CHAPTER VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

Overview of Government companies and Statutory corporations

7.1 Introduction

As on 31 March 2004 there were 15 Government companies (nine working companies and six non-working[1] companies) and one non-working Statutory corporation as against 15 Government companies (13 working companies and two non-working companies) and one working Statutory corporation as on 31 March 2003 under the control of the State Government. During the year 2003-04, four working Government Companies[2] became non-working companies and one working Statutory corporation[3] became non-working corporation. 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. The audit arrangement of the Statutory corporation is as shown below:

Table No. 7.1

Sl. No.	Name of the corporation	Authority for audit by the CAG	Audit arrangement
1	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

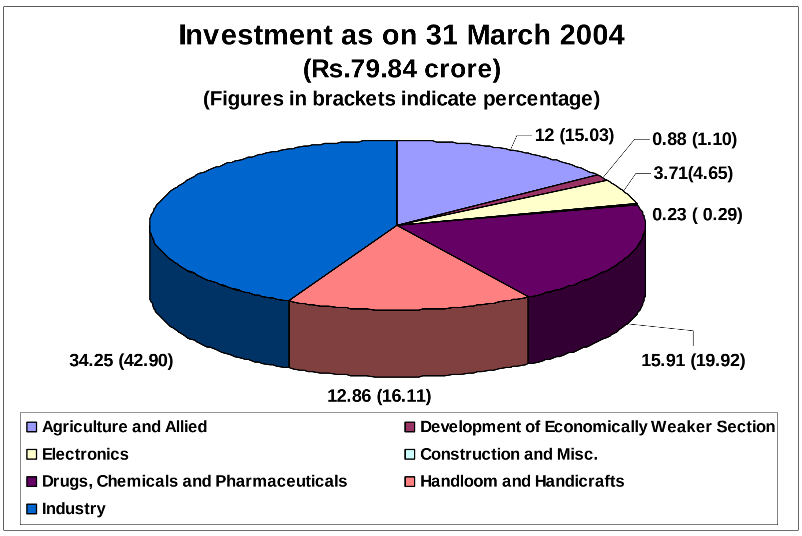
7.2.1 As on 31 March 2004, the total investment in nine working PSUs (nine Government companies) was Rs.79.84 crore[4] (equity: Rs.44.35 crore; long term loans Rs.35.49 crore) as against Rs.133.38 crore (equity: Rs.95.91 crore; long term loans[5]: Rs.37.47 crore) in 14 working PSUs (13 Government companies and one Statutory corporation) as on 31 March 2003. The analysis of investment in PSUs is given in the following paragraphs.

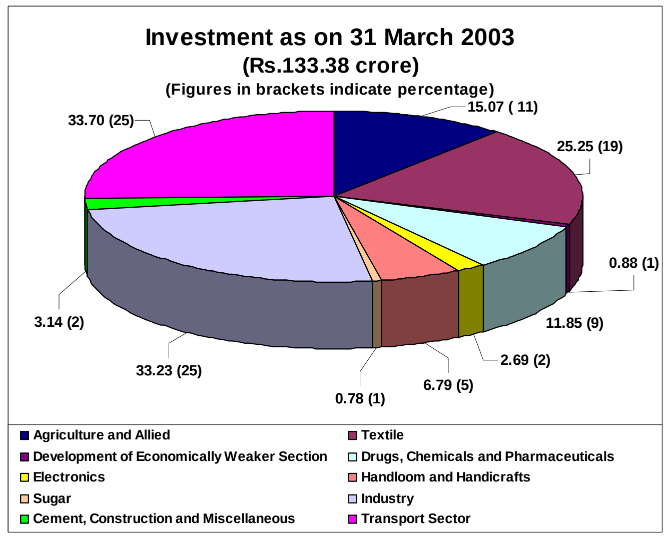
[1] Non-working companies are those that are in the process of liquidation/closure/merger, *etc*.
[2] Serial number B-3,4,5,6 of *Appendix–XXXVI.*
[3] Serial C-1 of *Appendix–XXXVI.*
[4] Figure as per Finance Account 2003-04 is Rs.38.83 crore, the difference is under reconciliation.
[5] Long term loans 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.

Sector-wise investment in working Government companies and Statutory corporation.

7.2.2 The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2004 and 31 March 2003 are indicated below in the pie charts.

Chart 7.1





Working Government companies

7.2.3 The total investment in working Government companies at the end of March 2003 and March 2004 was as follows:

Table No. 7.2

(Rupees in crore)

Year	Number of Government companies	Investment in working Government companies		
		Equity	Loan	Total
2002-03	13	62.20	37.47	99.67
2003-04	9	44.35	35.49	79.84

Investment in the current year has decreased over the previous year due to decrease in number of working Government companies.

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

As on 31 March 2004, the total investment in working Government companies, comprised 55.55 *per cent* of equity capital and 44.45 *per cent* of loans as compared to 62.41 *per cent* and 37.59 *per cent* respectively as on 31 March 2003.

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 XXXVI* and *XXXVIII.*

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 2003-04 are as follows: —

Table No. 7.3

(Rupees in crore)

	2001-02				2002-03				2003-04			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Equity Capital outgo from budget	3	0.98	1	1.50	2	7.03	1	1.50	3	11.15	—	—
Grants/subsidy toward: (i) Projects/Programmes/ Schemes (ii) Other subsidy	2	0.59	—	—	—	—	—	—	—	—	—	—
Total outgo	**5**	**1.57**	**1**	**1.50**	**2**	**7.03**	**1**	**1.50**	**3**	**11.15**	**—**	**—**

7.3.3 No information regarding guarantee given by State Government was received from the companies (September 2004).

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–XXXVII*, out of nine working PSUs (nine Government companies) none has finalised the accounts for the year 2003-04 within stipulated period. During the period from October 2003 to September 2004, two working Government companies finalised two accounts for previous years.

7.4.3 The accounts of nine working Government companies were in arrears for periods ranging from seven to 22 years as on 30 September 2004 as per details given below:

Table No. 7.4

Sl. No.	No. of working Government companies	Year from which accounts are in arrears	Number of years for which accounts are in arrear	Reference to Sl. No. of *Appendix–XXXVII* Government companies
(1)	(2)	(4)	(5)	(6)
1.	1	1982-83 to 2003-04	22	6
2.	1	1984-85 to 2003-04	20	1
3.	1	1987-88 to 2003-04	17	4
4.	1	1990-91 to 2003-04	14	2
5.	1	1991-92 to 2003-04	13	9
6.	2	1996-97 to 2003-04	8	3 & 5
7.	2	1997-98 to 2003-04	7	7 & 8
Total	**9**			

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–XXXVII.*

7.5.2 According to the latest finalised accounts of nine working Government companies, three companies had incurred an aggregate loss of Rs.1.47 crore, 4 companies earned an aggregate profit of Rs.1.05 crore and two companies had not commenced commercial activities.

7.6 Working Government companies

Profit earning working companies and dividend

7.6.1 One company (Sl. No. A-5 of *Appendix–XXXVII*) which finalised its previous year's accounts during the year, had earned a profit of Rs.24.30 lakh but did not declare any dividend.

Loss incurring working Government companies

7.6.2 Two companies, out of three loss incurring working Government companies (A-4 and A-7) of *Appendix–XXXVII* had accumulated losses aggregating Rs.4.11 crore which exceeded their aggregate paid up capital of Rs.1.85 crore. Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies 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 2003-04 to these two companies amounted to Rs.10.13 crore.

Return on capital employed

7.6.3 As per the latest finalised accounts, the capital employed[6] worked out to Rs.19.94 crore in nine working companies and total return[7] thereon amounted to Rs.1.54 crore which was 7.74 *percent* as compared to total return of Rs.0.97 crore (3.92 *percent*) in the previous year (accounts finalised upto September 2003). The details of capital employed and total return on capital employed in case of working Government companies are given in *Appendix–XXXVII.*

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:

State Government will start corporatisation by August 2004 to handle electricity matters. The Corporation will be made fully functional by July 2005.

State Government will set up State Electricity Regulatory Commission (SERC)/Joint Electricity Regulatory Commission (JERC) by November 2004 and file tariff petition immediately thereafter.

The 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.

State Government will ensure timely payment of subsidies required in pursuance of orders on the tariff determined by the SERC/JERC.

State Government will undertake Energy Audit and Energy 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.

State Government would achieve 100 *per cent* electrification of villages by 2007 subject to adequate funds being provided by Government of India under PMGY or any other relevant scheme.

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

[7] 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.

The progress of implementing power sector reforms was slow. The State Government was to complete 100 *per cent* metering and billing of all consumers by March 2003. But only 1,50,913 consumers (out of 1,68,769) were provided with energy meters (March 2004). The Joint State Electricity Regulatory Commission (JSERC) was yet to be set up.

The State Government intimated (February 2005) that the process of corporatisation of the Electricity department was under active consideration in consultation with the Ministry of Power and a departmental committee has since been constituted to assess the inventory, assets and liabilities of the Electricity department. A memorandum of agreement has also been signed between the Government of India and three States, Manipur, Mizoram and Arunachal Pradesh for constitution of a JSERC for the three states.

7.8 Non-working PSUs

Investment in non-working PSUs

7.8.1 As on 31 March 2004, the total investment in seven non-working PSUs (six non-working Government companies and one non-working Statutory corporation) was Rs.90.68 crore (equity: Rs.86.94 crore; loans: Rs.3.74 crore) as against total investment of Rs.1.37 crore (equity: Rs.1.37 crore only) in two non-working PSUs (two non-working Government companies) as on 31 March 2003. The classification of non-working Government companies and Statutory corporation at the end of March 2004 was as under:

Table No. 7.5

(Rupees in crore)

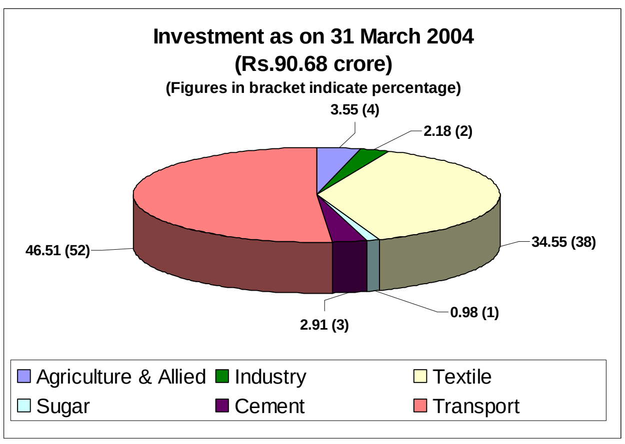
Sl. No.	Status of non-working PSUs	Number of companies	Number of corporation	Investment			
				Companies		Corporation	
				Equity	Loans	Equity	Loans
(i)	Under liquidation/closure	6	1	40.44	3.74	46.50	—
	Total	**6**	**1**	**40.44**	**3.74**	**46.50**	**—**

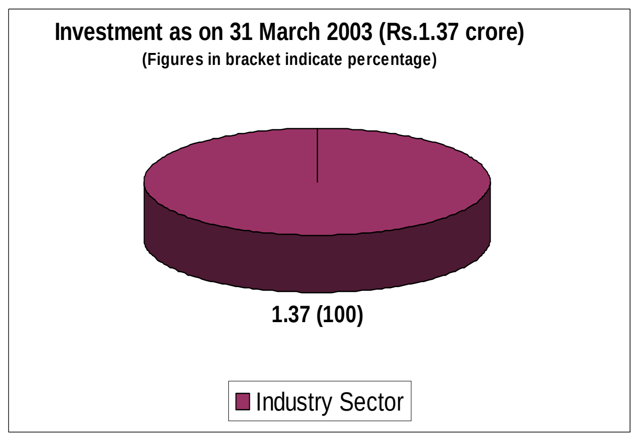
7.8.2 The above non-working PSUs which were under liquidation involve substantial investment of Rs.90.68 crore. Effective steps need to be taken for their expeditious liquidation or revival.

Sector-wise investment in non-working Government companies and Statutory corporation

7.8.3 The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2004 and 31 March 2003 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 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-XXXVI and XXXVIII*.

7.8.5 The State Government had provided budgetary support of Rs.22.85 crore by way of equity capital contribution to four non-working Government companies and one non-working Statutory corporation during 2003-04.

Finalisation of accounts by non-working PSUs

7.8.6 It would be noticed from *Appendix–XXXVII* that out of seven non-working PSUs (six Government companies and one Statutory corporation) none had finalised the accounts for the year 2003-04 within stipulated period. During the period from October 2003 to September 2004, three non-working Government companies and one non-working Statutory corporation finalised five accounts for previous years.

7.8.7 The accounts of six non-working Government companies and one non-working Statutory corporation were in arrears for periods ranging from eight to twenty years as on September 2004.

Financial position and working results of non working PSUs

7.8.8 The summarised financial results of non-working PSUs as per their latest finalised accounts are given in *Appendix–XXXVII*. 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 XXXIX* and *XL* 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 No. 7.8

(Rupees in crore)

Particular of Companies/Corporation	Paid-up capital	Net worth[8]	Cash loss	Accumulated loss
Non-working companies	4.53	4.21	NA	2.46
Non-working Statutory corporation	18.46	(-) 0.25	NA	18.70
Total	**22.99**	**3.96**		**21.16**

Operational performance of non-working Statutory corporation

7.8.9 The operational performance of Manipur State Road Transport Corporation is given in *Appendix–XLI.*

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 1991-92 along with Audit Certificate had been sent to the State Government in September 2004. No information had been received (November 2004) from the Government regarding placement of the Reports in the State Legislature.

7.10 Results of audit by Comptroller and Auditor General of India

7.10.1 During the period from October 2003 to September 2004, the audit of accounts of three Government companies and one non-working Statutory Corporation were selected for review. The net impact of the important audit observations as a result of review were as follows:

Table No. 7.9

(Rupees in lakh)

Details	Number of accounts			Amount (Rs. In lakh)		
	Government Companies		Statutory Corporation	Government Companies		Statutory corporation
	Working	Non-working	Non-working	Working	Non-working	Non-working
(i) Overstatement of loss	1	—	1	0.15	—	5.72
(ii) Understatement of profit	1	—	—	1.18	—	—
(iii) Understatement of loss	—	1	—	—	0.27	—

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

Some of the major errors and omissions noticed in the course of review 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 Police Housing Corporation Ltd. (1995-96)

7.10.2 The Gratuity contribution includes an amount of Rs.1.18 lakh on account of initial contribution for past service liabilities which should have been shown under 'Prior-Period Adjustment Account'. This has resulted in understatement of profit by Rs.1.18 lakh.

Manipur Cycle Corporation Limited (1991-92)

7.10.3 Employer's share of E.P.F. contribution for the year 1991-92 is understated by Rs.0.27 lakh resulting in understatement of loss for the year by Rs.0.27 lakh with corresponding understatement of Current Liabilities.

Errors and omissions noticed in case of Statutory corporation

Manipur State Road Transport Corporation (1991-92)

7.10.4 (i) The net loss for the year has been overstated by Rs.5.72 lakh due to excess exhibition of expenses (Rs.24.67 lakh) and non provision of expenses (Rs.18.95 lakh).

(ii) Fixed Assets and Stocks have not been physically verified during the year.

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

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

(v) Journal entries recorded in the general ledger lack authentication and required details.

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 three companies. A resume of major recommendations made/comments made by Statutory Auditors is as follows:

7.11.2 Two companies had no internal audit system, as revealed from the Statutory Auditors comments on their accounts[9].

[9] Manipur Spinning Mill Corporation Ltd. for the year 1982-83 and 1983-84 and Manipur Food Industries Corporation Ltd. for the year 1995-96.

7.11.3 In one company *viz*. Manipur Tribal Development Corporation Ltd., the internal audit system, though in vogue, needs to be further strengthened considering the size and nature of activities of the Corporation, as revealed from the Statutory Auditor's comments on its accounts for the year 1982-83.

7.11.4 One company *viz*., Manipur Tribal Development Corporation Ltd. had internal control procedure which was not commensurate with the size and nature of their business for the purchase of stores, raw materials including components, plants and machineries, equipment and other assets, as revealed from the Statutory Auditor's comments on their accounts for the year 1982-83.

7.12 Recommendations for closure of PSUs

7.12.1 One Government company (Manipur Handloom & Handicrafts Development Corporation Limited) had been incurring losses for 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 respective heads of departments within a period of six weeks. Inspection reports issued up to March 2004 pertaining to 16 PSUs disclosed that 220 paragraphs relating to 39 inspection reports remained outstanding at the end of September 2004. Of these 172 paragraphs relating to 32 inspection reports had not been replied for more than two to 13 years. Department-wise break-up of inspection reports and paragraphs outstanding as on 30 September 2004 is given in *Appendix–XLII.*

7.13.2 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 loss/outstanding advances/overpayments in a time bound schedule; and (c) the system of responding to the audit observations is revamped.

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

7.14.1 The status of Commercial Chapters of the Audit Reports and number of reviews/paragraphs pending for discussion at the end of 30 September 2004 are as shown below:

Table No. 7.10

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
99-2000	2	4	2	4
2000-01	1	2	1	2
2001-02	—	1	—	1
2002-03	—	1	—	1

7.15 619-B Companies

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

AUDIT PARAGRAPHS

COMMERCE AND INDUSTRIES DEPARTMENT

MANIPUR FOOD INDUSTRIES CORPORATION LIMITED

7.16 Wasteful expenditure of Rs.1.09 crore on setting up a Company

Winding up of the Company without being operationalised since inception rendered pre-operational expenditure of Rs.1.09 crore wasteful, and out of Rs1.60 crore received as grants from Government of India, an amount of Rs.1.10 crore remained in the Company's Bank account for over a period of two and a half year. An expenditure of Rs.14 lakh proved infructuous and Rs.36 lakh was not refunded by the implementing agency.

7.16.1 Manipur Sugar Mills Ltd. (MSML) was incorporated as a wholly owned Government Company in April 1987 with a view to establish a sugar factory at Kabowakching, Bishnupur District at a project cost of Rs.11.80 crore. The State Government did not establish the sugar factory for 10 years and finally decided in May 1997 to switch over the business of the Company from sugar manufacturing to food processing and renamed it as Manipur Food Industries Corporation Limited (MFICL). The renamed Company also failed to be operational as a food processing unit and finally it was decided to wind up the Company in March 2003 after incurring pre-operational expenditure of Rs.1.09 crore since its inception in 1987.

Analysis in audit revealed the following:

Sugar Mill (1987-1997)

Improper planning

7.16.2 The State Government had started acquiring 200.71 acres of land in 1981 for establishing Manipur Sugar Mills Limited. The Government however, was unable to acquire the land needed for the project. Despite this, Government went ahead with the project for establishing the sugar mill by incorporating it as a Company in 1987 ignoring the problems faced in acquisition of land at the original site. Government/Board of Directors(BOD) of the Company subsequently decided in December 1990 to change the site of the project to avoid objections made by the local people but that also did not materialise.

Inadequate funding

7.16.3 The Manipur Sugar Mills Limited was set up (April 1987) to establish a sugar factory having the capacity of crushing 1250 MT of cane per day. This required investment of Rs.11.80 crore in the form of Rs.5.50 crore State Government equity shares, Rs.6.05 crore as term loan from the financial institutions and Rs.0.25 crore as Central Government capital subsidy. The State Government released equity capital of Rs.0.78 crore only against its share capital contribution of Rs.5.50 crore. With this meagre capital, the Company was unable to secure loan from financial institutions as they insisted for minimum 50 *per cent* equity contribution by the State Government for providing term loan of Rs.6.05 crore. The State Government neither provided enough funds to the Company in the form of equity as was originally envisaged nor could ensure grant of loans to the Company by the financial institutions.

The new industrial policy guidelines issued by the Government of India in May 1997 fixed minimum capacity of 2500 MT of cane crushing per day for issue of industrial licenses for sugar factories. This required an investment of Rs.60–70 crore and the State Government which was unable to provide even Rs.5.50 crore for the project had no option but to drop the proposal. The Government therefore, decided (May 1997) to change the name of the Company to Manipur Food Industries Corporation Limited in order to develop food processing industries in the State, based on the locally available raw material with the financial assistance from the Ministry of Agriculture, Department of Food Processing Industries, Government of India (MADFPI).

Manipur Food Industries Corporation Limited (MFICL) (1997-2003)

7.16.4 Manipur Food Industries Corporation Limited (MFICL), the renamed Government Company established in September 1997 decided to take-up a food processing Estate at Moirangkampu Sajeb. But the Company (MFICL) could not become operational and the State Government finally decided to wind up this company in March 2003.

Test-check of records (December 2003) revealed that GOI, MADFPI had approved in December 2000 the project of setting up a food park in the State by MFICL at an estimated cost of Rs.11.72 crore (grants-in-aid from GOI: Rs.4 crore; State share: Rs.2.30 crore and loans from financial institution: Rs.5.42 crore) and released grants-in-aid of Rs.1.60 crore in December 2000 for the purpose of creation of common facilities such as analytical quality control laboratory, cold storage, warehouse, effluent plants, *etc*. The State Government neither released its share nor did it make any arrangement to ensure grant/loan from financial institutions. Balance amount of grants-in-aid was also not released by GOI.

Following points deserve mention:

Diversion of funds

7.16.5 MFICL, for execution of work of development of land and approach road of the complex, made an agreement in February 2001 with the District Council Engineering Cell (DCEC), Imphal on the basis of agency charges of 10 *per cent* of actual final cost of the work and made an advance payment of Rs.50 lakh to DCEC in February 2001. The balance grants-in-aid of Rs.1.10 crore was kept by the Company in its Bank account (January 2001).

Government of India, MADFPI objected (March 2001) to the Company’s attempt to divert the funds towards land development *etc*. instead of creation of common facilities. But by that time, DCEC had already incurred an expenditure of Rs.14 lakh on land development and approach roadwork during 2000-01, after which in pursuance of GOI’s objection, MFICL asked (March 2001) DCEC to stop the work and ultimately cancelled (January 2003) its agency for the same work. The balance amount of Rs.36 lakh was not refunded till the date of audit (December 2003).

Inappropriate site

7.16.6 In May 2001, Director, Food Processing Industries, Government of India inspected the site of the work and observed that the existing site was a low lying area for which extra cost would be involved for developing the land. Pursuance to this, a proposal to change the site was under consideration of the State Government.

7.16.7 The Board of Directors (BODs) of the Company decided (5 March 2003) to wind up the Company on the basis of the recommendations made (January 2003) by the Officers Committee set up by the State Government because the Company remained non-operational since its inception. Following this decision, Management conveyed to the Directorate of Commerce and Industries, Government of Manipur in September, 2003 that establishment of food park was not possible at this stage. Problems faced in implementation of the project were as follows:

(i) State Government’s share of Rs.2.30 crore was not released.

(ii) Extension of State guarantee for any type of loan had been kept in abeyance.

(iii) Proposal of change of site for the project was under consideration of the State Government.

7.16.8 It was further decided (January 2003) to retrench all the staff of the Company except one (for finalisation of corporation’s pending accounts) after giving one month’s notice which was duly implemented. But no approval from GOI, MADFPI for winding up process of the company was sought for by the State Government till September 2004.

Thus, due to lack of proper planning and inability of the State Government to provide adequate funds through Government and financial institution resulted in winding up of the company after incurring an expenditure of Rs.1.09 crore. The entire pre-operational expenditure of Rs.1.09 crore[10] mainly on salary, wages, retirement/retrenchment benefit, loss in disposal of land building *etc*., proved wasteful.

On this being pointed out in audit, Management while accepting the fact stated in December 2003 that steps had been taken to regularise the diversion of fund and a committee had been constituted by the Government, headed by the Chief Secretary to recover the balance amount of Rs.36 lakh from DCEC.

The matter was brought to the notice of the Government in June 2004; their reply had not been received (January 2005).

7.17 Poor performance of the Manipur Electronics Development Corporation Limited (MANITRON)

MANITRON, once a profit earning enterprise of the Government of Manipur (upto 1995-96), slipped to the position of a sick Company since 1996-97 incurring losses every year due to poor performance especially in manufacturing and trading activities.

7.17.1 The Manipur Electronics Development Corporation Limited (MANITRON) was incorporated under the Indian Companies Act, 1956 on 28 April 1987. The main activities undertaken by the Company during the period from 1995-96 onwards were (i) manufacturing and sale of TVs, emergency lights, electronic clocks *etc*., (ii) trading in electronic items and office automation equipment *viz*., computers, copiers, FAX, UPS, CTV, Intercom and EPABX, Risograph, LCD projectors *etc*., (iii) printing of Photo Identity Card (PIC) and electoral rolls.

The Company slipped from the position of a profit earning enterprise upto 1995-96 to a sick company since 1996-97 incurring losses every year. The cumulative losses of the Company as on 31 March 2003 stood at Rs.2.18 crore.

[10] Inclusive of Rs.19.22 lakh being the amount of interest earned on the balance of GOI's fund kept in the Company's Bank account up to October 2003.

Audit scrutiny of the records of the Company disclosed that losses of the Company were mainly due to the following reasons:

(i) declining manufacturing sales;

(ii) failure to boost trading sales;

(iii) high staff cost;

(iv) poor recovery of dues under Hire Purchase Scheme and

(v) payment of Rs.1.79 crore beyond contractual obligation.

Declining Manufacturing sales

7.17.2 Manufacturing activities of the Company mainly comprised of assembling television sets. The annual production target of 3,600 to 10,000 sets was projected initially at the time of establishment of the Company in late 80s. It was observed in audit that:

(i) no annual target for production was fixed for recent years by the Management,

(ii) production of television sets assembled by the Company declined considerably from 1,251 sets in 1995-96 to just 12 sets in 2001-02,

(iii) the production had to be kept low mainly due to the fact that sale of television sets drastically reduced during this period from 1,277 sets in 1995-96 to only 4 sets in 2001-02. As there were no buyers, the Company was forced to almost stop its production of TVs.

Main reason for declining sales of television sets of the Company was its inability to compete with multinational and other companies in the market in terms of price and quality of products. The prices of 51 cm colour TV (with remote control) of three multinational companies (MNCs) ranged between Rs.7,000 and Rs.8,500 as against the sale price of Rs.12,600 to Rs.15,250 fixed by MANITRON for its similar product in 2003. On it being pointed out in audit, the Management stated that though market surveys were conducted periodically to assess customers' choice and need for advancement of technology, the Company was unable to bring out any significant improvements in its product because of very low production level and requirement of huge investments for matching multinational companies in terms of technology and design.

The Management further stated that availability of products of MNC brands in Imphal market at throw away prices was an important factor for declining sales of the Company's television products in the State.

The production of emergency lights also fell sharply from 136 nos. in 1997-98 to nil in 2000-2002 period. The Company did not take timely steps to diversify its manufacturing activity of electronic items to maintain and boost the manufacturing sales.

Thus, the manufacturing activity in the Company was negligible since 2001-02 due to the failure of the Management to take adequate steps to arrest the declining trend in sales which stood at Rs.2.86 lakh during 2002-03 as against Rs.101.83 lakh during 1995-96 recording 97 *per cent* decline in the last seven years.

Failure to boost trading sales

7.17.3 As the manufacturing sales of the Company became almost negligible, serious efforts were needed to boost sale of trading items. The Company, however, depended only on trading of some electronic items such as computers, FAX machines *etc*. to avoid complete closure.

The audit analysis of trading accounts disclosed that trading sales too registered decline during the period 1995-96 to 2002-03. The trading sales of the Company are dependent on placement of orders by Government departments. The Company was functioning as a commission agent for supply of electronic equipment to Government departments. Since the Company did not make trading sales to private customers, the scope of increasing trading sales turnover significantly was limited.

High Staff cost

7.17.4 As against the sanctioned post of 98 (including MD), the men-in-position and the staff cost during the period under review were as follows:

Year	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
Men-in-position	95	95	94	93	91	90	90	88
Staff cost (Rs. in lakh)	62.83	58.73	74.36	67.11	72.47	76.47	77.98	78.55
Total expenditure (Rs. in lakh)	269.52	312.95	244.23	219.55	320.04	185.13	199.82	193.32
Percentage of staff cost vis-a-vis total expenditure	23.31	18.76	30.44	30.56	22.64	41.30	39.02	40.63

The percentage of staff cost to total expenditure has gone up tremendously from 23.31 *per cent* in 1995-96 to 40.63 *per cent* in 2002-03. High staff cost in the low-performing Company acted against the desired goal of bringing down production cost which was of paramount importance for making products more competitive in the market.

Due to decline in manufacturing activity of the Company, staff engaged in manufacturing and assembling of TVs, emergency lights and clocks would have become idle and surplus to a large extent. But no identification of such staff was carried out by the Management as yet.

Poor recovery of dues under Hire purchase scheme

7.17.5 Apart from cash sales, the Company also had a scheme of hire purchase for sale of television sets manufactured by it. According to the scheme, 50 *per cent* cost of the TV was to be paid by the customer at the time of taking delivery and the balance in 6/12 monthly instalments along with interest chargeable at the rate of 18 *per cent* per annum on the outstanding amount. This scheme was open only to Government servants who obtain a letter of authority-cum-undertaking from the concerned Drawing and Disbursing Officer (DDO) to the effect that monthly recovery of the Company's dues would be made from salary of the official each month and the amount would be deposited to the Company's account in time.

On getting such assurance from the concerned DDOs, the Company sold 3,414 TVs to Government servants on hire purchase scheme during the period 1995-96 to 2002-03. Audit examination of records of TV sets sold on hire purchase disclosed that an amount of Rs.27.96 lakh remained outstanding as of 31 March 2003 against defaulters of which Rs27.10 lakh was more than three years old.

The Management stated (May 2004) that they were taking up the matter with the concerned DDOs who were also the guarantors. In the absence of any specific provision in the scheme about steps to be taken in case the DDOs do not deduct and deposit such amount recoverable from the employees working under them, it is only persuasion and concerted efforts that can prevent the dues from turning bad and the Company from sustaining substantial loss of revenue on this account.

Payment of Rs.1.79 crore beyond contractual obligation

7.17.6 Audit scrutiny revealed that the Company had been entrusted with the work of preparation of Photo Identity Cards (PIC) by the Election Department involving instant photography and lamination of 13 lakh voters of Manipur at a negotiated rate of Rs.18.50 per card, to be completed during April to November 1994. As per the agreed terms and conditions, the Election Department was to provide security for the team and the systems engaged in the PIC work. The Company completed the work within the stipulated time amidst security provided as per the terms of agreement.

On 28 March 1995, the Home Department of the Government of Manipur preferred a bill amounting to Rs.1.79 crore being the cost of hiring vehicles and petrol, oil and lubricant (POL) for security personnel deployed in PIC work. The cost was to be borne by the Election Department as per agreed terms. The Management of the Company however, paid the amount to the Home Department on 22 March 1996. The Board of Directors (BOD) of the Company too approved the payment in its meeting held on 30 November 1995 with instructions to clear the bill immediately so that the amount could be accounted for at the time of paying income tax for the year 1994-95, the last date of which was also 30 November 1995.

After six years, the Management of the Company on 2 November 2001 sought refund of Rs.1.79 crore or sanction of grants-in-aid of equivalent amount from the Home Department. Since then, the Company has been pursuing this matter with the Commerce and Industries Department and the Department of Home, for refunding the above amount to the Company or providing grants-in-aid for Internet Service Provider project.

The amount is yet (September 2004) to be refunded to the Company. By making this payment, the Company seriously depleted its small working capital by Rs.1.79 crore. This highlights poor financial management and the casual approach of the management in decision making even in cases which could seriously affect the financial position of the Company.

The Company almost stopped its manufacturing activities and did neither diversify its manufacturing activities nor boost the trading activities in the right direction. Thus, the Company failed in its prime objective of developing electronics and allied industries in the State.

The matter was reported to Government in July and September 2004; their reply had not been received (January 2005).

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