CHAPTER II

REVIEW IN RESPECT OF GOVERNMENT COMPANY

WORKING OF MADHYA PRADESH HASTASHILP EVAM HATHKARGHA VIKAS NIGAM LIMITED

Highlights

The Madhya Pradesh Hastashilp Vikas Nigam Limited, was incorporated in November 1981 as a subsidiary of Madhya Pradesh Laghu Udyog Nigam Limited and its name was changed (October 1999) as Madhya Pradesh Hastashilp Evam Hathkargha Vikas Nigam Limited.

The Company's accumulated loss of Rs.2.92 crore at the end of March 2003 had eroded its paid-up capital of Rs.1.26 crore.

(Paragraph 2.5)

The Company did not formulate plans to utilise the grants received for implementation of schemes. Out of grants of Rs.42.97 crore received during 1998-2003, only Rs.30.16 crore was utilised for the envisaged purposes and the remaining Rs.12.81 crore was used to meet its working capital needs.

(Paragraph 2.6)

Operations of emporia during 1998-2003 resulted in a loss of Rs.1.15 crore even after accounting of grants of Rs.4.35 crore as income.

(Paragraph 2.10)

Failure to restrict expenditure on participation in exhibition up to 15 *per cent* of sales as per its Board's decision resulted in excess expenditure of Rs.48.61 lakh during 2000-03.

(Paragraph 2.11)

Failure to collect and remit the Sales Tax to Government resulted in avoidable liability of Rs.95.16 lakh.

(Paragraph 2.13.1)

Non adherence to delivery schedule for the supply of cloths to Police Department, resulted in avoidable payment of liquidated damages of Rs.30.39 lakh.

(Paragraph 2.13.3)

Despite Committee on Public Undertakings' directive to this effect, the Company's outstanding dues increased from 96.4 to 194.5 *per cent* of its turnover.

(Paragraph 2.15)

Introduction

2.1 Madhya Pradesh Hastashilp Vikas Nigam Limited was incorporated in November 1981, as a subsidiary of Madhya Pradesh Laghu Udyog Nigam Limited, Bhopal (MPLUN) and its name was changed (October 1999) as Madhya Pradesh Hastashilp Evam Hathkargha Vikas Nigam Limited (Company).

The main objectives of the Company are:

- to undertake development of handicraft, handloom products, khadi and products of village industries to establish trade connections, sale depots and selling agencies;
- to undertake directly or in collaboration with specialised agencies, market survey, to explore possibilities of Indian handicrafts and handloom products in foreign market;
- to organise production through cooperatives, artisans or its own production centres;
- to open publicity-cum-information centres, show rooms, sales depots and warehouses, to participate in foreign fairs and exhibitions; and
- to make available technical, financial and other assistance to cooperatives, producers, small traders and their associations, to procure and supply raw materials, tools and equipments, to train artisans, and set up common facility centres.

Organisational set up

2.2 The management of the Company is vested in a Board of Directors headed by a Chairman. As on 31 March 2004, the Board consisted of eight directors, six of which, including the Chairman and the Managing Director who is the Chief Executive Officer (CEO), were appointed by the State Government and two directors were nominated by the holding company. The CEO is assisted by three General Managers in charge of Finance and Accounts, Marketing, and Development. The Company's 15 units (six emporia, two CFCs[15] six DCPCs[16] and one marketing centre) located in Chhattisgarh State were transferred (January 2001) to Chhattisgarh

[15] *Common Facility Centre*

[16] *Development Cum Procurement Centre.*

Government. However, bifurcation of assets and liabilities between Madhya Pradesh and Chattisgarh has not been decided (September 2004). As on 31 March 2004, the Company had 19 emporia (including 10 outside the State and one at Gwalior under management contract), 10 CFCs, five DCPCs, three marketing cum extension centres, three handloom units, one jute centre and a central store.

Scope of Audit

2.3 The performance of the Company was last reviewed and included in the Report of the Comptroller and Auditor General of India (Commercial) for the year 1994-95. The review was discussed (August 1997) by the Committee on Public Undertakings (COPU). Action taken reports on the recommendations of COPU were still awaited (September 2004). COPU recommended (March 2000), *inter alia*, the following remedial actions which were not taken.

- Efforts should be made for clearance of arrears in finalisation of accounts and for fixing responsibility on the officials therefor.
- Steps should be taken to avoid carry forward of unused grants to prevent increase in huge amount of unspent balances of grants for years together.
- The short term training to the craftsmen was not fruitful for establishing their own business.
- Instead of fixing responsibility, the Company was accounting all the damaged stock as procedural irregularity, which was not in order.
- The Company should take action to reduce the outstanding dues.

The present review conducted during December 2003 to June 2004 covers the working of the Company for the five years ended March 2003. The audit findings, as a result of test check of records at 14[17] out of 42 units and Head Office of the Company are discussed in the succeeding paragraphs.

The audit findings were reported to the Government/management in August 2004 with the request to attend ARCPSE[18] meeting so that the viewpoints of Government/management were taken into account before finalising the review. The meeting was held on 6 October 2004, where the Government was represented by the Principal Secretary, Rural Industries Department and the Deputy Director, Handloom and the Company was represented by the Managing Director. The review was finalised after considering Government/ management's views.

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[17] *Bhopal, Biaora, Chhindwara, Dewas, Govindpura Bhopal, Gwalior, Indore, Mandsaur, Niwari, Raisen, Sagar, Sausar, Seoni and Ujjain*

[18] *Audit Review Committee for State Public Sector Enterprises.*

Finance and resources

2.4 Against the authorised capital of rupees two crores, the paid-up capital of the Company as on 31 March 2003 was Rs.1.26 crore, subscribed by holding company (Rs.72.46 lakh), Central Government (Rs.52 lakh) and State Government (Rs.1.70 lakh). The Company received grants of Rs.32.62 crore from Central and State Governments for execution of various schemes for the benefit of weavers and craftsmen during 1998-2003.

The Company as channelising agency of the State Government also received loans of Rs.6.09 crore during 1998-2003 from NBCFDC[19] (Rs.3.55 crore), NMDFC[20] (Rs.2.04 crore) and NSFDC[21] (Rs.50 lakh) which were distributed to beneficiaries. Out of this, as on 31 March 2003 loans of Rs.4.61 crore were outstanding.

Financial position and working results

2.5 Despite COPU's recommendation to this effect, the Company has finalised (September 2004) accounts only up to 1999-2000 by engaging Chartered Accountants. The financial position and working results of the Company for the five years ended 2002-03 are detailed in the ***Annexures-7*** and ***8*** respectively**.**

It would be seen from the Annexures that borrowings increased from Rs.63.61 lakh in 1998-99 to Rs.4.61 crore in 2002-03. This was due to drawal of loans from financial institutions for disbursement to beneficiaries. The unutilised grants also increased from Rs.8.42 crore to Rs.17.46 crore during the same period. This was due to diversion of grants for meeting working capital requirement, as discussed in paragraph 2.6. The accumulated loss of Rs.2.92 crore as on 31 March 2003 had eroded its paid-up capital of Rs.1.26 crore.

The table below indicates the profit earned/loss incurred by the Company during 1998-2003:

(Rupees in lakh)

Particulars	**1998-99**	**1999-2000**	**2000-01**	**2001-02**	**2002-03**
				(Provisional)	
Profit (+)/loss (-) before tax	(-) 15.59	(-) 18.81	(-) 56.29	(+) 12.75	(+) 48.79
Provision for tax	--	--	--	--	--
Profit (+)/loss (-) after tax	(-) 15.59	(-) 18.81	(-) 56.29	(+) 12.75	(+) 48.79
Previous year adjustments	(-) 13.68	(-) 4.10	--	--	--
Net profit (+)/loss (-)	(-) 29.27	(-) 22.91	(-) 56.29	(+) 12.75	(+) 48.79

19 *National Backward Classes Finance and Development Corporation Limited.*

20 *National Minorities Finance and Development Corporation Limited*

21 *National Scheduled Caste Finance and Development Corporation Limited*

The Company had been incurring losses from 1998-99 to 2000-01. The profits in 2001-02 and 2002-03 were only as per provisional figures before adjustments. The loss was to be viewed in the context that the Company's establishment expenditure of development centres and on staff at Head office were being reimbursed by the State Government in the form of grants.

The losses were due to poor performance of emporia, exhibition and development centres. The Company had neither analysed reasons for losses nor taken remedial measures to control the expenditure.

Appraisal of activities

2.6 The Company has been receiving grants from Central / State Government for executing development schemes. The grants received, utilised, refunded and balance at the close of year, unspent grant kept under term/fixed deposits in banks for the period 1998-2003 are given below:-

There was large scale diversion of grants to other purposes

(Rupees in lakh)

Sl. No.	Particulars	1998-99	1999-2000	2000-01	2001-02	2002-03	Total
				Provisional			
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
1	Unspent balance of previous year	1141.81	841.74	1222.05	1064.83	1327.08	--
2	Received during the year	582.03	552.31	319.29	816.60	991.45	3261.68
3	Refunded during the year	94.47	0.24	9.25	--	2.52	106.48
4	Total (1+2-3)	1629.37	1393.81	1532.09	1881.43	2316.01	--
5	Utilised during the year	787.63 (48.3)	636.55 (45.7)	467.26 (30.5)	554.35 (29.5)	570.00 (24.6)	3015.79
6	Amount kept in term / fixed deposits	252.34	171.75	192.57	335.72	447.04	--
7	Utilised as working capital	589.40	585.51	872.26	991.36	1298.97	--
8	Cumulative unutilised balance (4-5)	841.74	757.26	1064.83	1327.08	1746.01	--

Notes: 1. The difference in opening balance for 2000-01 was due to adoption of provisional figure for 1999-2000.

2. Figures shown in the brackets at Sl. No.5 denote percentage of grants utilised to total grants available in the year.

Audit observed that:

- The Company did not have break-up of year-wise, plan and sub-plan wise, recurring and non-recurring grants.
- The unutilised grants of Rs.17.46 crore as on 31 March 2003 included Rs.6.18 crore in respect of 13 schemes pertaining to period prior to 1998-99.

- Out of Rs.30.16 crore shown as having been utilised, Rs.6.38 crore was not actually utilised but kept separately in a Reserve Account. Out of Rs.6.38 crore, Rs.4.66 crore was lying unutilised for the period prior to 1998-99.

- The Company received grants of Rs.1.66 crore between 1992-93 and 1998-99 for construction of centres at nine places and paid Rs.1.40 crore to holding company as advance/deposits for these works. The balance amount of Rs.26.94 lakh was, however, diverted for other purpose, which resulted in partial utilisation of funds for the works.

- Further, the grants received were either partly utilised for the purposes envisaged or used to meet working capital needs or invested in term deposits, thereby defeating the objects of the grants.

The management stated (October 2004) that it did not receive any non-plan grants and it would maintain proper registers in this regard. Further, though the balance amount of Rs.26.94 lakh was kept by it, it had not used the amount for any other purpose.

Performance of development centres/sub-centres

2.7 The Company had established development centres at various districts of the state mainly for imparting training to craftsmen, giving job works either at the centres or at their residence, providing tools and equipments subsidy and supply of raw material, and purchasing their products.

As on 31 March 2003, the Company was operating 34 development centres/ sub centres. The table below indicates profit/loss of these centres for last five years ended 31 March 2003.

(Rupees in lakh)

Years	Total		Loss-incurring centres		Profit-earning centres	
	Nos	Profit(+)/ loss(-)	Nos	Amount	Nos	Amount
1998-99	44	60.30	23	46.36	21	106.66
1999-2000	44	98.77	12	16.33	32	115.10
2000-01	44	116.39	26	94.56	18	210.95
2001-02	40	(-)168.00	35	386.73	5	218.73
2002-03	34	(-)129.43	29	298.78	5	169.35
Total		**(-)21.97**		**842.76**		**820.79**

It would be seen that the number of profit earning centres declined from 32 (1999-2000) to five (2002-03) and loss incurring centers increased from 12 to 29 during the same period. The performance of these centres became un-economical from 2001-02 onwards. But the Company did not take steps to either identifying reasons for the loss or taking corrective action. Audit noticed that the centres incurred losses even after taking into account the grant received from Government to meet establishment expenditure.

The management attributed (October 2004) losses to transfer of products procured at these centres to emporia at less than cost price due to their substandard quality, compared to its earlier practice of transfer at cost.

The reply was not acceptable as the centres had been incurring losses for a very long time even when goods were transferred at cost, and the emporia to which the products were transferred were also incurring losses, as discussed in paragraph 2.10.

Training

2.8 The Commissioner of Handloom, Madhya Pradesh, Bhopal provides grants to the Company for organising training programmes for development of traditional and non-traditional crafts in the state and also for providing job works by generating employment avenues. The details of targets for training, number of persons trained, and expenditure incurred thereon during last five years ended 31 March 2003 are given in ***Annexure 9***.

Audit observed that:

There was shortfall in training despite drawal of funds.

- During 1998-2003, against target of 6,918 persons, training was given only to 4,100 persons (59 per cent of the target), by utilising the entire grant of Rs.4.55 crore, meant for 6,918 persons.

- The Company did not have any data on the number of craftsmen in the state.

- Further, details regarding craftsmen to whom job works were provided, value of job works, wages paid to craftsmen and average earning per craftman etc. were not made available to Audit. Thus, it could not be ensured whether the objective of providing training and job works to craftsmen was achieved or not. A test check of records at Dewas, Chhindwara and Ujjain units revealed that during the said period, expenditure of Rs.27.30 lakh, Rs.16.65 lakh and Rs.8.49 lakh was incurred for imparting training to 320, 334 and 190 craftsmen respectively; however, job works were not given to trained craftsmen.

The management stated (October 2004) that jobs were being provided to the weavers by the weavers' societies. Further, it was not possible to maintain records for these details. The reply was not convincing because training was given in the field of craft only and not in weaving.

Sales performance

2.9 The Company was procuring and selling handloom and handicraft items produced by the craftsmen and cooperative societies for sale to Government department and others. The Company was to undertake (a) sale of handicraft and handloom products through emporia, (b) Government supply, (c) participation in exhibitions, (d) exports, (e) periodical physical verification of inventories and disposal of old slow-moving and defective stock, and (f) management and control of emporia.

The Company also sold goods on consignment basis. According to its policy, 10 to 15 *per cent* of the cost price was added to arrive at the landed cost and thereafter 60 *per cent* was added as overhead and profit margin to arrive at the sale price. In the case of consignment sales, the Company collected service charges ranging from 10 to 15 *per cent* of the net sale price.

The table below indicates the Company's own and consignment sales for the five years ended 2002-03.

(Rupees in lakh)

Year	Own sales				Consignment sales	Total sales
	Sale of handlooms to Government departments	Emporia and exhibitions	Export	Others		
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*
1998-99	9.00	262.89	39.44	97.85	285.74	694.92
1999-2000	303.55	276.72	16.31	149.28	270.65	1016.51
2000-01	548.78	257.03	101.79	517.42	230.32	1655.34
2001-02	569.62	246.40	337.06	1021.74	242.45	2417.27
2002-03	456.89	265.71	19.76	428.11	282.04	1452.51

Audit observed that:

- The Company did not fix any sales target for different categories.
- In spite of its existence for more than two decades, the Company did not formulate sales policy nor had it maintained data base of its competitors in handicrafts goods to sustain in the market.
- The continuing loss up to 2000-01 and its limited profitability thereafter were due to (a) non-revision of prices of handloom cloth by Government at regular intervals, non-revision of mark-up pricing, grant of more discount than permissible, higher incidence of overheads, expenditure in excess of grants, etc., as discussed in subsequent paragraphs.
- Reduction of sales in 2002-03 compared to 2001-02 was due to drop in export, reduction of sale of handloom cloth to Government departments and also reduction in the value of orders for supply of handloom to Government departments.

Management attributed (October 2004) the loss to sale of old stock at below cost and high establishment expenditure. It further stated that one of the reasons for decrease in sales in 2002-03 was accounting of sales of Gwalior emporium twice in 2001-02 and that the reduction in turnover would be investigated. The reply was not tenable as the Company had not taken remedial measures to reduce the high establishment expenditure by improving the performance of uneconomical centres/emporia or closing the unviable units.

Performance of emporia

2.10 As on 31 March 2003, the Company was operating 19 emporia, including one emporia on management contract and 10 located outside the State, and their performance during 1998-2003 is given in ***Annexure 10***. Audit observed that operations of these emporia resulted in net loss of Rs.1.15 crore during the above period even after taking into account Government grants of Rs.4.35 crore.

Management stated (October 2004) that the grants received were not for emporia but for exhibitions/expos. The reply was not acceptable as the Company had been recording all these transactions (including grants) in the accounts of emporia only.

The table below indicates profit/loss of these emporia for the last five years ended 31 March 2003.

(Rupees in lakh)

Year	**Loss-incurring emporia**		**Profit-earning emporia**		**Total number of emporia**	**Net profit (+) / loss (-)**
	Nos.	**Amount**	**Nos.**	**Amount**		
1998-99	21	58.35	5	31.11	26	(-)27.24
1999-2000	19	52.50	7	17.56	26	(-)34.94
2000-01	18	31.74	7	20.10	25	(-)11.64
2001-02	14	46.42	10	53.96	24	(+)7.54
2002-03	14	65.50	4	16.72	18	(-)48.78
Total		**254.51**		**139.45**		**(-)115.06**

14 out of 18 emporia suffered loss of Rs.48.78 lakh during 2002-03.

It would be seen that loss incurring emporia ranged between 14 and 21 during the period and profit making emporia came down from ten in 2001-02 to four in 2002-03. Nine out of 10 emporia situated outside the state suffered loss of Rs.95.55 lakh during the above period. Only one (Jaipur) out of 19 emporia had been earning profit continuously from 1998-99 to 2002-03.

Audit observed that the losses were due to higher incidence of indirect expenses (overheads) which ranged between 62.2 and 84.7 *per cent* of the Company's own sales during 1998-2003. Audit analysis revealed that:

- Company had not fixed any target for sales in each emporium.
- Emporia were operating on the ground that there was potential for sale of handloom and handicraft goods without, however, any data/ directions.

The management stated (October 2004) that to facilitate its participation in exhibitions outside the state, it opened emporia in these places. Further, the performance of loss incurring emporia was reviewed and unviable units closed.

The reply was not acceptable as even if the Company had to open any emporium, it should have considered the market potential and also its viability, and no remedial measures were taken to improve these loss incurring emporia during these years.

Excess allowance of rebate and discount on sale

2.10.1 The State Government allowed rebate/discount at 10 *per cent* (which was being reimbursed to the Company) on sale of handicrafts and handlooms on the occasion of important and national festivals. In addition to above, the Company also allowed 10 *per cent* discount during the above periods to increase the sales.

The emporia allowed excess discount which led to a loss of Rs.1.07 crore.

Audit observed (June 2004) that on their own sales, the emporia allowed rebate ranging from 26.5 to 30 *per cent* during 1998-2003 and also beyond festival period. Thus, allowing of rebate/discount in excess of the prescribed limits and also beyond the specified period, resulted in loss of Rs.1.07 crore during the five years ended 31 March 2003.

Management stated (June 2004) that instructions were being issued to emporia not to allow rebate /discount in excess of prescribed limits.

Blocking of inventory at emporia

2.10.2 The position of inventory at emporia during the five years ended 31 March 2003 is given in ***Annexure-10.*** It would be seen from the Annexure, that the closing stock held in emporia at the end of each year represented more than eight months' sale (that is between 8.4 and 10.5 months' sale) resulting in locking up of funds in stock valuing Rs.2.25 crore.

Sale of unauthorised goods by the contractor to the Government departments in the name of Company

2.10.3 The Company, without publicity and also any basis for selection, entrusted (May 2000) the management of Gwalior emporium on contract basis to a retired officer from its holding company only on his application thereto. The terms of agreement entered into (not registered) stipulated, *inter alia*, that:

- Contractor could sell only those goods of handloom, handicraft and small scale industries, which were different from the Company's goods. All sales should be made on the bills/cash memos of the emporium.
- Contractor would pay five *per cent* commission on retail sales and three per cent on wholesale sales of his goods to the Company.
- The Company would pay commission at the rate of 10 *per cent* on net sales made by the contractor of the Company's goods.
- Contractor would submit audited accounts of the emporium for each financial year within three months of close of the year.
- The agreement would be reviewed after completion of first two years and either party could revoke the contract by giving three months'

notice to the other party. The contract could be renewed after completion of five years.

Audit noticed that:

- No target was fixed for sale of the Company's goods by the contractor in the contract. Interestingly, after execution of agreement, the sale of Company's goods had declined from Rs.15.94 lakh (1998-99) and Rs.6.61 lakh (1999-2000) that is before contract period to Rs.3.31 lakh (2000-2001) and Rs.1.79 lakh (2001-02) after contract period. The details of sales for 2002-03 and 2003-04, called for in audit, were not furnished.

There was unauthorised sale of goods by the contractor in the name of Company.

- There was no provision in the contract for sale of contractor's goods to Government departments. Still, the contractor, during 2000-02 sold his own goods (other than handloom/handicraft items) i.e. stationary, ready made cloths, fixtures and furniture and other consumables (value:Rs.7.20 crore) to various Government departments/offices all over the state in the name of the Company from this emporium.

- Despite being aware (March 2001) of such unauthorised sale by the contractor, the management did not take any action and instead of terminating the contract, allowed the contractor to continue the supply of his own goods to the Government departments/ offices in the name of the Company.

On being pointed out in Audit, the management stated (October 2004) that in view of irregularities, the contract was being revoked before expiry of agreement period.

Failure to collect Sales Tax fully from customers

2.10.4 With a view to maintaining stability in sale price of handicraft products, the Company decided (1982-83) not to collect Sales Tax from customers on its sales. However, the Company continued to pay Sales Tax to the State Government without actually collecting it from the customers and the tax so paid by the Company was, in turn, partly reimbursed by Government subject to availability of funds. Thus, the Company had paid Rs.25.95 lakh to the Government during 1995-2000 and got reimbursed only Rs.11.80 lakh which resulted in non-recovery and increasing the loss of the Company by Rs.14.15 lakh.

The Company subsequently revised its decision and accordingly decided (March 2000) to collect Sales Tax from the customers with effect from April 2000.

Company failed to collect Sales Tax of Rs.15.49 lakh.

Audit observed (January 2004) that even after this decision, the Company, during 2000-03, collected only Rs.16.87 lakh from the customers as tax instead of Rs.27.03 lakh, but remitted Rs.27.03 lakh to State Government out of which it got reimbursed Rs.8.82 lakh. Thus, Company's failure to collect the payable tax fully resulted in increasing its loss by further Rs.1.34 lakh.

Management did not adduce (October 2004) any reasons for short collection of Sales Tax.

Deen Dayal Hathkargha Protsahan Yojana (DDHPY)

2.10.5 To ensure overall development of handloom sector in an integrated manner and to benefit weavers by upgrading their skills and products, GOI introduced (April 2000) the DDHPY scheme (previously known as Market Development Assistance scheme) to be equally financed by the GOI and State Government.

The Company was claiming and receiving assistance under the scheme regularly up to 1995-96. However, during 1996-2002, out of its claim for Rs.1.91 crore the Company received only Rs.1.43 crore.

Failure to prefer claim and furnish documents led to forgoing financial assistance of Rs.48.77 lakh.

Audit observed (December 2003) that the Company failed to prefer claim of Rs.24.53 lakh for 1996-97 for reasons not on record; and its claims for Rs.0.16 lakh (1997-98), Rs.9.18 lakh (1998-99), and Rs.14.90 lakh (1999-2000) were rejected by GOI due to non-furnishing documents in support thereof. This resulted in forgoing financial assistance of Rs.48.77 lakh. While accepting (October 2004) the audit observations, the management stated that no correspondence in this respect was available with it.

Performance in exhibitions

2.11 The Company participated in domestic exhibitions to promote sale of handicrafts and to expose craftsmen to market with financial assistance from Central and State Governments. During 1998-2003, it also participated in 13 foreign exhibitions and incurred Rs.55.25 lakh for which it received a grant of Rs.26.44 lakh from the State Government.

The details of exhibitions participated, sales, expenditure and grants received during last five years ended 31 March 2003 were as shown below:-

(Rupees in lakh)

Year	Number of exhibitions in which Company participated	Sales	Expenditure and its percentage to total sales	Allowable expenditure (15 per cent)	Expenditure in excess of 15 per cent	Grants received	
						State Govt.	Central Govt.
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*
1998-99	75	262.54	90.32(34.4)	39.38	50.94	27.80	29.25
1999-2000	62	246.65	58.65(23.8)	37.00	21.65	27.80	18.24
2000-01	42	169.15	36.73(21.7)	25.37	11.36	27.80	16.99
2001-02	57	229.92	52.67(22.9)	34.49	18.18	36.80	09.91
2002-03	52	228.94	53.41(23.3)	34.34	19.07	36.50	08.40
Total:	**288**	**1137.20**	**291.78(25.7)**	**170.58**	**121.20**	**156.70**	**82.79**

There was excess expenditure of Rs. 48.61 lakh due to failure to restrict the same as per Board's decision.

The Company decided (July 2000) that the expenditure on participation in exhibitions should not exceed 15 per cent of total sales. Audit observed (December 2003) that it continued to incur excess expenditure which worked out to Rs.48.61 lakh during 2000-03. Further, due to its inability to control expenditure, the Company also utilised its own funds to Rs.52.29 lakh[22] to meet expenditure on these exhibitions.

Management stated (October 2004) that it was not practicable to restrict the expenditure, some expenditure had to be incurred on gifts etc. though the sales may be negligible, and sales could also not be increased. The reply was not tenable as the Company has fixed the ceiling after considering all these factors.

Export

Target and achievements

2.12 The table below indicates the targets for export (fixed by the Government in consultation with the Company) and the achievement there against during 1998-2003.

(Rupees in lakh)

Year	Target	Actual	Percentage of achievement
1998-99	50	39.44	78.9
1999-2000	50	16.31	32.6
2000-01	50	101.79	203.6
2001-02	200	337.06	168.5
2002-03	100	19.76	19.8

The decline in exports during 2002-03, as analysed in Audit, was due to the fact that the Company did not get any orders from IKEA Trading India Limited (a domestic firm through which it exported the handloom goods valuing Rs.3.39 crore during 2000-02) or any other agency.

Audit observed that:

- Even after takeover of handloom activities from 1999-2000, the targets have not been substantially increased and were, instead, reduced in 2002-03,
- Except in 2000-01 and 2001-02, the Company did not achieve even the low targets, and
- The Company has not framed any policy for fixing the sale price of exports of goods. Separate profit/loss on export sales has also not been worked out.

[22] *Rs.291.78 lakh (-) Rs.239.49 lakh (Rs.156.70 lakh + 82.79 lakh)*

Handloom activities

2.13 From 1999-2000, the Company started handloom activities at eight centres[23]. As per orders of State Government, Government departments/ undertakings were required to purchase all type of cloths only from Madhya Pradesh Rajya Bunkar Sahkari Samitee, Madhya Pradesh Khadi and Gramodyog Parishad and the Company.

The Commissioner, Handloom entrusted supply orders to the Company and arranged supply of yarn to the centres of Company and indicated the rates at which cloth was to be supplied. The centres sold the yarn to weavers societies at the rates decided by the State Government. The Company procured the gray cloth from the societies and got it converted into finished cloth after dying and processing.

Audit observed that though handloom sales of Company increased from Rs.3.03 crore in 1999-2000 to Rs.4.57 crore in 2002-03, it could earn only marginal profit of Rs.12.75 lakh (2001-02) and Rs.48.79 lakh (2002-03). Against orders for Rs.21.44 crore during 1999-2003, the Company could supply orders worth Rs.17.83 crore only for reasons not on record.

The Company is solely dependent on Government for sale of handloom cloth.

Further, the uneconomical operations were due to:

- non-revision of prices by the Government at regular intervals, as the rates fixed in March 2000 were revised only in August 2004, and
- lack of role for the Company in fixation of price and allocation of supply order by the Commissioner, Handloom to it.

In view of its limited role in these significant areas, the Company could not improve its performance and had to depend on Government.

The management, however, while accepting (October 2004) Audit observations stated that the control over fixation of rates should rest with Government.

Avoidable liability due to non-collection of Sales Tax

2.13.1 Gauge and Bandage have been classified as drugs and cosmetics under Drugs and Cosmetics Rules, 1945. The Company was procuring yarn from NHDC[24] and selling them to *bunkar* societies which manufacture gauge and bandage. It purchased these items from the societies and sold to Health department of the State Government.

Audit observed (December 2003) that

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[23] *Gwalior, Biora, Sausar, Niwari, Indore, Mandsaur, Waraseoni and Bhopal.*

[24] *National Handloom Development Corporation.*

- the Bunkar societies did not have any licence for manufacture of bandage and gauge.
- the Company also did not have any licence for sale of these items.
- the Company supplied during 1998 to 2003 (up to December 2002) gauge and bandage valuing Rs.10.34 crore (excluding tax) to Health Department without collecting Sales Tax thereon. It started collecting tax at 9.2 *per cent* from January 2003.

The Company undertook avoidable liability of Rs.95.16 lakh due to its failure to collect tax.

Thus, its failure to collect and remit tax to Government resulted in avoidable liability of Rs.95.16 lakh. On being pointed out in Audit, the Company took up (March 2004) the issue with the Department.

The management stated (October 2004) that supply to Government department was exempted from Sales Tax up to March 2002 on furnishing 'D' Form.

The reply was not acceptable because even as per Government's notification (27 March 2002) tax on such sale was payable at four per cent.

Failure to ensure quality of yarn

2.13.2 Police Headquarters Office, Bhopal placed (November 2000) orders for supply of 1,10,344 metres uniform cloths at Rs.90 per metre, the supply of which was to be completed by May 2001.

The Company without any formal agreement procured (December 2000) 31,575 kg yarn from NHDC[25] for Rs.34.64 lakh. Despite having 16 technically qualified persons, the Company had not evolved any quality control procedures to verify quality of yarn or gray cloth at the time of their receipt. It got the yarn converted into gray cloth through weavers' cooperative societies and sent to processing centres for processing in to finished cloth. The finished cloths were supplied during April to November 2001 against stipulated delivery by May 2001 to the Police Headquarters Office.

Failure to ensure quality of yarn led to a loss of Rs.6.86 lakh besides locking up of Rs.16.79 lakh.

Audit observed that out of 1,13,579[26] metres cloth, 68796 metres (27560 metres gray cloth and 41,236 metres finished cloth) were found to be defective. Out of 41236 metres processed cloths, 19,602 metres were disposed of at the rate of Rs.55 per metre which resulted in loss of Rs.6.86 lakh. Further, the remaining defective finished cloth (21,634 metres) and gray cloth (27,560 metres) both valuing Rs.16.79 lakh were still lying in stock since April 2001.

The management stated (October 2004) that suppliers had not supplied the yarn of required quality and lot numbers were also not mentioned on the bundles. Due to use of different quality yarn on the looms, defective cloths were produced.

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[25] *National Handloom Development Corporation*

[26] *@ 0.278 kg yarn to produce one metre cloth (31575 kg divided by 0.278)*

Reply was not acceptable as the Company failed to assess the quality of yarn and instead, utilised the yarn for processing having no count or lot numbers on the bundles.

Avoidable payment of liquidated damages

2.13.3 The Company has been regularly supplying cloths to Police Headquarters office, Bhopal. Despite being aware of the purchaser's terms and conditions, the Company did not plan its procurement, processing and supply of cloths in tune with scheduled delivery period.

Delay in supply of cloth led to avoidable expenditure of Rs.30.39 lakh as liquidated damages.

Police Headquarters Office placed three orders (December 1998, November 2000 and November 2001) for Rs.2.41 crore on the Company for the supply of cloth, to be completed within six months. In case of delay, the Company was to pay liquidated damages. Against this schedule, it completed the supply only in September 1999, January 2003 and August 2002 respectively after a delay of four, 20 and three months. Consequently, Police Headquarters office recovered Rs.30.39 lakh as liquidated damages.

The management stated (June 2004) that in the beginning years of production of handloom cloth it could not adhere to the delivery schedule due to defective yarn and low production capacity.

The reply was not tenable as the management failed to assess the quality of yarn which led to defective production of cloth thereby leading to delay in delivery.

Material management and inventory control

2.14 The table below indicates the inventory holdings, turnover and stock in terms of number of months' sales during the last five years ended 2002-03:

(Rupees in lakh)

Year	Total inventory	Turnover (own sales)	Stock in terms of number of months' sales
1.	2.	3.	4.
1998-99	366.22	409.18	10.7
1999-2000	363.28	745.86	5.8
2000-01	537.60	1452.01	4.4
2001-02	601.93	2174.82	3.3
2002-03	614.70	1170.47	6.3

It would be seen from the above that stock held represented between 3.3 and 10.7 months' sales. Audit observed that:

- The Company has not fixed any norms for holding of maximum inventory.
- The stock includes damaged goods valuing Rs.47.78 lakh at realisable value.

- The inventory also includes stock of Rs.5.25 lakh taken over from erstwhile State Hastashilp Mandal in 1981 and samples worth Rs.6.13 lakh received prior to 1997-98 and lying in central stores.

- This also includes bed sheets valuing Rs.11.42 lakh procured far in excess of demand and lying in stock since 2001-02. The Company did not take any action for their disposal (September 2004).

- Item-wise and age-wise break-up of inventory was not maintained,

- There was no system of physical verification by any independent agency. Test check in Gwalior unit revealed that physical verification for 2000-01 to 2002-03 was conducted by the unit-incharge.

While accepting the audit observations, the management stated (October 2004) that as there were numerous items, age-wise and item-wise details could not be maintained.

Outstanding debts

Despite COPUs direction in this regard, Company allowed the outstanding dues to accumulate.

2.15 The Company had not evolved any credit policy, though it supplied goods to Government departments on credit. Though most of its sales were in cash, the Company had debts of Rs.14.58 crore to be realised from the purchasers. COPU desired (March 2000) that the Company should take action to reduce the outstanding dues. But the Company, instead of complying with the recommendation of COPU, allowed the dues to increase from 96.4 to 194.5 *per cent* of own sales during 1998-2003, as indicated below:

(Rupees in lakh)

Year	Own sales	Sundry debtors			Suppliers' and other advances	Total outstanding dues (5 + 6) with their percentage to turnover
		Government	Others	Total (3 + 4)		
1.	2.	3.	4.	5.	6.	7.
1998-99	409.18	147.85	22.97	170.82	223.67	394.49 (96.4)
1999-2000	745.86	132.97	156.39	289.36	177.43	466.79 (62.6)
2000-01	1,452.02	239.31	860.08	1,093.39	368.20	1,461.59 (100.7)
2001-02	2,174.82	433.25	1,099.87	1,533.12	649.75	2,182.87 (100.4)
2002-03	1,170.47	400.43	1,057.23	1,457.70	818.58	2,276.28 (194.5)

It would be seen that the dues outstanding increased from Rs.3.94 crore to Rs.22.76 crore as on 31 March 2003. This indicated ineffective follow up by the Company for recovery. The increasing non-recovery was to be viewed in the context that as on 31 March 2003, Rs.10.57 crore (72.5 *per cent* of total debts) was due from customers other than Government departments, to whom the Company was not to offer any credit facility.

Audit also observed that the Company did not have unit-wise, party-wise and age-wise break-up for the debts, nor had it reviewed the recoverability of amounts to assess the doubtfulness thereof and/or to make provision therefor, besides necessary action for recovery.

Management stated (June 2004) that as its accounts were in arrears, reasons for increase in debtors would be assessed after reconciliation of figures of units with those of head office.

Internal audit/internal control

2.16 Though the Company has been in existence for more than two decades, it has not established its own internal audit wing. The internal audit work was assigned to the same firm of Chartered Accountants to whom the work of preparation of annual accounts was assigned.

The following system deficiencies were noticed in audit:

- Internal audit standards/ manuals have not been prescribed.
- Internal audit reports (year/period-wise) were not prepared and submitted to the Board.
- Internal auditors had not visited any unit of the Company to check subsidiary records.
- No accounting manual or written instructions for maintenance of accounts existed.
- Reconciliation of balances in subsidiary ledgers was not regularly done.
- Records for procurement and disposal of stores have not been properly maintained.
- Advance payments made were not adjusted regularly.
- No norms for manpower were fixed by the management.
- Periodical inspection of stores and proper security system were not conducted.
- System procedures like recording of vouchers numbers, pass orders and cancellation after payment of bills etc. were not complied with as noticed in test check of records in respect of Expo 1999, Bhopal for Rs.47.75 lakh.

Management stated (June 2004) that the object of internal audit was to trace and correct the mistakes while preparing the accounts; hence no internal audit reports were submitted to it. The work of preparation of accounts and of internal audit for 2002-03 had not been entrusted to the Chartered Accountants so far.

The reply was not convincing as tracing and rectifying mistakes was only a part of preparation of accounts and thus, could not be construed as conducting internal audit. Therefore, the Company was required to initiate action for establishment of its own internal audit wing by prescribing the detailed scope and internal audit standards/procedures.

Conclusion

The Company was established with a view to undertaking development of handicraft, handloom and khadi products and also for promoting and protecting the interest of handicraft and handloom sector in the state. Lack of planning, injudicious use of grants and their diversion to other purposes largely defeated the objects of drawal of grants. Most of the development centres and emporia were incurring losses, even after adjusting the grants as income and remedial measures were not taken to improve their performance. While there was shortfall in number of persons to be trained, the trained craftmen were not provided with any job works.

Concerted efforts are required to streamline the system of implementation of schemes executed with assistance of grants, improve the performance of uneconomical centres/emporia or close the unviable units and create infrastructure to provide job works to trained craftsmen for achievement of the Company's objectives in a more effective and efficient manner.

The matter was reported to the Government (August 2004); their replies had not been received (October 2004).