CHAPTER VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

Overview of Government companies and Statutory corporations

7.1 Introduction

As on 31 March 2007 there were 15 Government companies (eight working and seven non-working[1]) as against the same number of Government companies and one non-working Statutory corporation as on 31 March 2006 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 Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956.

7.2 Working Public Sector Undertakings (PSUs)

Investment in working PSUs

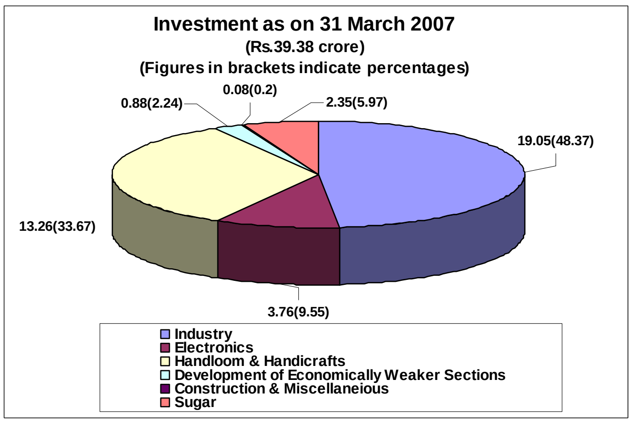
7.2.1 As on 31 March 2007, the total investment in eight working PSUs (eight Government companies) was Rs.39.37 crore[2] (equity: Rs.29.34 crore; long term loans Rs.10.03 crore) as against Rs.47.39 crore (equity: Rs.28.37 crore; long term loans[3]: Rs.19.02 crore) in seven working PSUs (seven Government companies) as on 31 March 2006. The analysis of investment in PSUs is given in the following paragraphs.

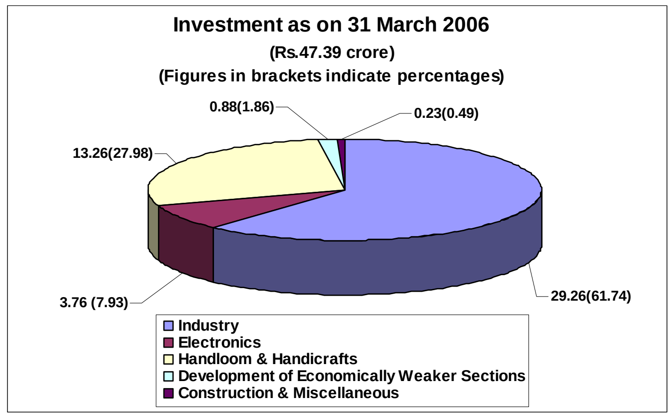
Sector-wise investment in working Government companies.

7.2.2 The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2007 and 31 March 2006 are indicated below in the pie charts:

[1] Non-working companies are those that are in the process of liquidation/closure/merger, *etc*.
[2] Figure as per Finance Account 2006-07 is Rs.35.51 crore, the difference is under reconciliation.
[3] 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 March 2007 and March 2006 was as follows:

Table No. 7.1

(Rupees in crore)

Year	Number of Government companies	Investment in working Government companies		
		Equity	Loan	Total
2005-06	7	28.37	19.02	47.39
2006-07	8	29.34	10.03	39.37

Source: Data compiled from respective Companies accounts

Investment in the current year has decreased over the previous year due to decrease in the amount of loans outstanding in the Industry sector.

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

As on 31 March 2007, the total investment in working Government companies, comprised 74.52 *per cent* of equity capital and 25.48 *per cent* of loans as compared to 59.86 *per cent* and 40.14 *per cent* respectively as on 31 March 2006.

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 2006-07 are as follows:

Table No. 7.2

(Rupees in crore)

	2004-05				2005-06				2006-07			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Equity Capital outgo from budget	3	0.50	—	—	1	0.05	—	—	—	—	—	—
Grants/subsidy toward: (i) Projects/Programmes/ Schemes (ii) Other subsidy	—	—	—	—	—	—	—	—	—	—	—	—
Total outgo	**3**	**0.50**	**—**	**—**	**1**	**0.05**	**—**	**—**	**—**	**—**	**—**	**—**

Source: Data compiled from respective Companies accounts

7.3.3 No information regarding guarantee given by State Government was received from the companies (September 2007).

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. They are also to be laid before the Legislature within nine months from the end of financial year.

7.4.2 It would be noticed from ***Appendix 7.2*** that out of eight working PSUs (eight Government companies) none has finalised the accounts for the year 2006-07 within stipulated period. During the period from October 2006 to September 2007, one working Government company i.e. Manipur Handloom and Handicrafts Development Corporation Ltd. finalised one accounts for previous year (1987-88).

7.4.3 The accounts of eight working Government companies were in arrears for periods ranging from ten to 24 years as on 30 September 2007 as per details given below:

Table No. 7.3

Sl. No.	Name of working Government companies	Year from which accounts are in arrears	Number of years for which accounts are in arrear
(1)	(2)	(3)	(4)
1.	Manipur Tribal Development Corporation Ltd.	1983-84 to 2006-07	24
2.	Manipur Handloom and Handicrafts Development Corporation Ltd.	1988-89 to 2006-07	19
3.	Manipur Industrial Development Corporation Ltd.	1990-91 to 2006-07	17
4.	Manipur Film Development Corporation Ltd.	1992-93 to 2006-07	15
5.	Manipur Electronics Development Corporation Ltd.	1996-97 to 2006-07	11
6.	Manipur Police Housing Corporation Ltd.	1996-97 to 2006-07	11
7.	Manipur State Power Development Corporation Ltd.	1997-98 to 2006-07	10
8.	Manipur Food Industries Corporation Ltd.	1997-98 to 2006-07	10

Source: Data compiled from quarterly returns on status of accounts

7.4.4 It is the responsibility of the administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within prescribed period. Though the administrative departments and officials concerned of the Government were appraised quarterly by Audit regarding arrears 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 eight working Government companies, three companies had incurred an aggregate loss of Rs.55 lakh, three companies earned an aggregate profit of Rupees one crore and two companies 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 their accounts during the year.

Loss incurring working Government companies

7.6.2 One company (Manipur Handloom and Handicrafts Development Corporation Limited), out of three loss making working Government companies had accumulated losses aggregating Rs.2.21 crore which exceeded its paid up capital of Rs.1.20 crore.

Return on capital employed

7.6.3 As per the latest finalised accounts, the capital employed[4] worked out to Rs.17.20 crore in eight working companies and total return[5] thereon amounted to Rs.1.21 crore which was 7.03 *per cent* as compared to total return of Rs.1.51 crore (9.02 *per cent*) in the previous year (accounts finalised upto September 2006). The details of capital employed and total return on capital employed in case of working Government companies are given in ***Appendix 7.2***.

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

[5] 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.

7.7 Reforms in Power Sector

7.7.1 A Memorandum of Agreement (MOA) was signed on 26 July, 2004 between the Ministry of Power, Government of India (GOI) 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 August2004 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 October 2007.</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 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 (October 2007).</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 numbers of electronic energy meters had been purchased for installation at Distribution Sub Stations (11/0.4 KV sub-stations). These meters were yet to be installed (October 2007).</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 1,64,045 consumers (out of 1,78,800) were provided with energy meters (October 2007). Against the target of achieving 100 per cent electrification of villages (2376 villages) by 2007, the State Government could electrify 1953 villages only as of October 2007. Thus, there was shortfall in achievement.</td></tr>
<tr><td>State Government would install meters on all 11 KV feeders by 31.12.2004.</td><td>Out of 56 numbers of 11 KV incoming feeders, 36 feeders only are provided with energy meters.
Further, out of 102 numbers of 11 KV outgoing feeders, 88 feeders only are provided with energy meters as of October 2007.</td></tr>
</table>

7.8 Non-working PSUs

Investment in non-working PSUs

7.8.1 As on 31 March 2007, the total investment in seven non-working PSUs (seven non-working Government companies) was Rs.72.74 crore (equity: Rs.55.99 crore; loans: Rs.16.75 crore) as against total investment of Rs.118.82 crore (equity: Rs.103.47 crore; loans: Rs.15.35 crore) in nine non-working PSUs (eight non-working Government Companies and one non-working Statutory corporation) as on 31 March 2006. The classification of non-working Government companies at the end of March 2007 was as under:

Table No. 7.4

(Rupees in crore)

Sl. No.	Status of non-working PSUs	Number of companies	Investment Companies	
			Equity	Loans
(i)	Under liquidation/closure	7	55.99	16.75
	Total	**7**	**55.99**	**16.75**

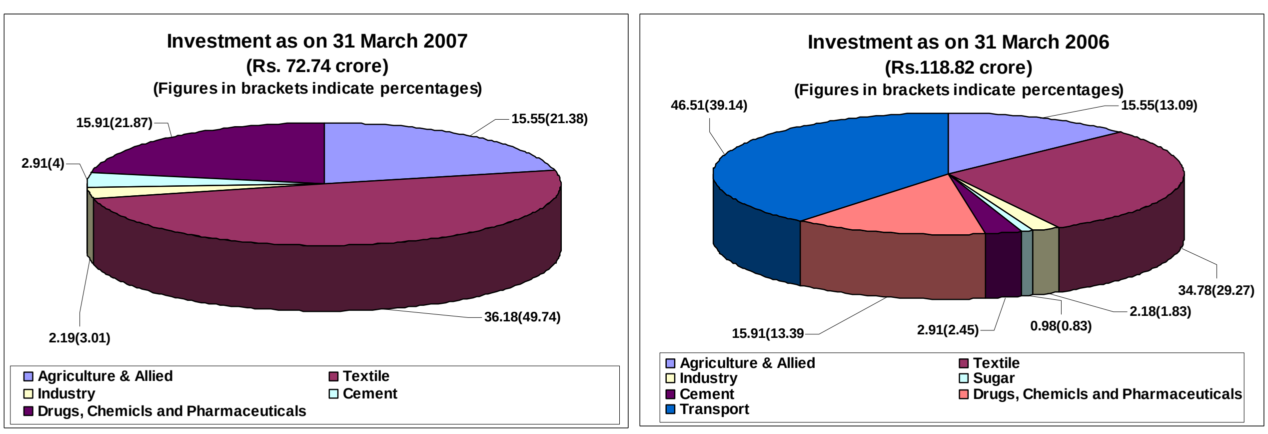
Source: Data compiled from annual accounts of respective Companies.

7.8.2 The above non-working PSUs which were under liquidation involve substantial investment of Rs.72.74 crore. Effective steps need to be taken for their expeditious liquidation or revival.

Sector-wise investment in non-working Government companies.

7.8.3 The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2007 and 31 March 2006 are indicated below in the pie charts:

Chart No. 7.2



Budgetary outgo, grants/subsidies, guarantees and waiver of dues and conversion of loans into equity to non-working companies.

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 are given in ***Appendices 7.1 and 7.3*.**

Finalisation of accounts by non-working PSUs

7.8.5 During the period from October 2006 to September 2007, four non-working Government companies finalised five accounts for previous years.

7.8.6 The accounts of seven non-working Government companies were in arrears for periods ranging from seven to twenty years as on September 2007.

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*.**

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 No. 7.5

(Rupees in crore)

Particular of Companies	Paid-up capital	Net worth[6]	Cash loss	Accumulated losses
Non-working companies	6.99	(-) 3.78	NA	6.64
Total	**6.99**	**(-) 3.78**		**6.64**

Source: Data compiled from annual accounts of respective Companies

7.9 Results of audit by Comptroller and Auditor General of India

7.9.1 During the period from October 2006 to September 2007, the audit of accounts of two Government companies were selected for review.

Some of the major errors and omissions noticed in the course of review of annual accounts of some of the above Government companies are mentioned below:

Errors and omission noticed in case of Government Companies

Manipur Spinning Mill Corporation Ltd. (1984-85)

7.9.2 Provision for gratuity was neither made in the accounts nor disclosed in the notes as required under Accounting Standard 15 and Schedule VI, Part-I of the Companies Act, 1956.

Provision for depreciation on Plant and Machineries already installed were not provided.

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

7.10 Internal audit/Internal control

7.10.1 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 made/comments made by Statutory Auditors is as follows:

7.10.2 Manipur Handloom & Handicrafts Development Corporation Ltd. had no adequate internal control procedures commensurate with the size of the company and the nature of its business.

7.10.3 Manipur Cement Ltd. had no adequate internal control procedures in respect of the purchase of stores of raw materials, stores including components plant & machineries, equipments and other assets.

7.11 Recommendations for closure of PSUs

7.11.1 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.

7.12 Response to inspection reports, draft paras and reviews

7.12.1 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 respective heads of departments within a period of six weeks. Inspection reports issued up to March 2007 pertaining to 16 PSUs disclosed that 156 paragraphs relating to 31 inspection reports remained outstanding at the end of September 2007. Of these 134 paragraphs relating to 24 inspection reports had not been replied for more than two to 15 years. Department-wise break-up of inspection reports and paragraphs outstanding as on 30 September 2007 is given in ***Appendix–7.4.***

7.12.2 It is recommended that (a) the Government should ensure that procedure exists for action against the officials who failed to send replies to inspection reports as per prescribed time schedule; (b) action is taken to recover losses/outstanding advances/overpayments in a time bound schedule; and (c) the system of responding to the audit observations is revamped.

7.13 Position of discussion of Commercial Chapters of Audit Reports by the Committee on Public Undertakings (COPU)

7.13.1 The status of Commercial Chapters of the Audit Reports and number of reviews/paragraphs pending for discussion at the end of 30 September 2007 are as shown below:

Table No. 7.6

Period of Audit Report	Number of reviews and paragraphs appeared in the Audit Report		Number of reviews/paragraphs pending for discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1995-96	—	3	—	3
1996-97	1	4	1	4
1997-98	—	2	—	2
1998-99	—	2	—	2
1999-2000	2	4	2	4
2000-01	1	2	1	2
2001-02	—	1	—	1
2002-03	—	1	—	1
2003-04	—	2	—	2
2004-05	1	1	1	1
2005-06	1	1	1	1

Source: Data compiled from returns on position of discussion of Commercial Chapters of Audit Reports by the (COPU)

7.14 619-B Companies

There was no Company under Section 619-B of the Companies Act, 1956.

SECTION A

PERFORMANCE REVIEW

ART AND CULTURE DEPARTMENT

7.15 Performance Review on the working of Manipur Film Development Corporation Limited.

Highlights

The Manipur Film Development Corporation prepared a draft Manipur State Film Policy in 2004 after seven years of its incorporation. The draft policy was submitted to the State Government in 2005 which was yet to be approved.

(Paragraph 7.15.8)

Delay ranging from one year to 11 years in release of meagre financial assistance to the film producers and non-production of celluloid Manipuri films after 2005 proved casual approach and lack lustre performance of the Company in promotional activities.

(Paragraph 7.15.9)

The construction of Cinema Theatre at an estimated cost of Rs. 1.19 crore was scheduled to be completed by June 1997. The construction was inordinately delayed resulting in revision of cost to Rs.3.15 crore and completion schedule to March 2008.

(Paragraph 7.15.10)

The accounts of the Company were not finalised for past thirteen years as required under Section 166, 210, 230, 619 and 619 (B) of the Companies Act, 1956.

(Paragraph 7.15.14)

Five meetings of the Board of Directors were held during the last five years against requirement of twenty meetings as per Companies Act, 1956. This prevented any mid-term evaluation of the performance of the Company.

(Paragraph 7.15.17)

Only one Annual General Meeting was held during last five years which discussed the Director's Report for 1991-92.

(Paragraph 7.15.18)

7.15.1 Introduction

Manipur Film Development Corporation (Company) came into being in February, 1987. It replaced Manipur Film Development Council. In May 1987, it was incorporated as a Government Company under Companies Act, 1956. Its paid up capital of Rupees six lakh is fully subscribed by the State Government. The main objectives of the Company as per its Memoranda and Articles of Association (MoA) are:

- to carry on business and develop, promote, aid, advise and assist in cinematography and allied activities in Manipur;
- to carry out construction and running of studios, laboratories, theatres and stages;
- to provide technical and social amenities for development of film industry on modern lines and to encourage production of good quality films;
- to promote Manipuri[7] Films by way of financial assistance such as grants, subsidies and donations to Manipuri film producers, film societies like Cine Artiste Technicians Association, Film Forum, Manipur Film Journalists and Critics Association etc.;
- to seek financial assistance, if necessary, in promoting Manipuri Films from the State Government and Government of India (GoI);
- to organise Film Festivals, nominate or sponsor entries into festivals at National or International levels; and
- to provide technical assistance to film producers, assist in research in the field, hiring out specialised equipment.

The management of the Company is vested in the Board of Directors (BoD) which comprised of an ex-officio Chairman, who is the Chief Minister of the State and 10 Directors. The Managing Director is responsible for day to day functioning of the Company. He /She is assisted by an Administrative Officer, a Manager, a Technical Officer and an Assistant Maintenance Officer.

7.15.2 Scope of Audit

The review covers all the activities undertaken by the Company in pursuance of its stated objectives and for promoting Manipuri Film Industry for the period from 2002-03 to 2006-07. The audit was conducted at Company's Head Office during April and May 2007.

7.15.3 Audit Objectives

Performance review of the promotional activities undertaken by the Company was conducted with the objective to evaluate and assess whether and to what extent

- the Company was effective in promoting production of Manipuri language films;

[7] The term Manipuri covers all the languages and dialects spoken in Manipur.

- the Company was successful in developing the necessary film production and processing related infrastructure to promote the Cinematography trade and allied activities in the state;
- the Company was able to finalise its accounts as per the provisions of the Companies' Act, 1956;
- the Company managed its finances efficiently;
- the Company had an efficient internal control system; and
- the Company had put in place an effective monitoring and evaluation system.

7.15.4 Audit criteria

The following Audit Criteria was adopted:

- Company's MoA;
- long and medium term policy documents related to promotion of Manipuri language films;
- detailed project reports pertaining to development and utilisation of film production infrastructure;
- policy of the State Government on promotion of Manipuri language films, financial management norms and accepted accounting standards;
- resolutions of the BoD meetings etc.

7.15.5 Audit methodology

The Review entailed ascertaining performance of the Company vis-à-vis its objectives as contained in its MoA, the financial position of the Company, its recent activities and on-going projects. The Audit methodology adopted for the Performance Review of the functioning of the Company consisted of:

- briefing the Management of the Audit Objectives through an Entry Conference on April 16, 2007;
- issuing questionnaires, holding meetings and discussions with Management to obtain their written response to various audit observations and queries;
- examination of minutes and agenda of BoD meetings and analysis of Director's Reports submitted to the BoD.
- analysing data and documentary evidence vis-à-vis established audit criteria to arrive at audit findings, conclusions and recommendations; and
- communicating audit findings to the Management through review report and a presentation on findings during exit conference.

7.15.6 Audit findings

The audit findings were reported (June 2007) to the Government/Company and discussed in the exit conference held (1 October 2007) where the Manager, the Administrative Officer and the Assistant Maintenance Officer represented the Company. The State Government did not send the representative to the meeting, though invited. The review was finalized after considering the views of the Government/Management. The audit findings are discussed in the succeeding paragraphs.

7.15.7 Planning and Promotion of Manipuri Language Films

Manipuri films have been recognised as a powerful medium for propagating the rich cultural heritage of Manipuri people. In order to promote film making as an industry, all film production related crafts such as editing, cinematography, sound, film distribution, and exhibition have to be established as viable professions. The Company has a pivotal role to play in this matter. It was, however, observed that there were shortcomings in both planning and promotion activities undertaken by the Company as discussed in the following paragraphs.

7.15.8 Inadequate planning

Though the Company was incorporated in May 1987 it took seven years (2004) for preparation of a draft Manipur State Film Policy. The policy focussed upon development of film related infrastructure such as establishment of a film city, establishing laboratories, archives, library, training school, publishing of a periodical magazine, institution of awards for excellence in film making, and promoting Manipur films nationally and internationally. The policy document was submitted (2005) to the State Government for approval which was yet to be approved. The Company stated (September 2007) that the Policy is expected to be approved by 2007-08. There was lack of persuasion of the case on the part of the Management of the Company. The lack of interest of the State Government in supporting the Company is also evident from its inability to approve the policy even after a gap of three years.

It was also observed that BoD in its meeting (February 2000) decided, that the Union Ministry of Information and Broadcasting be requested to grant financial subsidy for construction of Theatre and setting up of infrastructural facilities of the Company and the Chief Minister, Manipur be approached to forward the proposal. However, the Company neither prepared the proposal for obtaining the financial subsidy nor the matter was brought to the notice of the BoD in their subsequent meetings.

Thus, there was total lack of planning by the Management and even after submission of draft policy the approval of State Government is still awaited (October 2007). This resulted in failure of the Company in achievement of its stated objectives.

7.15.9 Lack lustre performance in promotional activities

The Company introduced a Scheme of financial assistance viz., "the Government of Manipur's Scheme of Financial assistance to producers of Manipuri Films" and gave financial assistance to the extent of Rs.29 lakh at the rate of Rupees one lakh each to the producers (except to four producers who were paid Rs. 0.50 lakh each) of 31 Manipuri films during 2004-05 to 2006-07. The Company also organised two National and two State Film Festivals during 2005-06 and 2006-07 incurring an expenditure of Rs.9.88 lakh. However, the objective to promote local films was largely defeated as it was evident from the fact that no Celluloid Manipuri film was produced after 2005. The number of Cinema Halls in the State also had come down to 23 in March 2007 from 50 in the year 2000 and were in poor condition. As analysed in audit, the dismal performance was attributable to following reasons.

- The financial assistance prescribed for payment to the film producers was too meagre in comparison to the cost of production e.g., for a Manipuri feature film, estimated cost of production was Rs.40 lakh whereas financial assistance given was Rupees one lakh i.e., the assistance constitutes only two and half *per cent* of the production cost. As a result, the production of Manipuri film went down from six films in 1997 to nil in 2006. The year-wise numbers of films produced are indicated in the ***Appendix 7.5***.
- The Company did not collect any up-to-date information regarding quantum of assistance given in other States for promotion of their regional language films so as to make proposal to the BoD for a reasonable enhancement of the quantum of financial assistance.
- The payment of even the meagre assistance was not made timely, rather the assistance was given after a lapse of considerable long period ranging from one to eleven years from the year of production as detailed in ***Appendix 7.6***.
- The Company was unable to complete construction of its own cine theatre even after a lapse of more than ten years from the date of commencement of the work (December, 1995) as discussed in detail in paragraph 7.15.10. As such, the Company failed to provide opportunity to the local film producers to exhibit their films.
- No Scheme was introduced so far (October 2007) for providing any financial assistance to local entrepreneurs for constructing new cine theatre in the State.
- Film festivals were held rarely.
- No viewers census was drawn during the Film Festivals held.

Thus the objective of promotion of film production was largely defeated due to meagre financing, delayed disbursement of assistance, holding of film festivals occasionally and non-compiling of viewer ship statistics during film festivals.

Creation of Film production and processing related infrastructure

7.15.10 Inability to create required physical infrastructure

The objective of the Company included development of physical infrastructure such as studios, laboratories, theatres and stages for production/exhibition of films, video films, television programme items, sound recording and vision mixing etc. in the State. The year wise proposals made by the Company for development of infrastructure, and the funds received by it are shown below:

(Rupees in lakh)

Year	Proposal made	Fund received	Percentage of funds made available by the Government
2002-03	42.00	Nil	Nil
2003-04	72.00	Nil	Nil
2004-05	62.40	Nil	Nil
2005-06	193.44	99.98	52
2006-07	400.00	97.15	24
Total	**769.84**	**197.13**	

Source: Data furnished by the Company.

It was observed that the Company had submitted (October 2000 to December 2006) proposal for Rs.7.70 crore to the State Government for creating required infrastructural facilities during the last five years and against which the State Government released (July 2005 to November 2007)) Rs.1.97 crore (25 *per cent*) only. The Company did not explore any other avenue for funding and did not submit any other proposals for funding to the GoI or the North Eastern Council. During the years 2002-05, the State Government had not released any funds for development of infrastructure facilities. Test check also revealed that the Company had taken up (December 1995) construction of a Cine Theatre at an estimated cost of Rs.1.19 crore which was stipulated to be completed by June 1997. The complex could not, however, be completed due to shortage of funds. The construction work was stopped (May 1998) after incurring an expenditure of Rs.44.90 lakh. Only the work up to the ground floor and the column portion had been completed by that time.

The Chairman of the Company accorded (October 2005) approval for restarting the construction of cinema theatre. Accordingly work was re-started (April 2006), with stipulated date of completion being March 2008, at a revised estimated cost of Rs.3.15 crore to be executed by the Manipur Development Society (MDS) as a deposit work. The State Government had so far (May 2007) released Rs.2.12 crore and against which Rs.1.25 crore was stated to have been spent. Thus, there was a cost over run of Rs.1.96 crore (Rs.3.15 crore – Rs.1.19 crore) and time over run of ten years due to inability of the Company to secure required funds for completing the construction work. The progress report, both physical and financial, was not furnished to audit. As a result, physical and financial progress could not be vouched safe in audit. Moreover, no monitoring mechanism existed as no monthly meetings were held with the agency about the progress of work with a view to complete the cinema theatre within the stipulated time.

Thus, failure of the Company to create proper infrastructure defeated the very purpose of establishing the Company for the promotion of production of Manipuri film could not be achieved.

7.15.11 Obsolete film production equipment

Film production, being a highly competitive activity, requires modern equipments with the latest technology to keep pace with the technological advancement. It was observed that the Company did not have latest/modern technical film production equipments. The existing equipments and other facilities available with the Company were inadequate in catering to the needs of the local film producers. The machinery and equipments available with the Company were procured during (1985 to 2006) at a cost of Rs.80.67 lakh. The equipments were let out on hire basis to the film producers. The Company earned revenue of Rs.20.06 lakh as hiring charges during the period (2002-07). The Company was able to let out machinery and equipments on demand to local producers between zero to 575 days during the last five years.

It was also observed that the obsolete equipments available with the Company were not suitable for modern film making. Five different equipments procured (July 1985 to June 1990) at a cost of Rs.24.72 lakh could not be hired out due to lack of demand and earned a paltry sum of Rs.6250 during 2002-07 as hiring charges as given in the table below:

Name of the equipment	Date of purchase	Cost (Rs.)	Total no. of days let out on hire (days)	Revenue earned (Rs.)
35 mm Arriflex-IIC Camera	8.6.1990	22,71,420	15	6,250
16mm Russian Camera	31.10.1985	84,417	0	Nil
Power Generator 6 KVA	28.3.1989	35,981	0	Nil
16mm Cinema Projector	22.2.1987	15,515	0	Nil
35 mm Cinema Projector	8.7.1985	65,050	0	Nil
	TOTAL	**24,72,383**	**15**	**6,250**

Source: Compiled from data furnished by the Company

No evidence of any action being taken/initiated either to put the equipment to optimum use or dispose off the obsolete equipment was available on record. Thus persisting with obsolete equipment, the Company could neither generate revenue for itself nor did help the cause of Manipuri films as would be seen from the dismal production of films stated in paragraph 7.15.9.

7.15.12 Lack of Training Infrastructure

The Company did not establish and maintain any training institution for local film producers and other craftsmen. There was no evidence of any training in any area of film making being imparted or sponsored by the Company. The Company did not have tie-up with any National or Regional bodies related to film craft for training of local professionals. No evidence was found of taking any initiative in organising any workshop/talent hunt with a view to identify local talent by the Company. Thus, the Company did not take any meaningful action to set up any training infrastructure in the State.

Financial Status of the Company

7.15.13 Non-preparation of the Annual Accounts

As a commercial entity, the Company is legally bound to prepare annual accounts prescribed under Companies Act, 1956. However, the Company failed to prepare its annual accounts, such as Income and Expenditure Statement, Profit and Loss Account, and Balance Sheet since 1995-96 in gross violation of financial principle/law. Only statement of Receipts and Payment was prepared by the Company. In absence of annual accounts, actual financial status of the Company could not be ascertained in Audit. The reason for non preparation of the accounts were not on record.

7.15.14 Non-finalisation of accounts for the past thirteen years

In terms of sections 166, 210, 230, 619 and 619(B) of the Companies Act, 1956, accounts of Government companies for every financial year are required to be finalised within six months from the end of the relevant financial year. During review, it was seen that the annual accounts have not been audited for the period from 1993-94 to 1996-97 despite the fact that Union Ministry of Law, Justice and Company Affairs (Department of Company Affairs) appointed Statutory Auditors (SA) for these years (Shaha and Agarwal, Tinsukia for the year 1993-94, N.C. Karnany & Co., Jorhat for 1994-95 and P.L. Bakshi & Co., Silchar for 1995-96 and 1996-97). There was no appointment of SA for the years 1997-98 to 2005-06. However, no correspondence was made by the Company with the CAG in this regard after May 2001. There was also no evidence of any correspondence being initiated by the Management with the SA for auditing the accounts for the period from 1993-94 to 1996-97. Thus the Company is violating the relevant sections of the Companies Act, 1956, and Articles 130 and 134 of its own MoA. As a result, Company's performance has gone totally unreported for the past 13 years to the BOD/State Legislature.

Financial Management

7.15.15 Inadequate revenue generation

The Receipt and Expenditure Statement for last five years (2002-07) is indicated in ***Appendix 7.7.*** Analysis of ***Appendix 7.7*** revealed that:

The main sources of income of the Company were Grants received from the State Government and the hiring charges of film equipment received from local film producers. The Company could not sustain its activities on its present income from its own resources. Moreover, the funds received from the State Government were also not adequate to meet the requirements of the Company. The Government stated (September 2007) that the Company is trying to complete the construction of the Cinema Theatre by 2007-08 and run the Cinema hall by exhibiting daily shows for earning daily income. Fact remains that due to delay in construction of cinema theatre the Company was unable to generate its own income source.

The administrative expenditure including salaries of 26 staff ranged between 25.64 *per cent* (2005-06) and 94.73 *per cent* (2002-03) of the total expenditure of the Company during last five years (2002-07).

It was also seen that during 2002-03 and 2003-04, the Company had incurred an expenditure of Rs.2.76 lakh and Rs.3.99 lakh respectively out of its share Capital. The matter was not even reported to the BoD or to the State Government, which was grossly irregular. The amount was subsequently recouped from the annual grants given by the State Government to the Company. The poor financial status of the Company requires that it needs to be more innovative in seeking avenues for income generation, and reduce its dependence on State Government for day to day operations. Government stated (September 2007) that expenditure of Rs.2.76 lakh and Rs.3.99 lakh were not made out of the Company's share capital. The share capital was used for registration of the Company and for developmental activities before March 1991. The reply of the Government is not tenable as the closing balance for the above mentioned years fell short of the share capital to the extent of Rs.2.76 lakh and Rs.3.99 lakh respectively. Moreover, the share capital was not invested in any term deposit.

There was significant increase in Film related expenditure during 2005-06 and 2006-07 due to construction of cine theatre. This proved that no other promotional activities were undertaken over the years. This depicted the poor performance in achieving the objectives of the Company.

7.15.16 Outstanding hiring Charges for Machinery equipment- Rs.2.93 lakh

It was also observed that hiring charges of machinery and equipment amounting to Rs.2.93 lakh were lying outstanding from 21 film producers. The outstanding period ranged from 1993-94 to 2002-03. Management stated (September 2007) that the defaulters were contacted personally and asked for early payment of dues. However, no recovery has been made till date (May 2007). No legal proceeding, however, was initiated to recover the outstanding hiring charges (October 2007).

Monitoring and Evaluation/Corporate Governance

7.15.17 Irregular holding of Board of Directors' meetings

As per Section 285 of the Companies Act, 1956 and Article 103 of the MoA of the Company, the meeting of the BoD should be held at least once in every three months, and at least four such meetings should be held in every year for discussion of the Company business. As such, a minimum of twenty meetings should have been held during last five years. It was observed that the BoD could meet only five times during the period 2002-07. Thus, there was a shortfall of 75 *per cent* in the holding of the BoD's meetings. This prevented any mid-term evaluation of the performance of the Company. There was also no evidence of any independent evaluation of Company's performance. Such inaction of the Company is in gross violation of the Companies Act, 1956.

7.15.18 Irregular holding of Annual General Body meeting

As per Article 63 of the MoA of the Company and provisions of Section 166 of the Companies Act, 1956 the Company should in each year hold, in addition to any other meetings, a general meeting, as its Annual General Meeting (AGM) and should specify the meeting as such in the notices calling for it, and not more than fifteen months should elapse between two AGMs. However, during last five years, only one AGM was held (May 2005) which approved the Directors report for the year 1991-92. Scrutiny of records also revealed that only four AGMs were held since the incorporation of the Company which means the progress of the Company was reported for four years. Thus, the progress of the Company from 1992-93 onwards was not reported to the members for their appraisal and comment, in gross violation of the Companies Act, 1956, even if an AGM was held in May 2005.

7.15.19 Internal Audit

The Company appointed Shri Ksh. Kunjabi Singh, Chartered Accountant as an Internal Auditor for the period (1994-2009). Though all the facilities to carry out its function were provided to the firm, the Internal Auditor failed to submit any Internal Audit Report. Moreover, no correspondence was made with the Internal Auditor for early submission of their report. As a result, the short comings in the functioning of the Company remained unreported to BoD.

7.15.20 Monitoring mechanism

The BoD has not developed any mechanism to monitor or to evaluate the compliance of the applicable Acts and Rules. There was no system of monitoring the growth and stability of the Company. The activities of the Company and their impact on socio-economic conditions of the Manipuri film producers were never evaluated despite rendering financial assistance of Rs.29 lakh to the Manipuri Film producers. In absence of monitoring system result of the promotional activities undertaken by the Manipur Film Development Corporation limited could not be assessed.

7.15.21 Impact assessment

No impact assessment was done by the BoD or any other external agency about the work and functioning of the Company

7.15.22 Conclusions

The Company has not been able to fulfil its mandate and draft Manipur State film policy which remained pending for more than three years for want of State Government approval. The critical infrastructure such as Theatre Complex and various studios and laboratories for processing films are far from being completed. The equipments were also not optimally utilized and obsolete equipment are not timely replaced/disposed off. The Company is subsisting on government grants. There is hardly any revenue generation. The lack of top level management's involvement in running of the Company is evident from the few meetings of the BoD during 2002-07.

Recommendations

The Company needs to

- increase financial assistance and provide latest infrastructure and training facilities to the local film producers in order to enable them to compete on National and International scene;
- expedite the construction of Cine Theatre complex and laboratories in order to secure more viable sources of revenue generation and reduce dependence on the State Government;
- finalize its accounts at an early date in order to increase transparency of its operations;
- hold at regular intervals the BoDs meetings and AGMs for better Corporate Governance; and
- strengthen the internal control mechanism and internal audit system.

SECTION B

AUDIT OF TRANSACTIONS

COMMERCE AND INDUSTRIES DEPARTMENT

Manipur Industrial Development Corporation Limited

7.16 Loss of Rs.24.18 lakh

Loss of Rs.24.18 lakh due to delay in payment of outstanding dues of Subsidiary Company

Manipur Industrial Development Corporation Ltd. (Company) gave a guarantee of Rs.40 lakh to Central Bank of India (CBI), Imphal Branch for execution of cash credit to the Manipur Pulp and Allied Products Ltd. (MPAPL), a subsidiary company of the Company. The CBI filed (April 2002) a case against the Company, as a guarantor in the Debt Recovery Tribunal (DRT), Guwahati as MPAPL was unable to repay the borrowed funds. The case was decided in favour of CBI and DRT issued (June 2002) certificate to recover Rs.67.64 lakh from the Company within 15 days from the date of receipt (June 2002) of the notice failing which interest at the rate of 15 *per cent* per annum till the date of realisation including all cost, charges and expenses incurred in respect of the services would be payable.

The Company, however, failed to pay the amount by due date to the CBI although sufficient funds were available in Company's bank account. Accordingly, DRT instructed (May 2003) all the Banks where the Company was operating its accounts to deposit the credit balance in accounts of Company through account payee draft in the name of Recovery Officer, DRT Guwahati and restrained the Company from withdrawal of any amount. The DRT recovered (May to August 2003) an amount of Rs.91.82 lakh (including interest). As the Company has given guarantee to its subsidiary Company, hence it was bound to pay the defaulted amount immediately on demand by DRT. Thus, due to failure of the Company to make timely payment resulted in extra avoidable payment of interest of Rs.24.18 lakh.

The matter was reported to the Company/Government (August 2007); their reply is awaited (November 2007).

7.17 Injudicious payment of loan to a Company under liquidation

Injudicious decision taken by the Manipur Industrial Development Corporation Ltd led to payment of loan of Rs.19.50 lakh to the Manipur Pulp and Allied Products Ltd., a subsidiary Company under liquidation since January 2003.

The BOD of the Company approved (September 2006) a temporary loan of Rs.19.50 lakh to the Manipur Pulp and Allied Products Ltd (MPAPL), a subsidiary Company for payment of liabilities for supply of materials to the MPAPL. The loan was paid during January 2007.

It was observed (August 2007) that the MPAPL was recommended (January 2003) for liquidation by a committee of officers headed by the Chief Secretary of the State Government. MPAPL was also a defaulter of loan of Rs.88.00 lakh sanctioned by the Company in two spells (Rs.63.00 lakh- April 1989 and Rs.25.00 lakh- December 1991). Thus, the decision of the BoD of the Company for a loan of Rs.19.50 lakh to the MPAPL (under liquidation) was injudicious in as much as the repaying capacity of the Company was vividly remote.

The matter was referred to the Government/Company during August 2007; reply awaited.

Manipur Spinning Mills Corporation Limited

7.18 Loss of Rs. 9 lakh

Loss of Rs. 9 lakh due to improper financial management

The BoD of the Manipur Spinning Mills Corporation Ltd. (Company) approved (January 2002) placement of order for supply of 310 bales of cotton (MECH-1/55 bales, H-4/55 bales and LRA- 200 bales). Accordingly purchase order was placed (January 2002) on Maheshwari Trading Co, Indore for Rs.27.12 lakh. The terms of payment was through bank against dispatch documents. The first consignment of 120 bales of cotton worth Rs.9.96 lakh was received (February 2002) by the Company.

Subsequent consignments of 180 bales (29,009 kg.) of cotton valuing Rs.15.20 lakh including transportation and other charges were dispatched (February 2002 to April 2002) by the supplier. This consignment remained (9 April to 29 August 2002) in transporters godown at Imphal. The Company could not retrieve the consignments for want of funds although sanctioned funds were available with the Directorate of Commerce and Industry, who failed to release the same to the Company. As the Company failed to take delivery of the goods in spite of repeated persuasion from the supplier, the supplier called back (August 2002) the consignments and disposed off the goods to a firm at Indore (Usha Cotton Co.) at a loss of Rs.0.80 lakh. Maheshwari Trading Company submitted a claim of Rs.11.98 lakh to the Company on account of loss on disposal of goods, transportation of 180 bales of cotton from Indore to Imphal and back plus insurance charges, interest etc. through a pleader's notice. Subsequently, the Company made negotiations with the supplier and paid (May 2005) Rupees nine lakh in final settlement of claim. The Company stated (June 2007) that the consignments could not be received due to non-release of funds by Government.

Thus, due to improper financial management and delay in release in funds by Directorate of Commerce and Industry, the Company sustained a loss of Rupees nine lakh without receiving any raw material. Had the required funds been released by the State Government to the Company in time, the loss of Rupees nine lakh could have been avoided.

The matter was reported (April 2007) to the Government; the reply is awaited (November 2007).

Imphal (Rajvir Singh)
The Accountant General (Audit), Manipur

Countersigned

New Delhi (Vinod Rai)
The Comptroller and Auditor General of India