

PUBLIC ACCOUNTS COMMITTEE

(1969-70)

TENTH REPORT

(FOURTH ASSEMBLY)

Report of the Public Accounts Committee on the Audit Report, 1967, the Appropriation Accounts, 1965-66 and the Finance Accounts, 1965-66 of the Government of Assam relating to the Assam Spun Silk Mills Ltd., Jagiroad referred to in Paragraph 74 at page 67 and Greenview Products, Kuthari, Nowgong referred to in Paragraph 25 at pages 37-38 of the Audit Report



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ASSEMBLY SECRETARIAT ASSAM

SHILLONG

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(1969-70)

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3. Shri N. Deuri Bora, B. A., Committee Officer.

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**Report of the Public Accounts Committee on the Audit Report, 1967
Appropriation Accounts, 1965-66, Finance Accounts, 1965-66
of the Government of Assam relating to Assam Spun Silk
Mills Ltd., Jagiroad, Nowgong, referred to in Para-
graph 74 at page 67 and Greenview Products,
Kuthari, Nowgong referred to in Paragraph
25 at pages 37-38 of the Audit Report**

INTRODUCTION

I, the Chairman of the Public Accounts Committee do present on behalf of the Committee, its report on the Assam Spun Silk Mills Ltd., Jagiroad referred to in paragraph 74 at Page 67 and the Greenview Products, Kuthari referred to in paragraph 25 at pages 37-38 of the Audit Report, 1967.

2. The Accounts and the Report were laid on the table of the House on 23rd October, 1967.

3. The Committee examined the Industries Department on 2nd June, 1969 and while considering paragraph 25 at pages 37-38 and paragraph 74 at page 67 of the Audit Report, 1967 the Committee desired to make an on-the-spot study of the Greenview Products, Kuthari and the Assam Spun Silk Mills Ltd., Jagiroad referred to in the above paragraphs for proper appreciation of the matters. With this end in view, the Committee finally decided to visit these two enterprises of the Government in its sitting held on 7th October, 1969. Accordingly the Committee visited the Assam Spun Silk Mills Ltd., Jagiroad on 13th October, 1969 and the Greenview Products, Kuthari on 14th October, 1969. The impressions of the Committee during its local inspections is appended to this Report at Annexure.

4. The Committee places on record its appreciation of the valuable assistance rendered by the General Manager of the Mill and the Managing Director of the Assam Small Scale Industries Corporation. The Committee also thanks the Accountant General, Assam and Nagaland for deputing an Accounts Officer who was of great help to the Committee during the spot study.

Shillong:
The 31st March, 1970.

GAURISANKAR BHATTACHARYYA,
Chairman,
Public Accounts Committee.

REPORT

INDUSTRIES DEPARTMENT

Greenview Products, Kuthari

Paragraph 25 at pages 37-38 of the Audit Report, 1967

This paragraph brings out that the Government paid loans to Messrs. Greenview Products, Kuthari, Nowgong for improvement of fruit preservation and canning industry and showed an example how the defaulters were treated by this Department. The first loan of Rs 12,500 was sanctioned on 23.2.54. The terms of the loan included (1) rate of interest at 5 per cent per annum, (2) Penal interest for default at 5 per cent per annum, (3) the loan was made repayable in 5 equal yearly instalments commencing from 1.4.55. Property valued at Rs.25,735 which was certified to be encumbrance free by the Deputy Commissioner, Nowgong was pledged as a security against this loan. The loanee, however defaulted in repayment. The Director of Industries stated that for the first loan the Department filed Bakijai cases but in the meantime the second loan came in. After this default the Government in the Industries Department was pleased to grant another loan on 7.8.58 and this time the loan amounted to Rs 50,000. The first and second conditions were like those of the first loan. The terms of payment were that the loans were repayable in 10 equal annual instalments commencing after a year from the date of disbursement. The previous outstanding amounts, however, were deducted from this loan. The date of drawal of the loan was the same as that of disbursement viz., 25.9.58. This time landed property valued not less than rupees one lakh unencumbered was pledged against this loan as security. This time also the loanee defaulted. Then after the second default, the loanee was sanctioned another loan of Rs.2,50,000 on 11.8.61, deducting therefrom the amounts due from him for the second loan. The rate of interest fixed for this loan was also 5 per cent per annum and in the original agreement, the penal interest also was fixed at the same rate. After objection from the Accountant General however, the penal interest was raised to 8 per cent. This loan was made payable in 10 equal annual instalments, first instalment being due on completion of two years after disbursement of the first instalment. This loan was channelised through the Assam Financial Corporation and for this purpose the Government entered into an agreement with the said corporation. Since the actual dates of disbursement are not available except the first one which was in August, 1961 and the last one in December, 1961 it was not possible for the Committee to give any categorical opinion as to whether the corporation had made on-the-spot scrutiny of the construction of buildings, installations of machineries of the factory and sheds and operation of the plant. At any rate it was clear that the scheme did not achieve the desired or expected target. Therefore, and because of the bad health of the proprietor, the Government through M/s Assam Small Industries Development Corporation Limited had to take over the management of the concern on 1.4.68. No formal agreement for this, however, has been entered into upto now and M/s Assam Small Industries Development Corporation Limited is managing the concern on an experimental basis so to say and in a capacity which is yet to be defined. The Director of Industries explaining the reasons as to why the Government had given the loans to the loanee in spite of defaulting in repayment said that Government thought that the Industry was expanding further and further and it would be proper to give the loan in the interest of industrial Development.

The Committee also notes that inspite of existence of rule 370 (b) of the Assam Financial Rules according to which penal interest, if any, should be not less than 8 per cent, the Government continued to fix the penal interest only at 5 per cent till 1961 when after some correspondence with the Accountant General, the Government intimated in July, 1961 that they had decided to raise the rate of penal interest to 8 per cent.

Another point which the Committee notes is that at the time of granting the second loan or third loan, the previous dues from the loanee were adjusted and to that extent, the Government did not lose monetarily. But the fact remains that the subsequent loans were sanctioned to a defaulter. This might make loanees complacent or atleast not very keen for making payments of interests and instalments. Other loanees may cite this as a precedent for getting similar benefits or considerations.

RECOMMENDATIONS

(1) The Committee therefore stresses without going into the question as to whether the project is a laudable one or otherwise the imperative necessity of strictly following the Financial Rules and the terms of agreements solemnly entered into. While appreciating the over-all developing economy that a particular developing industry or concern need increasing credits and also appreciating the keenness of Government for developing this sort of agalitarian industry in the State, the Committee feels constrained to point out that the Financial Rules, unless and until they are modified or given a moratorium by the Government on the basis of specific decisions, are meant to be observed. The Government was at a liberty not even to fix any penal interest, but once such interest is imposed, according to rules it cannot be less than 8 per cent. Any change thereof can be made only by a special decision of the Government.

(2) After considering all the aspects of the matter, the Committee further recommends that as it is a losing concern and as there is no possibility of the concern becoming profitable, it would be in the fitness of things that the Government should withdraw its participation in the concern. Unless it is proposed to pay subsidy for the loss in the interest of promoting the industry, Government should not take over management of such losing proposition.

(3) Grant of one loan after another, without recovering the previous loan in cash and without ascertaining the gainful use if any of the loan money indicates that undue favours have been shown to the firm.

(4) Adequate safeguards were not provided while sanctioning loans. It is also doubtful whether credit worthiness of the firm was verified before grant of loan and whether assistance given was commensurate with the benefits expected to be derived.

(5) There should be adequate safeguard for grant of loans in future to the similar firms.

The action taken by the Government should be intimated to the Committee within three months from the date of presentation of the Report before the House.

ASSAM SPUN SILK MILLS, LTD

Paragraph 74 at page 67 of the Audit Report, 1967

This paragraph brings out that the working of the Assam Spun Silk Mills Ltd. at Jagiroad during the year ending 31st March, 1966 resulted in a net profit of Rs. 44,252 as against Rs. 11,689 in the previous year. The net profit does not however, exhibit correct trading profit on account of the following—

- (a) The value of the closing stock of finished and semi-finished goods stood inflated to the extent of Rs. 90,000.
- (b) Outstanding liabilities of Rs. 18,268 and depreciation on assets to the tune of Rs. 1,32,224 were not provided for.
- (c) The Cocoon Stores Building valued at Rs. 21,066 was not taken under building account and no depreciation was provided for although it had been in use since 1962-63.

On being asked by the Committee as to why the Government being the controller of the produce could not fix the price of the finished products of the Mills, the Director stated that the price was fixed by two Government sponsored companies—one at Chinnapattam and the other at Jagiroad and not by the Government.

On a query as to why there was wide variation of the price fixed for finished goods as well as demand for such products, the Departmental witness said that with the advent of Nylon product, demand for pure silk came down temporarily till the people felt the bad effect of Nylon goods. Since 1965, people became fastidious and there was an upward trend of pure silk cloth and as a result the price structure had to be changed four times during 1965. Asked as to why production capacity could not keep pace with the increased demand of pure silk in the market, the Departmental witness informed that due to certain bottlenecks at different stages production capacity could not be maintained to the appreciable extent.

The Committee then wanted to know whether survey for availability of cocoons had been made at the time of preparation of projects Report, the Director replied in affirmative, but the Department doubted its proper assessment when in practical field it proved otherwise.

On a query made by one of the members of the Committee that the price fixed for local cocoons was very low in comparison with other agencies of the Department and in course of citing an example stated that cocoons were sold at Gauhati at the rate of Rs.80 per pound which was much higher than the local price. The Director replied that at the time of preparing the project report the price for one Kg. of cocoon was fixed at Rs.514 which was raised to Rs.11 per Kg. and in certain special categories it was raised upto Rs.16 or so. The Departmental witness further stated that one of the reasons for giving low rate was due to bulk purchase viz. 70,000 Kgs. of the Company. The Khadi Board and other agencies could afford to buy cocoons at higher rate because of their limited requirement. The Departmental witness pointed out that Bihar used to offer Rs 12 per pound for certain special types of cocoons. The Director assured that there is no objection to raise the price provided the rate is economic to the Mills.

RECOMMENDATION

The Committee recommends that all effort should be made by the Government to raise the rate of price of local raw-materials to encourage the local people. Efforts should be made to procure raw materials from all over Assam.

The Committee felt that proper housing facilities should be provided to the workers of the Mill.

The General Managers of the Mills were frequently transferred before they became well conversant with the affairs of the factory. And as a result, the management of the Mills suffered to a great extent. The Committee therefore recommends that the period of posting of the General Manager should not at any rate be less than two years.

The Committee also recommends that management of the Mills should be streamlined, the cost of processing and overheads should be minimised, modern methods of management should be introduced with a system of profit planning, control over expenditure, sales promotion, etc.

PART II

SUMMARY OF RECOMMENDATIONS

PART II

SUMMARY OF RECOMMENDATIONS

GREENVIEW PRODUCTS, KUTHARI

Serial No.	Reference	Recommendation
1.	Paragraph 25 at pages 37-38 of the Audit Report, 1967.	<p>(1) The Committee therefore stresses without going into the question as to whether the project is a laudable one or otherwise the imperative necessity of strictly following the financial Rules and the terms of agreements solemnly entered into. While appreciating the over-all developing economy that a particular developing industry or concern need increasing credits and also appreciating the keenness of Government for developing this sort of egalitarian industry in the State, the Committee feels constrained to point out that the Financial Rules, unless and until they are modified or given a moratorium by the Government on the basis of specific decisions, are meant to be observed. The Government was at a liberty not even to fix any penal interest, but once such interest is imposed, according to rules it cannot be less than 8 per cent. Any change thereof can be made only by a special decision of the Government.</p> <p>(2) After considering all the aspects of the matter, the Committee further recommends that as it is a losing concern and as there is no possibility of the concern becoming profitable, it would be in the fitness of things that the Government should withdraw its participation in the concern. Unless it is proposed to pay subsidy for the loss in the interest of promoting the industry, Government should not take over management if such losing proposition.</p>

Serial No.	Reference	Recommendation
(1)	(2)	(3)

(3) Grant of one loan after another without recovering the previous loan in cash and without ascertaining the gainful use if any of the loan money indicates that undue favours have been shown to the firm.

(4) Adequate safe guards were not provided while sanctioning loans. It is also doubtful whether credit worthiness of the firm was verified before grant of loan and whether assistance given was commensurate with the benefits expected to be derived.

(5) There should be adequate safeguards for grant of loans in future to the similar firms.

The action taken by Government should be intimated to the Committee within three months from the date of presentation of the Report before the House.

THE ASSAM SPUN SILK MILLS, LTD.

2. Paragraph 74 at page 67 of the Audit Report, 1967. The Committee recommends that all effort should be made by the Government to raise the rate of price of local raw-materials to encourage the local people. Efforts should be made to procure raw materials from all over Assam.

The Committee felt that proper housing facilities should be provided to the workers of the Mill.

Serial
No.

Reference

Recommendation

(1)

(2)

(3)

he General Managers of the Mills were frequently transferred before they became well conversant with the affairs of the factory and as a result, the management of the Mills suffered to a great extent, the Committee therefore recommends that the period of posting of the General Manager should not at any rate be less than two years.

The Committee also recommends that management of the Mills should be streamlined, the cost of processing and over heads should be minimised; modern methods of management should be introduced with a system of profit planning, control over expenditure, sales promotion, etc.

ANNEXURE

Tour impressions of the Public Accounts Committee

The Committee assembled at the Assam Spun Silk Mills Ltd., at Jagiroad at 3 P.M. on 13th October 1969, and went round the factory accompanied by the General Manager of the Mill. At present the Mill is having only two shifts instead of three as was originally contemplated. The General Manager explained to the Committee that due to shortage of raw materials the mill could not have three shifts. The supply of Eri Muga waste and cocoons being not sufficient to feed the Mill throughout the year the Mill had been purchasing Mulberry silk waste from Mysore.

While going round the Mill the Committee noticed that one of the two dying chambers was only being used and the other kept idle. Asked as to why both the dying chambers were not being used the General Manager said that because of shortage of production the two chambers could not be used. The shortage of production was in turn due to shortage of raw materials. The Committee also noticed a big baling press was lying idle. The General Manager informed the Committee that it was too big to be used in a Spun Silk Mill. The machine was purchased in 1963 at a cost of Rs.27,000 in all and the present General Manager was trying to dispose it of.

The installed capacity of the mill is 34,000 Kg. of spun silk yarn and 22,000 Kg. of Noil yarn in two shifts per year. As has already been stated above, this Mill can work for three shifts but it is actually working in two shifts because of shortage of raw materials. Each shift of 8 hours duration has been split into two parts of 4 hours duration. The range of production of spun silk yarn is 60/2 to 210/2 counts. In the project report it has not been specified which particular variety was meant to be produced in this mill, and it has not been stated in the project report on what basis, i. e., on the basis of which particular count of yarn, the production target was fixed. The Noil yarn production ranges from 7s to 20s. In this case also the count of the yarn is not mentioned in the project report. The spun silk yarn production was a little more than half of the target fixed in the project report. The General Manager explained that because of finer variety of yarn the target could not be achieved.

The Committee then asked the General Manager to supply the following information.—

The quantity of raw materials entered into the factory in 1966-67, 1967-68 and 1968-69, the quantity of finished product and the total waste accounted for.

According to the General Manager the loss in degumming was about 35 per cent in Muga and 25 per cent in Eri and the loss in the Cocoon opener is about 6 per cent in Muga and 7 per cent in Eri.

The price of silk yarn of this Mill is higher than other mills but the Mill was paying lesser price for the raw materials than Khadi Board.

The mill was getting its supply of Eri and Muga through the Co-operatives and individual traders. There were 39 co-operatives of which 15 were now supplying raw materials to the mill. The mill gave some advances to the co-operatives for supply of cocoon but even then the total supply of cocoon through the Co-operatives would not be more than one third of the total raw materials received by the Mill.

While glancing through the books of accounts the Committee noticed that the closing stock was valued at the selling price which should have been valued at cost price.

The Committee felt that efforts should be made to procure raw materials from all over Assam. The Committee also felt that proper housing facilities should be provided to the workers of the Mill. The factory was also not kept clean.

The Committee noticed a heavy stock of Muga lying in the factory because of high price. The Mill recently reduced the price to some extent and cleared some quantity. Efforts should be made to clear the stock.

It appeared to the Committee that General Managers were frequently transferred and the present General Manager informed the Committee that one year was too short a period to learn the work of the factory. He felt that one General Manager should be kept at least for two years.

At 6 p. m. the Committee left the Mill for Nowgong.

Green View Products, Kuthari

The Committee visited Green View Products at Kuthari at 10.30 A.M. on 14th October, 1969. The Committee members were received by the proprietor of the establishment Shri C. K. Phukan. The Managing Director of the Assam Small Scale Industries Corporation, Shri Goswami, accompanied the Committee.

This farm was started in 1936 but canning started in 1953. During the Chief Ministership of Mr. Medhi the farm acquired 600 bighas of land at a place about 12 miles off from Kuthari for cultivation of pineapple.

In 1961 the farm took a loan of Rs. 2.5 lakhs from the Government of Assam through the Assam Financial Corporation and mortgaged property worth Rs. 2,38,540. The following lands were mortgaged besides the machineries of the factory :

B, K. L.

In Duar Bagri Mauza, Najan Kishan, Patta No.1 Dag No.51 ...	12	1	1
In Duar Bagri Mauza, Kuthari Nabasti, Patta No.1 Dag No.51	178	3	6
In Duar Bagri Mauza, Najan Kishan, Patta No.1 Dag No.1 ...	9	0	6

The above lands are all periodic patta lands.

The subsequently acquired machineries were also to be mortgaged with the Government against the loan and Mr. Phukan said that he had already forwarded the agreement to the Government and it was lying with the law Department.

Although the loan was disbursed through the Assam Financial Corporation, it was to be repaid to the Government and the Corporation was only to see to the proper utilisation of the loan. The loan was to be repaid in 10 equal instalments and the repayment would start after completion of two years from the date of disbursement which was in 1961. Uptilnow no repayment has been made by the borrowers and the remainder of the security is yet to be given. It was also stipulated in the loan agreement that the borrowers were to raise the working capital to the extent of Rs.1 lakh from the State Bank of India or some other financial institutions but they have not succeeded in raising the working capital to the fullest extent and they could only raise a sum of Rs.30,000 from the State Bank of India and that too on Cash Credit Account which, however, the borrowers terminated as it was not found suitable. It appeared to the Committee that the borrowers were all along in extreme financial difficulty which resulted in losses. As a result neither any part of the principal nor any part of the interest on the loan could be repaid by the borrowers.

The Committee then went round the farm of the borrowers and then returned to Nowgong.