CHAPTER-II

2. PERFORMANCE REVIEWS RELATING TO GOVERNMENT COMPANIES

2.1 PERFORMANCE REVIEW ON THE ROLE OF ASSAM FISHERIES DEVELOPMENT CORPORATION LIMITED IN THE SOCIO-ECONOMIC DEVELOPMENT OF THE FISHERMEN COMMUNITIES OF THE STATE

Highlights

The Company was incorporated in March 1977 with the main objective of improving the socio-economic condition of the fishermen communities in the State. The Company did not prepare any comprehensive plan for achievement of its stated objectives.

(Paragraph 2.1.1)

The Company did not carry out adequate developmental works. It spent an insignificant amount of Rs.3.40 lakh on the development of Beels during the period 2001-06.

(Paragraph 2.1.8)

The Company suffered revenue loss due to settlement of Beels at prices other than the highest bid price (Rs.29.80 lakh), settlement without tender (Rs.19 lakh), settlement below reserve price (Rs.7.90 lakh), waiver of lease rent (Rs.13.60 lakh) and non-settlement of Beels (Rs.18.27 lakh).

(Paragraphs 2.1.13 to 2.1.24)

The Company neither took up any specific scheme for socio-economic upliftment of the fishermen communities nor any scheme to ensure whole time employment for them.

(Paragraph 2.1.25)

The Company made payment of Rs.86.09 lakh towards salary and wages to surplus employees.

(Paragraph 2.1.26)

The internal control system was deficient and accounts of the Company were in arrears for nine years. The contribution of senior Management in decision-making was sub-optimal as the prescribed minimum number of Board meetings were not held during the last five years ending 31 March 2006.

(Paragraph 2.1.27)

Introduction

2.1.1 The Assam Fisheries Development Corporation Limited (Company) was incorporated in March 1977 mainly to (i) undertake development of fisheries in the State and ensure increased production of fish, (ii) support by financial grants, loans and other means, promotion of increased fish production and fish marketing and (iii) introduce fish breeding, fish culture, boat and net making and other sources of income among the fishermen* to ensure whole time employment for them so as to improve the socio-economic condition of fishermen communities in the State.

The activities so far (March 2006) undertaken by the Company have, however, been restricted to leasing of fisheries and collection of revenues from the lessees. Development works of fisheries were also undertaken on a limited scale.

The Management of the Company is vested in a Board of Directors (Board) consisting of not less than five and not more than eleven members. As on 31 March 2006, there were 10 Directors on the Board including the Chairman and the Managing Director. The Managing Director is the Chief Executive of the Company who is assisted in his day-to-day duties by one General Manager, one Project Director and an Assistant Executive Engineer at head office and four Beel Managers and 17 Assistant Beel Managers posted at different locations in the State.

A comprehensive review on the working and performance of the Company for the period from April 1981 to March 1985 featured in the Comptroller and Auditor General's Audit Report (Commercial)- Government of Assam for the year 1984-85.

Scope of audit

2.1.2 The present performance audit covers the activities undertaken by the Company during the period 2001-06.The discussion in the review has, however, been restricted to the year 2004-05 the year upto which provisional Accounts have been prepared by the Company. The Company's head office is in Guwahati. The activities of 182 Beels taken over by the Company are

* Scheduled caste fishermen of the State and Maimal Community of Cachar District.

directly administered by the head office. The present performance audit covers, through test check of records, the activities of the head office and developmental activities carried out in 94 Beels during the period from January to March 2006.

Audit objectives

2.1.3 The audit objectives were to ascertain whether:

- the Company prepared a comprehensive plan with specific time bound milestones and targets to achieve its stated goals of enhancing fish production and upliftment of the fishermen;
- the Company could develop all the Beels transferred to it by the State Government, in order to maximise fish production and exploit full potential;
- the Beels were leased as per the directives of the Board of Directors optimising the revenue and in a fair and transparent manner;
- the Company could enhance fish yield as per the norms;
- the manpower deployed was commensurate with the activities of the Company and was optimally utilised;
- the Company had effective corporate governance at the level of the Board of Directors and an effective internal control mechanism to carry out its activities in an orderly and effective manner.

Audit criteria

2.1.4 The following Audit criteria were adopted:

- Orders issued by the State Government regarding transfer of Beels to the Company as well as orders issued by the Company;
- Yield potential of Beel fisheries in Assam;
- Guidelines for leasing of fisheries/Beels as approved by the Board;
- Recruitment policy of the Company;
- Government Rules and Regulations in so far as these relate to the activities of the Company.

Audit methodology

2.1.5 Audit followed the following mix of methodologies**:**

- Scrutiny of agenda notes/minutes of Board meetings;
- Scrutiny of guidelines/instructions issued by the State Government;
- Scrutiny of reports/returns received from field units;
- Issue of questionnaire for obtaining information/data;
- Scrutiny of Government Rules and Regulations.

Audit findings

2.1.6 Audit findings emerging from the performance audit were reported to the Government/Management in May 2006 and discussed in the meeting of the Audit Review Committee on Public Sector Enterprises (ARCPSE) held on 18 August 2006, which was attended by the Secretary, Fisheries Department, Government of Assam and the Managing Director of the Company. The views expressed by the members have been taken into consideration while finalising the review.

The audit findings are discussed in the succeeding paragraphs:

Development of beel fisheries

Despite lapse of more than 10 years after taking over from the Government, areas of 18 Beels had not been ascertained so far.

2.1.7 There were 423 registered Beel* fisheries (estimated area 40,000 hectares) in Assam. The State Government transferred 195 Beels to the Company, out of which 182** Beels were taken over by the Company between March 1979 to May 1996 on lease basis at a nominal lease-rent of Rs.101 per Beel per year. The balance 13 Beels have still not been taken over by the Company (March 2006) for reasons not on record.

Out of 182 Beels taken over, the Company had so far (March 2006) ascertained the gross and net production areas of 164 Beels at 11,041 hectares and 10,067 hectares respectively. The area of the remaining 18 Beels has not yet (March 2006) been ascertained. The Management stated (7 June 2006) that the demarcation work of the Beels was being pursued vigorously**.**

The Company was mandated to undertake development of Beels with a view to ensure increased production of fish in the State. The development activities

* Flood plain wetlands defined as low-lying areas bordering large rivers and known as Beel(s) in Assam.

** Excluding Deepar Beel in Kamrup District, which was declared (January 1989) a sanctuary under Wild Life Protection Act, 1972.

(like weed clearance, construction of cross/demarcation bund, embankment, stocking tank, rearing tank and channel development etc.) in 82 Beels covering 6349 hectares were completed upto 2000-01. Thereafter no development works in the Beels were undertaken by the Company till the date of audit excepting only a small amount of Rs.3.40 lakh spent by the Company out of its own resources during the period from 2001-02 to 2005-06 on development work in six Beels as detailed in Para 2.1.9. In addition, an expenditure of Rs.2.37 lakh was incurred by the Company during 2002-03 on weed clearance of another Beel out of fund of Rs.4 lakh provided (October 2002) by the Science, Technology and Environment Council. In reply to an audit query regarding unspent balance of Rs.1.63 lakh, the Management stated (June 2006) that the amount would be utilised for developmental activities. The fact, however, remains that the amount had been lying idle for the last four years upto March 2006.

2.1.8 Budgeted provisions and actual expenditure thereagainst incurred by the Company during the period 2001-02 to 2005-06 were as under:

Years	**Budgeted Provisions**	**Actual expenditure**	**Name of the Beels where expenditure was incurred**
	(Rupees in lakh)		
2001-02	20.00	0.32	Kauti Beel, Karimganj
2002-03	65.00	Nil	-
2003-04	32.60	1.65	Jogra Beel, Dhubri
2004-05	22.55	1.23	Teliadonga (Sibsagar), Kumri Beel (Goalpara) Garjan-Bulletjan (Kamrup)
2005-06	22.86	0.20	Bildora (Kamrup)
Total	**163.01**	**3.40**	

The budget provision of Rs.163.01 lakh was made expecting Rs.80 lakh from the State Government and the balance amount of Rs.83.01 lakh from the internal resources of the Company.

The Company, however, did not receive any fund from the State Government. Meanwhile the Board, in its meeting dated 17 February 2004, had decided to spend on developmental works of beels at least 15 *per cent* of the revenue earned. In spite of this decision, an amount of Rs.3.40 lakh only was spent by the Company during the period from 2001-02 to 2005-06 on developmental work, which represents only 4.10 *per cent* of the budgeted revenue. To overcome financial constraints, the Company, stated (June 2006) that it had now adopted a policy for development of Beels, which provided that 50 *per cent* of the expenditure would be borne by the concerned lessees.

Fish yield

2.1.9 The Company did not prepare any long term plan for development of the Beels so as to increase their productivity on a sustainable basis. Lack of development resulted in low fish yield in the Beel fisheries under the management of the Company.

The details of fish production in 66 Beels (for which complete data were available) out of 82 Beels developed by the Company, for the period from 2001-02 to 2004-05 are tabulated in ***Annexure*-10.** The position is summarised below:

Region	No. of Beels	*Potential yield in Kg per hectare	Average actual production of fish in Kg. per hectare			
			2001-02	2002-03	2003-04	2004-05
(Figures in brackets indicate *percent*age)						
Upper Assam	11	1245	231.21 (18.51)	285.49 (22.93)	440.70 (35.40)	129.16 (10.37)
Central Assam	19	1221	272.33 (22.30)	311.02 (25.47)	458.15 (37.52)	342.15 (28.02)
Lower Assam	28	1060	291.99 (27.55)	311.44 (29.38)	480.76 (45.35)	117.74 (11.11)
Barak Valley	8	1093	353.49 (32.34)	401.09 (36.70)	726.17 (66.44)	207.81 (19.01)
All Assam	**66**	**1155**	**287.59 (24.90)**	**315.43 (27.31)**	**490.78 (42.49)**	**163.43 (14.15)**

The Company failed to achieve the objective of increased fish production.

It would be seen from the table above that against the potential yield of 1,060 to 1,245 Kg. per hectare per year, the actual production varied from 163.43 Kg. to 490.78 Kg. per hectares per year representing 14.15 to 42.49 *per cent* of the potential yield.

The Company thus, failed to exploit the full potential of the Beel fisheries under its management resulting in non-achievement of the objective of increased fish production.

In reply, the Management stated (June 2006) that the potential yield of 1,060 to 1,245 Kg. per hectare per year for Beels reported by the Central Inland Captive Fisheries Research Institute (CICFRI) bulletin is based on ideal conditions of Beels with adequate stocking and scientific management.

The reply of the Management is not acceptable as the yield potential fixed by the CICFRI was based on survey conducted in the Beels of Assam (including some of the Beels under the control of the Company) and not under ideal conditions. The reply is silent about why the Company could not scientifically manage the Beels.

* As per "Ecology and Fisheries of Beel in Assam" published (November 2000) by Central Inland Captive Fisheries Research Institute (Indian Council of Agricultural Research) Barrackpore, West Bengal.

Audit analysis revealed as under:

The Company did not fix any norms/rate for yield from the Beels.

2.1.10 The Company did not fix any yield norms for the Beels under its management. As per the Assam Fisheries (Amendment) Rules, 2005 the minimum yield of developed Beels and non-developed Beels was 500 Kg. and 200 Kg. per hectare per year respectively. The actual yield against these 66 developed Beels were as under:

Production range in Kg. per hectare per year	No. of Beels			
	2001-02	2002-03	2003-04	2004-05
Up to 99 Kg.	4	4	Nil	14
From 100- 199 Kg	12	9	4	13
From 200-299 Kg	20	14	6	13
From 300-399 Kg	14	17	11	6
From 400-499	6	8	4	6
From 500 Kg. and above	10	14	41	14
Total	**66**	**66**	**66**	**66**

It would be seen from the table above that the number of Beels with production range above 500 Kg per hectare varied from 10 (15.16 *per cent*) to 41 (62.13 *per cent*). During the year 2004-05, only 14 Beels (21 *per cent*) yielded production of above 500 kg. This indicates that most of the Beels had reverted to their pre-developed stage due to failure on the part of the Company to undertake adequate developmental works.

The Management stated (June 2006) that the production data for 2004-05 were not compiled properly and were not authenticated by the Company. The reply is not tenable as the data were compiled from field reports, which were verified and authenticated by the Project Director of the Company.

2.1.11 Due to shortfall in production of fish as compared to the norms fixed by the State Government, the Company lost potential revenue of Rs.1.92 crore in respect of these 66 Beels during the four years from 2001-02 to 2004-05. The details are as given below:

Particulars	2001-02 to 2004-05
Total net area	4925 Hectares
Standard yield at 500.00 kg/Hectare per year	9850 MT
Actual yield	6192 MT
Shortfall in production	3658 MT
Lowest sale price per Kg. (Project report for Meda Beel)	Rs.35
Total sale value	Rs.1280.30 lakh
Company's share at *15 per cent* of sale value	Rs. 192.04 lakh

Leasing of beels

2.1.12 The guidelines approved (3 March 1994 and 14 September 2001) by the Board provided for settlement, on lease basis, of all the Beels with actual fishermen belonging to the scheduled caste communities and people belonging to the Maimal community of Cachar District and Co-operative Societies formed by them.

The guidelines further provided that:

- All the Beel fisheries should be settled through a tendering system and on satisfaction of the tender conditions, the Beel should be given to the highest bidder;
- Minimum revenue should be fixed for every Beel fishery and in no case settlement should be made at below the minimum revenue;
- In no circumstances, the revenue shall be exempted.

Scrutiny of records relating to leasing of 94 Beels revealed the following:

Particulars	No. of Beels	Loss of revenue (Rupees in lakh)
Non-settlement of Beels with the highest bidder	3	29.80
Settlement of Beels without call of tenders	3	19.00
Settlement of Beels below the reserve price	2	7.90
Waiver of lease rent	1	13.60
Non-settlement of Beels	19	18.27
Total	**28**	**88.57**

Audit analysis revealed that the Beels were settled for periods ranging from four to six years and in most of the cases the Beels were settled in violation of the Board' guidelines, with bidders who were not the highest or at prices below the reserve price, lease rent was waived or the Beels were not settled at all, as discussed in the succeeding paragraphs.

Non-settlement of Beels with the highest bidder

Rowmari Beel, Darrang District. (Gross Area: 50 hectares)

2.1.13 Tenders for the settlement of this Beel for the block years 2004-05 to 2010-11 were invited on 14 March 2004 after fixing the reserve price of Rs.12.75 lakh against which seven valid tenders were received. The highest (H_1) and the lowest bids (H_7) were Rs.40.08 lakh and Rs.16.45 lakh respectively. The Managing Director proposed (17 May 2004) settlement of Beels with the H_5 tenderer (which was a Self Help Group) at the rate quoted by the second highest tenderer. The Chairman of the Company approved (19

May 2004) the rate quoted by the H_5 tenderer as the rates quoted by the first four tenderers were considered high. This was done on the basis of a report from the Junior Technical Manager of the Company, which stated that a lease rent of Rs.15 to Rs.18 lakh was reasonable. The Beel was settled (21 May 2004) with the H_5 tenderer at his quoted rate of Rs.17.98 lakh.

The non-acceptance of the first four tenders on the grounds of being too high was not only contrary to the guidelines approved by the Board, but also vitiated the basic principles of the tendering process.

The Management stated (June 2006) that apart from the Report of the Junior Technical Manager, the H_5 tenderer was selected, based on infirmities in the other tenders. The reply of the Management is not acceptable as H_5 tenderer was selected by the Chairman on 19 May 2004 on the ground that the first four tenders were too high and not because of any infirmities in the other tenders. None of the tenderers was formally rejected. The revenue foregone due to non-settlement of the Beel with the highest bidder was Rs.22.09 lakh.

Moridesoi-Sengalikhuti Beel (Golaghat District) (Gross Area: 170 hectares)

Arbitrary rejection of highest bid.

2.1.14 Tenders for the settlement of the Beel for the block years 2001-02 to 2005-06 were invited in March 2001. Seven tenders were received. The highest and the lowest bids were Rs.12.31 lakh and Rupees five lakh respectively. A sub-committee of the Board proposed (3 April 2001) to settle the Beel with the lowest tenderer as the year-wise breakup of the bids quoted by other tenderers showed that they had quoted high rates for the later years of the proposed settlement period. While bidders quoting higher rates for later years enhance the overall value of the bid, there is a possibility of the lessee not continuing with the lease after the initial years, when the lease amount is low. The Beel was settled (12 April 2001) with the lowest tenderer at a negotiated price of Rupees six lakh. Neither was any negotiation carried out with the highest tenderer nor was he asked to revise year-wise breakup of the bid. The rejection of the highest bid was thus arbitrary.

The revenue foregone due to non-settlement of the Beel with the highest bidder was Rs.6.31 lakh.

In reply, the Management stated (June 2006) that the selection was made on the recommendation of the highest authorities to encourage activities of co-operative societies. The reply is not tenable as all the bidders were eligible and settlement of Beel with the lowest bidder was not only in contravention of the guidelines of the Board but also violated the directions of Central Vigilance Commission (CVC), which disallow negotiation with bidders other than the highest bidder. If the Management wanted to give any preference to co-operative societies the same should have been incorporated in the bid conditions in a transparent manner.

Meda Beel (Karimganj) (Gross Area: 40 hectares)

2.1.15 Tenders were invited (5 May 2000), for settlement of the Beel for the block years 2000-01 to 2004-05 against which four tenders were received. While the highest tender H_1 for Rs.4.21 lakh was withdrawn, the second highest H_2 tender for Rs.3.54 lakh was not considered on technical grounds of not furnishing Indian Postal Order of Rs.10 only. Since only two valid tenders were left, fresh tenders were required to be invited to safeguard the financial interest of the Company. The Beel was, however, settled with the third highest tenderer at his quoted bid of Rs.2.08 lakh without re-tendering.

Accepting the audit findings the Management stated (June 2006) that the tender had to be finalised on an urgent footing to avoid further loss of revenue. The reply is not tenable, as timely initiation of bidding process could have prevented the loss.

Suska Beel (Cachar District) (Gross Area: 9 hectares)

2.1.16 Tenders were invited on 27 January 2004 for settlement of the Beel for the block years 2004-05 to 2010-11 against which 12 tenders were received out of which 7 tenders were found not acceptable on various grounds and two tenders (H_1 and H_3) were withdrawn before finalisation. The highest and the lowest bids among the remaining three tenders were Rs.2.45 lakh and Rs.1.05 lakh respectively. As the bids were higher than the reserve price (Rs.37,800), the Company obtained a report from its Junior Technical Manager who stated that revenue of Rs.1.58 lakh would be reasonable. The Beel was settled with the lowest tenderer at Rs.1.05 lakh only, contrary to the guidelines of the Board.

The Management stated (June 2006) that only three tenders were found valid and depending on the fish production of the Beel, the Company accepted the tender of the lowest bidder as reasonable giving preference to fishermen co-operative society.

The reply of the Management is not acceptable as the guidelines of the Board provided that preference should be given to Co-operative Societies of fishermen only if the tender value of the society was within 92.50 *per cent* of the highest bid and if the society was selected, the settlement was to be given at the highest bid value. In the instant case, however, the settlement was made with a society whose bid was 57.14 *per cent* lower than the highest bidder.

Settlement of Beels without tender

2.1.17 As per the guidelines issued by the Board, settlement of Beels without tender was not permissible. It was, however, noticed in audit that the Company, had settled the following three Beels without calling tenders:

Rata Beel, Karimganj District (Area 160 Hectares)

2.1.18 The Beel was settled (26 March 1999) with a private individual of village Kangter, Jadutilla in Karimganj District at Rs.2.42 lakh for the block years 1999-2000 to 2003-04 without call of tenders and without fixation of minimum reserve price. Subsequently, the lease rent was settled at Rs.3.16 lakh with one-year extension up to 2004-05. The basis of fixation/refixation of lease rent was not on record. As per the calculations (based on formula adopted by the Company for assessing the reasonable revenue from Beel fisheries) made by Audit, the Company incurred revenue loss of Rs.14.24 lakh shown as follows:

Total area	160 Hectares
Total fish production during 1999-2005	3,86,770 Kg.
Total sale value of fish at Rs.30 per Kg.	Rs.1, 16,03,100
Company's share of revenue at 15 *per cent* of sale value	Rs.17, 40,465
Settled amount	Rs.3, 16,098
Revenue loss	Rs.14, 24,367

In reply, the Management stated (June 2006) that the fish production and sale value as shown above were probable and not based on the actual condition of the Beel.

The reply of the Management is not acceptable in view of the following:

- The total fish production during 1999-2005 included actual production of 2,18,740 Kg fish during 2001-02 to 2003-04. The production during 1999-2000 and 2000-01 was taken at 32,000 Kg (at 200 Kg per hectare for undeveloped Beels) each year, which was lower than the actual production of 55,100 Kg reported during 2001-02. The production figure for 2004-05 was taken at 1,04,030 Kg which was equal to the actual reported production during 2003-04.

- The sale value was taken at the lowest reported sale value from the field units and the rates adopted were those adopted by the Company for working out economic viability of the development schemes under Assam Rural Infrastructure and Agricultural Services Project (ARIASP).

Tariachora Beel, Dhubri District (Area: 50 hectare)

2.1.19 The Beel was settled (February 2001) with the existing lessee without call of tenders, at Rs.4.95 lakh for the block years 2001-02 to 2005-06.The basis for fixation of these rents and reasons for not inviting tenders were not found on record.

The Beel with net productive area of 50 hectares was developed under the World Food Programme in 1988-89 and hence fish yield as per the Assam Fisheries (Amendment) Rules, 2005 should be considered at a minimum of 500 Kg. per hectare per year. The Company's share of revenue for the five years at 15 *per cent* of the sale value of fish at lowest rate of Rs.40 per Kg. worked out to Rs.7.50 lakh. The Company itself had worked out the lease rent at Rs.7.20 lakh in February 2001 against which the Beel was settled at Rs.4.95 lakh resulting in loss of revenue of Rs.2.25 lakh.

Leasing out of Beels in contravention to the Board's approved guidelines resulted in revenue loss of Rs.2.25 lakh.

The Management stated (June 2006) that during 1996-97 to 2000-01, the Beel was badly affected by flood and the lessee had incurred heavy loss. Keeping this in view, the Company had extended the lease for further five years at 20 *per cent* above the lease rent for the previous block years (1996-97 to 2000-01). The reply is not acceptable as the settlement of lease without call of tender was not only arbitrary but also contrary to the guidelines for settlement of Beels.

Dahar-Jogra Beel, Dhubri District (Area: 35 hectare)

2.1.20 The Company received a request dated January 2000 from the existing lessee for settlement of the Beel to him for the next block years 2000-01 to 2004-05 in order to develop the Beel, increase fish production and recover his own investment. The petitioner, however, did not make any financial bid. Simultaneously, the Company received three unsolicited offers for settlement of the Beel for Rs.4.50 lakh, Rs.3.66 lakh and Rs.3 lakh respectively.

The Company, without considering the above offers for reasons not on record, settled the Beel with the existing lessee at Rs.1.99 lakh for five years from 2000-01 to 2004-05 ignoring the highest offer of Rs.4.50 lakh, which resulted in loss of revenue of Rs.2.51 lakh.

The Management stated (June 2006) that the lessee was selected on the basis of his satisfactory past record and by enhancing 35 *per cent* on previous year's revenue. The action taken by the Company was not only arbitrary but also denied the Company additional revenue of Rs.2.51 lakh.

Settlement of Beels below reserve price

Dhir Beel (Area 668 Hectare), Dhubri District

2.1.21 Tenders for the settlement of the Beel for the block of seven years from 2004-05 to 2010-11 were invited on 6 February 2004 after fixing reserve price of Rs.26.71 lakh. In response, five tenders at the following rates were received.

Settlement of lease at a price lower than the reserve price.

Name of tenderer	Tendered value
	(Rupees in lakh)
Shri Gopal Chandra Sarkar	26.78
Shri Rohini Kumar Sarkar	26.61
Shri Dhirendra Chandra Haldar	26.61
Shri Banamali Sarkar	21.95
Shri Parimal Das	18.20

All the tenders were opened on 16 February 2004. On 18 March 2004, the first three tenderers withdrew their tender. The Beel was settled with the fourth bidder at his quoted price of Rs.21.95 lakh against the reserve price of Rs.26.71 lakh. This entailed revenue loss of Rs.4.76 lakh compared to the reserve price.

Considering the fact that all the tenderers except one were below the reserve price, the Company should have re-tendered the Beel to protect its financial interest. It was also noted that the fourth bidder had quoted an amount of Rs.21.95 lakh earlier for block of five years from 1998-99 to 2002-03. He had again quoted the same amount for subsequent seven years from 2004-05 to 2010-11. Thus, the price increase due to normal inflation and increase in number of years from five to seven years had not been considered by the Company.

The Management stated (June 2006) that a co-operative society was selected for the period from 1998-99 to 2002-03, as an institution was more responsible than an individual. Regarding the period from 2004-05 to 2010-11, the Management stated that the Beel was settled with the highest bidder after three tenderers had withdrawn their tenders. The reply of the Management is not acceptable as preference was given to the co-operative society in violation of the tender conditions. The Company also did not intimate the reasons for settlement for the period from 2004-05 to 2010-11 at prices below the reserve price.

Hasila Beel, Goalpara District. (Gross Area: 280 hectares)

2.1.22 Tenders for the settlement of the Beel for the block years 2003-04 to 2009-10 were invited in April 2003 after fixing a reserve price of Rs.11.14 lakh. In response four tenders were received. All the tenders were below the reserve price. The Beel was, however, settled with one Atal Maloo (H_3) after negotiation, at Rs.8 lakh, which was lower by Rs.3.14 lakh than the reserve price.

The Management stated (June 2006) that the tenderers were not willing to accept the reserve price fixed at the time of tender as there was large-scale encroachment and siltation in the Beel and the area was considerably reduced.

The reply of the Management is not acceptable as the reserve price is fixed considering the actual site condition.

Waiver of lease rent

Garudharia Beel (32 Hectare), Dibrugarh District.

Loss of revenue due to irregular refixation of rates.

2.1.23 The Beel was settled on 23 October 2003 with one Arun Das (H_1) at his tendered rate of Rs.18.97 lakh for the block years 2003-04 to 2009-10. As per the approved guidelines and agreement dated 15 November 2003 executed with the lessee, any reduction in the settled amount was not permissible. The Company, however, on a request from the lessee reduced (28 May 2004) the settled amount from Rs.18.97 lakh to Rs.5.37 lakh. The amount of Rs.5.37 lakh was slightly higher (Rupees one thousand) than the second highest bid. The reduction of the settled amount to Rs.5.37 lakh was made subject to approval of the Board. The Board in their meeting dated 29 March 2005 had observed that the refixation was not proper and also directed the management to take action against the officer responsible for the same. The reduction of lease rent resulted in revenue loss of Rs.13.60 lakh.

The Management stated (June 2006) that as decided by the Board, the lease rent was again increased from Rs.5.37 lakh to Rs.18.97 lakh for which the lessee filed a petition in the Guwahati High Court. In reply, the Management further stated that the matter regarding action required to be taken against the officer responsible for refixation of the settled amount would be placed in the next Board meeting.

Non-settlement of Beels

2.1.24 As per the procedure approved by the Board, all Beels under the management and control of the Company were required to be leased out after call of tenders, as the Company was not directly operating any of the Beels. Audit analysis, however, revealed that during 2001-02 to 2005-06, the Company did not lease out 19 Beel fisheries for periods ranging from one to four years, which resulted in loss of revenue of Rs.18.27 lakh (details are given in ***Annexure*-11**). This shows lack of adequate control resulting in the Company failing to lease out the Beels immediately after expiry of the earlier lease period.

Socio-economic upliftment of the fishermen

2.1.25 As per the Memorandum of Association of the Company, one of the main objectives of the Company is to improve the socio-economic condition of actual fishermen of scheduled castes communities of the State and Maimal community of Cachar District who are dependent on fishing and fish trade. The Company was also mandated to introduce fish breeding, fish-culture, boat and net making and other sources of income among the actual fishermen to ensure whole-time employment for them.

No specific scheme for socio-economic development of the fishermen communities was taken up.

The Company, however, did not take up any specific scheme for socio-economic upliftment of the targeted fishermen communities. The Company also did not take-up any scheme to ensure whole-time employment for them. Basic data relating to (i) number of fishermen working on Beel fisheries under the Company (ii) Fishermen population in nearby areas (iii) impact of activities taken up by the Company on fish yield rate, pricing of fish and income of fishermen *etc.*, had not been collected/compiled.

The Company thus, failed to carry out one of its important mandated functions.

Manpower analysis

2.1.26 The Company had total manpower of 105 out of which 45 persons were posted at the head office at Guwahati and remaining 60 were posted at different field locations. The details of revenue earned and salary and wages paid during the five years from 2001-02 to 2005-06 were as tabulated below:

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
	(Rupees in lakh)				
Revenue earned	131.34	169.97	184.68	202.42	N.A.
Salary/Wages	95.35	103.10	103.47	103.31	112.69
*Percent*age of salary/wages to revenue earned	72.60	60.66	56.03	51.04	N.A.

Though the proportion of salary and wages as a *percentage* of revenue earned came down to 51.04 in the year 2004-05 as compared to 72.60 in the year 2001-02, the Company was having surplus manpower as discussed below:

- The Company recruited 55 work-charged employees during 1988-89 for implementing the World Food Project sponsored by the State Government. The services of these employees, as per their terms of appointment, were to be terminated on completion of the Project. The Project was completed on 31 December 1997 after carrying out developmental work of 34 Beel fisheries. The officers and staff of the Project were formally withdrawn from 2 February 1998. Thereafter, these employees were partially utilised for supervision of developmental works of 41 Beels under Assam Rural Infrastructure and Agricultural Services Project (ARIASP) executed during the period 1998-99 to 2000-01. This scheme was also formally closed on 31 March 2002. All the work-charged employees, however, continued in service although no additional post was created/sanctioned.

Unjustified retention of surplus employees.

- Out of 55 employees, 30 employees were allowed to retire voluntarily and one employee was dismissed from service. The salary and wages paid to the remaining 24 employees and one Project Director during 2001-02 to 2004-05 amounted to Rs.86.09 lakh. The Company had carried out developmental works of only 5 (five) Beels costing Rs.3.40 lakh during the five years ended 2005-06.

Thus, in the absence of adequate development works, continuance of these employees lacked justification.

In reply, the Management stated (June 2006) that (i) after implementation of the Voluntary Retirement Scheme (VRS), the establishment cost had reduced substantially and, as a result, the Company had started to earn cash surplus, (ii) after closure of ARIASP, the Company had taken up developmental works from its own resources and the staff were being utilised on these works, (iii) the Company had not received any fund from the Government since 1998-99 either for development or for salary *etc.*, (iv) the Company had introduced a new scheme under which lessee was to bear 50 *per cent* of the development cost and the process of development would gear up once the bottle-necks of the new system were removed and (v) the staff were also being utilised for preparation of developmental schemes under Rural Development department.

The reply of the Management is not acceptable as their reply at (i), (iii) and (iv) above is not relevant. The developmental works carried out by the Company during the review period and works relating to preparation of a few development schemes were not adequate for retention of 24 surplus employees.

Internal control

2.1.27 Internal control is a management tool used to provide reasonable assurance that the management objectives are being achieved in an efficient, effective and orderly manner. A good system of internal control comprises, *inter-alia,* proper allocation of functional responsibilities within the organisation, prescribing operating and accounting procedures to ensure accuracy and the reliability of accounting data, efficiency in operations and safeguarding of assets, competence of personnel commensurate with their responsibilities and duties and review of the work of one individual by another whereby possibility of fraud or error in the absence of collusion is minimised

The following instances showing lack of internal control were noticed in audit:

- The Company did not have an Accounting Manual. It also did not have any separate internal audit wing except for one Internal Auditor. The work and responsibilities of the Internal Auditor were not clearly laid-down

- The Company had finalised its annual accounts up to 1996-97 only. The same are awaiting adoption in the Annual General Meeting of the Company. Thereafter the Company had prepared provisional accounts approved by Board upto 2004-05.

- During the four years upto 2004-05, 14 Board meetings were held against the minimum of 16 meetings required to be held. In the year 2005-06, however, only one Board meeting was held. The contribution of the senior management in decision-making was therefore sub-optimal.

The Company, without disputing the audit observations stated (June 2006) that (i) the Internal Auditor was entrusted to verify day-to-day receipts and expenditure, (ii) the annual accounts would be finalised once the Annual General Meetings (AGM) are held in succession.

Acknowledgement

2.1.28 Audit acknowledges the co-operation and assistance extended by various levels of the Management of the Company at various stages of conducting the performance audit.

The audit findings were reported to the Government in May 2006; their replies are awaited (November 2006).

Conclusion

The activities of the Company were largely confined to leasing out of the Beels transferred to it by the State Government and collection of lease rents from the lessees. The Company is dependent on the State Government for funds for undertaking development works. In case, the Beels are withdrawn by the State Government, it would be difficult for the Company to survive. The Beels were settled with bidders who were not the highest in violation of the Board of Directors guidelines, at prices below the reserve price, lease rent was waived or the Beels were not settled at all.

The Company could not achieve its objectives of developing the Beel fisheries and increase production of fish and also did not take up any specific scheme for improving the economic condition of the fishermen communities of the State and hence failed to carry out one of its important mandated functions. The internal control system was inadequate. The contribution of senior Management was sub-optimal, as the required number of Board meetings were not held. The accounts for the last 10 years are in arrears. There was surplus manpower in the Company. The Company failed to diversify its activities in the allied fields of fish breeding, fish culture, boat and net making, fish marketing *etc.*

Recommendations

The Company needs to:

- **Prepare a long term plan based on surveys and investigation with a view to identifying Beels for sustainable development;**

- **Provide necessary technical inputs and assistance as also administrative control and supervision with a view to ensuring that the Beels are managed efficiently;**

- **Settle the Beels in a transparent manner as per the guidelines of the Board;**

- **Take steps for reduction of surplus manpower;**

- **Prepare Operating and Accounts Manual and finalise its accounts upto the latest year;**

- **Hold Board meetings regularly so that crucial decisions are taken in time.**

2.2 PERFORMANCE REVIEW ON THE WORKING OF ASSAM MINERAL DEVELOPMENT CORPORATION LIMITED

Highlights

Due to low production of limestone, the Company incurred operational loss of Rs.8.44 crore during the period from 1993-94 to 2005-06.

(Paragraph-2.2.13)

The Company operated the Coal mines without the required mining lease. It sold the coal as Run of Mine grade at rates lower than the market rates resulting in revenue foregone of Rs.7.06 crore.

(Paragraphs-2.2.7 and 2.2.12)

Due to shortfall in production targets, the Company incurred loss of revenue of Rs.1.52 crore during 2001-02 to 2005-06.

(Paragraph-2.2.9)

The Company failed to gainfully deploy its surplus manpower of the closed Limestone Mining Project and paid idle wages of Rs.1.26 crore during 2002-06.

(Paragraph-2.2.16)

The Company undertook construction of deep tube-wells without ensuring adequate market and incurred loss of Rs.32.34 lakh before allocation of expenses on salary and wages *etc.*

(Paragraph-2.2.14)

During the five years upto 2005-06, only five Board meetings against a minimum of 20 Board meetings were held indicating sub-optimal contribution of higher Management in decision making.

(Paragraph-2.2.17)

Introduction

2.2.1 The Assam Mineral Development Corporation Limited (Company) was incorporated on 19 May 1983 with the main objective of mining and marketing of limestone and other minerals, ores and precious stones and to develop and promote groundwater resources and undertake construction of tube wells.

The activities so far (March 2006) undertaken by the Company have been mainly related to extraction of coal and limestone and sale thereof. In addition to this, the Company undertook construction of tube wells, trading in explosives and execution of job works on behalf of Oil India Limited and Oil and Natural Gas Corporation Limited on a small scale.

The management of the Company is vested in a Board consisting of not less than three and not more than nine Directors. As on 31 March 2006, there were eight Directors including the Chairman and the Managing Director appointed by the State Government. The Managing Director who is the Chief Executive of the Company is assisted in his day-to-day duties by one Manager (Administration), one Senior Manager (Technical), one Superintendent (Accounts) and one Mines Manager posted at head office at Guwahati and three Project in-charge posted at field locations.

A review on the working of the Company for the period from 1984-85 to 1988-89 was incorporated in the Report of the Comptroller and Auditor General of India for the year 1988-89 (Commercial), Government of Assam. The Committee on Public Undertakings (COPU) had discussed the Report; however, recommendations, if any, have not been received.

Scope of audit

2.2.2 The present performance audit conducted during April-May 2006 covers the activities relating to all on-going projects undertaken by the Company during the five years from 2001-02 to 2005- 06.

Audit objectives

2.2.3 The audit objectives of the review were to ascertain whether:

- the activities undertaken by the Company were in conformity with various statutes, rules on mining activities, policies laid down by the Government of Assam and the Company's business plan;
- the Company has carried out mining activities, efficiently, effectively and economically;
- the contracts for overburden removal and mining and loading were awarded at competitive rates;
- the Company had put in place an internal control system which was operative/adequate and was being reviewed periodically;
- the manpower deployed was commensurate with the activities of the Company and was optimally utilised;

- the Company had effective corporate governance at the level of Board of Directors.

Audit criteria

2.2.4 Audit criteria included the following:

- Applicable statutes, rules and regulations;
- Production budgets;
- Prevailing market prices of coal;

Audit methodology

2.2.5 The following mix of methodologies were adopted for the performance audit:

- Scrutiny of agenda notes/minutes of Board meetings;
- Scrutiny of reports/returns, received from field units, production budget and records relating to extraction and sale of coal, storage of coal and limestone, etc.
- Scrutiny of Bills relating to sale of explosives, job works and construction of tube wells.

Audit findings

2.2.6 Audit findings as a result of the performance audit were reported to the Government/Management in July 2006 and discussed in the meeting of the Audit Review Committee on Public Sector Enterprises (ARCPSE) held on 25 August 2006, which was attended by the Under Secretary, Power, Mines and Minerals Department, Government of Assam and Managing Director of the Company. The views expressed by the members have been taken into account while finalising the audit observations.

It was noticed in audit that the Company had been operating its coal projects without obtaining the required mining lease. There were also shortfalls in the achievement of targeted quantities of coal production. These have been discussed alongwith other shortcomings in the succeeding paragraphs:

Appraisal of activities

Garampani Coal Extraction Project (GCEP) and Khota Arda Coal Extraction Project (KACEP) –Open Cast Mines.

Operation of mines without mining lease

2.2.7 The State Government granted a mining lease for coal on 21 April 1984 for an area of 7.20 sq.km at Garampani in North Cachar Hills District of Assam for a period of two years from the date of execution of lease deed. The area was subsequently modified to five sq.km. The mining lease was renewed (29 November 1986) for a further period of five years up to 5 July 1991.Before expiry of the lease period, the Company applied (10 June 1991) for renewal of the mining lease for another five years. The Company, however, could not (April 2006) obtain the required mining lease mainly due to non-submission of mining dues clearance certificate (due to non-payment of royalty amounting to Rs.3.19 crcre as on 31 March 2005) to the State Government as required under Mineral Concession Rules (MCR), 1960.

The mines were operated without obtaining the mandatory mining lease.

Similarly, the Company had applied (25 November 1992) to the State Government for grant of mining lease for 63 Hectares area located at Khota Arda in North Cachar Hills District of Assam for a period of 20 years, for mining of coal. Pending issue of the mining lease, the State Government accorded approval (8 February 1996) for preliminary mine development works. The Company, however, could not obtain the required mining lease till the date of audit (April 2006) mainly due to its inability to furnish mining dues clearance certificate, which is a prerequisite for grant of a mining lease.

The Company was, however, carrying out mining of coal at both Garampani and Khota Arda from 1991-92 and 1995-96 respectively in anticipation of the required mining lease, which was contrary to the provisions of clause 4 (1) of the Mines and Minerals (Regulation and Development) Act, 1957.

In reply, the Management stated (June 2006) that it had submitted a proposal to the State Government for waiver of the outstanding royalty and once this materialises, the Company would submit the “No Dues Certificate” for obtaining the necessary mining lease.

Mineable reserve, extent of exploitation and mode of mining

2.2.8 As per the Mining Plan for Garampani Coal Extraction Project (GCEP) for the period from 2001 to 2006 approved (January 2001) by the Ministry of Coal, Government of India, the mine had a total surface area of 21.71 lakh Square metre with a total mineable reserve of 15,33,205 MT of coal. The assessed (November 1992) mineable reserve in respect of Khota Arda Coal Extraction Project (KACEP) was 36,997 MT. The mineable reserves in respect of both the Projects had not been re-assessed so far (June

2006). The total quantity extracted upto 2005-06 was 9,61,035 MT and 36,891 MT leaving a balance mineable reserve of 5,72,170 MT and 106 MT in respect of GCEP and KACEP respectively. The mode of mining operation was mainly manual except drilling of rock with jackhammer and transportation of coal and overburden by trucks and tippers.

Mining operation

2.2.9 As per the agreement with the State Government, the Company was required to operate the mines directly and not through contractors. The Company, however, operated both the mines through Job Sardars (Contractors) who undertook extraction and sale of coal as per the agreements with the Company. The Job Sardars were given specific targets of production but there were no penal provisions in their respective agreements for any shortfall in production. The details of opening stock, budgeted/actual production, closing stock and shortfall in production during 2001-02 to 2005-06 in respect of both the mines are given in ***Annexure*-12**. The position is summarised below:

Particulars		GCEP	KACEP	Total
		(Figures in MT)		
(i)	Opening balance	**1,387.00**	**395.00**	**1,782.00**
(ii)	Production	**2,02,017.00**	**19,895.00**	**2,21,912.00**
	Total	**2,03,404.00**	**20,290.00**	**2,23,694.00**
(iii)	Sales	**1,97,484.00**	**20,246.00**	**2,17,730.00**
(iv)	Closing stock	**5,920.00**	**44.00**	**5,964.00**
(v)	Budgeted production	**3,05,000.00**	**26,900.00**	**3,31,900.00**
(vi)	Shortfall in production (v-ii)	**1,02,983.00**	**7,005.00**	**1,09,988.00**

There was thus a total shortfall of 1,09,988 MT in production compared to the budgeted production of coal for which the Company incurred loss of revenue amounting to Rs.1.52 crore (GCEP: Rs.143.11 lakh and KACEP: Rs.8.55 lakh) computed at net realisable price (Sales price minus mining cost minus Royalty and taxes) during 2001-02 to 2005-06.

Revenue loss due to shortfall in production.

Audit scrutiny also revealed that in respect of GCEP mines, against the budgeted production of 3,05,000 MT for the years 2001-02 to 2005-06, a total quantity of 2,36,000 MT was allotted to different Job Sardars for extraction. Hence, the total shortfall of 1,09,988.00 MT in production includes 69,000 MT not allotted to any Job Sardars for extraction for reasons not on record nor was any effort made to extract this departmentally. This resulted in revenue loss of Rs.95.89 lakh at net realisable price. Besides, most of the Job Sardars failed to extract the quantities allotted to them. Reasons for non-allotment and shortfall in production by Job Sardars were not on record.

In reply, the Management stated (June 2006) that the targets in both the projects were normally fixed on the higher side and various other factors like floods, bad road conditions and numerous bandhs etc. had resulted in shortfall in production. The contention of the Management regarding fixation of targets on the higher side is not acceptable as the budgets were approved by the Board without any such qualification. Regarding other factors mentioned by the Management, it was seen that the targets for extraction of coal were fixed considering only nine months working in a year, after taking into account such contingencies.

The Management further stated (June 2006) that the entire investment needed for the opening up of the deposits as well as production was met by the Job-sardars and any reduction in production directly affected the income of the Job-sardars. Thus, the Company had not considered it appropriate to impose any penalty for less production. The point was, however, noted for future implementation by the Management.

Sale of Coal

2.2.10 As already stated the mines were being operated through Job Sardars. The mining expenses including transport upto Central stockyard were being met by the Job Sardars and sales were also being made through them after realising the difference between the sales price and mining expenses. Therefore, the Company had absolved itself of any meaningful involvement in actual operational activities as mandated to it nor did it plan for increasing production and sales. The details of mining cost payable to the Job Sardars and sales prices realisable from them are shown in ***Annexure*-13**.

Higher initial fixation of mining cost.

Audit scrutiny revealed that the mining costs payable to Job Sardars in GCEP and KACEP were fixed at Rs. 338.31 and Rs.383.00 per MT in March 2001 and March 1999 respectively and the same had not been revised/increased till date (May 2006). The Job Sardars were executing the work at the same rate for the last five years absorbing the normal increases in prices of labour and material. This indicated that the rates were initially fixed on the higher side. The excess expenditure incurred by the Company owing to this could not be quantified.

The Management stated (June 2006) that action had been initiated to revise the rates considering the actual cost of extraction.

The reply of the Management proves that earlier the rate was not fixed based on actual cost of extraction.

2.2.11 During the five years up to 2005-06, the Company extracted 2,02,017 MT and 19,895 MT of coal from GCEP and KACEP respectively through Job Sardars and incurred total expenditure of Rs.4.12 crore towards mine safety measures, purchase of implements, and removal of overburden as detailed in next page:

Company incurred expenditure of Rs.4.12 crore towards safety measures for which no record was produced to Audit.

Project	Item	Production (MT)	Rate per MT (In Rupees)	Total Amount (Rupees in lakh)
GCEP	Mine safety	2,02,017	13.00	26.26
	Implements	2,02,017	16.25	32.83
	Removal of overburden	2,02,017	153.40	309.89
Total				**368.98**
KACEP	Mine safety	19,895	16.01	3.19
	Implements	19,895	19.32	3.84
	Removal of overburden	19,895	182.39	36.29
Total				**43.32**
Grand Total				**412.30**

The details of mine safety measures implemented and implements purchased through Job Sardars were not furnished to Audit. The Company also did not ascertain the actual quantum of overburden removed by the Job Sardars. The veracity of the expenditure of Rs.4.12 crore could not therefore be verified in audit.

While accepting the facts, the Management stated (June 2006) that action had already been taken to monitor the expenditure through the concerned projects in-charge.

2.2.12 The Company was selling their entire production of coal as Run-of-Mine (ROM) grade without making any further gradation on the basis of quality and size. The sale prices (ex-Central stock yard) of the Company during the period from 2001-02 to 2005-06 varied from Rs.611.84 to Rs.676.84 per MT in respect of GCEP and Rs.650 to 699.48 per MT in respect of KACEP. The sale price of Coal India Limited (CIL) for ROM Assam Coal was, however, Rs.778 per MT ex-pit-head which was increased to Rs.1050 during 2004-05.The ex-stock yard prices of CIL for the years 2001-04 and 2004-06 worked out to Rs.869.52 and Rs.1141.52 for GCEP and Rs.862.01 and Rs.1134.01 in respect of KACEP respectively after addition of transport charges from pithead to central stock yard and unloading at stock yard as per the rate included in mining costs (***Annexure*-13**) approved by the Company was as follows:

Loss of revenue of Rs.7.06 crore due to fixation of lower sale price.

Particulars		GCEP		KACEP	
		2001-04	2004-06	2001-04	2004-06
		(In Rupees)			
(i)	Ex-pithead rate of CIL for ROM Assam Coal	778.00	1050.00	778.00	1050.00
(ii)	Add. Transport charges from pithead to Stock yard	85.80	85.80	77.19	77.19
(iii)	Unloading at stock yard	5.72	5.72	6.82	6.82
	Total	**869.52**	**1141.52**	**862.01**	**1134.01**

Thus the sale prices of the Company were lower compared to the sale prices of CIL for Run of Mine (ROM) quality of Assam Coal (which is the lowest grade of coal), as a result of which the Company had foregone potential revenue of Rs.7.06 crore as detailed below:

Year	Quantity Sold (MT)	Sale price of CIL per MT	Sale price per MT of the Company	Difference	Differential Revenue (Rupees in lakh)
		(In Rupees)			
(A) GCEP					
2001-02	48,034	869.52	611.84	257.68	123.77
2002-03	44,918	869.52	611.84	257.68	115.74
2003-04	32,338	869.52	676.84	192.68	62.31
2004-05	39,995	1141.52	676.84	464.68	185.85
2005-06	32,199	1141.52	674.24	467.28	150.46
Total (A)	**1,97,484**	-	-	-	**638.13**
(B) KACEP					
2001-02	2563	862.01	650.00	212.01	5.43
2002-03	1609	862.01	650.00	212.01	3.41
2003-04	4113	862.01	699.48	162.53	6.68
2004-05	7133	1134.01	699.48	434.53	31.00
2005-06	4828	1134.01	696.80	434.53	20.98
Total (B)	**20,246**	**-**	**-**	**-**	**67.50**
Grand total (A+B)	**2,17,730**	**-**	**-**	**-**	**705.63**

Had the Company fixed its rates at par with other coal companies like CIL it could have earned additional revenue of Rs.7.06 crore.

Umranghsu Limestone Mining Project (ULMP)

Commissioning of the project without ensuring adequate market for its product.

2.2.13 The Company set up (March 1994) a Limestone Mining Project at a total project cost of Rs.5.54 crore for production and sale of 2,00,000 MT of cement grade limestone per annum. During the eight years up to February 2002, the Company could produce a total quantity of 3.36 lakh MT that represented only 21 *per cent* of the targeted production. As a result of this low production, the Company was incurring operational losses since the commissioning of the Project. The total operational loss upto 2000-01 amounted to Rs.5.87 crore. The Company suspended (February 2002) production of limestone due to lack of demand for the product. During the period from 2001-02 to 2005-06, the Company suffered a further operational loss of Rs.2.57 crore (before allocation of Head office expenses). The details are given in next page:

Particulars	1993-01	2001-02	2002-03	2003-04	2004-05	2005-06	Total 2001-06
	(Rupees in lakh)						
(A) INCOME							
Sale of limestone (net of Royalty)	470.00	47.70	0.05	0.18	5.50	0.29	53.72
Stock adjustment {Accretion (+)/ Decretion (-)}	-	(-) 1.48	(-) 0.07	(-) 0.01	(-) 2.99	(-) 0.18	(-) 4.73
Total (A)	**470.00**	**46.22**	**(-) 0.02**	**0.17**	**2.51**	**0.11**	**48.99**
(B) EXPENDITURE							
Extraction cost	194.55	30.51	-	-	-	-	30.51
Salary and wages	316.04	28.85	31.92	32.44	31.99	29.93	155.13
Other Expenses	283.30*	8.05	6.62	5.45	7.11	4.03	31.26
Depreciation	262.77	22.64	19.81	17.42	15.41	13.41	88.69
Total (B)	**1056.66**	**90.05**	**58.35**	**55.31**	**54.51**	**47.37**	**305.59**
Loss (B-A)	**586.66**	**43.83**	**58.37**	**55.14**	**52.00**	**47.26**	**256.60**

Audit scrutiny revealed as under:

- The Project was initially (September 1991) conceived for supplying Paper Grade Limestone to the proposed 200 TPD** Lime Manufacturing Unit of Hindustan Paper Corporation Limited (HPC). A Project Report for setting up of the project at a total project cost of Rs.8.35 crore for production and sale of 3,00,500 MT of Limestone per annum including 1,48,500 MT of Paper Grade Limestone for HPC was prepared. No formal agreement was entered into with HPC who eventually backed out of the Project at the initial stage of the project itself.

  The Public Investment Board in their meeting dated 21 January 1991 approved the Project subject to the condition that a proper marketing plan should be finalised for sale of the production before incurring any expenditure (except consultancy charges). The Industries Department of the State Government thereafter (September 1991) identified 14 private entrepreneurs who were willing to set up lime manufacturing Units around the Project and who would purchase the required limestone from the Company. The Company commissioned the Lime Stone Project (LMP) to supply limestone to these proposed Units, which were not set up. Thus, the Company had implemented and commissioned the LMP without ensuring adequate market for its product.

Fixed assets worth Rs.5.54 crore remained idle and there was unsold closing stock of Rs.0.73 crore.

- The mining operation was suspended from 8 February 2002.Till date (May 2006) the Company failed to make alternate arrangement for restarting operation so that the idle manpower could be gainfully utilised, to whom

* Represents interest on term loans
** Tonne Per Day.

an amount of Rs.1.26 crore was paid as salary and wages during the period 2002-03 to 2005-06. The fixed assets of the Project valued at Rs.5.54 crore remain unutilised (May 2006). Closing stock valued at Rs.0.73 crore also remained unsold as on 31 March 2006.The Company is also likely to incur loss due to deterioration in the quality of the limestone and fixed assets.

While accepting the facts, the Management stated (June 2006) that serious efforts were being made to revive the project.

Ground Water Drilling (GWD) Unit

The unit suffered revenue loss of Rs.32.34 lakh due to shortfall in achievement.

2.2.14 The Company had commissioned (April 1985) a mobile Ground Water Drilling Unit for undertaking construction of deep tube wells to meet the need for tapping underground water by various agencies in the State. During the period from 2001-02 to 2005-06, against the targeted revenue of Rs.60 lakh, the Company undertook and completed 18 tube wells earning total revenue of Rs.43.45 lakh (73.25 *per cent)*. The Company incurred a total revenue loss of Rs.32.34 lakh before allocation of Head Office expenses, as shown below:

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06	Total
	(Rupees in lakh)					
Income:						
Revenue earned	6.78	7.55	9.96	12.56	7.10	43.95
Stock adjustment	(+) 1.65	-4.27*	+0.27	-0.87	-	(-) 3.22
Total	**8.43**	**3.28**	**10.23**	**11.69**	**7.10**	**40.73**
Materials consumed	1.44	1.94	0.85	2.39	1.60	8.22
Net Income	**6.99**	**1.34**	**9.38**	**9.30**	**5.50**	**32.51**
Expenditure:						
Salary and wages	9.65	10.63	9.61	11.25	9.77	50.91
Other expenses	3.95	2.19	3.34	3.61	0.85	13.94
Total	**13.60**	**12.82**	**12.95**	**14.86**	**10.62**	**64.85**
Loss	**6.61**	**11.48**	**3.57**	**5.56**	**5.12**	**32.34**

The works undertaken by the Company during the five years up to 2005-06 were not sufficient to recover even the expenditure on salary and wages of the Unit. Audit further noticed that the Unit was commissioned initially with men and machinery from Director of Geology and Mining, Government of Assam.

It was stated (June 2006) to Audit that Direct Rotary Rig, Air Compressor and welding sets required to undertake drilling work had worn out and were thereby unfit for further work.

* Does not include Rs.18,72,600 being the value of scrapped Rotary Rig bits wrongly brought to account as closing stock during the year.

Investment in Joint Sector Venture

2.2.15 The Company received (7 April 1995) a sum of Rs.22 lakh as share capital contribution from the State Government for setting up a joint venture for production of Tiles and Slabs from granite stones. The Board of Directors approved (24 April 1995) the proposal of Assam Granite Limited (AGL), a closely held private company, to set up a Granite processing plant at Guwahati at a total capital cost of Rs.38 lakh including Rs.2 lakh towards working capital to be contributed equally by the Company and the promoters of AGL. Accordingly, the Company entered into an agreement (27 April 1995) with AGL and paid Rs.19 lakh in installments during the period from 31 May 1995 to 12 April 1996 towards share capital contribution. The promoters of AGL had also contributed an equal amount both in cash and land. The proposed Unit was commissioned in December 1997 at a total capital cost of Rs.35.02 lakh. In this regard, the following points were noticed in audit:

- The Company did not take any action for incorporation of a joint Sector Company in terms of the agreement. The share capital contribution was made to AGL which was an existing company incorporated on 31 March 1989 with an authorised capital of Rs.40 lakh. The aims and objectives of AGL were not limited to setting up of this proposed joint venture.

- The promoters of AGL transferred (22 August 1995) a plot of land measuring 28,880 Sq. ft. to AGL on lease basis for which Rs.12 lakh were allowed as equity capital contribution. The value of the said plot of land was subsequently (15 September 1998) valued at Rs.1.49 lakh by the Circle Officer, Sonapur Revenue Circle, Government of Assam. Thus there was shortfall of Rs.10.51 lakh in capital contribution by the promoters of AGL and corresponding excess contribution by the Company.

- As per the Balance Sheet as on 31 March 2005 of AGL, the cumulative loss amounted to Rs.33.13 lakh against total paid up capital of Rs.38 lakh indicating loss of investment to the extent of 87 *per cent*.

- The Board of Directors decided (30 March 2000) to disinvest the equity capital of Rs.19 lakh from AGL within September 2001. This has not yet (June 2006) materialised.

Thus, the Company, invested Rs.19 lakh in a Joint Sector Company without assessing the financial standing of the partner or ensuring their equal contribution and has incurred heavy losses.

The Management stated (June 2006) that they were trying to sell the shares to the promoters of AGL so as to disinvest from AGL.

Manpower management

2.2.16 During the period from 2001-02 to 2005-06, the Company had a total manpower of 145 out of which 52 employees (35.86 *per cent*) were posted at the Head office. The remaining 93 employees were attached to different field Units (Limestone Project: 56, Ground Water Drilling Unit: 15, Garampani Coal Extraction Project: 15, Khoda Arda Coal Extraction Project: 7). The details of operating revenue earned and salaries and allowances paid during the five years up to 2005-06 are as follows:

Particulars		2001-02	2002-03	2003-04	2004-05	2005-06
		(Rupees in lakh)				
(i)	Operating Income	388.98	296.72	259.24	338.66	N.A.
(ii)	Salary and allowances					
	Head office	42.96	43.63	45.98	42.95	N.A.
	Field Units	53.76	58.80	57.50	58.68	N.A
Total:		**96.72**	**102.43**	**103.48**	**101.63**	**N.A.**
(iii)	Percentage of total salary and allowances to operating Income.	24.87	34.52	39.92	30.00	N.A.

Audit scrutiny reveled as under:

- Limestone Mining Project (LMP) with a total manpower of 56 remained closed from February 2002. The Company, however, paid idle wages of Rs.1.26 crore during 2002-03 to 2005-06. The Company had so far failed to devise an alternative plan for gainful utilisation of the manpower (Refer Para 2.2.13).

- Ground Water Drilling Unit with 15 employees had incurred operating losses during the five years up to 2005-06 due to its inability to procure and undertake sufficient works rendering the employees largely idle (Refer: Para 2.2.14).

- The Company had not yet (May 2006) introduced any voluntary retirement scheme for its employees.

In reply, the Management stated (June 2006) that problem of overstaffing would be resolved as soon as a new project was commissioned.

The reply of the Management is not acceptable, as the Management should have addressed the problem of overstaffing well in time.

Internal control /Internal audit

2.2.17 Internal control is a Management tool used to provide reasonable assurance that the Management objectives are being achieved in an efficient, effective and orderly manner.

The following instances showing lack of internal control were noticed:

- The Company had finalised its annual accounts up to the year 1997-98 only and had prepared provisional accounts upto 2004-05. In the absence of regular Board meetings, the accounts for the three years from 2002-03 to 2004-05 were approved by resolution by circulation in July/August 2005.

- The Company did not have an Internal Audit wing of its own. A Chartered Accountant was appointed by the Company as Financial Advisor and Internal Auditor during the five years up to 2005-06. The Internal Auditor was mainly engaged in the work of compilation of Accounts only. Neither was the scope of internal audit defined nor was any internal audit carried out during the period 2001-02 to 2005-06. The use of an Internal Auditor for compilation of Accounts violates the basic tenets of internal control.

In reply, the Management stated (June 2006) that the matter would be placed before the Board for necessary action.

- During the five years up to 2005-06, only five Board meetings were held against a minimum of 20 Board meetings required to be held as per the Company's Act, 1956. The contribution of the senior management in decision-making was, therefore, sub-optimal.

- The Company did not have any Vigilance Cell/Wing.

Acknowledgment

2.2.18 Audit acknowledges the co-operation and assistance extended by the staff and officers of the Company at various stages of conducting the performance audit.

The matter was reported to the Government in July 2006; their replies are awaited (November 2006).

Conclusion

The performance of the Company with regard to its stated objectives was found to be deficient. The Company did not prepare any long-term/short-term plans to achieve its targets. The activities of the Company so far

(March 2006) were restricted mainly to extraction and sale of coal and construction of deep tube wells. The Limestone Project had to be closed due to lack of demand and stock valued at Rs.0.73 crore remained unsold for more than four years as on 31 March 2006. Men and machinery also remain unutilised.

The sales prices of coal were fixed on the lower side compared to the prevailing market prices for similar grade of coal. The Company was operating both the coal extraction projects at Garampani and Khota Arda, through Job Sardars (contractors), without the required mining lease. There was shortfall in production targets in both these Projects. The Ground Water Drilling Unit was incurring operational losses, as it failed to procure and undertake adequate number of works. Out of total 145 employees, 56 employees of Limestone Mining Project were idle due to closure of the Unit in February 2002.

Recommendations

- **The Company should have a long-term plan to achieve its targets and goals.**

- **The prospects of revival of the Limestone Mining Project should be reviewed early for ensuring gainful utilisation of idle manpower and machinery or the same may be closed and manpower deployed elsewhere.**

- **The Company should take effective and urgent steps to obtain the required mining lease and increase production and sales. Sale prices of coal should be reviewed and fixed on a realistic basis.**

- **Steps should be taken to make the Ground Water Drilling Unit commercially viable or it may be closed.**

- **The Company should diversify its activities after proper surveys and planning to ensure viability and sustainability of new ventures.**