Chapter III

Economic Sector (PSU)

CHAPTER III
ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

3.1 Overview of Government Companies and Statutory Corporations

Introduction

3.1.1 The State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. The State SPSUs were established to carry out activities of commercial nature while keeping in view welfare of the people. In Manipur there were ten SPSUs[1] as on 31 March 2014. None of the Companies was listed on the stock exchange(s) (all Government Companies). The State SPSUs play a minor role in the State economy. The State working SPSUs registered a turnover of ₹ 7.03 crore for 2013-14 as per their latest finalized accounts as of September 2014. This turnover was equal to 0.05 *per cent* of State Gross Domestic Product (GDP) for 2013-14. The State SPSUs earned an overall profit of ₹ 0.78 crore in the aggregate for 2013-14, as per their latest finalized accounts as on 30 September 2014.

Audit Mandate

3.1.2 Audit of Government Companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government Company includes a subsidiary of a Government Company. Further, a Company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government Companies and Corporations controlled by Government(s) is treated as if it were a Government Company (deemed Government Company) as per Section 619-B of the Companies Act.

3.1.3A The accounts of the State Government Companies (as defined in Section 617 of the Companies Act, 1956) were audited by Statutory Auditors, who were appointed by the CAG as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts were also subject to supplementary audit conducted by the CAG as per the provisions of Section 619 of the Companies Act, 1956.

3.1.3B The Government of India, Ministry/ Department of Company Affairs has notified (September 2013) the Companies Act, 2013. However, the provisions of the new Act shall be applicable on Government Companies from the next accounting year 2014-15 (*viz.* From the accounting periods commencing on or after 1 April 2014) and audit of the accounts of Government companies pertaining to the periods prior to 1 April 2014 shall continue to be governed by the Companies Act, 1956.

[1] Out of ten PSUs, seven are working and three are non-working.

Investment in State SPSUs

3.1.4 As on 31 March 2014, the Investment (Capital and Long-Term Loans) in 10 SPSUs[2] was ₹ 56.49 crore as per details given in **Table 3.1.1**.

Table 3.1.1
Investment in SPSUs

(₹ in crore)

Type of SPSUs	Government Companies		
	Capital	Long Term Loans	Total
Working SPSUs	29.34	5.91	35.25
Non-working SPSUs	16.71	4.53	21.24
Total:	**46.05**	**10.44**	**56.49**

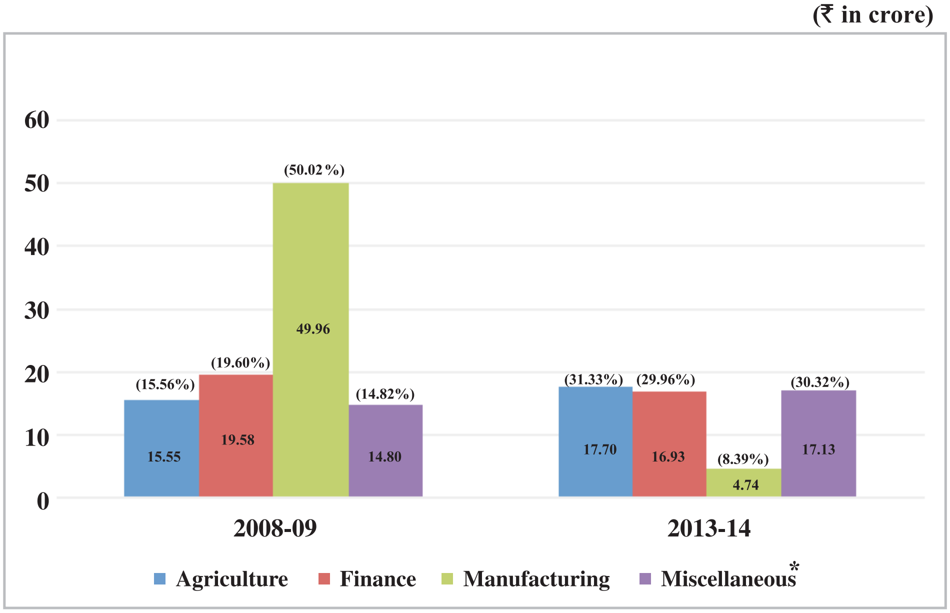
The Government has not made any investment in these companies during 2013-14. A summarised position of Government Investment in State SPSUs is detailed in **Appendix 3.1**.

As on 31 March 2014, 62.40 *per cent* of the total Investment in State SPSUs was in working SPSUs and the remaining 37.60 *per cent* in non-working SPSUs. This total Investment consisted of 81.52 *per cent* towards Capital and 18.48 *per cent* in Long-Term Loans.

3.1.5 The Investment in various important sectors and percentage thereof at the end of 31 March 2009 and 31 March 2014 are indicated in the chart below.

Chart 3.1.1
Investment in Various Important Sectors

(₹ in crore)



(Figures in brackets show the percentage of total investment)
* *including investment under Infrastructure*

2 Including three non-working companies

The total Investment in manufacturing sector decreased from ₹ 49.96 crore in 2008-09 to ₹ 4.74 crore in 2013-14. This decrease was mainly due to exclusion of investment relating to four non-working SPSUs[3] of manufacturing sector which had been liquidated during 2013-14.

Budgetary outgo, grants/subsidies, guarantees and loans

3.1.6 There was no budgetary outgo towards Equity, Loans, Guarantees issued, Loans converted into Equity and Interest waived in respect of SPSUs during the year 2013-14.

Reconciliation with Finance Accounts

3.1.7 The figures in respect of Equity and Loans outstanding as per records of State SPSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned SPSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2014 is stated **Table 3.1.2**.

Table 3.1.2
Equity and Loans outstanding

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of SPSUs	Difference
Equity	38.63	40.67	2.04
Loan	-	0.97	0.97

3.1.8 Audit observed that the differences occurred in respect of 8 SPSUs and some of the differences were pending reconciliation over a period of more than 17 years. The Government and the SPSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of SPSUs

3.1.9 The financial results of SPSUs are detailed in **Appendix 3.2.** A ratio of SPSU turnover to State GDP shows the extent of SPSU activities in the State economy. Table below provides the details of working SPSUs' turnover and State GDP for the period 2008-09 to 2013-14.

Table 3.1.3
Working SPSUs' turnover vrs State GDP

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Turnover[4]	6.77	6.51	5.71	3.54	6.48	7.03
State GDP*	7399.36	8254.26	9137.19	11122.61	12910.10(P)	15231.15(P)
Percentage of Turnover to State GDP	0.09	0.08	0.06	0.03	0.05	0.05

** At current price with base year 2004-05. (P) – Provisional estimates, as per information furnished by the Department of Economics and Statistics.*

[3] (i) Manipur Cycle Corporation Ltd.; (ii) Manipur Cement Ltd.; (iii) Manipur Spinning Mills Corporation Ltd.; (iv) Manipur State Drugs and Pharmaceuticals Ltd.

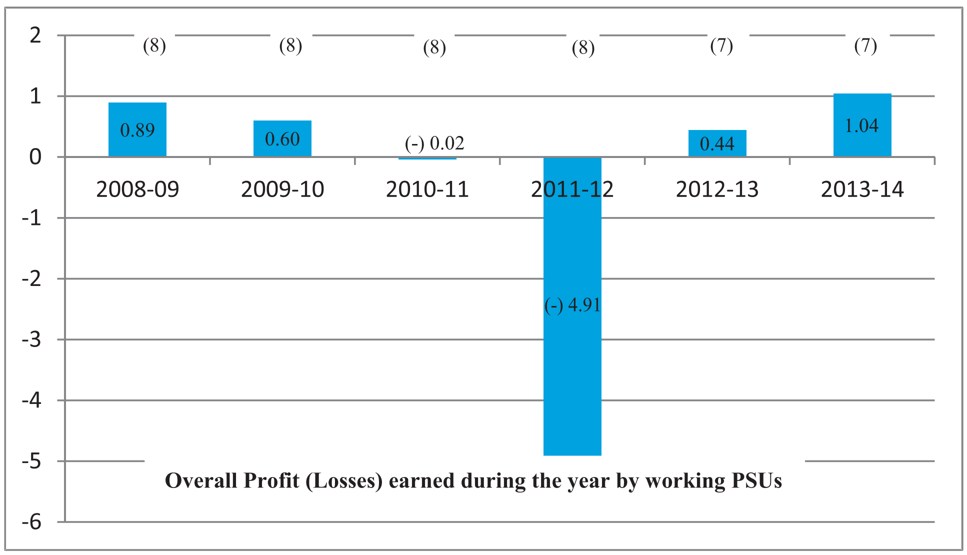
[4] Turnover as per the latest finalised accounts as of 30 September of the respective year

The State GDP showed continuous growth during the years from 2008-09 to 2013-14. On the contrary, the turnover of working SPSUs showed decreasing trend upto 2011-12 and increased thereafter. Thus, over the periods of six years, there was a meagre increase of ₹ 0.26 crore in SPSU turnover from ₹ 6.77 crore (2008-09) to ₹ 7.03 crore (2013-14). As a result, the percentage of turnover to the State GDP had decreased from 0.09 (2008-09) to 0.05 (2013-14) during the period of six years. This was indicative of the fact that the turnover of the working SPSUs was not encouraging as compared to year-wise growth in State GDP figures.

3.1.10 Profits earned/losses incurred by State working SPSUs during 2008-09 to 2013-14 are given below in a bar chart.

Chart 3.1.2
Profits earned/losses incurred by State working SPSUs

(₹ in crore)



(Figures in bracket show the number of working SPSUs in respective years)

During the year 2013-14, out of seven working SPSUs, four SPSUs earned profit of ₹ 1.75 crore and two SPSUs incurred loss of ₹ 0.71 crore. One working SPSU[5] has not started commercial activities. The major contributor to profit was Manipur Industrial Development Corporation Ltd. (₹ 1.33 crore). The losses were incurred by Manipur Handloom & Handicrafts Development Corporation Ltd. (₹ 0.59 crore) and Manipur Tribal Development Corporation Ltd. (₹ 0.12 crore).

[5] The Manipur Food Industries Corporation Ltd.

3.1.11 Some other key parameters pertaining to SPSUs are given in **Table 3.1.4.**

Table 3.1.4
Key Parameters pertaining to SPSUs

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Return on Capital employed (*Per cent*)	2.66	2.08	(-)2.23	(-)14.96	0.71	1.84
Debt	19.50	30.73	31.06	5.91	10.43	10.43
Turnover[6]	6.77	6.51	5.71	3.54	5.35	7.03
Debt/ Turnover Ratio	2.88	4.72	5.44	1.67	1.95	1.42
Accumulated losses	5.22	5.18	6.94	10.37	40.76	45.19

During the period from 2008-09 to 2013-14, the accumulated losses of SPSUs registered significant increase of ₹ 39.97 crore from 5.22 crore (2008-09) to ₹ 45.19 crore (2013-14). The debt-enquiry ratio of SPSUs had improved from ₹ 2.88 crore (2008-09) to ₹ 1.42 crore (2013-14) mainly due to decrease of ₹ 9.07 crore in the Debts from ₹ 19.50 crore (2008-09) to ₹ 10.43 crore (2013-14). There was marginal increase of ₹ 0.26 crore in the turnover of working SPSUs during the period of six years.

3.1.12 The State Government has not formulated (September 2014) any dividend policy.

Arrears in finalization of accounts

3.1.13 The accounts of the Companies for every financial year are required to be finalized within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. The table below provides the details of progress made by the working SPSUs in finalization of Annual accounts by September 2014.

Table 3.1.5
Progress made by the working SPSUs in finalization of Annual accounts

Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
1.	Number of Working SPSUs	8	8	8	7	7	7
2.	Number of accounts finalised during the year	2	2	23	17	21	11
3.	Number of accounts in arrears	129	135	142	116	100	98
4.	Average of accounts arrears *per* SPSU (3/1)	16.12	16.87	17.75	16.57	14.28	14
5.	Number of Working SPSUs with arrears in accounts	8	8	8	7	7	7
6.	Extent of arrears (in years)	10 to 26	10 to 27	11 to 28	9 to 27	5 to 26	2 to26

[6] Turnover of working SPSUs as per the latest finalised accounts as of 30 September of the respective years

The accounts were in arrears for the period ranging between two years (In respect of Manipur Electronics Development Corporation Limited) and 26 years (in respect of Manipur Tribal Development Corporation Ltd).

The reasons for delay in finalization of accounts were attributable to:

- Abnormal delay in compilation/ approval of the arrear accounts by the Management and delayed submission of the same to the Statutory Auditors and
- Delay in adoption of the certified accounts by the SPSUs in Annual General Meeting.

3.1.14 In addition to above, there were also arrears in finalisation of accounts by non-working SPSUs. Three non-working SPSUs had arrears of accounts for the period ranging between 19 years (Manipur Pulp and Allied Products Ltd and 30 years (in respect of Manipur Plantation Crop Corporation Limited).

3.1.15 The State Government had invested ₹ 26.63 crore (Equity), in eight SPSUs during the years for which their accounts had not been finalized as detailed in **Appendix 3.3.** Delay in finalization of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

3.1.16 The Administrative Departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalized and adopted by these SPSUs within the prescribed period. However, there were large arrears in finalization of the Annual accounts as discussed in **Para 3.1.13.** Thus, due to arrears in finalization of accounts, net worth of these SPSUs could not be assessed in audit.

3.1.17 ***The Government may take necessary steps to monitor and to ensure timely finalization of accounts with special focus on clearance of arrears and compliance with the provisions of Companies Act, 1956.***

Winding up of non-working SPSUs

3.1.18 There were three[7] non-working SPSUs as on March 2014. The Government may expedite the process of winding up of these non-working SPSUs as their existence is not serving any purpose.

Comments on Annual Accounts and internal Audit

3.1.19 Four working SPSUs forwarded their audited accounts to the Accountant General (Audit) during the period October 2013 to September 2014. Of these three, accounts of one SPSU were selected for supplementary audit, which was completed. The audit reports of Statutory Auditors appointed by CAG and the supplementary audit of CAG indicated that the quality of maintenance of accounts needed to be improved substantially.

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[7] Manipur Agro Industries Corporation Ltd., Manipur Plantation Crops Corporation Ltd. and Manipur Pulp & Allied Corporation Ltd.

3.1.20 One of the significant comments in respect of the company selected for supplementary audit is as follows:-

Manipur Electronics Development Corporation Ltd. (2007-08)

Loans and Advances included advances amounting to ₹ 80.51 lakh given to various suppliers/firms which had remained un-adjusted for a long time. No provision for probable loss was made in the accounts. This has resulted in understatement of Loss and overstatement of Loans and Advances by ₹ 80.51 lakh.

3.1.21 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the Companies audited in accordance with the directions issued by the CAG to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/ internal control system in respect of four Companies[8] for the year 2012-13 and another one Companies[9] for the year 2013-14 are given in **Table 3.1.6**.

Table 3.1.6
Major Comments Made by the Statutory Auditors

Sl. No.	Nature of comments made by Statutory Auditors	Number of Companies where recommendations were made	Reference to serial number of the Companies as *per* Appendix 3.2
1	Non maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations	4	A-1, A-3, A-6, A-7

Disinvestment, Privatization and Restructuring of SPSUs

3.1.22 There were no cases of disinvestment/privatization of SPSUs in the State.

[8] (i) Manipur Industrial Development Corporation Ltd., (ii) Manipur Tribal Development Corporation Ltd. (iii) Manipur Electronics Development Corporation Ltd. (iv) Manipur Handloom & Handicraft Development Corporation Ltd.

[9] (i) Manipur Electronics Development Corporation Ltd.

COMPLIANCE AUDIT

MANIPUR TRIBAL DEVELOPMENT CORPORATION LTD.

3.2 Undue benefit to supplier

The company extended undue benefit to suppliers/ transporter by releasing 100 *per cent* advances (₹ 2.35 crore) to suppliers and making excess payment of ₹ 13.78 lakh to transporter

Rule 159(1) of General Financial Rules (GFR) provides that, ordinarily, payments for services rendered or supplies made should be released only after the services have been rendered or supplies made. The Rule further provides for release of advance to private contractors maximum to the extent of 30 *per cent* of contract value, against various types of contracts including turnkey, fabrication, maintenance contracts, *etc.* The advances so released should be adequately safeguarded in the form of Bank Guarantee (BG) *etc.,* to be obtained from the contractor. Further, to ensure due performance of the contract, the GFR (Rule 158) provide for obtaining of performance security from the contractor.

Manipur Tribal Development Corporation Ltd. (MTDC) placed (July 2010) supply orders worth ₹ 2.35 crore[10] on two Guwahati based firms (Suppliers) for supply of Steel and Cement respectively. MTDC had simultaneously awarded (July 2010) the contract for lifting and transportation of materials to M/s ISS Transport Agency, Imphal (Transporter) at an estimated cost of ₹ 1.44 crore[11]. As time was the essence of the contract, the Transporter was required to complete the transportation and deliver the materials within 45 days from the date of issue of work orders. In the event of any delay in transportation and delivery of material, the Transporter was liable to pay compensation equal to one *per cent* of the contract value for each day of delay subject to maximum of 10 *per cent* of the estimated contract value for transportation work.

Audit of the records (January 2013) showed MTDC had released advance (July 2010) to the suppliers to the extent of 100 *per cent* of the contract value amounting to ₹ 2.35 crore in contravention of the GFR provisions. It was further noticed that as against material worth ₹ 2.35 crore ordered for supply, material worth ₹ 1.28 crore only was delivered to MTDC and balance material (worth ₹ 1.07 crore) was pending for delivery even after 874 days (upto January 2013) after the due date of completion of supply. Details are given in **Appendix 3.4 –A.**

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10 ₹ 1.02 crore for supply of 278.50 Metric Tonnes (MT) of steel and ₹ 1.33 crore for supply of 2,500 MT of cement to M/s Meghalaya Steel Ltd. and M/s Meghalaya Cement Ltd. respectively

11 ₹ 18.59 lakh for transportation of steel + ₹ 125.00 lakh for transportation of cement (Cement @ ₹ 5000 *per* MT and Steel @ ₹6,675 *per* MT)

Further scrutiny of records showed that the main reason for delay in receipt of the material was the failure on part of the Transporter to lift the material from supplier's point within stipulated time schedule. Accordingly, MTDC issued (May 2011, July 2011, December 2011 and January 2012) show cause notices to the Transporter for non-lifting of the material in time and warned the latter (Transporter) for taking action under sub-clause 3(a) and /or 3 (b) and 3 (c) of the agreement. It was however, noticed that despite significant delay in transportation and delivery of material (₹ 1.07 crore), MTDC did not take any concrete action against the Transporter like rescinding the contract, forfeiture of the security deposit and imposing of penalty as per the terms of the agreement ibid *etc.,* which resulted in further delay in completion of the contract.

Despite failure of the Transporter to lift the material valuing ₹ 1.07 crore within stipulated time schedule, MTDC released payment valuing ₹ 73.88 lakh to the Transporter against admissible transportation charges of ₹ 60.10 lakh which resulted in excess payment of ₹ 13.78 lakh as per details given in **Appendix 3.4 –B.**

Thus, payment of 100 *per cent* advance to the suppliers contrary to the provisions of GFR and not taking action against the Transporter for delay in delivery of materials tentamounts to undue benefit of ₹ 2.49 crore (₹ 2.35 crore + ₹ 13.78 lakh) to the suppliers/transporter and blockade of funds to the tune of ₹ 1.07 crore (to the extent of the value of material not received).

The Management stated (June 2014) that balance quantity of steel was received in full and 300 metric ton of cement was received after audit (January 2013).

The reply of the Management is not tenable as 1286.30[12] MT of cement worth ₹ 68.62 lakh was yet (July 2014) to be received by the MTDC. Further, the Transporter started lifting the material only after the issue was raised by audit (January 2013) and issue of show cause notices (July/December 2013, July 2014) by the Management. Had the Management taken concrete and timely action, unduly delay in lifting of materials by the Transporter could have been avoided. Moreover, the challans produced to audit by the Management in support of their reply regarding delivery of steel/cement did not have mandatory endorsement of taxation check-gates for entry into Manipur for material brought from outside the State. This also raised doubts about authenticity of the challans submitted by the Transporter to MTDC.

[12] 1586.30 MT of cement outstanding as on date of audit minus 300 MT stated to have been received after audit.

3.3 Irregular release of Mobilisation Advance

The Company released interest free Mobilisation Advance of ₹ 50 lakh to a contractor in violation of extant rules

The provisions of CPWD Work Manual (Para 32.5) provided for release of Mobilisation Advance to the contractors against certain specialised and capital intensive works valuing not less than ₹ 2.00 crore at simple interest of 10 *per cent* per annum. The Mobilisation Advance so released should be restricted to 10 *per cent* of the contract value and should be released only after obtaining a Bank guarantee (BG) of equivalent amount from a schedule bank with validity for the contract period.

A Memorandum of Understanding (MOU) was signed (December 2011) between Manipur Tribal Development Corporation Ltd. (MTDC) and Medical & Health Service Department, Government of Manipur (Department) for construction of General Nursing Mid-wifery School at Tamenglong. Accordingly, MTDC awarded (January 2012) five work orders at the tender amount of ₹ 3.34 crore to a local contractor as per details given in **Table 3.3.1.**

Table 3.3.1

<table>
<tr><th>Sl. No.</th><th>Sub-Head</th><th>Work Order amount (₹)</th><th>Amount of advance paid(₹)</th><th>Time schedule[13]</th></tr>
<tr><td>1</td><td>Block A</td><td>68,44,026</td><td rowspan="4">40,00,000</td><td rowspan="5">36 months</td></tr>
<tr><td>2</td><td>Block B</td><td>72,17,842</td></tr>
<tr><td>4</td><td>Block D</td><td>53,42,611</td></tr>
<tr><td>5</td><td>Block E</td><td>70,55,296</td></tr>
<tr><td>3</td><td>Block C</td><td>69,77,484</td><td>10,00,000</td></tr>
<tr><td colspan="2">Total</td><td>3,34,37,259</td><td>50,00,000</td><td></td></tr>
</table>

MTDC paid (November and December 2012) interest free mobilisation advance of ₹ 50 lakh[14] (15 *per cent* of tendered amount) to the contractor against a Bank Guarantee of only ₹ 11 lakh from a non-scheduled bank. The Management while sanctioning interest-free Mobilisation Advance stated that this was done to avoid delay in procurement of construction material by the contractor.

Audit of the records showed that the payment of Mobilisation Advance was irregular on account of the following:

(i) The value of work order ranged between ₹ 53.42 lakh and ₹ 72.18 lakh and hence did not qualify for grant of mobilization advance in accordance with the provisions of CPWD Manual.

(ii) The nature of these works was of normal civil works and did not qualify as specialised work.

[13] From the date of issue of work order

[14] ₹ 40 lakh vide Cheque No. 358624 dated 24.11.2012 & ₹10 lakh Cheque No. 358638 dated 10.12.2012

(iii) Only partial security of ₹ 11 lakh was obtained from a non-scheduled, liquidated bank[15] *viz.* Manipur Industrial Corporation Bank Ltd. The Management failed to ensure adequate Bank Guarantee from a scheduled bank.

(iv) Even after due expiry of the schedule date (December 2014) of completion of the works, none of the five works could be commenced (December 2014) due to non-finalisation of work site.

In view of the above, payment of Mobilisation Advance was irregular and also tentamounts to undue benefit to the contractor.

The matter was referred (June 2014) to the Company/Government. No reply was received yet (December 2014).

MANIPUR POLICE HOUSING CORPORATION LTD.

3.4 Undue advantage to suppliers

Full advance payment to the suppliers without obtaining any safeguard resulted in delay in receipt of materials worth ₹ 1.79 crore

Rule 159(1) of General Financial Rules, (GFR) provides that, ordinarily, payments for services rendered or supplies made should be released only after the services have been rendered or supplies made. The Rule further provides for release of advance to private contractors upto a maximum of 30 *per cent* of contract value, against various types of contracts including turnkey contracts, fabrication contracts, maintenance contracts, *etc.* The advances so released should be adequately safeguarded in the form of Bank Guarantee (BG) *etc.,* to be obtained from the contractor. Further, to ensure due performance of the contract, the GFR (Rule 158) provides for obtaining of performance security from the contractor.

MPHC issued (September/December 2012) supply orders on various suppliers for procurement AC Sheets, CGI Pipes, Rhino board and tiles, Cement and assorted Sanitary items at a total cost of ₹ 6.59 crore. The terms and conditions of the supply order stipulated that the supply orders should be completed within a period ranging between 60 to 185 days or as per schedule of the purchaser. Terms and conditions of the supply orders also provided that penalty as decided best by the Authority will be imposed for delay in completion of supply.

Audit of the records (January 2014) of MPHC showed that contrary to the above provisions of GFR, the Corporation paid 100 *per cent* advance (instead of 30 *per cent)* to the five local firms, amounting to ₹ 6.59 crore during the period from September 2012 to December 2012 . The justification of payment of 100 *per cent* advance was not found on record. Thus, the Corporation paid an advance of ₹ 4.61 crore in excess of the advance permissible under Rule 159 (1) of the GFR. Besides, the advance of ₹ 6.59 crore was given without

[15] Liquidated in September 2002.

obtaining any security like Performance Guarantee, Bank Guarantees *etc.* as per details given in **Appendix 3.5.**

Further scrutiny of records showed that as on July 2014, materials worth ₹ 4.80 crore only was delivered against supply orders worth ₹ 6.59 crore. Thus, the materials worth ₹ 1.79 crore were pending for supply for periods ranging between 392 and 677 days beyond the schedule dates. Inspite of the long delay in delivery of the materials, the Corporation did not impose any penalty on the suppliers in accordance with the terms of the supply order.

Thus, due to irregular release of Mobilisation Advance and not obtaining of the Performance Guarantee from the supplier, the Company failed to secure timely delivery/ supply of materials valuing ₹ 1.79 crore.

The matter was reported to the Company/Government (September 2014) however, no reply was received till date (December 2014).