

Overview

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1. Overview of Government companies and Statutory corporation

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of the Jharkhand State Electricity Board (JSEB) is governed by the Electricity Act, 2003. As on 31 March 2013, the State of Jharkhand had 14 working Public Sector Undertakings (PSUs) (13 Government companies and one Statutory corporation), which employed 7,773 employees. The working PSUs registered a turnover of ₹2,563.86 crore as per their latest audited accounts.

Investments in PSUs

As on 31 March 2013, the investment in 14 PSUs was ₹6,606.39 crore. It grew by 79.85 per cent from ₹3,673.29 crore in 2007-08. Power Sector accounted for nearly 98.14 per cent of the total investment in 2012-13. The Government contributed ₹1,764.37 crore towards equity, loans and grants/subsidies during 2012-13.

Performance of PSUs

Out of 14 PSUs, seven PSUs earned aggregate profit of ₹26.35 crore and four PSUs incurred aggregate loss of ₹3,352.95 crore as per their latest audited accounts. The remaining three PSUs did not submit their accounts. Heavy losses were incurred by the JSEB and Tenughat Vidyut Nigam Limited to the extent of ₹3,211.03 crore and ₹140.51 crore as per their latest audited accounts for the years 2011-12 and 1999-2000 respectively. A review of the latest Audit Reports of CAG shows that the State PSUs incurred controllable losses to the tune of ₹3,257.35 crore and infructuous investment of ₹67.81 crore which were controllable with better management.

Arrears in accounts

All the 14 PSUs had arrears of a total of 45 accounts as of September 2013. The PSUs need to set targets for the work relating to preparation of accounts with special focus on clearance of arrears.

Quality of accounts

The quality of accounts of PSUs needs improvement. Out of 20 accounts finalised by working PSUs during October 2012 to September 2013 Statutory Auditors had given qualified certificates on fourteen accounts. Reports of Statutory Auditors on internal control of the companies indicated certain weak areas.

Status of placement of Separate Audit Reports (SARs)

SARs of JSEB for the year 2001-02 to 2011-12 were issued between August 2010 to May 2013 to the Government of Jharkhand (GoJ) but no SAR was placed in the State Legislature so far (November 2013). The reasons for non-placement of SARs were not furnished by GoJ.

(Chapter - I)

2. Review relating to Government company

Review relating to working of Jharkhand Silk Textile & Handicraft Development Corporation Limited including Industry Department was conducted. Executive summary of our audit findings is given below.

Introduction

Development activities of sericulture, handloom and handicraft were carried out by the Directorate of handloom, sericulture and handicraft under Department of Industries (Department), Government of Jharkhand, (GoJ). To give special thrust to the sector, GoJ established Jharkhand Silk Textile & Handicraft Development Corporation Limited (Company) as a wholly owned Government Company on 23 August 2006 with the objective to carry on business of manufacturing, processing, design, development, marketing and management support of handloom and handicraft.

Planning

The Department had prepared Five Year Plan (2007-12), however, no specific target was fixed for the development of handloom and handicrafts. GoJ released ₹ 303.07 crore to the Department of which ₹ 177.51 crore was allotted to the Company against which ₹ 120.77 crore was spent by the Company and ₹ 59.38 crore remained unspent as on 31 March 2013. Poor utilisation of Grants received from Government led to delay in execution of the schemes.

Implementation of schemes

Sericulture

There was short production of 83.36 crore cocoons during 2008-09 to 2011-12 against the minimum norms of 40 cocoons per Disease Free Layings resulting in potential loss of revenue of ₹ 84.36 crore. Cash assistance was not fully provided to the Reshamdoots (RDs) for construction and maintenance of grainage house and adjusted against the amount receivable from RDs.

The Company spent ₹ 7.32 crore only as on March 2013 against the sanction of ₹ 12.45 crore during 2008-09 to 2011-12 for Common Facility Centres (CFC). The Company had constructed only 18 worksheds against the target of 82 at a cost of ₹ 1.06 crore as the land was not made available by the Department.

Handloom

Cluster Development Scheme

Government of India (GoI) had sanctioned development of 35 clusters at cost of ₹ 19.70 crore of which the Company received ₹ 16.64 crore during 2008-09 to 2012-13. However, the Company could spend only ₹ 12.61 crore. The Company imparted training to 520 persons in dyeing, 560 on weaving and 280 on designing against the target of 700 persons on each due to non availability of worksheds. The Company could not construct 35 CFC worksheds and 21 dye houses as sanctioned in scheme due to non availability of land.

Group Approach Scheme

The GoI sanctioned the Group Approach scheme for ₹ 5.35 crore against which ₹ 4.18 crore was spent during 2008-09 to 2012-13. The Company constructed only 70 worksheds against target of 81 worksheds due to non availability of land. Training was imparted to 140 persons on weaving and 220 persons on dyeing against the target of 180 and 260 respectively due to non availability of workshed.

Primary Weavers Co-operative Society Scheme

The GoJ sanctioned ₹31.12 crore against which the Company could spend ₹19.89 crore during 2008-09 to 2012-13. The Company could construct only 30 worksheds against the target of 236 worksheds due to non availability of land. The Company imparted training to 3,624 weavers against the target of 4,240 due to non availability of worksheds. Test check of records of 17 clusters revealed that the Company imparted training to 2,495 weavers out of which 1,215 weavers could not be engaged by the Company owing to lack of infrastructure support like worksheds, irregular supply of raw materials and delay in payment of wages which also resulted in under utilisation of looms.

Handicraft

The GoJ sanctioned ₹15.08 crore during 2009-10 to 2011-12 for training of 21,750 artisans, however, the Company imparted training to 23,602 artisans at a cost of ₹13.67 crore. During test check it was observed that only 1,734 artisans were engaged by the Company against 11,729 artisans trained due to irregular supply of raw materials.

Sales and Publicity

The Company fixed the maximum selling price lower than 50 per cent as mark up resulted in lower sales realisation by ₹2.72 crore during 2008-09 to 2012-13. The Company incurred losses of ₹8.33 crore by selling through emporia and franchisee.

The management of urban haat was assigned to Craftedge Consultants without approval of Board of Directors (BoDs) and following prescribed procedures. Similarly the work of stitching was allotted to Craftedge Apparels, a sister concern of the Craftedge Consultants without approval of BoDs. The Company paid advance of ₹9.35 crore and ₹10 lakh respectively to them without any security/bank guarantee.

Financial Management

The Company was not able to meet its operational expenses and was dependent on GoJ. The sundry debtors had increased from ₹37.22 lakh in 2008-09 to ₹8.30 crore as on March 2013. The Company had not made age wise analysis of the sundry debtors.

Material Management

The Company had neither done any ABC analysis nor fixed any standard maximum/minimum level or reorder level. The closing stock in terms of number of month's sales was consistently high ranging between 23 and 27 months during 2008-09 to 2011-12.

Monitoring and Internal Control

The Department did not devise a mechanism to closely monitor the execution of schemes. The Company had not evolved any control mechanism to monitor the production of yarn by reelers and spinners from cocoons. The reports of purchase and production were not compiled resulting in deficiency in monitoring and follow up of Management Information System. The Department had not devised any mechanism to verify the Utilisation Certificates (UCs) submitted by the Company.

Internal audit was conducted by outsourced agency, however, the Company had not prepared Internal Audit Manual.

Conclusion & Recommendations

The Department had not fixed targets in physical terms in Five Year Plan. There was short production of cocoons and cash assistance was not fully provided to RDs. The Department/Company could not achieve the target of construction of worksheds and training of weavers. The Department had not evolved mechanism to verify the UCs. All the Emporia and Franchisee outlets were suffering losses. Appointment of Franchisees, management of urban haat, and other works was assigned without following prescribed procedures. The Company was not able to meet its operational expenses. The Company had not formulated any procurement policy and inventory control mechanism. Deficiencies were noticed in the internal control and monitoring mechanism and there was absence of comprehensive MIS system. The audit

recommendations include that Department should monitor the schemes and evolve mechanism to verify the UCs, take steps to increase the production of cocoons and provide full cash assistance to RDs. The Company needs to prepare plans in consonance with the schemes sanctioned by GoI/GoJ, monitor the silk yarn production with the cocoons supplied to reelers and spinners, promote sales and marketing, adhere to financial rules for safeguarding its financial interest. It also need to adopt scientific inventory control method and establish and strengthen various internal control mechanisms and MIS system.

(Chapter – II)

3. Transaction Audit Observation

Transaction audit observations included in the Report highlight deficiencies in the management of Public Sector Undertakings involving serious financial implications. The irregularities pointed out are broadly of the following nature:

There was a loss of ₹ 8.35 crore in two cases due to non-compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 3.1 and 3.4)

Loss of ₹ 0.54 crore in one case and unfruitful expenditure of ₹ 1.56 crore in two cases due to defective/deficient planning.

(Paragraphs 3.2 and 3.3)

Loss of ₹ 1.16 crore in one case due to inadequate/deficient monitoring.

(Paragraph 3.5)

Gist of some of the important audit observations are given below:

Deficiencies were noticed in sale of kendu leaves by **Jharkhand State Forest Development Corporation Limited** due to not taking effective measures to explore possible avenues for selling unsold lots of kendu leaves, deficient clause in agreement allowing 50 *per cent* incentive on excess collection of kendu leaves thereby extending undue benefit to the purchasers to the extent of ₹ 7.55 crore, delayed action in compliance of the provisions of clause of the agreement for seizure of kendu leaves and its resale, inaction of the Company to obtain collection cost from the purchaser resulted in payment of wages to collectors and inadequacies in insurance of kendu leaves stock.

(Paragraph 3.1)

Jharkhand State Electricity Board procured ACSR Panther conductor without proper assessment of requirement resulting in blocking of fund of ₹ 85.23 lakh and consequential loss of interest of ₹ 53.55 lakh.

(Paragraph 3.2)

Jharkhand State Electricity Board incurred unfruitful expenditure of ₹ 71 lakh due to repairing of Generator (Stator & Rotor) for shut down Unit No.3 of Patratu Thermal Power Station without ensuring fund availability for the proposed restoration of the shut down Unit and consequently Generator Stator remained unutilised.

(Paragraph 3.3)

Jharkhand State Electricity Board had not realised ₹ 1.57 crore from the beneficiary States towards the share of expenditure for the proposed Thermal Power Project and borne additional interest burden of ₹ 1.16 crore.

(Paragraph 3.5)