

## 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) consisting of Government Companies were established to carry out commercial activities keeping in view the welfare of people. As on 31 March 2010, there were 13 Government companies (all working) and none of them was listed on the stock exchange(s). The PSUs registered a turnover of ₹ 308.53 crore as per their latest finalised accounts as of September 2010. This turnover was equal to 2.62 *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 ₹ 46.79 crore as per their latest finalised accounts. They had employed 6,586 employees as of 31 March 2010.

**5.1.2** No PSU was either established or closed during 2009-10.

#### Audit mandate

**5.1.3** 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.

**5.1.4** 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 CAG 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

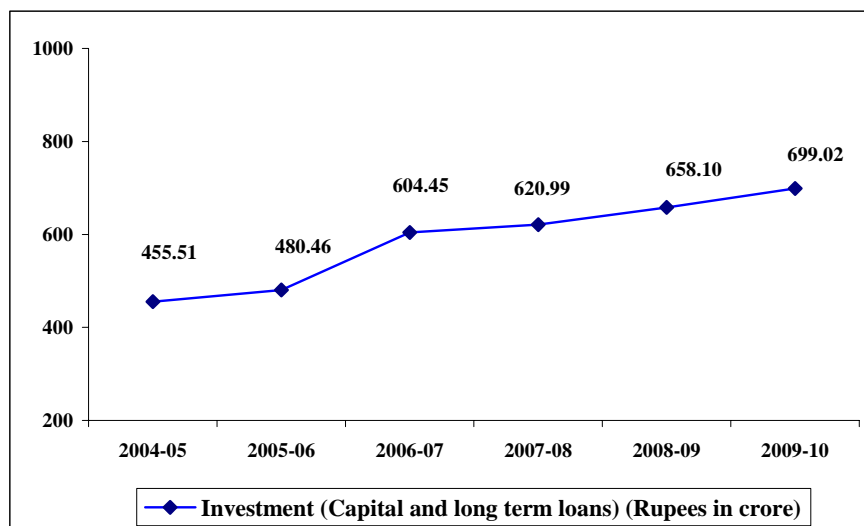
**5.1.5** As on 31 March 2010, the investment (capital and long-term loans) in 13 PSUs was ₹ 699.02 crore as per details given below:

(₹ in crore)

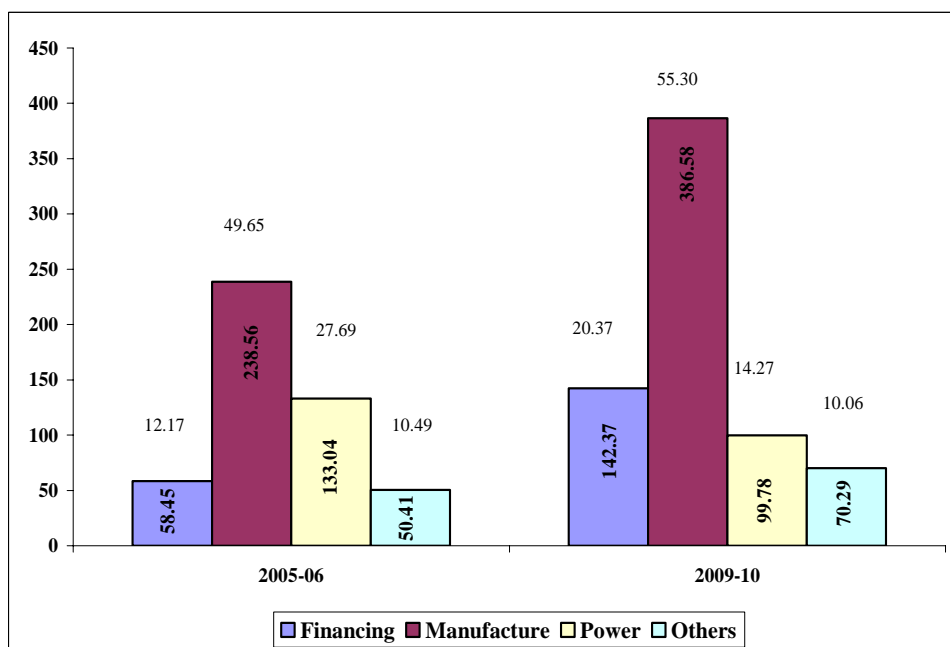
Type of PSUs	Capital	Long Term Loans	Total
Working PSUs	682.56	16.46	699.02

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

**5.1.6** As on 31 March 2010, of the total investment in the 13 PSUs, 97.65 per cent was towards capital and 2.35 per cent in long-term loans. The investment has grown by 45.49 per cent from ₹ 480.46 crore in 2005-06 to ₹ 699.02 crore in 2009-10.



**5.1.7** The investment in various important sectors and percentage thereof at the end of 31 March 2006 and 31 March 2010 are indicated in the bar chart.



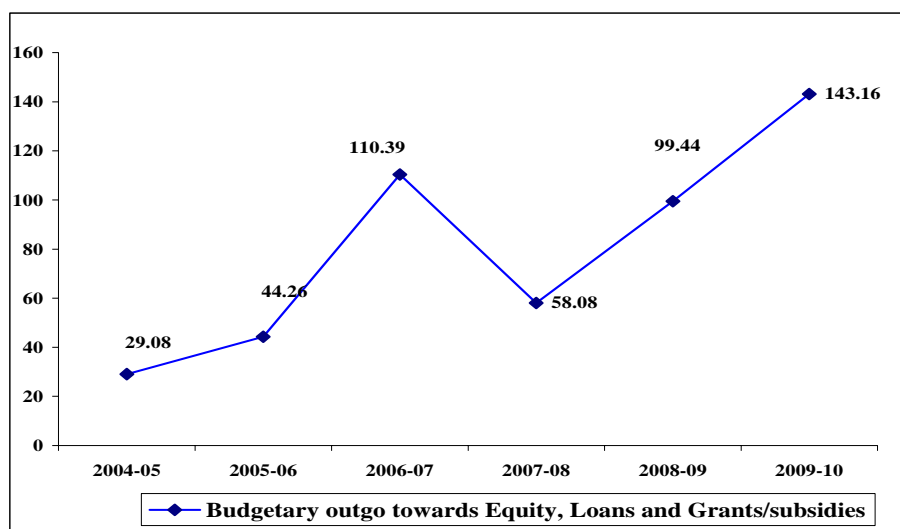
### Budgetary outgo, grants/subsidies, guarantees and loans

**5.1.8** 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 2010. While seven companies received budgetary support from the Government of UT of Puducherry, one PSU viz., Puducherry Power Corporation Limited had remitted ₹ 33.26 crore of share capital to the Government of UT of Puducherry.

(₹ in crore)

Sl. No	Particulars	2007-08		2008-09		2009-10	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity capital outgo from budget	7	32.05	7	40.52	7	65.72
2.	Loans given from budget	---	---	1	0.95	--	--
3.	Grants/Subsidy received	5	26.03	5	57.97	5	77.44
4.	Total outgo (1+2+3)	9 <sup>1</sup>	58.08	9 <sup>1</sup>	99.44	8	143.16
5.	Guarantee Commitment	1	3.19	1	3.19	1	4.97

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



<sup>1</sup> 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

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 2009-10, the Government of Puducherry did not waive any loan in respect of any of the PSUs.

**5.1.10** As regards guarantee commitment, only Puducherry Adi Dravidar Development Corporation Limited availed the Government of India guarantee against which ₹ 4.97 crore was outstanding as on 31 March 2010. No guarantee commission was payable to the UT Government by the Company.

### Reconciliation with Finance Accounts

**5.1.11** 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 2010 is stated below.

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts 2009-10	Amount as per records of PSUs	Difference
Equity	672.50	672.19	0.31
Loans	4.03	7.49	3.46

**5.1.12** Audit observed that the differences occurred in respect of three PSUs and the differences were pending reconciliation over a period of four years upto 2009-10. The UT Government and the PSUs should take concrete steps to reconcile the differences in a time bound manner.

### Performance of PSUs

**5.1.13** 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 2004-05 to 2009-10.

(₹ in crore)

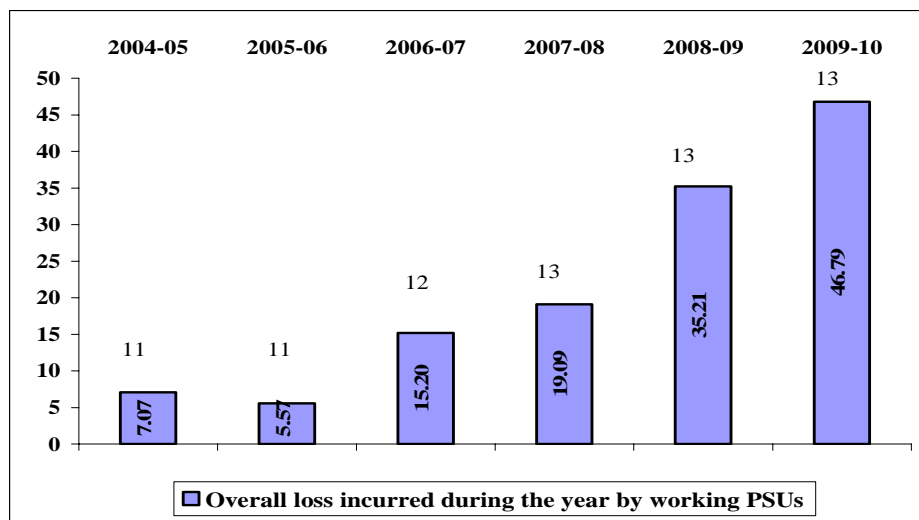
Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Turnover	246.69	209.40	343.31	307.39	399.89	308.53 <sup>2</sup>
State GDP	5,192	6,214	6,401	7,103	11,773.57	11,773.57 <sup>3</sup>
Percentage of Turnover to State GDP	4.75	3.37	5.36	4.33	3.40	2.62

<sup>2</sup> Turnover as per latest finalised accounts as of 30 September 2010.

<sup>3</sup> The State GDP for 2009-10 was not available.

The decrease in overall turnover during current year over the previous year was due to reduction in premium lease income of ₹ 74.94 crore of Pondicherry Industrial Promotion Development and Investment Corporation Limited and reduction in turnover in respect of Pondicherry Textiles Corporation Limited (₹ 16.74 crore).

**5.1.14** The overall losses incurred by the UT PSUs during 2004-05 to 2009-10 are given below in the bar chart.



During the year 2009-10, out of 13 PSUs, four PSUs earned profit of ₹ 17.60 crore while seven PSUs incurred loss of ₹ 64.39 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 (₹ 11.09 crore), Puducherry Distilleries Limited (₹ 4.05 crore) and Pondicherry Industrial Promotion Development and Investment Corporation Limited (₹ 1.98 crore). Heavy losses were incurred by Pondicherry Textiles Corporation Limited (₹ 47.89 crore) and Swadeshee-Bharathee Textile Mills Limited (₹ 11.17 crore).

**5.1.15** The losses of PSUs were mainly attributable to deficiencies in financial management, planning, implementation of projects, running their operations and monitoring. A review of latest Audit Reports of CAG showed that the UT PSUs incurred avoidable expenditure/loss of revenue to the extent of ₹ 8.21 crore and infructuous investment of ₹ 1.21 crore, which could have been controlled with better management. Year wise details from Audit Reports are stated below:

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	Total
Net Profit (loss)	(19.09)	(35.21)	(46.79)	(101.09)
Controllable losses as per CAG's Audit Report	0.42	6.83	0.96	8.21
Infertuous investment	---	1.21	---	1.21

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

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

(₹ in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Return on Capital Employed (Per cent)	NIL	NIL	NIL	NIL	NIL	NIL
Debt	3.79	6.81	40.40	14.89	11.48	16.46
Turnover	246.69	209.40	343.31	307.39	399.89	308.53
Debt/Turnover Ratio	0.02:1	0.03:1	0.12:1	0.05:1	0.03:1	0.05:1
Interest Payments	4.11	3.71	3.86	4.54	7.25	10.49
Accumulated Losses	146.57	155.64	144.74	211.36	263.76	268.60

**5.1.18** As per latest finalised accounts of PSUs as on 30 September 2010, the capital employed worked out to ₹ 561.28 crore and total return thereon amounted to ₹ (-)36.30 crore. This is in comparison to capital employed of ₹ 381.76 crore and return on capital employed of ₹ (-)2.96 crore in 2004-05. Thus, during the last five years overall return on capital employed remained negative.

**5.1.19** The State 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, four PSUs earned an aggregate profit of ₹ 17.60 crore and three PSUs<sup>4</sup> declared a dividend of ₹ 5.64 crore.

### Arrears in finalisation of Accounts

**5.1.20** 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

<sup>4</sup> Pondicherry Industrial Promotion Development and Investment Corporation Limited (₹ 0.63 crore), Puducherry Power Corporation Limited (₹ 5.02 crore) and Puducherry Distilleries Limited (₹ 0.81 crore).

Sections 166, 210, 230 and 619 of the Companies Act, 1956. The table below provides the details of progress made by PSUs in finalisation of accounts by September 2010.

S.No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Number of PSUs	12	13	13	13	13
2.	Number of accounts finalised during the year.	7	8	12	13	13
3.	Number of accounts in arrears	13	19	20	20	20
4.	Average arrears per PSU (3/1)	1.08	1.46	1.54	1.54	1.54
5.	Number of PSUs with arrears in accounts	9	11	12	13	13
6.	Extent of arrears	1 to 2 years	1 to 3 years	1 to 3 years	1 to 3 years	1 to 3 years

**5.1.21** It could be seen from the table that number of companies piling up arrears in finalisation of accounts had been on the increase from nine companies in 2005-06 to thirteen companies in 2008-09 and 2009-10. Further, the extent of arrears remained the same at 1 to 3 years during the four years ending 2009-10. 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 compilation of accounts became difficult.

**5.1.22** The Government had invested ₹ 213.99 crore (Equity: ₹ 71.17 crore, Loans: ₹ 0.95 crore, Grants/Subsidies: ₹ 141.87 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 could not be ensured whether the investments and expenditure incurred were properly accounted for, the purpose for which the amount was invested had been achieved or not and thus Government's investment in such PSUs remained 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.

**5.1.23** 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 (April 2010) with the Chief Secretary to UT Government to expedite the finalisation of accounts in arrears.

### **Accounts comments and Internal Audit**

**5.1.24** Thirteen companies forwarded their thirteen accounts to CAG during the year 2009-10. Of these, 11 accounts of 11 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.

(₹ in crore)

Sl. No.	Particulars	2007-08		2008-09		2009-10	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	0.21	1	0.01	1	0.88
2.	Increase in loss	1	3.31	2	12.74	1	7.53
3.	Errors of classification	---	---	1	0.10	1	0.52
	<b>Total</b>	<b>2</b>	<b>3.52</b>	<b>4</b>	<b>12.85</b>	<b>3</b>	<b>8.93</b>

The money value of comments increased from ₹ 3.52 crore for two accounts in 2007-08 to ₹ 8.93 crore for three accounts in 2009-10.

**5.1.25** During the year, the statutory auditors had given unqualified certificates for seven accounts, qualified certificates for five accounts and disclaimer for one account. Additionally, CAG, during the supplementary audit, gave adverse comments on two accounts but subsequently withdrew the comments due to revision of their accounts by the companies.

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

***Puducherry Agro Services and Industries Corporation Limited (2007-08)***

- Overstatement of profit of ₹ 0.88 crore due to non-provision of leave encashment benefits as per actuarial valuation.

***Pondicherry Corporation for Development of Women and Handicapped Persons Limited (2006-07)***

- The Company utilised ₹ 0.52 crore for payment of salaries to Anganvadi workers from out of the corpus fund grant received (₹ 1.12 crore) for construction of Anganvadi building in contravention of the rules of the corpus.

***Pondicherry Textiles Corporation Limited (2008-09)***

- The Statutory Auditors expressed their inability to give an opinion about (i) the recoverability of loans and advances amounting to ₹ 5.03 crore (ii) non-provision of interest on the loan amount of ₹ 3.47 crore on the plea that the said loan would be converted into



share capital (iii) realisability of slow moving/non-moving items valued at cost without ascertaining the net realisable value of these items.

- Understatement of loss due to non-provision of gratuity liability of ₹ 1.46 crore.
- Understatement of loss of ₹ 3.60 crore and overstatement of current assets due to accounting of voluntary retirement scheme compensation as receivable from Government of Puducherry without orders.
- Understatement of loss and overstatement of current liability due to non-provision of sales tax liability (₹ 27.45 lakh) and interest thereon (₹ 36.45 lakh).
- Understatement of loss by ₹ 1.74 crore due to non-provision of the ESI contribution on the interim relief granted to workers and contract labourers.

**5.1.27** 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 during the year 2009-10 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)	(2)	(3)	(4)
1.	There was no system of making short term/long term business plans and review the same with actuals	5	4, 6, 8, 12 and 13
2.	Internal audit manual not prescribed	1	6
3.	Internal audit not conducted in timely manner	1	4
4.	Internal control system requires strengthening	2	5 and 13
5.	Delineated fraud policy not available	4	8, 10, 12 and 13
6.	Non-formation/non-convening of Audit Committee in compliance with Section 292-A of the companies Act, 1956	3	5, 12 & 13
7.	Non-maintenance of proper register for fixed assets	1	5

**Pondicherry Industrial Promotion Development and Investment Corporation Limited (PIPDIC) and Puducherry Agro Services Industries Corporation Limited (PASIC)**

**5.2 Non-Collection of Service Tax**

**PIPDIC and PASIC failed to collect service tax amounting to ₹ 0.77 crore as per the requirement of the Finance Act, thereby became liable to pay the tax amount along with interest amounting to ₹ 0.19 crore.**

The Government of India (GOI) through various amendments to the Finance Act (Act), had brought the following services within the ambit of service tax as detailed below:

1.	Maintenance or repair services of immovable property	July 2003
2.	Garden maintenance	16 June 2005
3.	Civil works	16 September 2005
4.	Tubewell erection services	1 May 2006
5.	Renting of immovable property for furtherance of business	June 2007

Audit noticed (May/June 2010) that the following two companies did not comply with the Act in respect of collection and payment of service tax to GOI as detailed below:

PIPDIC is engaged in acquisition and development of land with necessary infrastructure facilities viz., roads, sewerage systems, street lights, water supply system, etc., for allotment to entrepreneurs. The Company collects rent for the plots and work sheds so leased out. Further, the Company maintains these industrial complexes and recovers maintenance charges from the industrial units in proportion to the area of land held by them.

PASIC is engaged in turnkey engineering projects in civil works, erection of tube wells, maintenance of bore wells, gardens and boilers in the central kitchen of mid-day meal scheme.

Therefore, immediately on the pronouncement of the above amendments, these companies had to register as service providers under Section 69 of the Act and pay the service tax to the GOI after collecting the same from their clients. But these companies had not registered themselves as service providers. Consequently, the earnings of PIPDIC amounting to ₹ 2.80 crore during 2003-04 to 2008-09 became taxable earnings and the Company became liable to pay service tax of ₹ 0.31 crore. Similarly, in respect PASIC, the tax liability for earnings of ₹ 4.76 crore during 2005-06 to 2009-10 would be to the extent of ₹ 0.46 crore. Besides, these companies

were also liable to pay interest of ₹ 0.19 crore under Section 75 of the Act (PIPDIC: ₹ 0.10 crore and PASIC: ₹ 0.09 crore). Thus, failure to collect the service tax from the clients resulted in avoidable liability of ₹ 0.96 crore.

PIPDIC replied (August 2010) that as per the opinion of their advocates and auditors, their services were not taxable services. The reply was not convincing as it was not based on any concrete evidence to prove that the activities were exempted from the ambit of service tax.

Chennai  
The

**(REVATHI BEDI)**  
Principal Accountant General (Civil Audit)  
Tamil Nadu and Puducherry

Countersigned

New Delhi  
The

**(VINOD RAI)**  
Comptroller and Auditor General of India

