SECTION - A - REVIEWS

INDUSTRIES AND COMMERCE DEPARTMENT (NAGALAND HANDLOOM AND HANDICRAFTS DEVELOPMENT CORPORATION LIMITED)

8.9 Working of Nagaland Handloom and Handicrafts Development Corporation Ltd., Dimapur

Highlights

The company had been incurring losses continuously since inception and its accumulated losses of Rs.7.92 crore at the end of the year 2001-2002 completely eroded the paid up capital of Rs.5.66 crore, inspite of receipt of Rs.14.69 crore from State Government as grants-in-aid for payment of salaries of the staff.

(Paragraph 8.9.12)

Drawal of Rs.0.98 crore from Government of India by furnishing false and fictitious certificates and reports.

(Paragraph 8.9.25)

Loss of Rs.2.49 crore due to adoption of unrumenarative pricing policy.

(Paragraph 8.9.65)

Loss of Rs.3.70 crore due to dismal performance of sales emporia.

(Paragraph 8.9.67)

Irrecoverable loans and advances amounting to Rs.1.23 crore.

(Paragraphs 8.9.72 & 8.9.73)

Avoidable extra expenditure of Rs.3.88 crore on excess staff.

(Paragraph 8.9.77)

Unnecessary liability of Rs.35.29 lakh due to concealment of taxable turnover.

(Paragraph 8.9.80)

Loss of Rs.6.85 lakh due to non-submission of annual returns since inception of the company.

(Paragraphs 8.9.82 & 8.9.83)

Loss of Rs.7.93 lakh due to short deposit of CPF.

(Paragraph 8.9.84)

Introduction

8.9.1 The company was incorporated in February 1979 as a wholly owned Government company for the development of handloom and handicraft industries in the State.

Objects

8.9.2 The main objects of the company are-

- Manufacturing handloom and handicrafts products

- Aiding, assisting and financing the handloom and handicrafts industries

- Providing technical assistance to artisans and weavers

- Promoting export of handicraft goods

- Providing training to artisans craftsman etc.

8.9.3 In pursuance of the objectives the company took only the following activities:

(i) Procurement and distribution of raw-materials for processing and production of handloom and handicraft goods through weavers/artisans and marketing thereof through its sales emporia, participation in exhibitions etc.,

(ii) Providing training to artisans and weavers through its training centres,

(iii) Supplying mining timbers and bamboo products to Coal India Limited.

Organisational set up

8.9.4 The management of the affairs of the company is vested in a Board constituting of eight Directors including a Chairman and the Managing Director appointed by the State Government. The Managing Director is the Chief Executive of the company who is assisted in its day to day working by the General Manager, Deputy General Manager etc.

Scope of Audit

8.9.5 The working of the company for the last five years ended 31 March 2002 was reviewed for the first time during May – August 2002 and results thereof are discussed in succeeding paragraphs.

Capital

8.9.6 The initial authorised capital of the corporation of Rs.25 lakh was increased from time to time and was Rs.9 crore as on 31 March 2002.

8.9.7 As on 31 March 2002, the paid up capital of the company was Rs.5.66 crore, of which the Government of Nagaland and Government of India have subscribed Rs.4.37 crore and Rs.1.29 crore respectively.

8.9.8 The company in addition to the paid up capital, had obtained long term loans, subsidy and grant in aid from the State and Central Government for the execution of specific schemes. The long term loans which were overdue for payment as on 31 March 2002 were Rs.1.98 crore including interest (Principal : Rs.0.73 crore + interest Rs.1.25crore).

8.9.9 The amount outstanding against grant in aid and subsidy at the end of March 2002, stood at Rs.0.97crore and Rs.20.74 lakh respectively.

Financial position and working results

8.9.10 The account of the corporation have been compiled upto 2001-02 and finalised only upto 1982-83, although, the fact of non-finalisation had been taken up with the State Government repeatedly. The provisional accounts of the company and additional information/statements etc. furnished by the management has been treated as a basis for the review.

8.9.11 The company adopted the practice of accounting for the Income and Expenditure on cash basis since inception, in contravention of statutory provision of section 209 (3) (b) of the companies Act 1956, which stipulates maintenance of books on accural basis only.

8.9.12 The financial position and working results of the company, for five years upto 2001-02 are shown in *Appendix - XXXI*. It would be seen from the Annexure that the company had been incurring losses continuously since inception inspite of the fact that the state Government released Rs.14.69 crore (Rs.10.03 crore for the period 1997-98 to 2001-02) as grants in aid for meeting salary to staff of the company from 1985-86 to 2001-02 and its accumulated losses of Rs.7.92 crore at the end of the year 2001-02 as detailed in *Appendix-XXXII* have completely eroded the paid up capital of Rs.5.66 crore.

8.9.13 The main reasons for continued losses as analysed in audit were mainly excess recruitment of personnel, lack of planning, improper financial management leading to misutilisation/misappropriation of funds, running of uneconomic and unviable sales emporia and production centres, non-implementation of the schemes/projects etc. the scale of operations and sales performance was indicative of excess staffing. However, the reasons of losses were never analysed by the company.

Performance appraisal

8.9.14 The company had been entrusted with implementation of various Central Government Schemes to promote production and sale of handloom and handicraft products of the state. These schemes included running of training centres, production centres and marketing of products through its emporia net-work, conducting fairs and festivals, craft bazars, exhibitions, expos etc. in order to implement these schemes. The company received funds in the form of grant-in-aid from the Central Government. During the last five years ending 31 March 2002, the company received grants in aid aggregating Rs.2.67 crore from the Development Commissioner, Handloom and Handicrafts DC(H) New Delhi, as detailed below:

Table No.8.6

Sl No.	*Name of the scheme*	*Amount received (Rupees in lakh)*
1	Organising exhibitions, District level fairs and festivals, craft bazar, expo etc.	97.69
2	Share participation	65.00
3	DDHPY	33.10
4	Construction of work sheds	23.50
5	Renovation of emporia	19.98
6	Setting up new emporia	15.00
7	Craft development centre, Mongkolemba	7.50
8	Printing of catalogue	3.71
9	Design and technical work shop-cane and Bamboo	2.00
	Total	***267.48***

8.9.15 Out of 9 such schemes entrusted to the company, the implementation of seven schemes is discussed in the succeeding paragraphs.

Misutilisation of Rs.1.40 crore received from State and Central Government under Equity Share participation scheme

8.9.16 The company received Rs.1.40 crore under equity share participation scheme from State and Central Government during 1997-98 to 2001-2002, as per the details given below:

Table No.8.7

			(Rupees in lakh)
Year	***State Government***	***Central Government***	***Total***
1997-98	15	---	15
1998-99	15	15	30
1999-2000	15	20	35
2000-2001	15	10	25
2001-2002	15	20	35
Total	***75***	***65***	***140***

8.9.17 Government of India[*], sanctioned and released Rs.0.65 crore during these years to enable the company to increase its capital base so as to enable it to utilise the share money for any developmental, promotional and welfare activities concerning the craft persons in the State.

8.9.18 Further, funds for equity share participation were released by GOI[**] for the specific purpose of increasing the sales turnover of the beneficiary organisation. The norm prescribed for sales turnover in relation to the investment was that the sales turnover should increase three to four times the value of share money invested in the corporation.

8.9.19 Scrutiny of the available records relating to utilisation of share money by the company revealed the following irregularities:

8.9.20 Share participation money Rs.20 lakh received from central Government and Rs.15 lakh received from the state Government during 1999-2000 was fully utilised for payment of salary to staff. The fact was admitted by the management (June 2002).

[*] Office of the Development Commissioner (Handicraft), New Delhi

** Ministry of Commerce, Department of textiles orders dated October 1983

8.9.21 However, the company submitted false utilisation certificate duly certified by a Chartered Accountant to Government of India stating that the amount of Rs.20 lakh received from the Government of India during 1999-2000 has been utilised for (i) purchase of raw materials Rs.5.50 lakh (ii) purchase of finished goods Rs.3.50 lakh (iii) C.P.F Management share Rs.7.75 lakh (iv) purchase of computer Rs.1.25 lakh (v) publicity Rs.2.00 lakh.

8.9.22 Similarly, the company furnished false utilisation certificate in respect of amount received from the State Government during 1999-2000 stating that the amount of Rs.15 lakh has been spent for the purchase of raw materials, finished goods etc.

8.9.23 Details and the proof of correctness of utilisation of the balance amount of Rs.1.05 crore could not be produced to audit.

8.9.24 Against the investment of Rs.1.40 crore during the five year ending 31 March 2002 the sales (excluding the sales of raw material) actually made by the company was Rs.0.72 crore (Rs.12.47 lakh, Rs.14.95 lakh, Rs.14.23 lakh Rs.9.54 lakh and Rs.21.14 lakh respectively in 1997-98, 1998-99, 1999-2000, 2000-2001 and 2001-2002). Thus the norms prescribed for increase of sales turnover could not be achieved inspite of release of substantial amount by the Government.

Company obtained Rs.0.98 crore as grant-in-aid from Government of India by furnishing false and fictitious certificates and reports.

8.9.25 In addition to sale through its emporia network, counter sales etc. the company also sells its products through exhibitions, craft bazars, district level fairs and festivals, expos etc. In order to enable the company to participate in exhibitions, fairs and festivals etc. Government of India sanctioned and released Rs.0.98 crore to the company during the last five years ending 31 March 2002, as per the details given below:

Table No.8.8

(Rupees in lakh)

Year	***Exhibitions***	***Fairs and festivals***	***Expos***	***Craft bazars***	***Total***
1997-98	5.75	10.00	16.90	---	32.65
1998-99	8.00	8.00	---	---	16.00
1999-2000	8.40	4.00	---	---	12.40
2000-2001	4.06	5.84	4.71	15.83	30.44
2001-2002	3.20	3.00	---	---	6.20
Total :-	***29.41***	***30.84***	***21.61***	***15.83***	***97.69***

8.9.26. As against the receipt of Rs.0.98 crore from the Government of India, the company submitted performance cum achievement reports duly certified by the Chartered Accountants to DC(H), New Delhi stating that it made a total sale of handloom and handicraft products of Rs.3.90 crore during the last five years ending 31 March 2002.

8.9.27 Audit analysis, however, revealed that:

8.9.28 The company did not maintain any separate account of each scheme i.e., exhibitions, fairs and festivals etc. and maintained only one omnibus account namely 'exhibition' to account for all sales made through exhibitions, craft bazars, district level fairs and festivals, expos. In the absence of separate account it could not be verified in audit whether the amount of Rs.0.98 crore was used for bonafide objects of the various schemes.

8.9.29 The claim of the company that it had made a sales of Rs.3.90 crore as mentioned above was not found correct as the company made a total sales of Rs.21.93 lakh only through exhibitions, craft bazars, expos etc. during the last five years ended March 2002. This fact was also admitted by the company (August 2002). Even the sales of Rs.21.93 lakh was not supported by the actual sale proceeds reports of in-charges of exhibitions, craft bazars, fairs and festivals etc.

8.9.30 The Governor of Nagaland in his unscheduled visit to the Craft Bazar, held at Kohima on 19 October 2001 also adversely commented that the stalls were stocked with junk varying from trivia to trash. The company, however, submitted performance cum achievement report to Government of India stating that it had made a sales of Rs.30.37 lakh from the Craft Bazar held at Kohima during 16 to 24 October 2001, whereas actual sales of all the exhibitions was Rs.21.93 lakh only as mentioned above.

8.9.31 Thus, the performance cum achievement reports submitted to GOI from time to time, were found to be false and fictitious.

False and fictitious construction of common work sheds costing Rs.31.50 lakh

8.9.32 With a view to improve the working and living conditions of the artisans in the handicraft sector in the State, in March 2001, Government of India sanctioned an amount of Rs.47 lakh to the company for the construction of 500 individual work sheds i.e., 100 units for rural areas and 400 units for urban areas under Work Shed (Urban and Rural Areas) Scheme and released Rs.23.50 lakh as first instalment.

8.9.33 However, considering the practical difficulties and the cost of transportation for construction of individual work sheds both in rural and urban areas the company in November 2001 requested Government of India to allow them to have common work sheds for the craftsmen.

8.9.34 Government of India allowed(January 2002) construction of common sheds with the condition that the land for the construction of such sheds should be owned by the corporation and the title of the land should be in the name of the corporation which would be implementing the scheme.

8.9.35 The company intimated (March 2002), the Government of India that 4 nos. of common work sheds for 100 artisans under rural areas and 34 nos. of common urban work sheds for 200 artisans in the urban areas were constructed in the first phase, alongwith utilisation certificate, cash account, a performance-cum-achievement report duly certified by a Chartered Accountant and inspection report submitted by the Handicraft Promotion Officer, Office of the DC(H), Guwahati. This report, interalia, stated that the company had spent Rs.33.50 lakh towards construction of 38 common work sheds and Rs.10 lakh was received from 300 artisans as beneficiaries' contribution and the inspection report also stated that the common work sheds were constructed as per the orders of October 1999.

Audit analysis, revealed that:

8.9.36 The company had not received any contribution from the beneficiaries. The fact was admitted by the company (August 2002).

8.9.37 It was also observed that the common worksheds constructed by the company at its office complex was for 25 of its own employees defeating the very purpose of the scheme i.e., improving the working and living conditions of the artisans in the handicraft sector.

8.9.38 The management stated (August 2002) that only the land on which one common urban work shed which was constructed by the company at the cost of Rs.2 lakh at the corporation's office complex was owned by it and in respect of 37 common work sheds, the land was not owned by the company, as such the title deeds of the land in respect of those common work sheds were not in the name of the company.

8.9.39 In the absence of beneficiaries' contribution and ownership of land in the name of the company, the company's claim that it had constructed 37 nos. of common work sheds (38 nos. – 1 no.) at the cost of Rs.31.50 lakh (Rs.33.50 – Rs.2.00 lakh) could not be verified in Audit. Further, even if the sheds had been constructed as stated by the company it is irregular as the sheds are to be constructed only if the land is owned by the company.

Irregularities in the implementation of Deen Dayal Hathkargha Protsahan Yojana Scheme

8.9.40 Under the scheme 'Deen Dayal Hathkargha Protsahan Yojana (DDHPY) the Government of India approved project cost of Rs.0.89 crore (March 2001). The project cost was to be shared between the Centre and State in the ratio of 3:1. The scheme envisaged training for technical advancement of weavers for a duration of 3 months by Weavers Service Centres, State Institution for Design at National and State level. During training Rs.750 per month was to be paid to each trainee as stipend. Modern looms were to be provided to the trained weavers in order to promote self reliance.

8.9.41 Government of India sanctioned Central share of Rs.0.66 crore and released Rs.33.10 lakh (March 2001) being the first instalment. The State Government has not released any fund (August 2002).

8.9.42 It was noticed in audit that separate account for receipt and utilisation of funds under the scheme was not maintained. The details of expenditure, if any, incurred for implementation of the scheme were not available on record.

8.9.43 On enquiry, the management stated (August 2002) that out of Rs.33.10 lakh, Rs.8.18 lakh was spent for supporting training to weavers and Rs.6.07 lakh was spent to meet administrative expenses of the company. However, supporting documents showing the details of expenditure on training along with list to weavers to whom the training was imparted as well as the details of the expenditure of Rs.6.07 lakh could not be produced to audit. Further, no records relating to utilisation of the balance Rs.18.85 lakh (Rs.33.10 lakh –

Rs.14.25 lakh) or how and whether the money has been kept in case of non-utilisation could be produced to audit.

8.9.44 Hence, authenticity of the utilisation of fund and accounting of the same could not be verified in audit.

Company obtained Rs.19.98 lakh by furnishing false utilisation certificates

8.9.45 The company is having 11 emporia and is eligible for financial assistance as grant-in-aid from Government of India upto 50 *per cent* subject to a maximum of Rs.5 lakh on each emporium for incurring capital expenditure on renovation of emporia. The balance of funds were to be provided by the state Government/company.

8.9.46. During the period from 1997-98 to 2001-2002 the company obtained approval from GOI for renovation of 5 emporia at different places and received Rs.19.98[1] lakh being 50 *per cent* of the actual expenditure incurred by the company. The company, however, did not receive any fund from the State Government during the above period for the purpose.

8.9.47 Scrutiny of the relevant records furnished by the management revealed that:

8.9.48 The company obtained the Central assistance by furnishing false utilisation certificate for higher amount than the expenditure actually incurred as detailed in the table below:

Table No.8.9

					(Rupees in lakh)
Name of renovation of work	***Central Assistance received/amount and Date (Rs.)***	***Utilisation certificate furnished amount and date (Rs.)***	***Expenditure incurred on renovation work (Rs.)***	***Fund diverted/ not accounted for (Rs.)***	***Remarks***
1. Sales Emporium, Kohima	2.5 (February 1998) 2.5 (September 1998)	6.71 (February 1998)	Nil	5.0	Agreement signed in July 1997 with M/s G.S.Traders for Rs.3.81 lakh. The firm did not turn up for doing work
2. Sales Emporium, Kolkata	2.5 (March 1998) 2.5 (January 2000)	10.59 (January 1999)	3.58	1.42	---
3. Sales Emporium, New Delhi	2.5 (February 1999) 2.5 (March 2001)	10.90 (December 1999)	3.46	1.04	Rs. 2.25 lakh advance paid to the main contractor who subcontracted the work to another contractor. He, too, did the same. The work remains incomplete.
4. Sales Emporium, Phek	2.5 (March 1999)	10.36 (June 2000)	Nil	1.90 (Advance paid to contractor)	Contractor did not turn up for doing the job. He did not return advance received (1.90 lakh)

[1] Rupees five lakh each for emporia at Kohima, Kolkata, New Delhi, Rs.2.5 lakh and Rs.2.48 lakh for emporia at Phek and Wokha respectively.

					against work order for Rs.3.85 lakh despite request of the Company.
5. Sales Emporium, Wokha	2.48 (March1999)	9.98 (June 2000)	N.A	1.30 (Advance paid to contractor)	Rs. 1.30 lakh advance paid to contractor (July 1999) against work order for Rs. 2.78 lakh. Work is incomplete (August 2002)

8.9.49 As per the provisions of the scheme, 50 *per cent* of the expenditure incurred on the renovation of sales emporia was to be borne by the company. However, it was noticed in audit, the company did not spend any amount from its own resources against the renovation of five sales emporia stated above during the period 1997-98 to 2001-2002.

8.9.50 The company while sending the proposals for obtaining funds for renovation from Government of India submitted unrealistic sales targets, which could not be achieved at all as revealed from the data given below:

Table No.8.10

Name of the emporium renovated during the period 1997-98 to 2001-02	*New Delhi*	*Wokha*	*Phek*
Projected sales	17 to 24 lakh in the fisrt 2 years	12 to 15 lakh in the first 2 years	10 to 14 lakh during the 10 years
Actual sales	6.91 lakh and 5.38 lakh	0.10 lakh 0.74 lakh	0.04 to 0.26 lakh

8.9.51 Thus, it is evident that the proposals for obtaining financial assistance from Government of India was not based on facts.

Loss of Rs.11.23 lakh in setting up of new emporia

8.9.52 To ensure economic development of craftsmen and to provide facilities of marketing channels to crafts persons, the Government of India provides financial assistance for opening of new emporia. Under this scheme grant-in-aid is provided for land and buildings, interior decoration, furniture, electrification etc. The financial parameter for opening of new emporia (own building) applicable for cities other than 'A' Class cities was 50 *per cent* of the capital expenditure incurred subject to a maximum of Rs.15 lakh, the balance was to be borne by the company.

8.9.53 During the year 1999-2000 and 2000-2001 the company received Rs.15 lakh from the Government of India for setting up new emporium at Dimapur. The company submitted (March 2000) utilisation certificate for Rs.30.12 lakh for setting up new emporium at Dimapur duly signed by a Chartered Accountant.

8.9.54 Scrutiny of records of the above scheme revealed the following:

8.9.55 The company did not contribute its share and stated that they could spend only Rs.7.61 lakh out of Rs.15 lakh received from Government of India. The company admitted (August 2002) that basic codal formalities like work order, comparative statement, measurement book, assessment reports by technical personnel etc. were not observed. Therefore, efficacy of Rs.7.61 lakh spent could not be verified in audit.

8.9.56 The company could achieve a sales of Rs.0.20 lakh in 2000-2001 and Rs.0.04 lakh in 2001-2002 as against the projected sales of Rs.30.00 lakh in its feasibility report.

8.9.57 The new emporium at New Market, Dimapur was closed in July 2001 after sustaining a loss of Rs.8.14 lakh and was shifted at Circular Road, Dimapur in a rented accommodation (December 2001) after spending Rs.1.89 lakh. No feasibility report was prepared for opening of new emporium at circular road. The company further suffered a loss of Rs.3.09 lakh in running of new emporium at Circular Road, Dimapur.

8.9.58 Thus, the company has drawn Rs.15 lakh from Government of India by furnishing false utilisation certificate and sustained loss of Rs.20.73 lakh for setting up of emporium (construction cost Rs.7.61 lakh + loss on sale Rs.8.14 lakh + setting up rented emporium Rs.1.89 lakh + loss on sale Rs.3.09 lakh).

Non completion of scheme as per the project report

8.9.59 In January 1998, Government of India sanctioned its share (75 *per cent*) of Rs.7.50 lakh with remaining to be contributed by the company for setting up craft development centre at Monkolemba for sale of handicraft items against estimated cost of Rs.10 lakh. The first instalment Rs.3.50 lakh of Central share was released (January 1998).

8.9.60 The company in October 1999 intimated to Government of India that the above scheme was completed in January 1999 at a cost of Rs.10.12 lakh enclosing the utilisation certificate issued by a Chartered Accountant and requested for release of balance amount of Rs.3.94 lakh. Based on the utilisation certificate submitted by the company, Government of India released second instalment of Rs.3.94 lakh in June 2000.

8.9.61 No document in support of the expenditure of Rs.10.12 lakh could be furnished to audit. In the absence of supporting records showing the details of expenditure incurred on land and building, equipment and machinery etc. the authenticity of these funds claimed to have been utilised could not be verified. The company stated (July 2002) that it had actually spent only Rs.5.41 lakh against the above scheme. But documents in support of the expenditure could not be produced to audit.

8.9.62 Therefore, the expenditure of Rs.5.41 lakh is not acceptable in audit and completion of the scheme as reported by the company at a cost of Rs.10.12 lakh appeared to be false.

Production performance

Loss of Rs.2.27 crore due to dismal performance of production centres

8.9.63 With a view to produce the handloom and handicraft items, the company has been running ten production centres within the State. Table below indicates the handloom and handicraft items produced by the 10 production centre and the expenditure incurred on production centres during 1997-98 to 2001-2002.

Table No.8.11

(Rupees in lakh)			
Year	***Expenditure incurred on running of production centers (Rs.)***	***Handloom and Handicraft items produced (Rs.)***	***Difference being loss (Rs.)***
1997-98	49.29	7.82	41.47
1998-99	54.73	8.73	46.00
1999-2000	53.70	4.79	48.91
2000-2001	58.22	6.50	51.72
2001-2002	62.33	23.58	38.75
Total	**278.27**	**51.42**	**226.85**

8.9.64 It would be seen from the above table that the company incurred a loss of Rs.2.27 crore due to dismal performance of production centres. No action was taken by the company to make the production centres viable. Further, no production targets were fixed by the company reasons for which were not available on record. The reasons for continued losses were never analysed by the company. However, the main reasons for recurring losses as analysed in audit were unnecessary recruitment of officers and staff, non-implementation of centrally sponsored schemes, lack of work culture etc.

Marketing of finished goods

(i) Pricing policy

Loss of Rs.2.49 crore due to adoption of unremunerative pricing policy

8.9.65 The sale price of all the finished products is determined by the company simply by adding 25 *per cent* profit on the cost of raw-material used without taking into account labour and other production overheads. The unscientific method adopted for price fixation was unrumenerative and the loss incurred was Rs.2.49 crore as calculated by the management during the period 1997-98 to 2001-2002.

(ii) Sales performance

Loss of Rs.3.70.crore owing to dismal performance of sales emporia

8.9.66 With a view to market the products of the manufacturing units, the company has been running eleven emporia during the year 1997-98 to 2001-2002. Of these, two emporia were established outside the State (New Delhi and Kolkata) and the remaining within the State. The total sales of all emporia of handloom and handicraft products amounted to Rs.0.56[2] crore during 1997-98 to 2001-2002.

8.9.67 It was noticed in audit that no sales targets were fixed by the company since its inception and all the eleven sales emporia were incurring recurring losses year after year. As calculated by the management the company incurred

[2] (1997-98 Rs.10.02 lakh, 1998-99 Rs.8.48 lakh 1999-2000 Rs.7.63 lakh, Rs.2000-2001 Rs.10.95 lakh and 2001-2002 Rs.19.03 lakh).

a total loss of Rs.3.70[3] crore during the period 1997-98 to 2001-2002, in running eleven sales emporia.

8.9.68 The reasons for dismal sales performance and recurring losses were never analysed by the management. The main reasons for recurring losses as analysed in audit were unnecessary recruitment of manpower and low turnover. The company did not take any steps to make all the loss making emporia viable or close them down.

(iii) Irrecoverable loans and advances – Rs.1.23 crore

8.9.69 The table below indicates the year wise position of recoverable loans and advances at the close of five years upto 2001-2002.

Table No.8.12

Years	***Recoverable loans and advances outstanding as on 31 March (Rupees in lakh)***
1997-98	151.91
1998-99	164.98
1999-2000	176.05
2000-2001	198.88
2001-2002	242.37

8.9.70 It would be seen from the above that the recoverable loans and advances are increasing from year to year which is due to the following reasons:

8.9.71 Age-wise analysis of recoverable loans and advances is not carried out and, therefore, old and heavy debts remain unidentified for securing early liquidation.

8.9.72 Recoverable loans and advances outstanding at the close of 2001-2002 was Rs.2.42 crore which included advances of Rs.1.23 crore outstanding for more than five to thirteen years. Such heavy advances have not even been reviewed by the management in order to take necessary action for fixing responsibility and effecting recovery where advances were drawn in excess of expenditure incurred.

8.9.73 Due to improper maintenance of records and non-pursuance of recovery even after the expiry of more than five to thirteen years the chances of recovery of Rs.1.23 crore became bleak. No provision has been made in the accounts for bad and doubtful debts since inception of the company.

8.9.74 Reasons for non recovery of such huge outstanding advances were not furnished to audit (August 2002).

Man power Analysis

Avoidable expenditure of Rs.3.88 crore on excess officers and staff

8.9.75 Prior to the formation of the company the Government of Nagaland implemented Intensive Handloom Development Project under the Centrally

[3] (New Delhi Rs. 59.66 lakh, Kolkata Rs.25.44 lakh, Dimapur 4 Nos Rs.52.95 lakh, Kohima Rs.54.18 lakh, Mokokchung Rs.40.08 lakh, Tuensang Rs.30.86 lakh, Mon Rs.39.61 lakh, Wokha Rs.28.39 lakh, Zunheboto Rs.23.66 lakh, Phek Rs.15.25 lakh).

sponsored scheme from 1972-1977. Since all the officers and staff of the Project were recruited on regular basis, the State Government had to continue the scheme when the company was formed in February 1979, 180 officers and staff (95 Technical and 85 Non-Technical staff) of the above Project were transferred to the company on deputation basis without assessing its actual manpower requirement.

8.9.76 Audit analysis revealed that even though actual requirement of officers and staff was 60 and the company was over burdened with deputationists, the company further recruited 147 officers and staff during 1979-80 to 2001-2002 (excluding staff recruited on compassionate grounds). As on 31 March 2002, the company had 222 officers and staff (Technical 97 and Non-Technical 125).

8.9.77 Thus, owing to injudicious recruitment the company incurred avoidable expenditure of Rs.3.88 crore towards the salary of officers and staff of the corporation during the period 1997-98 to 2001-2002.

8.9.78 In reply management stated (June 2002) that the corporation had to further recruit 147 officers and staff as all the 180 deputationalists were technical personnel only. However, the reply of the management was not tenable since out of 180 deputationists only 95 staff were Technical and remaining 85 were not technical personnel and the scale of operations and sales performance were indicative of excess staffing.

Non fulfilment of statutory obligations

Unnecessary liability of Rs.35.29 lakh due to concealment of taxable turnover

8.9.79 Under the provisions of the Nagaland Sales Tax Act 1967, if any dealer conceals the particulars of any turnover, the Commissioner of Taxes may direct that such dealer shall pay by way of penalty in addition to the tax payable by him a sum not exceeding three times of the amount of tax due. Under the Central Sales Tax Act, inter-state sales not supported by declaration in prescribed forms are taxable at the rate of 10 *per cent* or at the rate applicable to such sales within the State whichever is higher.

8.9.80 Audit analysis revealed that the corporation during 1987-88 and 1988-89 in the course of inter state trade sold taxable goods amounting to Rs.2.48 crore (Rs.1.01 crore in 1987-88 and Rs.1.47 crore in 1988-89) but it disclosed only taxable turnover to the tune of Rs.1.64 crore only (Rs.29.69 lakh in 1987-88 and Rs.1.35 crore in 1988-89), concealing its taxable turnover amounting to Rs.0.84 crore having a tax effect of Rs.8.82 lakh. Besides, the company is also liable to pay penalty of Rs.26.47 lakh (Rs.8.82 x 3 times) for concealment of taxable turnover as per the provisions of the Act. Thus, the company has to pay total amount of Rs.35.29 lakh to the Government for concealment as on 31 March 2002. The company in June 2002 admitted and confirmed the facts and figures stated in audit. However, no provision has been made for payment of tax and penalty in the accounts as the accounts are maintained on cash basis.

Loss of Rs.6.85 lakh due to non-submission of annual returns

8.9.81 It was noticed in audit that the company did not submit its annual returns, annual accounts etc to the Registrar of the companies (ROC), Shillong since inception as required under section 220/159, 162 (i) of the companies Act 1956. Therefore, in September 1998 ROC caused issue of summons to all the five Directors of the company to appear in person or through pleader before Chief Judicial Magistrate, Shillong on 15/16.10.98. To defend the case, the company appointed (November 1999) a legal representative[4] at a total fee of Rs.5.50 lakh for entire assignment (filing fee of annual returns and Rs.2.00 lakh as professional fee including expenses and penalty that might be imposed on the company). As per the terms and conditions of the appointment order the work was to be completed in all respects within 15 December 1999. An advance of Rs.1 lakh was paid to him (November 1999).

8.9.82 It was further noticed the case was disposed of on conviction by payment of fine (December 1999) and a total amount of Rs.6.85 lakh was paid to the legal representative. No original documents/bills, cash memos etc. could be produced by the company in support of the payment of Rs.6.85 lakh and there was no record in proof of the fine that was imposed and paid.

8.9.83 In reply, management stated (June 2002) that due to managerial lapse the company could not submit its annual returns in time. Thus, due to company's failure to furnish the annual returns etc. in time, it had to incur a loss of Rs.6.85 lakh, but the veracity of the expenditure could not be vouchsafed in audit.

Loss of Rs.7.93 lakh due to short deposit of CPF

8.9.84 The company is accountable for contributing its share of CPF for its employees. It was, however, noticed during the course of audit that as against Rs.28.19[5] lakh, the company actually deposited Rs.22.58 lakh, thus there was short deposit of dues to the extent of Rs.5.61 lakh. Due to short deposit of CPF dues the Asstt. Provident Fund Commissioner, Guwahati, imposed a penalty of Rs.7.93 lakh vide his orders dated September 2001 which was duly paid by the company. Thus, due to short deposit of statutory dues, the company sustained a loss of Rs.7.93 lakh. The reasons for short deposit of CPF contribution were not on record.

Extra burden of Rs.1.06 crore on the State's exchequer due to company's failure to deposit pensionary benefits

8.9.85 As per the memorandum dated July 1982 issued by the Government of Nagaland as well as per Guwahati High Court orders dated April 1993 the company had to bear the liabilities of leave salary and pension contribution in respect of deputationists who were transferred by the Government to the company in the year 1979.

8.9.86 It was, however, noticed during the course of audit that the company could not deposit the pensionary benefit in respect of deputationists due to its failure to generate internal resources. The company appealed to the State

[4] Shri Raj Kumar Sharma, Company Secretary, Guwahati.
[5] Payable for the period October 1994 to February 2000 in respect of CPF accounts no.10

Government for waiver of Rs.1.06 crore, the state Government conveyed its administrative approval for waiver of Rs.1.06 crore in respect of 88 deputationists who were reverted back to their parent department i.e., Directorate of Industries in the year 2002-2003.

8.9.87 Thus, owing to company's failure to generate internal resources for payment of its statutory obligations inspite of receipt of Rs.9.20 crore from the State Government as grants in aid for payment of salary during the period 1997-98 to 2001-2002, the State Government was left with no other alternative but to bear extra financial burden of Rs.1.06 crore.

Internal Audit

8.9.88 The company has no Internal Audit wing of its own. Internal Audit was got completed upto 2001-2002 by appointment of a firm of Chartered Accountants. The internal Auditors are concerned with the completion of annual accounts only. Therefore, the company is to initiate suitable action for establishment of internal audit wing of its own, by prescribing the detailed scope and extent of checks to be exercised by it.

Conclusion

8.9.89 The company was established with a view to manufacture and market handicrafts and handloom products and to promote and protect the interest of handicraft and handloom industries in the State. The objective of the company was largely defeated due to lack of proper planning, over staffing inefficient and indisciplined financial management which led to investment in unproductive areas, running of uneconomic and unviable sales emporia, locking up of funds in projects without assessment of requirement, gross irregularities in implementation of Centrally sponsored schemes, recruitment of staff far in excess of actual requirement, lackadaisical attitude of the management to clear statutory dues and failure to generate internal resources. These have collectively attributed to heavy losses and the company wiped out its own capital even though limited activities had been undertaken by the company since its inception.

Recommendations

8.9.90 Company needs to optimise utilisation of resources by:

(i) Proper planning indicating targets, judicious management of resources and effective monitoring.

(ii) Rationalisation of staff structure by scientific methods.

(iii) Closing down uneconomic and unviable sales emporia and production centres.

(iv) Clearance of statutory obligations/dues payable to Government of India/other bodies.