GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

5.1 Overview of Union Territory of Puducherry Public Sector Undertakings

Introduction

5.1.1 The Union Territory Public Sector Undertakings (PSUs) consist of Government Companies. PSUs of Union Territory (UT) of Puducherry were established to carry out activities of commercial nature keeping in view the welfare of people. In UT of Puducherry, the PSUs occupy a noticeable place in the state economy. The PSUs registered a turnover of Rs 399.89 crore for 2008-09 as per their latest finalised accounts as of September 2009. This turnover was equal to 3.40 *per cent* of State Gross Domestic Product (GDP) for 2008-09. The major activities of PSUs are concentrated in financing and manufacturing sectors. The PSUs incurred an aggregate loss of Rs 35.21 crore as per their latest finalised accounts. They had employed 6,907 employees as of 31 March 2009. The UT of Puducherry does not have any departmental undertaking.

5.1.2 As on 31 March 2009, there were 13 Government Companies (all working) and none of them were listed on the stock exchange(s). There is no Statutory Corporation in the Union Territory of Puducherry.

5.1.3 During the year 2008-09, no PSU was either established or closed.

Audit mandate

5.1.4 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government Company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government Company includes a subsidiary of a Government Company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as per Section 619-B of the Companies Act.

5.1.5 The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by Comptroller and Auditor General of India as per the provisions of 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.

Investments in State PSUs

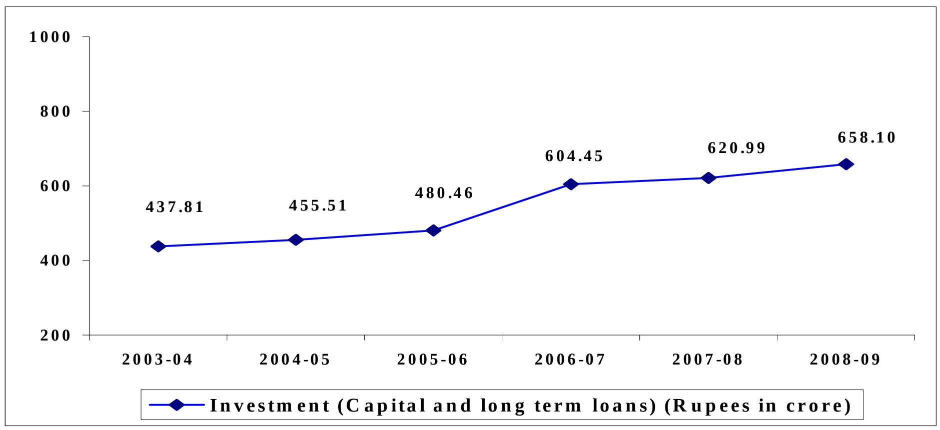
5.1.6 As on 31 March 2009, the investment (capital and long-term loans) in 13 PSUs was Rs 658.10 crore as per details given below:

(Rupees in crore)

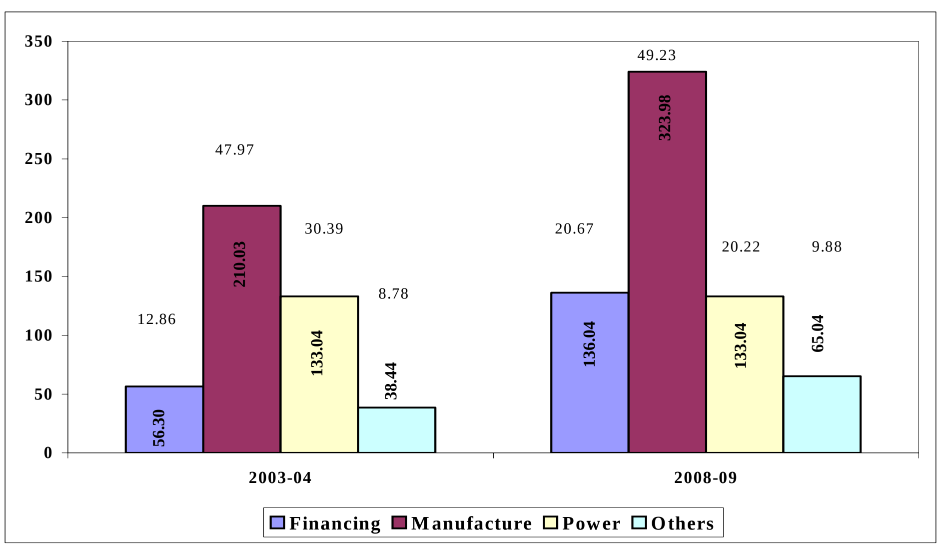
Type of PSUs	Capital	Long Term Loans	Total
Working PSUs	646.62	11.48	658.10

A summarised position of Government investment in PSUs of UT of Puducherry is detailed in **Appendix 5.1.**

5.1.7 As on 31 March 2009, of the total investment in the 13 PSUs, 98.26 *per cent* was towards capital and 1.74 *per cent* in long-term loans. The investment has grown by 50.32 *per cent* from Rs 437.81 crore in 2003-04 to Rs 658.10 crore in 2008-09.



5.1.8 The investment in various important sectors and percentage thereof at the end of 31 March 2004 and 31 March 2009 are indicated in the bar chart.



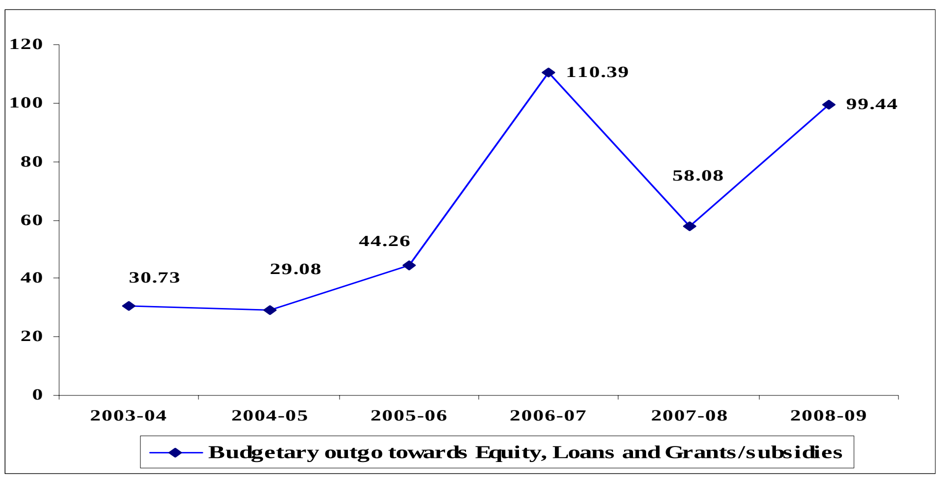
Budgetary outgo, grants/subsidies, guarantees and loans

5.1.9 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of PSUs are given in **Appendix 5.3**. The summarised details are given below for three years ended 31 March 2009.

(Amount-Rupees in crore)

Sl. No	Particulars	2006-07		2007-08		2008-09	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	9	87.41	7	32.05	7	40.52
2.	Loans given from budget	---	---	---	---	1	0.95
3.	Grants/Subsidy received	5	22.98	5	26.03	5	57.97
4.	Total Outgo (1+2+3)	11[1]	110.39	9[1]	58.08	9[1]	99.44
5.	Guarantee Commitment	1	0.03	1	3.19	1	3.19

5.1.10 The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in the graph below:



In respect of Pondicherry Corporation for Development of Women and Handicapped Persons Limited and Puducherry Backward Classes and Minorities Development Corporation Limited, the entire loss is met by the Government of the UT of Puducherry by way of subsidy. During the last five years upto 2008-09, the Government of Puducherry did not waive any loan in respect of any of the PSUs.

[1] These are the actual number of Companies which have received budgetary support in form of equity, loans and grants from the UT Government during the respective years.

5.1.11 As regards guarantee commitment, only Pondicherry Adi Dravidar Development Corporation Limited availed the Government of India guarantee of Rs 3.19 crore during the year 2007-08. No guarantee commission was payable to the UT Government by the Company.

Reconciliation with Finance Accounts

5.1.12 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the Government of the UT of Puducherry. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2009 is stated below:

(Rupees in crore)

Outstanding in respect of	Amount as per Finance Accounts 2008-09	Amount as per records of PSUs	Difference
Equity	639.80	636.25	3.55
Loans	4.03	1.62	2.41
Guarantees	3.19	3.19	NIL

5.1.13 Audit observed that the differences occurred in respect of three PSUs and the differences were pending reconciliation over the period of four years upto 2008-09. The matter was taken up with the companies to reconcile the figures with the Government of UT. The UT Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of PSUs

5.1.14 The financial results of PSUs are detailed in **Appendix 5.2.** The ratio of PSUs' turnover to State GDP shows the extent of PSUs' activities in the State economy. Table below provides the details of PSUs' turnover and State GDP for the period 2003-04 to 2008-09.

(Amount - Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover	244.64	246.69	209.40	343.31	307.39	399.89[2]
State GDP	5,439	5,192	6,214	6,401	7,103	11,773.57
Percentage of Turnover to State GDP	4.50	4.75	3.37	5.36	4.33	3.40

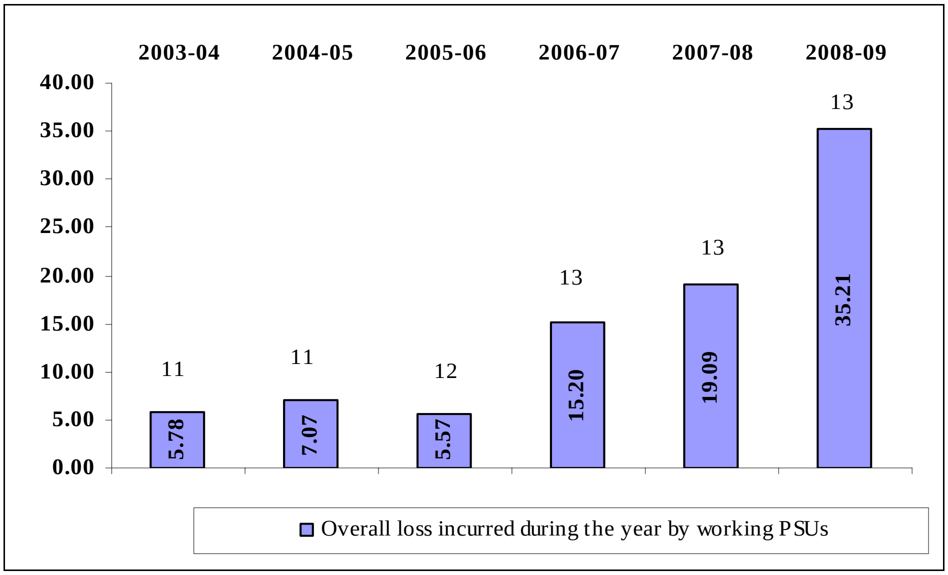
The reason for decrease in percentage of turnover to GSDP[3] during 2005-06 was due to drop in turnover by Pondicherry Textiles Corporation Limited which decreased from Rs 80.84 crore in 2004-05 to Rs 74.00 crore in 2005-06. The percentage of turnover to GSDP increased to all time high of 5.36 *per cent* during the year 2006-07 due to addition of a new company

[2] Turnover as per latest finalised accounts as of 30 September 2009.

[3] Gross State Domestic Product.

(Swadeshee-Bharathee Textile Mills Limited) which contributed a turnover of Rs 16.27 crore apart from increase in turnover by Puducherry Agro Products, Food and Civil Supplies Corporation Limited from Rs 55.96 crore to Rs 89.35 crore in 2006-07 and by Puducherry Road Transport Corporation Limited from Rs 4.14 crore to Rs 19.91 crore during the said period.

5.1.15 The overall losses incurred by the UT PSUs during 2003-04 to 2008-09 are given below in the bar chart.



During the year 2008-09, out of 13 PSUs, five PSUs earned profit of Rs 23.10 crore while six PSUs incurred loss of Rs 58.31 crore leading to overall loss. Two working PSUs prepared their accounts on a 'no profit no loss' basis. The major contributors to profit were Puducherry Power Corporation Limited (Rs 11.85 crore), Puducherry Distilleries Limited (Rs 6.74 crore) and Pondicherry Industrial Promotion Development and Investment Corporation Limited (Rs 3.14 crore). Heavy losses were incurred by Pondicherry Textiles Corporation Limited (Rs 44.09 crore) and Swadeshee-Bharathee Textile Mills Limited (Rs 8.91 crore).

5.1.16 The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the UT PSUs incurred avoidable expenditure/loss of revenue to the extent of Rs 16.68 crore and infructuous investment of Rs 9.38 crore, which were controllable with better management. Year-wise details from Audit Reports are stated below:

(Rupees in crore)

Particulars	2006-07	2007-08	2008-09	Total
Net Profit (loss)	(15.20)	(19.09)	(35.21)	(69.50)
Controllable losses as per CAG's Audit Report	9.43	0.42	6.83	16.68
Infructuous investment	8.17	---	1.21	9.38

5.1.17 The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses could be much more than this. With better management, the losses can be minimised. The PSUs can discharge their role efficiently only if they are financially self-reliant. This points towards a need for professionalism and accountability in the functioning of PSUs.

5.1.18 Some other key parameters pertaining to State PSUs are given below:

(Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed (*Per cent*)	NIL	NIL	NIL	NIL	NIL	NIL
Debt	8.14	3.79	6.81	40.40	14.89	11.48
Turnover	244.64	246.69	209.40	343.31	307.39	399.89
Debt/Turnover Ratio	0.03:1	0.02:1	0.03:1	0.12:1	0.05:1	0.03:1
Interest Payments*	4.49	4.11	3.71	3.86	4.54	7.25
Accumulated Losses	132.67	146.57	155.64	144.74	211.36	263.76

* (Also includes interest paid on cash credit, short term borrowings, etc.)

5.1.19 As per latest finalised accounts of PSUs as on 30 September 2009, the capital employed worked out to Rs 581.28 crore and total return thereon amounted to Rs (-) 27.95 crore. This is in comparison to capital employed of Rs 362.04 crore and return on capital employed of Rs (-) 1.29 crore in 2003-04. Thus, during the last five years overall return on capital employed remained negative.

5.1.20 The UT Government had not formulated any policy for payment of minimum dividend on the paid up share capital contributed by it. As per their latest finalised accounts, five PSUs earned an aggregate profit of Rs 23.10 crore and two PSUs[4] declared a dividend of Rs 5.65 crore.

Performance of major PSUs

5.1.21 The investment of 13 PSUs and their turnover together aggregated to Rs 1,057.99 crore during 2008-09. Out of this, the following five PSUs accounted for individual investment plus turnover of more than five *per cent*

[4] Pondicherry Industrial Promotion Development and Investment Corporation Limited – Rs 0.63 crore and Puducherry Power Corporation Limited – Rs 5.02 crore.

of aggregate investment plus turnover. These five PSUs together accounted for 84 *per cent* of aggregate investment plus turnover.

(Rupees in crore)

PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to Aggregate Investment plus Turnover of all PSUs
(1)	**(2)**	**(3)**	**(4)**	**(5)**
Puducherry Agro Service and Industries Corporation Limited	10.83	56.96	67.79	6.41
Puducherry Agro Products, Food and Civil Supplies Corporation Limited	9.94	86.65	96.59	9.13
Pondicherry Industrial Promotion Development and Investment Corporation Limited	109.10	87.17	196.27	18.55
Pondicherry Textiles Corporation Limited	294.22	44.72	338.94	32.04
Puducherry Power Corporation Limited	133.04	54.31	187.35	17.71
Total	**557.13**	**329.81**	**886.94**	**83.84**

5.1.22 All the PSUs had arrears of accounts ranging between one to three years as of September 2009. The reasons for delay in finalisation of accounts are attributable to lack of qualified personnel in PSUs and inadequate control by the Government.

Some of the major audit findings of past five years for the above PSUs are stated in the succeeding paragraphs.

Puducherry Agro Service and Industries Corporation Limited

The Company had arrears of accounts for two years as of September 2009. The arrear was for one year as of September 2006. The arrears have increased due to non-deployment of qualified personnel in the accounts department. The profit of the Company had risen from Rs 0.19 crore in 2005-06 to Rs 0.51 crore in 2006-07. Similarly, the turnover also rose from Rs 49.01 crore to Rs 56.96 crore during the period. Consequently, the return on capital employed increased from 1.32 *per cent* to 3.02 *per cent*.

5.1.23 Deficiencies in implementation

- The Company supplied mineral water to a stockist in contravention of the terms of supply, which led to accumulation of dues of Rs 13.15 lakh and its non-recovery (Paragraph 5.15 of Audit Report 2007-08).

Puducherry Agro Products, Food and Civil Supplies Corporation Limited

The Company had arrears of accounts for two years as of September 2006 and the same continued as of September 2009 due to non-deployment of qualified accounts personnel for finalisation of accounts. The profit of the Company had risen from Rs 0.06 crore in 2005-06 to Rs 0.86 crore in 2006-07. Similarly, the turnover also rose from Rs 55.45 crore to Rs 86.65 crore during the period. Consequently, the return on capital employed increased from 4.36 *per cent* to 12.55 *per cent* due to increase in profit.

5.1.24 Deficiencies in implementation

- The company incurred losses of Rs 48.03 lakh during 1999-2004 due to non-reduction in the salaries and wages corresponding to reduction in the number of retail vegetable outlets (Paragraph 7.14.15 of Audit Report 2003-04).

5.1.25 Deficiencies in monitoring

- The company did not recover empty gunny bags or their cost from retail outlets which resulted in revenue loss of Rs 87.39 lakh during the five years ended 31 March 2004 (Paragraph 7.14.11 of Audit Report 2003-04).

5.1.26 Deficiencies in financial management

- The company did not approach the Government for reimbursement of the loss of Rs 1.76 crore sustained by it in PDS activities during the four years ended 31 March 2003 (Paragraph 7.14.7 and 7.14.9 of Audit Report 2003-04).

Pondicherry Industrial Promotion Development and Investment Corporation Limited

The Company had arrears of accounts for one year as of September 2009. The profit of the Company declined from Rs 4.73 crore in 2005-06 to Rs 3.14 crore in 2007-08. In contrast, the turnover rose from Rs 8.74 crore to Rs 87.17 crore during the period. Further, the return on capital employed decreased from 4.70 *per cent* to 2.05 *per cent* due to the reason that the beneficiaries defaulted in payment.

5.1.27 Deficiencies in implementation

- The Company was appointed (November 1990) as nodal agency for execution of Industrial Growth Centre (IGC) at Karaikal but it delayed completion of phase I of Centre, resulting in cost overrun of Rs 2.28 crore (Paragraph 7.12.9 of Audit Report 2006-07).

- The Company did not include salary and allowances of maintenance staff while arriving at the maintenance cost resulting in loss of Rs 2.21 crore (Paragraph 7.12.10 and 7.12.11 of Audit Report 2006-07).

5.1.28 Deficiencies in monitoring

- Poor monitoring and follow up of outstanding dues resulted in non-recovery of dues amounting to Rs 10.79 crore from the 13 assisted units as on 30 September 2007 (Paragraph 7.12.17 of Audit Report 2006-07).

5.1.29 Deficiencies in financial management

- The Company failed to scrutinise the project reports to ensure marketability of products and availability of sufficient working capital and sanctioned loans to loss making units resulting in non-recovery of dues amounting to Rs 5.48 crore upto the year ending 31 March 2007 (Paragraph 7.12.15 of Audit Report 2006-07).

Pondicherry Textiles Corporation Limited

The Company had arrears of accounts for one year as of September 2009. The loss of the Company rose from Rs 26.18 crore in 2005-06 to Rs 44.09 crore in 2007-08. The turnover decreased from Rs 70 crore to Rs 44.72 crore during the period. There was negative return on capital employed.

5.1.30 Deficiencies in Planning

- Due to improper production planning, the Company did not fully utilise the achievable production capacity of a unit with the lowest cost of production but utilised the other two units with higher cost of production resulting in avoidable extra expenditure of Rs 17.84 crore during the period from 2001-02 to 2005-06 (Paragraph 7.13.11 of Audit Report 2005-06).

5.1.31 Deficiencies in monitoring

- The Company (i) failed to achieve the installed capacity and norms for efficiency resulting in extra expenditure of Rs 10.06 crore during the five years ending 31 March 2006, (ii) took additional time for production of yarn as compared to the norms resulting in excess consumption of power valued at Rs 5.24 crore and (iii) did not have any system to measure production/consumption of steam. Consequently, there was consumption of heat in excess of the norm valued at Rs 2.05 crore during the five years upto 2005-06 (Paragraphs 7.13.8, 7.13.9, 7.13.13 and 7.13.14 of Audit Report 2005-06).

5.1.32 Deficiencies in achievement of objectives

- The Company received Rs 28.11 crore for the modernisation programme but spent Rs 10.99 crore only on modernisation and utilised the remaining amount of Rs 17.12 crore to meet its working capital requirements. Consequently, the amount of Rs 10.99 crore spent on the incomplete modernisation did not yield desired results apart from the objectives of modernisation remaining unfulfilled (Paragraph 7.13.15 of Audit Report 2005-06).

5.1.33 Deficiencies in financial management

- The Company sold processed grey cloth based on the material cost only without considering the variable costs. This resulted in cash loss of Rs 6.90 crore during the period of five years ending 31 March 2006 (Paragraph 7.13.20 of Audit Report 2005-06).

Puducherry Power Corporation Limited

The Company had arrears of accounts for one year as of September 2009. The profit of the Company rose from Rs 8.91 crore in 2005-06 to Rs 11.85 crore in 2007-08. The turnover increased from Rs 50.19 crore to Rs 54.31 crore during the period. Consequently, the return on capital employed has also increased from 4.62 *per cent* to 5.75 *per cent*.

Conclusion

5.1.34 The above details indicate that the PSUs are not functioning efficiently and there is scope for improvement in their overall performance. They need to imbibe greater degree of professionalism to ensure delivery of their products and services efficiently and profitably. The Government should introduce a performance based system of accountability for PSUs.

Arrears in finalisation of accounts

5.1.35 The accounts of the companies for every 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. The table below provides the details of progress made by PSUs in finalisation of accounts by September 2009.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Number of PSUs	11	12	13	13	13
2.	Number of accounts finalised during the year.	11	7	8	12	13
3.	Number of accounts in arrears	8	13	19	20	20
4.	Average arrears per PSU (3/1)	0.73	1.08	1.46	1.54	1.54
5.	Number of PSUs with arrears in accounts	5	9	11	12	13
6.	Extent of arrears	1 to 2 years	1 to 2 years	1 to 3 years	1 to 3 years	1 to 3 years

5.1.36 It could be seen from the table that number of companies piling up arrears in finalisation of accounts had been on the increase from five companies in 2004-05 to 13 companies in 2008-09. Further, the extent of arrears has also increased from one to three years during the period. The reasons for delay in finalisation of accounts are attributable to (i) lack of qualified personnel in accounts department and (ii) accounting centres being distant apart (in PRTC) compilation of accounts became difficult.

5.1.37 The Government had invested Rs 131.88 crore (Equity: Rs 44.95 crore, Loans: Rs 0.95 crore, Grants/Subsidies: Rs 85.98 crore) in nine PSUs during the years for which accounts have not been finalised as detailed in **Appendix 5.4.** In the absence of accounts and their subsequent audit, it cannot be ensured whether the investments and expenditure incurred have been properly accounted for, the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts also has the risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

5.1.38 The administrative departments have the responsibility to oversee the activities of these entities and ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed periodically by Audit, of the arrears in finalisation of accounts, no remedial measure was taken. As a result of this, the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up with the Chief Secretary to UT Government to expedite the finalisation of arrears accounts.

5.1.39 In view of above state of arrears, it is recommended that:

- The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.

- The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lack expertise.

Accounts Comments and Internal Audit

5.1.40 Eleven companies forwarded their 13 accounts to CAG during the year 2008-09. Of these, eight accounts of eight 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 substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below:

(Amount-Rupees in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	---	---	1	0.21	1	0.01
2.	Increase in loss	1	2.90	1	3.31	2	12.74
3.	Errors of classification	---	---	---	---	1	0.10
	Total	**1**	**2.90**	**2**	**3.52**	**3**	**12.85**

The money value of accounts increased from Rs 2.90 crore for one account to Rs 12.85 crore for three accounts in 2008-09.

5.1.41 During the year, the statutory auditors had given unqualified certificates for eight accounts, qualified certificates for two accounts and disclaimers for two accounts and disclaimer as well as qualified certificate for one account. Three companies revised their Accounts based on the comments of Comptroller and Auditor General of India during supplementary audit.

5.1.42 Some of the important comments in respect of accounts of companies are stated below:

Pondicherry Textile Corporation Limited (2007-08)

- The company included the payments of Rs 5.04 crore made towards gratuity under Loans and Advances, the recoverability of which was doubtful in the absence of confirmation from the Commissioner of Payments.
- The company did not charge the incremental gratuity liability of Rs 1.99 crore as ascertained on actuarial basis as on 31 March 2005.
- The company included Rs 3.60 crore towards pay arrears and VRS compensation under current assets as receivable from the Government without any confirmation of its receipt from the Government.

5.1.43 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/internal control system in respect of two companies for the year 2007-08 is given below:

Sl. No	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Appendix 5.2
1.	The Company did not fix norms for arriving in production losses	1	9
2.	System of monitoring advances to the contractor is to be strengthened		
3.	Internal audit system requires strengthening		
4.	There was no system for identifying slow/non-moving items in the finished goods		
5.	There was no system for making short term/long term business plans and review the same with the actuals	1	12
6.	There was no system obtaining confirmation of balances from the debtors.		

Discussion of Audit Reports by PAC

5.1.44 The Performance Reviews on Pondicherry Textiles Corporation Limited and Pondicherry Industrial Promotion Development and Investment Corporation Limited included in the Audit Reports for the year 2005-06 and 2006-07 respectively were pending discussion in PAC as of 30 September 2009.

PUDUCHERRY ROAD TRANSPORT CORPORATION LIMITED

5.2 Performance Audit on the functioning of Puducherry Road Transport Corporation Limited

Executive Summary

The Government of Union Territory of Puducherry introduced passenger services in the Union Territory since March 1988 and formed an exclusive government company for operation of passenger transport services in April 2005. As on 31 March 2009, the company was operating with an overall fleet of 82 buses and accounted for 4.80 per cent in passenger traffic. The performance audit of the company for the period from 2004-05 to 2008-09 was conducted to assess efficiency and economy of its operations, ability to meet its financial commitments, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the company.

Finances and performance

The company incurred losses from 2005-06 to 2008-09 which accumulated to Rs 30.66 crore as on 31 March 2009. The company earned Rs 17.23 per kilometre but expended Rs 20.04 per kilometre during 2008-09. Audit noticed that with better management of affairs, it is possible to increase revenue and reduce cost so as to serve its cause better.

Share of transport services

Out of 1709 buses licensed for public transport, only 82 buses belonged to the Company. This minimal share which was 5.28 per cent in 2004-05 declined to 4.80 per cent in 2008-09. Similarly, the percentage of average passengers carried per day to population also decreased from 2.11 in 2006-07 to 1.82 in 2008-09. The decrease was due to non-augmentation of buses by the Company compared to the increase in private buses.

Vehicle profile and utilisation

Out of the total strength of 82 buses, 20 buses (24 per cent) were overage (that is more than eight years old). The company's fleet utilisation in Puducherry and Karaikal regions ranged from 88.52 percent in 2005-06 to 90.35 per cent in 2008-09 as compared to the All India Average (AIA) of 92 per cent. The data on route-wise profitability to enable the management to take decisions on improving the profitability of routes was not compiled by the company and there was no system for working out the route-wise break-even revenue for comparison with actual revenue. The company had no control over the cancelled kilometres as no reasons were kept on record for cancellation of 24.24 lakh kilometres (71 per cent) out of the total 34.26 lakh kilometres during the four years up to 2008-09. There was a loss of 5.48 lakh kilometres and potential revenue of Rs 92.03 lakh for want of motor vehicle inspection certificates.

Economy in operations

The company fixed norm for fuel consumption only in May 2006 which remained unchanged till date. The company could not achieve even its own norm resulting in excess consumption of fuel valued at Rs 4.11 crore during 2005-06 to 2008-09.

Need for a regulator

The company could have curtailed cost and increased revenue with better operation efficiency by improving vehicle productivity and by reducing excess consumption of fuel. The fare per kilometre was 27 paise since November 2008 which was lower than 28 and 32 paise in respect of town and mofussil services of State Transport Undertakings of Tamil Nadu. Thus, it is desirable to have an independent regulatory body to fix the fare, specify operations on uneconomical routes and address grievances of commuters.

Inadequate monitoring

The company did not prepare MIS on various operational parameters. The company did not have a system of preparation of projections for achievement of various operational parameters. There was no monitoring mechanism at top level.

Conclusion and recommendations

Though the company has been incurring losses due to high cost of operations and low fare structure, there is scope for improvement of the performance in the areas of fleet utilisation, vehicle productivity and fuel consumption. Effective monitoring by the management of key parameters coupled with policy decisions on fixation of targets and fare can result in improvement in performance of the company. This review contains four recommendations to improve the company's performance which include reduction of cost of operations and establishment of fare policy.

Introduction

5.2.1 In the Union Territory of Puducherry (UT), public road transport is provided by Puducherry Road Transport Corporation Limited (Company) which has been mandated to provide an efficient system of road transport services. The UT also allows the private operators to provide public transport in the town and the mofussil areas. The fare structure is controlled by the Government, which is the same for both the Company as well as private operators.

5.2.2 The Government of Union Territory of Pondicherry introduced (March 1988) public transport service through Pondicherry Tourism Development Corporation and named it as Pondicherry Tourism and Transport Development Corporation (PT&TDC). In April 2005, the tourism development activity was entrusted to the newly formed Puducherry Tourism Development Corporation and erstwhile PT&TDC was renamed as Puducherry Road Transport Corporation Limited for operation of exclusive passenger services. The Company is under the administrative control of the Transport Department of the Government. The Management of the Company is vested with the Board of Directors (BOD) comprising Chairman, Managing Director (MD) and two Directors appointed by the Government of UT. The day-to-day operations are carried out by the MD, who is the Chief Executive of the Company. The Company has four regions *viz*., Puducherry, Karaikal, Mahe and Yanam with one depot in each region and a workshop each at Puducherry and Karaikal. The bus body building and tyre re-treading operations are carried out through external agencies.

5.2.3 As on 31 March 2009, the Company was operating with an overall fleet of 82 buses. The turnover of the Company was Rs 20.67 crore in 2008-09, which was 0.18 *per cent* of Gross State Domestic Product of Rs 11,773.57 crore during 2008-09. The Company employed 531 employees as on 31 March 2009.

Scope and Methodology of audit

5.2.4 This review was conducted between February 2009 and July 2009. The review covers the performance of the Company during the period from 2004-05 to 2008-09. The review mainly deals with the operational efficiency, financial management, fare policy and monitoring by top management of the Company. The audit examination involved scrutiny of records at the Head Office, two regional offices at Puducherry and Karaikal, which cover 93 *per cent* of fleet of the Company along with the depot and workshop attached to them.

The Audit methodology included scrutiny of agenda notes/minutes of the meetings of the BOD, scrutiny of records maintained at the Head Office, Regional Offices and Depots, analysis of data on various physical and financial parameters and interaction with the Company personnel.

Audit objectives

5.2.5 The objectives of the performance review were to assess:

5.2.6 Operational performance

- the extent to which the Company was able to keep pace with the growing demand for public transport;
- whether the Company succeeded in recovering the cost of operations;
- the extent to which the company was running the operations efficiently; and
- the extent to which economy was ensured in cost of operations.

5.2.7 Financial management

- whether the Company was able to meet its commitment and recover its dues efficiently.

5.2.8 Fare policy

- the existence and adequacy of the fare policy.

5.2.9 Monitoring by top management

- whether monitoring by the Company's top management was effective.

Audit Criteria

5.2.10 The audit criteria for assessing the audit objectives were:

- all India averages for performance parameters.
- physical and financial targets fixed by the management and standards/norms for fuel efficiency by other State Transport Undertakings (STUs) and
- procedures laid down by the Company.

Financial position and working results

5.2.11 The Company had finalised its accounts for 2005-06 in September 2009. The financial position and working results for 2004-05 and 2005-06 and the provisional figures for financial position/working results from 2006-07 to 2008-09 are given below:

(Rupees in lakh)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
A. Liabilities					
Paid up Capital	2,810.73	2,992.89	3,209.89	3,309.89	3,327.69
Reserve and Surplus (including Capital Grants but excluding Depreciation Reserve)	---	---	98.78	98.78	98.78
Borrowings (Loan Funds)	271.68	271.68	271.68	271.68	271.68
Current Liabilities and Provisions	194.33	144.20	165.88	195.73	172.72
Total	**3,276.74**	**3,408.77**	**3,746.23**	**3,876.08**	**3,870.87**
B. Assets					
Gross Block	965.70	1,259.83	1,418.10	1,440.19	1,446.59
Less: Depreciation	615.31	715.88	858.65	962.88	1087.38
Net Fixed Assets	350.39	543.95	559.45	477.31	359.21
Capital works-in-progress (including cost of chassis)	98.39	16.28	17.29	0.28	0.28
Investments	-	-	-	-	-
Current Assets, Loans and Advances	673.86	477.98	681.20	650.28	445.33
Accumulated losses	2,154.10	2,370.56	2,488.29	2,748.21	3,066.05
Total	**3,276.74**	**3,408.77**	**3,746.23**	**3,876.08**	**3,870.87**

5.2.12 The details of working results like operating revenue and expenditure, total revenue and expenditure, net surplus/loss and earnings and cost *per* kilometre of operation are given below:

(Rupees in lakh)

Sl.No.	Description	2004-05	2005-06	2006-07	2007-08	2008-09
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Total Revenue	1,082.50	1,423.28	1,985.12	2,078.49	2,066.76
2.	Operating Revenue[5]	1,058.48	1,396.22	1,942.42	2,042.70	2,039.15
3.	Total Expenditure	1,042.12	1,639.98	2,092.58	2,299.05	2,403.57
4.	Operating Expenditure[6]	1,042.12	1,639.98	2,092.58	2,299.05	2,403.57
5.	Operating Profit/ Loss	16.36	(-)243.76	(-)150.16	(-)256.35	(-) 364.42
6.	Profit/Loss for the year	40.38	(-) 216.70	(-) 107.46	(-) 220.56	(-) 336.81
7.	Accumulated Profit/ Loss	(-)2,154.10	(-)2,370.56	(-)2,488.29	(-) 2,748.21	(-)3,066.05
8.	**Fixed costs**					
	Personnel costs	313.19	390.21	490.29	579.07	693.65
	Depreciation	78.39	136.05	176.46	172.34	127.91
	Interest	---	---	---	---	---
	Other fixed costs	6.88	45.93	37.23	39.45	35.14
	Total fixed costs	398.46	572.19	703.98	790.86	856.70
9.	**Variable costs**					
	Fuel and lubricants	467.93	722.75	965.27	1,036.07	1,045.33

[5] Operating revenue includes traffic earnings, passes and season tickets, reimbursement against concessional passes, fare realised from private operators under KM scheme, etc.

[6] Operating expenditure include expenses relating to traffic, repair and maintenance, electricity, welfare and remuneration, licences and taxes and general administration expenses.

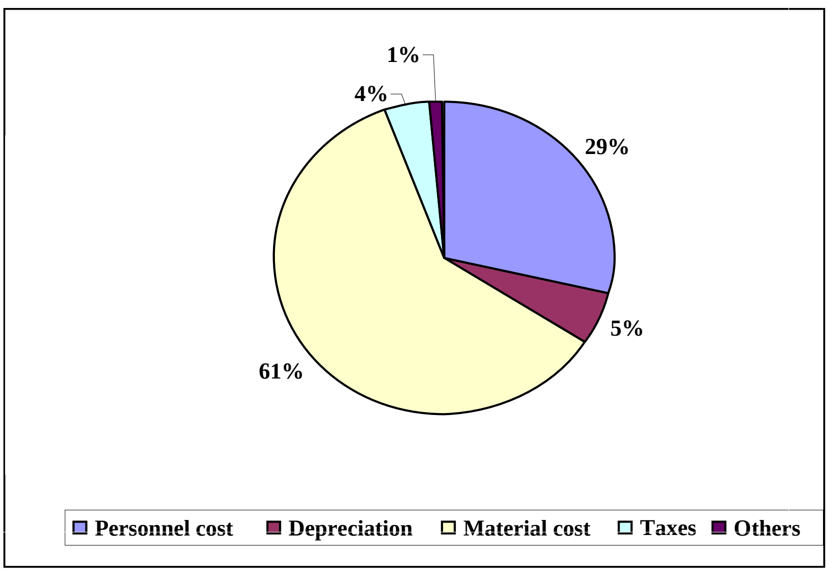
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Tyres and tubes	18.63	31.62	44.80	54.01	65.19
	Other items/spares	18.64	42.39	55.18	47.60	56.87
	Taxes (MV tax, passenger tax, etc.)	63.11	86.91	89.09	69.86	99.18
	Other variable costs	75.34	184.11	234.27	300.64	280.31
	Total Variable Costs	**643.65**	**1,067.78**	**1,388.61**	**1,508.18**	**1,546.88**
10.	Effective KMs operated (in Lakh)	NA	103.85	115.94	122.00	119.91
11.	Earnings per KM (Rupees) (1/10)	NA	13.71	17.12	17.04	17.23
12.	Fixed Cost per KM (Rupees) (8/10)	NA	5.51	6.07	6.48	7.14
13.	Variable Cost per KM (Rupees) (9/10)	NA	10.28	11.98	12.36	12.90
14.	Cost per KM (Rupees) (3/10)	NA	15.79	18.05	18.84	20.04
15.	Net Earnings per KM (Rupees) (11-14)	NA	(-)2.08	(-)0.93	(-)1.80	(-) 2.81
16.	Traffic Revenue[7]	NA	1,396.22	1,942.42	2,042.70	2,039.15
17.	Traffic earning per KM (Rupees) (16/10)	NA	13.44	16.75	16.74	17.01
18	Operating loss per KM (Rupees) (5/10)	NA	2.35	1.30	2.10	3.04

NA: Not available

Elements of Cost

5.2.13 Personnel costs and material costs form the major elements of cost. The percentage break-up of costs for 2008-09 is given below in the pie-chart.

Components of various elements of cost

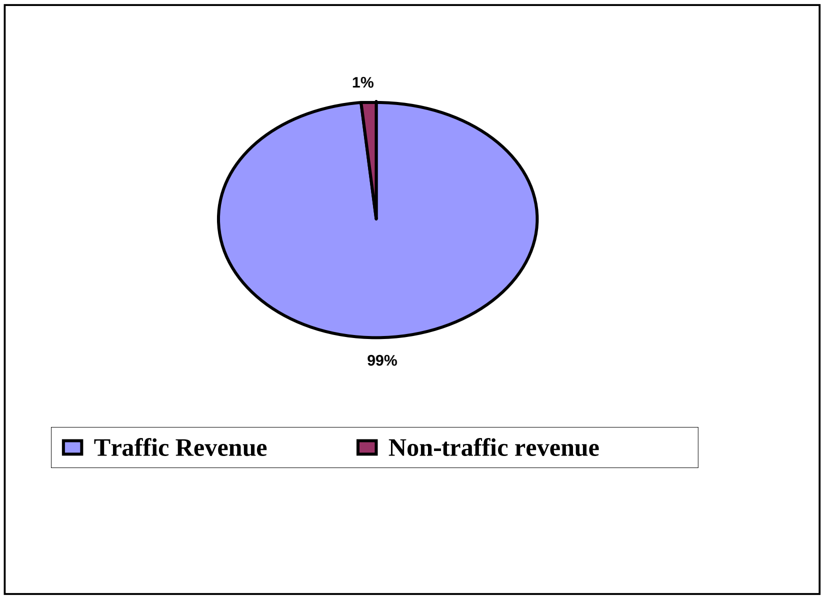


[7] Traffic revenue represents sale of tickets, advance booking, reservation charges and contract services earnings.

Elements of revenue

5.2.14 Traffic revenue and non-traffic revenue constitute the major elements of revenue. The percentage break-up of revenue for 2008-09 is given below in the pie-chart:

Components of various elements of revenue



Audit findings

5.2.15 Audit explained the audit objectives to the Company during an "Entry Conference" held on 23 February 2009. Subsequently, audit findings were reported to the Company and the Government in August 2009. Audit conducted an exit conference on 30 September 2009 to discuss salient points noticed during the performance audit. The views expressed by the Company have been considered while finalising this review. The audit findings are discussed below:

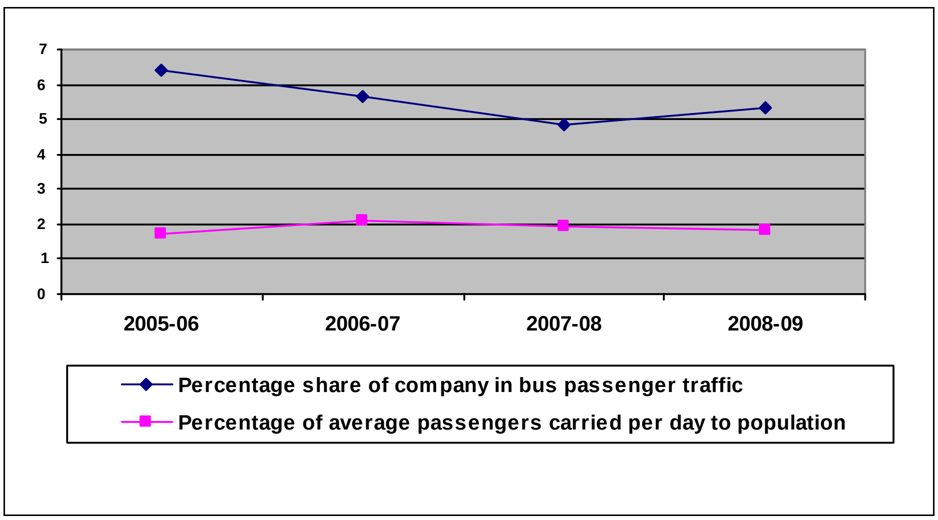
Operational performance

5.2.16 The operational performance of the Company for the five years ending 2008-09 is given in the **Appendix 5.5**. The operational performance of the company was evaluated on various parameters as described below. It was also seen whether the company was able to maintain pace with the growing demand for public transport. Audit findings in this regard are discussed in the subsequent paragraphs. These Audit findings show that the losses were controllable and there is scope for improvement in the performance.

Share of the Company in public transport

5.2.17 An ideal transport policy may seek to achieve a balanced model mix of public transport and to discourage personalised transport. The Government of UT of Puducherry, however, did not have a transport policy, stipulating its mission on public transport nor did the Company have any data on its share in the passenger traffic of the UT till date.

The public road transport in the UT is provided by the company and private operators. The company had no mechanism to provide regular data on total passenger transport in the UT including the data on passengers travelled in its own buses. On the basis of best performing State Road Transport Undertakings, the working group on road transport for the Eleventh Five Year Plan assessed Billion Passenger Kilo Metre (BPKM)[8] per private bus at 0.007. Assuming the same parameter and taking into consideration the fitness certificates issued to the Transport Department to private bus operators, BPKM of private buses was worked out by Audit to arrive at the share of Company *vis-a-vis* private operators. The line graphs depicting the percentage share of the company in passenger traffic of the UT by public road traffic and percentage of average passengers carried per day by the company to the population of UT during four years ending 2008-09 are given below:



[8] BPKM is worked out on the basis of effective KMs operated multiplied by average seating capacity and load factor.

5.2.18 The table below depicts the growth of public transport in the UT:

Sl. No	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Company's buses at the end of year	67	75	76	82	82
2.	Private stage carriages	1,201	1,141	1,599	1,597	1,627
3.	Total buses for public transport	1,268	1,216	1,675	1,679	1,709
4.	Percentage share of company's buses	5.28	6.17	4.54	4.88	4.80
5.	Percentage share of private operators	94.72	93.83	95.46	95.12	95.20
6.	Estimated population (in lakh)	10.50	10.70	10.90	11.10	11.32
7.	Vehicle density per one lakh population	120.76	113.64	153.67	151.26	150.97

The Company's share of buses declined from 6.17 *per cent* in 2005-06 to 4.80 *per cent* in 2008-09

5.2.19 The Company has not been able to keep pace with the growing demand for public transport as its percentage share of buses increased from 5.28 *per cent* in 2004-05 to 6.17 *per cent* in 2005-06. However, it declined thereafter to 4.80 in 2008-09. The percentage of average passengers carried per day to population by the Company also decreased from 2.11 in 2006-07 to 1.82 in 2008-09. The decrease was due to non-augmentation of the buses by the company compared to the increase in private buses. Thus, the company failed to provide adequate transport service to the growing population in the UT. The effective per capita KM operated per year[9] by the Company is given below:

Particulars	2005-06	2006-07	2007-08	2008-09
Effective KM operated (lakh)	103.85	115.94	121.99	119.91
Estimated Population (lakh)	10.70	10.90	11.10	11.32
Per capita KM per year	9.71	10.64	10.99	10.59

5.2.20 The above table shows slight increase in 2006-07 and 2007-08 due to increase in operated kilometers with a decline in service by the Company in 2008-09.

5.2.21 The public transport has definite benefits over personalised transport in terms of cost, congestion on roads and environmental impact. The public transport services have to be adequate to derive those benefits. In the instant case, the company was not able to maintain its share in transport mainly due

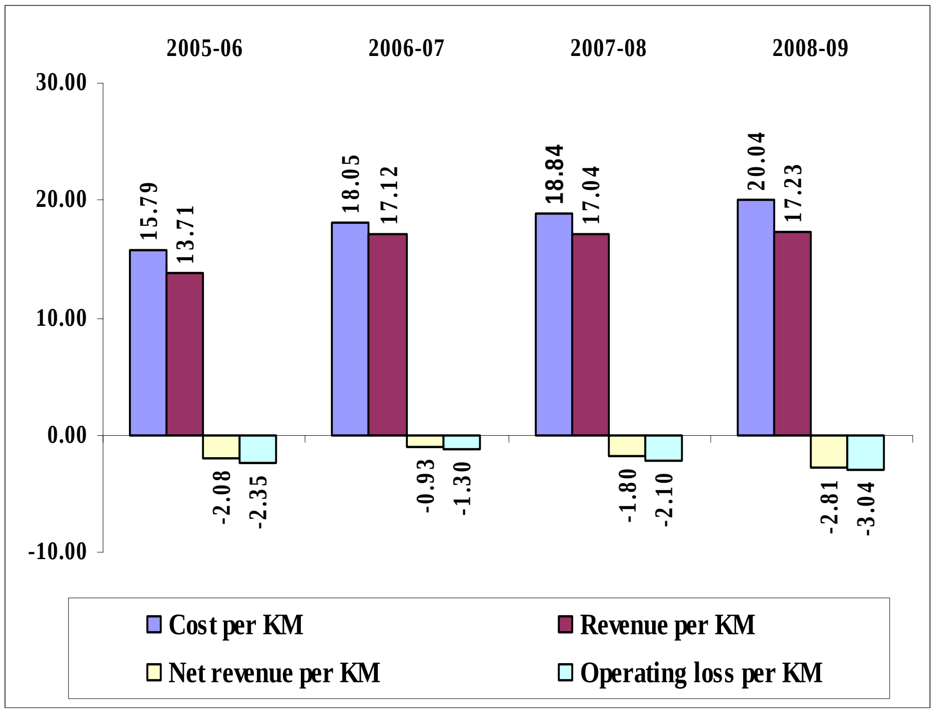
[9] Figures for the year 2004-05 were not made available by the company.

to operational inefficiency and non-availability of adequate funds to replace/add new buses as described in the succeeding paragraphs.

The Company stated (September 2009) that it was not able to maintain its share due to various reasons such as financial crisis, shortage of manpower and lack of infrastructural facilities.

Recovery of cost of operation

5.2.22 The Company was not able to recover its cost of operations during the last four years ending 2008-09. The net revenue showed a negative trend as given in the graph[10] below:



Orissa, Uttar Pradesh and Karnataka registered best net earnings *per* KM at Rs 0.49, Rs 0.47 and Rs 0.34 respectively during 2006-07

The above graph indicates the declining performance of the company over the review period. Though the company's cost per KM was lower than the All India Average (Rs 19.94) up to 2007-08, its revenue was also lower than All India Average (Rs 18.22 per KM). The Company had neither budgeted cost of operation nor any benchmark was laid down for cost of operation. In the absence of a system to enable cost comparisons,

10 Cost per KM represents total expenditure divided by effective KMs operated. Revenue per KM is arrived by dividing total revenue with effective KMs operated. Net revenue per KM is revenue per KM reduced by cost per KM. Operating loss per KM would be operating expenditure per KM reduced by operating income per KM.

Audit compared their performance with that of STUs of Tamil Nadu, which indicated that the costs of operation in the areas such as fuel, tyre performance and consumption of stores were much higher than that of Tamil Nadu. Audit observed that the negative net revenue was mainly on account of excess fuel consumption.

The Company stated (September 2009) that it has not installed costing system due to lack of skilled man power and infrastructural facilities. The reply is not convincing as the public transport services had been introduced in 1988 and the Company should have assessed the cost of operation for its improvement.

Efficiency and economy in operation

Fleet strength and utilisation

Fleet strength and its age profile

5.2.23 The Association of State Road Transport Undertaking (ASRTU) had prescribed (September 1997) that the desirable age of a bus as eight years or five lakh KMs, whichever was earlier. The table below shows the age-profile of the buses held by the Company for the period of five years ending 2008-09.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total number of buses at the beginning of the year	65	67	75	76	82
2.	Additions during the year	6	18	14	6	Nil
3.	Buses scrapped during the year	4	10	13	Nil	Nil
4.	Buses held at the end of the year (1+2-3)	67	75	76	82	82
5.	Of (4), No. of buses more than eight years old	27	17	16	19	20
6.	Percentage of overage buses to total buses	40	23	21	23	24

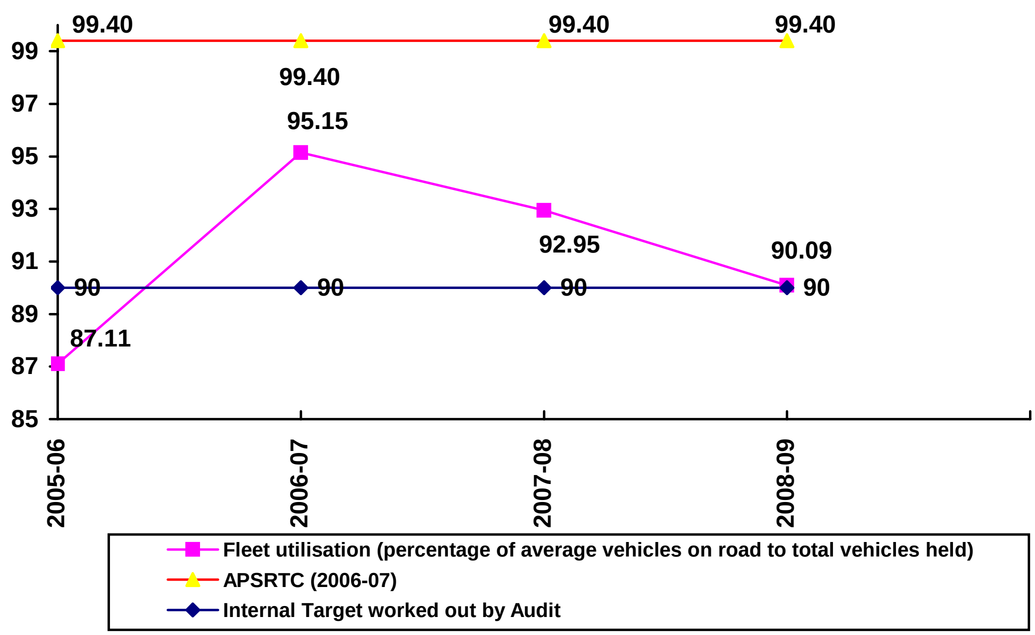
5.2.24 The above table shows that the company was not able to achieve the norm of right age buses. During 2004-09, the company added 44 buses at a cost of Rs 6.48 crore which was funded by the UT Government. To achieve the norm of right age buses at the end of 2008-09, the company was required to additionally buy 20 buses at a cost of Rs 2.95 crore. But these buses were not purchased, as against the request for budgetary support of Rs six crore during the two years up to 2008-09, the Company received Rs 1.18 crore only. The non-extension of adequate assistance was due to refusal (March 2008) by the State Government to give budgetary support till arrears in finalisation of the annual accounts were liquidated by the Company. Despite this, the Company did not show any urgency in finalisation of accounts which were pending from 2005-06 onwards. Audit further noticed that even during funds constraints, it purchased (May 2005) two costlier Volvo buses of Rs 58.39 lakh each instead of TATA buses with identical facilities available at a cost of Rs 30.19 lakh each.

The Company stated (September 2009) that the purchase of Volvo A/c buses was made as per the direction of the Government and considering the comfort levels for passengers. The reply is not convincing as the Government direction was for purchase of Hi-tech buses only and not Volvo buses.

Fleet utilisation

5.2.25 Fleet utilisation represents the ratio of buses on road to the buses held by the Company. The Company had not set any target for fleet utilisation. The company has 82 buses including eight spare buses, thereby, the targeted fleet utilisation would work out to 90 *per cent* against which the fleet utilisation of Puducherry and Karaikal region holding 95 *per cent* buses varied from 88.52 *per cent* in 2005-06 to 90.35 *per cent* in 2008-09 as compared to the All India Average[11] of 92 *per cent* . The fleet utilisation which was at 95.15 *per cent* during 2006-07 started declining continuously during three years upto 2008-09 and came down to 90.09 *per cent* in 2008-09. The particulars for the review period are indicated in the graph given below:

Andhra Pradesh, Tamil Nadu (Kumbakonam) and Tamil Nadu (Coimbatore) registered best fleet utilisation at 99.4, 98.4 and 98.3 *per cent* respectively during 2006-07. (Source: STUs profile and performance 2006-07 by CIRT, Pune)



11 All India Average is for the year 2006-07 which has been used for comparison for the period under review.

There was steep decline in fleet utilisation which came down from 95.15 *per cent* in 2006-07 to 90.09 *per cent* in 2008-09. However, it was above its internal targets except during 2005-06.

The Company accepted (September 2009) the facts and attributed the same to the non-replacement of old buses in time.

Vehicle productivity

5.2.26 Vehicle productivity refers to the average KMs run by each bus *per* day in a year. The vehicle productivity of the Company *vis-a-vis* the over aged fleet for the five years ending 2008-09 is shown in the table below:

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Vehicle productivity (KMs run per day *per* bus)	NA	379	418	407	401
2.	Overaged fleet (percentage)	40	23	21	23	24

NA: Not available

State Express Transport Corporation (Tamil Nadu), Tamil Nadu (Villupuram) and Tamil Nadu (Salem) registered best vehicle productivity at 621, 474 and 469 KMs per day respectively during 2006-07.

Compared to the All India Average of 313 KMs *per* day, the overall vehicle productivity of the Company has been on the higher side for all the years under review. But the same was only 106 to 228 KMs in respect of town services. However, the Company did not fix any target for vehicle productivity. The reasons for reduction of vehicle productivity in 2007-08 and 2008-09 as compared to 2006-07 were due to increase in non-operated KMs during 2007-08 (8.75 lakh KM) and 2008-09 (12.46 lakh KM) on account of want of crew and absence of control over operated KMs by the management as discussed *vide* para 5.2.29.

Capacity utilisation

Load factor

5.2.27 Capacity utilisation of a transport undertaking is measured in terms of load factor, which represents the percentage of passengers carried to seating capacity. The schedules to be operated are to be decided after proper study of routes and periodical reviews are necessary to improve the load factor. However, the Company without carrying out these studies fixed the load factor as a percentage of revenue collection to the targetted collection of revenue. But, the targetted collection was without any correlation to cost and the Company did not have a system of analysing the viability of the routes (as discussed in detail *vide* Paragraph 5.2.28). Thus, occupancy ratio worked out by the Company neither reflected the real load factor nor helped the management as a tool for analysing the profitability of route. The load factor as intimated by the Company for long routes ranged between 98.10 *per cent* and 110.80 *per cent* during the review period.

However, Audit observed that in respect of town routes it ranged from 45.60 *per cent* to 94.13 *per cent* during the same period.

The Company stated (September 2009) that since the vehicles plied on the routes based on the demand of public, the load factor was not assessed. The reply is not convincing as load factor should have been assessed with reference to the passenger travelled *vis-à-vis* seating capacity.

Route planning

5.2.28 The data on route-wise profitability is an important Management Information System (MIS), which would enable management to take decisions on improving profitability/viability of the routes. Audit noticed that there was no system to assess the profitability of the routes and have adequate controls on unviable routes.

An independent Audit analysis of the viability of operating inter-State and intra-State routes in Puducherry region[12] for the three years from 2006-07 to 2008-09 is given below:

Particulars	Total number of routes	Number of routes making profit	Number of routes not meeting total cost
2006-07	44 (100)	23 (52)	21 (48)
2007-08	44 (100)	22 (50)	22 (50)
2008-09	44 (100)	16 (36)	28 (64)

It can be seen from the table that the percentage of uneconomical schedules increased to 64 *per cent* in 2008-09 from 48 *per cent* in 2006-07. The worsening of the position was mainly due to absence of control over its cost and non-fixation of benchmark of cost.

The Company incurred loss of Rs 2.65 crore in operation of all 19 town routes and 18 out of 23 inter-state routes

Audit noticed that out of 19 routes operated in town, the break-even level was more than 100 *per cent* in respect of 17 routes in 2006-07, in all the 19 routes in 2007-08 and 18 routes in 2008-09 indicating total unviability of these routes resulting in loss of Rs 2.25 crore during the last three years up to 2008-09. The share of transport service provided by the Company in town routes was marginal (15 *per cent)* and incurred huge loss on these services. However, the Company had not reviewed its operations.

The analysis in respect of 25 inter-state routes indicated that the Company was able to break-even in 23 routes in 2006-07, 21 routes in 2007-08 and 15 routes in 2008-09. Though all routes could earn contribution, the same was not sufficient to cover the fixed cost in respect of 14 routes during 2007-08 and 2008-09. Consequently, the Company was incurring loss of Rs 39.66 lakh in these routes during 2006-07 to 2008-09.

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[12] In respect of other three regions at Karaikal, Mahe and Yenam, the route-wise/bus-wise cost was not available with the Company.

The Company stated (September 2009) that action would be taken for installing costing system in the near future for controlling cost aspects.

Cancellation of scheduled kilometres

The Company did not assign any reasons for cancellation of scheduled KMs to the extent of 71 *per cent*

5.2.29 The details of scheduled KMs, effective KMs, cancelled KMs calculated as difference between the scheduled KMs and effective KMs are furnished in the table below:

Sl.No.	Particulars	2005-06	2006-07	2007-08	2008-09
1.	Scheduled KMs (in lakh)	113.63	119.21	130.74	132.37
2.	Effective KMs (in lakh)	103.85	115.94	121.99	119.91
3.	KMs cancelled (in lakh)	9.78	3.27	8.75	12.46
4.	Percentage of cancellation	8.6	2.74	6.69	9.41
Cause-wise analysis					
5.	Want of buses (in lakh)	1.28	1.20	2.56	1.49
6.	Want of crew (in lakh)	1.64	0.12	0.74	1.00
7.	Others (in lakh)	6.86	1.95	5.45	9.97
8.	Contribution *per* KM (in Rupees)	3.16	4.77	4.38	4.11
9.	Avoidable cancellation (want of buses and crew) (in lakh)	2.92	1.32	3.30	2.49
10.	Loss of contribution (8x9) (Rupees in lakh)	9.23	6.30	14.45	10.23

It can be seen from the table that the percentage of cancellation of scheduled KMs varied from 2.74 to 9.41 against the percentage of 2 to 2.61 in respect of STUs of Tamil Nadu during 2005-06 to 2008-09. Audit observed that out of total loss of 34.26 lakh KMs, no reasons were kept on record for 24.24 lakh KMs (71 *per cent*). This was due to absence of management control over these cancellations. Due to cancellation of scheduled KMs for want of buses and crew, etc., the Company was deprived of contribution of Rs 40.21 lakh during 2005-06 to 2008-09.

State Express Transport Corporation (Tamil Nadu), Tamil Nadu State Transport Corporations (Salem and Villupuram) registered least cancellation of scheduled KMs at 0.45, 0.67 and 0.78 *per cent* respectively during 2006-07.

An analysis of absenteeism of drivers/conductors indicated that the man days lost due to unauthorised absence was 3.4 to 7.9 *per cent* of total available man days as detailed below:

Year	Man days lost due to unauthorised absence	
	Drivers	Conductors
2005	413	2,026
2006	2,237	3,347
2007	1,661	3,308
2008	2,364	3,233

The Company had 54 buses in Puducherry region and 22 buses in Karaikal region. There are no norms for the deployment of drivers/conductors per bus. However, if norm of five crew per bus fixed by Tamil Nadu STUs is taken into consideration, the Company is required to engage 380 drivers/conductors as per the norms. However, the average staff strength of drivers/conductors was only 291 during the four years up to 2008-09. As the Company was operating its transport services with lesser staff strength than required, it becomes important for the Company to control unauthorised absence. However, no effective action was taken to control the same and avert revenue loss.

Docking of vehicles for fitness certificates

5.2.30 The buses are required to be made fit before sending them for renewal of Fitness Certificate (FC) under Section 62 of the Central Motor Vehicle Rules 1989. As the date of expiry of the old fitness certificate is known in advance, management is required to make advance plan so that bus days are not lost due to delay in renewal. The Company did not have an annual plan for renewal of FC. Consequently, the renewal of FC of 47 buses was held up for periods ranging from 11 to 59 days for want of motor vehicle inspection report/certificate resulting in loss of 5.48 lakh KMs and loss of potential revenue of Rs 92.03 lakh during the three years ending 2008-09.

The Company accepted (September 2009) the audit observations.

Fuel cost

Fuel consumption in excess of company's norms resulted in extra expenditure of Rs 4.11 crore

5.2.31 Fuel is a major element which constituted 43.49 *per cent* of total expenditure in 2008-09. Control of fuel costs by a road transport undertaking has a direct bearing on its productivity. The table below gives the targets fixed by the Company for fuel consumption, actual consumption, mileage obtained per KM, All India average and estimated extra expenditure.

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09
1.	Gross KMs (in lakh)	103.85	115.94	121.99	119.91
2	Actual Consumption (in lakh litres)	26.35	28.84	28.91	26.18
3.	Kilometre obtained per litre (KMPL)	3.94	4.02	4.22	4.58
4.	Target of KMPL fixed by Company	No norm	4.75	4.75	4.75
5.	Consumption as per norm (in lakh litres)	21.86[13]	24.41	25.68	25.24
6.	Excess Consumption (in lakh litres) (2-5)	4.49	4.43	3.23	0.94
7.	Average cost per litre (in Rupees)	28.33	32.48	33.14	35.44
8.	Extra expenditure (Rupees in lakh) (6x7)	127.20	143.89	107.04	33.31

[13] Worked out on the basis of KMPL of 4.75.

North East Karnataka State Road Transport, Uttar Pradesh and Andhra Pradesh registered mileage of 5.45, 5.33 and 5.26 KMPL respectively

It can be seen from the above table that the mileage obtained per litre was showing increasing trend but the same was less than the norms fixed by the Company. The Company consumed 13.09 lakh litres of fuel in excess of its own norms during 2005-06 to 2008-09 resulting in extra expenditure of Rs 4.11 crore.

Audit observed that:

- The Company, though operating public transport since 1988, fixed a target of 4.75 KMPL only in May 2006 which remained unchanged till date. Audit noticed that a comparable STU of Tamil Nadu (TNSTC, Villupuram) had KMPL of 4.95 in 2005-06 which steadily increased to 5.35 in 2008-09. But the Company had not reviewed the fuel efficiency with reference to other similar transport corporations. The financial impact due to low KMPL compared to actual performance of STU in Villupuram was Rs 6.57 crore during 2005-09.

- There was no monitoring in respect of Mahe and Yanam regions, where the average achievement was less than 4 KMPL.

The Company stated (September 2009) that action would be taken for effective monitoring of consumption of fuel.

Financial management

5.2.32 Raising of funds for capital expenditure, *i.e.*, for replacement/addition of buses happens to be the major challenge in financial management of company's affairs. This issue has been covered under paragraph 5.2.24. The section below deals with the company's efficiency in raising claims and its recovery.

Claims and dues

5.2.33 The Government of UT of Puducherry introduced students' concession for bus travel with effect from 1 December 2007 and permitted students up to 12th standard to travel in the city buses by paying one Rupee irrespective of the distance. However, the methodology for preferring the claim and the extent of meeting the loss of revenue on issue of concessional tickets was not indicated. The Company has earned revenue of Rs 16 lakh for the period from December 2007 to March 2009 (through issue of 16 lakh tickets) under this scheme in all the four regions. The Company assessed the total loss on account of students' concessional passes up to March 2009 as Rs 50.03 lakh but did not prefer a claim for reimbursement of losses till the same was pointed out by Audit. The claim is yet to be reimbursed by the UT Government.

Adequacy of passenger fare

5.2.34 As per section 67 of Motor Vehicles Act of 1988, the UT Government has powers to fix the maximum rate of passenger fare of stage carriage buses. The Company does not have the fare policy and system of sending proposal for fixation of fare taking into account the normative cost of operation. The maximum fare of 23 paise per km fixed by the UT Government in March 2002 was revised to 27 paise per km in November 2008. This fare was low as the neighbouring Tamil Nadu State Transport Undertakings were charging 28 paise per kilometre for town services and 32 paise *per* kilometre for mofussil services since December 2001.

The above facts lead to conclude that it is necessary to regulate the fares on the basis of a normative cost and it would be desirable to have an independent regulatory body to fix the fares, specify operations on uneconomical routes and address the grievances of commuters.

Fixation of low fare for Volvo bus service

5.2.35 The Company introduced two Volvo buses in May 2005, one running from Puducherry to Bangalore and the other from Thirunallar to Chennai. The rate *per* KM charged by the Company for Puducherry-Bangalore route ranged between Rs 0.77 and Rs 1.07 *per* KM. However, in respect of Chennai-Thirunallar route, the same was between Rs 0.63 and Rs 0.79 *per* KM.

Though the Company has been operating the same Volvo buses in both the routes, the fare structure was not uniformly fixed and the rate *per* KM adopted for Thirunallar-Chennai was always lesser than Puducherry-Bangalore route. As the quality of service provided by these Volvo buses was similar, fixation of lower rate for Chennai route was unjustified, which resulted in a loss of revenue of Rs 89.26 lakh during May 2005 to March 2009. Though the company has been incurring an operating loss (Rs 15.53 lakh) in this route during the two years 2005-06 and 2007-08, it had not rationalised its fare.

The Company stated (September 2009) that the fare was fixed on the basis of the price fixed by the concerned State, where the buses pass over to the destination. The reply is not convincing because in Tamil Nadu, no STU is operating any Volvo bus for long route operations.

Monitoring by top management

Management Information System data and monitoring of service parameters

The Company did not have a system of preparation of projections for operational parameters

5.2.36 For a Road Transport Corporation to operate economically, efficiently and effectively, there has to be written norms of operations, service standards and targets. Further, there has to be a Management Information System (MIS) to report on achievement against targets and norms. The achievements need to be reviewed to address deficiencies and also to re-fix targets for subsequent years. In the light of this, Audit reviewed the system prevailing in the Company and found that the Company did not have a system of preparation of projections for achievement of various operational parameters. Thus, the Company had deprived itself the opportunities of reviewing its performance on annual basis. Similarly, there were no technical details on operations such as percentage of fleet utilisation, vehicle productivity and its occupancy and financial data such as scheduled/actual collection are not consolidated on monthly/quarterly/annual basis to facilitate the management's review and decision making. Further, there was no review of the performance of the Company by the Board of Directors during the review period. There is no technical data in respect of Mahe and Yanam available at Head Office. The Board of Directors did not monitor the operational performance of the Company.

The Company stated (September 2009) that it is proposed to install a costing system and MIS data for analysing various parameters and also to prepare budget and compare with actuals. Fact remains that these vital control aspects were not looked into so far by the management.

Conclusion

- Though Company's share in public transport was just 4.8 *per cent*, the vehicle density (including private operators' vehicles) was comfortable at 150.97 in 2008-09.

- The Company could not recover the cost of operation in any of the five years under review. This was mainly due to operational inefficiencies, lack of monitoring by the top management and low fare.

- The Company did not ensure economy as its fuel cost was higher than its own target.

- The Company did not have a fare policy based on scientific norms.

- The Company did not have effective MIS for controlling its operations.

Though the company has been incurring losses, there is large scope for improvement of the performance in the areas of fleet utilisation, vehicle productivity and fuel consumption. Effective monitoring by the management of key parameters coupled with policy decisions on fixation of targets and fare can result in improvement in performance of the company.

Recommendations

The Company may:

- look into the reasons for high consumption of fuel and take remedial action ;
- devise a fare policy on the basis of normative cost; and
- the top management should regularly monitor the important operational parameters and take remedial measures for improvement.

The UT Government may:

- consider creating a regulator to regulate fares and services on uneconomical routes.

PUDUCHERRY POWER CORPORATION LIMITED

5.3.1 Delay in implementation of reverse osmosis plant

Inordinate delay of more than six years in installation of reverse osmosis plants resulted in locking up of Company's funds of Rs 1.21 crore besides avoidable recurring expenditure of Rs 37.10 lakh.

The Company established (January 2000) a 32.5 MW combined cycle gas power plant in Karaikal district at a cost of Rs 137.77 crore. The water inducted into the cooling system of the plant had corrosive elements and the pipelines were damaged. The plant suffered loss of generation due to downtime, reduction in the heat transfer, high cost of chemical treatment of the cooling water system, *etc*. To overcome these problems, the Company decided (September 2002) to erect two Reverse Osmosis (RO) plants with a capacity of 50 cubic metres per hour each, at a total cost of Rs 3.60 crore for purification/treatment of raw water needed in the cooling system. After obtaining (February 2003) the required sanction of the Government of Union Territory of Puducherry, the Company appointed (May 2003) Central Electricity Authority (CEA) as their technical consultant to carry out detailed study design and selection of supply-cum-erection contractor of the RO plant. The Company invited tenders in August 2004 and evaluated the price bids only by April 2005. There was delay in obtaining revised budgetary approval up to November 2005 and based on the proposal of the sub-committee constituted to examine the RO project, the Board placed an order on Doshion Limited, Ahmedabad (contractor) in February 2007 for a contract value of Rs 4.29 crore with the scheduled date of completion as December 2007.

Audit observed that non-completion of RO plant even seven years after project conceptualisation was the result of deficient planning and monitoring. It was noticed (March 2009) that even after lapse of 15 months of scheduled completion date, the plant has not been installed by the contractor even though the Company had made part payments of Rs 1.21 crore towards advance and supply of material *etc*. The contractor has completed only 15 *per cent* (Rs 26 lakh) of the total value of civil works (Rs 1.75 crore) by January 2009. The materials not required for immediate erection had also been kept in the open yard exposing them to the vagaries of nature.

The Company never had any concrete plan and schedule for completion of the project. The commencement of the project was progressively delayed - eight months for appointment of CEA as their technical consultant, 13 months for finalisation of tender specification and two years for selection of L-1 after opening the bid in February 2005. Even after award of the contract, the contactor delayed the execution and was granted extensions progressively upto March 2009 without imposing any penalty as per the terms of the contract. In the meantime, the Company continued to suffer loss of generation on account of corrosion and had incurred an additional recurring expenditure of Rs 37.10 lakh[14] on account of consumption of sulphuric acid and replacement of heat exchanges during the last four years upto 2008-09.

The Company replied (July 2009) that the delay was due to the negligence of the contractor but stated that the extensions were granted in the interest of work. But, the fact remained that even after many extensions, the project was completed only up to 15 *per cent* by March 2009, which was the due date for final completion of work after the last extension.

Audit concludes that the inordinate delay in execution of the project resulted in not only locking up of the Company's funds of Rs 1.21 crore but also in avoidable recurring expenditure of Rs 37.10 lakh to tide over the problem of corrosion. The Company was yet to decide about levy of liquidated damages on the contractor.

It is suggested that Company should enforce the terms of the contract to secure its financial interest and should set up better planning and monitoring systems.

[14] Expenditure on account of consumption of sulphuric acid (Rs 16.52 lakh), replacement of damaged heat exchangers (Rs 16.40 lakh) and loss of revenue due to down time on account of repairs of pipes (Rs 4.18 lakh).

PONDICHERRY INDUSTRIAL PROMOTION DEVELOPMENT AND INVESTMENT CORPORATION LIMITED

5.3.2 Loss due to erroneous clause in the Memorandum of Understanding

Extension of undue concession in lease rent due to erroneous clause in Memorandum of Understanding resulted in loss of Rs 12.94 lakh and potential loss of Rs 20.48 lakh during the balance period of concession.

The Company, as a part of industrial promotion in the Union Territory of Puducherry, decided (December 1998) to establish a Software Technology Park (STP) in Puducherry. For this purpose, the Company took over (October 1999) 18 acres of land from Education Department on lease for 19 years at a monthly lease rent of Rs 15,696 (Rs 872 *per* acre). As a part of the above programme, the Company entered (January 2001) into a Memorandum of Understanding (MOU) with Software Technology Park of India (STPI[15]), Bangalore for setting up an earth station to provide high speed data communication facility and transferred (May 2001) three acres of land and 2,753 Sq.ft. of built-up area on lease for 18 years at a nominal annual lease rent of Rupee one for the purpose. The proposed earth station was to be run by STPI on commercial basis without any revenue/benefit accruing to the Company.

Audit observed that the Company leased out land and building to STPI on these terms despite the directions of the Board of Directors of the Company to collect this nominal lease rent of Rupee one *per annum* for an initial period of two years only. After Audit pointed out (August 2004) the incorrect clause of the MOU, the Company moved (March 2005) to amend the relevant clause so as to charge an annual lease rent of Rs 31,392[16] for the land and Rs 13,765[17] for the built up area from 3 January 2003 as per the decisions of its Directors. However, the Company's efforts to make an amendment to the MOU have not fructified till date as STPI has refused to accept any amendment to the MOU.

The Company replied (July 2009) that Ministry of Information Technology, Government of India has been addressed to resolve the issue.

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15 An autonomous society under the Ministry of Communication and Information Technology, Government of India.

16 For three acres, at the rate of Rs 10,464 per acre *per annum*, being the rent payable to PED.

17 For 2,753 sq.ft at the minimum rent of Rs 5 per sq.ft. per month being collected from the allottees of 17 modules owned by the Company.

This erroneous extension of concessional offer to STPI had resulted in loss of Rs 12.94 lakh for the period from January 2003 to July 2009. Further, the Company faces a potential loss of Rs 20.48 lakh for the remaining period of lease up to December 2019.

Chennai
The

(S. NAGALSAMY)
Principal Accountant General (Civil Audit)
Tamil Nadu and Puducherry

Countersigned

New Delhi
The

(VINOD RAI)
Comptroller and Auditor General of India