

CHAPTER II
ECONOMIC SECTOR
(STATE PUBLIC SECTOR UNDERTAKINGS)

2.1 Functioning of State Public Sector Undertakings

Introduction

2.1.1 The State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. The SPSUs are established to carry out activities of commercial nature keeping in view the welfare of people and also occupy an important place of the economy in the State. As on 31 March 2016, there were 12 SPSUs in Manipur. None of these SPSUs were listed on the Stock exchange. During the year 2015-16, no SPSU²⁸ was incorporated or closed down. The details of the State PSUs in Manipur as on 31 March 2016 are given in the following table.

Table No. 2.1.1 Total number of SPSUs as on 31 March 2016

Type of SPSUs	Working SPSUs	Non-working SPSUs ²⁹	Total
Government Companies	9	3	12
Total	9	3	12

The working State PSUs registered a turnover of ₹ 34.70 crore as per their latest finalised accounts. This turnover was equal to 0.17 per cent of Gross State Domestic Product (GSDP) of ₹ 19,890 crore for 2015-16. The working SPSUs incurred an aggregate loss of ₹ 23.90 crore as per their latest finalised accounts. The overall losses of working SPSUs were mainly on account of heavy losses incurred by two power sector SPSUs viz., (i) Manipur State Power Company Ltd. and (ii) Manipur State Power Distribution Company Ltd. as discussed under **Paragraph 2.1.16**. The SPSUs had employed 3,042 employees at the end of March 2016.

As on 31 March 2016, there were three non-working SPSUs, against which the State Government had invested ₹ 4.02 crore³⁰. The investments in the non-working SPSUs do not contribute to the economic growth of the State.

Accountability framework

2.1.2 The audit of the financial statements of a company in respect of financial years commencing on or after 1 April, 2014 is governed by the provisions of the Companies Act, 2013. However, the audit of a company in respect of financial years that commenced earlier than 1 April, 2014 continues to be governed by the Companies Act, 1956.

²⁸ Manipur IT SEZ Project Development Company Ltd. though incorporated on 30 December 2013 was not intimated to Audit prior to 2015-16.

²⁹ Non-working SPSUs are those which have ceased to carry on their operations.

³⁰ As per the latest information furnished by these Companies: Share capital (₹ 1.73 crore) + Loans (₹ 2.29 crore) = ₹ 4.02 crore.

According to Section 2 (45) of the Companies Act, 2013 (Act), a Government Company is one in which not less than 51 *per cent* of the paid up capital is held by the Central and /or State Government(s) and includes a subsidiary of a Government Company. The process of audit of Government companies under the Act is governed by respective provisions of Section 139 and 143 of the Act.

Statutory Audit

2.1.3 The financial statements of a Government Company {as defined in Section 2 (45) of the Companies Act, 2013} are audited by the Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 139 (5) or (7) of the Companies Act. These financial statements are subject to supplementary audit to be conducted by the CAG under the provisions of Section 143 (6) of the Act.

As per the provisions of Section 143 (7) of the Act, the CAG, in case of any company (Government Company or Other Company) covered under sub-section (5) or sub-section (7) of Section 139 of the Act, if considers necessary, cause test audit to be conducted of the accounts of such Company (Government Company or Other Company) and the provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test Audit.

Role of Government and Legislature

2.1.4 The State Government exercises control over the affairs of these SPSUs through its administrative departments. The Chief Executive and Directors on the Board are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the SPSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of State Government companies are to be placed before the Legislature under Section 394 of the Act. The Audit Reports of CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Stake of Government of Manipur

2.1.5 The State Government has financial stake of ₹ 548.17 crore in these SPSUs. This stake is of mainly three types:

- **Share Capital and Loans:** In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the SPSUs from time to time.
- **Special Financial Support:** State Government provides budgetary support by way of grants and subsidies to the SPSUs as and when required.

- **Guarantees:** State Government also guarantees the repayment of loans (with interest) availed by the SPSUs from Financial Institutions.

Investment in State PSUs

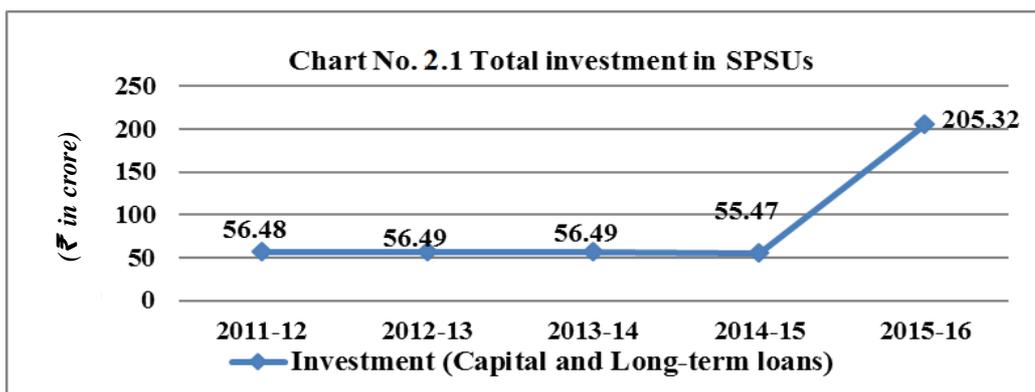
2.1.6 As on 31 March 2016, the investment (capital and long-term loans) in 12 SPSUs was ₹ 205.32 crore as per details given in the following table.

Table No. 2.1.2 Total investment in PSUs

Type of SPSUs	Government Companies		
	Capital	Long Term Loans	Total
Working SPSUs	53.01	148.29	201.30
Non-working SPSUs	1.73	2.29	4.02
Total	54.74	150.58	205.32

(₹ in crore)

Out of the total cumulative investment of ₹ 205.32 crore in SPSUs as on 31 March 2016, 98.04 per cent was in working SPSUs and the remaining 1.96 per cent in non-working SPSUs. This total investment consisted of 26.66 per cent towards capital and 73.34 per cent in long-term loans. The investment had increased from ₹ 56.48 crore (2011-12) to ₹ 205.32 crore (2015-16) during last five years as shown in the following chart.



2.1.7 The sector wise summary of investments in the SPSUs as on 31 March 2016 is given in the following table.

Table No. 2.1.3 Sector-wise investment in SPSUs

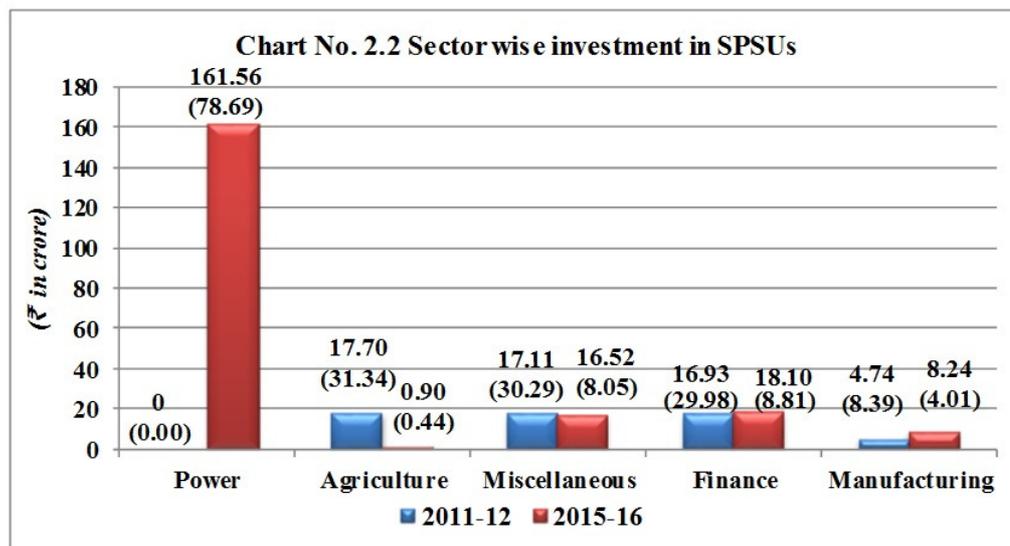
Name of Sector	Government / Other ³¹ Companies		Total	Investment (₹ in crore)
	Working	Non-Working		
Power	2	NA	2	161.56
Manufacturing	2	NA	2	8.24
Finance	2	NA	2	18.10
Miscellaneous ³²	3	1	4	16.52
Agriculture & Allied	NA	2	2	0.90
Total	9	3	12	205.32

(NA – Not applicable)

³¹ 'Other Companies' as referred to under Section 139 (5) and 139 (7) of Companies Act, 2013.

³² Includes investment of ₹ 0.02 crore in one working company under infrastructure sector.

The investment in all the five sectors and percentage thereof at the end of 31 March 2012 and 31 March 2016 are indicated in the following bar chart.



(Figures in brackets show the percentage of total investment)

The thrust of SPSU-investment was in power sector which constitutes the highest percentage (78.69 per cent) of total investment in SPSUs during 2015-16. This investment was due to formation of two power sector companies, viz., (i) Manipur State Power Company Ltd. and (ii) Manipur State Power Distribution Company Ltd. during 2013-14. The increase of total investment in SPSUs from ₹ 53.41 crore during the previous year (2014-15) to ₹ 205.32 crore during the current year (2015-16) was mainly due to loans received by the State power Discom, viz., Manipur State Power Distribution Company Ltd. amounting to ₹ 141.46 crore from Rural Electrification Corporation Ltd. and Power Finance Corporation Ltd.

As compared to the investment position in SPSUs during 2011-12, the investments have increased during 2015-16 in all sectors except agriculture sector and miscellaneous sector.

The total investment in finance sector increased from ₹ 16.93 crore in 2011-12 to ₹ 18.10 crore in 2015-16. This was mainly due to increase in loan component of investment by ₹ 1.43 crore³³ during the period from 2011-12 to 2015-16. Investment in manufacturing sector has also increased from ₹ 4.74 crore in 2011-12 to ₹ 8.24 crore in 2015-16. This was mainly due to capital contribution of ₹ 2.00 crore to Manipur Food Industries Corporation Ltd. by the State Government during 2015-16.

³³ Difference between loan outstanding as on March 2016 (₹ 5.18 Crore) and the loan outstanding as on March 2012 (₹ 3.75 Crore) in respect of Manipur Industrial Development Corporation Ltd.

Special support and returns during the year

2.1.8 The State Government provides financial support to SPSUs in various forms through annual budget. The summarized details of budgetary outgo towards equity, loans, grants/subsidies, loans written-off and interest waived in respect of State PSUs for the year ended 2015-16 are given in the following table.

Table No. 2.1.4 Details regarding budgetary support to SPSUs³⁴

Sl. No.	Particulars	2015-16	
		No. of SPSUs	Amount (₹ in crore)
1	Equity Capital outgo from budget	1	2.00 ³⁵
2	Loans given from budget	-	-
3	Grants/subsidy from budget	4	494.84 ³⁶
4	Total outgo (1+2+3)	5	496.84
5	Waiver of loans and interest	-	-
6	Guarantee issued	-	-
7	Guarantee commitment	-	-

During the last four years prior to 2015-16, there was no budgetary outgo towards equity, loans, guarantees issued, loans and interest waived in respect of SPSUs.

Reconciliation with Finance Accounts

2.1.9 The figures in respect of equity and loans as per records of SPSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the SPSUs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard as on 31 March 2016 is stated in the following table.

Table No. 2.1.5 Equity, loans, guarantees outstanding as per the Finance Accounts vis-a-vis records of SPSUs

Outstanding in respect of	Amount as per Finance Accounts	(₹ in crore)	
		Amount as per records of SPSUs	Difference
Equity	62.23	50.53	11.70
Loans	-	2.81	2.81
Guarantee	2.13	-	2.13

Audit observed that in respect of 11 SPSUs³⁷, there were differences in figures as given in Finance Accounts and as per latest figures furnished by SPSUs. Some of these differences were pending reconciliation for more than 19 years.

³⁴ Figures are as furnished by the SPSUs.

³⁵ Manipur Food Industries Corporation Ltd. (₹ 2.00 Crore).

³⁶ Manipur Tribal Development Corporation Ltd. (₹ 0.50 Crore), Manipur Food Industries Corporation Ltd. (₹ 1.74 Crore), Manipur State Power Company Ltd. (₹ 125.57 Crore) and Manipur State Power Distribution Company Ltd. (₹ 367.03 Crore).

³⁷ In respect of one SPSU, viz., Manipur Police Housing Corporation Ltd., the figures were matching.

The Government and the SPSUs should take concrete steps to reconcile the differences in a time-bound manner.

Arrears in Finalisation of Accounts

2.1.10 The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year i.e., by the end of September in accordance with the provisions of Section 96(1) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Act.

The following table provides details of progress made by working SPSUs in finalisation of accounts as of 30 September 2016.

Table No. 2.1.6 Position relating to finalization of accounts of working SPSUs

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Number of Working SPSUs	7	7	7	8	9
2.	Number of accounts finalised during the year	17	21	23	16	4
3.	Number of accounts in arrears	110	96	80	72	78 ³⁸
4.	Number of Working SPSUs with arrears in accounts	7	7	7	8	9
5.	Extent of arrears (numbers in years)	9 to 27 years	5 to 26 years	2 to 26 years	2 to 27 years	1 to 28 years

From the table, it can be seen that the number of accounts in arrears has decreased from 110 (2011-12) to 78 (2015-16). The accounts were in arrears for periods ranging from one year (Manipur Electronics Development Corporation Ltd.) to 28 years (Manipur Tribal Development Corporation Ltd.).

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

- Abnormal delay in compilation and approval of the accounts and delayed submission of the same to the Statutory Auditors by the Management;
- Delay in adoption of accounts in Annual General Meeting; and
- Deficiency in monitoring of arrears of accounts of the Companies by the Government.

The Administrative Departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and

³⁸ Manipur IT SEZ Project Development Company Ltd. though incorporated on 30 December 2013 was not intimated to Audit prior to 2015-16. As such, one annual accounts in arrear in respect of the Company for year 2014-15 was not included in the previous report (2014-15).

adopted by the SPSUs within the stipulated period. During the period 2015-16 (up to September 2016), the Departments concerned were informed of the arrears in finalisation of accounts by these SPSUs. In addition, the Accountant General (Audit) had also taken up (April 2016) the matter with the State Government for clearing the arrears of accounts and emphasizing on the importance of preparation of accounts on time. Despite all these efforts, the arrears of accounts of working SPSUs as of November 2016 stood at 78 accounts in respect of 9 working SPSUs.

2.1.11 The State Government had invested ₹ 496.34 crore (equity and grants), in nine SPSUs during the years for which accounts had not been finalised as detailed in *Appendix 2.1*. In the absence of finalisation of accounts and their subsequent audit, it could not be assessed whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not.

2.1.12 In addition to above, as on 30 September 2016 there were arrears in finalisation of accounts by non-working SPSUs. Three non-working SPSUs had arrears of accounts for periods ranging between 18 and 32 years as shown in the following table.

Table No. 2.1.7 Position relating to arrears of accounts in respect of non-working SPSUs

No. of non-working companies	Period for which accounts were in arrears	No. of years for which accounts were in arrears
3	1984-85 to 2015-16	18 to 32 years

Impact of Non-Finalisation of Accounts

2.1.13 As pointed out above (*paragraph 2.1.10 to 2.1.12*), the delay in finalisation of accounts may result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant Statutes. Thus, due to pendency of accounts, the actual contribution of SPSUs to the GSDP for the year 2015-16 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

Recommendations

2.1.14 The Government may consider setting time-bound targets for finalization of arrears of accounts for individual companies and closely monitor the clearance of these arrears.

Performance of SPSUs as per their latest Finalised Accounts

2.1.15 The financial position and working results of working Government companies are detailed in *Appendix 2.2*. A ratio of SPSU - turnover to State GDP shows the extent of SPSU activities in the State economy. The following table provides the details of working SPSU turnover and GSDP during 2011-12 to 2015-16.

Table No. 2.1.8 Details of working SPSUs turnover vis-à-vis State GDP

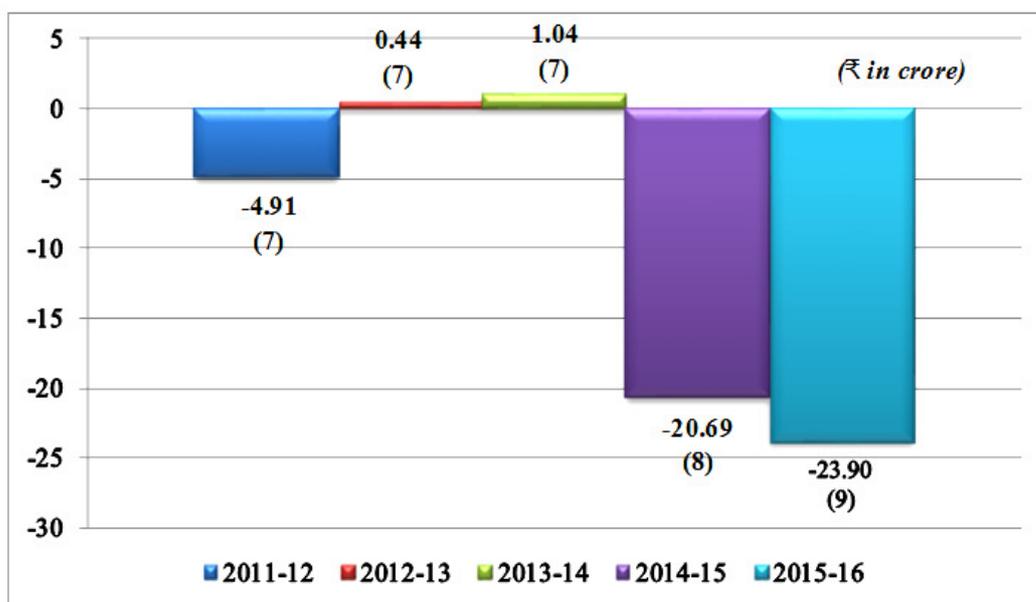
(₹ in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Turnover ³⁹	3.54	5.35	7.03	35.22	34.70
GSDP ⁴⁰	12,915	13,748	16,198	18,043(Q)	19,890(A)
Percentage of Turnover to GSDP	0.03	0.04	0.04	0.10	0.17

The contribution of turnover of the working SPSUs of Manipur showed a gradual increasing trend during the period from 2011-12 to 2015-16, as it had increased from 0.03 per cent in 2011-12 to 0.17 per cent in 2015-16. However, overall contribution of SPSU turnover to the GSDP was still modest.

2.1.16 Overall profits earned and losses incurred by State working SPSUs during 2011-12 to 2015-16 are given in the following bar chart.

Chart No. 2.3 Profit/Loss of working SPSUs



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

During the year 2015-16, out of nine working SPSUs, only one SPSU⁴¹ earned profit of ₹ 0.29 crore, seven SPSUs incurred loss of ₹ 24.19 crore of which Manipur State Power Distribution Company Ltd. (₹ 12.05 crore) and Manipur State Power Company Ltd. (₹ 8.00 crore) were the major contributors. One SPSU⁴² has not finalised its first annual accounts.

³⁹ Turnover as per the latest finalised accounts of working SPSUs as on September 2016.

⁴⁰ GSDP figures as per information furnished by the Department of Economics and Statistics (at current price with base year 2011-12); (Q) =Quick Estimate, (A)=Advance.

⁴¹ Manipur Police Housing Corporation Ltd.

⁴² Manipur IT SEZ Project Development Company Ltd.

2.1.17 Some other key parameters of State SPSUs are given in the following table.

Table No. 2.1.9 Key parameters of State PSUs

(₹ in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Return on total Capital Employed (<i>per cent</i>)	(-) 14.96	0.71	1.84	(-) 20.95	(-) 955.51
Debt ⁴³	5.91	10.43	10.43	3.05	150.58
Turnover ⁴⁴	3.54	5.35	7.03	36.34	35.02
Debt/ Turnover Ratio	1.67	1.95	1.42	0.08	4.30
Accumulated losses	10.37	40.76	45.19	74.74	77.20

The accumulated losses of SPSUs registered significant increase of ₹ 66.83 crore from ₹ 10.37 crore in 2011-12 to ₹ 77.20 crore in 2015-16. The Debt-Turnover ratio of SPSUs had worsen from 1.67 in 2011-12 to 4.30 in 2015-16 mainly due to increase of ₹ 144.67 crore in debt from ₹ 5.91 crore in 2011-12 to ₹ 150.58 crore in 2015-16.

2.1.18 The State Government has not formulated (September 2016) any dividend policy.

Non-Working SPSUs

2.1.19 There were three non-working SPSUs⁴⁵ as on 31 March 2016. So far, no steps have been taken by the Government to wind up these Companies under the provisions of the Companies Act, 2013. The numbers of non-working SPSUs at the end of each year during the past five years are given in the following table.

Table No. 2.1.10 Non-working SPSUs

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
No. of non-working companies	6	3	3	3	3

Accounts Comments

2.1.20 Out of nine working companies, only three working companies forwarded their audited accounts to the Accountant General (Audit), Manipur during the year 2015-16. The Companies were Manipur Electronics Development Corporation Ltd. (2013-14 and 2014-15), Manipur State Power Company Ltd. (2013-14) and Manipur State Power Distribution Company Ltd. (2013-14). Out of the submitted accounts, the accounts of the latter two Companies were selected for Supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved. The

⁴³ Includes loan from RECL and PFC (₹141.46 crore), SIDBI (₹3.42 crore) and IDBI (₹1.76 crore).

⁴⁴ Turnover of SPSUs as per their latest finalised accounts as of 30 September of the respective year.

⁴⁵ (i) Manipur Agro Industries Corporation Ltd., (ii) Manipur Plantation Crops Corporation Ltd. and (iii) Manipur Pulp & Allied Products Ltd.

details of aggregate money value of comments of statutory auditors are given in the following table.

Table No. 2.1.11 Impact of audit comments on working Companies

(Amount ₹ in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	1	0.21	1	0.25	-	-
2	Increase in loss	3	0.90	-	-	-	-
3	Non-disclosure of material facts	6	15.18	1	1.37	-	-
4	Errors of classification	-	-	1	0.23	-	-

During the year, the statutory auditors had given clean certificates on the accounts of Manipur Electronics Development Corporation Ltd. (2013-14 & 2014-15) and Manipur State Power Company Ltd. (2013-14), and a qualified certificate on the accounts of Manipur State Power Distribution Company Ltd. (2013-14). The audit comments were based mainly on non-compliance with the accounting concept of conservatism and error of principle in preparation of the Annual Accounts.

Response of the Government to Audit

Performance Audits and Paragraphs

2.1.21 For the Economic Sector (PSUs) Chapter of the Report of CAG for the year ended 31 March 2016, two audit paragraphs involving Commerce & Industries Department were issued (September 2016) to the Commissioner of the Department with request to furnish replies within six weeks. The reply in respect of only one compliance audit paragraph have so far been received from the State Government (January 2017).

Follow up Action on Audit Reports

Replies outstanding

2.1.22 The Reports of the CAG represent the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. All Administrative Departments are to submit replies/explanatory notes to paragraphs/performance audits included in the Audit Reports of the CAG within a period of three months⁴⁶ of their presentation to the Legislature, in the prescribed format without waiting for any questionnaires from the Committee on Public Undertakings (COPU). The position of replies/explanatory notes to paragraphs/performance audits pending to be received from the State Government/Administrative Departments concerned is given in the following table.

⁴⁶ *Suo moto* replies to be furnished within three months in case Audit Paragraphs are not selected by the PAC/COPU during this period.

**Table No. 2.1.12 Explanatory notes not received
(as on 2 December 2016)**

Year of the Audit Report (Commercial/SPSU)	Date of placement of Audit Report in the State Legislature	Total Performance audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2013-14	29 June 2015	Nil	3	-	3
2014-15	2 September 2016	2	1	2	1
Total		2	4	2	4

From the above, it can be seen that explanatory notes to two performance audits and one paragraph included in the Audit Report (2014-15) in respect of two departments, which were commented upon, were awaited (January 2017).

Discussion of Audit Reports by COPU

2.1.23 The status of performance audits and paragraphs relating to SPSUs that appeared in the State Audit Reports of the last five years (2010-11 to 2014-15) and discussed by the Committee on Public Undertakings (COPU) is given in the following table.

Table No. 2.1.13 Performance Audits/Paragraphs appeared in State Audit Reports *vis-à-vis* discussed by COPU (as on 31 December 2016)

Period of Audit Report ⁴⁷	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
2010-11	1	Nil	1	Nil
2011-12	1	Nil	1	Nil
2012-13	Nil	2	Nil	Nil
2013-14	Nil	3	Nil	Nil
2014-15	2	1	Nil	Nil
Total	4	6	2	0

Compliance to Reports of the COPU

2.1.24 Action Taken Notes (ATNs) to 110 recommendations pertaining to four Reports of the COPU presented to the State Legislature between March 1987 and March 2011 had not been received from the Government (January 2017) as indicated in the following table.

⁴⁷ 32 performance audit/paragraphs (7 performance audit and 25 paragraphs) pertaining to Audit Reports from 1995-96 to 2006-07 are yet to be discussed by COPU. Audit Report for 2007-08 was discussed by COPU but recommendation is yet to be published.

Table No. 2.1.14 Compliance to COPU Reports

Year of the COPU Report	Total number of COPU Reports	Total no. of recommendations in COPU Report	No. of recommendations where ATNs not received
10 th Report (1986-87)	1	8	8
11 th Report (1995-96)	1	53	53
12 th Report (1998-99)	1	9	9
13 th Report (2010-11)	1	40	40
Total	4	110	110

Source: Records of the Accountant General (Audit), Manipur

The above Reports of COPU contained recommendations in respect of paragraphs pertaining to five departments of the State Government, which appeared in the Reports of the CAG of India for the years 1983-84 to 2008-09.

Recommendations

The Government may ensure furnishing of replies to inspection reports/ draft paragraphs/ performance audits and ATNs on the recommendations of COPU.

COMPLIANCE AUDIT

MANIPUR FOOD INDUSTRIES CORPORATION LTD.

2.2 Undue financial benefit to contractor

Irregular payment of mobilization advance without any security resulted in undue financial benefit of ₹ 2.51 crore to the contractor and consequently an advance of ₹ 1.97 crore stands unrecovered

Para 32.2 of CPWD Manual, 2012 stipulates that advances to contractors are, as a rule, prohibited and payments to contractors should not be made until detailed measurements of the work have been taken and recorded. Para 32.5 of the Manual *ibid* further provides that in respect of certain specialized and capital intensive works with estimated cost of ₹ 2.00 crore and above put to tender, the Mobilisation Advance limited to 10 *per cent* of the tendered amount at 10 *per cent* simple interest can be sanctioned to the contractors on specific request as per terms of contract. The Mobilisation Advance shall be released only after obtaining a Bank Guarantee bond from a Scheduled Bank for the amount of advance to be released and valid for the contract period.

Test check of records of the Manipur Food Industries Corporation Ltd. (the Company) revealed that the Company placed a work order (June 2013) with M/S Good Health (India) Pvt. Ltd. (the Contractor) for supply, installation and commissioning of 400 KLD⁴⁸ capacity Effluent Treatment Plant⁴⁹ (ETP) at Food Park⁵⁰, Nilakuthi at a total contract price of ₹ 3.40 crore. As per the terms of the order, the work (supply, installation and commissioning) was to be completed within four months from the date of issue of the order i.e. by September 2013, and an advance of 70 *per cent* of the contract amount (amounting to ₹ 2.38 crore) was paid to the contractor immediately (June 2013) on placing the supply order.

Audit observed that even after the target date of completion of the work, the construction work had not been completed and therefore the Company requested (December 2013) the contractor to speed up the work. But the work was not completed even after one year of placement of work order and therefore a meeting was called in June 2014 under chairmanship of Hon'ble Minister (Commerce and Industry), Government of Manipur wherein the contractor assured that the work would be completed by October 2014. The work was not completed even during extended date of completion and instead the contractor again requested for extension of completion date to March 2015 on account of heavy rainfall in the State. The contractor failed to complete the

⁴⁸ Kilo litres per day.

⁴⁹ The Effluent Treatment Plants (ETP) is a unit of Food Park for treatment of effluents from Food Park to remove high amount of organics, debris, dirt, grit, pollution, toxic, non-toxic materials, polymers etc.

⁵⁰ To be constructed at a cost of ₹ 45 crore consisting of 49 plots which are to be allotted to entrepreneurs with the aim to improve economy and provide employment to the youth. It has a cold storage, warehouse, drainage sewerage and one Effluent Treatment Plant.

work even in the extended completion date. Thus, a team of Engineers of Manipur Industrial Development Corporation Ltd. (MANIDCO) and officials of the Company inspected the ETP in July 2015 and assessed the value of completed work as only ₹ 0.41 crore. On account of poor progress of work, the Company cancelled (August 2015) the contract and asked the contractor to refund the unutilized amount of ₹ 1.97 crore⁵¹ within 30 days. However, till the date (June 2016), the contractor had not refunded the amount to the Company.

In this connection, the following audit observations are made:

- The Company, in contravention of the provisions of the CPWD Manual, released an interest free mobilisation advance amounting to ₹ 2.38 crore (70 per cent of the contract value), against an admissible amount of only ₹ 0.34 crore (10 per cent of ₹ 3.40 crore). Thus, the Company had made an irregular payment of advance to the extent of ₹ 2.04 crore (₹ 2.38 crore - ₹ 0.34 crore) resulting in undue favour to the contractor.
- The Company allowed interest free mobilisation advance in contravention of the CPWD Manual which resulted in the loss of ₹ 54.17 lakh (as on March 2016) to the exchequer (at the rate of ₹ 19.70 lakh⁵² per annum) since June 2013.
- The Company had released the interest free advance to the contractor without obtaining any security or the required Bank Guarantee from the contractor valid for the period of contract in accordance with the provisions of CPWD Manual *ibid*. Consequently, the Company had not been able to recover the balance amount of ₹ 1.97 crore from the contractor even after a lapse of 35 months (August 2013 to June 2016).
- Due to payment of interest free mobilisation advance without any adequate security or bank guarantee, the Company was left with no option other than extending the date of completion of the contract.
- The non-completion of Effluent Treatment Plant, one of the main components of the proposed Food Park, even after a lapse of 33 months of stipulated date of completion, had adversely impacted the completion of the prestigious Food Park being constructed for improving the economy of the State and providing employment to the unemployed youth of the State.

Thus, irregular payment of interest free mobilisation advance without any security resulted in extending of undue financial favor to the firm to the tune of ₹ 2.51 crore⁵³ besides adversely impacting completion of the Food Park.

The matter was intimated to the Corporation and Government (August 2016). The Department stated (October 2016) that there were pending bills to be paid to the firm in respect of other works (relating to Food Park) and it had been

⁵¹ Advance of ₹ 2.38 crore – completed work of ₹ 0.41 crore

⁵² Simple interest @ 10 per cent on unadjusted interest free advance of ₹ 1.97 crore

⁵³ Unrecovered advance of ₹ 1.97 crore plus simple interest ₹ 54.17 lakh

decided (August 2016) that the balance amount of ₹ 1.97 crore would be recovered from the contractor from the other pending bills.

Recovery, if any, was not intimated to Audit (January 2017).

MANIPUR HANDLOOM AND HANDICRAFTS DEVELOPMENT CORPORATION LTD.

2.3 Unfruitful investment

Failure to ensure power supply to run the machinery installed at the Common Facility Centre rendered the total investment of ₹ 27.66 lakh unfruitful

The Development Commissioner, Ministry of Textiles (Ministry), Government of India (GoI) accorded financial sanction for an amount of ₹ 60 lakh (February 2008) to Manipur Handloom & Handicrafts Development Corporation Ltd. (MHHDC) for establishing a Common Facility Centre (CFC) for cane, kouna and bamboo crafts in Manipur. Out of this, an amount of ₹ 30 lakh was released (February 2008) to the Corporation as first instalment. The objective of establishing the CFC was to give opportunity to the crafts persons who earn livelihood by producing cane, kouna and bamboo crafts to produce quality products.

Accordingly, the Corporation constructed (May 2009) a building at the cost of ₹ 10 lakh for CFC for cane, kouna and bamboo crafts at Patsoi, Imphal West and purchased machinery and equipment⁵⁴ at a cost of ₹ 17.66 lakh. However, since installation (May 2012) of the machinery and equipment, the project could not take-off due to non-availability of high voltage power supply for running the machinery. Audit observed that the Corporation had not envisaged provision of two transformers in the Detailed Project Report for establishing a Common Facility Centre. It was only after installation of the machinery, that the Corporation requested (May 2012) the Power Department, Government of Manipur, to provide two transformers of 250 KVA and 150 KVA at Handloom and Handicrafts Complex, Patsoi. However, the Corporation did not get any response from the Power Department.

Audit along with officials of the Corporation conducted a spot verification at the CFC, Patsoi on 29 June 2016 and found that the machinery and equipment were idle and unused since their installation (2012) for want of power supply. The MHHDC also stated (December 2016) that the machinery was becoming outdated/obsolete.

Thus, failure of the Corporation to envisage necessity of transformers for the project at project appraisal stage itself resulted in non-provision of power supply to run the machinery at the CFC; resulting in unfruitful expenditure of

⁵⁴ The purchased was made from M/s Arihant Engineering, Dewas, Madhya Pradesh.

₹ 27.66 lakh⁵⁵ and also depriving crafts persons the opportunity of being trained in cane, kouna and bamboo crafts.

The matter was referred to the Government (September 2016); reply had not been received (December 2016). However, MHHDC stated (December 2016) that power supply could not be provided for want of fund to purchase the required transformers. The Ministry, GoI was moved (February 2016) for required funds and installation of the transformers will have to wait till receipt of funds from GoI.

Had MHHDC included the requirements of the transformers in the project proposal, the funds for power connection could have been provided much earlier. Thus, lack of adequate planning had rendered the machinery out-dated/obsolete and made the investment of ₹ 27.66 lakh unfruitful.

⁵⁵ ₹ 10 lakh on building and ₹ 17.66 lakh on machinery and equipment.