CHAPTER – VI

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

6. General

This chapter deals with the results of audit of Government companies and departmentally managed commercial undertakings. Paragraph 6.1 gives a general view of Government companies and departmentally managed commercial undertakings, paragraph 6.2 deals with the performance review on the working of State Trading Scheme and paragraph 6.3 and 6.4 deal with miscellaneous topics of interest.

6.1 Overview of Government companies and Departmentally managed commercial undertakings

6.1.1 Introduction

As on 31 March 2005 there were five Government companies (all working) and two departmentally managed commercial undertakings viz., State Trading Scheme[42] under Food and Civil Supplies Department and Mizoram State Transport[42] under Transport Department as against the same number of Government companies and departmentally managed commercial undertakings as on 31 March 2004 under the control of the State Government. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors who are appointed by the Comptroller and Auditor General of India (C&AG) as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the C&AG as per provisions of Section 619 of the Companies Act, 1956. The accounts of departmentally managed Government commercial undertakings are audited by the C&AG under Section 13 of C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

Working Public Sector Undertakings (PSUs)

6.1.2 Investment in working PSUs

As on 31 March 2005, the total investment in five working PSUs (all Government companies) was Rs.68.33 crore[43] (equity: Rs.42.67 crore and long term loans[44]: Rs.20.82 crore and share application money: Rs.4.84 crore) as against five

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[42] *State Trading Scheme and Mizoram State Transport are undertakings under the Food, Civil Supplies and Consumer Affairs Department and Transport Department respectively for which proforma accounts are prepared.*

[43] *State Government investment was Rs.41.50 crore (Others: Rs.26.83 crore). Figure as per finance accounts 2004-05 is Rs.1.45 crore. The difference is under reconciliation.*

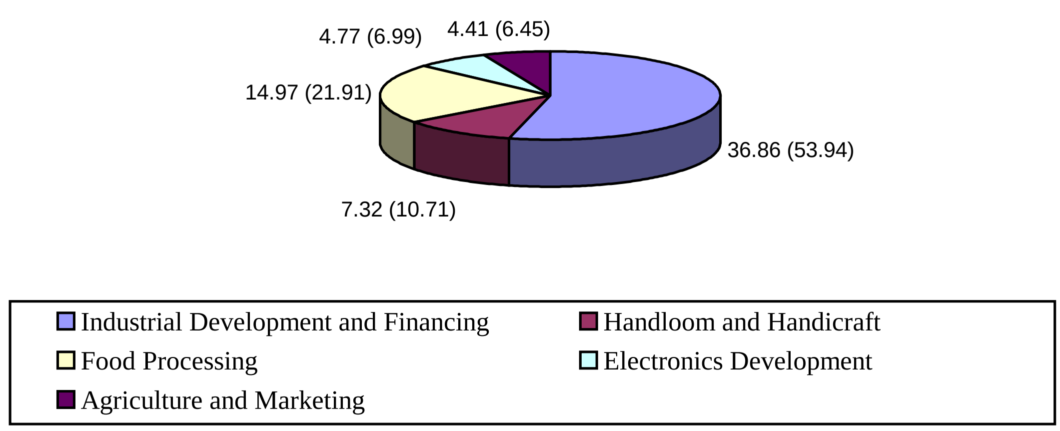
[44] *Long term loans in paragraphs 6.1.2, 6.1.3 and 6.1.4 are excluding interest accrued and due on such loans.*

working PSUs (all Government companies) with a total investment of Rs.66.67 crore[45] (equity: Rs.45.84 crore and long term loans: Rs.20.83 crore) as on 31 March 2004. The analysis of investment in working PSUs is given in the following paragraphs.

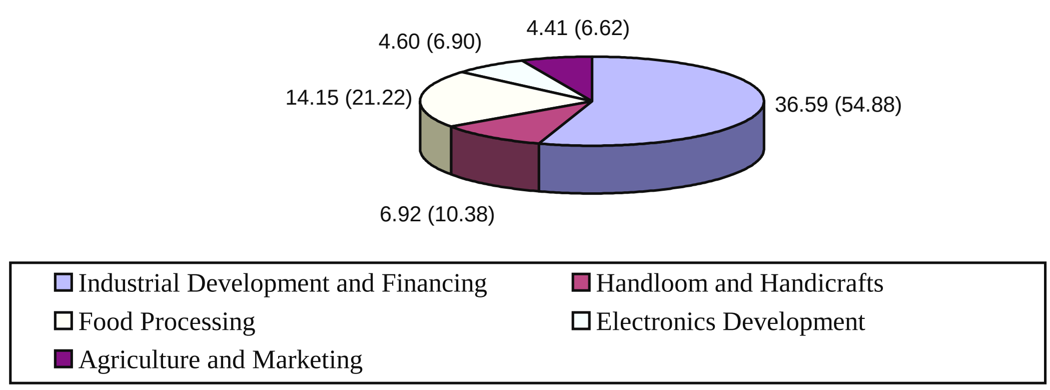
6.1.3 Sector-wise investment in working Government companies

The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2005 and 31 March 2004 are indicated in the pie charts as follows:

Investment as on 31 March 2005 (Rs.68.33 crore)
(Figures in bracket indicate percentage of investment)



Investment as on 31 March 2004 (Rs.66.67 crore)
(Figures in bracket indicate percentage of investment)



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[45] *Previous year figure of total investment was Rs.68.12 crore. The difference is due to recasting of the figures based on the information provided by one company(Mizoram Food and Allied Industries Corporation Limited)*

6.1.4 Working Government companies

The total investment in working Government companies at the end of March 2004 and March 2005 was as follows:

Table 6.1

(Rupees in crore)

Year	Number of companies	Equity	Share application money	Loans	Total
2003-04	5	39.83	6.01	20.83	66.67
2004-05	5	42.67	4.84	20.82	68.33

The increase in total investment was due to increase in equity mainly in Industrial Development and Financing, Food Processing, Handloom and Handicrafts, and Electronics Development sectors.

The summarised statement of Government investment in the working Government companies in the form of equity and loans is detailed in ***Appendix* - XXXVIII.**

As on 31 March 2005, total investment in Government companies comprised 69.53 *per cent* equity capital and 30.47 *per cent* loan as compared to 68.76 *per cent* and 31.24 *per cent* respectively as on 31 March 2004.

6.1.5 Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

The details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loan into equity by the State Government in respect of working Government companies are given in ***Appendices*–XXXVIII and XL.**

The budgetary outgo in the form of equity capital and grant/subsidy from State Government to the working Government companies for the three years upto 2004-05 was as follows:

Table 6.2

(Rupees in crore)

	2002-03		2003-04		2004-05	
	Companies		Companies		Companies	
	No.	Amount	No.	Amount	No.	Amount
Equity capital	4	3.38	4	1.67	4	1.67
Grants/subsidy	3	0.80	4	2.86	3	1.12
Total:	**5**[46]	**4.18**	**5**[46]	**4.53**	**5**[46]	**2.79**

During the year 2004-05, the Government did not give any fresh guarantees for obtaining loans by the companies. At the end of the year, guarantees amounting to Rs.19.84 crore were outstanding against Zoram Industrial Development

[46] *These are the actual number of companies which have received budgetary support in the form of equity, loans, grants and subsidy from the State Government during respective years.*

Corporation Limited. No guarantee commission was payable to the Government by the Government companies. There were no conversions of Government loans into equity, moratorium on loan repayment, and waiver of interest.

6.1.6 Finalisation of accounts by working PSUs

The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of the financial year.

However, as can be seen from ***Appendix* – XXXIX**, out of five working Government companies, only one company *viz.*, Zoram Industrial Development Corporation Limited finalised its accounts for the year 2004-05. During the period from October 2004 to September 2005, four working Government companies finalised accounts for previous years.

The accounts of four Government companies were in arrears for periods ranging from four to seven years as on 30 September 2005, as detailed below:

Table 6.3

Sl. No.	No. of working Government companies	Year from which accounts are in arrear	Number of years for which accounts are in arrear	Reference to Sl. No. of Appendix – XXXIX
1.	1	2001-02 to 2004-05	4	3
2.	2	1999-00 to 2004-05	6	2 & 4
3.	1	1998-99 to 2004-05	7	5

It is the responsibility of the administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were apprised quarterly by Audit regarding arrears in finalisation of accounts, no effective measures have been taken by the Government and as a result, net worth of these companies could not be assessed in audit.

6.1.7 Financial position and working results of working PSUs

The summarised financial results of working PSUs (Government companies) as per their latest finalised accounts are given in ***Appendix* -XXXIX.**

According to the latest finalised accounts (September 2005) all Government companies had incurred an aggregate loss of Rs.4.21 crore.

6.1.8 Return on capital employed

The details of capital employed and total return on capital employed in case of working Government companies are given in ***Appendix* – XXXIX**. As per the latest finalised accounts of five working companies (upto September 2005), the capital employed[47] worked out to Rs.49.65 crore in five Government companies and total return[48] thereon amounted to Rs.(-)2.85 crore as compared to total return of Rs.(-)2.42 crore in the previous year.

6.1.9 Results of audit of accounts of PSUs by Comptroller and Auditor General of India

During the period from October 2004 to September 2005, the accounts of one Government company were selected for review. The net impact of audit observations as a result of the review was as under:

Table 6.4

Details	No. of accounts	Rupees in lakh
	Working Government companies	Working Government companies
(i) Increase in loss	1	2.81

Some of the major errors and omissions noticed during the review of annual accounts of the company are mentioned below:

Errors and omissions noticed in case of Government companies

6.1.10 Zoram Electronics Development Corporation Limited (1998-99)

Non-provision of depreciation on Building for the year has resulted in understatement of loss for the year by Rs.2.81 lakh with consequent overstatement of fixed assets to the same extent.

6.1.11 Internal Audit/Internal Control

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal audit/internal control systems in the companies audited by them in accordance with the directions issued to them by the Comptroller & Auditor General of India under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which need improvement.

6.1.12 Recommendations for closure of PSUs

Even after completion of five years of their existence, the turnover of four working Government companies (Sl. Nos. 2 to 5 of ***Appendix*-XXXIX**) has been less than Rupees five crore in each of the preceding five years of the latest finalised accounts. Similarly, four Government companies (Sl. No. 1 to 4 of ***Appendix*- XXXIX**) had been incurring losses for five consecutive years leading to negative net worth. In view of poor turnover and continuous losses, the

[47] *Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in the case of Zoram Industrial Development Corporation Limited where it represents a mean of the aggregate of opening and closing balances of paid-up capital, free reserves and borrowings (including refinance).*

[48] *For calculating total return on capital employed, interest on borrowed fund is added to net profit/subtracted from the loss as disclosed in the profit and loss account.*

Government may either improve the performance of these Government companies or consider their closure.

6.1.13 Departmentally managed Government commercial and quasi-commercial undertakings

As on 31 March 2005, there were two departmentally managed commercial undertakings viz., State Trading Scheme under Food and Civil Supplies Department and Mizoram State Transport under Transport Department.

The submission of proforma accounts of State Trading Scheme for 2003-04 & 2004-05 and of Mizoram State Transport for 2002-03 to 2004-05 was in arrears (September 2005). Delay in finalisation of the proforma accounts was last brought to the notice of the Finance Department and the Secretary, Food and Civil Supplies Department in March 2005.

6.1.14 State Trading Scheme

As of September 2005, proforma accounts of the scheme for 2003-04 and 2004-05 had not been prepared. Based on the finalised accounts, the financial position and working results on the operation of the scheme for the three years from 2000-01 to 2002-03 are tabulated in ***Appendix* - XLI**.

It may be seen from ***Appendix* - XLI** that the accumulated loss of the State Trading Scheme as on 31 March 2003 (after provision of interest on Government capital amounting to Rs.59 crore) was Rs.52.69 crore. The Scheme was to run on a 'no profit no loss basis' so that maximum benefit could be given to the general public by recovering from them only the cost price of food and incidental charges as far as possible. As per proforma accounts, during 2000-01 and 2001-02 the Scheme incurred trading losses amounting to Rs.7.06 crore and Rs.1.70 crore respectively. Audit scrutiny, however, disclosed that the trading losses for these two years would turn into trading profits of Rs.4.77 crore and Rs.8.86 crore respectively as the sales pertaining to Aizawl centre amounting Rs.11.83 crore and Rs.10.56 crore respectively were not exhibited. On this being pointed out in audit, necessary adjustments have been carried out in the Proforma accounts for 2002-03. During 2002-03, the Scheme earned trading profit amounting to Rs.0.16 crore.

6.1.15 Mizoram State Transport

The working results and operational performance of Mizoram State Transport for the year ended 31 March 2005 were not furnished by the Department. The operational performance for three years ended 31 March 2004 are given in ***Appendix*–XLII.** It may be seen from the Appendix that during the three years upto 2004, Mizoram State Transport had incurred operating losses of Rs.5.12 crore, Rs.7.49 crore and Rs.6.76 crore respectively. The net losses amounted to Rs.8.69 crore, Rs.8.57 crore and Rs.8.05 crore during the years 2001-02, 2002-03 and 2003-04 respectively. The reasons for incurring heavy losses were attributable to poor utilisation of buses (47 to 52 *per cent*), low load factor (occupancy) of 32.52 to 46.53 *per cent*, poor operation of buses per day (55.90 to 115 kilometers), incorporation of unapportioned salaries/wages and expenses of other functional units of the Transport Directorate as expenses of MST and high incidence of salaries and allowances and other operating expenses. The losses per kilometer operated during the three years upto 2003-04 were Rs.32.63, Rs.54.72 and Rs.48.99 respectively.

6.1.16 Power and Electricity Department

The operational performance of the Department for the last three years upto 2004-05 is given in ***Appendix* – XLIII.**

The total expenditure on power sold during three years upto 2004-05 was Rs.74.60 crore, Rs.85.81 crore and Rs.101.91 crore as against the revenue of Rs.20.09 crore, Rs.26.37 crore and Rs.54.41 crore, respectively. The losses incurred during the three years upto 2004-05 were Rs.54.51 crore, Rs.59.44 crore and Rs.47.50 crore respectively.

The percentage of transmission and distribution (T&D) losses varied from 38.71 to 45 *per cent* as against 15.5 *per cent* (norm) fixed by the Central Electricity Authority. During the year 2004-05, the excess T&D loss over the norm was 47.60 million units and the loss thereof was Rs.8.43 crore worked out at average revenue per unit.

6.1.17 Response to inspection reports, draft paras and reviews

Observations made during audit and not settled on the spot are communicated to the heads of the companies and concerned departments of the State Government through Inspection Reports. The heads of companies/offices are required to furnish replies to the inspection reports through respective heads of departments within a period of six weeks. Inspection reports issued upto March 2005 pertaining to five Government companies, two departmentally managed commercial undertakings and the Power and Electricity Department disclosed that 159 paragraphs relating to 39 inspection reports remained outstanding at the end of September 2005. Of these, 13 inspection reports containing 21 paragraphs had not been replied to for more than six years. Department-wise break-up of inspection Reports and paragraphs outstanding as on 30 September 2005 is given in ***Appendix* - XLIV**.

Similarly, draft paragraphs and reviews on the working of the Government companies and departmentally managed commercial undertakings are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Two draft paragraphs and one review were forwarded to various Departments during April 2005. Replies of Government in respect of one draft paragraph pertaining to Power and Electricity Department had not been received so far (October 2005).

It is recommended that Government should ensure that (a) procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/reviews as per the prescribed time schedules, (b) action is taken to recover loss/outstanding advances/overpayment in a time bound schedule and (c) system of response to audit observations is revamped.

6.1.18 Position of discussion of Commercial Chapter of Audit Reports by the Committee on Public Undertakings (COPU)/Public Accounts Committee (PAC)

The reviews/paragraphs of Commercial Chapter of Audit Reports pending discussion as on 30 September 2005 by COPU/PAC are shown below:

Table 6.5

Period of Audit Reports	**Total number of Reviews/ Paragraphs that appeared**		**Number of Reviews/Paragraphs pending discussion in Audit Report**	
	Reviews	**Paragraphs**	**Reviews**	**Paragraphs**
1993-1994	-	4	-	1
1995-1996	1	4	-	2
1996-1997	-	4	-	2
1997-1998	1	3	-	1
1998-1999	-	3	-	1
1999-2000	1	7	1	4
2000-2001	-	2	-	-
2001-2002	-	4	-	4
2002-2003	1	5	1	5
2003-2004	-	5	-	5

6.1.19 619-B Companies

There was no company under Section 619-B of the Companies Act, 1956.

SECTION A - PERFORMANCE REVIEW

FOOD, CIVIL SUPPLIES AND CONSUMER AFFAIRS DEPARTMENT

6.2 Working of State Trading Scheme

Highlights

The State Trading Scheme a departmentally managed commercial undertaking under the Food, Civil Supplies and Consumer Affairs Department became effective from 1975-76. The scheme was to run on 'no profit no loss' basis. There was short-lifting of the allotted quantity of rice under the 'Above Poverty Line Category but no action was taken to get the APL Quota of the State reduced. Transportation cost of Rs.1.06 crore incurred by the department for transporting wheat to flour mills was not reimbursable by FCI but Government had not been moved to bear this cost. Defective maintenance of control registers for movement of food items resulted in non-delivery of rice consignments valuing Rs.19.93 lakh by carriage contractors.

(Paragraph 6.2.1. 6.2.7, 6.2.8, 6.2.10 & 6.2.11)

Transport subsidy claims of Rs.2.56 crore were not recouped, and subsidy of Rs.1.13 crore had not been claimed.

(Paragraph 6.2.15 & 6.2.17)

Physical verification conducted by the department revealed shortage/misappropriation of stock and cash amounting to Rs.6.55 crore. Audit also noticed misappropriation/shortage of food items valued at Rs.1.15 crore in four centres and cash amounting to Rs.16.55 lakh in three centres.

(Paragraph 6.2.19)

6.2.1 Introduction

The 'State Trading Scheme' is a departmentally managed commercial undertaking under the Food Civil Supplies and Consumer Affairs Department.

After formation of the Union Territory of Mizoram on 21 January 1972, the Government took over the operation of trading in food items and other essential commodities in Mizoram. The scheme became effective from 1975-76 and continued after attainment of Statehood on 20 February 1986. The scheme was to run on 'no profit no loss' basis so that maximum benefit could be given to the general public by recovering only the cost price of food items and incidental charges as far as possible.

The activities under the scheme are confined to procurement of rice under the Public Distribution System (PDS), sugar and other essential commodities (State quota) at Central Government pool prices for different categories of beneficiaries, their lifting from the Central Stock (Food Corporation of India), transportation and issue to Fair Price Shops (FPSs) for distribution to intended beneficiaries and fixing of departmental issue (ex-go down) rate. Identification of beneficiaries under the Below Poverty Line and Antyodaya Anna Yojana schemes are made by the village councils and submitted to the Department through the district administration. The list is then submitted to Government of India for allotment of food items under those schemes.

The overall responsibility for implementation of the scheme vests with the Director of Food, Civil Supplies & Consumer Affairs (DFCS). Six District Civil Supply Officers (DCSOs) are responsible for implementation of the scheme at the district level. As on 31st March 2005, there were 168 godowns (Capacity - 45680 MT) for storage of commodities lifted from the Central Stock and 128 Distribution Centres for issue to FPS. The godowns/distribution centres are headed by Inspectors or Sub-Inspectors of Food and Civil Supplies or by Storekeepers.

Appraisal of the working of 'State Trading Scheme' was incorporated in the Report of the Comptroller and Auditor General of India for the year 1990-91 (Paragraph-8.4). Recommendations of the Public Accounts Committee thereon are awaited (September 2005).

6.2.2 Scope of audit

The implementation of the scheme for the last five years ending 31 March 2005 was reviewed during test check of records (March-May 2005) in the Directorate, four [49](out of six) DCSO Offices and 45 (out of 128) Centres. Ten Centres were also visited along with the in-charge of the Centres for on the spot verification of the storage condition of food items, the principle adopted while issuing food items, inspection of functioning of FPSs by departmental officers, monitoring reports of village councils, *etc*. The results of test check are discussed in the succeeding paragraphs.

6.2.3 Audit objectives

The audit objective was to assess the efficacy of the scheme in achieving the goal of providing food items to the targeted beneficiaries. The implementation of the following activities from the point of view of efficiency and economy was to be assessed :

[49] Aizawl West, Lunglei, Chhimtuipui and Lawngtlai (Lawngtlai was created under Government notification dt. 07.01.2004 and started functioning from June 2004).

- Demand, allotment and lifting of food items.
- Distribution of food items to intended beneficiaries.
- Transport subsidy.
- Storage and cash management.
- Internal control and Internal audit.

6.2.4 Audit criteria

Audit checks were conducted basing on the following criteria:

- Selection of beneficiaries as per GOI directives.
- Assessment of allotment *vis-à-vis* demand.
- Lifting against allotment.
- Control over transportation and actual receipt in destination.
- Control over stock management and issue to FPS/beneficiary.
- Compliance of provisions of financial rules and Supply Manual.
- Extent of control exercised to check pilferages/misappropriation of food items and cash.
- Adequacy/frequency of physical verification of stock.
- Monitoring, evaluation and impact assessment.

6.2.5 Audit methodology

The following methodologies were adopted:

- Analysis of procedures/data in respect of the demand, allotment and lifting of food items, claiming of subsidy and storage of food items. For this, Audit scrutinised allotment, release orders, despatch challans, receipted challan, subsidy claims with reference to the supply manual, Government of India's directives.
- Verification of reliability of data in respect of food items allotted, lifted, subsidy claimed and storage of food items. For this, Audit scrutinised stock registers, control registers for despatch of food items, subsidy claim registers, agreements with Carriage Contractors for movement of food items, stock registers, physical verification reports of stock and cash, *etc*.

- Physical verification of ten Distribution Centres to verify the storage condition of food items and principle adopted for issue of food items.

- Checking of FPS records to ascertain the actual issue and accountal of food items to the intended beneficiaries.

6.2.6 Audit findings

Audit findings as a result of review on the working of the 'State Trading Scheme' were discussed in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 7 July 2005, which was attended by the Under Secretary to the Government of Mizoram, Food, Civil Supplies & Consumer Affairs Department representing the Government and by the Joint Director, (Administration) of the Department. The views expressed by the members and replies of the Department and of Government have been taken into consideration during finalisation of the review.

During the period of review, 1,10,400 MT of rice, 60,600 MT of wheat and 38,931 MT of sugar was allotted for distribution among people living above poverty line, below poverty line and other Antyodya Anna Yojna.

The audit findings on allotment, distribution, storage of food items, etc. are discussed in the succeeding paragraphs.

6.2.7 Demand, allotment and lifting

Allocation of food items (rice, wheat and sugar) from the central pool is made by the Government of India (GOI) on a monthly basis taking into account the overall availability of stock in the Central Pool and the demand raised by the Department.

The position of rice, wheat and sugar allotted by the GOI, actually lifted by the Department, and quantity short lifted during the five years upto 2004-05 are given in ***Appendix*-XLV**. It would be seen from the *Appendix* that there was short lifting of the allotted quantity of rice under Above Poverty Line (APL) Category in all the years (except for the year 2003-04). It ranged from 5.04 to 76.98 *per cent*. In terms of annual scale (156 Kg @ 3 Kg per week), ration of 3.01 lakh, 4.03 lakh, 0.12 lakh and 1.66 lakh APL beneficiaries (in adult) was short lifted during 2000-01 to 2002-03 and 2004-05 respectively. The Department did not revise the demand to GOI for reducing the allotment of APL quota to the State under PDS based on actual requirement. It would, however, be seen that allotment and lifting of rice under APL category was very high in the year 2003-04 and 2004-05 compared to earlier years. In the absence of closing stock position for the years 2003-04 and 2004-05 (due to non-compilation of accounts for these years), no comparison could be made as to the level of stock holding in these years *vis-à-vis* stock holding in the earlier years. Similarly there was short lifting of allotted quantity of wheat in the years 2000-01 to 2002-03 and it ranged between 6.88 and 81.05 *per cent*. The Government stated (September 2005) that the shortlifting was due to lack of demand.

6.2.8 Milling of wheat and distribution of ground products

According to the existing arrangements, lifting of wheat against allotment is made by the Department and issued to three flour mills (cost of wheat borne by the mills and transportation charges are incurred by the Department) at Aizawl (two nos.) and Vairengte (one no.) for grinding into maida, atta and bran. The DFCS had fixed ex-mill issue price[50] (per qtl/90 kg bag according to refracted[51] value) for lifting of products by 51 Licensees for distribution at prescribed wholesale rate at different parts of the State. Audit scrutiny revealed that during the period from August 2000 to March 2005 the Department spent Rs.1.06 crore on transportation of wheat from Tanhril and Rengtekawn base depots to mills. The expenditure incurred on transport was not reimbursable by the FCI, but the Department had not moved the Government to bear the cost of transportation. This adversely affected the working results of the scheme.

6.2.9 Distribution of food items

The Department engaged carriage contractors by executing agreement/departmental vehicles for transportation of food items from central pool released by FCI at the rail heads/godowns (base depots) to the Principal Distribution Centres (PDCs)/Sub-distribution Centres (SDCs) and from PDCs/SDCs to the distribution centres.

The following points in this regard were noticed by Audit:

6.2.10 Maintenance of control registers

The DFCS is responsible for preparing despatch schedules against each release order and to watch control over movement from FCI to PDCs/SDCs. The PDCs/SDCs are to ensure actual delivery of consignments to distribution centres. The district offices are to watch the delivery of consignments within the district through receipted copy of challans and monthly returns submitted by the centres.

[50] *Cost price of wheat ex-FCI*	*:*	*Rs.610*
milling charge	*:*	*Rs.100*
handling charge	*:*	*Rs. 4*
Provision for storage (pilferage 2 percent)	*:*	*Rs. 12*
Total	***:***	***Rs.726***

[51] *Break-up/ yield value*

To ensure complete and safe delivery of food items, the Supply Manual {paragraph 4.3(I)} provides that a copy of the receipted challan of each consignment is to be sent by the receiving centre to the despatching centre. Despatching centres are required to maintain a register of movement of food items to watch the actual receipt of consignments by the destination centres.

It was noticed that receipt particulars of consignments were not recorded at all in the despatch registers maintained in the Directorate and in two PDCs (Aizawl and Lunglei). Confirmation of actual receipt of consignments had also not been obtained from receiving centres. The district office at Lunglei did not maintain the control register. Thus, the required controls over movement of food items were not exercised.

Test check in audit revealed that lack of required departmental check and control over the movement of food items had led to non-delivery/ short delivery of the consigned quantity to the destination centres as discussed in the succeeding paragraphs.

The Department in reply admitted (July 2005) the facts. The Government in reply (September 2005) stated that the Control registers in the Directorate and in District/Sub-district offices had been properly maintained from April 2005. The reply is not tenable as Audit had pointed out that control registers were not maintained properly in May 2005.

6.2.11 Undelivered consignments

Cross verification during test check (May 2005) of despatch documents from base depots with receipt registers of seven PDCs/SDCs revealed that in three PDCs, 16 consignments of rice for a total quantity of 2142.78 quintals valued at Rs.19.93 lakh (at ex-godown rate of Rs.930 per quintal) were not delivered by the carriage contractors as shown in ***Appendix*-XLVI.**

In respect of 3 PDCs (Aizawl, Lunglei and Aibawk) the fact of non-delivery of consignments was confirmed (May 2005).

As per terms of contract with the carriage contractors, the value of rice plus 150 *per cent* on the same as penalty in respect of undelivered consignments amounting to Rs.49.82 lakh (value of food items: Rs.19.93 lakh + penalty: Rs.29.89 lakh) was recoverable.

6.2.12 Short delivery of consigned quantity

A quantity of 320.96 quintals of Gr.A rice was despatched through carriage contractors in April 2003 and June2004 from Tanhril, but the actual delivery at Aizawl receiving centre was 179.11 quintals. Thus 141.85 quintals of rice (320.96 qtls-179.11 qtls) costing Rs.1.32 lakh were delivered short. Similarly, against 603.68 quintals Gr. A rice despatched in August 2003 from Tanhril in two consignments, the carriage contractors actually delivered 404.21 quintals at

Aibawk receiving centre leading to short delivery of 199.47 quintals valued at Rs.1.86 lakh.

The drivers of departmental vehicles short delivered a total quantity of 102.34 quintals rice in two centres (Aizawl and Hnahthial) valued at Rs.0.95 lakh. No action was, however, taken to fix responsibility and recover this amount. In reply the Department stated (July 2005) that records would be checked for taking further action.

6.2.13 Transport Subsidy

Under PDS, transportation charges (Road Transport Charges) of food items incurred by the Department from FCI depots/rail heads upto the border of Mizoram are reimbursed at rates approved by FCI and within Mizoram (upto recognised Principal Distribution Centres) on actual basis as Hills Transport Subsidy (HTS). Shortcomings noticed during test check of records are discussed in the succeeding paragraphs.

6.2.14 Subsidy Claim Register

The Subsidy Claim Register and Register of Subsidy Receipt from FCI maintained in the Directorate were defective as actual amount released against each bill/release order, reasons for short release/non-admittance, amount outstanding and corrective measures taken were not indicated. On this being pointed out in audit, the Government in reply stated (September 2005) that corrective measure would be taken in this regard.

6.2.15 Un recouped transport subsidy

As per information available with the Department, as on March 2005, outstanding subsidy from FCI amounting to Rs.2.56 crore against 77 bills for the period from July 1998 to August 2004 awaited recoupment.

Audit analysis revealed that a total amount of Rs.1.53 crore (36 bills) being transportation charges incurred out of its own fund during 1998 to August 2004 under 'Mid-day-meal' scheme of Government of India (GOI) and implemented in the State by the Education and Human Resource Department had not been reimbursed as the guidelines issued (January 1997) by the Ministry of Food for submission of bills were not followed. The remaining 41 bills amounting to Rs.1.03 crore represented HTS/RTC bills for wheat (34 bills: Rs.0.51 crore) and rice (7 bills: Rs.0.52 crore) between July 1999 and June 2004. These were not entertained due to (i) non- submission of district-wise data on ration card population with bills, (ii) transportation from Tanhril (Aizawl) base depot to Zuangtui PDC (Aizawl) falling within a distance of 25.75 kms against admissible limit of minimum 50 kms, (iii) transportation from Tanhril base depot to Zawlnuam and from Rengtekawn base depot to Vairengte involved back movement while HTS is payable for shortest direct route from the nearest base depot, and (iv) deviation from movement programme submitted to FCI against release orders.

As per Government of India instruction of October 1990, the documents required to be submitted with re-imbursement bills including other issues were to be decided by the Zonal Manager, FCI. The above matters were, however, not resolved before hand by the Department, which led to non-receipt of subsidy claims amounting to Rs.2.56 crore.

6.2.16 Delay in submission of claims

As per directives of Government of India (October 1990), the subsidy claims were to be submitted on fortnightly or monthly basis giving full details with supporting documents for payment by FCI within the shortest possible time.

Audit scrutiny of 384 bills submitted against release orders during July 2000 to March 2005 revealed that only four bills were submitted within one month. The remaining 380 bills were delayed beyond the prescribed period by one to 25 months. Delay in submission of bills led to loss of interest amounting to Rs.1.20 crore worked out @ 9.5 *per cent* per annum on blocked Government fund, affecting the working results of the scheme.

The Department while admitting (July 2005) the facts, attributed the reasons to delay in submission of carrying bills by the carriage contractors and to delay in submission of acknowledgement receipts by the incharge of the PDCs. The fact remains that Department did not take any corrective action to ensure that the bills are submitted in time.

6.2.17 Unclaimed subsidy

Under the 'Mid-day-meal' scheme, transportation charges from PDCs to district/village/school level @Rs.25 per quintal were re-imbursable by FCI. During 2000-01 to 2004-05 claims for Rs.27.25 lakh for transportation of 1.09 lakh qtls of food items to district/village level had not been submitted; reasons for which were not on record.

It was noticed in audit that as per guidelines (August 1995) of Government of India the transportation cost upto the district was payable by FCI on submission of district wise details of enrolment and attendance of students. These details were not obtained for submission to FCI. The Department in reply admitted (July 2005) the facts and stated that records to this effect would be maintained from 2005-06.

Subsidy claims of Rs.1.13 crore for transportation of rice of 1.31 lakh qtls. against 17 release orders between May 2000 and April 2004 listed in ***Appendix*-XLVII** had not been submitted (September 2005), reasons for which were not on record. The Department in reply (July 2005) stated that the claims upto February 2005 have been submitted during the period August 2004 to June 2005. The position of realisation of the claims has, however, not been stated in the reply.

6.2.18 Storage and cash management

According to the Supply Manual {Paragraph 5.5 (v)}, storage losses of food items procured from Central Stock are not permissible and maximum storage period for rice is three months. As per paragraph 5.2, the stocks are to be issued on the principle of 'First in First out'. Physical verification of stock is to be carried out once in a month and at the end of each year and shortages of stock, if any, detected during physical verification are to be recorded in the register/monthly statement of 'Storage Losses' for investigation.

Financial rules provide that Government receipt should be immediately deposited into the treasury and under no circumstances should such funds be retained in hand or spent for other purposes. The DCSOs are responsible for ensuring proper functioning of the Centres particularly on matters of stock and storage, issues to the beneficiaries, maintenance of stock and cash accounts and other prescribed records, and for submission of monthly returns.

Test check of records revealed that there were cases of misappropriation/shortage of stock and cash due to overstocking, lack of physical verification of stock and irregular retention of cash in hand. Instances noticed during test check are discussed in succeeding paragraphs.

6.2.19 Misappropriation/shortage of stock and cash

The reported cases of misappropriation of stock and cash are finalised by the DFCS. Case-wise details were not maintained in the Directorate and thus the status of all the cases was not available.

A register of finalised cases to watch recoveries has been maintained in the Directorate. According to this register a total amount of Rs.3.70 crore being shortages of stock and cash against 89 Block Development Officers/ Administrative Officers for the period prior to 1992 was to be recovered and deposited into Government account. Out of this, only a sum of Rs.82.19 lakh (22.16 *per cent*) had been recovered/adjusted. The balance amount of Rs.2.88 crore (77.84 *per cent*) awaited recovery of which an amount of Rs.1.68 crore related to 26 discharged, exonerated, retired, expired, etc. cases for which write off sanction was awaited (September 2005).

Similarly, a total amount of Rs.4.34 crore relating to finalised cases against 140 departmental officials held responsible for shortages of stock/cash for the period from 1992-93 to 2004-05 was to be recovered. Of this only a sum of Rs.1.82 crore (41.94 *per cent*) (mainly on monthly instalment basis from salary) has been realised and the balance amount of Rs.2.52 crore (58.06 *per cent*) awaited recovery (September 2005). The monthly installments fixed for recovery were small and the entire amount would require18 to 216 months for recovering the full amount. Write-off proposals for 23 unrecoverable cases amounting to Rs 1.01 crore (expiry, acquittal, termination, absconding, etc) were in the process of submission to Government.

Audit noticed that monthly and annual physical verification of stock of the centres/godowns was not conducted as required. The Department, however, carried out physical verification drives during the period 2001 to 2004 in 59 centres and detected shortage/misappropriation of stock and cash amounting to Rs.6.55 crore as shown in ***Appendix*-XLVIII**. The cases awaited investigation and finalisation (September 2005). The Department in reply stated (July 2005) that recovery in some cases has been effected while most of the cases have not been finalised.

In addition to the above, test check of records of the Centres in four district offices[52] disclosed misappropriation/shortage cases of stock valued at Rs.1.15 crore in 4 Centres and cash amounting to Rs.16.55 lakh in three Centres as shown in ***Appendix-X*LIX**. The misappropriation/shortage of stock and cash took place due to non-follow up of the provisions of the supply manual and financial rules as cash was irregularly retained and the stocks were retained beyond a period of three months. Physical verification of stock and cash, etc., was also not done. On this being pointed out in audit, the Department in reply stated (July 2005) that the details of the cases are under collection by the Directorate from the concerned district offices and appropriate action would be taken as per departmental procedure.

6.2.20 Inspection, monitoring and vigilance

In August 2001, the GOI issued orders in terms of Section 3 of Essential Commodities Act, 1955 according to which the State Government was to ensure (a) proper monitoring of FPSs (b) issue order specifying the inspection schedule and list of check points to district offices (c) carry out regular inspections of FPSs not less than once in six months and to issue orders specifying the authority responsible for compliance with the said order (d) the meeting of vigilance committees on PDS at State, District, Block and FPS level was to be held on regular basis, the periodicity of which was not to be less than one meeting a quarter at all level. It was noticed that evaluation of the scheme as a whole was not done by the Department.

It was seen during audit that no order specifying the inspection schedule and list of check point was issued to district offices and no inspection report on FPSs or vigilance committee report was available with the district office/centres visited during the course of the review. Out of 25 FPSs test checked in audit, six FPSs

[52] *Aizawl West, Lunglei, Lawngtlai and Chhimtuipui (Saiha).*

did not maintain records for issue of rations to beneficiaries whereas in six others the maintenance of such register was defective. In the absence of proper accounts the possibility of rations not reaching the intended beneficiaries cannot be ruled out. The DCSOs stated that the PDS (Control) Order 2001 had not been received in the district office and as such each and every order contained in it could not be complied with and the impact of the scheme also remained unassessed.

The Department in reply stated (July 2005) that proper monitoring of FPSs through Inspections and creation of vigilance Committee of State, District, Block and FPS levels would be taken up.

6.2.21 Internal Control and Internal Audit

Internal Control system is an integral process by which an organisation governs its activities in an efficient, effective and economic manner to achieve its objectives. A built-in internal control system and strict adherence to statute, codes and manuals minimises the risk of errors and irregularities and helps to protect resources against loss due to waste, abuse and mis-management. Internal Auditors, as an independent entity, examine and evaluate the level of compliance to the departmental rules and procedures and provide independent assurance to the Management on the adequacy or otherwise of the existing internal controls.

An evaluation of the system in vogue in the Department revealed the following weaknesses:

- The control registers on movement of food items and of transport subsidy claim/receipt register maintained in the Department were defective and did not serve the intended purpose.

- The provisions of the manual with regard to monthly/annual physical verification of stock, submission of receipted copy of challans by the receiving centre to the despatching centre, maintenance of register of damaged/deteriorated stocks were not adhered to/followed. Closing cash balance of Centres was not physically verified as required under provisions of financial rules.

- There was abnormal delay in finalisation of five alleged misappropriation/shortage cases amounting to Rs. 55.14 lakh reported by Audit through Inspection Reports during the years 1995 and 1999.

- Under PDS, the food items were to be issued regularly on the basis of ration card population on weekly basis to APL category and on monthly basis to BPL and AAY category for distribution to beneficiaries. The issue rate of food items in the case of APL category is higher than the other categories. It was noticed that during the period September 1999 to March 2000 a quantity of 9.38 lakh quintals of rice was issued under the BPL quota by the Centres of four districts to FPSs without ensuring that (no recorded report was available) FPSs distributed the rice to BPL beneficiaries. The difference between the cost of 9.38 lakh quintals of rice as per issue rates of APL and BPL category comes to Rs.54.89 crore.

- Out of 10 Centres that Audit visited jointly with the officers in-charge of the Centres, it was noticed that 'FIFO' principle while issuing of food items could not be followed due to improper stacking in four godowns.
- Out of 25 FPSs visited along with Departmental Officers, six FPSs did not maintain records to indicate issue of ration to the beneficiaries according to scale, 10 FPSs did not display on the notice boards the list of BPL and AAY families/ entitlements/ retail issue price, in six FPSs maintenance of records of ration card holders etc. was defective and six FPSs did not have complaint boxes to receive grievances with respect to quality and quantity of PDS commodities.
- Stock of rice in seven Centres under Chhimtuipui district was much in excess of the norm (3 months) prescribed in the manual and varied from 4.26 to 69.55 months' requirement. The monthly closing stock of Tokolong and Phura centres were alarmingly high and varied from 14.12 to 101.43 months' requirement respectively.
- There was no Internal Audit Wing in the Department.

The Department in reply stated (July 2005) that necessary action would be taken as far as possible.

Conclusion

The Department failed to lift the allotted quantity of rice under Above Poverty Line Category in all the years of the review (except 2003-04) but did not take any action to get the APL Quota reduced. The distribution of food items to intended beneficiaries did not work properly as maintenance of control registers to watch movement of food items was defective. As a result, the Department was not aware of the undelivered/short delivered consignments. Subsidy claim registers were not maintained properly as a result of which the department was not aware of the outstanding subsidy claims including reasons for non-admittance. Cases of non-submission/delay in submission of subsidy claims were noticed. The provisions of the Supply Manual with regard to storage, issue and accountal of food items were not adhered to and as such cases of misappropriation/shortage of stock persisted. Financial rules were not observed for remittance of sales proceeds promptly to the bank/treasury, which led to misappropriation. Lack of inspection, monitoring and vigilance prescribed in Government of India guidelines failed to ensure proper use of food items and its distribution to identified beneficiaries.

Recommendations

- The demand for allotment of food items (specially APL category) should be based on actual requirements.

- Receipted challans should be entered in the prescribed column of the Control Register for movement of food items. Non-receipt of the same within a week should be followed up immediately.

- Transport claims should be entertained only on receipt of receipted challan of food items.

- Stock holding limits should be fixed for each Distribution Centre. Food items should be issued only after considering such limit and the closing stock available on the date.

- Monthly/Annual physical verification should be conducted as per provision of supply manual. Report of verification should be obtained before release of next month’s quota.

- Cash received should be immediately credited to Government Account.

- DFCS should monitor the periodical inspection of Distribution Centres/FPS by the district level officers by monthly/quarterly return.

SECTION -B- PARAGRAPHS

POWER AND ELECTRICITY DEPARTMENT

6.3 Avoidable Expenditure

The requirement of reduced stack height was known to the Department but no action was taken for over two years which led to avoidable expenditure of Rs. 40.35 lakh on construction of stack.

Power and Electricity Department, Government of Mizoram, awarded (November 2001) the work of execution of 22.92 MW Thermal Power Project at Bairabi to Bharat Heavy Electrical Limited (BHEL) for Rs.85.95 crore. The contract work included the construction of 80 meters of stack height[53] (chimney).

It was noticed in audit that Indian Oil Corporation Limited (IOC) had communicated (September 2000) to the Chief Engineer, Power and Electricity Department that the emission level of Sulphur Dioxide was 0.35 *per cent* in the case of furnace oil produced in Digboi Refinery. IOC further stated that they were in a position to supply the full requirement of furnace oil under mutually acceptable terms and conditions. Accordingly, the stack height corresponding to the emission level of Sulphur Dioxide was to be 40 meters. The Ministry of Environment and Forests, Government of India, however, while giving environmental clearance (April 2001) fixed the stack height to be 50 meters.

Thus, the requirement of reduced stack height was known to the Department in September 2000 and April 2001, but no timely action was taken by the Department. Only after lapse of over two years, in July 2003, the Chief Engineer requested BHEL to reduce the stack height to 50 meters instead of 80 meters. BHEL in reply stated (July 2003) that at such a belated stage the change in stack height would extend the scheduled date of completion by two months and the Department would have to bear the cost of materials already purchased and under transportation for construction of the stack of 80 meters. The Department (July 2003) without any negotiation with BHEL gave their consent for 80 meters. Finally the project was commissioned and generation of power started from April 2004 after construction of an 80 meters stack at a cost of Rs. 1.08 crore.

Thus, inaction, on the part of the Power and Electricity Department for over two years, resulted in avoidable expenditure of Rs.40.35 lakh(Rs.107.60 lakh/80 x 30).

The matter was reported to the Management (April 2005) and Government (April 2005); replies are awaited (September 2005).

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[53] *The Stack height is calculated on the basis of emission level of Sulphur Dioxide.*

INDUSTRIES DEPARTMENT

ZORAM INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

6.4 Non-recovery of Loan

Failure to ensure insurance cover for ginger crops before the sanction of loan as required, resulted in non-recovery of loan of Rs.2.82 crore.

The National Minorities Development and Finance Corporation (NMDFC) had introduced (1998) a 'Micro Finance Scheme' with the objective of providing short and medium term loan to weaker sections of the minority community whose family income was below Rs.22,000 per annum. NMDFC sanctioned and disbursed loan of Rs. three crore (Rs. two crore on 23 January 2001 and Rs.one crore on 28 February 2001) bearing four per cent interest per annum to Zoram Industrial Development Corporation Limited (ZIDCO) for implementation of the scheme 'Ginger cultivation' by small and marginal ginger growers. Repayment of the loan was to be made to NMDFC in one instalment, 12 months after the expiry of the utilisation period of three months and the moratorium period of six months. In the event of default in repayment, penal interest @ eight per cent per annum was to be charged. The sanction letter of NMDFC also stated that before disbursing the loan to the beneficiaries, ZIDCO should ensure that proper crop insurance cover existed as the ginger crop was susceptible to blight disease. The repayment of loan along with interest was guaranteed by Government of Mizoram.

ZIDCO without ensuring that crop insurance cover existed, disbursed Rs.2.84 crore to the loanees in kind (in the form of seeds) through Ginger Grower Associations (GGAs) between 12 April 2001 and 15 July 2001. The loanees were to repay the loan within 12 months from the date of disbursement along with interest @ six *per cent* per annum to ZIDCO.

It was noticed that due to damage of the crops by pest and blight disease ZIDCO could recover Rs.1.86 lakh only (upto August 2004) (Principal Rs.1.75 lakh; Interest Rs.0.11 lakh) from the loanees.

Thus, failure to ensure that insurance cover for ginger crops existed before sanction of the loan to the ginger farmers led to non-recovery of loans amounting to Rs.2.82 crore.

The Management in reply (October 2005) stated that collateral securities for each loan in the form of land was available and the Company will take possession of these land if Government of Mizoram fails to pay the guaranteed money. The Government while accepting Management reply stated (January 2006) that they are fully committed to the terms of the guarantee given by them and will ensure that the ginger loans are fully repaid. The fact remains that in spite of a clear provision in this regard in the sanction letter of NMDFC, the Company did not ensure that crop insurance cover existed before disbursement of the loans.