CHAPTER VIII : GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

8. General

This chapter deals with the results of audit of Government companies and Departmentally managed commercial undertakings.

Paragraph 8.1 gives a general view of Government companies and Departmentally managed Commercial undertakings and Paragraph 8.2 contains a review on the working of Zoram Electronics Development Corporation Limited and Paragraph 8.3 deals with miscellaneous topics of interest.

8.1 General view of Government Companies and Departmentally managed Commercial undertakings

8.1.1 Introduction

As on 31 March 2000 there were five Government companies and two Departmentally managed Commercial undertakings *viz.,* State Trading Scheme under Food and Civil Supplies Department and Mizoram State Transport under Transport Department as against identical number of Government companies and Departmentally managed Commercial undertakings as on 31 March 1999. The accounts of the Government Companies (as defined in Section 617 of Companies Act, 1956) are audited by Statutory Auditors who are appointed by the Government of India on the advice of the Comptroller and Auditor General of India (CAG) as per provisions of Section 619(2) of Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of Companies Act, 1956. The accounts of Departmentally managed Commercial undertakings are audited solely by the CAG under Section 13 of CAG’s (Duties, Powers and Conditions of Service) Act, 1971.

8.1.2 Government Companies

Total investment in five Government Companies as on 31 March 2000 was Rs.36.36 crore (equity : Rs.33.28 crore; long term loans : Rs.2.24 crore; share application money : Rs.0.84 crore) as against total investment of Rs.33.07 crore (equity : Rs.28.04 crore; long term loan : Rs.0.99 crore; share application money : Rs.4.04 crore) as on 31 March 1999.

All the Government Companies are working companies.

The summarised financial results of Government companies are detailed in **Appendix - XXVI.** The debt equity ratio of Government companies as a whole has increased from 0.03:1 in 1998-99 to 0.07:1 in 1999-2000 **(Appendix - XXVII)**.

As on 31 March 2000, of total investment in Government companies 93.84 *per cent* comprised equity capital and 6.16 *per cent* comprised loans compared to 97 *per cent* and 3 *per cent* respectively as on 31 March 1999.

8.1.3 Budgetary outgo, subsidies and Guarantees

The details of budgetary outgo to Government companies are given in **Appendices – XXVII and XXVIII.**

The budgetary outgo from State Government to Government companies for the three years upto 1999-2000 in the form of equity capital and grant/subsidy is given below :

(Rupees in crore)

	1997-98 Companies		**1998-99 Companies**		**1999-2000 Companies**	
	No.	**Amount**	**No.**	**Amount**	**No.**	**Amount**
Equity Capital	4	0.74	3	1.07	4	1.99
Grants/subsidy	2	0.73	2	0.49	1	0.04
Total :	**6**[#]	**1.47**	**5**[#]	**1.56**	**4**[#]	**2.03**

As on 31 March 2000, as against the guarantees amounting Rs.250.00 lakh given by the State Government for raising loan by one company viz., Zoram Industrial Development Corporation Limited, the repayment of Rs.203.58 lakh became overdue thereagainst was awaited.

8.1.4 Finalisation of accounts by PSUs

The accounts of the companies for every financial year are to be submitted for audit within six months from the end of relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of 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 financial year.

However, as could be noticed from **Appendix - XXVI** none of the five companies had finalised their accounts for 1999-2000. During the period from

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

October 1999 to September 2000, the accounts of five Government companies were in arrears for periods ranging from one year to eight years as on 30 September 2000 as detailed below :-

Sl. No.	Year for which accounts are in arrear	Number of years for which accounts are in arrear	No. of companies	Reference to Sl. No. of Appendix-XXVII
1.	1999-2000	01	1	1
2.	1997-98 to 1999-2000	03	2	2 & 4
3.	1996-97 to 1999-2000	04	1	3
4.	1992-93 to 1999-2000	08	1	5

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within prescribed period. Though the concerned administrative departments and officials of the Government were appraised quarterly by the Audit regarding arrears in finalisation of accounts, no effective measures had been taken by the Government and as a result, the investments made in these PSUs could not be assessed in audit.

8.1.5 Working results of Public Sector Undertakings

One company viz., Mizoram Agricultural Marketing Development Corporation Limited has not finalised its accounts since inception. According to latest finalised accounts (upto September, 2000) the remaining four Government companies had incurred an aggregate loss of Rs.3.18 crore.

The summarised financial results of Government companies as per latest finalised accounts are given in **Appendix - XXVI**.

8.1.6 Return on Capital Employed

During 1999-2000, according to the latest finalised accounts, the capital employed[#] worked out to Rs.51.48 crore in four Government companies and total return[+] thereon amounted to Rs. (-)1.67 crore. The details of capital employed and total return on capital employed in case of Government companies are given in **Appendix – XXVI**.

[#] *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).*

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

8.1.7 Position of discussion of Commercial Chapter of Audit Reports by the Committee on Public Undertakings

The reviews/paragraphs of Commercial Chapter of Audit Reports pending discussion as on 31 March 2000 by the Committee on Public Undertakings (COPU) are shown below :-

Period of Audit Reports	Total number of Reviews/ Paragraphs appeared in Audit Report		Number of reviews/paragraphs pending discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1983-84	2	1	2	1
1984-85	1	1	-	-
1985-86	-	2	-	2
1986-87	-	4	-	-
1987-88	-	2	-	-
1988-89	1	5	1	-
1989-90	-	6	-	5
1990-91	1	3	1	-
1991-92	1	3	1	-
1992-93	-	5	-	4
1993-94	-	4	-	3
1994-95	-	4	-	3
1995-96	1	4	1	4
1996-97	-	4	-	4
1997-98	1	3	1	3
1998-99	-	3	-	3

No recommendation of COPU has so far been received.

8.1.8 Departmentally managed Government Commercial and quasi-Commercial Undertaking

As on 31 March 2000, there were two Departmentally managed Commercial undertakings *viz.*, State Trading Scheme under Food and Civil Supplies Department and Mizoram State Transport under Transport Department.

Preparation of Proforma Accounts of State Trading Scheme for 1997-98 to 1999-2000 and of Mizoram State Transport for 1999-2000 were in arrears (September 2000).

8.1.8.1(a) The accumulated loss of State Trading Scheme as on 31 March 1997 amounted to Rs.35.52 crore. The working results of the scheme for the three years ended 31 March 1997 are tabulated below :-

		1994-95	1995-96	1996-97
A.	**INCOME**		**(Rupees in lakh)**	
(a)	Sale of foodstuffs	5207.41	5186.83	6045.52
(b)	Transport subsidy	685.82	851.79	963.74
(c)	Other income	2.16	2.21	8.30
(d)	Change in stock (Closing Stock less Opening Stock)	146.64	1051.19	93.67
Total – 'A'		**6042.03**	**7092.02**	**7111.23**
B.	**EXPENDITURE**			
(e)	Purchase of foodstuffs	5354.04	6238.02	6139.20
(f)	Transportation charges	689.00	799.00	914.30
(g)	Employees cost	71.01	77.29	79.79
Total – 'B'		**6114.05**	**7114.31**	**7133.29**
1.	Trading loss in operation being excess of expenditure over income (B - A)	72.02	22.29	22.06
2.	**Add** Interest on capital	285.14	313.54	361.42
3.	Net loss (1+2)	357.16	335.83	383.48

8.1.8.1(b) The procurement of food-stuff and carrying charges upto Public Distribution Centres are made out of budgetary allocations. The expenditure were to be set off by corresponding sale proceeds of foodstuff and reimbursement of transport subsidy from Food Corporation of India (FCI) under the 'State Trading Scheme' to operate on 'no profit no loss basis'. However, the department incurred trading losses in operation of the scheme varying from Rs.22.06 lakh to Rs.72.02 lakh mainly due to shortfall in absorption of employees cost varying from Rs.71.00 lakh to Rs.79.80 lakh in value of output as tabulated below :

(Rupees in lakh)

		1994-95	1995-96	1996-97
Sales		**5207.41**	**5186.83**	**6045.52**
Add:	Increase in Closing Stock	146.64	1051.19	93.67
1.	Value of output	5354.05	6238.02	6139.19
	Less :- Purchases	5354.04	6238.02	6139.20
2.	Surplus(+)/Deficit(-) from trading activity	(+) 0.01	-	(-)0.01
3.	Employees cost	71.01	77.29	79.79
4.	Shortfall of unabsorbed employees cost (3-2)	71.00	77.29	79.80

The following table incorporates bookings (drawal and remittances) under relevant revenue and expenditure heads in Government accounts during the period from 1994-95 to 1998-99.

(Rupees in crore)

	Particulars	**1994-95**	**1995-96**	**1996-97**	**1997-98**	**1998-99**
						(Provisional)
1.	Revenue	61.13	65.17	70.92	81.54	94.35
2.	Expenditure	61.14	70.25	70.93	80.41	113.10
3.	Excess (+)/Deficit (-) of revenue over expenditure [Profit (+)/ Loss (-)]	(-) 0.01	(-) 5.08	(-) 0.01	(+) 1.13	(-) 18.75

8.1.8.2 The working results and operational performance of Mizoram State Transport for the three years ended 31 March 1999 are given in **Appendix – XXIX**.

It may be seen from the Appendix that during the three years upto 1998-99, the State Transport Services had incurred operating losses amounting to Rs.3.06 crore, Rs.3.59 crore and Rs.3.44 crore and net losses amounting Rs.5.93 crore, Rs.6.70 crore and Rs.6.73 crore respectively. The reasons for incurring heavy losses were attributable to poor utilisation of vehicles and high incidence of salary and allowances and other operating expenses.

8.1.9 Electricity (Power) Department

The Department has not prepared proforma accounts pending constitution of State Electricity Board. The matter was referred to the Chief Secretary in May 2000.

The operational performance of the Department for the last three years upto 1999-2000 are given in **Appendix – XXX**.

(i) The percentage of transmission and distribution losses varied from 44 to 47 as against 15.5 *per cent* (norm) fixed by the Central Electricity Authority.

(ii) The total expenditure on power sold varied from Rs. 39.74 crore to Rs.51.74 crore as against the revenue of Rs. 6.41 crore to Rs. 9.68 crore. The losses incurred during three years varied from Rs.33.33 crore to Rs.42.06 crore with increasing trend.

SECTION – A – REVIEW
INDUSTRIES DEPARTMENT

8.2 Working of Zoram Electronics Development Corporation Limited

Highlights

The Company was established in March 1991 with the main object of promoting and trading in electronic goods and services had witnessed frequent change of its top management. During April 1995 to March 2000 there were changes of 7 Managing Directors and their duration ranged from less than one month to 2 years 8 months.

(Paragraphs 8.2.1 and 8.2.2)

The Company incurred losses every year varying from Rs.0.23 crore to Rs.0.45 crore and the accumulated loss stood at Rs.2.13 crore representing 63.16 *per cent* of paid-up capital of Rs.3.37 crore.

The contributed value of activities during the period under review fell short of Administrative expenses ranging from Rs.0.23 crore to Rs.0.39 crore.

(Paragraph 8.2.5.2)

The Cable TV net work system was sold at a loss of Rs.0.18 crore due to failure of the scheme.

(Paragraph 8.2.7.1)

92 inverters costing Rs.0.04 crore remained unsold since September 1996 and infructuous expenditure of Rs.0.11 crore on idle staff on test and repair activity.

(Paragraphs 8.2.7.2 and 8.2.7.3)

8.2.1 Introduction

The Zoram Electronics Development Corporation Limited (ZENICS) was incorporated on 20.03.1991 with the main objects to (a) develop, promote, establish, run, manage, supervise, finance, assist, aid and collaborate on all branches of electronics and allied industries, (b) carry on business of manufacturing, assembling, repairs of electronic goods, and (c) deal in electronic components of radio, television, micro wave system, (d) furtherance of knowledge in the field of electronics and electrical engineering *etc*.

So far the company had taken up five activities of trading in components and providing services for electronic system.

8.2.2 Organisational set-up

The Management of the Company vests in a Board of Directors and as on 31 March 2000, the Board consisted of seven Directors including the Managing Director. The Managing Director is the Chief Executive and looks after the day to day functioning of the Company.

The Company had experienced frequent change of Managing Directors. During the period from April 1995 to March 2000 there were changes of seven Managing Directors and their duration varied from less than 1 month to 2 years 8 months.

8.2.3 Scope of Audit

The working of the Company for the five years from April 1995 to March 2000 was reviewed in Audit during February – March 2000 and the findings are set out in succeeding paragraphs.

8.2.4 Capital

The Company was registered with an authorised Share Capital of Rs.5 crore. As on 31 March 2000, the paid-up capital was Rs.3.37 crore wholly subscribed by the Government of Mizoram.

8.2.5 Financial position and working results

8.2.5.1 Finalisation of accounts of the Company from 1995-96 were in arrears. Based on provisional figures, the financial position and working results of the company for the five years from 1995-96 to 1999-2000 (upto January, 2000) are tabulated in **Appendices - XXXI and XXXII** respectively.

The Company incurred losses every year and the accumulated loss as on 31 March 2000 stood at Rs.2.13 crore representing 63.16 *per cent* of paid-up capital of Rs.3.37 crore.

8.2.5.2 The Company incurred losses in all the five years and the accumulated loss as on 31 March 2000 stood at Rs.2.13 crore representing 63.16 *per cent* of paid-up capital of Rs.3.37 crore.

The Management attributed the losses to (a) frequent change of Managing Director, (b) thin population for actual business, and (c) lack of reliable and profitable ventures.

A review in audit disclosed that, in addition to above factors, the continuous losses were attributable to absence of any major viable project, the activities were taken up without assessing viability resulting in ultimate abandonment after incurring losses and inability of the company to withstand competition with Private parties. These would be revealed from activity appraisals discussed in succeeding paragraphs (para 8.2.7).

It was further observed that the contributed value of operation fell far short of even Administrative charges during the five years as shown below :

The contributed value of activities fell far short of administrative expenses varying from Rs.0.23 crore to Rs.0.39 crore.

(Rupees in lakh)

	1995-96	1996-97	1997-98	1998-99	1999-2000
Income from activities (including accretion/decretion of stock)	8.23	6.76	5.80	5.45	4.60
Less : Expenditure on operation	3.18	3.05	2.48	-	-
1. Contributed value	5.05	3.71	3.32	5.45	4.60
2. Administrative Charges	28.09	30.87	29.47	32.02	43.95
3. Shortfall of contributed value to meet Administrative expenses (2-1)	23.04	27.16	26.15	26.57	39.35

Inspite of identification of reasons for incurring continuous heavy losses, the management have not taken any corrective measures to improve revenues to match with expenditure.

8.2.6 Budget and Budgetary Control

The company has not introduced the system of preparation of annual budget projecting the receipt of funds from different sources and expenditure under different heads. The management stated (March 2000) that budgets are not prepared as the company runs on `need basis' mainly due to paucity of funds and due to the fact that receipt of share capital contribution from Government is not regular.

This contention of management that there was paucity of funds is not tenable in view of the fact that the company was having cash and bank balances in the range of Rs. 47 to Rs. 50 lakh during the period 1995-96 to 1999-2000. Further, company has undertaken various activities, and receipt and expenditure thereof and also of funds received/receivable from various sources are required to be watched through budget for control purposes and also for best utilisation of available funds.

8.2.7 Performance of activities

Out of the five trading and service activities (Cable TV network, assembly and marketing of inverter, test and repair of electronic items, computer learning academy and consumers electronic training) taken up so far by the Company, the activities *viz.*, Cable TV network has been abandoned after incurring loss of Rs.23.16 lakh, in a period of 3 years; assembly and marketing of inverter stopped functioning due to lack of market demand, and test and repair centre (T&RC) failed since its inception. The remaining two activities presently in operation with meagre turnover are unstable in nature.

These are discussed in succeeding paragraphs.

8.2.7.1 Cable TV network

In 1991-92, the company undertook cable TV network system at a capital cost of Rs.35.18 lakh being cost of dish antenna, TV, VCP and accessories fitted in seven localities of Aizawl with capacity to cover 600 customers. The company, however, did not prepare any detailed project report nor conducted any market survey to assess the viability of the scheme before venturing stiff competition with the private operators in the network. It was projected that in the first year itself the revenue would be Rs.16.50 lakh (on the basis of 500 customers) towards installation charges (Rs.7.50 lakh @ Rs.1500 each) and subscription (Rs.9.00 lakh @ Rs.150 per month). The network was expected to fetch annual subscription of Rs.10.80 lakh from 2nd year from 600 customers @ Rs.150 *per* month.

The Cable TV network system was sold at a loss of Rs.0.18 crore due to failure of the scheme.

The monthly subscription was, however, reduced to Rs. 100 (from Rs. 150 as was projected) at par with Private operators. In three years of operation upto July 1994 the company earned revenue (installation charges and subscription) amounting Rs.13.98 lakh only as against Rs.38.10 lakh envisaged. As in July 1994, there were 585 customers thereby stable annual income of Rs. 7.02 lakh was ensured. The scheme, however, failed thereafter due to technical faults in the system, shortage of technical staff, power fluctuation, and non-payment of subscription by the customers. Accordingly, in March 1995 the network system was sold for Rs.5.56 lakh at a loss of Rs.17.60 lakh (cost : Rs.35.18 lakh less depreciation Rs.12.02 lakh less sale value Rs.5.56 lakh) to 7 private operators of which two parties competed with the company.

Thus due to lack of feasibility study before undertaking the scheme and for lack of programme planning, inefficient management and failure to compete with private operators during implementation, the scheme had failed after incurring a loss of Rs.17.60 lakh.

8.2.7.2 Assembly and marketing of inverters

Under the scheme, between December 1995 and September 1996, the company purchased 150 inverters in semi knocked down condition from a firm of Aizawl at Rs.6.00 lakh (@ Rs.4000 each) and fixed selling price adding 20 *per cent* profit margin at Rs.4800 each. Before embarking on the venture the company did not ascertain the market demand of the item nor assessed its viability.

92 inverters purchased at Rs.0.04 crore without assessing market demand could not be sold.

Due to lack of demand, the company could sell only 44 inverters (29.33 *per cent*) and 14 inverters on instalment basis to Government officials upto May 2000. 92 inverters valued at Rs. 3.68 lakh at cost were lying in stock for over 3½ years from September 1996 (106 inverters) resulting in locking up of fund with consequent loss of interest of Rs.1.48 lakh worked out at 10 *per cent per annum*.

The management stated (May 2000) that Chinese-made inverters of higher voltage are available in the market at rates varying from Rs. 1500 to Rs. 2500 each depending on capacity (as against Company's rate of Rs. 4800 each) which captured the market, competed with the sales of the company and with the considerable improvement in the power supply the Company's sales could not be speeded-up. However, the fact remains that the Company launched the venture without ascertaining the prevailing market condition especially when they were fully aware that the Chinese-made inverters were available in the market at cheaper prices.

8.2.7.3 Test and Repair Centre (T&RC)

The company decided (September 1991) to test electronic items manufactured by local units for quality control and engaged M/s Electronics Trade and Technology Development Corporation limited (ET&T), New Delhi to implement the scheme on turnkey basis. The Company purchased machinery and equipment worth Rs.7.56 lakh during 1991-92 (Rs.5.39 lakh) and 1993-94 (Rs.2.17 lakh) and deployed its 7 technicians in the centre.

The T&RC established without market survey had failed *ab initio.*

No market survey was conducted before establishing T&RC to assess its viability. It was observed that not a single local entrepreneur turned up to get his product tested for quality and ultimately the T&RC scheme was closed in 1998-99. The management attributed (March 2000) the reasons for failure of the scheme to locational disadvantage. Management's reply is not tenable in view of the fact that even after shifting to its own office building in March 1997 which was located advantageously, no local unit turned up for testing their products.

The Management admitted (May 2000) that the repair works never fetched money as they are normally done by individuals in the market, and that the tendency of the people is not to repair but to purchase new and better ones in electronics.

Infructuous expenditure of Rs.0.11 crore incurred on idle staff.

Thus, the scheme taken up without survey of demand, had failed *ab initio* and the salary of Rs.10.61 lakh paid to idle technicians proved infructuous. No responsibility for failure of the Scheme has been initiated.

8.2.7.4 ZENICS Computer Learning Academy (ZCLA)

The company entered into an agreement (March 1993) with M/s City Education Centre (CEC), a Delhi based private party to open the academy on turnkey basis and purchased (September-October 1993) machinery and equipment worth of Rs. 14.30 lakh supplied by CEC. During 1993-94 to 1999-2000, the company further purchased machinery and equipment worth Rs.8.24 lakh.

The ZCLA started with 8 courses from June 1994 with tenure varying from 3 months to 18 months and a total 443 trainees had enrolled from June 1994 to January 2000. However, 4 courses (tenure 6 to 18 months) with 101 enrolled trainees were discontinued being unsuitable with the changed computer standard and not popular with the local students.

The revenue and expenditure of ZCLA for 1994-95 to 1999-2000 are given below:-

(Rupees in lakh)

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
A. Revenue						
i) Tution fee	4.86	4.32	2.33	5.87	5.36	4.37
ii) Miscellaneous	0.22	0.14	0.13	0.23	0.12	0.10
Total :	**5.08**	**4.46**	**2.46**	**6.10**	**5.48**	**4.47**
B. Expenditure						
i) Fees to CEC/Professional faculty members	3.07	2.17	1.80	1.37	1.52	1.15
ii) Other expenses	0.32	0.72	0.52	0.97	0.38	0.75
iii) Depreciation	1.82	1.57	1.50	1.62	1.36	2.43
Total :	**5.21**	**4.46**	**3.82**	**3.96**	**3.26**	**4.33**
Profit (+)/Loss (-) excluding administrative overhead (A-B)	(-) 0.13	-	(-) 1.36	(+) 2.14	(+) 2.22	(+) 0.14

Profit had gone down from Rs.2.14 lakh and Rs.2.22 lakh during 1997-98 and 1998-99 respectively to Rs.0.14 lakh in 1999-2000.

It may be seen from the above that the company did not have a stable income from ZCLA and incurred losses in the initial three years upto 1996-97. The company earned profit during 1997-98 and 1998-99 amounting Rs.2.14 lakh and Rs.2.22 lakh. The profit during 1999-2000 had gone down to Rs. 0.14 lakh. The management admitted (February 2000) that computer study in the country is not stable as new packages or languages are emerging. The company has, however, not assessed the viability of continuing with ZCLA in view of unstable nature of packages.

8.2.7.5 Consumers Electronic Training Centre

In May 1999 the company decided to take up the scheme for training the educated unemployed youths of rural areas in consumer electronics goods and services, which intended to run for a social cause and not on profit motive, since all the expected trainees were Scheduled Tribes belonging to Jhum cultivator families. The scheme envisaged 50 *per cent* financial assistance from Government, started functioning from September 1999 with 9 trainees at an admission fee of Rs.100 and nominal tuition fee of Rs.250 per month without ensuring receipt of grant from Government. The company had purchased equipment, books and periodicals valuing Rs.0.33 lakh for the programme and had earned revenue of Rs.0.31 lakh upto July 2000. The matching financial assistance was not, however, sanctioned by Government.

The management stated (March 2000) that the number of batches and students would be increased. It was, however, observed that the number of students have nominally increased from 9 at inception to 21 as on 31.7.2000.

Conclusion

The company had not drawn up any short/long term corporate plans to attain its objectives. Minor activities so far undertaken lacked market survey, feasibility study or viability and also witnessed absence of programme planning and inefficient management during programme implementation. As a result, out of five activities taken up, three activities have either been closed down or have become inoperative after incurring losses and the remaining two schemes presently under operation are unstable in nature. Thus the basic purpose for which the company was formed has been lost, and further continuance of the company needs a fresh appraisal.

SECTION – B – PARAGRAPHS

Miscellaneous Topics of interest

TRADE AND COMMERCE DEPARTMENT

8.3 Mizoram Agricultural Marketing Corporation Limited

8.3.1 Misappropriation of Cash

Self Cheque for Rs. 0.05 crore drawn by the Managing Director was misappropriated.

According to provisions of Financial rules all moneys drawn either from bank or treasury should immediately be entered in the cash book for proper accountal.

Scrutiny (January 1999) of counterfoils of cheque book along with the cash book relating to Mizoram Agricultural Marketing Corporation Limited (MAMCO) revealed that a cheque for Rs. 5.00 lakh was drawn and encashed by the Managing Director on 14.5.1996, but the amount was neither accounted for in the receipt side nor in the payment side of the cash book for reasons not found on records nor could be explained by the management. This resulted in a misappropriation of Rs. 5.00 lakh.

The Management has neither initiated any investigation nor fixed the responsibility in order to recover the money from the defaulting official.

On this being pointed out (March 1999) by audit the management while admitting (July 1999) the fact, stated that the money was drawn by the Ex-managing Director of MAMCO and the matter was being pursued with him. But the reply is silent about the recovery of the money.

The matter was reported to the Government (March 1999); their reply had not been received (November 2000).

8.3.2 Injudicious purchase of unsuitable office building cum godown

A private building purchased after verification of suitability for office cum godown purpose at Aizawl for Rs.0.32 crore was found unsuitable after taking possession and vacated.

In October 1993, the Board of Directors authorised the Chairman and the Managing Director of MAMCO to select a building suitable for Company's office cum godown at Aizawl. On the basis of offers received (February 1994) against advertisement, the Board authorised (February 1994) the Chairman and the Managing Director to verify the suitability of site, space, *etc.*, of a building owned by an individual at Bawnkawn, Aizawl. On being satisfied with the verification report submitted by them about suitability, the company purchased (May 1994) the building at a price of Rs.32.27 lakh.

It was observed in audit (January 1999) that the Company vacated the building after two years in June 1996 due to insufficient space, locational disadvantages being far away from the centre of activities, and unsuitable for godown purpose due to loading and unloading problem because of its location at no parking zone. In October, 1997 the Company decided to dispose off the building. This was, however, awaited (March 2000). The Company let out the building from January 1998 at a monthly rent of Rs.8950 (Rs.1.07 lakh per annum). The Company shifted its office from June 1996 to a hired building at Kawtla at a monthly rent of Rs.9500 and then from June 1997 to another hired building at Zarkawt at a monthly rent of Rs.15000. The Company also hired from June 1996 two godowns of Central Warehousing Corporation at Aizawl at a monthly rent of Rs.35,722. During the period from June 1996 to March 2000, the Company incurred rental and hire charges of office building and godown amounting Rs.22.59 lakh as against Rs.2.42 lakh received towards rent of own building leading to loss of Rs.20.17 lakh (Rs.22.59 lakh - Rs.2.42 lakh) in addition to interest loss of Rs.12.38 lakh on blocked fund. Thus, due to improper verification of site, space, *etc.*, the company purchased an unsuitable office cum godown building which had to be vacated subsequently. Management (July 1999) had admitted the fact.

The matter was reported to Government (March 1999); their reply had not been received (November 2000).

8.3.3 Unauthorised and unfruitful expenditure

> **(a) A plant could not operate trial run and resulted in blockage of unauthorised payment of Rs.0.43 crore, loss of interest amounting Rs.0.14 crore, and nugatory expenditure of Rs.0.03 crore.**
>
> **(b) Rupees 0.03 crore has been paid to a consultant who did not render any contractual service.**

(a) In February 1993, the Board of Directors of MAMCO in principle approved the project report prepared by M/s Prime Hortiago Project (PHP), New Delhi for installation of one automatic ginger washing-waxing-defungiciding-dehydration plant at an estimated cost of Rs.47.80 lakh to avoid deterioration of quality, life span, and value of ginger. The Board, however, did not take decision for immediate installation of the plant due to financial constraint and decided to seek financial assistance from North Eastern Council (NEC). The NEC however declined to extend any financial assistance for the plant.

It was observed in audit (January 1999) that the Managing Director, without approval of the Board and without executing any agreement or issue of work order stipulating the terms of contract, made advance payment of Rs.43.00 lakh between November 1996 to June 1997 to M/s PHP. The plant was installed in June 1997 but could not perform trial run and since then remained idle at Sairang. In absence of any agreement the company could not claim compensation from the party for defective installed plant. In October 1998, the company decided to dispose of the plant which was awaited (August 2000).

Thus, due to unauthorised payment of advance of Rs.43.00 lakh for installation of the plant, the company incurred loss of interest of Rs.14.31 lakh on blocked fund worked out at fixed deposit rate of 10 *per cent* per annum from the dates of payments to March 2000. Besides this, the company had incurred an unfruitful expenditure of Rs.3.16 lakh towards salaries and wages of seven idle officials from April 1997 to April 1998 brought on deputation for operation of the plant. The management while admitting the fact stated (July 1999) that the matter would be placed before the Board of Directors. Further development was awaited (August 2000).

(b) As per terms of agreement entered (September 1996) with Prime Hortiago Agro Services, New Delhi for rendering post-harvest consultancy services, the fee of Rs.6.00 lakh plus TA and DA was to be paid in instalments of Rs. 1.00 lakh on signing the agreement, Rs. 3.00 lakh on movement of first 600 MT of marketing items, and Rs. 2.00 lakh on completion of marketing operation by April 1997. In the event of non-completion of the contract, the consultant was liable to refund the fee paid along with 15 *per cent* interest per annum. No security deposit was, however, obtained from the consultant to enforce completion of contractual obligations against payments made.

It was observed in audit (January 1999) that the company had paid a total amount of Rs. 3.11 lakh between June 1996 and December 1996 being fee on signing the agreement (Rs. 1.00 lakh) and TA and DA (Rs. 2.11 lakh) but no service was rendered by the consultant. The Board of Directors observed on 15.10.1997 that the purpose for which the consultant was appointed has been belied. It was also observed in audit that the company did not claim refund of Rs. 3.11 lakh along with 15 *per cent* interest per annum as per terms of agreement reasons for which were not on record nor could be explained.

On this being pointed out in audit, the management stated (June 1999) that action was being taken to claim refund of Rs.3.11 lakh along with 15 *per cent* interest. The recovery was, however, awaited (March 2000). The fact, however, remains that inaction to enforce contractual obligations by the consultant led to unfruitful expenditure of Rs.3.11 lakh and in absence of any security deposit obtained from the party, the possibility of recovery of the amount is remote.

The above matter was reported to the Government (March 1999); their replies had not been received (November 2000).

8.3.4 Loss on implementation of a scheme

Implementation of a scheme without creating infrastructure and market survey of sale of a product had led to loss of Rs.4.01 crore.

The company proposed (January 1997) to the State Government to procure 2000 MT of ginger commencing from January 1997 at the rate of Rs.2.50 per kg ex-Aizawl for marketing under the State Government's Market Intervention Scheme. However, no market survey was conducted or infrastructure created for procurement, storage and marketing of ginger.

In April 1997, the Government accepted the proposal at procurement price of Rs.3.50 per kg. and released interest free loan of Rs.3.40 crore. It was observed in audit (January 1999) that during April-May 1997, the company procured 12335.48 MT of ginger from local growers at a total cost of Rs.4.40 crore (out of Govt loan : Rs.3.40 crore and Company's share : Rs.1.00 crore) and realised only Rs.0.39 crore as sale proceed (quantitative details of sales, rate, *etc.*, could not be made available as all the records were seized by Anti-Corruption Department in July 1998). The company could not enforce quality and ungraded, old, unwashed, rotten/semi-rotten, dirty ginger was deposited by various persons on the road side spaces, drains, muddy areas and such spaces under the open sky. During rainy seasons there was very fast deterioration of ginger and the company could sell the salvaged quantity at rates varying from Rs.100.00 to Rs.171.00 per quintal. In February 1998, the company apprised the Government that there was no market for the green ginger stocked at Aizawl and that negligible quantity was disposed off in the form of distress sale.

The fact thus remains that due to taking over of the scheme without creating requisite infrastructure, inability to enforce quality and market survey, the company had incurred loss of Rs.4.01 crore in procurement (cost Rs.4.40 crore less sales realisation Rs.0.39 crore) of ginger in implementation of Market Intervention Scheme of Government to benefit the local growers. The report of investigation by Anticorruption Department on the case was awaited (August 2000).

The matter was reported to the Government (March 1999). Government stated (November 2000) that they had appointed one man commission and had accepted (August 2000) the report of the Commission and that action would be initiated against the staff and officers found involved in the matter as brought out in the report. Further development was awaited (November 2000).

TRANSPORT DEPARTMENT

8.4 Extra expenditure

Rejection of technically accepted lowest tender on non-technical ground led to extra expenditure of Rs.2.20 lakh besides unsatisfactory fabrication of bus bodies.

The Directorate of Transport invited (August 1993) quotations for fabrication of 4 mini bus and 4 Deluxe bus bodies against which six firms quoted rates of which the Departmental Purchase Advisory Board (DPAB) rejected offers of three firms on technical ground. Of the acceptable three quotations, the first lowest offered rate of a Jamshedpur firm was Rs.2,00,000 and Rs.1,30,000 for each deluxe and mini bus respectively and the second lowest offered rate of a Calcutta firm was Rs.2,14,250 and Rs.1,43,785 respectively. The DPAB accepted the offer of the Calcutta firm (2nd lowest) on the ground that the fabrication works could be supervised by Liaison Officer and the Departmental Officers stationed at Calcutta and for the reason that the firm had earlier fabricated the bus bodies of Mizoram State Transport. Accordingly, the work order was issued to the Calcutta firm in November 1993 at work value for fabrication of Rs.15.40 lakh (Rs.2,41,250 x 4 + Rs.1,43,785 x 4), compared to the lowest offered work value of Rs.13.20 lakh (Rs.2.00 lakh x 4 + Rs.1.30 lakh x 4), leading to extra cost of Rs.2.20 lakh (Rs.15.40 lakh - Rs.13.20 lakh). The complete buses were delivered between March 1994 and September 1994 and final payment was made to the firm in October 1994.

It was noticed in audit (January 1994) that the Works Manager of the Department in his final inspection report (August 1994) observed that the performance of the fabricator was not satisfactory (as per specification) and suggested to award the future body building works to any other reputed firm.

Thus, due to rejection of the lowest offered rate on non-technical ground, the Department had incurred an extra expenditure of Rs.2.20 lakh besides unsatisfactory fabrication of bus bodies.

The matter was reported to the Management/Government (March 1999); their replies had not been received (November 2000).

FOOD AND CIVIL SUPPLIES DEPARTMENT

8.5 Purchase at higher rate resulted in extra financial burden

388 silpaulins were purchased at higher rate involving extra financial burden of Rs.0.09 crore.

The Department requires bulk quantity of silpaulin[#] for its godowns. No purchase policy for procurement of silpaulin at competitive rate has, however, been formulated.

It was observed in audit (June 1999) that in October 1997 a manufacturing firm of Calcutta offered the Department the supply of silpaulin (250 GSM 24” x 18”) @ Rs. 1513.87 each inclusive of taxes and delivery at Aizawl for placement of orders direct to the manufacturer or to their dealer at Aizawl. No purchase order was, however, placed with the firm or to their dealer reasons for which are not on record. In December 1997 the Department invited tenders for purchase of silpaulin of same specification and size and received offers from three local firms and accepted the lowest offered rate of Rs.3810.00 each inclusive of taxes and delivery at Aizawl without considering the offered rate of the manufacturer firm. During the period from January 1998 to May 1998 the Department purchased 388 silpaulins against 12 purchase orders from two firms at differential higher price of Rs.2296.13 each (Rs.3810.00-Rs.1513.87) involving an extra financial burden of Rs.8.91 lakh.

The management in reply (June 2000) stated that only three local parties quoted rates against tenders and purchase was made from ELEM Enterprise, Aizawl (also authorised agent of the manufacturer), at their offered rate of Rs. 3810 each. The reply of the management is incorrect to the extent that out

[#] *Water proof tarpaulin type sheets*

of 388 silpaulins, 188 silpaulins were purchased from another firm of Guwahati (M/s S.K. Sharma & CO) at the same rate who did not participate in tenders. Further, reasons for not giving cognisance to offered rate of the manufacturer firm of Calcutta while inviting tenders and accepting rates after two months in December 1997 have not been stated. The fact thus remains that due to absence of purchase policy and not taking into consideration the offered rate of manufacturer, the department had incurred an avoidable extra expenditure of Rs. 8.91 lakh.

The matter was reported to the Government (March 2000); their replies had not been received (November 2000).

POWER AND ELECTRICITY DEPARTMENT

8.6 Inadmissible payment and undue financial favour to a Contractor

Inadmissible payments of Rs.0.04 crore and Rs. 0.63 crore made towards insurance charges and replacement cost of machinery damaged during transit respectively were undue financial benefits to contractor.

The work of design, manufacture, supply, erection, testing and commissioning of Generating units and other Electro-mechanical equipment for power house (2 x 1.5 MW) of Tuipanglui Hydel Project was awarded (December 1995) by the Chief Engineer (CE), Power and Electricity Department, Aizawl to a Bombay based Firm for Rs.7.94 crore covering charges of transit insurance of the consignment in the name of purchaser up to work-site (Tuipanglui). Scrutiny of records (February 1999) of the Electrical Division, Lunglei revealed that the firm insured the consignments in their favour in violation of the terms of contract and the Department reimbursed Rs.3.50 lakh (November 1998) to the Firm towards payment of insurance charges from Bombay to the site of work. Further, the Department allowed the Firm to deliver the machinery at an intermediate point (Serchhip), instead of the work site and also took the responsibility of carting the materials from the intermediate point to work site as mutually agreed upon. The reason for extending such favour to the firm at the cost of the Government was neither found on records nor stated. In January 1998, during cartage of the machinery from Serchhip to work site, the truck, carrying the box containing transformer panels and one drum of power cable, met with an accident on the way causing damage to the panels and power cable involving monetary loss of Rs.69.48 lakh as assessed (March 1998) by the Department. The Department asked (January 1998) the firm to prefer claim with the Insurance Company, but this remained unsettled (November 1999). Meanwhile, the Hydro Electrical Investigation Division, Lunglei on the basis of the order (May 1998) placed by Chief Engineer procured machinery from the same firm for replacement of the damaged machinery for which an additional payment of Rs. 62.78 lakh was made (November 1998).

However, as per terms and conditions of contract, delivery of materials to worksite in good condition including installation, erection, testing and successful commissioning was the responsibility of the Contractor. Moreover, the contractor had insured the materials in their name instead of the Department and thus the Contractor was under obligation to replace the damaged materials. Thus apart from inadmissible payment of Rs.3.50 lakh on account of insurance charges, further payment of Rs.62.78 lakh for purchase of another set of machinery was an undue favour to the contractor which resulted in extra financial burden to the Government.

The Chief Engineer (CE) stated (November 1999) that the case was being pursued by the firm on behalf of the Department. However, CE's reply is silent about the inadmissible payment of Rs. 3.50 lakh made to the firm towards insurance charges. Further development has not been reported (November 2000).

The matter was reported to Government (March 1999); their reply had not been received (November 2000).

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Shillong
The 2001

Countersigned

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Comptroller and Auditor General of India

New Delhi
The 2001