

**CHAPTER V**  
**GOVERNMENT COMMERCIAL**  
**AND**  
**TRADING ACTIVITIES**



## CHAPTER V

### 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) were established to carry out commercial activities keeping in view the welfare of people. As on 31 March 2011, there were 13 Government companies (all working) and none of them was listed on the stock exchange(s). These PSUs registered a turnover of ₹ 338.35 crore as per their latest finalised accounts as of September 2011. This turnover was equal to 3.01 *per cent* of State Gross Domestic Product (GDP) for 2009-10. The major activities of PSUs are concentrated in financing and manufacturing sectors. The PSUs incurred an aggregate loss of ₹ 58.80 crore as per their latest finalised accounts. They had employed 5,902 employees as of 31 March 2011.

**5.1.2** No PSU was either established or closed during 2010-11.

##### 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 C&AG as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by C&AG as per provisions of Section 619 of the Companies Act, 1956.

##### Investments in State PSUs

**5.1.5** As on 31 March 2011, the investment (capital and long-term loans) in 13 PSUs was ₹ 723.88 crore as per details given below:

(₹ in crore)

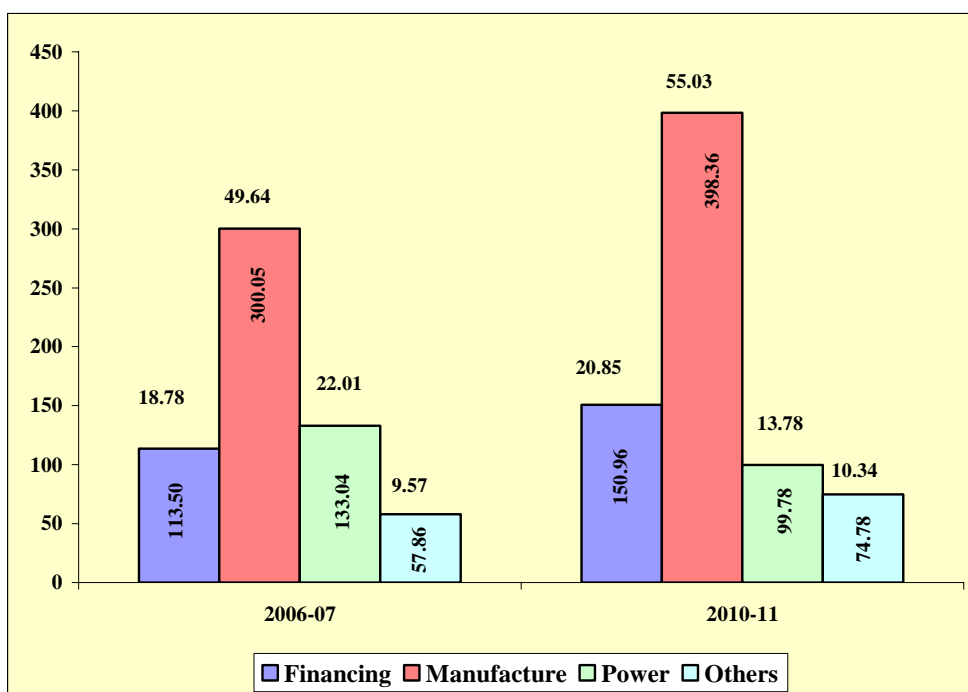
Type of PSUs	Capital	Long Term Loans	Total
Working PSUs	704.29	19.59	723.88

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

**5.1.6** Of the total investment in the 13 PSUs as on 31 March 2011, 97.29 *per cent* was towards capital and 2.71 *per cent* in long-term loans. The investment has grown by 19.76 *per cent* from ₹ 604.45 crore in 2006-07 to ₹ 723.88 crore in 2010-11.



**5.1.7** The investment in various important sectors and percentage thereof at the end of 31 March 2007 and 31 March 2011 are indicated in the bar chart.



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

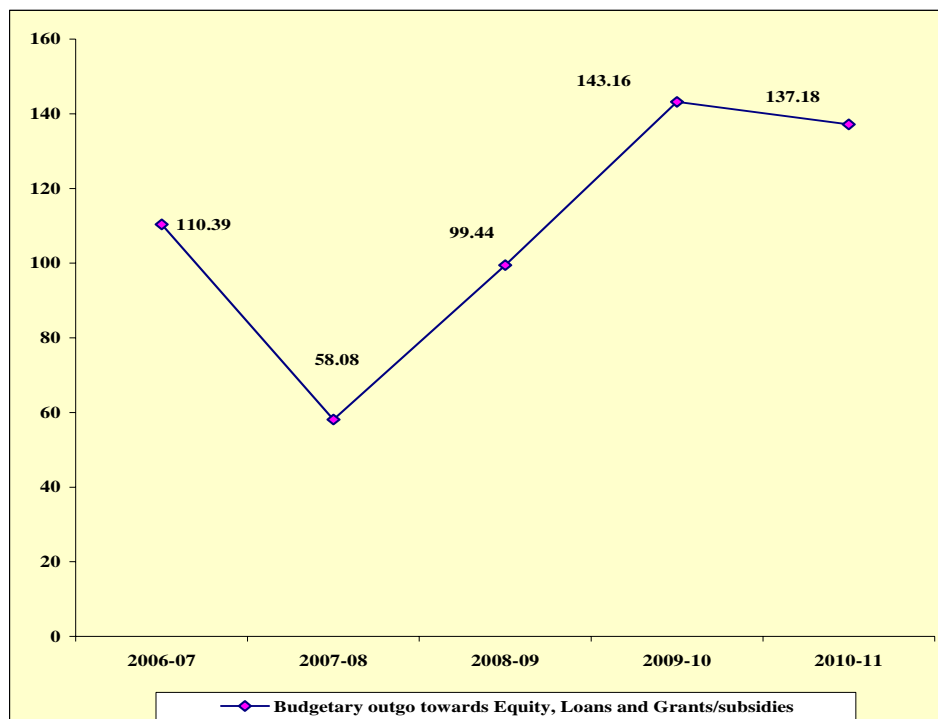
**5.1.8** The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of PSUs are given in **Appendix 5.3**. The summarised details of budgetary support from Government of UT of Puducherry are given below for three years ended 31 March 2011.

(Amount - ₹ in crore)

S.No	Particulars	2008-09		2009-10		2010-11	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity Capital outgo from budget	7	40.52	7	65.72	7	17.72
2	Loans given from budget	1	0.95	---	---	1	0.32
3	Grants/Subsidy received	5	57.97	5	77.44	6	119.14
4	Total Outgo (1+2+3)	9 <sup>1</sup>	99.44	8 <sup>1</sup>	143.16	8 <sup>1</sup>	137.18
5	Loan converted into equity	--	---	--	---	2	4.01
6	Guarantee Commitment	1	3.19	1	4.97	1	4.97

<sup>1</sup> These are the actual number of companies which have received budgetary support in the form of equity, loans and grants from the UT Government during the respective years.

**5.1.9** The details regarding budgetary outgo towards equity, loans and grants/subsidies for the 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 year, loans given to two<sup>2</sup> companies were converted into equity.

**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 2011. 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 UT 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

<sup>2</sup> Puducherry Agro Products, Food and Civil Supplies Corporation Limited (₹ 0.93 crore) and Pondicherry Textile Corporation Limited (₹ 3.08 crore).

should carry out reconciliation of differences. The position in this regard as at 31 March 2011 is stated below.

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts 2010-11	Amount as per records of PSUs	Difference
Equity	692.66	693.92	1.26
Loans	0.94	3.78	2.84

**5.1.12** Audit observed that the differences occurred in respect of five PSUs and the differences were pending reconciliation over a period of four years upto 2010-11. 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 UT GDP for the period 2006-07 to 2010-11.

(₹ in crore)

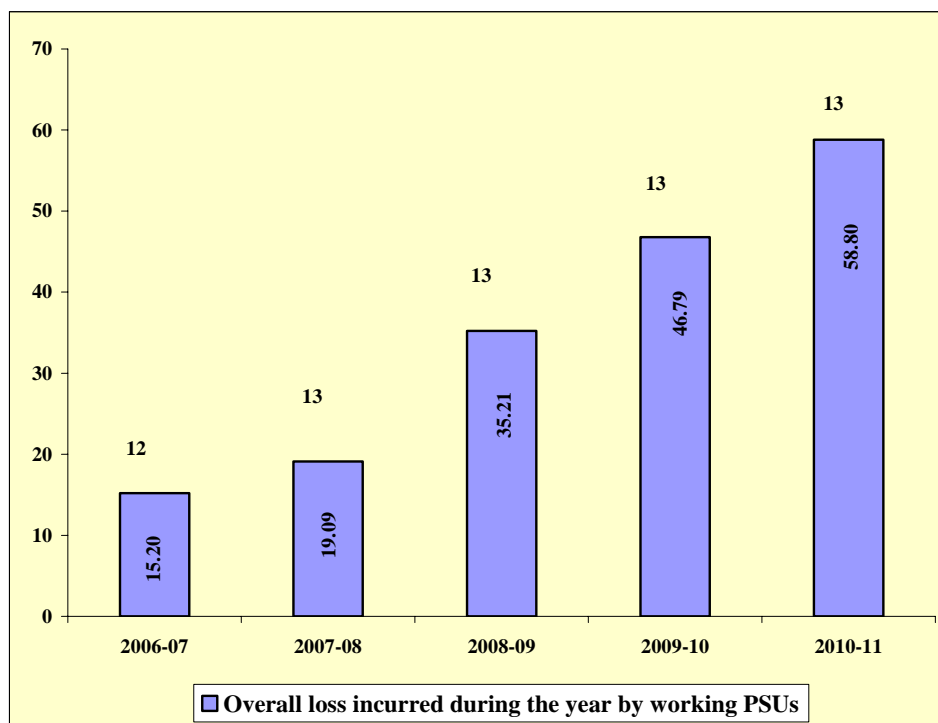
Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Turnover	343.31	307.39	399.89	308.53	338.35 <sup>3</sup>
State GDP	6,401	7,103	11,773.57	11,255.23	11,255.23 <sup>4</sup>
Percentage of Turnover to State GDP	5.36	4.33	3.40	2.74	3.01

The percentage of turnover to State GDP in 2010-11 increased compared to 2009-10 due to restatement of State GDP by adopting 2004-05 as base year.

**5.1.14** The overall losses incurred by the UT PSUs during 2006-07 to 2010-11 are given below in the bar chart.

<sup>3</sup> Turnover as per latest finalised accounts as of 30 September 2011

<sup>4</sup> The State GDP for 2010-11 was not available



During the year 2010-11, out of 13 PSUs, four PSUs earned profit of ₹ 16.48 crore while seven PSUs incurred loss of ₹ 75.28 crore leading to overall loss. Two working PSUs prepared their accounts on 'no profit no loss' basis. The major contributors to profit were Puducherry Power Corporation Limited (₹ 11.09 crore) and Puducherry Distilleries Limited (₹ 4.64 crore). Heavy losses were incurred by Pondicherry Textiles Corporation Limited (₹ 56.39 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, operational management and monitoring. A review of the latest Audit Reports of C&AG showed that the UT PSUs incurred avoidable expenditure/loss of revenue to the extent of ₹ 9.62 crore and infructuous investment of ₹ 1.21 crore. Year wise details from Audit Reports are stated below:

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	Total
Net Profit (loss)	(35.21)	(46.79)	(58.80)	(140.80)
Controllable losses as per C&AG's Audit Report	6.83	0.96	1.83	9.62
Infructuous investment	1.21	---	---	1.21

**5.1.16** The above losses pointed out by Audit Reports of C&AG were based on test check of records of PSUs. Therefore, 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	2006-07	2007-08	2008-09	2009-10	2010-11
Return on Capital Employed ( <i>Per cent</i> )	NIL	NIL	NIL	NIL	NIL
Debt	40.40	14.89	11.48	16.46	19.59
Turnover	343.31	307.39	399.89	308.53	338.35
Debt/Turnover Ratio	0.12:1	0.05:1	0.03:1	0.05:1	0.06:1
Interest Payments	3.86	4.54	7.25	10.49	10.56
Accumulated Losses	144.74	211.36	263.76	268.60	378.51

**5.1.18** As per the latest finalised accounts of PSUs as on 30 September 2011, the capital employed worked out to ₹ 572.42 crore and total return thereon amounted to ₹ (-)48.24 crore. This is in comparison to capital employed of ₹ 530.83 crore and return on capital employed of ₹ (-)11.34 crore in 2006-07. 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 ₹ 16.48 crore and three PSUs<sup>5</sup> declared a dividend of ₹ 5.47 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 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 2011.

<sup>5</sup> Pondicherry Industrial Promotion Development and Investment Corporation Limited (₹ 0.10 crore), Puducherry Power Corporation Limited (₹ 4.44 crore) and Puducherry Distilleries Limited (₹ 0.93 crore).

S.No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Number of PSUs	13	13	13	13	13
2.	Number of accounts finalised during the year.	8	12	13	13	8
3.	Number of accounts in arrears	19	20	20	20	25
4.	Average arrears per PSU (3/1)	1.46	1.54	1.54	1.54	3.13
5.	Number of PSUs with arrears in accounts	11	12	13	13	13
6.	Extent of arrears	1 to 3 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 11 companies in 2006-07 to thirteen companies from 2008-09 to 2010-11. The extent of arrears remained the same at one to three years during the five years ending 2010-11. The companies should make efforts to reduce the arrears in finalisation of accounts.

**5.1.22** The Government had invested ₹ 260.93 crore (Equity: ₹ 40.48 crore, Loans: ₹ 1.27 crore, Grants/Subsidies: ₹ 219.18 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 of overseeing the activities of these entities and ensuring 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 measures were 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 (May 2011) with the Chief Secretary to UT Government to expedite the finalisation of accounts in arrears.

## Accounts Comments and Internal Audit

**5.1.24** Eight companies forwarded their accounts to C&AG during the year 2010-11. Of these, accounts of *four* companies were selected for supplementary audit. The audit reports of statutory auditors appointed by C&AG and the supplementary audit of C&AG 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 C&AG are given below:

(Amount ₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	0.01	1	0.88	---	---
2.	Increase in loss	2	12.74	1	7.53	2	5.79
3.	Errors of classification	1	0.10	1	0.52	1	0.60
	<b>Total</b>	<b>3</b>	<b>12.85</b>	<b>3</b>	<b>8.93</b>	<b>2</b>	<b>6.39</b>

**5.1.25** During the year, the statutory auditors had given unqualified certificates for four accounts, qualified certificates for three accounts and disclaimer for one account. Additionally, C&AG, during the supplementary audit, gave comments on two accounts.

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

### *Pondicherry Corporation for Development of Women and Handicapped Persons Limited (2007-08)*

- The Company utilised ₹ one crore of share capital for repayment of overdue loan amount which is not in accordance with generally accepted accounting principles.

### *Pondicherry Textiles Corporation Limited (2009-10)*

- 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 and (iii) realisability of slow moving/non-moving items valued at cost.
- There was understatement of loss due to:
  - (i) non-provision of gratuity liability of ₹ 0.94 crore.

(ii) accounting of Voluntary Retirement Scheme compensation as receivable from Government of Puducherry without orders - ₹ 1.04 crore.

(iii) non-provision of ESI contribution on the interim relief granted to workers and contract labourers - ₹ 1.79 crore.

(iv) Valuation of process stock of unpacked grey cloth at cost despite its realisable value being lower than the cost - ₹ 1.95 crore.

**Puducherry Distilleries Limited (2007-08)**

- Overstatement of cash and bank balance by ₹ 0.60 crore due to inclusion of deposit made with Puducherry Co-operative Sugar Mills, which should have been correctly classified under loans and advances.

**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 C&AG 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 2010-11 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.	There was no system of making short term/long term business plans and review the same with actuals	3	8, 12 & 13
2.	Internal audit requires strengthening	2	2 & 9
3.	Internal audit manual not prescribed	2	8 & 9
4.	Internal control system requires strengthening	1	13
5.	Delineated fraud policy not available	4	2, 8, 12 & 13
6.	Non-formation/non-convening of Audit Committee in compliance with Section 292-A of the companies Act, 1956	2	5 & 13
7.	Non-maintenance of proper register for fixed assets	1	5
8.	There was no system of identifying slow moving/non-moving	1	9
9	There was no approved IT strategy or plan	3	2, 3 & 13

## 5.2 Schemes implemented by Social Sector Companies of Puducherry

### Introduction

**5.2.1** The Government of Union Territory of Puducherry formed Puducherry Adi Dravidar Development Corporation Limited (PADCO) and Puducherry Backward Classes and Minorities Development Corporation Limited (PBCMDC) in September 1986 and March 1999 respectively for raising the economic status of Scheduled Caste (SC), Other Backward Classes (OBC), Most Backward Classes (MBC) and minorities in the Territory.

These companies are the State Channelising Agencies (SCAs) for the schemes financed by National Scheduled Caste Finance and Development Corporation (NSFDC), National Safai Karmachari Finance and Development Corporation (NSKFDC), National Backward Classes Finance and Development Corporation (NBCFDC) and National Minorities Development and Finance Corporation (NMDFC) and also get share capital assistance from Central/UT Government. In addition, PADCO gets Special/UT Assistance for schemes like education loan, micro credit, etc. The funds received from these sources are distributed to the targeted beneficiaries through the following schemes:

PADCO	PBCMDC
Term loan financed by NSFDC/NSKFDC	Term loan financed by NBCFDC/NMDFC
Margin money loan-cum-subsidy through banks	Subsidy-cum-term loans through banks
Micro credit finance scheme	Micro credit finance scheme
Education loan	Education loan

**5.2.2** PADCO and PBCMDC had disbursed loans aggregating to ₹ 39.92 crore among 16,867 beneficiaries under various schemes during 2006-11 as detailed below:

Sl. No.	Name of the Company	Estimated population of targeted groups below poverty line				Total number of beneficiaries covered during the audit period				Percentage of coverage (Col. (10)/ Col. (6) X 100)
		Puducherry	Karikal	Mahe/ Yanam	Total	Puducherry	Karikal	Mahe/ Yanam	Total	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1.	PADCO	N.A	N.A	N.A	34,236	9,837	1,278	548	11,663	34.0
2.	PBCMDC									
	BC	1,03,718	24,090	9,622	1,37,430	3,941	204	---	4,145	3.0
	Minorities	16,209	8,689	2,951	27,849	910	149	---	1,059	3.8

The performance of PADCO was last reviewed and included in the Report of the C&AG of India – Government of Puducherry for the year ended 31 March 2002. Audit had concluded then that PADCO’s achievement of its main objectives viz., economic upliftment of Adi-dravidar community was below the satisfactory level. PAC recommended (February 2006) that PADCO should take steps to set up its own employment oriented training industries as envisaged in the main objectives of the Company.

In light of Audit’s earlier conclusions, PAC’s recommendations and the low coverage of the targeted beneficiaries during the five years up to 2011, we took up (between January 2011 and May 2011) a performance audit of the welfare schemes (excluding education loan)<sup>6</sup> of PADCO and PBCMDC to assess the effectiveness of implementation of these schemes and their impact on the financial status of the beneficiaries. The financial assistance examined in the present performance audit was 62 percentage of the total disbursement (₹ 39.92 crore) during 2006-07 to 2010-11. Our examination involved scrutiny of records of the head office and Karaikal branch, which comprised 98 *per cent* of the total sanction of loan.

### Financial position and management

**5.2.3** The financial position and working results of these companies for the three years up to 2008-09 (the period up to which the data is available with these companies) are given in **Appendix 5.5** and **5.6**. From the **Appendix 5.6**, it could be seen that these companies do not earn income from their business activities to the sustainable level, but were dependent on the Government support for running their day-to-day operations.

We further noticed that these two companies collectively received funds amounting to ₹ 65.68 crore during the five years ending 31 March 2011 from the State/GOI and National Funding Institutions by way of equity, grants, loan and subsidy. The details of drawal of funds, unutilised scheme funds and the resultant accumulation in the FDs in respect of these companies are given below:

#### PADCO

(₹ in crore)

Sl.No.	Particulars	2006-07	2007-08	2008-09	2009-10
1.	Receipt from NSFDC/NSKFDC and Government of Puducherry	6.54	7.05	9.30	8.62
2.	Undisbursed amount	1.10	1.92	6.76	0.75
3.	Increase in fixed deposits	1.04	1.88	5.84	1.17

<sup>6</sup> The education loan of ₹14.99 crore distributed by PADCO/PBCMDC to 3,032 beneficiaries during 2006-11 was not evaluated as this loan would have the impact on the financial status of the beneficiaries only after completion of education from 2011-12 to 2015-16

**PBCMDC**

(₹ in crore)

Sl.No.	Particulars	2006-07	2007-08	2008-09	2009-10
1.	Receipt from NBCFDC/NMDFC and Government of Puducherry	3.40	3.00	5.67	7.46
2.	Undisbursed amount	(-)0.24	(-)1.18	1.03	0.79
3.	Increase in fixed deposits	(-)0.29	(-)0.43	1.21	(-)0.03

A review of the funds management of these companies indicated that PADCO did not fully utilise the funds earmarked for schemes but parked the undisbursed funds in interest earning fixed deposits (FD). However, PBCMDC disbursed a major portion of the funds received. The FDs of PADCO which were at ₹ 27.50 lakh in April 2006 had increased to ₹ 10.21 crore in March 2010 due to non-disbursal of scheme funds during the four years up to 2009-10. The Government of Puducherry while allocating the annual funds for schemes had advised PADCO to utilise the funds in a time bound manner. Similarly, the national funding agencies had repeatedly stressed that the SCAs should utilise the funds within three months of its receipt, failing which, the SCAs had to bear penal interest of 3 per cent over and above the normal rate of interest and any unspent balance beyond six months had to be refunded to funding agencies. However, PADCO neither disbursed the scheme funds as per these directions nor refunded the unspent balance of ₹ 3.62 crore to NSFDC/NSKFDC till date (September 2011). Consequently, PADCO had become liable to pay penal interest of ₹ 26.98 lakh (as worked out by audit) for the unspent amount (up to September 2011). We further noticed that PADCO while placing the unspent amount of ₹ 3.07 crore received from NSFDC (during 2005-06 to 2009-10) in short term deposits, had recorded that NSFDC may be paid penal interest out of fixed deposits earnings as FDs earned higher rate of interest (3.5 to 6 per cent) compared to the interest rate of 3 per cent payable to NSFDC. This was indicative of the deliberate decisions of PADCO to earn profits out of the financial assistance by investing in FDs instead of extending funds to earmarked welfare schemes.

**Target and achievement**

**5.2.4** The physical and financial target and the achievements there against by PADCO and PBCMDC for the years 2006-07 to 2010-11 were as follows:

Details	2006-07	2007-08	2008-09	2009-10	2010-11
<b>PADCO</b>					
Number of targeted beneficiaries	2,510	2,517	3,912	3,155	3,370
Number of beneficiaries assisted	1,434	2,662	708	2,540	2,314
Financial Target (₹ in lakh)	413.66	492.70	563.69	662.16	581.29
Financial achievement	177.90	350.96	156.05	527.73	381.43
<b>PBCMDC</b>					
Number of targeted beneficiaries	1,617	1,221	1,320	2,050	2,904
Number of beneficiaries assisted	651	496	249	353	501
Financial target (₹ in lakh)	106.15	133.70	191.30	306.60	562.98
Financial achievement	49.53	125.08	131.26	161.16	376.57

We observed that:

- Though the companies had fixed annual physical and financial targets, the Government of Puducherry had not fixed any target for these two companies during the audit period up to 2010-11 indicating absence of action plan and drive at the Government level for expeditious coverage of beneficiaries.

PBCMDC replied (September 2011) that the representatives of the Government of Puducherry were in its Board of Directors (BOD) and hence the Company's targets were to be considered as targets of the Government. The fact, however, remained that there was no mechanism at the Government level to fix its target and drive the Company to achieve the said target.

- There was no system of fixing target by identifying the beneficiaries by these companies at the village/block/region level.
- PADCO delayed disbursement of term loan to the selected beneficiaries in respect of 47 per cent of 221 cases test-checked by audit and the delays ranged from four to 16 months. In PBCMDC, such delays ranged from four to 18 months in respect of 42 per cent of the 657 cases test-checked. PADCO also delayed disbursement of subsidy and margin money (₹ 55 lakh) to the banks in respect of loan-cum-subsidy scheme. The delays ranged from three to seven months in respect of 33 per cent of 1,117 cases test-checked by us. The delays, as analysed by Audit, were attributable to procedural delays of verification of the beneficiaries' document and antecedents, delays in verification of the premises of the beneficiaries and delays in disbursement of the loan assistance after completion of verification.
- We observed that the targets of the Companies were not based on



the assessment of capabilities of the beneficiaries at the village level/block level to undertake specified activities. PADCO extended financial assistance for setting up of a petty shop/ provision stores to 60 beneficiaries of the same village and same street without analyzing the viability of these business in a single village.

### **Implementation of schemes**

#### **Margin money loan scheme of PADCO and PBCMDC**

**5.2.5** The margin money loan-cum-subsidy scheme was implemented by PADCO through banks. The Company identified the eligible beneficiaries to the banks. On receipt of intimation of sanction (Form-I) from banks, subsidy at the rate of 50 *per cent* of the loan amount subject to a ceiling of ₹ 10,000 was released to the banks. Margin money at 25 *per cent* of the unit cost or maximum of ₹ 6,250 was kept as fixed deposit with the loan disbursing banks for a period of three years. Interest on margin money deposit would be shared equally by the Company and the beneficiary. The banks were responsible for recovery of the loan. During 2006-11, PADCO had disbursed subsidy of ₹ 5.13 crore and margin money deposit of ₹ 3.48 crore to 5,829 beneficiaries.

PBCMDC, in respect of the similar scheme implemented by it would release subsidy equivalent to 2/3rd of the loan amount with a ceiling of ₹ 4,000. During the audit period 2006-11, PBCMDC disbursed a subsidy of ₹ 42.21 lakh to 1,083 beneficiaries. We observed that:

- Both the companies released the subsidy and margin money to the lending banks on the basis of sanction letter (Form-I) issued and no action was taken to verify the disbursement of loans by the banks. **Audit conducted an independent verification of loan disbursement by ten Primary Agricultural Co-operative Banks (PACBs), involving disbursement of subsidy to 1,539 beneficiaries. We noticed that even though the loan amounts were disbursed as per the individual loan ledgers of all the ten PACBs, the loan was shown as repaid in the subsequent week by reversal entry and the loan accounts were closed. Thus, in all the cases, the PACBs had denied loan to the beneficiaries and disbursed only the subsidy portion but retained the margin money deposit of ₹ 63.38 lakh with themselves.**

#### **Term loan scheme of PADCO**

**5.2.6** Out of the funds received from NSFDC, PADCO extended term loan to SC beneficiaries to promote self-employment among the targeted beneficiaries. The maximum amount fixed for loan assistance was ₹ one lakh which was repayable in 60 instalments and would carry interest rate of six *per cent per annum*. We examined disbursement of term loan amounting to ₹ 2.12 crore to 221 beneficiaries during our audit and observed that:

- The beneficiaries submitted the loan application to PADCO along with quotation from the wholesale traders/dealers which would form the basis for fixing the quantum of term loan. As per guidelines of NSFDC, PADCO should release payment to supplier/manufacturer only after verification of procurement of the asset. We noticed that none of the supplier had actually furnished the invoice for supply of asset after receipt of cheques. However, PADCO had disbursed ₹ 80 lakh to 80 beneficiaries during the audit period without bills/invoices. Further, there was no inspection carried out by the Company to ensure that suppliers had actually supplied the materials/assets before commencement of business activity.
- The scheme envisaged insurance coverage of the assets by the beneficiaries throughout the loan period of five years in the name of beneficiaries and PADCO. However, in disbursement of loan of ₹ 72 lakh to 31 beneficiaries for purchase of milch animals, the Company had details of the insurance premium paid by the beneficiaries only for first year in respect of 27 cases. In none of the cases, PADCO ensured insurance coverage for the subsequent years.
- Similarly, PADCO did not insist on payment details of insurance premium for purchase of power tillers in 23 cases involving a term loan amount of ₹ 30.27 lakh.
- This scheme envisaged assistance only to those beneficiaries who are 'below the poverty line'<sup>7</sup> in the rural areas and 'below double the poverty line'<sup>8</sup> in urban areas. However, we noticed that in two cases (loan: ₹ two lakh), the beneficiaries submitted income certificates indicating that they belonged to 'below double the poverty line' but they were Income Tax Assessees and paid Income Tax.
- PADCO extended term loan of ₹ 25 lakh to 25 beneficiaries and accepted surety from persons, whose take home pay was insufficient to cover the loan instalment value against all financial ethics and norms. In 15 cases, it was observed that same persons stood as surety for more than one loan.

#### **Term loan scheme of PADCO financed by NSKFDC**

**5.2.7** PADCO extended term loan up to ₹ five lakh out of NSKFDC funds to people engaged in scavenging activities and their dependant family members without any income limit. The loan was repayable in five years with interest at the rate of six *per cent per annum*. During 2006-07,

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<sup>7</sup> Families having income below ₹ 22,000 *per annum* are below poverty line families.

<sup>8</sup> Families having income below ₹ 44,000 *per annum* in rural areas and families having income below ₹ 55,000 *per annum* in urban areas are classified as below double the poverty line.

PADCO disbursed loans to the extent of ₹ 69.25 lakh to 15 people. We observed in a test check, the following irregular disbursements:

- Loan amount of ₹ five lakh extended to a beneficiary for purchase of tractor and trailer without ascertaining the proof of purchase *i.e.*, invoice, registration number allotted by Regional Transport Officer and insurance premium paid by the beneficiary.
- Loan amount of ₹ 4.75 lakh disbursed to a beneficiary for running a dairy business of which a sum of ₹ three lakh was released for purchase of 20 cows without insisting on proof of insurance and tagging of the animals as was done under NSFDC term loan.
- In seven cases, loan of ₹ five lakh each was disbursed on the basis of certificate issued by the President of Scavengers Association, who had certified and recommended loans including for his spouse. In four other cases, the Company accepted the certificate issued by a Health officer, instead of obtaining certificate from competent official *viz.*, Municipal Manager or from Sanitary Inspector. The Company disbursed the loan without verifying the genuineness of the association and employment proof of the beneficiaries as scavengers.
- The Company has accepted surety of a Government official whose take home pay was ₹ 4,700 for loans to two persons amounting to ₹ 10 lakh for which the monthly EMI works out to ₹ 8,300 (principal amount alone).

We conclude that the scheme was implemented compromising the checks and balances which led to NIL recovery of the entire loan of ₹ 69.25 lakh disbursed.

### **Term loan scheme of PBCMDC**

**5.2.8** PBCMDC had given term loans up to ₹ one lakh to BC and minority beneficiaries, who hailed from below double the poverty line. The loan amount was financed by NBCFDC and NMDFC carried an interest of six *per cent per annum* and was repayable in 60 instalments. During our audit, we examined the loan sanctioned to 657 beneficiaries for an amount of ₹ 4.97 crore out of the total disbursement to 1,167 beneficiaries involving loan amount of ₹ 8.01 crore and observed:

- PBCMDC released an amount of ₹ 2.09 crore to 272 beneficiaries for purchase of milch animals without any proof of purchase and without insurance/tagging of the milch animal though such a system was to be followed by SCAs before disbursal of loan as per the Scheme guidelines.
- Term loan of ₹ 1.88 crore was disbursed to 212 beneficiaries who had not indicated even the place of business. However, as per the terms and conditions of funding agencies, PBCMDC was

responsible for ensuring creation of assets out of the scheme funds. In the absence of basic data on location of the business, there was no proof that the beneficiaries have actually commenced their business and were earning regular income after the assistance.

- In case of 20 loans (₹ 13.83 lakh), the beneficiaries submitted family income certificates which were below double the poverty line. However, we noticed that spouses who stood surety for the loanees had income above double the poverty line, thus making them ineligible for the financial assistance.
- As per the policy of PBCMDC, term loan was to be given to the beneficiaries of age between 18 and 45 years. In 16 cases, loan amount of ₹ 12.48 lakh was disbursed to persons who had crossed the upper age limit.
- As per policy of the PBCMDC, a person standing surety for a loan should be a Government servant. However, in 72 cases the sureties were employees of co-operative bodies and daily wage employees.
- PBCMDC extended loan to five beneficiaries though the sureties' balance period of service was less than the loan repayment period of five years.

PBCMDC in accepting the contentions replied (September 2011) that shortcomings pointed out by Audit would be rectified in future and further stated that instructions were already given to have updated data base of sureties, accept sureties only from Government employees and verify creation of assets.

#### **Low/middle investment credit scheme**

**5.2.9** PADCO provided loan at the rate of ₹ 5,000/₹ 10,000 to the SC beneficiaries for commencing petty business. The loans carried interest at the rate of four *per cent per annum* and were to be repaid in 25 instalments without any moratorium. Beneficiaries were eligible for back end subsidy at the rate of 50 *per cent* of the loan amount. Between 2006 and 2011, PADCO had disbursed ₹ 1.03 crore to 2,051 beneficiaries under this scheme. We test checked 1,667 loan sanctions for an amount of ₹ 83.35 lakh and observed:

- PADCO disbursed the entire loan of ₹ 83.35 lakh in cash directly to the beneficiaries (at the rate of ₹ 5,000 each) without any proforma invoice/quotation from the suppliers. After disbursement of the loan, PADCO failed to obtain any proof for purchase of asset. This violated the scheme guidelines to provide loan assistance only for identified business activities.
- Against the Company's policy to accept surety only from Government servants, PADCO accepted mutual surety of beneficiaries of this scheme. It is pertinent to note that the

Company did not get the approval of its BOD for such deviations. Such unauthorised relaxation of securitisation policy had hampered recovery of loan as was evident from the fact that the loan recovery was a dismal 11 *per cent* of the disbursements.

### **Scheme for rehabilitation of manual scavengers**

**5.2.10** The GOI launched (January 2007) the scheme for rehabilitation of manual scavengers through NSKFDC by March 2009. Under this scheme, Micro Credit Loan was given up to ₹ 25,000 with five *per cent* interest (four *per cent* in case of women scavengers and their dependent daughters) along with front end subsidy of 50 *per cent* of the loan amount. According to the survey conducted by Pondicherry University Community College as requested by PADCO, there were 87 families comprising 347 scavengers in Puducherry, Karaikal and Mahe regions. Against PADCO's request for sanction of ₹ 42.50 lakh, NSKFDC released (February 2008) ₹ 19.75 lakh towards capital subsidy at ₹ 12,500 to 158 scavengers and ₹ 4.40 lakh towards training. However, PADCO provided subsidy of ₹ 3.75 lakh to 30 beneficiaries and spent ₹ 0.76 lakh on training to 15 beneficiaries and returned funds of ₹ 16 lakh to NSKFDC along with unutilised amount of ₹ 3.64 lakh earmarked for training during July 2008. Thus, the Company failed to fulfill the broad objective of GOI *viz.*, rehabilitation of manual scavengers.

### **Mahila Samridhi Yojana**

**5.2.11** PADCO submitted a proposal (January 2007) to NSKFDC to give loans to 100 women beneficiaries and received ₹ 22.50 lakh (April 2007). The Company could not identify the beneficiaries and the amount was refunded to NSKFDC in March 2008.

### **Monitoring and Impact assessment**

**5.2.12** Post disbursement monitoring of beneficiary is necessary to ensure that the financial assistance was used for intended purpose. The central funding agencies have directed the SCAs to install effective monitoring mechanism and send periodical information relating to progress and implementation of the scheme. As per the guidelines, the SCAs are to carry out impact study of assistance and visit the beneficiaries' atleast twice during the loan period for follow up. Our scrutiny of monitoring system of the companies revealed:

- No procedure was evolved by PADCO and PBCMDC for post disbursement monitoring of the beneficiaries nor did the companies have data on the financial status of the loanees after the assistance.
- PADCO had not obtained Form-2 from the lending banks as proof of disbursement of loan to the beneficiaries. Also, PADCO had not insisted to the banks to return the margin money in respect of undisbursed loans.

We observed that the monitoring mechanisms of these companies were below the standards prescribed by the funding agencies. However, PBCMDC claimed (September 2011) that it was undertaking post disbursement inspections of the beneficiaries, but it could not produce any proof of such inspections. During our audit, we interacted with 27<sup>9</sup> out of 221 beneficiaries who had availed term loan from PADCO and 173<sup>9</sup> out of 1,167 beneficiaries who had availed term loan from PBCMDC. Our interaction revealed the following:

PADCO	PBCMDC
Default in repayment due to inadequate income generation (12 beneficiaries)	Default in repayment due to inadequate income generation (30 beneficiaries)
Assets not created (eight beneficiaries)	Assets not created (24 beneficiaries)
Assets sold before completion of the loan (one beneficiary)	Assets sold before completion of the loan (four beneficiaries)
Loan utilised for different purpose (NIL)	Loan utilised for different purpose (19 beneficiaries)
Loan disbursed to the beneficiaries who have income above the income ceiling (one beneficiary)	Loan disbursed to the beneficiaries who have income above the income ceiling (44 beneficiaries)

There is an urgent need for these companies to revisit their conditions, checks and balances and take remedial action.

### Recovery performance

**5.2.13** Due to deficiencies in implementation and monitoring the schemes, the recovery performance of PADCO was dismal and had impaired its ability to recycle the funds for further assistance to other needy beneficiaries. The percentage of collection of dues stood at a maximum of 2.01 *per cent* for the three years from 2006-07. The scheme-wise details of the recovery performance of PADCO are given in **Appendix 5.7**.

We were unable to assess the recovery performance of PBCMDC due to non-maintenance of updated data on outstanding amounts of principal and interest as on March 2011. The Company's accounts finalised up to 2008-09 did not contain the information on outstanding loan and interest of various schemes. However, the Company claimed that its recovery performance on 31 March 2009 was 39.47 *per cent*. We observed that the poor recovery performance of these companies was mainly due to:

- Not sending demands and reminders for defaulting beneficiaries.
- Non-maintenance of updated loan registers of individuals (PBCMDC).

<sup>9</sup> The beneficiaries were selected on random basis.

- Not invoking the surety for recovery of defaulted payments.
- Both the companies never encashed the cheques (10 leaves of cheque received from beneficiaries for each term loan) obtained from the beneficiaries to enforce recovery even after defaults by them.

This lack of seriousness in recovering the earlier loans led to PADCO's repayment of overdue amount of ₹ 2.84 crore to NSFDC from its fresh sanctions. PADCO was eligible for share capital assistance from GOI, if it maintained the minimum recovery of 60 *per cent* of the loan to the beneficiaries. Due to the poor recovery of loan, it had to forego share capital assistance of ₹ 10.96 crore from GOI for the period from 2005-2011. PBCMDC repaid ₹ 0.93 crore of overdue amount to NBCFDC out of the State's share capital assistance.

PBCMDC replied (September 2011) that it had already taken number of steps to improve its recovery performance.

### **Conclusion**

- Both the companies did not have the data base of eligible beneficiaries at village/block level and consequently could not accurately plan their activities.
- There was shortfall in achievement of annual targets due to avoidable delays in selection of beneficiaries.
- PADCO retained a major portion of the scheme funds in interest bearing short term deposits instead of disbursement to needy beneficiaries.
- Both the companies disbursed the term loans without verifying the purchase and installation of asset and its insurance, though such control was required as per the directives of their apex funding agencies.
- Instances of selection of ineligible beneficiaries, obtaining inadequate security, *etc.*, were noticed.
- Implementation of term loan-cum-subsidy scheme through PACBs proved to be a failure as PACBs did not release their portion of loan to the selected beneficiaries.
- Both the companies failed to monitor the schemes during and after implementation and did not install an effective recovery mechanism leading to poor recovery.

### **Recommendations**

The companies need to:

- Prepare annual plan and need based strategic plan required for the schemes.

- Improve implementation of the schemes by proper identification of the deserving beneficiaries.
- Avoid procedural delays and ensure that the schemes achieve the stated objectives.
- Constantly monitor the productive use of the assets to assess the impact of the schemes and carry out mid term corrections, wherever necessary.
- Install an effective recovery mechanism.

### **PUDUCHERRY AGRO SERVICE AND INDUSTRIES CORPORATION LIMITED**

#### **5.3 Inadmissible pay and allowances**

**The Company allowed inadmissible pay and allowances amounting to ₹ 1.83 crore to employees for the period from September 2006 to February 2011.**

Puducherry Agro Service and Industries Corporation Limited (Company), which is engaged in turn key engineering projects on behalf of the Government of Union Territory (UT) of Puducherry regulates the pay and allowances to its employees as per the existing pay structure of Government of India (GOI).

The Company decided (September 2006) to grant two increments to all the employees, pending implementation of the new pay scales as per the recommendations of Sixth Pay Commission of GOI. The Company also decided (September 2006) that these increments were to be withdrawn/adjusted while implementing the benefits finally recommended by the Pay Commission.

We noticed (April 2011) that the Company decided (November 2008) to implement the pay structure recommended as per Sixth Pay Commission with effect from 1 November 2008, but did not withdraw the two advance increments earlier sanctioned as per its decision in September 2006. On its being pointed out, the Company withdrew the payment of two increments with effect from 1 March 2011, however, the overpayment made from September 2006 to February 2011 was not recovered till date. As per data made available by the Company for the period from May 2009 to February 2011, the overpayment worked out to ₹ 0.80 crore. Further, for the period from September 2006 to April 2009 we worked out the amount of overpayment at ₹ 0.92 crore<sup>10</sup>. The total overpayment on this account thus worked out to ₹ 1.72 crore.

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<sup>10</sup> (Total period – 32 months *i.e* from September 2006 to April 2009; For 12 months @ ₹ 2.50 lakh per month = ₹ 30 lakh and for 20 months @ ₹ 3.10 lakh per month = ₹ 62 lakh)



We also noticed that in contravention of the Sixth Pay Commission recommendations, the Company allowed House Rent Allowance (HRA) at 20 *per cent* to 46 employees working in depots outside the urban agglomeration of Puducherry as against the admissible rate of 10 *per cent* resulting in inadmissible HRA payment amounting to ₹ 11.47 lakh during the period May 2009 to February 2011.

In all, the Company allowed inadmissible pay and allowances of ₹ 1.83 crore for the period from September 2006 to February 2011, which needs recovery.

The Company replied (May 2011 and July 2011) that action would be taken for recovery of the amount after getting approval of its Board of Directors and revision of the HRA entitlement of employees.

Chennai  
The

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The

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