CHAPTER VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

Overview of Government Companies and Statutory Corporations

7.1 Introduction

As on 31 March 2006, there were 15 Government Companies (seven working Companies and eight non-working[*] Companies) and one non-working Statutory Corporation as against the same number of Government Companies and Statutory Corporation as on 31 March 2005 under the control of the State Government. The accounts of the Government Companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit by the CAG as per the provisions of Section 619 (4) of the Companies Act, 1956. The audit arrangement of the Statutory Corporation is shown below:

Table 7.1

Name of the Corporation	Authority for audit by the CAG	Audit arrangement
Manipur State Road Transport Corporation (MSRTC)	Section 33 (2) of the Road Transport Corporations Act, 1950	Sole audit by CAG

7.2 Working Public Sector Undertakings (PSUs)

Investment in working PSUs

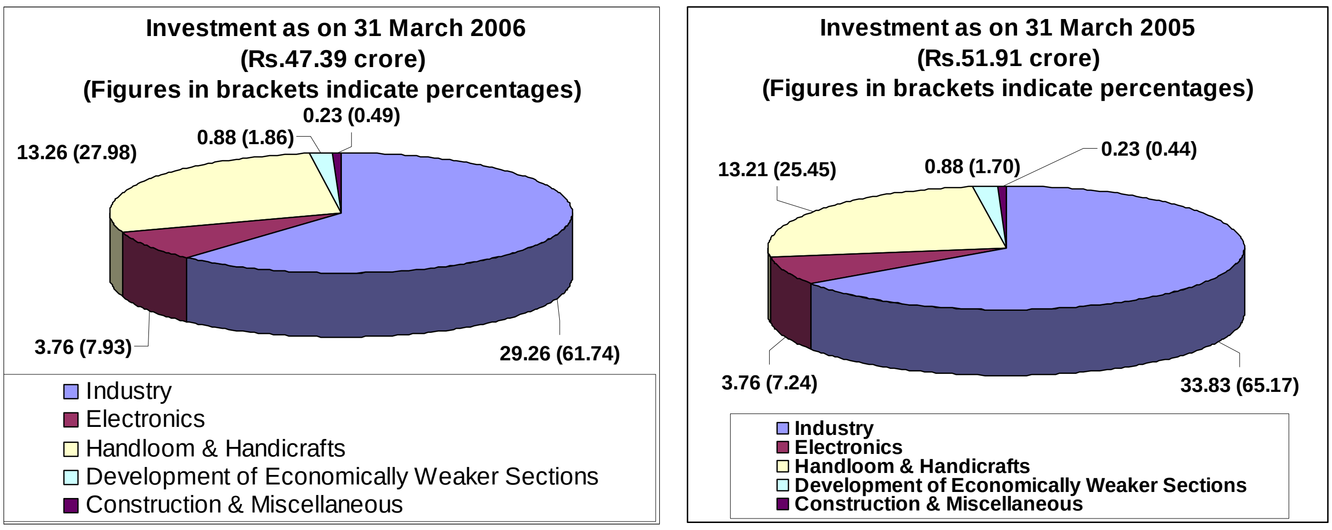
7.2.1 As on 31 March 2006, the total investment in seven working Government Companies was Rs.47.39 crore[†] (equity: Rs.28.37 crore; long term loans Rs.19.02 crore) against the total investment of Rs.51.91 crore (equity: Rs.28.32 crore; long term loans[‡]: Rs.23.59 crore) in same number of working Government Companies as on 31 March 2005. The analysis of investment in PSUs is given in the following paragraphs.

Sector-wise investment in working Government Companies and Statutory Corporation.

7.2.2 The investment (equity and long term loans) in PSUs in various sectors and percentage thereof at the end of 31 March 2006 and 31 March 2005 are indicated below in the pie charts.

[*] Non-working Companies are those that are in the process of liquidation/closure/merger, *etc*.
[†] State Government investment was Rs.24.99 crore (Others: Rs.22.40 crore). Figure as per Finance Account 2005-06 is Rs.34.53 crore, the difference is under reconciliation.
[‡] Long term loans mentioned in paras 7.2.1, 7.2.2, 7.2.3 and 7.8.1 are excluding interest accrued and due on such loans.

Chart 7.1



Working Government Companies

7.2.3 The total investment in working Government Companies at the end of 31 March 2005 and 31 March 2006 was as follows:

Table 7.2

(Rupees in crore)

Year	Number of Government Companies	Investment in working Government Companies		
		Equity	Loan	Total
2004-05	7	28.32	23.59	51.91
2005-06	7	28.37	19.02	47.39

Investment in the current year has decreased over the previous year due to repayment of loans outstanding by the PSUs in the Industry sector.

As on 31 March 2006, the total investment in working Government Companies, comprised 59.86 *per cent* of equity capital and 40.14 *per cent* of loans as compared to 54.56 *per cent* and 45.44 *per cent* respectively as on 31 March 2005.

The summarised statement of Government investment in working Government Companies in the form of equity and loans is detailed in *Appendix 7.1*.

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

7.3.1 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to working Government Companies are given in *Appendices 7.1* and *7.3*.

7.3.2 The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from the State Government to working Government Companies for three years up to 2005-06 are as follows:

Table 7.3

(Rupees in crore)

	2003-04				2004-05				2005-06			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Equity Capital outgo from budget	3	11.15	-	-	3	0.50	—	—	1	0.05	—	—
Grants/subsidy toward: (i) Projects/Programmes/ Schemes (ii) Other subsidy	—	—	—	—	—	—	—	—	—	—	—	—
Total outgo	**3**	**11.15**	**-**	**-**	**3**	**0.50**	**—**	**—**	**1**	**0.05**	**—**	**—**

7.3.3 No information regarding guarantees given by the State Government was received from the Companies (November 2006).

7.4 Finalisation of accounts by working PSUs

7.4.1 The accounts of the Companies for every financial year are required to be finalised within six months from the end of relevant financial year under Section 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The annual accounts along with Auditors' Report and supplementary comments of the Comptroller and Auditor General of India are also to be laid before the Legislature within nine months from the end of financial year under section 619A of the Companies Act, 1956.

7.4.2 It can be seen from *Appendix 7.2*, that out of seven working Government Companies, none has finalised the accounts for the year 2005-06 within the stipulated period. During the period from October 2005 to September 2006, one working Government Company *i.e.* Manipur Film Development Corporation Limited finalised its accounts pertaining to previous year (1991-92).

7.4.3 The accounts of seven working Government Companies were in arrears for periods ranging from nine to 23 years as on 30 September 2006 as per details given below:

Table 7.4

Name of working Government Companies	Year from which accounts are in arrear	Number of years for which accounts are in arrear
Manipur Tribal Development Corporation Ltd.	1983-84 to 2005-06	23
Manipur Handloom & Handicrafts Development Corporation Ltd.	1987-88 to 2005-06	19
Manipur Industrial Development Corporation Ltd.	1990-91 to 2005-06	16
Manipur Film Development Corporation Ltd.	1992-93 to 2005-06	14
Manipur Electronics Development Corporation Ltd.	1996-97 to 2005-06	10
Manipur Police Housing Corporation Ltd.	1996-97 to 2005-06	10
Manipur State Power Development Corporation Ltd.	1997-98 to 2005-06	9

7.4.4 The Administrative Departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the Administrative Departments and officials of the Government were apprised quarterly by Audit regarding arrear in finalisation of accounts, no effective measures have been taken by the Government, and as a result, the net worth of these PSUs could not be assessed in Audit.

7.5 Financial position and working results of working PSUs

7.5.1 The summarised financial results of working PSUs (Government Companies) as per their latest finalised accounts are given in *Appendix 7.2.*

7.5.2 According to the latest finalised accounts of seven working Government Companies, three Companies* had been incurring losses for varying period (indicated against each Company in the footnote) and had incurred an aggregate loss of Rs.23.02 lakh, another three Companies£ earned an aggregate profit of Rs.99.88 lakh and one Company i.e. Manipur State Power Development Corporation Ltd. had not commenced commercial activities.

7.6 Working Government Companies

Profit earning working Companies and dividend

7.6.1 None of the three profit earning Companies had finalised its accounts during the year *(Appendix 7.2).*

Loss incurring working Government Companies

7.6.2 The Manipur Handloom and Handicrafts Development Corporation Ltd. had accumulated losses aggregating Rs.1.70 crore (Appendix 7.2) which exceeded its paid up capital of Rs.one crore. Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to the Company in the form of equity capital. According to available information, the total financial support so provided by the State Government by way of equity capital during 2005-06 to this Company amounted to Rs.five lakh.

Return on capital employed

7.6.3 As per the latest finalised accounts, the capital employed§ worked out to Rs.16.70 crore in seven working Companies and total return** thereon

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* ***Manipur Handloom & Handicrafts Development Corporation Ltd.(1986-87), Manipur Tribal Development Corporation Ltd.(1982-83) & Manipur Film Development Corporation Ltd. (1991-92).***

£ ***Manipur Industrial Development Corporation Ltd., Manipur Electronics Development Corporation Ltd. & Manipur Police Housing Corporation Ltd.***

§ Capital employed represents net fixed assets (including capital work-in-progress) plus working capital.

** 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 account.

amounted to Rs.1.51 crore which was 9.04 *per cent* as compared to total return of Rs.1.48 crore (8.81 *percent*) in the previous year (accounts finalised up to September 2005). The details of capital employed and total return on capital employed in case of working Government Companies are given in *Appendix 7.2*.

7.7 Reforms in Power Sector

7.7.1 A Memorandum of Agreement (MOA) was signed on 26 July, 2004 between the Union Ministry of Power, and the Department of Power, Government of Manipur as a joint commitment for implementation of reforms programme in power sector with identified milestones. Major milestones of the reforms programme are as under:

<table>
<tr><th>Milestone</th><th>Achievement</th></tr>
<tr><td>For generation, transmission and distribution of electricity in the State, Corporation to be set up by August 2004 and made fully functional by July 2005.</td><td>The progress of implementing power sector reforms was slow and the Corporation has not become operational as of November 2006.</td></tr>
<tr><td>State Government will set up State Electricity Regulatory Commission (SERC)/Joint Electricity Regulatory Commission (JERC) by November 2004 and file tariff petition immediately thereafter.</td><td rowspan="3">The State Government intimated (December 2005) that the Central Government had constituted a Joint Electricity Regulatory Commission (JERC) for the States of Manipur and Mizoram on 18 January 2005. However, for want of appointment of Chairperson and Members, the JERC remained non-functional.</td></tr>
<tr><td>State Government will provide full support to the SERC/JERC to enable it to discharge its statutory responsibilities. The tariff orders issued by SERC/JERC will be implemented fully unless stayed or set aside by a court order.</td></tr>
<tr><td>State Government will ensure timely payment of subsidies required in pursuance of orders on the tariff determined by the SERC/JERC.</td></tr>
<tr><td>State Government will undertake Energy Audit and Accounting at all levels to promote accountability and reduce Transmission and Distribution losses and bring them to the level of 20 per cent by 2007 and achieve break even in current distribution operation in three years and positive returns thereafter.</td><td>For Energy Audit, 731 nos. of electronic energy meters had been purchased for providing at Distribution Sub Stations (11/0.4 KV sub-stations). These meters were yet to be installed (October 2006).</td></tr>
<tr><td>State Government would achieve 100 per cent electrification of villages by 2007 subject to adequate funds being provided by the GOI under PMGY or any other relevant scheme.</td><td>The State Government was to complete 100 per cent metering and billing of all consumers by March 2003 but only 1,59,926 consumers (out of 1,74,651) were provided with energy meters (March 2006).Against the target of achieving 100 per cent electrification of villages (2376 villages) by 2007,the State Government could electrify 1939 villages as of July,2006. Thus, there was shortfall in achievement.</td></tr>
</table>

7.8 Non-working Public Sector Undertakings (PSUs)

Investment in non-working PSUs

7.8.1 As on 31 March 2006, the total investment in nine non-working PSUs (eight non-working Government Companies and one non-working Statutory Corporation) was Rs.118.82 crore (equity: Rs.103.47 crore; loans: Rs.15.35 crore) against the same amount of investment in the same number of Government Companies and Statutory Corporation as on 31 March 2005. The classification of non-working Government Companies and Statutory Corporation at the end of March 2006 was as under:

Table 7.5

(Rupees in crore)

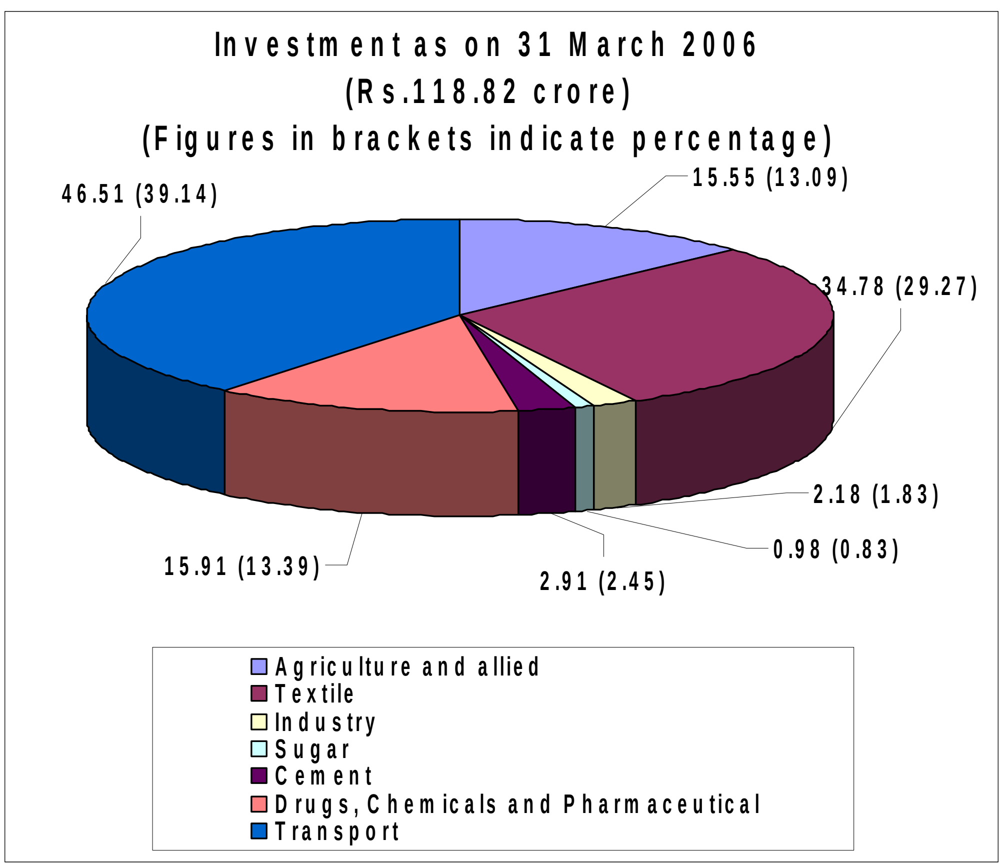
Status of non-working PSUs	Number of Companies	Number of Corporation	Investment			
			Companies		Corporation	
			Equity	Loans	Equity	Loans
Under liquidation/closure	8	1	56.97	15.35	46.50	—
Total	**8**	**1**	**56.97**	**15.35**	**46.50**	**—**

7.8.2 The above non-working PSUs which were under liquidation involve substantial investment of Rs.118.82 crore. Effective steps need to be taken for their expeditious liquidation or closure.

Sector-wise investment in non-working Government Companies and Statutory Corporation

7.8.3 The investment (equity and long term loans) in PSUs in various sectors and percentage thereof at the end of 31 March 2006 is indicated below in the pie chart:

Chart No. 7.2



Budgetary outgo, grants/subsidies, guarantees and waiver of dues and conversion of loans into equity to non-working Companies and Statutory Corporation

7.8.4 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to non-working Government Companies and non-working Statutory Corporation are given in *Appendices 7.1 and 7.3*.

Finalisation of accounts by non-working PSUs

7.8.5 During the period from October 2005 to September 2006, two non-working Government Companies (A–1 and 2) and one non-working Statutory Corporation (C–1) finalised five accounts for the previous years (*Appendix 7.2*).

7.8.6 The accounts of eight non-working Government Companies and one non-working Statutory Corporation were in arrear for periods ranging from nine to 22 years as on September 2006 (*Appendix 7.2*).

Financial position and working results of non working PSUs

7.8.7 The summarised financial results of non-working PSUs as per their latest finalised accounts are given in *Appendix 7.2*. Statement showing financial position and working results of the non-working Statutory Corporation for the latest three years for which accounts are finalised are given in *Appendices 7.4* and *7.5* respectively.

The summarised details of paid-up capital, net worth, cash loss and accumulated loss of non-working PSUs as per their latest finalised accounts are given below:

Table 7.6

(Rupees in crore)

Particular of Companies/Corporation	Paid-up capital	Net worth[††]	Cash loss	Accumulated loss
Non-working Companies	6.05	0.49	NA	5.54
Non-working Statutory Corporation	22.82	(-) 1.80	NA	24.62
Total	**28.87**	**(-) 1.31**		**30.16**

Operational performance of non-working Statutory Corporation

7.8.8 The operational performance of Manipur State Road Transport Corporation is given in *Appendix 7.6.*

7.9 Status of placement of Separate Audit Reports of Statutory Corporation in Legislature

7.9.1 Separate Audit Report on the accounts of the Manipur State Road Transport Corporation for the year 1994-95 along with Audit Certificate had

[††] Net worth represents paid-up capital plus free reserves less accumulated losses.

been sent to the State Government in August 2006. The Audit Report had not been placed (December 2006) in the State Legislature.

7.10 Results of audit by Comptroller and Auditor General of India

7.10.1 During the period from October 2005 to September 2006, the audit of accounts of one Government Company and one non-working Statutory Corporation were selected for audit. The net impact of the important audit observations as a result of audit of accounts of these PSUS was as follows:

Table 7.7

Details	Number of accounts			Amount (Rupees in lakh)		
	Govt. Companies		Statutory Corporation	Govt. Companies		Statutory Corporation
	Working	Non-Working	Non-Working	Working	Non-Working	Non-Working
Understatement of loss	—	1	—	—	0.59	—
Overstatement of loss	—	—	1	—	—	24.09

Some of the major errors and omissions noticed in the course of audit of annual accounts of some of the above Government Companies and Statutory Corporation are mentioned below:

Errors and omissions noticed in case of Government Companies

Manipur Pulp & Allied Products Ltd. (1993-94)

7.10.2 Provision of depreciation on barracks @ 25 *per cent*, instead of 100 *per cent* has resulted in understatement of loss and overstatement of net block of fixed assets by Rs.0.59 lakh.

Errors and omissions noticed in case of Statutory Corporation

Manipur State Road Transport Corporation (1994-95)

7.10.3 (i) The net loss for the year have been overstated by Rs.24.09 lakh due to excess accountal of expenses (Rs.44.98 lakh) and non provision of expenses (Rs.20.89 lakh).

(ii) Neither the Fixed Assets Register was maintained nor Fixed Assets and Stock physically verified during the year.

(iii) Mode of valuation of closing stock has not been disclosed.

(iv) Age-wise/party-wise analysis of debtors has not been made.

7.11 Internal Audit/Internal Control

7.11.1 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal audit/internal control systems in the Companies audited by them in accordance with the directions issued by the CAG to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. Accordingly, the Statutory Auditors observed deficiencies in respect of internal audit system in case of two Companies. A resume of major recommendations/comments made by Statutory Auditors is as follows:

7.11.2 Manipur Handloom & Handicrafts Development Corporation Ltd. had no internal control procedure for purchase of stores, raw materials *etc*.

7.11.3 Manipur Cement Limited had no adequate internal control procedure in respect of the purchase of stores of raw materials, stores including components, plant and machinery, equipment and other assets.

7.12 Recommendations for closure of PSUs

7.12.1 One Government Company (Manipur Handloom & Handicrafts Development Corporation Limited) had been incurring losses for more than five consecutive years (as per its latest finalised accounts) leading to negative net worth. In view of poor turnover and continuous losses, the Government may either improve performance of the above Company or consider its closure.

7.13 Response to inspection reports, draft paras and reviews

7.13.1 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned administrative departments of the State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through the respective heads of departments within a period of six weeks. Inspection reports issued up to March 2006 pertaining to 16 PSUs disclosed that 142 paragraphs relating to 29 inspection reports remained outstanding at the end of September 2006. Of these 134 paragraphs relating to 26 inspection reports had not been replied to for more than two to 15 years. Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2006 is given in *Appendix 7.7*.

7.13.2 Similarly, draft paragraphs and reviews on the working of Government Companies are forwarded to the Principal Secretary/ Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that replies to one draft paragraph and one performance review forwarded to the various departments during June and August 2006 have not been received so far (December 2006).

7.13.3 It is recommended that the Government should ensure that (a) procedure exists for action against the officials who failed to send replies to inspection reports, draft paragraphs/reviews and Action Taken Notes for recommendations of COPU as per the prescribed time schedule; (b) action is taken to recover loss/outstanding advances/overpayments in a time bound schedule; and (c) the system of responding to audit observations is revamped.

SECTION A
PERFORMANCE AUDIT REVIEW

HOME DEPARTMENT

7.14 Performance Review on Construction Works undertaken by the Manipur Police Housing Corporation Limited

Highlights

The Company could not complete 206 works out of 561 works targeted to be completed by 31 March 2006.

(Paragraph 7.14.12)

The Company awarded 90 *per cent* of the works without calling for tenders. 684 works entrusted to the Company for execution during 2001-02 to 2005-06 were irregularly split into 870 works so as to bring the cost of these works within the delegated powers of the Works Advisory Committee and to avoid Calling of open tenders.

(Paragraph 7.14.17)

The Company diverted Rs.21.33 crore as interest free temporary loan to various departments.

(Paragraph 7.14.10)

The Company has not finalised its annual accounts for the last 10 years and also did not maintain site accounts and other vital records of works being executed.

(Paragraphs 7.14.22 & 7.14.23)

Introduction

7.14.1 The Manipur Police Housing Corporation Limited (Company) was incorporated in January 1990 as a wholly owned Government Company under the Companies Act, 1956 with a paid up capital of Rs. two lakh fully subscribed by the State Government. The main objective of the Company is to construct residential and non-residential buildings for the Manipur Police and other Departments/Bodies on behalf of the State/Central Government. The Company charged agency charges at the rate of 12 *per cent* up to 2004-05 and at the rate of 11.75 *per cent* from 2005-06 onwards on the estimated cost of the work undertaken. Additional three *per cent* contingency charges were also charged from the Client Departments including Manipur Police.

Organisation set-up

7.14.2 The Management of the Company is vested in the Board of Directors headed by a Chairman who is the Chief Secretary of the State Government of Manipur. The responsibility for day to day functioning of the Company lies with the Managing Director (who is on deputation from the

State Government) of the Company who is assisted by an Additional Chief Engineer, a Senior Architect, an Architect and four Executive Engineers.

Scope of Audit

7.14.3 The present Performance Audit conducted during April to May 2006 covers an evaluation of overall construction activities undertaken by the Company during the period from 2001-02 to 2005-06.

Audit objectives

7.14.4 The Performance Audit was undertaken with the objective of evaluating and assessing whether:

- All construction works were undertaken and executed economically, efficiently and effectively;
- The material management in the Company was as per codal provisions of CPWD Manual and there was transparency in awarding the works;
- The Company utilised available funds optimally; and
- The Company has an efficient and effective Internal Control, Monitoring and Evaluation System;

Audit criteria

7.14.5 The criteria adopted by Audit for assessing the achievement of audit objectives were:

- Delegation of powers by the Board of Directors to the Works Advisory Committee;
- Manipur Public Works Department schedule of rates;
- Codal provisions of Central Public Works Department Manual;
- Provisions of the Companies Act, 1956;
- Generally accepted financial management principles; and
- Procedure prescribed for monitoring and evaluation.

Audit methodology

7.14.6 The following mix of Audit methodology was adopted for achieving the audit objectives:

- Analysing data and documentary evidence vis-à-vis established audit criteria to arrive at audit findings, conclusions and recommendations.
- Examination of minutes and agenda of Board of Director's (BOD) meetings and analysis of Progress Report submitted to the Board of Directors.
- Examination of cases of purchase of materials and award of construction works to contractors.

- Carrying out user satisfaction survey to ascertain whether client departments were satisfied with the quality of construction undertaken by the Company.
- Issuing questionnaire, holding meetings and discussions with Management to obtain their written response to various audit observations and queries.

Audit findings

7.14.7 The Audit findings as a result of the Performance Audit of construction works undertaken by the Company were reported to the Company/State Government in August 2006 and discussed in the exit conference held on 1 December 2006 which was attended by the Additional Chief Engineer and other officers of the Company. The views expressed by the members have been taken into consideration while finalising the report.

The audit findings are discussed in the succeeding paragraphs:

Fund management

7.14.8 The details of funds received for execution of works, agency charges earned, contingency charges realised, interest earned, funds refunded due to withdrawals of works by the client departments, expenditure incurred against works executed and administrative expenses are given in the Table below:

Table 7.8

(Rupees in lakh)

Year	Funds available		Total	Value of work done				Balance after work expen-ditures (4-8)	Percentage of works expenditure to the funds available (5÷4) × 100	Interest Receipt	Adminis-trative and others expenses	Closing balance (9+11) - 12
	Opening balance	Funds received after refund		Work expd.	Contin-gency charges	Agency charges	Total					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
2001-02	913.59	153.22	1066.81	294.97	8.85	36.46	340.28	726.53	27.65	49.60	115.96	660.17
2002-03	660.17	600.24	1260.41	591.18	17.74	73.07	681.99	578.42	44.56	20.82	105.93	493.31
2003-04	493.31	1698.92	2192.23	495.26	14.86	61.21	571.33	1620.90	21.13	98.56	113.60	1605.86
2004-05	1605.86	2288.54	3894.40	1646.50	49.39	203.51	1899.40	1995.00	40.32	64.63	154.07	1905.56
2005-06	1905.56	3140.59	5046.15	2241.63	67.25	271.29	2580.17	2465.98	42.10	62.85	214.57	2314.26
Total:		**7881.51**		**5269.54**	**158.09**	**645.54**	**6073.17**			**296.46**	**704.13**	

Table above shows that availability of funds was not a constraint on the Company. On account of consistent saving during 2001-02 to 2005-06 the opening balance increased from Rs.9.14 crore to Rs.23.14 crore.

During the years 2001-02 to 2005-06 the Company received an amount of Rs.78.82 crore from the client Departments for execution of works. The Company earned interest to the tune of Rs.2.96 crore during the said period. The total funds available with the Company up to 31 March 2006 were Rs.90.92 crore against which it incurred an expenditure including establishment and other charges of Rs.67.77 crore leaving a closing balance of Rs.23.14 crore. Analysis of the funds position revealed following discrepancies and violation of generally accepted financial management principles.

Non-segregation of administrative expenses and works related contingency charges

7.14.9 The outstanding balances of unutilised funds at the end of the year during the period 2001-02 to 2005-06 indicate that the Company failed to promptly complete the various construction works that it had undertaken. As per sound management practices, the Company would have been asked to pay interest earned on deposits made by the client Departments to them in cases where it has not been able to complete the assigned works within the scheduled time frame. But there was no such provision in the contracts entered into with the client departments.

Audit examination also revealed that the Company was not segregating its works related contingency expenditure from the administrative expenses. Therefore, it is very difficult to assess whether the Company has been able to meet its administrative expense out of the administrative charges recovered from the clients.

The Company stated (November 2006) that the administrative charges and expenses thereof were segregated. Audit scrutiny, however, revealed that the Company did not maintain separate accounts for contingency expenditure against the amount received as contingent charges.

Diversion of funds

7.14.10 During the years 2001-02 to 2005-06, the Managing Director without the approval of the BOD diverted project funds of Rs.21.33 crore as interest free temporary loans to user Government Departments like Police, Jail, Home, Sericulture, Chief Election Officer *etc*. out of the total funds of Rs.78.82 crore deposited by the client Departments for execution of works. Out of the total loan amount of Rs.21.33 crore, Rs.17.59 crore was refunded by the borrowing Departments and a balance of Rs.3.74 crore was still outstanding against three borrowing Departments till March 2006 for two to 19 months as per details given below.

Table 7.9

(Rupees in lakh)

Name of the borrowing department	Period of release of loan	Amount of temporary loan	Amount refunded up to March 2006	Outstanding loan
Police	November 2004 to March 2006	472.01	103.34	368.67
Sericulture	September 2004 to March 2005	0.91	Nil	0.91
Home	April 2005 to March 2006	4.53	0.08	4.45
Total:		**477.45**	**103.42**	**374.03**

The Company in its reply stated (February 2006) that the temporary loans were extended to the client departments to meet their urgent day to day requirement of funds for want of Letter of Credit (LOC). The reply is not tenable since the Company was not supposed to extend any loan to the Government Departments without approval from its BOD. The loss of interest on account of loans to various Departments had not been worked out by the Company.

Execution of work

7.14.11 The construction works are being executed by the Company through private contractors registered with the Company by inviting tenders or by awarding works on nomination basis without inviting tenders. The Company has adopted Central Public Works Department Manuals and Codes. While the construction material like cement, steel, bricks *etc* is provided by the Company, plant and machinery and other equipments required for execution of works are to be arranged by the contractors.

Considerable delay in execution of works

7.14.12 The Company had undertaken 684 works worth Rs.87.95 crore during the last five years of which 561[‡‡] works were targeted to be completed by March 2006. Detailed position of works undertaken is shown in the Table below:

Table 7.10

Year	Balance work of previous year	Number of works allotted during the year	Total	Targeted year of completion	Number of completed works	Number of incomplete works
2001-02	7*	59	66	2001-02 2002-03	14	52
2002-03	52	14	66	2002-03 2003-04	33	33
2003-04	33	122	155	2003-04 2004-05 2005-06	35	120
2004-05	120	292	412	2004-05 2005-06	90	322
2005-06	322	67	389	2005-06	183	206
Total:		**554**			**355**	

* 7 works are the balance work of 2000-01

As of March 2006, the Company had completed 355 works out of 561 works targeted to be completed, leaving 206 works incomplete and behind schedule. The incomplete works which mostly relate to Family Welfare, Medical and Sericulture Departments were delayed by a period ranging from six months to five years.

Detailed scrutiny of 168 works (Police 67 and other than Police 101 works) on random selection basis revealed that only 59 works (Police 44 and Other than Police 15 works) were completed as of March 2006, of which 12 works were completed well within time and balance 47 works were delayed between one to 22 months as detailed in *Appendix 7.9*.

Further analysis of the Progress Report for the month of February 2006 as submitted to the BOD revealed that out of 206 ongoing works (Police 36 and others 170 works), 33 works with sanctioned cost of Rs.2.80 crore were not taken up as of May 2006 as detailed in *Appendix 7.10*.

[‡‡] Detail position of works undertaken for the Police Department and other than Police Department is given in *Appendix 7.8*.

In reply, the Company stated (May 2006) that the delay in taking up the works was due to short duration of working season, and volatile law and order situation resulting in frequent blockade of National Highway affecting supply of construction materials. The reply is not acceptable as 206 works were in progress. Further delay in commencing works was also attributable to delay in handing over land sites in time and non holding of regular meetings with client Departments for settling pending matters.

Delay in construction of Police Stations

7.14.13 To enforce effective policing in controlling the adverse law and order conditions in the State, construction of new police stations was taken up under the centrally funded "Modernisation of Police Force" programme. The Police Department entrusted to the Company construction of 46 new police stations in the State during 2001-02 to 2005-06. Most of the proposed police stations were situated in disturbed areas. As on 31 March 2006, the Company was able to complete only 18 police stations, leaving 28 police stations incomplete as tabulated below:

Table 7.11

Year	Balance work of previous year	Works allotted during the year	Total	Targeted year of completion	Number of completed works	Closing Balance of incomplete works
2001-02	—	1	1	2002-03	Nil	1
2002-03	1	nil	1	2002-03	Nil	1
2003-04	1	7	8	2004-05	Nil	8
2004-05	8	13	21	2004-05 2005-06	12	9
2005-06	9	25	34	2005-06 2006-07	6	28
Total:		**46**			**18**	**28**

Out of 28 incomplete police stations, 14 police stations were scheduled for completion before March 2006. The delay in completion of these 14 works was on account of delay attributable to the contractors. The delay in completion of police stations adversely affected the law and order operations of the Police Department.

Delay in construction of residential building for police personnel

7.14.14 The police personnel below the rank of inspector are entitled to rent free accommodation. The strength of the police force in Manipur has been increasing consistently. Hence, in order to bridge the gap between demand and supply of police quarters/barracks, the State Police Headquarters had undertaken construction of the police quarters/barracks through the Company.

Position of construction of residential buildings undertaken, completed and in progress as on March 2006 is tabulated below:

Table 7.12

Year	Balance work of previous year	Works allotted during the year	Total	Targeted year of completion	Number of completed works	Closing balance of incomplete works
2001-02	-	Nil	Nil	—	Nil	Nil
2002-03	Nil	Nil	Nil	—	Nil	Nil
2003-04	Nil	8	8	2004-2005	2	6
2004-05	6	9	15	2004-2005 2005-2006 2006-2007	9	6
2005-06	6	22	28	2005-2006 2006-2007 2007-2008	1	27
Total:		**39**			**12**	**27**

As of March 2006, 12 buildings out of 39 residential buildings were completed. It was observed that 12 buildings scheduled to be completed by March 2006 were still incomplete. Due to delay in completion of construction of these residential buildings, the gap between demand and supply could not be bridged causing discomfort to police personnel in the State.

Delay in execution of work for want of balance funds from the client Departments

7.14.15 It was noticed in Audit that four client Departments allotted 10 works with sanctioned cost of Rs.6.18 crore for execution by the Company and deposited Rs.1.24 crore with the Company. The balance amount of Rs.4.94 crore was yet (May 2006) to be deposited by the client Departments. The Company incurred expenditure of Rs.1.38 crore on all these works till March 2006. Thereafter these works remained incomplete for want of funds for period ranging between nine to 62 months as tabulated below:

Table 7.13

(Rupees in lakh)

Name of the department	Number of works	Sanctioned amount	Amount deposited	Balance amount yet to be deposited	Expen-diture incurred	Period of delay in month
Jail	5	81.83	44.77	37.06	58.10	17
Tourism	1	9.83	6.00	3.83	6.00	67
Labour	2	136.78	34.19	102.59	34.20	9 & 11
Sports	2	389.19	39.36	349.83	39.36	15
Total	**10**	**617.63**	**124.32**	**493.31**	**137.66**	

The action taken/initiated by the Company to get the balance funds from the client Department was neither stated nor on record. Further the Company has also not approached the client Departments with revised cost, if any, on account of increase in cost of building material, before restarting works whenever. As a consequence the likelihood of the works being completed appears remote.

Delay in handing over of completed works

7.14.16 Test check of records by Audit revealed that out of 59 completed buildings handed over to the client Departments, eight buildings were handed over after delay ranging from one to12 months after completion as detailed in *Appendix 7.11*.

It was also seen that in three Buildings viz. (i) Construction of one barrack of 40 Security Men (SM) at Saikul Police Station; (ii) Construction of drill shed at MPTS, Pangei; and (iii) Building for Tamenglong Police Station were handed over to the Client Departments without a joint inspection.

Transparency in awarding of work

7.14.17 Functioning of Works Advisory Committee

7.14.17.1 In 1989, the BOD set up a Works Advisory Committee (WAC) and empowered it to award works valuing up to Rs.10 lakh to contractors without calling of tenders. These powers were enhanced to Rs.25 lakh vide BOD meeting of 7 February 2004 without any recorded reasons inspite of the fact that the State PWD and CPWD can award works of value up to Rs.0.50 lakh only without calling of tenders. This is in violation of standard procedures and practices and financial discipline followed across the country. The table below depicts the delegation of powers to various authorities in the Company for award of work.

Table 7.14

Conditions	Financial limit	
	Up to January 2004	February 2004 onwards
Award of work by the Work Advisory Committee (WAC) without calling tenders	Up to Rs.10 lakh	Up to Rs.25 lakh
Award of work on acceptance of the tender by the Chairman of the Company on the recommendations of the tender committee	Above Rs.10 lakh up to Rs.1 crore	Above Rs.25 lakh up to Rs.1 crore
Award of work on acceptance of the tenders by the Board of Directors on the recommendations of the tender committee	Above Rs. 1 crore	Above Rs. 1 crore

7.14.17.2 It was observed by Audit that 684 works entrusted by various Departments to the Company during 2001-02 to 2005-06 were irregularly split into 870 works to bring the value of these works below Rs.10/25 lakh. Out of these 794 works costing Rs.50.47 crore were allotted to the contractors without calling tenders by the WAC as per details given below:

Table 7.15

(Rupees in lakh)

Year	Works awarded on open tender basis	Tender value	Works awarded without calling tenders	Value of Split up works	Total number of split works	Total Tender value	Remarks
2001-02	47	1035.14	28	51.08	75	1086.22	In the case of work awarded without calling for tenders, orders were split up as buildings, toilet blocks, land development, Internal Electrical Installations (IEI) *etc*.
2002-03	7	71.36	14	40.31	21	111.67	
2003-04	7	508.03	178	832.34	185	1340.37	
2004-05	1	6.84	349	2088.62	350	2095.46	
2005-06	14	1086.02	225	2034.75	239	3120.77	
Total:	**76**	**2707.39**	**794**	**5047.10**	**870**	**7754.49**	

Due to allocation of works without call of tenders there was no competition in rates and transparency, hence, the possibility of preparation of inflated estimates and monopoly of contractors and undue benefit to contractors cannot be ruled out.

7.14.17.3 Further Audit examination of contract documents of four randomly selected work orders revealed that in order to avoid calling of tenders, works were split up to bring their value below Rs.10/25 lakh *i.e.* within the delegated powers of the WAC. The details of these works are as under:

Table 7.16

(Rupees in lakh)

Sl. No.	Name of the work	Estimated cost	Amount of work order	Percentage over Manipur Schedule of rate (SOR)	Works split into numbers	Period of work order	Work awarded to number of contractors
1	Construction of outer security wall of high security prison at Central Jail, Sajiwa	74.30	108.28	45.73 *per cent* above SOR 1998	6	March 2006	6
2	Construction of prisoners barrack for additional jail at Sajiwa (Block D to H)	41.92	57.98	38 *per cent* above SOR 1998	5	November 2003	2
3	Construction of GI wire net fencing with iron post from Sanjenthong to Minuthong along the Imphal river Ch.0.00 m to 2575m	65.70	76.87	17 *per cent* above SOR 2004	6	February 2006	3
4	Construction of maternity and child health centre at Thongju, Canchipur, Imphal	45.23	63.24	39.81 *per cent* above SOR 1998	3	February and August 2004	1
	Total:	**227.15**	**306.37**		**20**		**12**

Out of the five split up works (at Sl. No.2); four works were awarded to a single contractor at a tender value of Rs.46.40 lakh (Rs.11.60 lakh x 4). Again, in the case of work at Sl. No. 4 the work was split up into three components. The aggregate value of these works was estimated to be Rs.45.23 lakh. All the three works were awarded to a single contractor at a total value of Rs.63.24 lakh. The reasons for not calling tenders for acceptance by the competent authority were not on record.

7.14.17.4 Similarly, the Progress Reports of October 2005 and February 2006 disclosed that in seven cases, the sanctioned amount was reduced to Rs.3.07 crore after deducting 15 *per cent* (12 *per cent* agency charges, three *per cent* contingencies). These were split up into 44 works with a view to keep the value of each order below Rs.25 lakh. These works were awarded to eight contractors without calling for tenders. The details are shown in *Appendix 7.12.* In all the seven instances, there was no record of the basis/criteria adopted by WAC for determining suitability of selected contractors.

7.14.17.5 Thus, there was a strong possibility of unprofessional and unfair practices being adopted by WAC in nominating empanelled registered contractors for executing works up to Rs.25 lakh as no transparent procedure was found on record for empanelling the contractors. This was significant in the light of the fact that 90 *per cent* of the works valued at Rs.50.47 crore were awarded during 2001-02 to 2005-06 without calling for tenders. Due to allocation of works without call of tenders there was no competition in rates and transparency. The WAC awarded all the split works to single contractors resulting in monopoly and undue benefit to the contractors. The possibility of estimates being inflated cannot be ruled out. The powers of WAC therefore need to be reviewed and brought in conformity with those of CPWD Manual which the Company has adopted for conducting its operations

The Company stated (November 2006) that each of these works was not a single work consisting of single building but different units. The reply of the Company is not tenable as the works were splitted into 44 different works and awarded to 8 contractors and not to 44 contractors.

Improper booking of expenditure

7.14.18 During the year 2005-06, there were 319 ongoing works of the Police Department out of which 29 works were selected for detailed examination and it was noticed in Audit that the Company reported in the progress report that an expenditure of Rs.1.20 crore had been incurred on three works. The Audit examination, however, revealed that expenditure of only Rs.97 lakh was incurred on these three works. The Company failed to provide to Audit the details of the remaining amount which was shown as spent.

As such, there was a difference of Rs.22.77 lakh between the expenditure shown in the progress report and expenditure actually incurred as per detailed below:

Table 7.17

(Rupees in lakh)

Name of the work	Sanctioned amount	Expenditure as per progress report	Cost of the work				Difference (4–8)
			Payment made to contractor	Contingencies	Agency charges	Total	
(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Construction of Police Station at Moreh under BADP	55.00	55.00	40.82	1.22	5.05	47.09	7.91
–do– Providing IEI in the PS at Moreh	13.00	13.00		No comment		13.00	—
Total	68.00	68.00				60.09	7.91
Construction of 20 SM Barrack with tubular trusses at Chapajang near Ngangkha Lawai (2+2=4 numbers)	31.89	31.89	26.10	0.78	3.23	30.11	1.78
Construction of 30 SM Barrack with tubular trusses and CGI sheet walling at Haorongching Thanga Part-I (3 numbers)	32.90	32.90	17.20	0.52	2.10	19.82	13.08
Grand Total	**132.79**	**132.79**			**110.02**	**110.02**	**22.77**

The Company replied (November 2006) that the analysis carried out by the audit in respect of three works cited in the para has left out expenditure made on internal electrical installations (IEI), sanitary provisions *etc*. The Company, however, produced no record to Audit in support of the expenditure incurred on IEI, sanitary provisions, etc.

Targets and achievements

Non-fixation of physical and financial targets

7.14.19 The Company has not fixed any annual physical and financial targets to facilitate any benchmarking of its achievements and to assess the reasons for shortfalls, if any. In a reply to an Audit query, the Company confirmed that it was not in a position to assess the number of works to be taken up for a particular year which depended upon request/requisition of works and subsequent deposits received from the client Departments. In the absence of any targets, Audit could not benchmark the performance of the Company. Even after 20 years of its existence, the Company has not been able to assess its annual capacity.

Preparation of defective Estimates of works

7.14.20 The primary objective of preparing an estimate is to enable one to know before hand the estimated expenditure to be incurred on execution of a work. The estimate is the probable cost of a work and is determined theoretically by mathematical calculations based on the plans, drawings and current rates.

A test check by Audit of the estimates including their respective tender documents, technical sanctions, work orders *etc*., revealed that in three works, 168 extra items of work were sanctioned to regularise the excess expenditure over tender value without revising the estimated cost. Details are given as under:

Table 7.18

(Rupees in lakh)

Name of the work	Estimated cost	Tender amount	Amount of extra item	Total	Expenditure incurred	Percentage of extra item over estimated cost
Construction of science block of Moreh College, Moreh under BADP	8.69	12.35	10.24	22.59	23.22	118
Construction of two 20 SM barracks with tubular trusses at Champajang under Ngangkha Lawai	7.17	10.39	4.93	15.32	15.05	69
Construction of two 20 SM barracks with tubular trusses at Champajang under Ngangkha Lawai (by another contractor)	7.17	10.39	0.78	11.17	11.05	11
Total:	**23.03**	**33.13**	**15.95**	**49.08**	**49.32**	

It is evident from the above details that the expenditure on the extra items was Rs.15.95 lakh against the tender amount of Rs.33.13 lakh which is 40 *per cent* above the estimated cost. Thus, it appears that the estimates were not prepared on realistic basis as the execution of extra items of work ranged between 11 to 118 *per cent* of the estimate.

Undue benefit to a contractor

7.14.21 The work of "Construction of three 30 SM barracks with tubular trusses and CGI sheets walling at Haorengchingang, Thanga Part I" with an estimated cost of Rs.16.02 lakh (for three barracks) was technically sanctioned (29 March 2004) for Rs.23.92 lakh (based on MSR1998 plus 45 *per cent* cost index plus three *per cent* contingencies). It was awarded to a contractor without calling for tenders in April 2004 at Rs.23.22 lakh (Rs.7.74 lakh x 3) i.e. 45 *per cent* above the estimated cost and stipulated to be completed by May 2005.

The work was commenced in May 2004 and completed in June 2005 at a cost of Rs.17.20 lakh and the payments were made to the contractor in January 2006. It was noticed in audit that during construction the size of the barracks was reduced from 30 SM to 20 SM.

The Company replied (November 2006), that the sites at which the barracks were to be constructed did not have enough space for construction of 30 SM barracks and, hence, 20 SM barracks in place of 30 SM barracks were constructed. The reply is not acceptable, as in such a case the Company should have revised the estimated cost for 20 SM barracks and then awarded the work. The estimated cost for 20 SM barracks would work out to Rs.10.68 lakh (Rs.16.02 lakh ÷ 90 SM x 60 SM) against which the contractor was paid Rs.17.20 lakh which is 61 *per cent* above the estimated cost.

Material Management

7.14.22 As per para 37.4 the CPWD Manual Vol-II, the materials should be purchased only for the work-in-progress and no reserve stock should be kept except with the specific sanction of the competent authority and up to a monetary limit to be prescribed by the competent authority. Further, as per Para-27.2.2.2 of the Manual, Material at Site Account (MAS account) is to be maintained. In the MAS account materials/fittings and full technical details of the accessories are to be clearly indicated to ensure that the same materials/fittings as issued by the department are kept in safe custody at all times and used on the works for which these are issued.

During the course of Audit the following irregularities were noticed:

- The Company has not fixed any reserve stock limit for large quantity of materials like steel, CGI sheet, electrical goods *etc*. Such goods worth Rs.2.84 crore remained in the stock as on 31 March 2006 without being issued to the works.
- No Material at Site Account was maintained by the Company and hence, there was no way to ascertain whether materials issued to the contractors for execution of works were actually used by them for the particular work.

Non-Finalisation of accounts

7.14.23 Every Government Company is required to prepare Annual Accounts to ensure financial accountability to the Legislature. As per provisions in Sections 166, 210, 230 and 619 (B) of the Companies Act, 1956, the accounts of the Government Companies for every financial year are required to be finalised within six months from the end of relevant financial year and laid before the House or both Houses of the State Legislature within three months of the holding of Annual General Meeting as per provisions of Section 619 (A) of the Act, *ibid*. The accounts of the Company were in arrear for the last ten years (1996-97 to 2005-06). The preparation of accounts for 1996-97 has been delayed due to objections raised by the Statutory Auditor on the accounts which could not be settled owing to reluctant attitude of the internal auditor despite several attempts to contact him. As a result, annual accounts of the Company could not be prepared since 1996-97 onwards. Apart from physical and financial performance of the Company remaining completely unreported to the Legislature during the last ten years, non-submission of accounts for such a long period has the inherent risk of frauds and misappropriation.

Internal control

7.14.24 The system of internal control of the Company was deficient with regard to the following:

The Company did not have any accounting manual of its own. In the absence of any laid down rules and regulations of its own, the Company was following the CPWD Manual/Codes as per the decision of the BOD of 1986. The Company, however, did not comply with the codal requirements with regard to maintenance of work abstract, register of works, contractors' ledger, proforma bill/advance payment register and non-preparation of progress reports of completed works, *inter alia*, showing year-wise position of work up to March every year by recording position of works undertaken, works completed, works-in-progress and assets handed over to the client department.

The Company has no internal control system to monitor work-wise day to day expenditure, up-to-date payment to the contractor and issue of materials and various works. Thus, there was a risk of incurring excess expenditure in payment to contractors and excess issue of materials.

Progress Reports being submitted to the BOD did not reflect the position of completed works including the date of completion. Therefore complete picture of the works could not be ascertained.

The Company did not hold monthly meetings with the client Departments to sort out the pending matters in the interest of the expeditious completion of the work. In reply, the Company stated (November 2006) that it was holding monthly meetings with the Police Department.

The Company did not have a system of internal audit.

Monitoring and evaluation

7.14.25 The Managing Director of the Company from time to time monitors the progress of works by conducting field visits to the work sites for speedy completion and improvement in the quality of work. But no records of follow up on such visits were available to assess their impact. Similarly, there was no record of site inspection by the Executive Engineers.

In reply the Company stated (November 2006) that as a part of monitoring the progress of various works, the Managing Director is conducting field visits to the work sites and the recorded findings/observations are followed up by the Engineering Officers in charge of the works. Such follow up action was, however, not on record.

Acknowledgement

7.14.26 Audit acknowledges the co-operation and assistance extended by different levels of officers of the Company/Government at various stages of conducting the performance audit.

Conclusion

7.14.27 The funds were not optimally utilised in construction of buildings. Periodical meetings with the client Departments were not held to sort out any pending issues which contributed to delay in execution of works. The codal requirements as per CPWD Manual in respect of execution of works were not adhered to causing diversion of funds and excess expenditure over deposits. The method of award of work to contractors was also not transparent as 90 *per cent* of works were awarded without calling for competitive bids. Funds were diverted as temporary loans to the client departments. The Company did not have an accounting manual and a robust internal control system.

Recommendations

- The system of award of works to contractors should be made more transparent. Powers delegated to the WAC should be reviewed and brought at par with the powers as per CPWD Manual.
- Scheme and job wise details of financial and physical progress should be maintained for efficient works management.
- The Company should hold periodical meetings with the client Departments to sort out pending matters in the interest of expeditious completion of work. Results of such interactions should be brought to the notice of the BOD for taking timely remedial action.
- Funds available should be optimally utilised to complete the unfinished jobs and funds should not be diverted without proper sanction from the Board of Directors.
- The Company should expedite finalisation of all its Annual Accounts.
- The Company should prepare its own accounting manual and introduce a system of internal control and internal audit in order to

ensure that short comings in performance of the monitoring system, execution of works *etc*. are brought to the notice of the higher management for taking timely remedial action.

- The Company should professionalise its working and prepare manuals to streamline its working and strengthen its internal control system.
- In respect of works in progress the Company should display information as required under the Right to Information Act.

SECTION B
AUDIT PARAGRAPH

STATE PUBLIC SECTOR UNDERTAKINGS

7.15 Delay in finalisation of accounts by State PSUs

Statutory provisions for finalisation of accounts

7.15.1 Every Government Company is required to prepare Financial Accounts to ensure financial accountability to the Legislature. As per provisions of Section 210 (3) read with Section 166 of the Companies Act, 1956, audited accounts of a Company for a financial year should be approved and adopted in the Annual General Meeting (AGM) of the shareholders within six months of the close of that financial year. Further, as per provision of Section 619A (3) of the Act, ibid, the State Government should place an Annual Report on the working and affairs of each State Government Company together with a copy of the Auditors' Report and comments thereon as made by the Comptroller and Auditor General of India (CAG), before the State Legislature within three months of its AGM. In the case of the Statutory Corporations, their accounts are to be finalised, audited and presented to the State Legislature as per the provisions of their respective Acts. Section 168 and 210 of the Companies Act, 1956 stipulate stringent measures like punishment and penalty for non-compliance to any of the provisions relating to finalisation of accounts in time. Further, the Administrative Departments concerned are also required to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period.

Procedure for finalisation of annual accounts

7.15.2 The annual accounts prepared by the Company are approved by its Board of Directors under Section 215 (3) of the Companies Act, 1956 and in case of Government Companies these are audited by the Statutory Auditors appointed by the CAG. As per provision of Section 619 (4) of the Companies Act, 1956, the CAG conducts supplementary audit of the accounts of the Government Companies and such accounts along with the comments of the CAG are placed before the AGM of the Company for adoption.

Risk involved due to delay in finalisation of accounts

7.15.3 Keeping of annual accounts is of utmost importance in order to give a true and fair view of the affairs of the PSUs, arrear in accounts do not permit the Government either to assess the exact financial health of the Company or to take any concrete steps towards improving functioning of the PSUs. Besides, delay in finalisation of accounts also open the system to risk of fraud and leakage of public money.

Extent of arrears

7.15.4 Out of 13 Government Companies in the State, none of the Companies had finalised its accounts for the year as on 30 September 2006.

Accounts of all the Companies were in arrear for the periods ranging from nine years to 23 years, as detailed in *Appendix 7.13*.

Reasons for delay in finalisation of accounts, as analysed in Audit, were delay in preparation of accounts by these Companies and completion of audit by the Statutory Auditors, delay in holding of AGMs, labour unrest and factory lockout, etc, as discussed in the succeeding paragraphs.

Delay in holding of Annual General Meetings (AGMs)

7.15.5 The details of time taken in finalisation of their accounts as on 31 March 2005 and holding their AGMs by six test checked Companies for the period of five years (up to latest finalised accounts) are given in *Appendix 7.14*. This Appendix would reveal that the time lag between one AGM and subsequent AGM in respect of these six Companies ranged from 8 to 132 months.

Delay in preparation of accounts

7.15.6 Audit observed that due to shortage of competent and trained manpower in the Accounts Departments/Sections of the Companies, there has been delay in preparation of accounts and audit thereof. Lack of coordination between the Management and Statutory Auditors (SAs) also causes delay in finalising the accounts. Besides, the defaulting Companies have no time-bound programme and specific policies to liquidate the arrear of accounts.

Delay in certification of annual accounts by the Statutory Auditors

7.15.7 The Statutory Auditors (SAs) took seven to 108 months for completion of audit of Companies (*Appendix 7.15*). The delay in completion of internal audit and delay in approval of accounts by the Board of directors resulted in late submission of accounts to the SAs which ultimately resulted in delay in certification of accounts by the SAs. Had the Companies coordinated properly with SAs, such delays could have been avoided.

In the case of Manipur Film Development Corporation Ltd., Audit observed that the accounts for 1990-91 were approved by the Company in July 1993, but due to lack of co-ordination between the Company and SAs, the accounts were submitted to the SAs in November 2001, i.e., after eight years. This has resulted in delay in finalisation accounts of the Company for subsequent years.

Delay in adoption of accounts in the Annual General Meetings of the Shareholders

7.15.8 Section 171 of the Companies Act, 1956 provides that an AGM of a Company may be called by giving not less than 21 days notice in writing or a shorter notice if so consented by all the members entitled to vote. Thus, it would be reasonable for a Government Company to hold its AGM within 30 days of receipt of comments of the CAG.

The date of issue of comments/non review certificate by the CAG and date of holding the AGM for the accounts finalised during the last five years are given in *Appendix 7.16*. It could be seen from the appendix that the Companies failed to hold their AGM within 30 days. The delay in holding AGMs went up to 36 months. This adversely affected the clearance of arrear of accounts.

Audit analysis revealed abnormal delay in holding the AGM by two Companies as indicated in the following table:

Name of the Company	Reasons
Manipur Electronics Development Corporation Ltd.	The comments of the CAG on the annual accounts of the Company for 1994-95 were sent to the Company in November 2000, but these were adopted by the AGM in June 2003. This affected finalisation of subsequent years' accounts.
Manipur Tribal Development Corporation Ltd.	The comments of the CAG on the annual accounts of the Company for 1981-82 were issued in July 1994, but these were adopted by the AGM in August 1997 after a lapse of three years. Further, the comments for the year 1982-83 were issued in December 2004, but these are yet to be adopted in the AGM.

Steps taken by the Government for clearance of arrear

7.15.9 The State Government exercises its control over the Companies through the concerned Administrative Departments and Finance Department. The Bureau of Public Enterprises is the nodal agency, which reviews the working of the Companies on behalf of the Finance Department. The State Government was expected to take concrete steps to ensure that the accounts of the Companies were finalised in time. Similarly, the Administrative Departments have to ensure that the accounts are finalised and adopted by the Companies in the Annual General Meeting within the time schedule prescribed in the Companies Act, 1956, but no time bound programme/action plan was framed by the State Government to liquidate the arrear of accounts.

The position of arrear of accounts has been highlighted continuously in Commercial Chapter being included in the Audit Report of Government of Manipur every year.

The concerned Administrative Departments and the management of the Companies were apprised regularly by the Audit regarding huge arrear in finalisation of accounts. Further, the position of arrear was also apprised to the Chief Secretary of the State Government demi-officially from time to time with the request to issue strict instructions to the Government Companies and Corporations to prepare a time bound programme to clear the arrear in accounts. The position of clearance of arrear of accounts did not improve due to follow up action not being taken by the Management of the Companies and the Government.

Assistance provided by Audit for liquidation of arrears

7.15.10 In order to help the Companies in liquidation of the arrear of accounts, SAs were appointed, as a special case for two or more years by the CAG. This advance action had not made any impact on the clearance of arrear and none of the Companies had been able to liquidate the arrears. Besides, in order to expedite the clearance of pending accounts, the Audit suggested (January 2004) the State Government to take the help of professionals and also offered other required assistance. No such assistance was, however, sought by the Companies till date (December 2006).

Conclusion

The Government Companies did not adhere to the legal provisions of timely preparation of their accounts and there was laxity on the part of the Management of these Companies, which resulted in huge accumulation of the arrear of the accounts and consequently the investment made in these Companies remained outside the purview of audit and their accountability could not be ensured.

The matter was reported to the Government/Companies (June 2006); their replies are awaited (December 2006).

Imphal (P.K. Tiwari)
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The Comptroller and Auditor General of India