

CHAPTER VIII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

Overview of Government companies

GENERAL

8.1. Introduction

As on 31 March 2003, there were six Government companies including one subsidiary and one non-working under the control of the State Government. The number of companies remained unchanged since the previous year. The accounts of Government companies (as defined in Section 617 of Companies Act, 1956) are audited by Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG) as per Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per provisions of Section 619 of the Companies Act, 1956.

The accounts of departmentally managed Government commercial undertakings are audited solely by the CAG under Section 13 of CAG's DPC (Duties, Powers and Conditions of Service) Act, 1971.

8.2 Working of Public Sector undertakings

Investment in working Government companies

The total investment in five working Government companies at the end of March 2003 and March 2002 was as follows in Table 8.1

Table 8.1

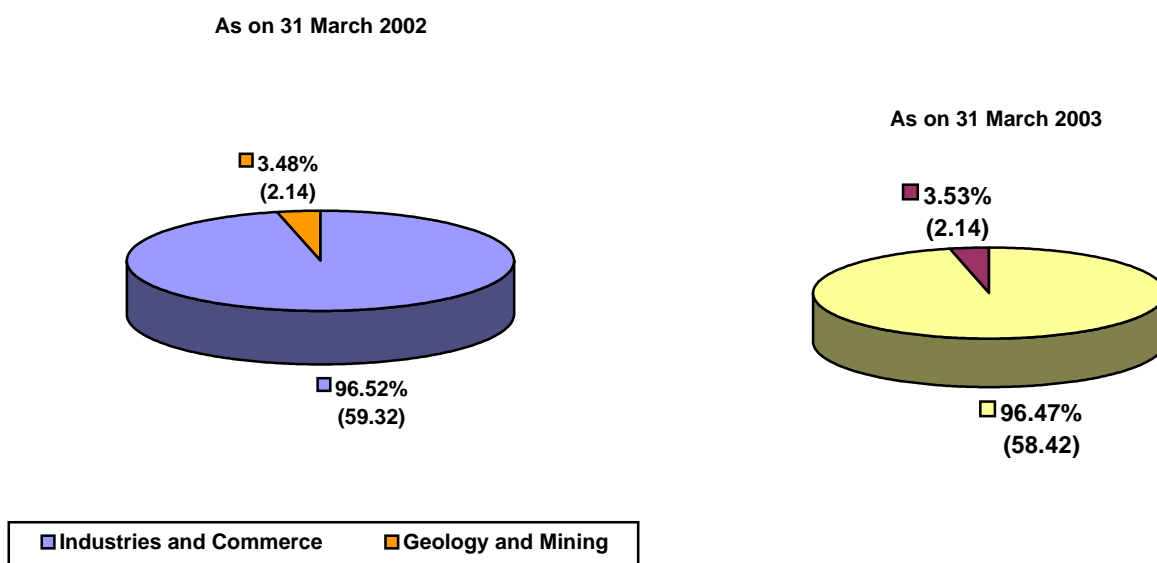
(Rupees in crore)

Year	Number of working Government companies	Investment in working Government companies			
		Equity	Share application money	Loan	Total
2001-02	5	19.17	10.20	32.09	61.46
2002-03	5	19.31	10.43	30.82	60.56

The analysis of investment in working Government companies is given in the following paragraphs.

The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2002 and 31 March 2003 are indicated below in the pie charts:

Chart 8.1



(Figures in brackets indicate investment in Rupees in crore)

As on 31 March 2003, the total investment of Government companies comprised 49.11 per cent of equity capital and 50.89 per cent of loans as compared to 47.79 per cent and 52.21 per cent respectively as on 31 March 2002.

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

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

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

The budgetary outgo (in the form of equity, capital and loans) and grants/subsidies from the State Government to Government companies for the three years upto 2002-03 are given below in Table 8.2

Table -8.2

	(Rupees in crore)					
	2000-2001		2001-2002		2002-2003	
	Number of companies	Amount	Number of companies	Amount	Number of companies	Amount
Equity capital outgo from budget	3	0.85	3	1.89	3	1.87
Loans given from budget	1	0.10	1	0.10	---	---
Grants/Subsidy towards						
(i) Projects/Programmes/Schemes			---	---	---	---
(ii) Other subsidy	---	---	---	---	---	---
(iii) Total subsidy	3	5.21	4	6.46	4	7.32
Total outgo	3*	6.16	4*	8.45	4*	9.19

No guarantees for loans were given by the State Government during the year 2002-03.

8.4 Finalisation of accounts by Government companies

The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619 B of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's DPC (Duties, Powers and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of financial year.

It could be noticed from *Appendix-XXXII*, none of the five working Government companies and one non-working company had finalised their accounts for the year 2002-03 within the stipulated period. During the period from October 2002 to September 2003, two Government companies finalised two accounts for 1993-94 and 1988-89. The accounts of all the companies were in arrears for periods ranging from 9 to 23 years as on 30 September 2003 as detailed below in Table 8.3.

Table -8.3

Sl. No.	Number of Government companies	Year from which accounts are in arrears	Number of years for which accounts are in arrears	Reference to serial number of <i>Appendix-XXXII</i>
1.	1	1994-95 to 2002-03	9	1 (i)
2.	1	1981-82 to 2002-03	22	1 (ii)
3.	1	1983-84 to 2002-03	20	1 (iii)
4.	1	1978-79 to 2000-01	23	1 (iv)
5.	1	1985-86 to 2002-03	18	1 (v)
6	1	1989-90 to 2002-03	14	2 (i)

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within prescribed period. Though the concerned administrative departments and officials of the Government were apprised quarterly by the Audit regarding arrears in finalisation of accounts, no effective measures had been taken by the Government, and as a result, the net work of these PSUs could not be assessed in audit.

* These are the actual number of companies which have received budgetary support in the form of equity, loans, grants and subsidy from the Government during respective year.

8.5 Financial position and working results of Government companies

The summarised financial results of Government companies as per latest finalised accounts are given in *Appendix-XXXII*.

According to latest finalised accounts of four Government companies, three companies had incurred an aggregate loss of Rs.1.85 crore.

Loss incurring companies

Of the three loss making companies, one company* had accumulated losses of Rs.0.49 crore which exceeded its paid up capital of Rs.0.10 crore.

Return on Capital Employed

As per latest accounts, the capital employed¹ worked out to Rs.17.55 crore in three companies and total return² thereon amounted to Rs.(-) 1.93 crore as compared to total return of Rs.(-)1.71 crore in the previous year (accounts finalised upto September 2002). The details of capital employed and total return on capital employed in case of working Government companies are given in *Appendix—XXXII*.

Persistent irregularities and system deficiencies in financial matters of companies

The following persistent irregularities and system deficiencies in the financial matters of companies had been repeatedly pointed out during the course of the annual audit of their accounts but no corrective action has been taken by these companies so far:

- (1) The accounts are not finalised in time.
- (2) Since most of the companies did not hold Board of Directors Meetings regularly as required under Section 285 of the Companies Act, 1956, major decisions are often taken without approval of BODs.

Internal audit/internal control

No internal audit/internal control mechanism was found in place in the Government companies. The firms of Chartered Accountants were appointed by the companies to compile the annual statement of accounts only.

* Sl.No. 1 (ii) of Appendix-XXXII (Nagaland Industrial Raw Materials and Supply Corporation Ltd.)

¹ Capital Employed represents net fixed assets (including capital work in progress) plus working capital except in finance companies where it represents a mean of aggregate of opening and closing balances of paid up capital, free reserves, bonds deposit and borrowings (including re-finance).

² For calculating total return on capital employed interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account.

8.6 Response to Inspection Reports

Audit observation raised during audit and not settled on the spot are communicated to the Head of PSUs and concerned Department of the State Government through Inspection Reports. The Heads of PSUs are required to furnish reply through respective Heads of Department within a period of six weeks. Inspection Reports issued upto June 2003 pertaining to six PSUs disclosed that 230 paragraphs relating to 36 Inspection Reports remained outstanding at the end of October 2003. Of these, six Inspection Reports containing 57 paragraphs had not been replied to for more than four years. Department wise break up of Inspection Reports and paras outstanding as on 30 October 2003 is given below in Table 8.4

Table - 8.4

Sl. No.	Name of the Department	Number of PSUs	Number of outstanding Inspection Reports	Number of outstanding paragraphs	Year from which paragraphs outstanding
1	Industries and Commerce	5	29	162	1988-89
2	Geology and Mining	1	7	68	1987-88
	Total	6	36	230	

It is recommended that the Government should ensure that (a) procedure exists for action against the official who failed to send replies to Inspection Reports as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayment in a time bound schedule and (c) system of responding to the audit observations is revamped.

8.7 Position of discussion of Commercial chapters of Audit Report by the Committee on Public Undertakings (COPU)

The reviews/paragraphs of Commercial Chapter of Audit Reports pending discussion as on 31 March 2003 by the Committee on Public Undertakings are shown below in Table 8.5

Table -.8.5

Period of Audit Report	Number of Reviews and Paragraphs			
	Appeared in Audit Report		Pending for discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1994-95	---	1 ³		
1995-96	1	2 ⁴		
1996-97	1 ⁴	Nil		
1997-98	1 ⁴	1 ⁴		
1998-99	1 ⁵	1 ⁵		---
1999-2000	---	1		
2000-2001	---	1		1999-2000 to 2001-02
2001-2002	1	3		are pending for discussion

³ Discussed in September 2000 but recommendation of COPU is awaited.

⁴ Discussed in June 2001 but recommendation of COPU is awaited.

⁵ Discussed in February 2002 but recommendation of COPU is awaited.

8.8 Departmentally managed Government Commercial/ Quasi-Commercial Undertakings

Proforma accounts of departmental and departmentally managed commercial undertakings were in arrears ranging from 3 to 32 years

As on 31 March 2003, there were nine departmentally managed Government commercial and quasi-commercial undertakings.

Mention was made in paragraph 8.8 of the Report of the Comptroller and Auditor General of India for the year 2001-02 about delay in preparation of proforma accounts of these undertakings.

The following table depicts the extent of arrears in preparation of proforma accounts by the undertakings/departments:

Table -.8.6

Sl. No.	Name of the Department/Undertaking	Extent of arrears
1.	Organisation of the Director of Food and Civil Supplies Department	1971-72 to 2002-03
2.	Nagaland State Transport Department	1988-89 to 2002-03
3.	Nagaland Power Department	1999-2000 to 2002-03
4.	Farms under Agriculture Department	
	(i) Potato Seed Farm, Kuthur	1998-99 to 2002-03
	(ii) Medium size Seed farm, Merapani	1999-2000 to 2002-03
	(iii) Seed Farm, Tizit	1998-99 to 2002-03
5.	Changki Valley Fruit Preservation Factory	1987-88 to 2002-03
6.	Timber Treatment and Seasoning Plant, Dimapur	1998-99 to 2002-03
7.	Government Cottage Industries Emporia, Kohima	1979-80 to 2002-03
8.	Farms under Veterinary and Animal Husbandry Department	
	(i) Cattle Breeding Farm, Medziphema	1998-99 to 2002-03
	(ii) Cattle Breeding farm, Tuensang	1998-99 to 2002-03
	(iii) Cattle Breeding Farm, Aliba	1998-99 to 2002-03
	(iv) State Cattle Breeding Farm, Lerie	1993-94 to 2002-03
	(v) Chick Rearing Centre (with Hatchery Unit), Mokokchung	1998-99 to 2002-03
	(vi) Chick Rearing Centre (with Hatchery Unit), Dimapur	1998-99 to 2002-03
	(vii) Chick Rearing Centre, Tuensang	1985-86 to 2002-03
	(viii) Chick Rearing Centre, Medziphema	1985-86 to 2002-03
	(ix) Pig Breeding Centre, Medziphema	1997-98 to 2002-03
	(x) Pig Breeding Centre, Tizit	1997-98 to 2002-03

Sl. No.	Name of the Department/Undertaking	Extent of arrears
	(xi) Pig Breeding Centre, Tuensang	1985-86 to 2002-03
	(xii) Pig Breeding Centre, Mokokchung	1985-86 to 2002-03
	(xiii) Pig Breeding Centre, Tuli (Mokokchung)	1980-81 to 2002-03
	(xiv) Regional Rabbit Breeding Farm, Jharnapani	1998-99 to 2002-03
	(xv) Pig Breeding Centre, Merangkong	1998-99 to 2002-03
	(xvi) Chick Rearing Centre, Kohima	1998-99 to 2002-03
	(xvii) Pig Breeding Centre, Sathuja	1998-99 to 2002-03
	(xviii) Cattle Breeding farm, Baghty	1998-99 to 2002-03
	(xix) Sheep Farm, Poilwa	1998-99 to 2002-03
	(xx) Buffalo Farm, Jalukie	1998-99 to 2002-03
	(xxi) Regional Broiler Centre, Kohima	1998-99 to 2002-03
9.	Farm under Horticulture Department	
	Fruit Canning Factory, Longnak	1993-94 to 2002-03

SECTION – A - REVIEWS

INDUSTRIES AND COMMERCE DEPARTMENT

8.9 Working of the Nagaland Industrial Raw Materials and Supply Corporation Limited

Highlights

Recommendations of Committee on Public Undertakings (1999-2000) to revive the Company by making it a state trading agency for handling raw materials for Small Scale Industries units and other consumable goods for State Government departments remained unmaterialised.

(Paragraph 8.9.7)

The State Government provided Rs.2.02 crore (equity :Rs.0.46 crore and grants-in-aid : Rs.1.56 crore) during 1997-2003 for payment of pay and allowances to its employees as the Company incurred losses for the reasons that it did not carry out its activities on full scale.

(Paragraph 8.9.7)

Injudicious appointment of handling agents on payments of handling and incidental charges ranging between three and nine *per cent* caused not only extra payment of Rs.22.92 lakh but also wiped out the Company as market leader.

(Paragraph 8.9.9)

The Company underlevied commission of Rs.8.18 lakh defying Board's decision to charge higher rate from non SSI units.

(Paragraph 8.9.10)

The Company made payment of Rs.54.46 lakh towards pay and allowances to its idle staff.

(Paragraph 8.9.12)

8.9.1 Introduction

The Nagaland Industrial Raw Materials and Supply Corporation Limited (NIRMSC) was established on 28 March 1973 as a private Company jointly by the Government of Nagaland and Economy Promotion Agency (Private) limited (EPA) and other private individuals with 50 *per cent* share held by Government and balance 50 *per cent* by EPA and others. Government took over the Company in January 1978 by buying all its private shares. The management of the Company was kept under Nagaland Industrial Development Corporation Limited (NIDC) a wholly owned Government Company under Industries and Commerce Department. In March 1981, the Government placed the Company under an exclusive Board of Directors drawn from Government Departments.

8.9.2 Objectives

The main objectives as enumerated in the Memorandum of Association of the Company include:

procurement of various industrial raw materials, iron and steel, building materials and supply to small scale industries (SSI units) in Nagaland.

trade in all kinds of commodities required by the State Government Departments/Public Bodies/Central and State Undertakings,

to act as a dealer/distributor of any type of consumer goods and raw materials,

to carry out business and to act as a commission agent in any capacity and also to export/import any items of mercantile.

During the period under review, the Company has been pursuing its activities limiting only to trade in paraffin wax, iron and steel and plastic raw materials. As earnings from the supply of raw materials to SSI units were not sufficient enough to sustain itself (referred Table 8.10), the Company undertook supply of timber to Coal India Ltd., Railways, Army Ordnance Factory and bamboo to Hindustan Paper Corporation Ltd. (HPCL).

8.9.3 Organisational set up

Management of the Company is vested in a Board of Directors (Board) consisting of six directors including a Chairman (five are ex-officio) and a Managing Director (MD) appointed by the Government. During the period under review four individuals held charge of Managing Director for a tenure period varied from 12 to 14 months. The MD is the Chief Executive of the Company and is assisted by General Manager, Manager (Commerce) and an Accounts Officer in discharge of his duties.

Under the Companies Act 1956, the Board meeting was to be held every three months or at least four Board meetings in a year. During the last five years upto 2002-03, the Company held only five Board meetings instead of required twenty meetings, the reasons for which had been ascribed to absence of Chairman or Directors. The six Directors on the Board including MD were drawn from the Industries & Commerce Department and one from the Finance Department. The Director representing the Finance Department attended only five out of 14 meetings held during 1991-2003, as such deliberations of the Board did not comprehensively reflect the opinion of the Finance Department. Further, since the responsibility of the Board is fiduciary in nature, non-holding of regular meetings or Directors sparsely attending meeting defeated the purpose of the constitution of the Board.

8.9.4 Scope of Audit

The review being the first one was taken up during May - June 2003 and covered overall performance of the Company during the last five years from 1998-99 to 2002-03 and findings thereof were discussed in succeeding paragraphs. To bring a pragmatic approach and share knowledge and experience about the review topic, the Comptroller and Auditor General of India decided to constitute a State Level Committee i.e. Audit Review Committee for Comprehensive Appraisal of State Public Sector Enterprises (ARCPSE). The State Government was requested (September 2002) to direct the concerned Secretary of the Department and Managing Director of the Company for taking part in the proceedings of the Review Committee before issue of the comprehensive appraisal to the State Government. But no such discussion could take place due to non-receipt of any response from the State Government (January 2004)

8.9.5 Capital structure

The initial authorised share capital of Rs.20 lakh was enhanced subsequently (1993-94) to Rs.2 crore divided into equity share capital of Rs.1.90 crore for 190000 shares of Rs.100 each and preference shares (10 *per cent* cumulative) of Rs.10 lakh for 10,000 shares of Rs.100 each. Paid up capital as on 31 March 2003 was Rs.10.28 lakh divided into equity shares of Rs.9.60 lakh for 9600 shares at the rate of Rs.100 each and preference shares of Rs.0.68 lakh at the rate Rs.100 each for 680 shares. The Company received Rs.1.03 crore against equity shares during the period from 1997-98 to 2002-03. However, the Company did not further allot shares till date (November 2003).

8.9.6 Accounts and audit

The Company has not formulated its accounting policy nor any accounts manual. Although the Company stated to have followed mercantile system of accounts in consonance with provisions of the Companies Act 1956, the Company maintained hybrid system of accounting in contravention of the Act, *ibid*.

The accounts of the Company were finalised upto 1981-82 only. Thereafter, no action was taken by the Company to finalise its accounts resulting in arrears for more than 20 years. Reasons for non-finalisation of accounts were not furnished to audit.

8.9.7 Performacne

The physical and financial performance of the Company for the last five years ending 31 March 2003 are given below :

Physical performance

The Company was set up mainly with the objective to act as a nodal agent to procure and supply industrial raw materials especially the controlled commodities like cement, paraffin wax, iron and steel to the SSI units. Due to decontrol (1994-95) by the Central Government the above commodities became available in open market at rates cheaper than Company's price. The Company added handling and incidental charges ranging from three to nine *per cent* over and above the decontrol price. This led to rise in price of the above commodities. As a result, SSI units stopped buying materials from the Company causing loss of commission to it. The Company's main source of income was three *per cent* commission which it was charging from buyers on its sales without analysing the break even operation (i.e., complete absorption of overhead charges). Committee on Public Undertakings (COPU) in its report on the performance of the Company, presented (March 2000) to the State Assembly had recommended (1999-2000) to Government to make it a state trading agency for handling raw materials for the SSI units and other consumable goods for Government departments. No follow up action, however, had been initiated by the concerned department to implement these recommendations as of October 2003. At present the Company has ceased its activities due to non availability of working capital to fulfill its objectives for which it was set up.

The Company prepared (July 1996) estimates (plan for trading activities) for the 9th Five Year Plan period for procurement, trading in raw materials and requirement of funds therefor, the annual break up of which (Plan) was as below in Table 8.7

Table 8.7

Annual breakup of trading activities

(Rupees in lakh)			
Sl No	Items	Quantity (in MT)	Annual working capital requirement
1	Paraffin wax	800	185.00
2	Iron and steel	1000	230.00
3	Plastic raw material	600	270.00
4	Supply of mining timber	---	300.00
	Total		985.00

Against the above annual plan for its trading activities, the Company could take up trade only in Paraffin wax, iron and steel during 1997-98 and 1998-99 and later limited to only Paraffin wax during 1999-2000, as shown in the Table 8.8 below:

Table 8.8

(Rupees in lakh)					
Year	Items	Quantity (in MT) as per Annual Plan	Quantity (in MT) handled	Sale value	Commission earned
1997-98	Paraffin wax	800	215.00	54.73	1.64
	Iron and steel	1000	44.00	12.85	0.66
1998-99	Paraffin wax	800	88.15	29.73	0.89
	Iron and steel	1000	1.00	0.29	---
1999-2000	Paraffin wax	800	40.00	8.92	0.16
	Iron and steel	1000	Nil	Nil	Nil

After 1999-2000, the Company could not undertake any trading activities due to shortage of working capital. Thus, the Company failed in achieving its objectives. The COPU also observed that the State Government remained as a mute spectator to deteriorating affairs of its own Company at the time when it needed serious attention of the Government. Since the working capital was not made available by the Government, the Company on its own undertook (diversified to) supply of bamboos to Hindustan Paper Corporation Limited (HPCL), Nagoan, Assam through sub-contractors. The Company supplied 13222.250 MT of bamboos valuing Rs.2.09 crore to HPCL during 2001-03 through sub contractors and earned commission of Rs.6.32 lakh thereon. These sub contractors were later paid out of the sales proceeds received from HPCL . But the commission earned from such sub-contracts was not adequate enough to sustain itself.

Financial position and working results

The financial position and working results of the Company for the last five years ending 31 March 2003 are given in *Appendix-XXXIV*.

State Government released Rs.2.02 crore (equity shares : Rs.0.46 crore and grants-in-aid : Rs.1.56 crore) during 1997-03. The entire amount was utilised towards payment of salary/pension and leave salary contribution to employees stating as plan expenditure.

8.9.8 Non filing of documents with the Registrar of Companies (ROC)

According to Companies Act 1956, a Company is liable to be prosecuted if it does not file its Balance Sheet, Profit and Loss Account and Annual Returns every year with the Registrar of Companies (ROC). Under the Company Law Settlement Scheme 2000 (CLSS-2000) introduced by the Government of India (June 2000), a Company who had defaulted in filing the above documents with the ROC might do so through one time declaration and settlement by paying a lump sum amount according to the period of accounts in arrears. Accordingly the Company was to

pay Rs.0.15 lakh for filing above documents which were in arrears since 1982-83. To avail of the benefit under the scheme, the Company appointed (May 2000) a Guwahati based Company Secretary¹ (CS) to file documents at a negotiated lump-sum amount of Rs.5 lakh. The Company neither issued work order nor executed agreement in this context. The CS was paid Rs.5 lakh in two instalments (August and December 2000) for filing the documents.

The Company could not produce relevant records in support of filing the documents with ROC by the CS. Further, under the provision of Company Law Settlement Scheme, there was no stipulation for appointment of CS to file the documents with the ROC, Shillong. Hence, appointment of CS by the Company for filing the documents with ROC was injudicious and Rs.5 lakh paid to the CS proved to be infructuous. Records establishing reasonableness of the negotiated amount (Rs.5 lakh) were also not produced nor reasons stated to audit.

On this being pointed out in audit, the Company stated (June 2003) that no correspondence was made with the CS to refund the amount. The Company should immediately initiate action for recovery of the amount from the CS and also fix responsibility on the officials responsible.

8.9.9 Procurement and supply of raw materials

The procedure adopted by the Company for procurement of paraffin wax and bamboos was examined in audit. Following points emerged after such examination:

Paraffin wax

Paraffin wax was the life line of the trading activities of the Company as sales proceeds from the same constituted 71.45 to 86 per cent of total turnover of the Company, as depicted in the Table 8.9 below:

Table 8.9

Year	Quantities (MT) of paraffin wax		Sales proceeds from paraffin wax	Total turnover of the Company	Percentage of sale proceeds of paraffin wax to total
	lifted	Sold			
1995-96	800.00	798.55	147.81	179.07	82.54
1996-97	598.00	599.40	140.30	196.36	71.45
1997-98	215.00	215.00	54.73	76.58	71.47
1998-99	108.05	108.05	29.73	34.56	86.00
1999-00	40.00	40.00	8.92	10.56	84.47
Total :-	1761.15	1761.10	381.49	497.13	

Note.1: There was no trade in paraffin wax after 1999-2000.

Note. 2: Quantity sold during 1996-97 included 1.40 MT out of unsold quantity of 1.45 MT (1995-96). The rest quantity (0.05 MT) was shortage.

¹ Shri Raj Kumar Sharma

Upto May 1995, paraffin wax was being lifted from Digboi by the SSI units who were reimbursed transportation charges @ Rs.400 per MT. The Company derived commission at the rate of three *per cent* from the sales. Industries and Commerce Department through different notifications (between May 1995 and June 1998) appointed three handling agents on payment of three to five *per cent* of handling commission and two to four *per cent* incidental charges.

Reasons for the appointment of handling agents for lifting of Paraffin wax in lieu of SSI units were not on records nor stated to audit.

The handling agents lifted a total quantity of 1584.15 MT of paraffin wax during 12 June 1995 to 30 April 1999 and were paid Rs.29.26 lakh between February 1996 and March 1998 towards handling commission, incidental and transportation charges. This resulted in increase in the selling price of paraffin wax to SSI unit from Rs.19,171.55 per MT in December 1995 to Rs.34,086.79 per MT in August 1999 causing a sharp decline in the sale of Paraffin wax from 1996-97 onwards and finally no supply or sales were made after 1999-2000. Coupled with the decontrol of the raw materials effective from April 1998, the IOC offered (April 1998) the selling price of paraffin wax at Rs.30,400 per MT allowing a margin of Rs.704 per MT over the prevailing control price of Rs.29696 per MT. Thus, the Company's rate of Paraffin wax became noncompetitive in the market and the SSI units started making purchases from other sources who were selling the product at a cheaper rate. As a result Company suffered loss of commission on sale of paraffin wax to SSI Units.

The Industries and Commerce Department cancelled (April 1998) the appointment of the handling agents with effect from 1 May 1999 on being informed (August 1998) by the Company of the deteriorating affairs of the Company.

Loss due to award of supply order at a higher rate

Cachar Paper Mills (CPM, HPC Limited) floated tender (February 2002) for supply of 5000 MT of green thick walled bamboos by rail from Upper Assam and Karbi Anglong District of Assam. After negotiation, Paper Mill (May 2002) issued letter of intent and work order for supply of 5000 MT of bamboo @ Rs.2127² per MT. The mode of supply was by road upto Lumding and by rail from Lumding to mill and period of supply was four months from June to September 2002 @ 1250 MT each month.

M/s Tridev Enterprise (TE) quoted (April 2002) rate of Rs.1,750³ per MT. But the Company issued work order to TE at rate of Rs.2127 per MT which was higher by Rs.377 per MT (Rs.2127-Rs.1750) than the quoted rate. The firm supplied 2758.03 MT of bamboos during September to December 2002. Thus the

² (Rs.500 per MT basic price + Rs.1,627 per MT towards transportation, handling and stacking)

³ (Basic price Rs.450 + Rs.300 for conversion + Rs.600 for road transportation + Rs.200 Rail freight + Rs.200 handling charges at site including stacking)

Company made less profit of Rs.10.40 lakh by issuing the work order at a rate higher than the quoted rate. As the Company could not supply balance quantity (2241.87 MT), it lost business and commission of Rs.1.43 lakh.

8.9.10 Fixation of commission

The Company fixed selling price equal to landed cost plus commission on the value of raw materials. With the approval of the Board of Directors, the rate of commission was enhanced (October 1982) from five to six *per cent* with effect from 1 December 1982. The rate of commission was reduced (April 1983) from six to four *per cent* with effect from 4 April 1983 in case of supplies to the SSI units of the State. The Board further reduced rate of commission to three *per cent* if the SSI units paid the full cost of materials in advance.

Table 8.10 below gives fixed cost, commission earned, turnover and percentage of fixed cost to turnover for the last four years from 1995-96 to 1998-99.

Table 8.10

(Rupees in lakh)

Year	Commission earned during the year	Fixed costs	Turnover	Percentage of commission to fixed costs	Turnover required to absorb fixed cost
1995-96	5.37	27.86	179.07	19.27	928.66
1996-97	5.89	30.03	196.34	19.61	1001.00
1997-98	2.30	20.01*	76.58	11.49	667.00
1998-99	1.04	37.97	34.56	2.74	1265.66

* Fixed costs of Rs.20.01 lakh during 1997-98 was the least because staff salary for eight months (April to November 1997) only was drawn and remaining four months salary was paid in the next year and thus the higher amount (Rs.37.79 lakh) against that year.

For complete absorption of overhead, a turnover ranging from Rs.9.28 to Rs.12 crore was required.

As aforesaid, the Board reduced commission from six *per cent* to four and then to three *per cent* in respect of SSI units only but Company charged the same commission of three *per cent* from all non-SSI units also. The Company, otherwise should have charged six or higher percentage as per negotiation to compensate its loss. Despite this being pointed out in audit (1991-92) the Company continued to charge three *per cent* commission from the non-SSI units in defiance of its Board's decision. Thus the Company sustained a loss of Rs.8.18 lakh during 1997-2003 as detailed in Table 8.11 below:

Table 8.11

(Rupees in lakh)

Year	Quantity supplied Nos./in MT	Six per cent commission required to be charged	3 per cent commission charged	Differential amount of commission
(A) Timber Supply				
1997-98	44813	1.24	0.62	0.62
2002-2004 (June 2002 to April 2003)	27366	2.54	1.26	1.28
(B) Supply of Bamboos				
2001-2002	1308.470 MT	1.14	0.57	0.57
2002-2003	11913.788	11.42	5.71	5.71
Total :-		16.34	8.16	8.18

8.9.11 Inventory control

No system of inventory control management was found operating in the organisation.

The organisation did not make available to audit basic records relating to purchase, storage and disposal of stores acquired by it. Purchase register, stores ledger and sales registers were not maintained. No physical verification of stores was reported to have been carried out. Stores were received/issued without challans and gate pass. The weighbridge counter did not maintain weighment register to record the stores weighed and their quantities.

8.9.12. Manpower management

The Company had staff strength of 32 in all categories during the last ten years (mostly Lower Division/Upper Division Assistants, grade IV and drivers). The Company had not reviewed its staff requirement particularly when the Company had outsourced its activities to the sub-contractors from 1985-86 onwards in respect of trade in timber, raw materials and bamboos. The requirement of staff was not reviewed and rationalised accordingly to justify payments of staff salary and allowances out of the equity contribution/grants given by the State Government during the last five years under review.

As analysed in audit, the following staff was in excess.

- a) Initially there were five drivers for five vehicles. Subsequently the number of vehicles reduced to two but number of drivers remained the same. Thus, there was surplus of three drivers and the Company paid Rs.7.50 lakh for their pay and allowances from November 1996 to March 2003.
- b) While business of the Company shrunk and turnover was declining, appointment of sub-contractors/outsourcing was not fully justified as the staff

strength continued to be the same. The Company incurred expenditure of Rs.46.96 lakh towards pay and allowances.

8.9.13 Internal audit

The Company has no internal audit wing. Though a firm of Chartered Accountants was appointed by the Company, it compiled the annual statements of accounts only, and records/report on any internal audit ever conducted or on internal control mechanism in the Company were neither on record nor reasons stated to audit.

8.9.14 Conclusion

The primary reason for taking over the Company by the Government (1978) was to make it a profitable concern. Thereafter, the Industries and Commerce Department did not provide working capital commensurating its requirement. The Company also failed to realise the amount from the debtors in time. Besides, the Company's offered rate of decontrolled commodities became uncompetitive with reference to market rate of similar commodities. Since the Company ceased its business, further continuance with the laid down objectives would not be sustainable and may entail more financial burden by way of staff salaries and allowance, etc. As such, there is an immediate need for Government to review its position.

The matter was reported to the Government September 2003; their replies had not been received (January 2004).

SECTION – B – AUDIT PARAGRAPHS

INDUSTRIES AND COMMERCE DEPARTMENT (NAGALAND HOTELS LIMITED)

8.10 Non-realisation of lease rent and interest

Non-realisation of accumulated lease rent and interest thereon amounting to Rs.84.63 lakh

According to the lease deed executed on 11 March 1987 between the Nagaland Hotels Limited, Dimapur (now at Kohima), a subsidiary company of the Nagaland Industrial Development Corporation Limited, Dimapur (Lessor) and Shri X¹ (lessee), the hotel Saramati, Dimapur was leased out to the lessee initially for a period of 19 years from the date of execution of the deed, at a monthly rent of Rs.43,300 (subject to review by the lessor for increase of the rent in every three years) payable in advance on or before 10th day of each English calendar month. It was also stipulated therein that the lessee would have to pay interest at the rate of 11 *per cent* per annum on the defaulted monthly rent.

Test check (August 2003) of records of the Nagaland Hotels Limited, Kohima (April 1998 to March 2003) revealed that the lessee had not paid the rent regularly since his possession of the hotel on 15 April 1987. Out of the total rent of Rs.70.80 lakh due upto November 2000, an amount of Rs.17.02 lakh only was paid by him during 1987-88 to 1993-94 leaving a balance amount of Rs.53.79 lakh yet to be paid as of September 2003. The administration of Hotel Saramati was taken back from lessee by Nagaland hotels Limited on 1 December 2000. Neither any penal clause except imposing interest on defaulted payment of rent, was provided in the lease deed to initiate action against the lessee nor any action except issue of several reminders to the attorney of the lessee, was taken by the lessor to enforce action as per provision in clause 1 of Part-IV of the deed to take over the hotel from the lessee in 1994-95 when the latter failed to pay rent entirely.

Thus, due to non payment of monthly rent as per prescribed rate and time, an amount of Rs.84.63 lakh being the accumulated unpaid rent upto November 2000 (Rs.53.79 lakh) and interest (Rs.30.84 lakh) thereon was realisable from the lessee as of September 2003. The rental value could have been checked from being accumulated further, had the lessor taken over the possession of the hotel in 1994-95 when the lessee did not pay the rent. It was further noticed that the lessor at no point of time took up the matter with the lessee for realisation of the huge accumulated rent.

Thus, due to absence of enough stringent protective measures for rent recovery in the lease deed and inaction by the lessor as per the provision of the lease

¹ Shri M. R. Baruva

deed, the company sustained a huge financial loss of Rs.84.63 lakh in the form of un-recovered rental value and interest thereon.

The matter was reported to the Government and the company in September 2003; their replies had not been received (January 2004).