Chapter - II

CHAPTER – II

2. Review relating to Government Company

Review on the working of Jharkhand Silk Textile & Handicraft Development Corporation Limited including Industry Department

Executive Summary

Introduction

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

Planning

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

Implementation of schemes

Sericulture

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

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

Handloom

Cluster Development Scheme

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

Group Approach Scheme

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

Primary Weavers Co-operative Society Scheme

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

Handicraft

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

Sales and Publicity

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

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

Financial Management

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

Material Management

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

Monitoring and Internal Control

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

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

Conclusion & Recommendations

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

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

Introduction

2.1 Development activities of sericulture, handloom and handicraft were carried out by the Directorate of handloom, sericulture and handicraft under Department of Industries (Department), Government of Jharkhand, (GoJ). The aim of the GoJ was to develop skills in the area of sericulture, handloom, handicraft and expansion of this sector by setting up of reeling, spinning and weaving centres. To give special thrust to the sector, GoJ established Jharkhand Silk Textile & Handicraft Development Corporation Limited (Company) as a wholly owned Government Company on 23 August 2006. The main objective of the Company was to carry on business of manufacturing, processing, design, development, *etc*. of handloom and handicraft products and to establish, promote, aid, assist by way of providing finance, financial subsidy, technical support, marketing and management support in setting up of handloom, silk, handicrafts and textile industries in the State. It also envisaged production through co-operatives & artisans and to organise or sponsor the urban or rural *haat* for exhibition and marketing of handicrafts and handloom products. The schemes implemented by the Company are proposed, planned for and sanctioned by the Department. The Company procures and sells all kind of handloom and handicraft products of the State thereby protecting and promoting the interest of artisans and weavers of the State.

Organisational setup

2.2 The Company is under the administrative control of Department of Industries (GoJ). As per the Articles of Association, the Management of the Company is vested in the Board of Directors (BoDs) comprising of six official Directors[1] and six non-official Directors[2] nominated by the GoJ. The BoDs was, however, reconstituted (August 2010) by the GoJ inducting Development Commissioner, Jharkhand as Chairman of the Company, making the number of official Directors as seven. The GoJ has not inducted any non-officials in the BoDs of the Company so far (November 2013) as required under the provision of the Articles of Association of the Company. The Managing Director (MD) is the only full time Director. The MD[3] is the Chief Executive Officer of the Company. The MD is assisted by the General Manager

[1] (i) Secretary, Industry, Ex-officio Chairman, (ii) Finance Secretary or his representative, (iii) Labour Secretary or his representative, (iv) Director (Handloom, Sericulture & Handicraft) (v) Registrar of Co-operative society and (vi) Managing Director (Member Secretary).

[2] One representative each from (i) Handloom sector (ii) Handicraft Sector (iii) Sericulture Sector (iv) Chamber of Commerce & Industry (v) Confederation of Indian Industry, Eastern Zone and (vi) NIFT, Kolkata.

[3] Special secretary and Director of Handlooms, Sericulture & Handicrafts under department of Industries, GoJ.

(Administration), Head of Accounts and Finance, General Manager (Operations) and General Manager (Marketing) in the day to day working of the Company. The Company also has a full time Company Secretary. Organisational Chart of the Company is given in ***Annexure-2.1.***

Scope and Methodology of Audit

2.3 The Review conducted during June to August 2013 covers the performance of the Company and the Department for the period 2008-09 to 2012-13 in respect of development of sericulture, handlooms and handicrafts and marketing of handloom and handicraft products in the State. We explained the audit objectives, audit criteria, methodology and sample size to the Secretary, Department of Industry, GoJ and Managing Director of the Company in the Entry Conference held on 3 June 2013.

Audit examination involved scrutiny of records of the Department, Corporate Office of the Company, nine clusters[4] out of 35 clusters, one training institute[5] out of two and the urban *haat* of the Company. Out of a total amount of ₹ 120.77 crore spent by the Company during the review period, expenditure of ₹ 97.84 crore (81 *per cent)* was test checked in audit.

The draft review was issued to the Management and the Government on 26 September 2013. Reply of the Management has been received (November 2013). The Government has endorsed (December 2013) the reply of the Management. The exit conference was held on 11 December 2013 with Secretary, Department of Industries, GoJ and MD of the Company. The reply of the Government and views expressed by the Management and the Government in exit conference has been suitably incorporated in the review.

Audit Objectives

2.4 Review of the activities of the Company and the Department was carried out to assess whether:

- ❖ the Department had prepared long term and short term plans to achieve the objective of development of sericulture, handlooms and handicrafts in the State;
- ❖ the schemes for development of sericulture, handlooms and handicrafts were executed by the Company/Department economically, efficiently and effectively and interests of weavers and artisans were protected;
- ❖ effective and efficient marketing policy existed for promoting activities for development of handlooms and handicrafts in the State;
- ❖ the Company had efficient and effective financial management system and utilised its resources economically;

[4] Maniyardih, Rajidumma, Godda, Poraiyahaat, Bhagaiya, Jiyajori, Pokharikala, Sikni and Sithio.

[5] Saheed Nirmal Mahto Training Institute Bhagaiya.

- ❖ efficient and effective inventory management system was prevalent;
- ❖ management of Human Resources was efficient to achieve the objectives of the Company; and
- ❖ effective and efficient Internal Control and monitoring mechanism was prevalent in the Company and the activities of the Company was being efficiently overseen by the Department.

Audit Criteria

2.5 The sources of criteria for assessing the achievement of audit objectives were:

- ❖ Industrial policy of the State Government and its directions;
- ❖ Guidelines/Directives of Centrally sponsored scheme/State sponsored schemes;
- ❖ Targets as envisaged under the various schemes;
- ❖ Norms and standards fixed by the Company for implementation of various schemes;
- ❖ Sales and Publicity policy of the Company; and
- ❖ Articles of Association of the Company.

Audit Constraints

2.6 The Department/Company had not furnished tender/purchase files and stock register of looms and accessories, reeling machinery and equipments. The Company had also not submitted progress report of the implementation of schemes. The Company had not compiled data regarding production of yarn and fabric. The Company had not produced the details regarding recommendation and allotment of land to Craftedge Apparels for setting up of stitching unit of fabric.

Audit Findings

2.7 The Department prepares Plans for development of sericulture, handloom and handicrafts. It also carries out all pre-cocoon activities i.e. rearing of silk worm up to cocoon formation and providing assistance to cocoon rearers. The Company carries out post cocoon activities i.e. purchase of cocoons, production of yarn from cocoons, fabric from yarn and handicraft products. It also provides marketing support to weavers and artisans. The Company is the implementing agency of the schemes sanctioned by the Department for development of sericulture, handloom and handicrafts.

Planning

In five year plan no specific physical target was fixed in respect of Handloom and Handicrafts.

2.8 The Department prepared Plans for development of sericulture, handloom and handicrafts in the state under the Eleventh Five Year Plan (2007-12). The target for establishment of 12 more Pilot Project Centres (PPCs) under sericulture was achieved by the Department and the number of PPCs increased from 28 to 40 during the period 2008-09 to 2012-13. However, no specific physical target was fixed for the development of handloom and handicrafts and only focussed areas were indicated in the Five Year Plan documents.

Based on the Eleventh Five Year Plan the GoJ provided funds for implementation of the schemes in the Annual Budget which were implemented by the Department directly and through the Company. During the period 2008-09 to 2012-13 against budget provision of ₹ 343.43 crore, ₹ 303.07 crore was released to the Department of which ₹ 277.37 crore was spent in the State.

Out of the Plan allocation/Budget provision, the Department provided ₹ 177.51 crore for implementation of the schemes relating to sericulture[6], handlooms[7] and handicrafts[8] to the Company though it could utilise only ₹ 120.77 crore (68.04 *per cent*) and ₹ 59.38 crore remained unspent as on 31 March 2013. Poor utilisation of Grants received from Government led to delay in execution of the schemes as discussed in succeeding paragraphs.

Implementation of sericulture, handloom and handicraft schemes

2.9 Eight[9] schemes were sanctioned by GoI/GoJ which was to be implemented by the Department/Company for development of Sericulture, Handloom and Handicrafts during 2008-09 to 2012-13. The audit scrutinised six[10] schemes which are discussed below:

Sericulture

2.10 Sericulture is an agro based, export oriented industry. It has direct relevance to the welfare and well being of weaker sections of society with engagement of rural farmers in large scale plantation of tasar food plants and silkworm rearing. Production of cocoon is carried out by the Department.

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[6] training of reelers and spinners, purchase of equipments, construction of Common Facility Centre (CFC) Workshed.

[7] purchase of looms and accessories, raw materials, training, construction of CFC worksheds and Dye-houses.

[8] design development and training.

[9] CFC, *Kitpalkon ke Sahayta Anudan*, Cluster Development, Group Approach, PWCS, Design, Development & Training, Establishment of *Sahari Haat* and *Mela* & Exhibition.

[10] CFC, Cluster Development, Group Approach, Primary Weavers Cooperative Society (PWCS), Design, Development & Training and *Mela* & Exhibition.

The various stages of DFLs/Cocoon production is given below:

Nucleus Disease Free Layings (DFLs) purchased from Central Silk Board

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Nucleus Cocoon (one nucleus DFL will produce 40-50 cocoons)

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Basic DFLs (5 nucleus cocoons will produce one DFLs)

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Basic Cocoon (one basic DFL will produce 40-50 cocoons)

↓

Commercial DFLs (5 basic cocoons will produce one DFLs)

↓

Commercial Cocoon (one commercial DFL will produce 40-50 cocoons)

As per norms of Central Silk Board (CSB), production of cocoons per unit DFLs at each stage should be in the range of 40-50 cocoons and cocoons will produce DFLs in the ratio 5:1.

Loss of revenue of ₹ 84.36 crore due to short production of cocoons.

The cocoons produced and shortfall in production of cocoons during 2008-09 to 2011-12 are shown in ***Annexure-2.2***. It can be seen from the annexure that there was short production of 83.36 crore cocoons as per the norms prescribed by CSB which resulted in potential loss of revenue of ₹ 84.36 crore. However, the shortfall[11] in production of cocoons was 32.37 *per cent* in 2008-09 which peaked to 58.16 *per cent* in 2010-11 and came down to 25.87 *per cent* in 2011-12**.** The production of cocoons depends on control of disease during egg laying period and weather conditions. The Department had not compiled data of assessment of disease in egg layings. In absence of compiled data the Department could not take corrective measures in time. The Department should have issued guidelines for control of disease during egg laying period and taken initiatives to increase the production of cocoons as this activity was being carried out since prior to 2007-08. The Department issued guidelines for control of disease during egg laying only in July 2012. However, the guideline only stressed on control over disease but no benchmark for production of cocoons was laid down. Had the guidelines been issued well in time the production of cocoons could have been maximised. The production of more cocoons will enable the State to achieve higher production

[11] Considered on conservative basis, minimum norm of 40 cocoons for working out the production of cocoons instead of maximum of 50 cocoons.

of silk and will be beneficial to commercial seed rearers to improve their earning capacity.

The Government stated (December 2013) that in coming years production will improve.

Short recovery against sale of Basic DFLs

2.11 The basic DFLs produced at the grainage[12] house of the PPCs were sold to Reshamdoots[13] (RD) for production of commercial DFLs. On test check of five PPCs[14], we observed that during 2008-09 to 2012-13 the PPCs had sold basic DFLs to different Reshamdoots at credit valuing ₹ 52.82 lakh against which only ₹ 24.64 lakh could be realised and ₹ 28.18 lakh remained unrealised. Out of realisation of ₹ 24.64 lakh, ₹ 18.07 lakh was adjusted against the Grants-in-aid (*Sahayata Anudan*)[15] sanctioned by GoI/GoJ for Reshamdoots. Possibility of realisation of the amount is remote as the PPCs had not evolved mechanism for recovery of dues.

The Government accepted (December 2013) the audit observation and stated that respective Pilot Project Officers (PPOs) were directed to deposit the amount immediately otherwise departmental action will be initiated against them to recover the dues.

Non payment of cash subsidy for grainage house

2.12 The GoI had sanctioned Catalytic Development Programme for assistance to RDs during 2008-09 to 2010-11. One of the component of the scheme was to provide initial cash assistance of ₹ 6,000 to each RD for construction of temporary grainage house for layings. GoJ had also sanctioned scheme for the assistance to RDs during 2008-09 to 2012-13. One of the component of the scheme was to provide cash assistance of ₹ 2,000 every year to each RD for repair and maintenance of existing grainage house. However, during test check it was observed that the assistance of Grants-in-aid through both the above mentioned schemes was not fully disbursed to the RDs but adjusted against the cost of basic DFLs receivable from RDs as discussed in paragraph no. 2.11. This defeated the purpose of giving assistance in the form of grants-in-aid for providing and maintenance of grainage house necessary for layings which may have affected the production of cocoons as discussed in paragraph no. 2.10.

Inadequate storage facility of cocoons

2.13 The Company purchases cocoons from seed rearers for production of silk yarn. The cocoons are required to be stored in cocoon bank. The Department sanctioned construction of 22 cocoon banks which were to be

[12] A place where cocoons are stored for production of disease free layings.

[13] Rearers are organised in a group of 23 persons one of them is named as RD, two are selected as seed rearers and rest 20 are commercial rearers

[14] Boreo, Godda, Kathijoria, Bengabad, Jagdishpur.

[15] For construction of temporary grainage house.

constructed by Government Agencies[16] during 2008-09 to 2012-13. However, only six cocoon banks were constructed[17] during the period. Due to inadequate storage facility, the cocoons could not be stored properly which resulted in deterioration in quality of cocoons and short production of yarn as discussed in succeeding paragraph. Improper storage of cocoons as seen during joint field visit of audit with cluster development executive of the Company is given in photographs below.


(Photograph of PPC Bengabad)

It is apparent that delay in construction of cocoon banks led to inadequate storage facility of cocoons.

Short production of yarn from cocoons

Short production of 37,824 kg of silk yar from cocoons.

2.14 Reeling and spinning of silk filament (yarn) from cocoons after drying and cooking[18] *etc.,* was done by reelers and spinners engaged by the Company at Common Facility Centres (CFCs) of the Company. The Company estimated that from 1,000 cocoons the production of silk yarn would be one kg while the Department estimated that production of silk yarn per 1,000 cocoons would be 1.0 to 1.2 kg. During 2008-09 to 2012-13, the Company supplied 7.24 crore cocoons to reelers and spinners[19] for production of silk yarn. The silk yarn produced by them was 34,542 kg against the estimated production of 72,366 kg. Thus, production of silk yarn was less than the estimated production of silk yarn by 37,824 kg. Further, the production of yarn per thousand cocoons had decreased from 0.77 kg in 2008-09 to 0.42 kg in 2012-13 registering decreasing trend in production of silk yarn. The basic reason for short production of silk yarn was also due to improper storage facility of cocoons as mentioned in paragraph no. 2.13.

The Government stated (December 2013) that if cocoons was of grade-A quality and produced by experienced reelers/spinners then they get one kg yarn from 1,000 cocoons. They further stated that the cocoons purchased were of categories A, B and C.

The reply is not acceptable as the Company had not evolved any control mechanism to monitor the production of yarn by reelers and spinners as production of yarn was not matched with cocoon issued for reeling and

[16] Jharkhand Industrial Infrastructure Development Corporation, NREP and Gramin Vikas department
[17] Three in 2011-12 and three in 2012-13.
[18] Boiling of cocoons in pressure cooker before reeling and spinning.
[19] of Kharshawan, Bero, Ratu PPCs, Bhagaiya and Jiyajori Clusters.

spinning. There was no system of recording of issue of cocoons to individual and matching of yarn produced by the individual against the quantity of cocoons issued. In the absence of control mechanism pilferage of yarn/cocoon cannot be ruled out.

Further, the estimation made by Company/ Department did not contain any categorisation of cocoons and they estimated that yield would be one to 1.2 kg of yarn from 1,000 cocoons.

Moreover, during 2008-09 to 2012-13 the PPC at Bero and Ratu issued 21,582 thousand of Grade-A cocoons to CFCs/Self Help Groups (SHGs) and the yarn produced by them was only 8,708 kg as against 21,582 kg which ought to have been produced. In fact, the yield of yarn per thousand cocoons was 0.63 kg in 2009-10 which decreased to 0.36 kg in 2012-13. Further, the reelers and spinners trained during the current years only would be considered as inexperienced and those trained in earlier years and have already been engaged in production can be considered to be experienced. The Company engaged both experienced and inexperienced reelers and spinners in production during the review period. Hence, Government contention is not correct that experienced reelers and spinners can get one kg of yarn from 1,000 cocoons. Further, as mentioned in paragraph no. 2.13 improper storage facility also led to short production of yarn.

Establishment of Common Facility Centres (CFCs)

2.15 The GoJ sanctioned schemes for establishment of CFCs to promote the post-cocoon activity i.e., conversion of cocoons to silk yarn and to provide employment to rural folk. The Company spent ₹ 7.32 crore[20] only as on March 2013 against the sanction of ₹ 12.45 crore[21] during 2008-09 to 2011-12[22] under the scheme.

We observed that:

- The Company had constructed only 18 worksheds (28 *per cent*) out of the target of 82 at a cost of ₹ 1.06 crore and construction of rest 64 worksheds were not yet started as land had not been made available by the Department. Year after year the Department had sanctioned schemes and released the fund without ensuring the availability of land. However, the Company was running 144 CFCs during 2006-07 to 2011-12 by arranging worksheds from district administration.

Irregular submission of UCs of ₹ 97.53 lakh.

- Further, it was observed that the Company had submitted (August 2010) utilisation certificate (UC) to GoJ for ₹ 47.53 lakh sanctioned in January 2009 for construction of worksheds although the actual amount spent was ₹ 40.88 lakh till September 2013. Similarly, against the released amount of ₹ 50 lakh, sanctioned in August 2009 for

[20] Worksheds ₹ 1.06 crore, Machinery & Equipments ₹ 1.40 crore, Working Capital ₹ 3.42. crore, Training ₹ 0.55 crore and Supervision charge ₹ 0.89 crore.
[21] Worksheds ₹ 4.69 crore, Machinery & Equipments ₹ 1.76 crore, Working Capital ₹ 3.54 crore, Training ₹ 1.57 crore and Supervision charge ₹ 0.89 crore.
[22] Fund of ₹ 14.66 crore for 2012-13 received in March 2013 was not included.

purchase of machinery and equipments, the Company submitted (November 2010) UC for the entire amount although the actual amount spent was ₹ 41.47 lakh as on September 2013. Submission of UCs, before utilisation of fund, was in violation of the condition of sanction that the UC was to be submitted after spending the amount. GoJ did not have any mechanism for ascertaining the genuineness and correctness of the UCs.

It is further mentioned that Department/Company could not produce the purchase files and stock register of reeling and spinning machines and equipments. In absence of proper records of purchase and issue of machinery and equipments, the reasonability of rate and safeguarding of these equipments and their utilisation could not be ascertained.

The Government stated (December 2013) that they had now arranged the land and awarded (March to June 2013) the work of construction of worksheds to Bharat Sanchar Nigam Limited (BSNL).

The Government accepted the audit observation regarding construction of worksheds**,** however, the reply was silent about submission of irregular UCs and about non production of records**.**

Handloom

2.16 Silk and cotton yarn are converted into fabric by weaving on handlooms. GoI sanctioned Cluster Development Scheme (CDS)[23] and Group Approach Scheme[24] and GoJ sanctioned Primary Weavers Cooperative Societies (PWCS)[25] scheme for development of handloom. The objectives of the schemes were to provide new worksheds to the PWCS/SHGs or renovate their existing worksheds, provide looms and accessories, assistance for design and development and marketing, training for skill upgradation and working capital to the weavers for their sustained livelihood and social upliftment. The implementations of the above mentioned schemes are discussed in the succeeding paragraphs.

Cluster Development Scheme

2.17 GoI had sanctioned development of 35 clusters[26] with 20 weavers organised under each cluster at a total cost of ₹ 19.70 crore[27] as detailed in

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[23] CDS is a component of the Integrated Handlooms Development Scheme (IHDS) of GoI undertaken in Eleventh Five Year Plan period and no new cluster was sanctioned after February 2011

[24] The weavers who were not covered under CDS were covered under this scheme.

[25] For revival of the PWCS which were sick and on the verge of closure.

[26] Irba Chuttu, Jiyajori, Bhargora, Sithio, Pokharikala, Uruguttu, Khunti, Saraiyahaat, Bhagaiya, Mandro (February 2008); Godda, Sudna, Poraiyahaat Islampur, Baldhar, Jamunia, Rajidumma, Maniyardih, Mahuadabar, Hariharganj, Lohardaga (October 2008); Pachrukhi, Boreo, Murujuli, Sikni, Fasia (November 2009); Nayasarai, Barhet, Pakur, Murumdega, Boarijore(December 2010) and Garhwa, Banapiri, Rajhar, Kundri (February 2011).

[27] Central share ₹ 18.85 crore and State share ₹ 84.98 lakh.

Annexure 2.3. The Company received ₹ 16.64 crore being the sanctioned amount in respect of 26 clusters though the third instalment in respect of remaining nine clusters was yet to be received. Of this, ₹ 12.61 crore was spent by the Company.

We observed that:

- GoJ released the fund to the Company after nine to 12 months after its receipt from the GoI as against the mandated period of one month due to procedural delay.

- The Company imparted training to 520 persons in dyeing, 560 on weaving and 280 on designing against the target of 700 persons each on dyeing, weaving and designing. The Company had not imparted any training on dyeing and designing against the sanction of December 2010 and February 2011. The reason for short fall in training was non-availability of worksheds. Thus, objective of sustained livelihood and social upliftment of weavers could not be fully achieved.

- Rupees 6.24 crore was sanctioned for construction of 35 CFC worksheds and 21 dye houses. However, the Company did not construct CFC worksheds and dye house so far (March 2013) as the land required for construction was not made available by the Department. During field visit of the clusters it was observed that the weavers were forced to work in their own houses and had to face problems during rainy season as the worksheds were not available.

- One of the objectives of the scheme was to assist the handloom weavers groups in becoming self sustained by constitution of a consortium. The consortium to be organized by the Company had to include stakeholders from SHGs, Co-operative Societies, master weavers, private entrepreneurs, Non-Government Organizations (NGOs) *etc.,* to facilitate interaction of the weavers with the connected organisations like banks/financial institutions, market institutions/ marketing experts, legal experts, Government machineries, weavers *etc.* The consortium was to take over the activities of the cluster in/after third year to run it on a sustainable basis. However, even nine months to 32 months after expiry of the mandated three years of formation of 26 clusters, consortium was not established in any of the clusters by the Company.

The Government accepted (December 2013) that dye houses and CFC worksheds were not constructed as the land was not available and stated that the purpose of dye house and dyeing training were different as the dye houses were to be established to meet the large scale requirement whereas dyeing training had been imparted to weavers so that they could meet their own requirements of dyed yarn. They further stated that as the entire process was being carried out through PWCS and SHGs the establishment of consortium for each cluster was not implemented by the Company.

The reply is not acceptable as the objective of setting up of consortium for each cluster was to facilitate self sustainability of each cluster which had not been achieved so far and dyeing requirement of clusters was met by existing dye house of the Company and also by reviving a private dye house.

Group Approach Scheme

2.18 The scheme was conceived for development of weavers who were not covered under Cluster Development Scheme. A group should have preferably 10 weavers or more in the form of SHG/PWCS/other independent/Individual weavers. The GoI sanctioned the Group Approach scheme for ₹ 5.35 crore[28] during 2008-09 to 2011-12 as shown in ***Annexure 2.4***. GoI released ₹ 4.08 crore against sanctioned amount of ₹ 5.13 crore and the remaining ₹ 1.05 crore was not released due to non submission of Utilisation Certificate by the Company. However, GoJ released the full amount of its share of ₹ 21.80 lakh. Against a released fund of ₹ 4.30 crore, the actual expenditure incurred by the Company was ₹ 4.18 crore (March 2013).

We observed that:

- The Company had formed 81 SHGs (November 2013) against the target of 90 SHGs.

- The Company constructed only 62 worksheds (August 2013) on land donated by PWCS and SHGs against 81 worksheds. The construction of 14 worksheds was in progress and in the case of remaining five worksheds, the Department could not arrange the land. Due to delay in construction/ non-construction of worksheds, the desired benefit could not be extended to the weavers.

- Training was imparted to 140 persons on weaving and 220 persons on dyeing so far (August 2013) against the target of 180 and 260 respectively and training to 40 persons each on weaving and dyeing was not imparted even after four to five years of sanction of the scheme due to non availability of worksheds as the looms required for training were to be installed in the worksheds. Thus, objective of sustained livelihood and social upliftment of weavers could not be fully achieved.

The Government while accepting the fact stated (December 2013) that nine worksheds were under construction and for two worksheds work order would be issued soon. There was delay in constructions due to non availability of land and stated that land was now available with them.

The fact remains that still 11 worksheds could not be constructed which resulted in non achievement of objective of extending benefits to the weavers.

[28] Central share ₹ 5.13 crore and State share ₹ 21.80 lakh.

Primary Weavers Cooperative Societies Scheme

2.19 The GoJ had taken initiative to revive the Primary Weavers Cooperative Societies (PWCS)[29] which were sick and were on the verge of closure. The PWCS is headed by a chairman and minimum of 20 weavers. The GoJ sanctioned ₹ 31.12 crore as shown in ***Annexure 2.5*** for strengthening of PWCS which was received during 2008-09 to 2012-13. Of this, the Company could spend ₹ 19.89 crore only (March 2013).

We observed that against the target of 236 worksheds, construction of only 30 worksheds was completed on land donated by the PWCS and three worksheds were under construction. Construction of 203 worksheds could not be started (March 2013) as neither land was arranged by Department nor donated by PWCS. The Company imparted training to 3,624 weavers against the target of 4,240. It was observed that the Department had not prescribed any time frame for completion of the scheme. Thus, a sense of urgency was lacking to complete the scheme in a given timeframe.

We further observed that:

Irregular submission of UC of ₹ 2.88 crore.

- Rupees 5.74[30] crore was sanctioned in August 2012 (received in March 2013) which included inter alia construction of 48 worksheds, purchase of looms and accessories, training for 48 weaver groups and acquisition of land. As the Company had not constructed any workshed under the scheme so far (March 2013), the UC submitted in August 2013 for ₹ 2.88 crore towards construction of worksheds was irregular.

- GoJ sanctioned (December 2008) ₹ 3 crore which, inter alia included ₹ 16 lakh for dyeing & finishing workshed at Bhagaiya and ₹ 20 lakh for dyeing & finishing equipments. It was observed that the Company had submitted UCs for the entire sanctioned amount of ₹ 3 crore to GoJ in February 2010 although the dyeing & finishing workshed was constructed in February 2011. Also, UC for ₹ 20 lakh sanctioned for dyeing & finishing equipments was submitted to GoJ in February 2010 without purchasing the equipments. Subsequently (March 2013), the dyeing & finishing equipments were purchased at a cost of ₹ 10.42 lakh from another scheme. Thus, the Company had submitted wrong UCs to GoJ. The Department did not have any mechanism for ascertaining genuineness and correctness of the UCs submitted by the Company.

- The worksheds were to be constructed at a cost of ₹ 3 lakh and ₹ 6 lakh depending upon the size of the workshed. However, during the joint field visit[31] of 17 worksheds[32] constructed under the Group

[29] Registered under the Societies Act

[30] ₹ 2.88 crore for construction of workshed, ₹ 0.91 crore for looms and accessories, ₹ 0.53 crore for training, ₹ 0.42 crore for supervision charge and ₹ 1 crore for acquisition of land.

[31] With cluster development executive of the Company

[32] Sithio (two), Barhu (two), Upperkonki (two), Uruguttu (one), Mohanpur (one), Katamkulli (two), Barodiwla (one), Sikni (two), Saker (one), Potamdaga (one), Wasim (one), Kundrukala (one)

Approach Scheme and PWCS, it was noticed that in three villages[33] the second workshed was constructed on first floor above the existing workshed and one of the wall of the worksheds in four villages[34] was common with the existing workshed. In absence of the measurement books and details of the actual quantity of works executed, the deduction to be made from the amount payable could not be quantified.

- In two villages[35] worksheds were constructed (May 2011) although no looms were available in these worksheds.

It is further mentioned that Department/Company could not produce the tender/purchase files and stock register of looms and accessories. In absence of proper records relating to purchase and issue of looms and accessories, safeguarding of these equipments and its utilisation could not be ascertained. The Company had also not maintained the schemewise data of purchase of looms and accessories. In absence of schemewise data monitoring of scheme could not have been done.

The Government accepted (December 2013) that worksheds could not be constructed as land was not available and stated that now land was available and work order was issued to BSNL (March to June 2013).

However, the reply is silent about irregularities in submission of UCs and irregularities pointed in construction of worksheds.

Utilisation of trained weavers

2.20 Training is a critical input for handloom weavers to adapt themselves to produce diversified products with improved quality to meet changing market trends. As per the schemes, training was imparted to weavers and the Company was also provided a Revolving fund as working capital for purchase of silk and cotton yarn and dyes & chemicals.

Test check of records of 17 clusters[36] revealed that the Company imparted training to 2,495 weavers during 2008-09 to 2012-13 against which only 1,280 weavers *i.e.,* 51 *per cent* were engaged by the Company as on March 2013. The number of trained weavers engaged by the Company was abnormally low as the trained persons could not be engaged by the Company owing to lack of infrastructure support like worksheds, irregular supply of raw materials and delay in payment of wages *etc* as stated by Cluster Development Executive during the field visit. This had also resulted in underutilisation of looms as commented in paragraph no. 2.21. The Company should take action to maximise the utilisation of trained weavers.

[33] Sithio, Barhu & Katamkulli
[34] Katamkulli, Mohanpur, Upperkonki & Sikni
[35] Potamdaga and Kundrukala
[36] Sithio, Maniyardih, Mahuadabar, Mahuadanr, Jamunia, Balthar, Boreo, Barhet, Jiyajori, Godda, Saraiyahaat, Poraiyahaat, Fasiya, Sikni, Pachrukhi, Hazaribag and Kharsawan.

Thus, the objective of imparting training to the weavers so that they could become members of self sustaining weavers' groups was not achieved in respect of 1,215 weavers even after incurring an expenditure of ₹ 1.82 crore[37].

Underutilisation of looms

2.21 The Company had provided handlooms to Weavers for production of fabric with the estimation that the silk weavers would produce five meters of fabric and the cotton weavers would produce seven meters of fabric per day. As per the policy of the Company it has to engage weavers for 260 days in a year. It was noticed that, in 22 clusters[38] in respect of which production data was made available to audit, the actual production of silk and cotton fabric was much less than the minimum prescribed production of five meter[39] per loom per day as shown in the ***Table – 2.1.***

Table – 2.1

Year	No. of looms available for production as on 1 April	Fabric produced (meter)	No. of looms required for production	Percentage of Underutilisation of looms
(1)	(2)	(3)	(4) =(3)/(5*260)	(5)={(2)-(4)}/(2)*100
2009-10	121	66653	51	58
2010-11	385	133446	103	73
2011-12	842	162650	125	85
2012-13	1062	220126	169	84

(Source: data furnished by clusters)

It can be seen from the above that despite imparting training to weavers, looms remained underutilised and underutilisation increased from 58 *per cent* in 2009-10 to 84 *per cent* in 2012-13. We observed that the Company could not engage the weavers for 260 days in a year. The reasons as given by cluster development executive for under utilisation of looms were delay in payment of wages to weavers, irregular supply of yarn and non-availability of worksheds. Further, due to inadequate monitoring optimal utilisation of looms could not be achieved.

The Government stated (December 2013) that out of total looms per year available many were used on training and production during training cannot be at the same pace, many looms were established at the mid or even at the end of the year and weavers were not Company's employees and the Government could not force them to work daily for standard hours.

The reply is not acceptable as we worked out the quantum of underutilisation of looms after taking into consideration looms available for production of fabric in the beginning of the year. Further, the looms were provided to the weavers free of cost by the Company for their full time engagement.

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[37] Weavers @ ₹15000 per weaver *1215 = ₹ 1.82 crore.

[38] Jiyajori, Boarijore, Godda, Fasiya, Poraiyahaat, Saraiyahaat, Maniyardih, Pachrukhi, Mahuadabar, Rajidumma, Balthar, Jamunia, Hazaribag, Sikni, Kharsawan, Boreo, Barhet, Pokharikala, Saher Basila, Deori Nagri, Sithio, Mahuadanr.

[39] Quantity of fabric produced for silk and cotton fabric separately was not available hence minimum production of five meter was considered.

Handicraft

2.22 The GoJ had sanctioned scheme for the development of handicrafts to be implemented by the Company with the objective of upliftment of the socio-economic condition of the rural artisans. Under the scheme training in traditional Arts[40] was to be provided and trained artisans were to be engaged in production. The GoJ sanctioned ₹ 15.08 crore during the years 2009-10 to 2011-12 for training of 21,750 artisans. The Company imparted training to 23,602 artisans at a cost of ₹ 13.67 crore during 2009-10 to 2012-13 as per the information furnished by the Company.

We observed in test check that the Company imparted training to 11,729 artisans[41] of which only 1,734 artisans *i.e.,* 15 *per cent* were engaged in the production by the Company during 2012-13. The reasons for dropout of trained artisans were irregular supply of raw materials as stated by Project Manager and PPO, Kharsawan although the Company was provided with working capital for purchase of raw materials.

Marketing support could not be provided to trained artisans in absence of database of trained artisans even after incurring an expenditure of ₹ 6.93 crore.

All artisans trained by the Company were not engaged by them in their production activity. Utilisation of knowledge and skill gained through training by trainees who were not engaged and the benefits derived by them were not assessed by the Company/Government. The Company did not maintain a database of number of trained artisans gainfully self employed. This was necessary as the Company was required to provide marketing support to the artisans. Thus, the objective of imparting training to 9,995 artisans after incurring an expenditure of ₹ 6.93 crore[42] was not achieved.

The Government stated (December 2013) that the number of artisans shown as engaged by the Company was not correct as in Hazaribag alone around 10,000 artisans were engaged but they do not have information readily available for the same. Government further stated that issue raised by audit would be suitably addressed.

The reply is not acceptable as out of 10,275 artisans trained at urban *haat* Hazaribag during 2010-12 only 1,511 artisans were engaged in the production during 2012-13.

Sales and Publicity

2.23 The Company had not formulated any policy for advertisement and publicity. Advertisement and publicity was done by the Company during festive seasons and opening of new emporium only.

[40] Tribal paintings, dhokra craft, grassmat, bamboo craft, papermache, lac bangles, woodcraft *etc.*

[41] Akarshani, Kharsawan, urban *haat*, Hazaribag and Deori Nagri PWCS under Sithio Cluster

[42] Artisans @ ₹6935 per artisan * 9995= ₹ 6.93 crore.

Pricing Policy

2.24 The Company decided (February 2008) to add 50 *per cent* of cost as mark up to the cost price to arrive at the maximum selling price (MSP) of handloom products without any rational analysis.

Lower sales realisation by ₹ 2.72 crore due to non adherence to pricing policy.

Test check of records relating to handloom products revealed that during 2008-09 to 2012-13 against a cost of production of ₹ 34.11 crore the MSP was fixed at ₹ 48.45 crore, whereas MSP as per policy of the Company worked out to ₹ 51.17 crore. Thus, the Company fixed the MSP without adding 50 *per cent* of cost and thus, deviated from its pricing policy resulting in lower sales realisation by ₹ 2.72 crore.

The Government while accepting (December 2013) the audit observation stated that in some products lesser margin was added to sell the product. It stated that in 2013-14 costing of its products would be done by adding all overheads as well as proper profit margin considering all possible parameters and assured that the issue would be re-examined to make the Company more competitive and profitable.

Performance of emporia

2.25 The Company sells handloom and handicraft products through its emporia since 2008-09. The number of emporia was three[43] in 2008-09 which increased to 12[44] in 2012-13. The Company had not carried out any market survey to assess the viability of emporia before their opening. It also did not fix sales target for these emporia. The ***Table – 2.2*** indicates operational profit/loss of these emporia for the last five years ended 31 March 2013:

Table – 2.2

(₹ in lakh)

Year	Number of Emporia	Gross sales	Discount allowed	Net Sales	Cost of Goods Sold	Expenses of emporia	Operational profit/ (-)loss	Percentage of operational loss to gross sales
1	2	3	4	5=(3-4)	6	7	8=5-(6+7)	9=8/3* 100
2008-09	3	82.57	14.04	68.53	55.32	53.06 (64)	(-) 39.85	48
2009-10	7	150.96	25.99	124.97	101.14	112.63 (75)	(-) 88.80	59
2010-11	9	288.25	43.80	244.45	193.13	223.76 (78)	(-) 172.44	60
2011-12	12	335.77	49.17	286.60	224.97	226.39(67)	(-) 164.76	49
2012-13	12	573.95	105.07	468.88	384.55	409.76 (71)	(-) 325.43	57
Total operational loss							**(-) 791.28**	

(Source: Information furnished by the Company)
Figures in bracket indicates percentage of expenses of Emporia to gross sale

During the period 2008-09 to 2012-13 operational loss of ₹ 7.91 crore from sale through emporia.

It can be seen from the above table that the Company incurred losses of ₹ 7.91 crore by operating these emporia during 2008-09 to 2012-13. The percentage of operational losses to gross sales increased from 48 to 57 *per cent* from 2008-09 to 2012-13. The main reason of loss was high expenses of emporia than the margin[45]. It is also pertinent to mention that except Hazaribag

[43] Rospa Tower, Ranchi, Bangluru and Delhi Emporium
[44] Delhi, Bangluru, Mumbai, Pune, Ahmedabad, Mysore, Daltonganj, Hazaribag, Rospa Tower, Church Complex, Harmu and Mega Store Ranchi
[45] Net sales *minus* cost of goods sold.

Emporium all other emporia were in losses during 2012-13. The Emporium at Hazaribag was running in profit as the emporium was situated at urban *haat* and the Company was not liable to pay rent and miscellaneous expenditure was booked under the expenditure of urban *haat.* The operational expenses of the emporia increased significantly during 2012-13 mainly due to establishment expenses of ₹ 1.28[46] crore of new Mega Store at Ranchi.

It was further observed that the operational expenses of Emporia at Pune and Mumbai established in 2009-10 and Daltonganj in 2010-11, were more than the gross sales in all the years upto the year 2012-13 since inception. The Company should have analysed the operational expenses of each emporium to assess the commercial viability of the emporia. The Company had also not fixed any overhead norms.

The Government stated (December 2013) that sales had tremendously increased from 2008-09 to 2012-13 and operational expenses of Mega Store were misleading as it included expenses of rent and employee salary of ₹ 1.28 crore of mega store and *mela* expenses of ₹ 38 lakh. If these expenses were excluded operational loss would be less.

The reply is correct that gross sales had significantly increased by 5.95 times but at the same time operational expenditure had also increased by 6.72 times during 2008-09 to 2012-13 which offsets the increase in gross sales. As regards rent and employee salary of Mega Store same are recurring expenditure. Hence, it cannot be excluded from the operational expenses of emporia. Further, the expenses of Mega Store did not include *mela* expenses.

Performance of Franchisee

2.26 The Company also sells its products through franchisee outlets. The Company did not lay down any policy for appointment of franchisees and the franchisees were appointed on direct approach by the intending agencies. The Company had five[47] franchisees as on March 2013. The performance of the retail outlets of all five franchisees during the period 2010-11 to 2012-13[48] is given in the ***Table – 2.3.***

Table – 2.3

(₹ in lakh)

Year	Net Sale	Cost of Goods sold	Gross profit	Sales Expenses			Operational loss
				Paid to franchisee	Other expenses	Total expenses on Sales	
1	2	3	4=(2-3)	5	6	7=(5+6)	8=(4-7)
2010-11	7.70	6.41	1.29	2.14	-----	2.14(28)	(-) 0.85
2011-12	61.58	50.38	11.20	15.43	11.91	27.34(44)	(-) 16.14
2012-13	104.13	86.82	17.31	22.07	20.07	42.14(40)	(-) 24.83
Total	**173.41**	**143.61**	**29.80**	**39.64**	**31.98**	**71.62(41)**	**(-) 41.82**

(Source: Information furnished by the Company)
Figure in bracket indicates percentage of sales expenses to net sales

[46] Included ₹ six lakh per month as rent of emporium.

[47] Santosh Textiles, Dumka; Anamika, Patna; Kalakriti, Varanasi and two franchisees at Kolkata.

[48] The Company started sales through franchisee w.e.f 30 April 2010.

It can be seen from the above table that the Company suffered loss of ₹ 41.82 lakh by selling its products through the franchisee outlets during 2010-11 to 2012-13.

We observed that the Company executed a franchisee agreement with Kalakriti, Varanasi (March 2011) for a period of five years. As per the agreement the Company was to pay 28 *per cent* of its sale proceeds to the franchisee and the franchisee had to submit a bank guarantee of ₹ five lakh. However, the Company revised (October 2011) the agreement retrospectively from June 2011 without any reference from franchisee and without recording any reasons with provision for payment of 20 *per cent* of the sale proceeds to the franchisee, monthly rent of ₹ 80,000, maintenance charges of ₹ 4,000 per month and salary of one store manager deputed by the Company. The condition for submission of bank guarantee was also withdrawn. Thus, transparency in the revision of the agreement could not be ensured in absence of recorded reasons. In spite of facilitating franchisee the Company could not derive any benefit and suffered loss.

Additional expenditure of ₹ 16.74 lakh due to retrospective revision in agreement.

The Company had to pay ₹ 9.25 lakh to the franchisee in 2011-12 and 2012-13 as per the original agreement whereas as per revised agreement the Company incurred expenditure of ₹ 25.99 lakh. Thus, undue benefit was extended to the franchisee by changing the terms and conditions of the agreement ignoring financial interest of the Company thereby incurring additional expenditure of ₹ 16.74 lakh.

The Government stated (December 2013) that it was following both types of franchisee formats, however, the reply was silent on retrospective revision of agreement with Kalakriti, Varanasi without any reference and without recording of any justification.

The fact remains that the Company had neither done any cost benefit analysis before appointment of franchisee nor fixed any monthly sales target to achieve the breakeven point. The Company failed to watch its financial interest while retrospectively revising the agreement which resulted in additional financial outgo without any consequent effect on sales income.

Urban Haat

2.27 The GoJ, with assistance of GoI, established (2005-06) an urban *haat* at Hazaribag to provide permanent marketing outlet to artisans and weavers for selling their products directly to the consumers without involving middlemen.

The Company took possession (March 2010) of the urban *haat* from the district administration, Hazaribag and entrusted (March 2010) the management of the urban *haat* to Craftedge Consultants (Agency), a private agency. Audit observed that the Company had earlier also entered (October 2008) into an agreement with this Agency, as an authorised marketing partner, for sale and marketing of Tasar Silk and Handicrafts in India and abroad. However, no sale had been made by the Agency till March 2010.

As per the office order the Agency had to establish the necessary infrastructure like electricity, water and other facilities in the urban *haat* to make it operational and to enrol working groups of artisans for production of handicrafts. The Agency was responsible for overall management of urban *haat* under the supervision and control of the Company for which a consolidated sum of ₹ 35,000 per month was to be paid to the Agency.

Further, irregularities noticed in this regard are as below:

Management of urban *haat* was entrusted to the agency without following the prescribed procedures.

- The management of urban *haat* was assigned (March 2010) on nomination basis by issuing office order without the approval of BoDs, calling of tenders, entering into an agreement and evaluation of past performance.
- Tender for engagement of the managing agency of urban *haat* was yet to be done (July 2013) though the BoDs had given administrative approval (June 2012) for inviting tenders.
- The Company paid advance of ₹ 9.35[49] crore to the Agency against their applications during 2010-11 to 2012-13 without any security/bank guarantee which was beyond the scope of the entrustment of work. Out of which ₹ 5.34 crore remained unadjusted (March 2013). The Agency purchased raw materials without following the procedures prescribed by the Company. In absence of comparable rates for raw materials, we could not ascertain the reasonability of rates.
- Urban *haat* produced 5,155 and 4,256 metres of fabric and the average cost of production was ₹ 151 and ₹ 378 per meter in 2011-12 and 2012-13 respectively. The average cost of production of fabric of same quality in the 15 clusters[50] was ₹ 85 per meter and ₹ 138 per meter during 2011-12 and 2012-13. This has resulted in excess production cost of ₹ 13.57 lakh for fabric woven in the urban *haat*. Reasons for higher cost of production was payment of fixed remuneration to the weavers in the urban *haat* as against production linked wages paid in the clusters.

It is worthwhile to mention here that the Company failed to provide permanent marketing outlet to artisans and weavers for selling their products directly to the consumers without involving middlemen and more emphasis was given on production of handicrafts. It is pertinent to mention that the Company also incurred ₹ 1.24 crore on purchase of raw materials for production which was beyond the objective of operation of urban *haat*. Gross sale at urban *haat* was ₹ 15.85 lakh in 2011-12 which decreased to ₹ 8.25 lakh in 2012-13. Thus, the purpose of establishment of the urban *haat* was defeated.

The Government stated (December 2013) that the Agency was selected (October 2008) as marketing partner after proper tendering and BoDs approval and that management of urban *haat* was assigned (March 2010) to the Agency as it was their marketing partner. The Government stated that the Company

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[49] Rupees 5.51 crore for purchase of raw materials, payment of salary of weavers and artisans and 3.84 crore for implementation of Design Development & Training, PWCS and Establishment of CFC schemes.

[50] Kharsawan, Akarshani, Sikni, Jiyajori, Boarijore, Godda, Poriayahaat, Fasia, Saraiyahaat, Pachrukhi, Maniyardih, Mahuadabar, Balthar, Jamunia and Hazaribag.

could not follow all purchase procedures and maintain records due to lack of sufficient man power.

The reply of the Government is not acceptable, as according to the minutes of the BoDs the Agency had approached the Company to act as an authorised agent for marketing and BoDs approval (September 2008) was for appointment of marketing partner and not for management of urban *haat* and production of handicrafts. Further, sales had also decreased as mentioned above.

Undue favour extended to the Craftedge Apparels by not following the prescribed procedures.

2.28 We, further, observed that the Company entered into an agreement (August 2009) with Craftedge Apparels, a sister concern of Craftedge Consultants having the same ownership and was entrusted the work of stitching of readymade garments without the approval of BoDs and calling for any quotation/tenders. The Company paid ₹ 46.06 lakh during the period March 2012 to March 2013 including interest free advance of ₹ 10 lakh in March/April 2012 without any security to Craftedge Apparels for purchase of articles for stitching of shirts for the Company. The advance of ₹ 10 lakh remained unadjusted (March 2013). It was further observed that land was also allotted to the Craftedge Apparels for setting up of stitching unit by the Ranchi Industrial Area Development Authority under the Department, GoJ on recommendation of the Company by extending undue favour to Craftedge Apparels. The Company had tied up with the Agency for marketing, however, no marketing was done by the agency.

The Government stated (December 2013) that Craftedge Apparels was given the order of stitching of fabric as the firm was well experienced in making stitched garments and advance was also given to the firm as it was newly established.

The reply is self contradictory in nature that a newly established firm was well experienced in making stitched garments. Further, the Company being commercial entity has to protect its financial interest and follow proper procedure for assigning work and releasing payments.

Financial Management

2.29 The Company carries out its day to day activities with its internal sources[51] as well as Grants-in-Aid received from GoJ for meeting salary and other expenses[52]. The Company also received substantial funds from the GoJ and GoI for implementation of schemes for development of Sericulture, Handloom and Handicrafts including funds towards working capital. The operational performance of the Company for the years 2008-09 to 2011-12 is depicted in the ***Table – 2.4.***

[51] Income from sales, supervision charges received under schemes, interest from bank deposits *etc*.

[52] Grants-in-aid received from GoJ for meeting the expenditure of Salary, office expenses, rent for emporia, interior decoration of emporia, *mela* exhibition & advertisement *etc*.

Table – 2.4

(₹ in lakh)

Particulars	Years			
	2008-09	2009-10	2010-11	2011-12
Sales	222.07	653.58	1280.09	1867.89
Government Grants for scheme implementation	150.31	996.65	2331.42	2119.06
Other income	9.82	8.06	643.81	689.59
Total income	**382.20**	**1658.29**	**4255.32**	**4676.54**
Cost of producing goods	216.55	677.06	1126.36	1286.42
Administrative expenses	103.39	178.01	472.46	604.38
Selling & Distribution Expenses	41.54	37.50	210.79	454.96
Interest	1.13	0.46	10.86	95.83
Depreciation	17.66	21.36	47.82	71.27
Prior period Expense	-	-	7.75	(-)1.59
Total Expenditure	**380.27**	**914.39**	**1876.04**	**2511.27**
Utilisation of government grants	-	669.83	2331.42	2119.06
Total Expenditure including utilisation of grants	380.27	1584.22	4207.46	4630.33
Profit before tax	**1.93**	**74.07**	**47.87**	**46.21**

(Source: Data compiled from Annual Accounts)
Note: The Company has not prepared its accounts for the financial year 2012-13.

We observed that the other income[53] was ₹ 9.82 lakh in 2008-09, which increased to ₹ 6.90 crore in 2011-12 mainly on account of receipt of ₹ 5.01 crore and ₹ 5.76 crore during 2010-11 and 2011-12 respectively towards supervision charges for implementation of schemes of GoJ.

The Company received managerial grants of ₹ 10.13 crore[54] from GoJ during 2008-09 to 2012-13 as assistance for meeting expenditure on salary, rent and interiors of its emporia, participation in melas and exhibitions, advertisement of the schemes, design development, office expenses *etc*. so that the Company becomes self sustaining. We, however, observed that the Profit before Tax earned by the Company for the years 2008-09 to 2011-12 would have turned into losses in all the above years had it not received the managerial grants. Thus, the Company was not able to meet its operational expenses and was dependent on GoJ even after six years of its formation.

The Government stated (December 2013) that as the Company was incorporated five years ago, it takes time to reach breakeven level.

The Company has not kept its financial interests in mind as pointed out in paragraph nos. 2.24 to 2.28 and succeeding paragraphs.

Credit policy and sundry debtors

2.30 The Company was selling its various products of handloom and handicrafts to Central Government Offices, State Government Departments/ Undertakings *etc*. on credit with prior approval of Managing Director. This resulted in mounting of outstanding debt from ₹ 37.22 lakh in 2008-09 to ₹ 8.30 crore as on March 2013. The Company had not prepared age-wise analysis of the debts for monitoring and pursuance for recovery.

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[53] Comprising Supervision charges, consultancy charges, interest on bank deposit *etc*.
[54] ₹ 50 lakh in 2008-09, ₹ 1.63 crore in 2009-10, ₹ 2 crore in 2010-11, ₹ 3 crore in 2011-12 and ₹ 3 crore in 2012-13 included in the Government Grant.

It was observed that the Company supplied mementos, flags, decorations, banners *etc.* during 2010-11 to the National Games Organizing Committee (NGOC) at a cost of ₹ 1.97 crore. The NGOC paid only ₹ 1.39 crore and ₹ 58.28 lakh was outstanding as per the ledger. Thus, ₹ 58.28 lakh remained unrealised even after 34 months of execution (February 2011) of works for want of supply orders and detailed bills. The Company requested (May 2012) NGOC for payment, who called for the detailed bills and the work orders in respect of the outstanding amount. In the absence of proper record with the Company the chances of recovery of ₹ 58.28 lakh would be remote.

The Government stated (December 2013) that they are pursuing with NGOC for release of dues and assured that debtors would be reduced to a great extent by March 2014.

2.31 As per purchase manual[55] of the Company, the Interior works upto a cost of ₹ 10 lakh was to be done by obtaining minimum three quotations from reliable suppliers and ensuring the reasonability of the price and for works above ₹ 10 lakh was to be done through open tender.

We observed that the Interior works of Mega Store at Ranchi were done by the Company wherein goods worth ₹ 20.26 lakh[56] were purchased from suppliers without tendering and without ascertaining the reasonability of rates by a purchase committee, thus violating the provisions of the purchase manual.

Irregular award of work of interior decoration valuing ₹ 96.66 lakh to the agency.

Similarly, the Company awarded Craftedge Consultants (Agency) the work of interiors of its Emporium (June 2012) at Dhanbad and Deoghar at a cost of ₹ 96.66[57] lakh including 10 *per cent* supervision charges on the basis of estimate submitted by the agency without tendering or ensuring the reasonability of the estimated cost as also indicated in paragraph no. 2.27 and 2.28. Further, the Company paid interest free advance of ₹ 28.05 lakh to the Agency without any security/Bank guarantee. Thus, the works for interiors of the Emporia/Stores of the Company was being executed without following the procedures as per its purchase manual thereby extending undue favour to the Agency and non safeguarding the financial interest of the Company.

The Government stated (December 2013) that the Agency was their partner and had managed the work through Self Help Groups and created livelihood opportunities for the carpenters.

The reply is not acceptable as the Company had violated the provisions of its own purchase manual.

Material Management

2.32 The Company had not formulated any procurement policy and inventory control mechanism for economical procurement and efficient control over inventory. The Company had neither done any ABC analysis nor

[55] approved by the Board of the Company in March 2011.

[56] Dilip Contech ₹ 8.78 lakh, Saket sales ₹ 3.69 lakh, Pelican International ₹ 2.10 lakh and Lucky Vanijya ₹ 5.68 lakh.

[57] Dhanbad Emporium ₹ 50.05 lakh, Emporium and camp office at Deoghar ₹ 46.61 lakh.

fixed any standard maximum/minimum level or reorder level of their material requirement. The ***Table – 2.5*** below indicates the inventory holdings and turnover during the last five years ended March 2013.

Table – 2.5

(₹ in lakh)

Year	Total inventory	Turnover	Stock in terms of number of months' sales
2008-09	445.75	222.07	24
2009-10	1472.73	653.58	27
2010-11	2599.60	1280.09	24
2011-12	3513.37	1867.89	23
2012-13 (Provisional)	4271.32	----	---

(Source: Data furnished by the Company)

Closing stock in terms of number of months' sales was between 23 and 27 months.

It can be seen from the above table that the closing stock in terms of number of month's sales was consistently high ranging between 23 and 27 months. Had the Company adopted inventory control mechanism the inventory level could have been reduced. The Company had also not made age wise analysis of its stock.

The Government accepted (December 2013) the audit observation and stated that inventory management needs more improvement and all operations would become online by the end of 2013-14.

Non-disposal of material accumulated due to excess production

2.33 The Company received an order (December 2010) for ₹ 1.20 crore from National Games Organizing Committee (NGOC) for supply of 14,450 mementos for 34th National Games held in Jharkhand in February 2011.

We observed that against the ordered quantity of 14,450 mementos, the Company produced 17,470 mementos i.e., 3,020 mementos in excess of the ordered quantity. Further, quantity of mementos supplied was only 12,646 i.e. the supplied quantity was lesser by 1804 even though excess quantity of mementos were produced. Reasons for short supply were not on record.

The Government stated (December 2013) that they had approached (August 2012) Sports Department, GoJ to take permission to sell the unsold mementos and if the Sports Department does not agree to the Company's proposal, the unsold mementos would be reused for making new product.

The fact remained that even after approaching Sports Department, GoJ in August 2012 no further action for disposal of material worth ₹ 37.10 lakh was taken so far (November 2013).

Thus, due to the excess production and failure to despatch full ordered quantity, 4,824 mementos valuing ₹ 34.91 lakh remained unsold. As the mementos were designed and produced for a specific occasion, there is remote possibility of their disposal. Further, due to supply of less quantity of mementos, packaging materials[58] valuing ₹ 2.19 lakh also remained unutilised.

Human Resource Management

2.34 All officers and staff of the Company were engaged through outsourcing. The Company had appointed Team Lease Services Private Limited (August 2008) and *Awaran Seva Kendra* (November 2008) to provide manpower. Subsequently, the Company appointed Global Innov Source Solution Pvt. Ltd ("Global Innov") (August 2010) in place of Team Lease and the manpower engaged by the Company through Team Lease were transferred to Global Innov. The Company availed services of 267 personnel through the outsourced agencies (March 2013).

We observed the following:

- The Company had not formulated policy for recruitment of employees and no sanctioned strength of man power had been prescribed.

- The Company itself appointed the employees on probation for three to six months and after successful completion of probation period the Company sends their name to the outsourced agency to enroll on their pay roll.

- The Company appointed 25 project managers for smooth operation of sericulture although only seven of them had the required professional qualification i.e., Post Graduate Diploma in Sericulture. Eligibility and qualification for different posts were not specified by the Company except in case of Project Manager.

- The Company did not prescribe rules/regulations governing hike in salary of the outsourced employees which was enhanced on judgmental basis. Pay of the outsourced employees was increased within two months after appointment at the discretion of the Company management within the probation period.

- The turnover of the outsourced employee was quite high. One hundred and forty two employees, joined during August 2010 to April 2013 had left the Company after serving 1 to 1,003 days. This affects the performance of the Company.

The Government accepted (December 2013) the audit observation and stated that all the Project Managers held Post graduate diplomas in sericulture (PGDIS).

The reply is not acceptable as according to the information furnished by the Company, 18 out of 25 Project Managers were not holding PGDIS.

[58] Printed as per requirement of NGOC, hence cannot be used for other packing requirement.

Monitoring and Internal Control

Internal Control

2.35 The Company was following internal control mechanisms viz. goods were being moved only on generation of challans, sales realisation was deposited in the bank on very next day, work order was issued with the prior approval of General Manager (Operation). However, the following deficiencies were noticed in the internal control and monitoring mechanism:

- The Department did not devise a mechanism to closely monitor the execution of schemes related to sericulture, handloom and handicraft.
- The Company did not devise a mechanism to monitor the physical progress of work in respect of handloom and handicrafts.
- The Department had not prescribed any time frame for construction of worksheds as mentioned in paragraph nos.2.15 and 2.17 to 2.19.
- The Company had not evolved any control mechanism to monitor the production of yarn by reelers and spinners from cocoons and had not compiled the data regarding number of cocoons issued to individual reelers and spinners and yarn received from them as mentioned in paragraph no. 2.14.
- Though the Company had a system of monthly review of purchase, production and sale, the reports were not compiled at the Company level except sales from emporia. Thus, without a consolidated report of purchase, production and sales the appropriate management decision may not be possible. This may also lead to deficiency in monitoring and follow up of Management Information System (MIS).
- The Department had not devised any mechanism to verify the UCs submitted by the Company as mentioned in paragraph no 2.15 and 2.19. The Department should have ensured that expenditure should match with the physical progress of work.
- The Company did not maintain stock register and schemewise data of purchase and distribution of looms and reeling and spinning machines as mentioned in paragraph no. 2.15 and 2.19. In its absence, the utilisation of funds could not be monitored by the Company.
- The Company did not safeguard its financial interest as mentioned in paragraph nos. 2.24 to 2.28, 2.30 and 2.31.

The Government stated (December 2013) that implementation of schemes were monitored by the Department/Company every month.

The facts remain that for achieving the objectives of the schemes monitoring needed to be improved.

BoDs/Audit Committee meetings

2.36 Section 285 of the Companies Act, 1956 provides that every Company was to hold a meeting of Board of Directors at least once in three months and at least four such meetings was to be held every year. It was noticed that the Company did not hold the Board meeting in the second quarter of 2012-13[59]. BoDs could not monitor the activities of the Company in time in the absence of regular Board meetings.

Further, section 292A of the Companies Act, 1956 stipulated that every Public Limited Company having paid up capital of not less than ₹ five crore should constitute an Audit Committee at the Board level. However, the Company had not constituted the Audit Committee so far (November 2013). Review of financial statements and follow up of internal audit findings could not be ensured by the BoDs due to non formation of Audit Committee.

Internal Audit

2.37 There was no arrangement for Internal Audit in the Company till October 2010. The Company had also not prepared the Internal Audit manual so far (November 2013). The Company outsourced Internal Audit to a firm of Chartered Accountants. The scope of work of the Internal Audit included checking of accounting and financial management system, observance of the procurement procedure for goods and services, physical verification of assets and inventory *etc*. However, the internal auditor did not examine the utilisation of funds for implementation of schemes for development of sericulture, handloom and handicrafts and performance of emporia/franchisee.

The Government accepted (December 2013) the audit observation regarding internal audit and stated that remedial action would be taken.

Conclusion

The Department prepared Eleventh Five Year Plan for establishment of 12 more PPCs for sericulture, however, targets in physical terms in respect of handloom and handicrafts was not specified. The Department achieved the target of establishment of 12 PPCs. There was short production of cocoons against the norms of CSB and the assistance of grants-in-aid was not fully provided but adjusted against the amount receivable from RDs. Further, the cocoons supplied to reelers and spinners were not matched with the production of silk yarn as estimated by the Company/Department. There was shortfall in achievements of the targets in respect of construction of worksheds and training to weavers under different schemes. The Department had not evolved mechanism to verify the UCs submitted by the Company. All the Emporia and Franchisee outlets were suffering losses. Appointment of Franchisees, management of urban *haat* and other works was assigned without

[59] The Company had violated the provision by holding the Board meetings eight times from April 2007 to December 2011 with maximum time gap of seven months three days already reported in Audit report No. 2 of the year 2013, GoJ.

following prescribed procedures. The advances were released to the Agency and Craftedge Apparels without any bank guarantee/security. The Company was not able to meet its operational expenses and was dependent on GoJ for fund requirement. The sundry debtors had increased from ₹ 37.22 lakh in 2008-09 to ₹ 8.30 crore as on March 2013. The Company had not formulated any procurement policy and inventory control mechanism for economical procurement and efficient control over inventory. Deficiencies were noticed in the internal control and monitoring mechanism and there was absence of comprehensive MIS system.

Recommendations

The Department needs to:

- monitor and review periodically the various schemes implemented by the Company to achieve the objectives of the schemes and evolve mechanism to verify the correctness of UCs; and
- take effective steps to increase the production of cocoons provide the full cash assistance to RDs without adjusting the amount receivable from RDs.

The Company needs to:

- prepare plans in consonance with the schemes sanctioned by GoI/GoJ to achieve their mandated function;
- monitor the silk yarn production with the cocoons supplied to reelers and spinners;
- take effective steps to promote sales and marketing of the products for ensuring profitability and commercial viability of the sales through emporia/franchisees and to adhere to financial rules for safeguarding its financial interest;
- adopt scientific inventory control method for better inventory management; and
- establish and strengthen various internal control mechanisms and MIS system.