

**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 2013, there were 13 Government companies (all working) and none of them was listed on the stock exchange(s). These PSUs registered a turnover of ₹ 373.92 crore<sup>1</sup> as per their latest finalised accounts (September 2013). This turnover was equal to 2.18 *per cent* of Gross State Domestic Product (GSDP) of ₹ 17,191.67 crore for 2012-13. Major activities of PSUs are concentrated in the manufacturing and financing sectors. The PSUs incurred an aggregate loss of ₹ 31.68 crore as per their latest finalised accounts (September 2013). They had employed 5,829 employees as on 31 March 2013.

**5.1.2** No PSU was either established or closed during 2012-13.

**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 the Comptroller and Auditor General of India (CAG) as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956.

##### Investments in Union Territory PSUs

**5.1.5** As on 31 March 2013, investment (capital and long-term loans) in 13 PSUs was ₹ 711.15 crore as per details given below:

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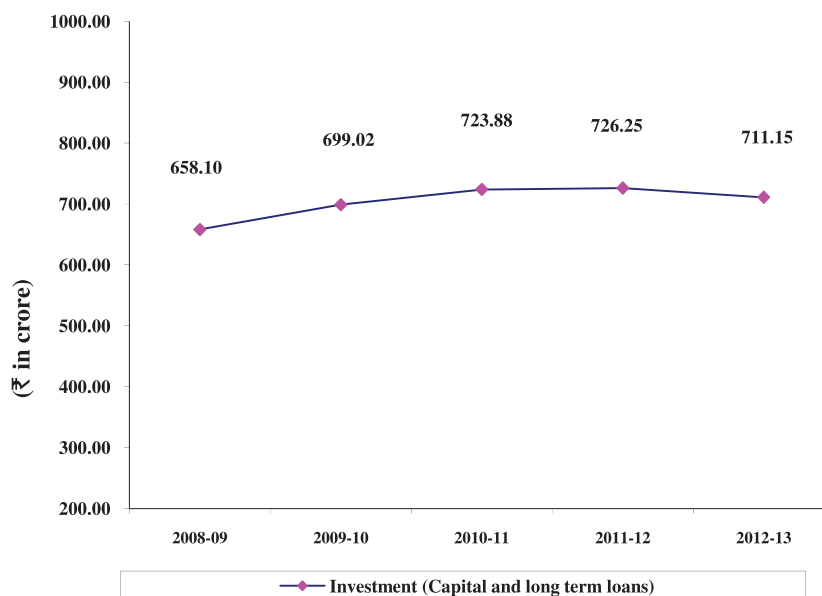
<sup>1</sup> Nine companies finalised their accounts for the years other than 2012-13

(₹ in crore)			
Type of PSUs	Capital	Long Term Loans	Total
Working PSUs	711.15	---	711.15

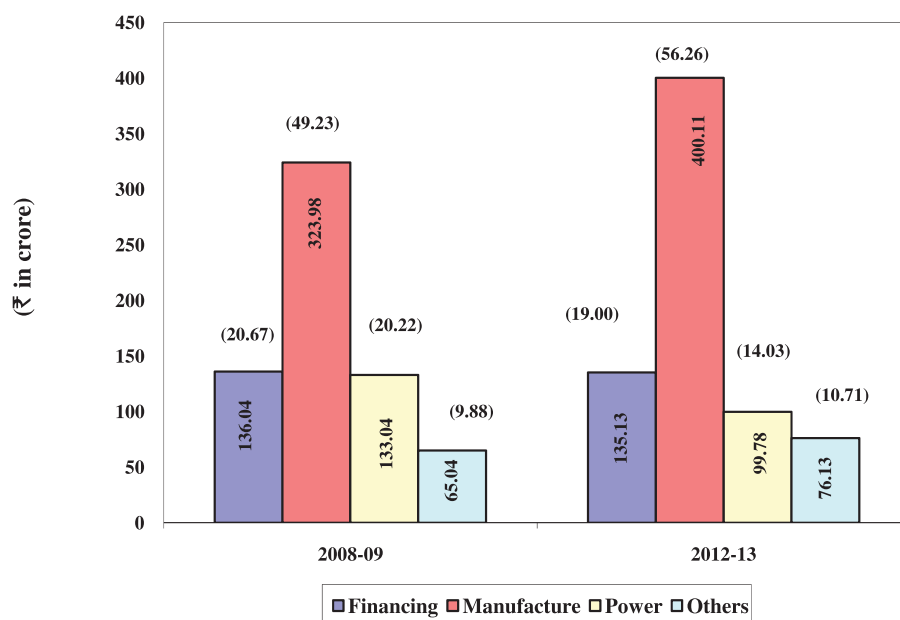
(Source: Details furnished by the companies)

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 2013, total investment in 13 PSUs was towards capital. Investment has grown by 8.06 *per cent* from ₹ 658.10 crore in 2008-09 to ₹ 711.15 crore in 2012-13.



**5.1.7** Investments in various important sectors and percentage thereof at the end of 31 March 2009 and 31 March 2013 are indicated below:



(Figures in brackets show the sector percentage to total investment)

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

**5.1.8** 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**. Summarised details of budgetary support from Government of UT of Puducherry are given below for three years ended 31 March 2013.

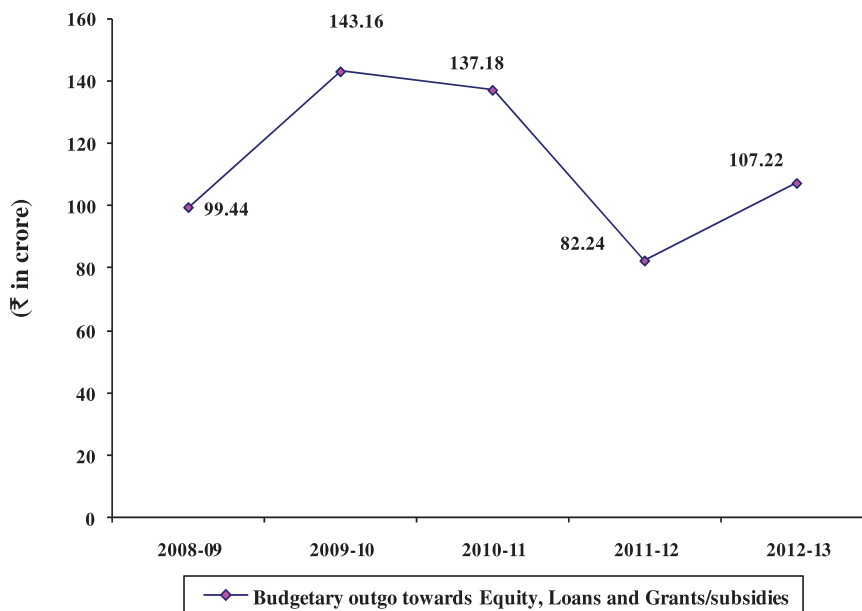
(Amount – ₹ in crore)

Sl. No	Particulars	2010-11		2011-12		2012-13	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity Capital outgo from budget	7	17.72	5	6.73	1	0.25
2	Loans given from budget	1	0.32	---	---	---	---
3	Grants/Subsidy received	6	119.14	6	75.51	9	106.97
4	Total Outgo (1+2+3)	8 <sup>2</sup>	137.18	8 <sup>2</sup>	82.24	9 <sup>2</sup>	107.22
5	Loan converted into equity	2	4.01	---	---	---	---
6	Guarantee Commitment	1	4.97	1	3.64	1	3.61

(Source : Details furnished by the Companies)

<sup>2</sup> These are the actual number of companies which have received budgetary support in the form of equity, loans and grants/subsidies from the UT Government during the respective years

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



**5.1.10** As regards guarantee commitment, only Puducherry Adi Dravidar Development Corporation Limited availed the Government of India guarantee against which ₹ 3.61 crore was outstanding as on 31 March 2013. No guarantee commission was payable to the UT Government by the Company.

**Absence of accurate figure for investment in PSUs**

**5.1.11** Figures in respect of equity and loans outstanding as per records of UT PSUs should agree with that of the figures appearing in the Finance Accounts of the Government of UT of Puducherry. In case the figures do not agree, the concerned PSUs and the Finance Department should reconcile the differences. The position in this regard as at 31 March 2013 is stated below:

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts 2012-13	Amount as per records of PSUs	Difference
Equity	700.48	700.78	0.30
Loans	0.94	NIL	0.94
Guarantees	3.61	3.61	NIL

(Source: Finance Accounts for 2012-13 and details furnished by the companies)

**5.1.12** Audit observed that the differences occurred in two PSUs and were pending reconciliation for over six years up to 2012-13. The UT Government and PSUs may take concrete steps to reconcile the differences in a time bound manner.

### Performance of PSUs

**5.1.13** 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. The table below provides details of PSUs turnover vis-a-vis UT GSDP for the period 2008-09 to 2012-13.

(₹ in crore)

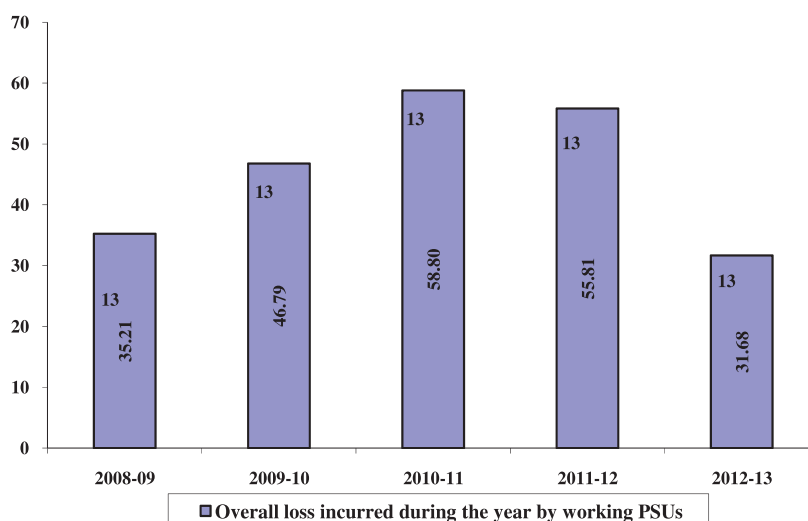
Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Turnover	399.89	308.53	338.35	336.68	373.92 <sup>3</sup>
GSDP	11,773.57	11,255.23	11,255.23	14,081.06	17,191.67
Percentage of Turnover to State GDP	3.40	2.74	3.01	2.39	2.18

(Source : Details furnished by the Companies and GSDP furnished by UT Government)

Compared to 2008-09, the turnover and percentage of turnover to GSDP showed a decreasing trend indicating that the contribution of PSUs of UT to GSDP was not substantial.

**5.1.14** Losses incurred by UT PSUs during the period 2008-13 are given below:

(₹ in crore)



<sup>3</sup> Turnover as per latest finalised accounts as on 30 September 2013.

During the year 2012-13, out of 13 PSUs, three PSUs earned profit of ₹ 14.79 crore while nine PSUs incurred loss of ₹ 46.47 crore leading to overall loss. One PSU, viz., Puducherry Backward Classes and Minorities Development Company prepared its accounts on 'no profit no loss' basis. The contributors to profit were Puducherry Power Corporation Limited (₹ 7.95 crore), Puducherry Distilleries Limited (₹ 4.63 crore) and Pondicherry Industrial Promotion, Development and Investment Corporation Limited (₹ 2.21 crore). Heavy losses were incurred by Pondicherry Textiles Corporation Limited (₹ 16.85 crore) and Swadeshee-Bharathee Textile Mills Limited (₹ 11.36 crore).

**5.1.15** Losses of PSUs were mainly attributable to deficiencies in financial management, planning, implementation of projects, operational management and monitoring. The Audit Reports of the CAG for the three years ending March 2013 reflect avoidable expenditure/loss of revenue to the extent of ₹ 3.82 crore and idle investment of ₹ 3.48 crore. This could have been controlled with better management. Year wise details from Audit Reports are stated below:

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	Total
Net Profit (loss)	(58.80)	(55.81)	(31.68)	(146.29)
Controllable losses as per C&AG's Audit Report	1.83	1.99	---	3.82
Idle investment	---	---	3.48	3.48

(Source: Latest finalised accounts of companies and CAG's Audit Report)

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

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

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Return on Capital Employed (Per cent)	NIL	NIL	NIL	NIL	NIL
Debt	11.48	16.46	19.59	15.35	NIL
Turnover	399.89	308.53	338.35	336.68	373.92
Debt/Turnover Ratio	0.03:1	0.05:1	0.06:1	0.05:1	---
Interest Payments	7.25	10.49	10.56	15.15	12.88
Accumulated Losses	263.76	268.60	378.51	449.45	496.38

(Source: Details furnished by the companies and latest finalised accounts of companies)

**5.1.18** As per the latest finalised accounts of PSUs as on 30 September 2013, the capital employed worked out to ₹ 641.58 crore in comparison to capital employed of ₹ 581.28 crore in 2008-09. During the last five years, overall return on capital employed remained “NIL”.

**5.1.19** The State Government had not formulated any policy for payment of minimum dividend on the share capital contributed by it. As per the latest finalised accounts, three PSUs earned an aggregate profit of ₹ 14.79 crore and two PSU<sup>4</sup> declared a dividend of ₹ 3.62 crore.

#### Arrears in finalisation of accounts

**5.1.20** Annual accounts of companies 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 details of progress made by PSUs in finalisation of accounts by September 2013.

Sl.No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1.	Number of PSUs	13	13	13	13	13
2.	Number of accounts finalised during the year.	13	13	8	17	10
3.	Number of accounts in arrears	20	20	25	21	24
4.	Number of PSUs with arrears in accounts	13	13	13	12	12
5.	Extent of arrears	1 to 3 years	1 to 3 years	1 to 3 years	1 to 3 years	1 to 4 years

(Source: Details compiled by audit)

**5.1.21** It could be seen from the table that 12 companies are having arrears in finalisation of accounts ranging from one to four years as on 30 September 2013. The companies should take efforts to reduce the arrears in finalisation of accounts.

**5.1.22** As of September 2013, the UT Government invested ₹ 185.28 crore (Equity: ₹ 5.86 crore, Grants/Subsidies: ₹ 179.42 crore) in eight PSUs during the years for which accounts have not been finalised as detailed in **Appendix 5.4**. In the absence of accounts and their audit, investments and expenditure incurred cannot be vouchsafed.

**5.1.23** Administrative departments overseeing the activities of these entities have also to ensure that the accounts are finalised and adopted by

<sup>4</sup> Pondicherry Industrial Promotion Development and Investment Corporation Limited and Puducherry Power Corporation Limited.



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 (October 2013) with the Secretary to UT Government, Finance Department to expedite the finalisation of accounts in arrears.

**5.1.24** It is therefore, recommended that the UT Government should monitor and ensure timely finalisation of accounts with special focus on arrears and comply with the provisions of the Companies Act, 1956.

#### **Adverse Comments on the Accounts and Internal Audit of PSUs**

**5.1.25** The audit reports of statutory auditors 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 - ₹ in crore)

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Increase in loss	2	5.79	2	10.23	3	33.22
2.	Decrease in loss	---	---	---	---	1	17.78
3.	Errors of classification	1	0.60	---	---	---	---
	<b>Total</b>	<b>2</b>	<b>6.39</b>	<b>2</b>	<b>10.23</b>	<b>4</b>	<b>51.00</b>

(Source: Annual accounts of the companies)

**5.1.26** During the year, the statutory auditors had given unqualified certificates for eight accounts and qualified certificates for two accounts.

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

#### ***Pondicherry Textiles Corporation Limited (2011-12)***

- There was understatement of loss due to:
  - (i) accounting of compensation towards Voluntary Retirement Scheme as receivable from Government of Puducherry without its orders – ₹ 1.04 crore.
  - (ii) non-provision for contribution payable to Employees State Insurance Corporation on the interim relief granted to workers and contract labourers – ₹ 1.79 crore.

(iii) Valuation of closing stock of cloth at cost which had realisable value lower than the cost – ₹ 5.04 crore.

***Pondicherry Corporation for Development of Women and Differently Abled Persons Limited (2011-12)***

- Non-accountal of ₹ 25.84 crore of grants received from the Government as revenue as per the provisions of Accounting Standard (AS)-12 has resulted in overstatement of loss by ₹ 25.84 crore.
- The Company recognised deferred tax assets in contravention of the provisions of AS-22, which resulted in overstatement of loss by ₹ 8.06 crore.

***Puducherry Road Transport Corporation Limited (2010-11)***

- The Sixth Pay Commission arrears payable amounting to ₹ 1.05 crore were not provided in the accounts which resulted in understatement of current liabilities and loss.

***Swadeshee Bharathee Textile Mills Limited (2009-10)***

- Interest of ₹ 23.62 crore payable on the purchase was not provided in its accounts which resulted in understatement of accumulated losses.

**5.1.28** 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 2012-13 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 preparing short term/long term business plans and reviewing the same with actuals	2	12 & 13
2.	Internal audit requires strengthening	2	2 & 13
3.	Internal audit manual not prescribed	4	9,11, 12 & 13
4.	Delineated fraud policy not available	5	2, 9, 10, 11 & 13
5.	Non-formation/non-convening of Audit Committee in compliance with Section 292-A of the companies Act, 1956	2	4 & 5

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
6.	Non-maintenance of proper register for fixed assets	1	5
7.	There was no approved IT strategy or plan	7	2, 3, 4, 5, 10, 12 & 13

(Source: Reports furnished by Statutory Auditors under Section 619(3) (a) of the Companies Act, 1956)

The companies concerned should address the issues commented upon by the statutory auditors and take effective remedial action.

### **PUDUCHERRY ROAD TRANSPORT CORPORATION LIMITED**

#### **5.2 Idling of buses**

**Buses and additional fitments worth ₹ 3.48 crore procured out of Central assistance were kept idle for more than two years.**

Puducherry Road Transport Corporation Limited (Company) formed in 1986 is engaged in road transport services in the Union Territory of Puducherry (UT) with a fleet strength of 85 buses at the end of March 2009.

The Government of India (GOI) formulated (2006) a Central assistance scheme *viz* “Jawaharlal Nehru National Urban Renewal Mission” (JnNURM). The objectives of JnNURM, *inter alia* aimed at development of infrastructure including public transport in urban areas. The Company, to take advantage of scheme of GOI conducted (March 2009) a study and found that there was scope for increasing its fleet strength upto 128 buses by the year 2010.

Accordingly, the Government of UT, on behalf of the Company approached (March 2009) the GOI for sanction of ₹ 49.79 crore under JnNURM for augmentation of the company’s fleet strength and other facilities such as construction of bus shelters, depots, *etc.* GOI sanctioned (May 2009) ₹ 16.15 crore for purchase of 50 buses in which ₹ 12.92 crore would be the share of Central assistance and balance of ₹ 3.23 crore would be the share of UT. The first instalment of GOI’s assistance (₹ 3.23 crore) and the share of UT (₹ 3.23 crore) amounting to ₹ 6.46 crore was received by the Company during January and March 2010. The second instalment of GOI’s assistance of ₹ 4.73 crore was received in November 2012.

In the meantime, the Company placed (November 2009) purchase orders with private company for supply of 40 fully built buses at a cost of ₹ eight crore and additional fitments such as single integrated controller for Information Technology System (ITS), Global Positioning System (GPS) based Telematic onboard units at a total cost of ₹ 0.45 crore. This company delivered 26 buses in May/June 2010 and remaining 14 buses in January 2013.

Based on review of the operations of 40 buses purchased through Central assistance during the period June 2010 to March 2013, Audit observed that:

- During the above period, the overall fleet utilisation factor<sup>5</sup> of these 40 buses was only 59 *per cent*. This was far below the all India average fleet utilisation of 92 *per cent*. The low fleet utilisation was mainly due to idling of five buses continuously from December 2011 to date (December 2013) for want of crew. Further, nine more buses which were received in January 2013 were not registered with the Transport Department up to July/August 2013. Even after registration of these buses, they were not operated till date (December 2013) due to non-availability of crew. Consequently, these 14 buses purchased at a cost of ₹ 3.03 crore were kept idle for majority of the period (80.58 *per cent* of the available days) from September 2011 to till date (December 2013). The idling of these buses resulted in non-achievement of the objective of providing quality transport services within the urban areas under JnNURM, besides loss of revenue of ₹ 2.89 crore to the Company (based on the average revenue earned per day by a bus operated by the Company).
- As per the objectives of JnNURM, the Central assistance was to be utilised as an additional resource to the existing resource of the utilising organisation. Moreover, as per the projections of the Company, the Central assistance of JnNURM was to be utilised for augmentation of its fleet strength. However, out of 40 buses purchased, 26 buses (excluding 14 buses mentioned above) were utilised as replacement of the existing over aged vehicles. Thus, expenditure of ₹ 5.63 crore incurred out of the Central assistance of ₹ 7.96 crore did not fulfill the scheme's objectives of augmentation of the infrastructure facilities.
- Though the Company purchased single integrated controller for ITS and GPS based Telematic onboard units at a total cost of ₹ 0.45 crore, these equipments were not utilised till date (December 2013) as the Company had not developed required software for their operation which rendered the above purchase wasteful.

The Company while admitting (October 2013) the facts stated that the poor operation of buses procured through Central assistance was mainly due to want of crew. However, non-availability of the required manpower for operation of the buses and lack of control over crew absenteeism was an

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<sup>5</sup> This indicates the ratio of buses available *vis-a-vis* the buses put on road.

issue unresolved by the Company since 2005-06, which was commented upon in the Report of the CAG for the year ended 31 March 2009, Government of UT. However, the Company obtained Central assistance and purchased the buses without an action plan for increasing the man power and reducing crew absenteeism resulting in idling of buses.



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