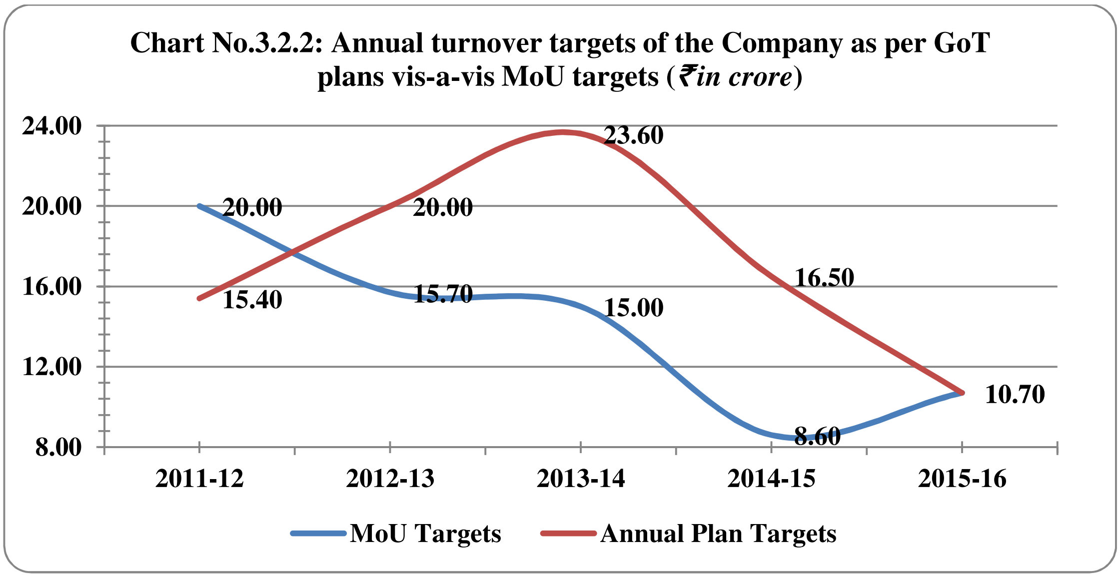
During scrutiny of records of the Company, it was noticed that as per the MoUs for the period 2011-16 State Government was to provide financial assistance, in the form of equity to the Company. As against the Company's aggregate cash loss (excluding depreciation and amortisation) of ₹ 16.87[18] crore incurred by the Company during the period 2011-16 State Government released ₹ 15.62 crore only (92.59 *per cent*) during the period of five years under reference. Thus, the financial assistance provided by State Government was not sufficient to the extent of ₹ 1.25 crore in covering even the cash loss of the Company for five years, which was against the spirit of the MoUs.

Further, as per the directions (July/August 2014) issued by State Government, the Company was required to discontinue the production of bricks with effect from 2015-16. It was noticed that the above directions of State Government were not in line with the recommendations (January 2006) of COPU regarding increasing the production of bricks by the Company as discussed under **Paragraph Nos. 3.2.5** and **3.2.35**. The MoU for 2015-16, however, continued to include the targets for manufacturing of bricks, ignoring the State Government's directions (July/August 2014) in the MoU entered for 2015-16.

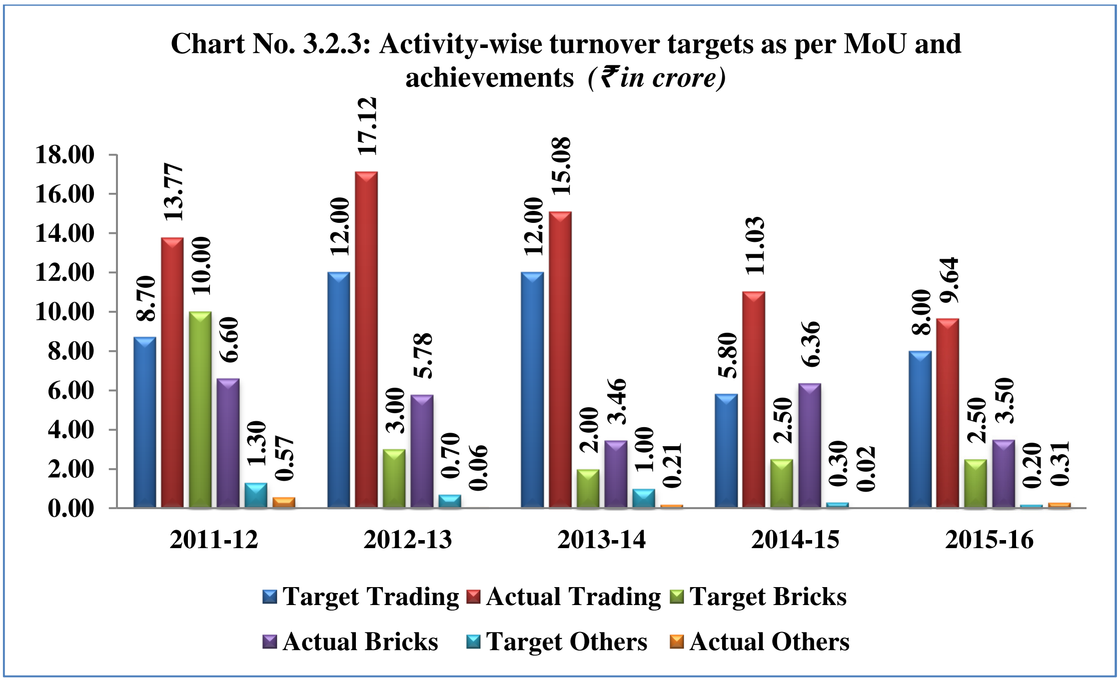
## Achievement against the objectives envisaged in the Memorandum of Understandings

**3.2.11** Scrutiny of records of the Company revealed that there was variance between the annual consolidated turnover targets of the Company fixed under the MoUs entered with the State Government and that mentioned in the Annual Plans prepared and submitted by State Government to the Planning Commission, GoI for the years 2011-12 to 2015-16 (excepting for the year 2015-16) ranging between ₹ 4.30 crore (2012-13) and ₹ 8.60 crore (2013-14) as depicted in the **Chart No.3.2.2** below:

[18] Total cash loss ₹ 16.87 crore -2011-12 (₹ 3.01 crore), 2012-13 (₹ 3.59 crore), 2013-14 (₹ 3.06 crore), 2014-15 (₹ 3.35 crore), 2015-16 (₹ 3.86 crore).




**3.2.12** The activity-wise turnover[19] of the Company *vis-à-vis* MoU targets for each of the five years from 2011-16 is depicted in **Chart No. 3.2.3** below:




**Source:** MoU, Accounts of the Company
**Note:** Actual turnover for 2014-15 is provisional and for 2015-16 estimated

The performance of the Company with reference to the consolidated turnover targets fixed under the Annual Plans submitted to Planning Commission (GoI) for the years 2011-16[20] was also examined. Summarised position of annual turnover of the Company *vis-à-vis* the annual turnover targets fixed in the annual plans of State Government for the years from 2011-16 is depicted in **Chart No. 3.2.4**.

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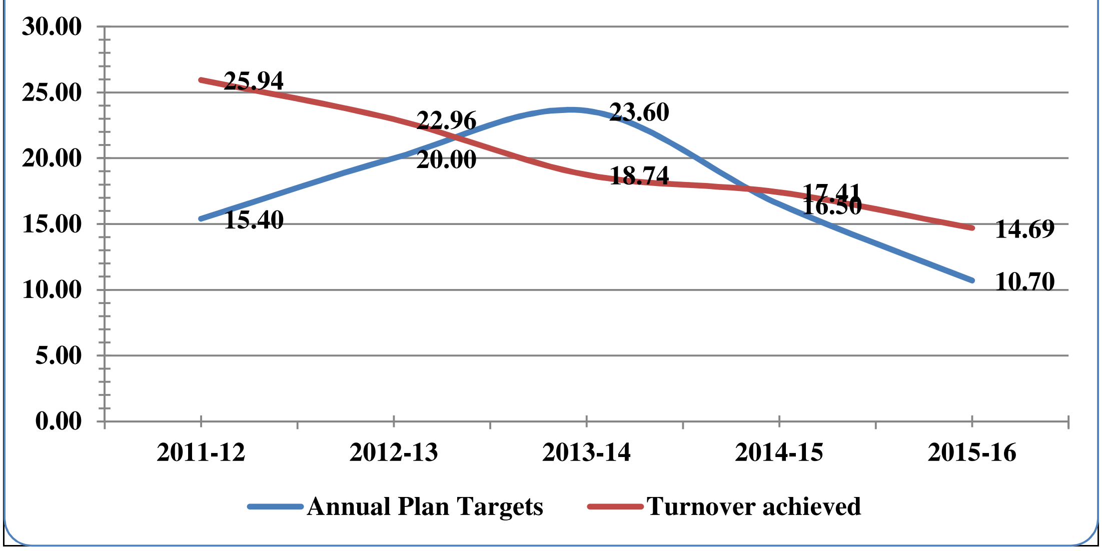
[19] The activities of the Company are classified into three indicators viz. Trading, Bricks and Others.
[20] Targets for 2015-16 adopted from the three year Action Plan (2015-18) submitted to State Chief Secretary & DIC.

**Chart No.3.2.4: Annual turnover targets of the Company as per GoT plans and achievements (₹ in crore)**




**Source:** Annual Plans of State Government /Company, Company Accounts
**Note:** Actual turnover for 2014-15 is provisional and for 2015-16 estimated

The above charts show that there were wide variations between the targets fixed under the MoUs/annual plans of State Government and achievements there against in all the five years under reference. In most cases, the targets of subsequent years had been fixed substantially below the actual achievements during immediately preceding year. This indicated that the turnover targets under MoUs were fixed without reference to actual performances in previous years leading to unrealistic assessment of the Company's prospects.

## Activities of the Company

**3.2.13** No criteria were fixed by the State Government and the Company to assess the performance of the Company with regard to the objectives of the Company. As per the primary objective, the Company was to promote MSME in the State by providing marketing support to small entrepreneurs. The MoUs entered between the Company and State Government also provided that the Company had to **(i)** participate in and promote industrial development of MSME sector in Tripura by providing backward and forward linkages while maintaining commercial viability of all operations and **(ii)** provide raw materials for MSME as well as marketing link for products of MSME.

Further, the primary objectives of the Company also included financing the MSMEs in the State with capital, credit, means, etc. It was however, noticed that the Company did not provide any financial assistance or industrial infrastructure to the MSMEs ignoring the basic objective of its formation. It was further noticed that the MoUs entered between State Government and the Company had no stipulations regarding the targeted activity against this vital objective of the Company. This indicated inadequate planning and focus of the Company/State Government in promotion and development of MSMEs in the State.

## Business branches

**3.2.14** As on 1 April 2011, the Company had total 13 branches (including 11 working). The number of operational branches, however, reduced from 11 (2011-12) to seven (2015-16) mainly due to operational losses, lack of sufficient orders from State Government, etc. During the five years (2011-16) covered under audit, nine out of 11 operational branches incurred losses, while only two branches (*viz.,* Country Spirits and Marketing)[21] had made aggregate profits of ₹ 0.66 crore (during these five years) and ₹ 3.51 crore (during four years from 2011-12 to 2014-15) respectively. Among loss incurring branches, Bricks branch incurred the highest loss aggregating ₹ 4.88 crore (during four years from 2011-12 to 2014-15[22]) after meeting all direct expenses.

Three branches (*viz.,* Marketing, Bricks and Country Spirits) out of 11 operational branches representing 95 *per cent* of the total turnover of the Company were selected for detailed examination in the present audit. The broad audit observations emerged have been discussed in the succeeding paragraphs.

## Marketing activities

**3.2.15** Providing marketing support to MSMEs was one of the primary role of the Company in promoting MSMEs in the State as per its laid down objective. Marketing development assistance of the Company comprises the purchase of furniture (steel and wooden), foodstuff, chemicals and other miscellaneous items such as stationery, office consumables, computers, peripherals, office duplication equipment, scientific/musical equipment, materials for public works, etc. from the MSME vendors enlisted with it for onward supply to various State Government departments and agencies.

While reiterating their earlier instructions (October 1985, March 1991 and March 1995) State Government directed (July 1997) all State Government departments and agencies to route their purchases of steel and wooden furniture, automobile spare parts, tyres and tubes, lubricants, etc. only through the Company and to avoid direct purchases from traders.

The Company enlisted MSME vendors for supply of different products in three categories *viz.,* wooden furniture, steel furniture and miscellaneous items. The BoD of the Company decided (June 2008) that the prevailing system of prioritising those enlisted MSME vendors who had collected the supply orders (in the Company's name) from various State Government departments/agencies would be continued. In addition, supply orders coming directly from State Government departments/agencies would be distributed amongst all enlisted vendors by rotation. It was however, observed that the Company had not taken steps to secure orders directly from State Government departments and agencies and instead depended on enlisted MSME vendors for collection of orders on behalf of the Company.

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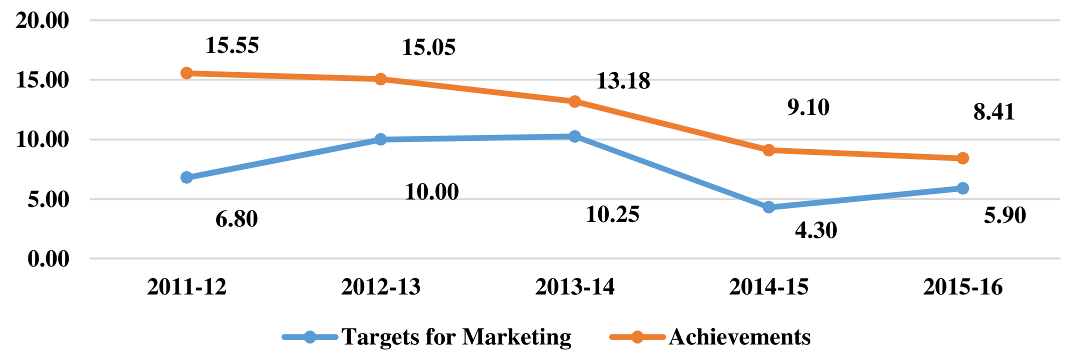
21 Profit/loss figures of Marketing branch for 2015-16 not available.
22 Profit/loss figures of Bricks branch for 2015-16 not available.

## Targets and turnover

**3.2.16** The summarised trading performance of the Marketing branch with reference to the annual targets fixed under MoUs for the five years from 2011-16 has been depicted in **Chart No. 3.2.5**.

**Chart No. 3.2.5: MoU targets vis-à-vis achievements of Marketing branch for the five year from 2011-12 to 2015-16 *(₹ in crore)***




**Source:** Information furnished by the Company, Annual Accounts, MoU, etc. Achievements for 2014-15 and 2015-16 are provisional.

It would be seen from the chart that –

- The Company had exceeded the targets fixed under the MoUs entered with State Government in all five years by 28.59 (2013-14) to 128.68 *per cent* (2011-12). This was indicative of the fact that the annual targets fixed were not realistic.
- The targets had been fixed without reference to previous year's performance of the Marketing branch. The Company had adopted this approach on the plea of its being entirely dependent on different departments/agencies of the State Government for supply orders. The unrealistic fixation of targets was proving the entire exercise of planning and fixing of targets to be unfruitful.
- Turnover had declined by 46 *per cent* from ₹ 15.55 crore in 2011-12 to ₹ 8.41 crore in 2015-16. This substantial downfall in the performance of Marketing branch was mainly attributable to the mandatory directions issued (September 2012) by State Government that marketing activities of the Company should facilitate selling of products produced by local industries. The directions of State Government also stipulated that the Company should make purchases only from manufacturers at competitive rates determined through tenders and not from local retailers at maximum retail price. The above directions of the State Government were issued with a view to promote the small industries in the State in line with the laid down objectives of the Company. Consequently, the Company had kept in abeyance marketing of miscellaneous products since October 2012. Ultimately, it had resumed sales of miscellaneous items based on the decision of BoD in October 2014 as discussed under **Paragraph No. 3.2.20**.

## Enlistment of vendors

**3.2.17** The Company enlisted[23] MSME vendors for supply of steel/wooden furniture as well as miscellaneous items like food grain, chemical and others. The BoD of the Company enhanced (April 2013) the enlistment fee from ₹ 300 to ₹ 2,000. It also decided that enlisted vendors should renew their registration every three years on payment of renewal fee of ₹ 1,000. For the purpose of enlisting the MSME firms with the Company, the vendors were required to furnish various details relating to their status (manufacturer/local retailer/reseller), trade license, Tripura Value Added Tax (TVAT) registration, PAN, registration as a MSME, TSPCB clearance and forest trade license, etc.

The BoDs of the Company had emphasised (June 2008) on maintaining the quality of material and goods supplied by enlisted MSME vendors to various State Government departments/agencies. To ensure the supply of quality goods/material, the BoD had also emphasised on the need for inspection of stock of the MSME vendors before their supply to the indenting departments/agencies. Contrary to the essence behind the above instructions of the BoD, however, it was observed that the Company had not maintained the complete and updated database of vendors enlisted with the Company during the past five years, MSME vendors renewing their enlistment, related category of products (other than steel and wooden furniture) for each enlisted vendor, the quantum of orders obtained by each vendor, the position of execution of orders and performance evaluation/rating of each vendor so as to ensure timely and quality supply of goods. Further, there was nothing on record to indicate that at the time of renewal, the Company had verified the fulfilment of enlistment criteria by the enlisted vendors, etc. Reasons for non-maintenance of the above details relating to the vendors, which were very vital to ensure the quality of supplies were not on record.

Hence, in view of the deficiencies discussed above, the Company failed to effectively monitor the performance of vendors or assisted MSMEs. As a result the possibility of vendors getting enlisted despite defaults in supply, supply of sub-standard goods, etc. could not be ruled out.

## Supply orders distributed between few vendors

**3.2.18** The Company enlisted MSMEs as vendors for supply of wooden/steel furniture. A summarised position of the total number of furniture vendors enlisted with the Company, number of vendors on whom the orders were placed and value of such orders for the five years from 2011-16, as per the records of the Company has been depicted in **Table No. 3.2.2** below:

[23] The Company enrolls the MSME firms for supply of wooden/steel furniture and miscellaneous items to the different Government departments/undertakings.

**Table No. 3.2.2: Statement of enlisted vendors, number of orders placed during 2011-16**

| Particulars | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | Total |
|---|---|---|---|---|---|---|
| **Wooden Furniture** | | | | | | |
| Number of enlisted suppliers | 18 | 12 | 13 | 15 | 18 | - |
| Number of suppliers on whom orders placed | 8 | 7 | 9 | 14 | 10 | 19* |
| Total value of supply orders (₹ in lakh) | 52.56 | 253.38 | 202.37 | 131.83 | 252.94 | 893.08 |
| Average value per supplier (₹ in lakh) | 6.57 | 36.20 | 22.49 | 9.42 | 25.29 | 47.00 |
| **Steel Furniture** | | | | | | |
| Number of enlisted suppliers | 34 | 33 | 32 | 22 | 25 | - |
| Number of suppliers on whom orders placed | 28 | 23 | 21 | 18 | 20 | 34* |
| Total value of supply orders (₹ in lakh) | 340.44 | 449.72 | 287.77 | 444.91 | 168.25 | 1,691.09 |
| Average value per supplier (₹ in lakh) | 12.16 | 19.55 | 13.70 | 24.72 | 8.41 | 49.74 |

**Source:** Order registers for Wooden Furniture and Steel furniture for the period 2011-16
* Actual number of suppliers on whom the orders were placed during 2011-16

As per the Census 2007 conducted by the Ministry of MSMEs, GoI, total number of working enterprises in Tripura, as at March 2007, was 1.10 lakh, of which 1,253 units were registered while remaining 1.09 lakh were unregistered. As of March 2016, total number of registered MSME units increased to 3,423 units, which included total 2,500 operational units.

Analysis of data given in **Table No. 3.2.2** revealed that the total number of vendors enlisted with the Company during 2011-16 for supply of wooden and steel furniture ranged from 12 to 18 vendors (wooden) and 22 to 34 vendors (steel) respectively. The number of vendors enlisted with the Company was, however, low as compared to total number of operational MSME units (2,500 units) in the State as of March 2016.

Scrutiny of records of the Company relating to allocation of supply orders further revealed that major supply orders placed during the five years under reference were distributed between only a few vendors as per the details given in **Table No. 3.2.3** below:

**Table No. 3.2.3: Concentration of supply orders**

| Particulars | No. of suppliers | Aggregate value of supply orders (₹ in lakh) | Percentage of total orders |
|---|---|---|---|
| Wooden furniture | 3 | 626.00 | 70.09 |
| Steel furniture | 3 | 1,235.66 | 73.07 |

**Source:** Order registers for wooden furniture and steel furniture for the period 2011-16

It can be observed from the above table that only three vendors had received the major share of total orders *viz.,* 70 and 73 *per cent* for wooden and steel furniture respectively in the last five years (2011-16).

It was further observed that the Company had occasionally procured and supplied furniture manufactured by the vendors[24] other than MSMEs for supply to various State Government departments. However, as the complete and vendor-wise details of supply orders placed had not been maintained by the Company separately, the total volume of such supplies was not quantifiable. This had defeated the basic objective of the Company to promote the MSMEs by ensuring supply of goods to the State Government departments/agencies through MSME units only.

The Government/Company in their reply (November 2016) accepted the above audit observations.

## Arbitrary revision of price lists

**3.2.19** The Company had not prescribed various components of costs (direct and indirect costs *viz.,* manufacturing costs, selling/distribution, profit margin, etc.) for determination of final purchase price of various products/goods to be procured from the enlisted vendors. The Company had also not laid down the method and periodicity of price revision for wooden and steel furniture. The Company, however, had revised (September 2012 and November 2015) the price lists on two occasions, during 2011-16 based on inputs received from the enlisted vendors.

A comparative analysis of the rates adopted by the Company for wooden and steel furniture with reference to the prevailing rates/indices obtained from various GoI/ State Government sources[25] was carried out and results depicted in the **Table No. 3.2.4** below.

**Table No. 3.2.4: Percentage increases in the price of input material for furniture**

| | Particulars | Percentage increases considered by the Company | | Prevailing percentage increases/ (decrease) according to Government sources[26] | |
|---|---|---|---|---|---|
| | | September 2012 | November 2015 | September 2012 | November 2015 |
| **A)** | **Wooden** | | | | |
| 1) | Chair | 40 | 40 | 11.16 | 9.83 |
| 2) | Other furniture | 30 | 30 | 15.19 | 3.43 |
| i) | Processed wood | 25 | 20 | 16.11 | 6.45 |
| ii) | Carpenter wages per day | 50 | 50 | 21 | 83 |
| **B)** | **Steel** | | | | |
| 1) | Chair | 20 | 20 | 7.81 | 9.94 |
| 2) | Other furniture | 15 | 15 | | |
| i) | Angles | 17 | 11 | 25.94 | (17.17) |
| ii) | Sheets | | | 11.85 | (11.00) |
| iii) | Labour rate | 67 | 42 | 14.10 | 24.16 |

It can be seen from the table that -

24 Furniture items were procured from M/s Godrej and M/s OTOBI which were not MMSE/MSE units. As the details were not maintained distinctly, the quantum of such supplies was not quantifiable.

25 viz., Labour Bureau, Ministry of Labour & Employment; Economic Advisor, Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Government of India (GoI) and Tripura Forest Development Corporation Limited (TFDCL).

26 Percentages at serial Nos. A 2(ii) and B 2(iii) taken from Labour Bureau, percentages at serial Nos. A(1), A(2), A (2) (i), B(1), B(2), B (2) (i) and B (2) (ii) from TFDPCL.

- The percentage increase in the prices of input material (excepting angles) as considered by the Company was significantly higher than the percentage increase in the prevailing prices of material as obtained from Government sources during September 2012 and November 2015.
- On both occasions, the Company had approved (September 2012/November 2015) the same percentages of increases for wooden chairs (40 *per cent*), other wooden furniture (30 *per cent*), steel chairs (20 *per cent*) and other steel furniture (15 *per cent*). The corresponding increase according to Government sources was significantly lower and ranged between 3.43[27] and 15.19[28] *per cent* only.

As is evident from the above, the Company had not cross checked the rates and increases submitted by vendors with available Government data for their reliability and justification. While the vendors were the ultimate beneficiaries of inflated list prices, the Company also gained through higher service charges. The Government buyers, however, ended up paying higher prices.

The Government/Company in their reply (November 2016) stated that the Company constituted a committee (based on joint application of vendors in April 2015) to examine enhancement of the prices of steel and wooden furniture. The BoD decided accordingly to increase the prices with effect from January 2016.

The reply was, however, silent about the quantum of enhancements in the prices.

## Marketing of miscellaneous items

**3.2.20** The Company had been in the business of marketing miscellaneous items. The Company acted as a commission agent, in so far as the enlisted MSME vendors brought in the orders, executed supply and collected payment on behalf of the Company. The Company claimed service charges of 4 and 5 *per cent* on foodstuff and other items respectively.

State Government had expressed (September 2012) concern that many distortions had crept into the manner in which the Company had carried out its trading/marketing activities which, *inter-alia*; included,

- Supply of products purchased from the local market to the State Government departments/agencies above their Maximum Retail Price (MRP) specified by the manufacturers;
- Non-observance of tender and codal provisions in procurement of products;
- Failure to source products from their manufacturers, which was not in line with the Company's mandate to deal with industries;
- No value addition or service by the Company to justify the service charges collected;
- Abetting the State Government departments/agencies in bypassing tender procedures.

[27] Other Wooden Furniture (September 2015 over August 2012).
[28] Other Wooden Furniture (August 2012 over July 2010).

Consequently, the business of marketing miscellaneous items by the Company was kept in abeyance since October 2012. In August 2013, the Company formed a committee to examine the feasibility of recommencement of the business of marketing miscellaneous items. The report of the committee on the issue was however, not made available to Audit.

Scrutiny of records of the Company revealed that contrary to the above directions (September 2012) issued by the State Government, the BoDs of the Company approved (October 2014) resumption of the business by levying 5 *per cent* service charge over and above the MRP. In addition, 5 *per cent* carrying charge was also decided to be imposed for supply beyond the Municipality limits.

The above decision (October 2014) of the Company was contrary to the core principles of public procurement as it failed to ensure competitiveness and sound procurement practices for supply of goods or services in a fair, transparent and cost effective manner.

In reply, the Government/Company accepted the facts and assured (November 2016) that an appropriate mechanism would be devised to ensure competitiveness and sound procurement practices in execution of supply orders.

## Production of bricks

### Capacity creation and utilisation

**3.2.21** As of April 2011, the Company owned four brickfields and had taken eight more on lease. As mentioned under **Paragraph No. 3.2.5** *supra*, the COPU in its 35th Report placed (January 2006) in the State Assembly had sought the details of the steps taken by the Company to increase production of bricks. In response, the Industries and Commerce Department, Government of Tripura had informed (November 2009) that the Company had taken specific drive to increase production of bricks by constructing more brick kilns at Shivbari and Karbook. Examination of records of the Company, however, revealed that no brickfield at Karbook was operational during the period of PA (2011-16). As of April 2011, out of 12 brick fields owned/taken on lease by the Company, only 1 was operational. In November 2011, State Government had directed the Company to return the land taken on lease in respect of those brick kilns which have been closed. Accordingly, the Company sold out (January 2013/July 2015) three[29] leased brickfields.

The year-wise position with regard to the number of brickfields available with the Company *vis-à-vis* the brickfields operational during the five years from 2011-16 has been summarised in **Table No. 3.2.5** below:

[29] Shivbari, Santir Bazar and South Maharani.

**Table No. 3.2.5: Number of brickfields owned, leased and operated during 2011-16**

| Year | No. of brickfields operated | | | |
|---|---|---|---|---|
| | Owned | Leased | Total | Operational |
| 2011-12 | 4 | 8 | 12 | 1 (leased) |
| 2012-13 | 4 | 8 | 12 | 2 (both leased) |
| 2013-14 | 4 | 6 | 10 | 5 (3 leased, 2 own) |
| 2014-15 | 4 | 6 | 10 | 2 (1 leased, 1 own) |
| 2015-16 | 4 | 5 | 9 | 3 (All leased) |

As of March 2016, the Company retained nine brickfields. The position regarding the operations of these nine brick fields was as below:

- Only one brick field (Jirania) was operated in all five years;
- Three brickfields were operated (Mainama, Sonaichari and Ambassa) only for two years each during 2011-16;
- Two brick fields (Kukicharra and Kanchanpur) were operated for one year each;
- Three brick fields (Rowabazar, Valuarchar and Gandacherra) were not operated in any of the five years (2011-16).

The status of the operations of brickfields of the Company during 2011-16 was not encouraging considering the fact that during the five years ending 2015-16, the number of operational brickfields in the State had grown from 298 to 358 *viz.,* growth of 20 *per cent*.

Thus, State Government and the Company had not been consistent in their approach with regard to capacity creation and its effective utilisation.

## Working results

**3.2.22** The working results, contribution and losses incurred on the production of bricks during 2011-15 have been summarised in **Appendix – 3.2.1**.

As can be observed from the appendix the Company incurred losses on production of bricks in all the four years. The reasons for losses as analysed in audit mainly related to failure of the Company to fulfill adequate production of bricks, inability to achieve norms for damage of green bricks, production of sub-standard bricks in excess of the prescribed norms, excess consumption of coal, etc. as discussed in succeeding paragraphs.

## Targets and production of burnt bricks

**3.2.23** During 2011-16, the Company produced total 3.21 crore of burnt bricks against target of 3.96 crore leading to a shortfall of almost 19 *per cent* as summarized in **Appendix – 3.2.2**. Analysis of the production performance of various brick fields further revealed that none of the 12 brickfields operated by the Company (excepting Sonaichari in 2014-15) had met the production targets during 2011-16. The shortfall in production during this period ranged from 2 *per cent* (Jirania 2014-15) to 35.28 *per cent* (Kukicherra 2013-14). The Company, however, had not taken corrective steps to enhance production of bricks so as to bring down the cost of production and make the loss units viable for operations.

The Government/Company in their reply (November 2016) stated that non-fulfilment of production targets was due to shortage of migrant labour and skilled local labour. It was also stated that production was hampered due to rain.

The reply is not tenable in view of the fact that the Company had been in the business of bricks since long (1979) and as such, it was well aware of these seasonal constraints and should have either fixed the targets keeping in view the constraints or planned for overcoming them. Thus, the Company could have managed the situation with better production planning.

### Operation of brickfields

**3.2.24** Production of bricks is seasonal and undertaken from October to April of the following year. During the period of five years from 2011-16, the Company had operated 13 production cycles at six brickfields out of a possible 45[30] production cycles at nine brickfields (*viz.,* 29 *per cent*). As observed in audit, the low operation of brickfields were linked with ineffective marketing of product by the Company leading to lack of adequate supply orders for the product.

### Damage of green bricks

**3.2.25** The process of brick production commences in July with construction of sheds for labour and arranging adequate quantities of earth for manufacture of bricks. Earth is excavated, mixed with water, sand, etc. and manually moulded into green bricks for drying before burning. Burning of these green bricks starts at the end of November or early December and continues till March/April. Drying sheds are, however, essential for drying of green bricks and also to protect them from rain, as rain damages green bricks. Besides, proper handling of green bricks was equally important to minimise the damages to green fields. As per the norms fixed by the Company, damage of green bricks was admissible to the extent of 5 *per cent* only.

It was noticed in audit that:

- During the last five years 2011-16, total 36.91 lakh of green bricks were damaged out of total production of 375.65 lakh bricks of the six[31] brickfields during the said period *i.e.* an overall damage of 9.83 *per cent* which was more than the admissible norms of 5 *per cent*;
- The damage of green bricks ranged from 5.76 *per cent* to 24.55 *per cent* of the total green bricks produced. The high percentage of damages to green bricks was mainly on account of absence of adequate drying sheds at all brickfields to protect the green bricks from rainfall (61.74 *per cent*) and improper handling by labourers (38.26 *per cent*);

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30 Considering one production cycle per year for each brickfield, total no. of production cycles for nine brickfields in five years would be 45 production cycles.

31 One brickfield (Jirania) operated in all five years; three brickfields (Mainama, Sonaichari, Ambassa) operated for two years each and two brick fields (Kukicharra and Kanchanpur) operated for one year each.

- The percentage of damaged green bricks was within the admissible 5 *per cent*, ranging from 1.81 *per cent* to 4.03 *per cent* in four[32] brickfields. The Company could restrict the loss within admissible 5 *per cent*, mainly by controlling the damages on account of handling of green bricks.

The Government/Company in their reply (November 2016) accepted the audit observation and stated that the damage of green bricks beyond the admissible percentage of 5 *per cent* was due to heavy rainfall/handling damages. Drying sheds were necessary in case of mechanised brick fields only.

Reply is not acceptable as the drying sheds are equally important even in the case of non-mechanised brick fields to prevent damage due to rainfall.

### Production of first class and picked bricks below norm

**3.2.26** Bricks produced by the Company were classified into four classes *viz.,* ‘first class’ bricks, ‘picked’ bricks, ‘second class’ bricks and bats. ‘First class’ bricks were of perfect size and shape suitable for precision work while ‘picked bricks’ were the first class bricks which were slightly burnt with not so perfect size and shape. ‘Second class’ bricks were not as uniform as ‘first class’ bricks and same were usable for brick work wherever subsequent plastering was done. ‘Bats’ were over-burnt and out of shape bricks generally fusing together to form lumps.

The ‘first class’ and ‘picked’ bricks were the highest price fetching product of the Company’s brick fields while the ‘second class’ and ‘bats’ had very low sales value in the market. The standard of production of various classes of fired bricks as adopted by the Company was 60 *per cent* for ‘first class’ bricks, 10 *per cent* for ‘picked’ bricks, 15 *per cent* for ‘second class’ bricks and 15 *per cent* as ‘bats’. It was noticed from the production data of bricks in six[33] brickfields operated during the last five years that -

- The standard of 60 *per cent* production of ‘first class’ bricks in overall production was attained by only one out of six brickfields and in one out of total 13 production cycles operated during 2011-16 (Jirania in 2012-13).
- The standard of 10 *per cent* ‘picked’ bricks was not attained in four[34]out of the total 13 production cycles operated during 2011-16.
- The norm of 15 *per cent* prescribed for ‘second class’ bricks was attained in seven production cycles out of total 13 production cycles operated during 2011-16.

As ‘first class’ and ‘picked’ bricks fetch the highest prices, their higher production would have led to improved realisations and profit margins. The loss in production of bricks during four years (2011-15) occurred due to inadequate production of quality product at prescribed level of 60 *per cent*.

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[32] Jirania (2.72 *per cent* in 2011-12); Mainama (1.81 *per cent* in 2012-13); Ambassa (4.03 *per cent* in 2013-14); Kukicherra (3.52 *per cent* in 2013-14).

[33] One brickfield (Jirania) operated in all five years; three brickfields (Mainama, Sonaichari, Ambassa) operated for two years each and two brick fields (Kukicharra and Kanchanpur) operated for one year each.

[34] Sonaichari, Kukicherra & Ambassa in 2013-14 and Sonaichari in 2014-15.

The Government/Company in their reply (November 2016) stated that the classification of bricks depend fully on the quality of earth which vary depending on the place and the labour engaged for burning of bricks.

The reply is not acceptable as the standard has been adopted by the Company which has ample experience in the business of bricks and it should have ensured the quality of earth while acquiring the brick fields for the production.

### Excess consumption of coal

**3.2.27** The Company had been in the business of bricks since 1979, however, it had not fixed the norms for consumption of coal in production of bricks. According to a study[35], however, standard consumption of coal for brick kilns in Tripura was 20 MT of coal against per lakh production of bricks. Further, in its 50th Report, the COPU had mentioned that the Company had an average coal consumption of 21.80 MT against per lakh bricks produced. During 2011-12 to 2015-16, actual consumption of coal ranged from 16.23 MT (Kanchanpur 2015-16) to 31.09 MT against per lakh of bricks produced (Jirania 2012-13). The aggregate extra expenditure incurred on coal consumption in excess of the average consumption[36] (*viz.,* 21.80 MT per lakh bricks) during the period of four year (2011-15) worked out to ₹ 46.64 lakh.

Considering consumption of 21.80 MT of coal against per lakh bricks produced as a benchmark, following observations are made on the performance of nine brick fields of the Company during the five years 2011-16.

- At Ambassa (2013-14), Sonaichari (2014-15) and Ambassa (2015-16) coal consumption was within 20 MT per lakh bricks. This showed that the Company was capable of restricting coal consumption within 20 MT.
- At Mainama (2012-13), Sonaichari (2013-14) and Jirania (2015-16) coal consumed was within the average consumption (21.80 MT) of the Company. The In-charge of Jirania brickfield had, however, intimated (January 2016) that the coal supplied to the brickfield was of inferior quality due to which burning of bricks was adversely affected. No record shown to audit indicated that any remedial action was taken by the Company to ensure the credentials of the suppliers before availing supply of coal.
- At Jirania (2011-15), Mainama (2013-14), Kukicherra (2013-14) and Ambassa (2015-16) coal consumed was in excess of 21.80 MT.

The high consumption of coal was mainly attributable to not specifying the quality parameters of coal to be supplied in the supply tenders, not ensuring the qualitative checks of coal procured, absence of an effective system to verify the credentials of suppliers, etc.

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[35] "Prospects and problems of brick industry" by Pallab Kanti Ghoshal (Mittal Publication, First Edition 2008).

[36] For assessing the efficiency in consumption of coal, average consumption of coal (21.80 MT) as per COPU's Report has been considered instead of the industry standard (20 MT), on a conservative basis.

The Government/Company in their reply (November 2016) stated that coal consumption of different brick kilns are not same due to shortage of green bricks. It was also stated that coal consumption was on higher side during rainy days and depended on expertise of fire staff.

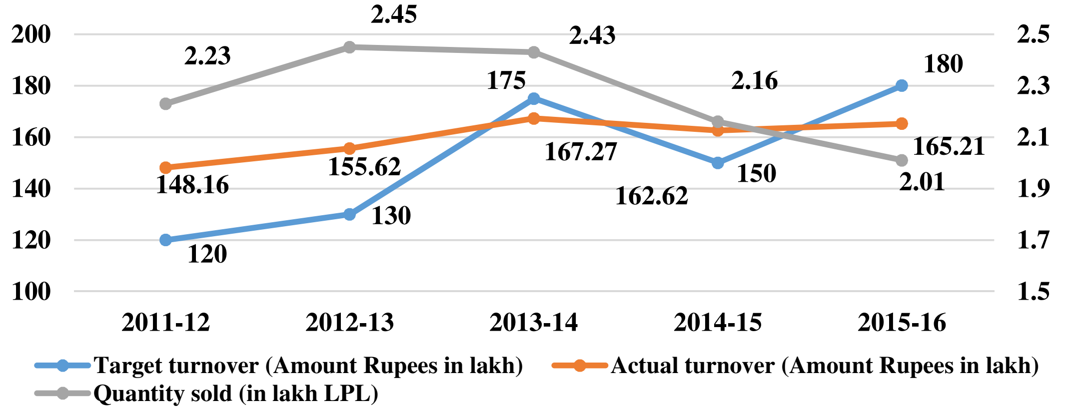
The reply was indicative of deficiencies in planning for production of green bricks. Further, the consumption of coal during rainy season could be managed within the norms by hiring skilled fire staff as per requirement. The reply was, however, silent about the quality parameters in procurement of coal by the Company.

## Sales of country spirits

**3.2.28** The Company was the sole authorised seller of country spirits in Tripura. With the view to restrict illegal consumption of country spirit, the Company entered (1990) into the business of blending of Rectified Spirit[37] (RS) (imported from distilleries outside Tripura) for sale as country spirit within the State.

During 2011-16, the Company sold 11.29 lakh London Proof Litres[38] (LPL) of country spirits. The annual targets fixed for sale of country spirit under the MoUs entered between the Company and State Government *vis-à-vis* the actual turnover achieved there against in physical and financial terms during the five years from 2011-16 have been depicted in **Chart No. 3.2.6** below:

**Chart No. 3.2.6: Annual targets fixed in MoU and turnover achieved (₹ in crore) with quantity sold (in lakh LPL)**




**Source:** Country Spirit stock register, Annual Profit and Loss Account, orders of the Commissioner of Excise, information furnished by the Company, etc. Turnover for 2014-15 and 2015-16 is provisional.

It was seen from the chart that –

- In two out of five years, turnover was below the targets by 4.42 *per cent* (2013-14) and 8.22 *per cent* (2015-16).
- The sales volume peaked in 2012-13 and thereafter showed a declining trend.

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37 Defined under Rule 3(t) of the Tripura Excise Rules 1990 as plain spirit of a strength of not less than forty degrees above proof.

38 'London Proof' Litre is a mixture of 570 ml of ethyl alcohol and 467 ml of water at 10.5$^{0}$Celsius. The resultant is 1,000 ml due to contraction of volume.

- The turnover during 2013-14 had increased by ₹ 11.65 lakh despite reduction in the sales volume by 0.02 lakh LPL as compared to 2012-13. This was mainly due to upward revision of excise duty from ₹ 19.20 per LPL to ₹ 30.00 per LPL and TVAT from 20 *per cent* to 35 *per cent* during 2013.
- Similar inconsistency between the trend of sales turnover and sales volume was noticed during 2015-16 mainly due to upward variation in the selling price of the country liquor.

It was, however, noticed that the Company had not analysed the reasons for the shortfall in achievement of targets during 2013-14 and 2015-16 or decline in quantities sold after 2012-13. The Company also failed to take steps to increase sales and revenue by brand creation, improving packaging, introducing value added country spirit, etc.

In reply, the Government/Company have not offered (November 2016) any specific comments on the issue.

## Working results and profitability analysis

**3.2.29** The working results of the Country Spirits branch for the period 2011-16 have been summarised in **Appendix - 3.2.3.** It may be seen from the appendix that the Country Spirit branch had earned profits during the four years from 2011-12 to 2014-15 ranging between 5.74 *per cent* (2012-13) and 29.54 *per cent* (2011-12) while during 2015-16, it had incurred a loss of 5.27 *per cent* of aggregate cost.

Scrutiny of the records of the Company has further revealed the following:

- The net profit during 2012-13 was lowest in four years (2011-15) at 5.74 *per cent* of aggregate cost, which was even below the margin of 8 *per cent* allowed by State Government. The low profitability during 2012-13 was attributable mainly to low selling price of the product as well as high cost of material and labour.
- During 2015-16, the Country Spirit branch had incurred a loss of ₹ 9.21 lakh as against the profit of ₹ 15.33 lakh earned during 2014-15 mainly due to increase of 44 *per cent* in the licence fee by the excise authorities during 2015-16. Since the selling price of country spirit were fixed in advance for each year by factoring all statutory dues (including licence fee) on estimation basis, the abnormal hike in the licence fee during the course of the year remained unrecovered from the selling price of the product.
- During 2011-12, the Company had recovered an amount of ₹ 75.30[39] lakh towards costs of four consignments of the rectified spirit destroyed[40] (April 2011) by the Company through fixation of the selling price of the country spirit. The actual

[39] Including ₹ 3.80 lakh on modernisation and shed rent against which no expenditure had been accounted for.

[40] Since the stock was declared not fit for human consumption, the Company had to destroy the same and the loss was absorbed in the selling price of the product during 2011-12.

expenditure there against was, however, ₹ 50[41] lakh only which led to excess recovery of cost by ₹ 25.30 lakh. Consequently, the profit for the year (2011-12) was abnormally higher than subsequent years.

- The Company had computed estimated selling prices for 2012-13 based on average sales quantity of three years. It was, however, observed that estimated selling prices for subsequent years *viz.,* 2013-14, 2014-15 and 2015-16 were computed by the Company based on average sales quantity of four, five and eight years respectively. If the calculations had been done for 2013-14, 2014-15 and 2015-16 consistently based on average sales in the preceding three years only, the selling prices of country spirit in these years would have been lower by ₹ 2.74, ₹ 5.73 and ₹ 6.39 per LPL respectively. Thus, inconsistency in the methodology adopted for fixation of selling price of country spirit had led to excess realisation of cost aggregating to ₹ 31.87 lakh during the three years from 2013-14 to 2015-16.

The Government/Company in their reply (November 2016) stated that the Company followed conservative approach in pricing to ensure zero level risk, as the statutory dues of excise authority like license fee and establishment cost were paid during the previous year.

The reply is not acceptable as the Company needs to follow a consistent methodology for pricing the country spirit. Further, after significant increase in the licence fee during 2015-16, the Company should have moved the State Government for corresponding increase in the selling price of the product so as to avoid incurring of additional costs on this account.

## Blending of rectified spirit

**3.2.30** During the period of five years from 2011-16, the Company had received 7.17 lakh bulk litres of RS from distilleries in Uttar Pradesh in 36 consignments. Each consignment was required to be accompanied by a transit pass giving various details of the consignment concerned such as, date and quantity of RS despatched, strength of alcohol at the time of loading onto tankers, etc. The Company, however, had made available to Audit the copies of the transit passes in respect of 12 out of 36 consignments only.

Since 2011-12, the Company had been testing each consignment of RS at the State Drugs Testing Laboratory. These test reports indicated compliance with the prescribed standards and content of ethyl alcohol by volume at a temperature of $15^{0}$Celsius. The test reports in respect of only 28 out of 36 consignments for the period 2012-16 were made available to Audit. It was observed that the details of the test reports in respect of remaining eight consignments relating to 2011-12 had not been maintained or recorded in the Country Spirit Bonded Warehouse stock register.

[41] Towards license fee (₹ 20.02 lakh), establishment cost of excise (₹ 4.51 lakh), Company's employee costs (₹ 23.74 lakh), miscellaneous expenses (₹ 1.74 lakh), etc.

Audit observed that the multiplying factor[42] for blending RS to country spirit was valid at $10.5^0$ Celsius only. Scrutiny of the test reports relating to above mentioned 28 consignments, however, revealed that the Company had converted the strength by applying higher multiplying factor (ranging between $15^0$ Celsius and $10.5^0$ Celsius) than prescribed ($10.5^0$Celsius). Due to this, during 2012-16, the Company had blended 5.57 lakh litres of RS into 9.19 lakh LPL of country spirits instead of 9.37 lakh LPL. This led to short-conversion of 0.18 lakh LPL (1.94 *per cent*) with consequential loss of revenue of ₹ 23.21 lakh (Company: ₹ 13.16 lakh; State exchequer: ₹ 10.05 lakh towards excise duty and TVAT).

In reply, the Government/Company did not offer (November 2016) any comments on this issue.

## Transport of rectified spirit

**3.2.31** Audit analysis of the transit passes relating to 12 out of 36 consignments of RS as provided by the Company for verification revealed that -

- Transit loss[43] of 1.5 *per cent* of RS at loading point was admissible for transit time of 10 to 17 days in case of transportation in steel vessels (tanker Lorries).
- The transit permits issued for transportation of RS mention volume of RS, its strength (at $15^0$ Celsius) and equivalent volume of pure ethyl alcohol at the time of despatch. During transportation of RS, variation occurred between the volume and strength of RS despatched and that actually received. It was, however, observed that the Company had been calculating the 'transit losses' on the volume of RS received and not the actual loss in terms of the volume of ethyl alcohol. This led to variations in the loss percentages as worked out by the Company (ranging from 0.46 to 0.81 *per cent*) *vis-à-vis* the actual loss/gains percentage (ranging from 2.56 *per cent* (loss) to 1.10 *per cent* (gains)) occurred during transportation.
- Out of total 36 consignments received during 2012-16, in 4 consignments, transit loss ranged from 1.58 *per cent* to 2.56 *per cent* which had exceeded State Government's statutory norm (1.5 *per cent*).

Since the Company had not provided the copies of transit passes in respect of remaining 24 consignments for verification by audit, no comments are offered in respect of said 24 consignments.

In reply, the Government/Company did not offer (November 2016) any comments on this issue.

42 "Report on Study and Review of the Existing system of Measurement of Spirits in West Bengal" of the Department of Biotechnology, IIT-KGP prepared in August 2014.

43 Under Rule 77 of the Tripura Excise Rules 1990, for journey duration exceeding nine days but not exceeding eighteen days.

## Environmental issues

### Non-compliance with pollution control requirements in respect of Bricks branch

**3.2.32** The Tripura State Pollution Control Board (TSPCB) had classified[44] (July 2013) brickfields under "Orange" category industries, which required both 'Consent to Establish' and annual renewal of 'Consent to Operate' from TSPCB. The National Green Tribunal, Eastern Zone Bench, Kolkata (NGT) directed (May 2016) TSPCB to prepare a status report on brick kilns including categorisation of non-compliant brick kilns into two groups *viz.,*

- Industrial units, which had the requisite 'consents to operate' at some point of time but continued to operate even after expiry of their validity; and
- Industrial units, which never had consent to establish or operate in any of the years.
- A penalty of ₹ 1.00 lakh and ₹ 1.50 lakh was leviable on the Brickfields in the first and second categories respectively.

In this connection, following observations are made:

- During the period of five years (2011-16), total nine brickfields of the Company were operated. It was noticed that the Company had never applied for 'consent to establish' in respect of two brickfields (Kanchanpur and Jirania) out of the said nine brickfields.
- As the Kanchanpur brickfield had operated (October 2015 to March 2016) without the 'consent to establish', TSPCB had levied (July 2016) penalty of ₹ 1.50 lakh on Kanchanpur brickfield. Besides, the Company had operated Jirania brickfield in all the five years during 2011-16 without the 'consent to establish'. Though TSPCB, had not yet imposed the penalty (August 2016), this was a statutory obligation of the Company.
- The 'consent to operate' in respect of Ambassa brickfield was valid till December 2015. The Company had applied (February 2016) for renewal of the 'consent certificate' belatedly after more than two months of its expiry. While the issue of certificate by TSPCB was pending (July 2016), the Company continued to operate the brickfield beyond December 2015 without requisite consent (September 2016).Though TSPCB, had not yet imposed the penalty, this was a statutory obligation of the Company.
- The Company had submitted (April 2015) the renewal application for 'consent to operate' in respect of Mainama brickfield. The approval was however, awaited pending clearances of land diversion issues (September 2016).Though TSPCB, had not yet imposed the penalty, this was a statutory obligation of the Company.
- The Company had operated Sonaichari brickfield during 2013-14 and 2014-15 without requisite consents.

[44] Notification No. 17 (1)/TSPCB/Corrs./2009-10/3954-64 dated 06 July 2013.

The reasons for operating brickfields without requisite permissions were not on record.

The Government/Company in their reply (November 2016) stated that it was decided to operate only three brick fields at Ambassa, Mainama and Kanchanpur in the year 2016-17. It was also stated that the required pollution certificate in respect of Ambassa brick field was obtained and it had applied for the same in respect of Mainama and Kanchanpur brick fields.

The reply is not acceptable as the Company should have applied for the statutory consents/certificates well in time so as to avoid any violation to statutory requirements on environmental issues.

### Pollution control clearances in respect of Country Spirit branch

**3.2.33** The Company had been in the business of blending the RS into country spirits since 1990 at the Country Spirits Bonded Warehouse in Bandharghat. According to TSPCB guidelines, blending of ethyl alcohol (RS) into country spirit required both 'consent to establish' as well as annual renewal of 'consent to operate' from TSPCB. Contrary to this, however, the Company had approached TSPCB for according the 'consent to establish' the country spirit blending and packing plant only in September 2014. Although, based on the request of the Company, TSPCB had granted (September 2014) the 'consent to establish' the plant, the Company had never approached TSPCB for renewal of consent (due for renewal in September 2015) to operate the blending process of country spirit (September 2016) in violation of TSPCB guidelines.

### Effectiveness of internal control system and monitoring mechanism of the Company

### Internal control and monitoring

**3.2.34** A reliable system of internal control and monitoring is a pre-requisite to minimise the risks of errors and irregularities. Failure to set out or non-compliance with the prescribed systems and procedures impair internal controls. Absence of an effective supervision at appropriate levels adversely impact compliance to various statutory requirements besides exposing the organisation against possibility of errors, frauds and other irregularities. The deficiencies noticed in the internal control and monitoring system of the Company noticed during the conduct of audit are discussed below:

- The Company had not prepared and approved formal delegation of administrative and residual financial powers to the managerial and supervisory employees of the Company. As a result, most of the financial/administrative decisions were taken centrally at the level of Managing Director.
- The Company had not prescribed an appropriate management information system to monitor performance of its business branches. The BoD had directed (April 2010) the Managing Director to hold monthly meetings with the Branch

Officers on a fixed day to review works of each branch on the basis of action plan and apprise the Chairman about the outcome. The Chairman would hold quarterly meetings with Branch Officers and submit report to the BoD at the next meeting. It was, however, observed that no such meetings were held by the Managing Director/Chairman during the period of five years (2011-16) for reasons not on record.

- The Company had not prescribed manuals for various functional areas like accounts, establishment, etc. resulting in absence of standardised functioning and guidance.
- The accounts of the Company were in arrears from 2014-15 onwards. It was further noticed that the collections against trade receivables were not linked to invoices raised by the Company. Further, there was no system in existence for periodic reconciliation of dues receivable from customers and the dues payable to suppliers by the Company.
- The Company had not prepared bank reconciliation statements on regular basis. Further, no balance confirmation statements were obtained from the banks concerned and their branches. Consequently, non-existent bank balances aggregating to ₹ 13.44 lakh in respect of 10 closed/defunct bank accounts appeared in the financial statements.
- Although there was an internal audit officer and an internal audit branch existed since January 1992, no internal audit had been conducted or even planned by the Company during the period of five years (2011-16) reviewed by Audit.

The deficiencies brought out above, indicate absence of an effective internal control and monitoring system in the Company with regard to several important areas mentioned above.

The Government/Company accepted (November 2016) the facts and assured to take corrective action.

## Compliance to the recommendations of Committee on Public Undertakings

**3.2.35** COPU had made recommendations in its 35th Report in the light of audit observations in the CAG's Audit Report 1996-97. Compliance to these recommendations was examined in audit given in table below.

**Table No. 3.2.6: COPU recommendations and non-compliance by the Company**

| Audit Report | Para No. | COPU recommendations | Status of compliance by the Company |
|---|---|---|---|
| **COPU had sought feedback/information on the following:** | | | |
| 1996-97 | 8.2.7.1 | Whether the Company has taken active steps to revive the pharmaceutical unit and what are those? | The Company closed the pharmaceutical unit (2011-12). |
| | 8.2.7.2 | Whether the Company was considering selling of lime burnt clay pozzolona mixture plant and machinery and the latest position of related assets? | The unit is not working. Though efforts were made by the Company to dispose the assets, but the efforts did not yield any results (October 2016). |

| Audit Report | Para No. | COPU recommendations | Status of compliance by the Company |
|---|---|---|---|
| | 8.2.7.4 | What steps had been taken to increase the production of bricks to meet rising demand of bricks in the State? | State Government as well as the Company were not consistent in their approach with regard to capacity creation and its effective utilisation as discussed in **Paragraph No. 3.2.21**. |
| | 8.2.7.5 | Had the Company modernised the fruit canning factory and present position in this regard? | Fruit canning factory was not modernised (September 2016). Initially the factory was sub-leased for three years and later the Company closed (2011-12) the unit. |

## Conclusion

**3.2.36** Action plan/perspective plan of five years was not prepared by the Company to promote and develop the MSMEs in the State and also to overcome the problems of working capital shortage, excess manpower and dependence on equity support from State Government despite the stipulations made in the TIIPP.

There were wide variations between annual turnover targets of the Company fixed under the MoUs entered between the Company and State Government and that mentioned in the Action Plan submitted by State Government to GoI (Planning Commission). Besides, the turnover targets under the MoUs and the State Government's Action Plan were fixed without reference to previous year's achievements of the Company.

Losses had been incurred by 11 out of 13 branches of the Company in all five years covered in Audit. This was mainly due to high fixed costs and consequent high levels of break-even turnover of the Company. Among loss incurring branches, the production of bricks incurred the highest loss mainly on account of inadequate production of bricks, excess damage to green bricks, failure to ensure standard production of different classes of burnt bricks and limit consumption of coal.

The number of vendors enlisted with the Company was low as compared to total number of operational MSME units (2,500 units) in the State as of March 2016. The Company failed to effectively monitor the performance of MSME vendors in absence of comprehensive database relating to enlistment, renewal, order position and performance evaluation of the vendors.

Steps were not taken to increase sales of country spirit by brand creation, improving packaging, introducing value added country spirit, etc. There was no consistency in the methodology adopted for fixation of selling prices of country spirit during 2012-16.

There were no delegation of powers, management information systems and operational manuals.

## Recommendations

**3.2.37** It is recommended that State Government and the Company may -

- Draw up a five year perspective plan to include measures to promote and develop the MSME sector in line with the Company's mandate, overcome the problems of working capital shortage, control costs and losses and reduce financial dependence on State Government;
- Incorporate realistic turnover targets in the MoUs based on the prevalent demand and past performance, take appropriate steps to restrict fixed costs at acceptable level and ensure production of standard bricks at the optimum level so as to improve the performance of the Company;
- Streamline the system to enlist MSME vendors for effective control over the supplies executed through them;
- Put in place an effective internal control and monitoring system to ensure compliance to various statutory requirements and avoid possibility of errors, frauds and other irregularities.