CHAPTER IV

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

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4.1 Public Sector Undertakings of Government of Union Territory of Puducherry

4.1.1 Introduction

Union Territory of Puducherry established Public Sector Undertakings (PSUs) to carry out activities of commercial nature keeping in view the welfare of people and to occupy an important place in the UT economy. As on 31 March 2018, there were 13 PSUs in UT of Puducherry (including one non-functional[1] Government company) under the audit jurisdiction of the Comptroller and Auditor General of India.

The financial performance of the PSUs on the basis of latest finalised accounts as on 30 September 2018 is covered in this Chapter. The nature of PSUs and the position of accounts are indicated in **Table 4.1**.

Table 4.1: Nature of PSUs covered in the Chapter

Nature of PSUs	Total Number	Number of PSUs of which accounts received during the reporting period[2]				Number of PSUs of which accounts are in arrear (total accounts in arrear) as on 30 September 2018
		Accounts during 2017-18	Accounts during 2016-17	Accounts during 2015-16	Total	
Working Government Companies[3]	12	9	11	7	27	12 (38)
Total working PSUs	12	9	11	7	27	12 (38)
Non-Functional Government Companies	1[4]	--	--	--	--	--
Total	**13**	**9**	**11**	**7**	**27**	**12 (38)**

[1] Those PSUs which have not been carrying on any business or operation and defined as 'inactive company' under Section 455 of the Companies Act, 2013, are termed as "non-functional Government company" in this Chapter.

[2] From October 2017 to September 2018.

[3] Government PSUs include other Companies referred to in Section 139(5) and 139(7) of the Companies Act, 2013.

[4] Pondicherry Electronics Limited is in the process of winding up since 2013-14 and its accounts are not anticipated.

The working PSUs registered a turnover of ₹ 387.18 crore as per their latest finalised accounts as on 30 September 2018. This turnover was equal to 1.20 *per cent* of Gross State Domestic Product (GSDP) for the year 2017-18 (₹ 32,215 crore). The working PSUs incurred an aggregate loss of ₹ 39.05 crore as per their latest finalised accounts. As on March 2018, the State PSUs had employed 4,195 employees.

There is one non-functional PSU as on 31 March 2018, *viz.,* Pondicherry Electronics Limited (PELECON) which is a subsidiary of Pondicherry Industrial Promotion Development and Investment Corporation Limited (PIPDIC). PELECON is in the process of winding up and consequently PIPDIC, the Holding Company, has assumed the assets and liabilities of PELECON. The proceedings for getting the name of PELECON struck off from the Register of Companies under Fast Track Exit Scheme is under process.

4.1.2 Accountability framework

The procedure for audit of Government companies are laid down in Sections 139 and 143 of the Companies Act, 2013 (Act 2013). According to Section 2 (45) of the Act 2013, a Government Company means any company in which not less than fifty one *per cent* of the paid-up share capital is held by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government Company. Besides, any other company[5] owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments are referred as Government Controlled other Companies.

Further, as per sub-Section 7 of Section 143 of the Act 2013, the Comptroller and Auditor General of India (CAG) may, in case of any company covered under sub-Section (5) or sub-Section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted of the accounts of such Company and the provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test audit. Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

[5] Ministry of Corporate Affairs (Removal of Difficulties) Seventh Order 2014 dated 4 September 2014.

4.1.3 Statutory audit

The financial statements of the Government Companies (as defined in Section 2 (45) of the Act 2013) are audited by Statutory Auditors, who are appointed by the CAG as per the provisions of Section 139(5) or (7) of the Act, 2013. The Statutory Auditors submit a copy of the Audit Report to the CAG including, among other things, financial statements of the Company under Section 143(5) of the Act, 2013. These financial statements are also subject to supplementary audit by the CAG within sixty days from the date of receipt of the audit report under the provisions of Section 143 (6) of the Act, 2013.

4.1.4 Submission of accounts by PSUs

4.1.4.1 Need for timely finalisation and submission

According to Section 394 and 395 of the Companies Act 2013, Annual Report on the working and affairs of a Government Company, is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation laid before the State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the companies from the Consolidated Fund of the UT.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statement for the financial year has to be placed in the said AGM for their consideration. Section 129 (7) of the Companies Act, 2013 provides for levy of penalty like fine and imprisonment on the persons including Directors of the company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

4.1.4.2 Role of Government and Legislature

The UT Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the UT Government.

The UT Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of UT Government Companies are to be placed before the UT Legislature under Section 394 of the Act, 2013 or as stipulated in the respective Acts. The Audit Reports of the CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

4.1.5 Investment by the Government of Union Territory of Puducherry in Public Sector Undertakings (PSUs)

The Government of Union Territory of Puducherry (UT Government) has high financial stakes in the PSUs. This is of mainly three types:

- Share capital and loans - In addition to the share capital contribution, UT Government also provides financial assistance by way of loans to the PSUs from time to time.
- Special financial support - UT Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- Guarantees - UT Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

The sector-wise summary of investments in the PSUs as on 31 March 2018 is given in **Table 4.2**.

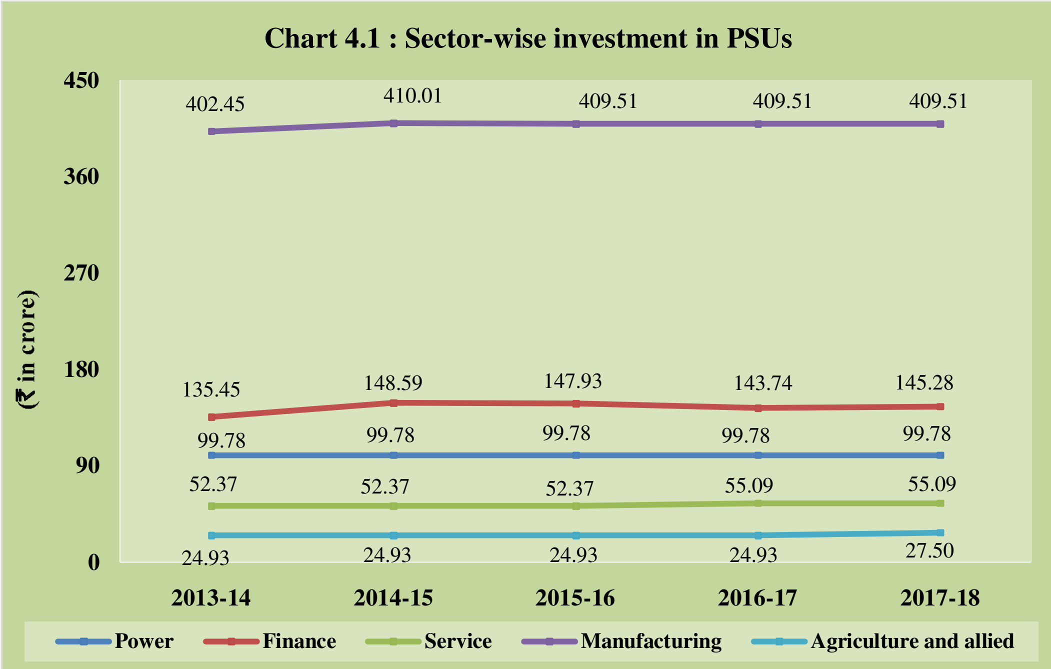
Table 4.2: Sector-wise investment in PSUs

Name of sector	Government Companies		Total	Investment (₹ in crore)		
	Working	Non-functioning		Equity	Long term loans	Total
Power	1	--	1	99.78	--	99.78
Finance	4	--	4	136.07	9.21	145.28
Service	2	--	2	52.37	2.72	55.09
Manufacturing	3	1	4	409.51	--	409.51
Agriculture and allied	2	--	2	24.93	2.57	27.50
Total	**12**	**1**	**13**	**722.66**	**14.50**	**737.16**

(Source: Compiled based on information received from PSUs)

The thrust of UT Government investment in PSUs was mainly in manufacturing sector which stood at ` 409.51 crore (55.55 *per cent*) at the end of March 2018. The investment in Power Sector which was ` 99.78 crore constituted 13.54 *per cent*.

The investment in various important sectors at the end of 31 March 2014 and 31 March 2018 is indicated in the **Chart 4.1**.



4.2 Functioning of Power Sector Undertaking

4.2.1 Introduction

There is only one Power Sector company in the Union Territory of Puducherry *viz.*, Puducherry Power Corporation Limited (PPCL). The Sector, apart from providing critical infrastructure required for development of the Union Territory's economy, also adds to the Gross State Domestic Product (GSDP). A ratio of Power Sector PSU's turnover to GSDP shows the extent of activities of the PSU in the Union Territory economy. The Compounded Annual Growth Rate (CAGR)[6] is a useful method to measure growth rate over multiple time periods. **Table 4.3** provides the details of turnover of Power Sector PSU and GSDP of UT Government for a period of five years ended March 2018.

Table 4.3: Details of turnover of Power Sector PSU *vis-à-vis* GSDP of UT Government

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Turnover	80.19	96.42	43.72	96.09	79.19
GSDP of UT Government	21,061	25,819	26,533	27,586	32,215
Percentage of Turnover to GSDP of UT Government	0.38	0.37	0.16	0.35	0.25
Percentage of growth of turnover	4.50	20.24	(-) 54.66	119.78	(-) 17.59

6 The Compounded Annual Growth Rate calculated as per the formula: ((Final Value/Beginning Value)^1/number of years)-1.

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Percentage of growth of GSDP	25.60	22.59	2.77	3.97	16.78
CAGR of Turnover					(-) 0.25
CAGR of GSDP					8.87

(Source: Turnover reported in the latest finalised accounts of working PSU and GSDP figures as per the Report of the CAG on Union Territory Finances for the respective years)

The turnover of Power Sector Undertaking was fluctuating over the five year period. It increased from ` 80.19 crore in 2013-14 to ` 96.42 crore in 2014-15 and drastically decreased to ` 43.72 crore in 2015-16 due to major repair works of Rotor, Stator, De-aerator structure *etc.,* at its power plant and increased to ` 96.09 crore in 2016-17, but declined to ` 79.19 crore in 2017-18. The annual growth rate during the above period showed a fluctuating trend *i.e*., from 4.50 to 119.78 *per cent* with negative growth rate of 54.66 and 17.59 *per cent* during 2015-16 and 2017-18 respectively, whereas, the growth rate of GSDP was fluctuating between 25.60 and 2.77 *per cent*. The CAGR of GSDP during five years ended 2017-18 was 8.87 *per cent.* Against this, the turnover of Power Sector Undertaking recorded a negative at 0.25 *per cent* during the same period indicating the decrease in share of turnover of Power Sector PSU to GSDP over these five years. The share of turnover of the Power Sector Undertaking to the GSDP was 0.38 *per cent* in 2013-14, decreased to 0.16 in 2015-16 and subsequently increased to 0.25 *per cent* in 2017-18.

4.2.2 Formation of Power Sector Undertaking

Puducherry Power Corporation Limited (PPCL) is the only Power Sector Undertaking in the Union Territory of Puducherry. The Company was formed in March 1993 and is functioning under the Electricity Department of UT Government. The Company's plant at Karaikal was put into operation in January 2000 and is engaged in the generation of power from the plant having a capacity of 32.5 MW (22.9 MW from Gas Turbine and 9.6 MW from Steam Turbine). The entire power generated by the Company is supplied to the Electricity Department of UT Government based on the tariff rates fixed by Joint Electricity Regulatory Commission. The transmission and distribution activities are carried on by the Electricity Department, UT Government.

Audit of this Power Sector Undertaking is governed by Sections 139 and 143 of the Companies Act, 2013. The financial statements of this Company is audited by the Statutory Auditors appointed by the CAG subject to supplementary audit by the CAG.

4.2.3 Investment in Power Sector Undertaking

The investment made in Power Sector as on 31 March 2018 is given in **Table 4.4**.

Table 4.4: Investment in Power Sector PSU

Activity	Number of PSU	Investment (₹ in crore)		
		Equity	Long term loans	Total
Generation of Power	1	99.78	Nil	99.78
Total	**1**	**99.78**	**Nil**	**99.78**

(Source: Details furnished by PSU)

As on 31 March 2018, the total investment was ` 99.78 crore comprising of equity only.

4.2.4 Budgetary Support to Power Sector Undertaking

During the last three years ended March 2018, UT Government has not provided any financial support to Power Sector Undertaking in the form of equity, loans and grants/subsidies through annual budget. UT Government has also not provided guarantee as PPCL has not availed any loan from financial institutions.

4.2.5 Reconciliation with Finance Accounts of UT Government

UT Government has invested in the Power Sector PSU only in the form of equity and has not advanced any loan or stood guarantee as at the end of March 2018.

4.2.6 Submission of accounts by Power Sector Undertaking

Timeliness in preparation of accounts by Power Sector Undertaking

Details of arrears in submission of accounts by Power Sector Undertaking as on 30th September of each financial year for the last five years ended 31 March 2018 are given in **Table 4.5**.

Table 4.5: Position relating to submission of accounts by Power Sector Undertaking

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	Number of PSU	1	1	1	1	1
2	Number of accounts submitted during current year	1	1	1	1	1
3	Accounts finalised for the current year	Nil	Nil	Nil	Nil	Nil
4	Number of previous year accounts finalised during current year	1	1	1	1	1
5	Number of accounts in arrears	1	1	1	1	1
6	Extent of arrears	One year	One year	One year	one year	one year

(Source: Compiled based on the accounts of Power Sector PSU received during October to September of respective financial years)

4.2.7 Comments on Accounts of Power Sector Undertaking

The Power Sector Company forwarded its audited accounts for the year 2016-17 to the Accountant General during September 2018 which was selected for supplementary audit. The supplementary audit conducted by the CAG indicated that the quality of accounts needs to be improved though the Statutory Auditors have given unqualified certificate. The details of aggregate money value of the comments of the CAG on the accounts for the years 2015-18 are as given in **Table 4.6**.

Table 4.6: Impact of audit comments on Power Sector Undertaking

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	--	--	--	--	1	5.24
2	Increase in profit	--	--	--	--	--	--
3	Increase in loss	1	1.07	--	--	--	--
4	Decrease in loss	--	--	--	--	--	--
5	Non-disclosure of material facts	--	--	--	--	--	--
6	Errors of classification	--	--	--	--	--	--

(Source: Compiled from comments of CAG)

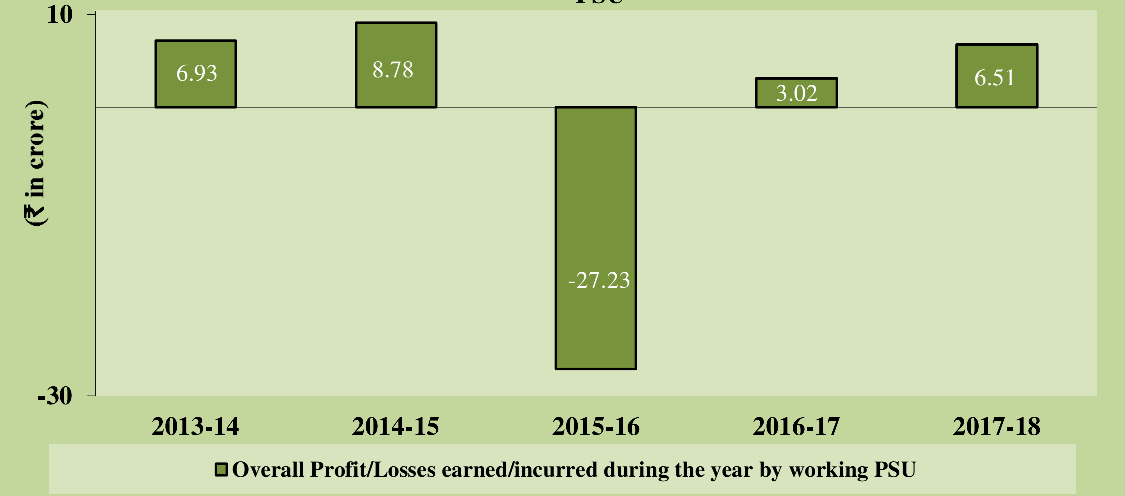
4.2.8 Performance of Power Sector Undertaking

The financial position and working results of the Power Sector Undertaking as per its latest finalised accounts as of September 2018 is detailed in **Appendix 4.1**. The Public Sector Undertaking is expected to yield reasonable return on investment made by Government in the Undertaking. The total investment made by UT Government in the Power Sector PSU as on 31 March 2018 was only in the form of equity which amounted to ` 99.78 crore. The investment has remained constant during 2013-18. The profitability of a company is traditionally assessed through return on investment, return on equity and return on capital employed. Return on investment measures the profit or loss made in a year relating to the amount of money invested in the form of equity and long term loans and is expressed as a percentage of profit to the total investment. Return on capital employed is a financial ratio that measures the company's profitability and the efficiency with which its capital is used and is calculated by dividing company's earnings before interest and taxes by capital employed. Return on Equity is a measure of performance calculated by dividing net profit after tax by shareholders' funds.

4.2.9 Return on Investment (ROI)

Return on investment is the percentage of profit or loss to the total investment. The overall position of profit/loss[7] earned/incurred by the Power Sector Undertaking during 2013-18 is depicted in **Chart 4.2**.

Chart 4.2 : Overall Profit/Losses earned/incurred during the year by working PSU



(Source: As per the latest accounts finalised during respective years)

The Power Sector PSU earned profit in four years amounting to ` 25.24 crore and incurred loss of ` 27.23 crore in one year due to major shut down of its power plant.

4.2.9.1 Return on the basis of historical cost of investment

The UT Government infused funds only in the form of equity and has not advanced loans/released grants/subsidies to the Power Sector PSU.

The Return on Investment from Power Sector PSU has been calculated on the investment made by the Government in the form of equity. The investment of the UT Government in the PSU has been arrived at by considering the equity (initial equity net of accumulated losses upto 2009-10). The dividend paid by the PSU has been deducted from the total investment in the respective years. The total equity funds infused by the UT Government in the PSU up to March 2010 stood at ` 99.78 crore. During 2010-18, UT Government has not infused fresh funds in the PSU. During 2010-18, UT Government had received a total dividend of ` 22.73 crore and after deducting the same, the net investment at the end of March 2018 stood at ` 77.05 crore.

The ROI worked out on investment on historical cost basis on the net earnings for the years 2013-18 are given in **Table 4.7**.

[7] Figures are as per the latest finalised accounts during the respective years.

Table 4.7: Return on UT Government investment on historical cost basis

(₹ in crore)

Year	Funds infused by UT Government in the form of equity	Total Earnings Profit/loss	Return on Investment (in *per cent*)
(1)	(2)	(3)	(4)=(3/2x100)
2013-14	84.37	6.93	8.21
2014-15	80.86	8.78	10.86
2015-16	80.86	(-) 27.23	(-) 33.68
2016-17	80.86	3.02	3.73
2017-18	77.05	6.51	8.45

(Source: Latest finalised accounts of the respective years)

The return on investment of the PSU was positive in all the years during 2013-18 except in 2015-16 wherein the PSU reported loss. The ROI ranged between 3.73 (2016-17) and 10.86 (2014-15) *per cent* of the investment and ROI was negative during 2015-16 at 33.68 *per cent*. During 2015-16, the Power Sector PSU finalised its accounts for 2014-15 and reported a loss of ` 27.23 crore due to major repair expenditure incurred on the plant (` 15.47 crore) and payment of penalty (` 22.11 crore) to the Gas Authority of India Limited for non-lifting of minimum guaranteed gas quantity.

4.2.9.2 On the basis of present value of the investment

Traditional calculation of return based only on historical cost of investment may not be a correct indicator of the adequacy of the return on the investment since such calculations ignore the present value of money. The present value of the Government investments has been computed to assess the rate of return on the present value of investments of UT Government in the PSU as compared to historical value of investments. In order to bring the historical cost of investments to its present value at the end of each year upto 31 March 2018, the past investments/year-wise funds infused by the UT Government in the UT PSU has been compounded at the year-wise average rate of interest on Government borrowings which is considered as the minimum cost of funds to the Government for the concerned year. Audit noticed that the PSU generated positive return on investments in all the years from 2010-11 except 2015-16. The details are furnished in **Table 4.8**.

The Present Value (PV) of the UT Government investment in Power Sector Undertaking was computed on the basis of following assumptions:

- The dividend paid by the PSU has been deducted from the total investment in the respective years.

- The average rate of interest on Government borrowings for the concerned financial year[8] was adopted as compounded rate for arriving at PV since they represent the cost incurred by the Government towards investment of funds for the year and therefore as the minimum expected rate of return on investments made by the Government.

The consolidated position of the PV of the UT Government investment and the total earnings relating to the Power Sector Undertaking from 2010-11 to 31 March 2018 is indicated in **Table 4.8**.

Table 4.8: Year wise details of investment by the UT Government and PV of Government funds since inception to 2017-18

(₹ in crore)

Financial year	Present value of total investment at the beginning of the year	Equity infused by the UT Government during the year	Interest free loan given by the UT Government during the year	Interest free loan converted as grant during the year	Dividend paid by the PSU	Total investment at the end of the year after adjusting dividend	Average rate of interest on Government borrowings (in *per cent*)	Present value of total investment at the end of the year	Minimum expected return to recover cost of funds for the year	Total earnings for the year
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7) = (2+3+4-5-6)**	**(8)**	**(9) = (7+(7x8) / 100))**	**(10) = (9x8/ 100)**	**(11)**
Upto 2009-10	--	99.78	--	--	5.02	94.76	8.00	102.34	8.19	--
2010-11	102.34	--	--	--	4.44	97.90	7.81	105.55	8.24	11.09
2011-12	105.55	--	--	--	--	105.55	7.80	113.78	8.87	0.68
2012-13	113.78	--	--	--	3.18	110.60	8.00	119.45	9.56	7.95
2013-14	119.45	--	--	--	2.77	116.68	7.70	125.66	9.68	6.93
2014-15	125.66	--	--	--	3.51	122.15	7.90	131.80	10.41	8.78
2015-16	131.80	--	--	--	--	131.80	7.50	141.69	10.63	(-) 27.23
2016-17	141.69	--	--	--	--	141.69	7.20	151.89	10.94	3.02
2017-18	151.89	--	--	--	3.81	148.08	8.02	159.95	12.83	6.51
Total		**99.78**	**--**	**--**	**22.73**					

(Source: Details furnished by PSU)

As discussed in Paragraph 4.2.9.1, the total historical cost of funds infused by the UT Government in the Power Sector Undertaking stood at ` 77.05 crore. The PV of funds infused by the UT Government upto 31 March 2018, computed as per the assumptions stated above worked out to ` 159.95 crore. The comparative position of Return on Investment worked out on historical cost *vis-à-vis* PV during 2013-18 is given in **Table 4.9**.

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[8] The average rate of interest on Government borrowings was adopted from the Reports of the CAG of India on Union Territory Finances for the concerned year wherein the calculation for the average rate for interest paid = Interest Payment/ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2]*100.

Table: 4.9: Return on UT Government Funds

(₹ in crore)

Year	Total earning	Historical cost of funds invested in the form of equity	Return on investment on historical cost (in *per cent*)	PV of the funds invested in the form of equity	Return on investment on the present value (*per cent*)
(1)	**(2)**	**(3)**	**(4) = (2)/(3) x 100**	**(5)**	**(6) = (2)/(5) x 100**
2013-14	6.93	84.37	8.21	125.66	5.51
2014-15	8.78	80.86	10.86	131.80	6.66
2015-16	(-) 27.23	80.86	(-) 33.68	141.69	*
2016-17	3.02	80.86	3.73	151.89	1.99
2017-18	6.51	77.05	8.45	159.95	4.07

* In view of the loss, rate of return was not calculated on PV of the investment.
(Source: As per the latest accounts finalised during respective years)

From the table above, it is evident that the percentage of return on investment under PV method was lesser than the return on investment calculated under historical cost method. The rate of return was positive during all the years excepting 2015-16 and ranged between 3.73 and 10.86 *per cent* on the historical cost of funds infused, whereas the rate of return on the PV of investment was lesser between 1.99 and 6.66 *per cent*. As the ROI was negative during 2015-16, the comparison was not made.

4.2.9.3 Net worth

Net worth means the sum total of paid capital plus free reserves and surplus minus accumulated losses and deferred revenue expenditure. Essentially it is a measure of what an entity is worth to the owners. As per the latest finalised accounts as on 31 March 2018, the PSU had a net worth of ` 133.87 crore **(Appendix 4.1)**.

4.2.9.4 Dividend payout

The UT Government had not formulated any policy for payment of minimum dividend on the share capital contributed by it. The UT Government had invested ` 99.78 crore towards equity of the Power Sector PSU. Against this equity, the dividend paid by the PSU to the Government was ` 10.09 crore during 2013-18. Details of total equity infused, profit earned by Power Sector PSU and the dividend paid to the UT Government during 2013-18 are given in **Table 4.10**.

Table 4.10: Declaration of dividend by Power Sector PSU during 2013-18

(₹ in crore)

Year	Total number of PSU		Equity infused	Profit earned	Dividend paid	Dividend pay-out ratio (in *per cent*)
	Number of PSU	Equity amount				
(1)	(2)	(3)	(4)	(5)	(6)	(7) = (6)/(3)x100
2013-14	1	99.78	--	6.93	2.77	2.78
2014-15	1	99.78	--	8.78	3.51	3.52
2015-16	1	99.78	--	(-)27.23	--	--
2016-17	1	99.78	--	3.02	--	--
2017-18	1	99.78	--	6.51	3.81	3.82

(Source: Latest finalised accounts of PSU)

During 2013-18, the dividend pay-out ratio on the total equity investments ranged from 2.78 to 3.82 *per cent*.

4.2.9.5 Return on Equity

Return on Equity (ROE) is a measure of financial performance to assess how effectively management is using company's assets to create profits and is calculated by dividing net income (*i.e.*, net profit after taxes) by shareholders' funds. It is expressed as a percentage and can be calculated for any company if both the net income and shareholders' funds are positive.

Shareholders' fund of a company is calculated by adding paid up capital and free reserves net of accumulated losses and deferred revenue expenditure. It reveals how much would be left for a company's stakeholders if all assets were sold and all debts paid. A positive shareholders' fund reveals that the company has enough assets to cover its liabilities while negative figures means that liabilities exceed the assets. ROE has been computed in respect of the Power Sector Undertaking where funds have been infused by the UT Government. The details of shareholders' funds and ROE relating to the PSU during 2013-18 are given in **Table 4.11**.

Table 4.11: ROE of the Power Sector Undertaking where funds infused by UT Government

(₹ in crore)

Year	Net income/Total earnings for the year	Shareholders' funds	ROE (in percentage)
2013-14	6.93	142.72	4.86
2014-15	8.78	145.53	6.03
2015-16	(-) 27.23	130.84	--
2016-17	3.02	131.80	2.29
2017-18	6.51	133.87	4.86

(Source: Latest finalised accounts of the respective years)

As can be seen from the above table, during the last five years ending 2017-18, the net income was positive excepting 2015-16 and the ROE was in the range of 2.29 to 6.03 *per cent* which indicated that the Company has managed its assets to create profit during the above period. During 2015-16, though the shareholders fund was positive, the net income was negative and hence, the ROE was not worked out.

4.2.9.6 Return on Capital Employed

Return on Capital Employed (ROCE) is a ratio that measures the company's profitability and efficiency with which its capital is employed.

ROCE is calculated by dividing a company's earnings before interest and taxes (EBIT) by the capital employed[9]. The details of ROCE of the Power Sector Undertaking during the years from 2013-14 to 2017-18 are given in **Table 4.12**.

Table 4.12: Return on Capital Employed

Year	EBIT (₹ in crore)	Capital Employed (₹ in crore)	ROCE (in *per cent*)
2013-14	10.48	142.72	7.34
2014-15	13.37	145.53	9.19
2015-16	(-) 41.56	130.84	--
2016-17	4.93	131.80	3.74
2017-18	10.51	133.87	7.85

(Source: Annual accounts finalised during the respective years and information received from the PSU)

The ROCE of Power Sector PSU was positive during 2013-14 and 2014-15 at 7.34 *per cent* and 9.19 *per cent* respectively. It turned negative during 2015-16 and again became positive during 2016-17 and 2017-18 at 3.74 *per cent* and 7.85 *per cent* respectively.

4.2.9.7 Analysis of Long Term Loans of the Companies

Analysis of the long term loans of the PSU of Power Sector was carried out to assess the ability of the companies to service the debt owed by the PSU to Government, banks and other financial institutions. This was assessed through Interest Coverage Ratio and Debt Turnover Ratio.

4.2.9.8 Interest Coverage Ratio

The Company did not have any liability towards payment of interest as it had not availed loans during 2013-18.

4.2.10 Debt-Turnover Ratio

The Power Sector PSU has not availed any loans during 2013-18.

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[9] Capital employed = Shareholders funds (after deducting accumulated losses) plus long term loans.

4.2.11 Follow up action on Audit Reports

The Report of the CAG represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. In view of this, the Administrative Departments have to submit replies/explanatory notes to paragraphs/reviews included in the Audit Reports of the CAG within a period of three months of their presentation to the Legislature in the prescribed format without waiting for any questionnaire from the Public Accounts Committee (PAC). Details of explanatory notes pending from Energy Department, UT Government on the paras relating to Power Sector PSU are given in subsequent paragraphs:

4.2.11.1 Replies outstanding

Table 4.13 gives the status of receipt of explanatory notes in respect of the Audit Reports presented before the UT Legislature.

Table 4.13: Explanatory notes not received (as on 31 December 2018)

Year of the Audit Report	Date of placement of Audit Report in the UT Legislature	Total Performance Audits (PAs) and Paragraphs in the Audit Report		Number of PAs/Paragraphs for which explanatory notes were not received	
		Performance Audit	Paragraphs	Performance Audit	Paragraphs
2016-17	18.07.2018	Nil	01	Nil	01
Total		**Nil**	**01**	**Nil**	**01**

The explanatory notes pertaining to the above para in respect of Electricity Department, UT Government which was commented upon is yet to be received (December 2018).

4.2.11.2 Discussion of Audit Reports by PAC

The status of Performance Audits/paragraphs that appeared in Audit Reports of UT of Puducherry and discussed by PAC as on 31 December 2018 are given in **Table 4.14**.

Table 4.14: Reviews/Paras appeared in Audit Reports *vis-à-vis* discussed as on 31 December 2018

Period of Audit Report	Number of PAs/Paragraphs			
	Appeared in Audit Report		Paragraph Discussed	
	PAs	Paragraphs	PAs	Paragraphs
2016-17	Nil	01	Nil	--
Total		**01**		**--**

4.2.11.3 Compliance to Reports of PAC

Action Taken Notes (ATNs) to the recommendations pertaining to one Report of the PAC for 2012-13 had not been received (December 2018) as indicated in **Table 4.15**.

Table 4.15: Compliance to PAC Reports

Year of the PAC Report	Total number of PAC Reports	Total number of recommendations in PAC Report	Number of recommendations where ATNs not received
2012-13	01	01	01
Total	**01**	**01**	**01**

The above Report of PAC contained recommendations in respect of paragraph pertaining to Electricity Department, UT Government, which appeared in the Report of CAG of India for the year 2008-09.

It is recommended that the Government may prescribe a time schedule and resource person in the PSU to ensure (a) sending replies to the Paragraphs, Explanatory Notes and ATNs on the recommendations of PAC as per the prescribed time schedule; (b) recovery of loss/outstanding advances/ overpayments within the prescribed period; and (c) revamping of the system of responding to audit observations. The Government may establish a system to monitor compliance to the above.

4.3 Functioning of Public Sector Undertakings (other than Power Sector)

4.3.1 Introduction

There are 12 Public Sector Undertakings (PSUs) in the Union Territory of Puducherry (UT) as on 31 March 2018 which related to sectors other than Power Sector. These PSUs were incorporated during the period 1971 to 2005 and are all Government Companies. The above PSUs include one[10] non-functional company which is a subsidiary company owned by other Government Company.

The UT Government provides financial support to these PSUs in the form of equity, loans and grants/subsidy from time to time. Of the 12 PSUs (other than Power Sector), UT Government invested funds in 11 PSUs and the equity of the subsidiary company was contributed by its holding company.

4.3.2 Contribution to the Economy of the Union Territory

A ratio of turnover of the PSUs to the GSDP shows the extent of activities of the PSUs in the UT economy. The CAGR is a useful method to measure growth rate over multiple time periods. The **Table 4.16** provides the details of turnover of PSUs (other than Power Sector) and GSDP of UT Government for a period of five years ended March 2018.

[10] Pondicherry Electronics Limited.

Table 4.16: Turnover of PSUs (Other than Power Sector) *vis-à-vis* GSDP of UT Government

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Turnover	298.67	304.84	318.89	270.54	307.99
GSDP of UT Government	21,061	25,819	26,533	27,586	32,215
Percentage of turnover to GSDP of UT Government	1.42	1.18	1.20	0.98	0.96
Percentage of growth of turnover	0.50	2.07	4.61	(-)15.16	13.84
Percentage of growth of GSDP	25.60	22.59	2.77	3.97	16.78
CAGR of turnover[11]					0.62
CAGR of GSDP					8.87

(Source: Turnover reported in the latest finalised accounts of working PSUs and GSDP figures as per the Report of the CAG on Union Territory Finances for the respective years upto 2017-18)

The aggregate turnover of these PSUs were in increasing trend from 2013-14 to 2015-16 but declined in 2016-17 and again increased in 2017-18. The percentage of growth rate of turnover showed an increasing trend from 0.50 in 2013-14 to 4.61 in 2015-16 but declined to (-)15.16 in 2016-17 and again increased to 13.84 in 2017-18. However, the percentage of growth rate of GSDP was in the decreasing trend from 25.60 in 2013-14 to 2.77 in 2015-16 and started increasing from thereon to 16.78 in 2017-18. The GSDP recorded a CAGR of 8.87 *per cent* during 2013-18 whereas during the same period, CAGR of the turnover of PSUs (other than Power Sector) recorded a very low at 0.62 *per cent*. This was evident from the wide fluctuation in the growth rate of turnover of PSUs as well as decrease in share of turnover of these PSUs to GSDP from 1.42 *per cent* in 2013-14 to 0.96 *per cent* in 2017-18.

4.3.3 Investment in PSUs (other than Power Sector)

There are some PSUs which are instrumental/nodal agency to the UT Government to provide certain services which the private sector may not be willing to extend due to various reasons, PSUs of such nature are classified as "Social Sector PSUs". Besides, the Government has also entered into certain business segments through some PSUs where it faces competition from private players, PSUs of such nature are classified as "Competitive Sector PSUs". In addition, there is one[12] PSU which was established by UT Government to perform certain activities which cannot be classified under the above two categories, this PSU has been dealt with in this report as "Others". Details of

[11] The compounded annual growth rate calculated as per the formula: ((Final Value/Beginning Value)^1/number of years)-1.

[12] Puducherry Distilleries Limited.

investment made in 12 PSUs in the form of equity and long term loans upto March 2018 are detailed in **Appendix 4.2**.

The sector-wise summary of investment made in 12 PSUs as on 31 March 2018 are given in **Table 4.17**.

Table 4.17: Sector-wise investment in PSUs (other than Power Sector)

Sector	Number of PSUs	Investment (₹ in crore)		
		Equity	Long term loans	Total
Social Sector	4	33.42	11.78	45.20
Competitive Sector	7	581.01	2.72	583.73
Others	1	8.45	Nil	8.45
Total	**12**	**622.88**	**14.50**	**637.38**

(Source: Details furnished by PSUs)

As on 31 March 2018, the total investment (equity and long term loans) in 12 PSUs was ` 637.38 crore. The investment consisted of 97.73 *per cent* towards equity and 2.27 *per cent* in long term loans. The long term loans constituted ` 11.93 crore (82.28 *per cent*) advanced by the UT Government and the balance amount of ` 2.57 crore (17.72 *per cent*) represented the loan availed from Financial Institutions.

The investment has grown marginally by 3.61 *per cent* from ` 615.20 crore in 2013-14 to ` 637.38 crore in 2017-18. The increase was mainly due to loans availed by Social Sector PSUs.

During the year 2017-18, no disinvestment, restructuring or privatisation of PSUs of other than Power Sector was done by UT Government.

4.3.4 Budgetary Support to PSUs (other than Power Sector)

UT Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies and loans converted into equity during the year in respect of PSUs for the last three years ending March 2018 are given in **Table 4.18**.

Table 4.18: Budgetary support to PSUs (other than Power Sector) during 2015-18

(₹ in crore)

Sl. No.	Particulars[13]	2015-16		2016-17		2017-18	
		Number of PSUs	Amount	Number of PSUs	Amount	Number of PSUs	Amount
1	Equity Capital	1	0.31	Nil	Nil	Nil	Nil
2	Loans	Nil	Nil	2	4.80	2	4.82
3	Grants/Subsidy	7	151.68	8	94.17	8	70.31

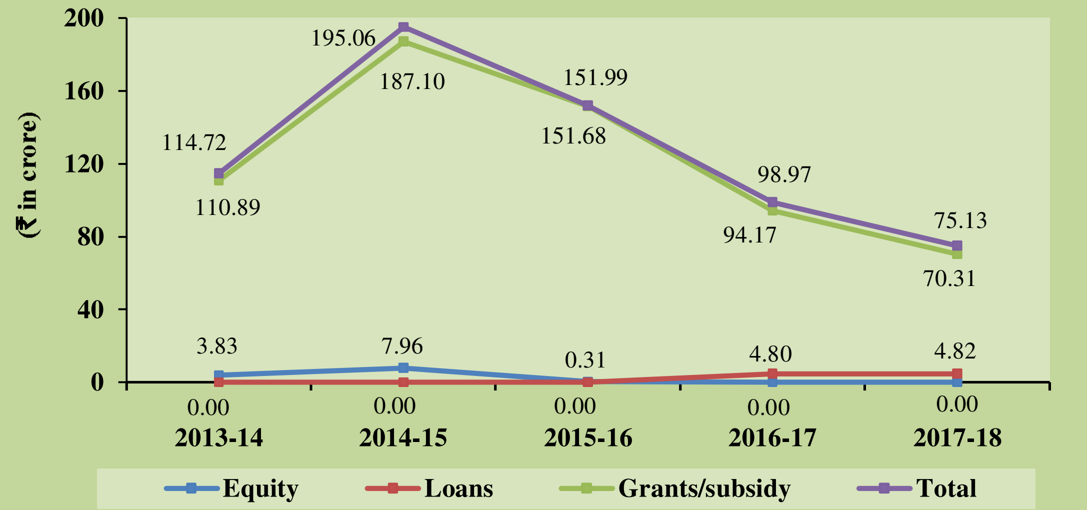
13 Amount represents outgo from Union Territory Budget only.

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		Number of PSUs	Amount	Number of PSUs	Amount	Number of PSUs	Amount
4	Total Outgo (1+2+3)	7	151.99	8	98.97	8	75.13
5	Loan repayment/ written off	1	12.98	Nil	Nil	Nil	Nil
6	Loans converted into equity	Nil	Nil	Nil	Nil	Nil	Nil
7	Guarantees issued	Nil	Nil	Nil	Nil	Nil	Nil
8	Guarantee Commitment	1	3.15	1	3.15	1	3.10

(Source: Compiled from the information furnished by PSUs for the respective years)

The details regarding budgetary outgo towards equity, loans and grants/subsidies for the last five years ending March 2018 are given in **Chart 4.3**.

Chart 4.3: Budgetary outgo towards equity, loans and grants/subsidies



(Source: Information furnished by PSUs during the respective years)

The budgetary assistance received by these PSUs during the years 2013-14 to 2017-18 ranged between ` 114.72 crore and ` 75.13 crore. The budgetary assistance of ` 75.13 crore received during the year 2017-18 included ` 4.82 crore and ` 70.31 crore in the form of loans and grants/subsidy respectively. UT Government did not provide any equity assistance to these PSUs during 2017-18. The subsidy/grants given by UT Government was mainly for payment of salaries to staff and scheme related expenses to Social Sector PSUs (` 51.47 crore) during 2017-18.

Besides the budgetary support, UT Government also provides guarantee for PSUs to seek financial assistance from banks and financial institutions. The guarantee commitment given by UT Government outstanding as at the end of March 2018 was ` 3.10 crore in respect of one PSU[14].

[14] Puducherry Adi-Dravidar Development Corporation Limited.

4.3.5 Reconciliation with Finance Accounts of Government of Union Territory of Puducherry

The figures in respect of equity, loans and guarantees outstanding as per records of PSUs should agree with that of the figures appearing in the Finance Accounts of the Government of Union Territory of Puducherry. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of the differences. The position in this regard in respect of PSUs (other than Power Sector) as on 31 March 2018 is given in **Table 4.19**.

Table 4.19: Equity/loans/guarantees outstanding as per Finance Accounts of UT Government *vis-à-vis* records of PSUs

(₹ in crore)

Outstanding in respect of	Amount as per records of PSUs	Amount as per Finance Accounts	Number of PSUs involved	Net Difference
Equity	712.39	710.92	1	1.47
Loans	14.50	0.94	3	13.56
Guarantees	3.10	16.15	2	(-) 13.05

(Source: Information furnished by PSUs and Finance Accounts of UT Government)

Audit observed that the differences occurred in respect of equity and loans in one[15] PSU and three[16] PSUs respectively and guarantees in two[17] PSUs. Reconciliation of difference was pending from March 2007 in case of one PSU[18]. The Secretary to Government of UT of Puducherry, Finance Department was addressed (December 2018) and his attention was drawn to the need for reconciliation of figures in Finance Accounts and as furnished by the companies in their respective accounts. In spite of similar observations in the previous Audit Reports, the difference persists. The UT Government and PSUs should take concrete steps to reconcile the differences in a time bound manner.

4.3.6 Submission of accounts by PSUs (other than Power Sector)

As of 31 March 2018, there were 12 PSUs (other than Power Sector), *i.e.,* 11 working PSUs and one non-functional PSU under the audit purview of CAG. The status of timeline followed by the PSUs in preparation and submission of accounts to CAG are discussed below:

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15 Puducherry Agro Products, Food and Civil Supplies Corporation Limited.

16 Puducherry Agro Products, Food and Civil Supplies Corporation Limited, Puducherry Corporation for the Development of Women and Differently Abled Persons Limited and Puducherry Road Transport Corporation Limited.

17 Puducherry Adi-Dravidar Development Corporation Limited and Puducherry Backward Classes and Minority Development Corporation Limited.

18 Puducherry Agro Products, Food and Civil Supplies Corporation Limited.

4.3.6.1 Timeliness in preparation of accounts by working PSUs

PSUs are required to submit their annual accounts every year on or before 30 September after close of the respective financial year. However, none of the 11 working PSUs had forwarded their accounts for the year 2017-18 for audit by CAG on or before 30 September 2018 and hence the accounts of all the PSUs were in arrears.

Details of arrears in submission of accounts by working PSUs (other than Power Sector) as on 30 September of the respective financial years are given in **Table 4.20**.

Table 4.20: Position relating to submission of accounts by the working PSUs (other than Power Sector)

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	Number of PSUs (other than Power Sector)	12*	11	11	11	11
2	Number of accounts submitted during current year	2	13	6	10	8
3	Number of working PSUs which finalised accounts for the current year	Nil	Nil	Nil	Nil	Nil
4	Number of previous year accounts finalised during current year	2	13	13	10	8
5	Number of working PSUs with arrears in accounts	12	11	11	11	11
6	Number of accounts in arrears	33	28	33	34	37
7	Extent of arrears	One to five years	One to five years	One to six years	One to seven years	One to eight years

* Since PELECON was a working company during 2013-14.

(Source: Compiled based on the receipt of accounts from PSUs during October to September of respective financial years)

Of these 11 working PSUs, eight PSUs had finalised their eight annual accounts pertaining to previous years during the period 01 October 2017 to 30 September 2018. Further, 37 annual accounts were in arrears which pertain to 11 PSUs for the years ranging from 2010-11 to 2017-18 as detailed in **Appendix 4.3**. 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 in Annual General Meeting within the stipulated period. The concerned Departments were informed quarterly regarding the position of arrears in accounts.

Due to non-finalisation of accounts and their subsequent audit in these PSUs, it could not be ensured whether the investments and expenditure incurred was properly accounted for and the purpose for which the amount was invested was achieved or not. Investment of UT Government in these PSUs, therefore, remained outside the control of UT Legislature.

4.3.6.2 Timeliness in preparation of accounts by Non-functional PSUs

There is one non-functional PSU as on 31 March 2018, *viz.,* Pondicherry Electronics Limited (PELECON) which is a subsidiary of Pondicherry Industrial Promotion Development and Investment Corporation Limited (PIPDIC). PELECON is in the process of winding up and consequently PIPDIC, the Holding Company, has assumed the assets and liabilities of PELECON. The proceedings for getting the name of PELECON struck off from the Register of Companies under Fast Track Exit Scheme is under process. Hence, the accounts of PELECON is not considered as due.

4.3.7 Comments on Accounts of PSUs (other than Power Sector)

Out of 11 working PSUs**,** eight working PSUs forwarded eight audited accounts to the Accountant General during the period from 1 October 2017 to 30 September 2018. These accounts were subjected to either scrutiny at office level or selected for supplementary audit. The Audit Reports of Statutory Auditors and supplementary audit conducted by the CAG indicated that the quality of accounts needs to be improved substantially. The details of aggregate money value of the comments of Statutory Auditors and the CAG are given in **Table 4.21**.

Table 4.21: Impact of audit comments on Working Companies (other than Power Sector)

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		Number of accounts	Amount	Number of accounts	Amount	Number of accounts	Amount
1	Decrease in profit	Nil	Nil	Nil	Nil	1	2.37
2	Increase in profit	Nil	Nil	1	0.76	Nil	Nil
3	Increase in loss	1	0.44	2	6.81	2	7.90
4	Decrease in loss	1	0.27	Nil	Nil	1	0.60
5	Non-disclosure of material facts	Nil	Nil	Nil	Nil	Nil	Nil
6	Errors of classification	Nil	Nil	Nil	Nil	2	0.24

(Source: Compiled from comments of the Statutory Auditors/ C&AG in respect of Government Companies)

During the year, the Statutory Auditors had given unqualified certificates for two accounts, qualified certificates for five accounts and adverse opinion for one account. The compliance of companies with the Accounting Standards remained poor, as there were four instances of non-compliance in three accounts during the year.

4.3.8 Impact of non-finalisation of accounts of PSUs (other than Power Sector)

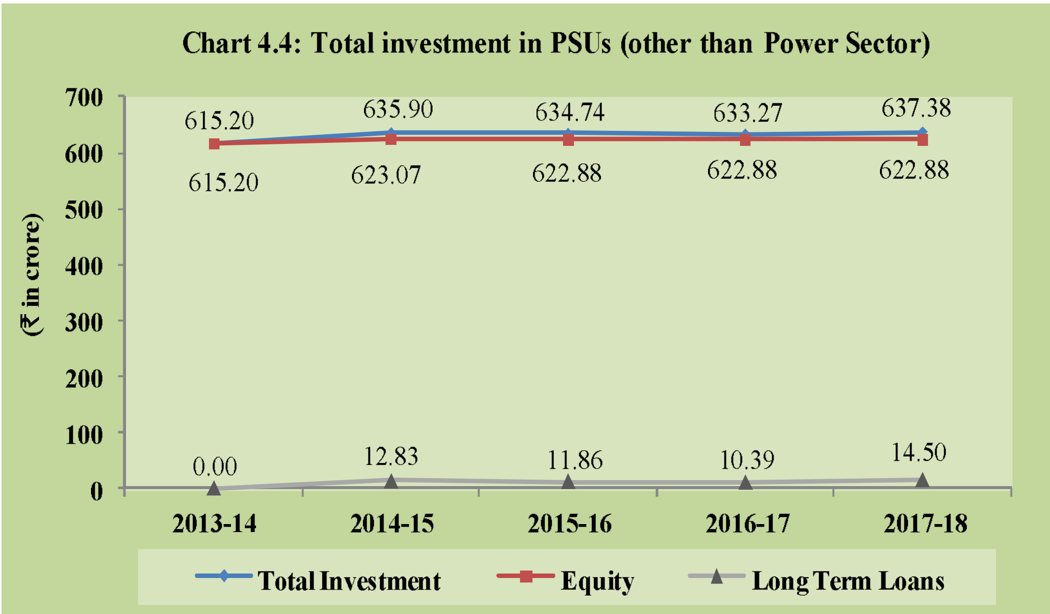
As pointed in paragraph 4.3.6, the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. Out of 11 PSUs which had not finalised their accounts upto 2017-18, UT Government had invested ` 6.12 crore in two PSUs in the form of equity and released a sum of ` 14.54 crore in the form of loans to three PSUs and ` 150.54 crore as grants to nine PSUs as detailed in **Appendix 4.4**. In view of the above state of arrears of accounts, the actual contribution of the PSUs to the GSDP of UT Government for the year 2017-18 could not be ascertained and their contribution to UT exchequer was also not reported to the UT Legislature.

It is, therefore, recommended that the Administrative Department should strictly monitor and issue necessary directions to clear the arrears in finalisation of accounts. The Government may also look into the constraints in preparation of accounts by the PSUs and take necessary steps to clear the arrears in accounts.

4.3.9 Performance of PSUs (other than Power Sector)

The financial position and working results of the 12 PSUs (working and non-functional) are detailed in **Appendix 4.1**, as per their latest finalised accounts as on 30 September 2018.

The PSUs are expected to yield reasonable ROI made by Government in the undertakings. The total investment of UT Government in PSUs (other than Power Sector) as on 31 March 2018 consisted ` 622.88 crore as equity and ` 14.50 crore as long term loans. The year wise status of total investment, equity and long term loans during the five years period 2013-18 is shown in the **Chart 4.4**.



(Source: Data furnished by PSUs in respective years)

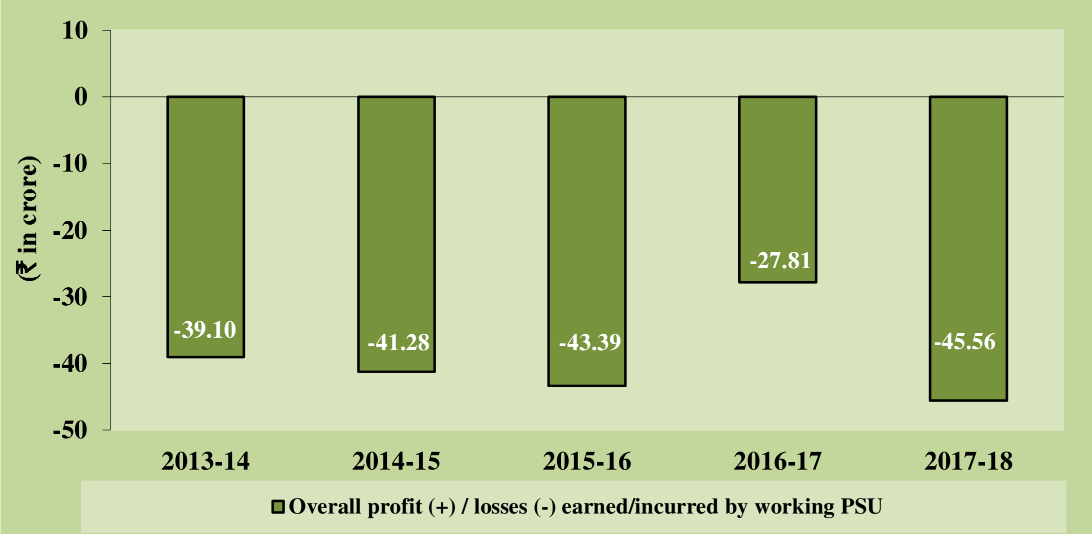
The investment has grown by 3.61 *per cent* from ` 615.20 crore in 2013-14 to ` 637.38 crore in 2017-18. The investment increased due to addition of ` 7.68 crore and ` 14.50 crore towards equity and long term loans respectively during 2013-18.

The profitability of a company is traditionally assessed through ROI, return on equity and return on capital employed. ROI measures the profit or loss made in a fixed year relating to the amount of money invested in the form of equity and long term loans and is expressed as a percentage of profit to the total investment. Return on capital employed is a financial ratio that measures the company's profitability and the efficiency with which its capital is used and is calculated by dividing company's earnings before interest and taxes by capital employed. Return on equity is a measure of performance calculated by dividing net profit after tax by shareholders' funds.

4.3.10 Return on Investment

The ROI is the percentage of profit or loss to the total investment. The overall position of profit/losses[19] earned/incurred by the 11 working PSUs (other than Power Sector) during 2013-14 to 2017-18 is depicted below in **Chart 4.5**.

Chart 4.5 : Overall profit (+) / losses (-) earned/incurred by working PSUs



(Source: As per the latest accounts finalised during respective years)

The 11 working PSUs incurred losses in aggregate in all the five years during 2013-18 and the aggregate losses were in the range of ₹ 27.81 crore to ₹ 45.56 crore. As per the latest finalised accounts, out of 11 working PSUs, three PSUs earned a profit of ₹ 8.93 crore and seven PSUs incurred a loss of ₹ 54.49 crore. One[20] company neither earned profit nor incurred any loss.

The details of number of PSUs which earned profit/incurred losses during 2013-18 are given in **Table 4.22**.

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[19] Figures are as per the latest finalised accounts during the respective years.

[20] Puducherry Corporation for the Development of Women and Differently Abled Persons Limited.

Table 4.22: Details showing the number of working PSUs (other than Power Sector) which earned profit/incurred loss during 2013-18

Year	Total number of PSUs in the Union Territory	Number of PSUs which earned profit during the year	Number of PSUs which incurred loss during the year	Number of PSUs which reported no profit/loss	Number of PSUs which had marginal profit or loss[21]
2013-14	12	2	9	1	6
2014-15	11	1	8	2	5
2015-16	11	2	8	1	6
2016-17	11	3	7	1	7
2017-18	11	3	7	1	7 (Profit -3 and Loss - 4)

(Source: As per the latest accounts finalised during respective years)

As per the latest finalised accounts as on 30 September 2018, the major contributor to profits was Puducherry Distilleries Limited (` 4.95 crore). Heavy losses were incurred by two Textile Corporations[22] (` 38.67 crore).

(a) ROI on the basis of historical cost of investment

The UT Government infused funds in shape of equity in 11 PSUs (other than Power Sector). As on 31 March 2018, the total investment of the Government in 11 companies stood at ` 184.72 crore during 2009-10 to 2017-18.

The ROI from PSUs[23] has been calculated on the investment made by the UT Government in the form of equity and loans. In the case of loans, only interest free loans have to be considered as investment since the Government does not receive any interest on such loans and are therefore of the nature of equity investment except to the extent that the loans are liable to be repaid as per terms and conditions of repayment. However, the UT Government has not advanced interest free loans to any of the PSUs. The dividend paid by the PSUs have been deducted from the total investment as the Government had got back returns to that extent. The funds made available in the form of grants/subsidies have not been reckoned as investment since they do not qualify to be considered as investments.

During the period 2009-10 to 2017-18, the investment made by the UT Government in these 11 PSUs was ` 184.72 crore comprising of equity only. During the same period, two PSUs[24] had paid a total dividend of ` 7.71 crore.

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21 Profit/losses equal to or less than ` five lakh.

22 Pondicherry Textile Corporation Limited and Swadeshee Bharathee Textile Mills Limited.

23 Including one non-functional PSU.

24 Pondicherry Industrial Promotion Development and Investment Corporation Limited and Puducherry Distilleries Limited.

Thus, the investment of UT Government in these 11 PSUs on the basis of historical cost stood at ` 177.01 crore as on 31 March 2018.

The profit earned or losses incurred by the subsidiaries would have ultimate bearing on the holding company and hence the profit/loss of the subsidiaries have to be added to the net earnings (loss). The lone subsidiary company *viz.*, PELECON is in the process of winding up and all its assets and liabilities have been assumed by its Holding Company *viz.*, PIPDIC during 2012-13. Accordingly, the profit/loss of PELECON upto that period has been considered for arriving at total earnings for the respective years.

The sector-wise ROI on historical cost basis for the years 2013-18 from the PSUs under three different classifications are given in **Table 4.23**.

Table 4.23: Return on UT Government Funds on historical cost basis

(₹ in crore)

Year-wise sector-wise break-up	Total earnings	Funds invested in the form of equity on historical cost	ROI on historical cost basis (in percentage)
(1)	**(2)**	**(3)**	**(4)= (2/3x100)**
2013-14			
Social Sector	(-)5.61	25.19	(-)22.27
Competitive Sector	(-)38.65	141.20	(-)27.37
Others	5.16	4.75	108.63
Total	**(-)39.10**	**171.14**	**(-)22.85**
2014-15			
Social Sector	(-)8.81	25.50	(-)34.56
Competitive Sector	(-) 37.23	148.85	(-) 25.01
Others	4.76	3.74	127.27
Total	**(-)41.28**	**178.09**	**(-)23.18**
2015-16			
Social Sector	(-)7.30	25.81	(-)28.29
Competitive Sector	(-) 40.85	148.85	(-) 27.44
Others	4.76	3.74	127.27
Total	**(-) 43.39**	**178.40**	**(-) 24.32**
2016-17			
Social Sector	(-)1.41	25.81	(-)5.46
Competitive Sector	(-) 31.35	148.47	(-) 21.12
Others	4.95	2.73	181.32
Total	**(-) 27.81**	**177.01**	**(-) 15.71**
2017-18			
Social Sector	(-)3.25	25.81	(-)12.59
Competitive Sector	(-) 47.26	148.47	(-) 31.83
Others	4.95	2.73	181.32
Total	**(-) 45.56**	**177.01**	**(-) 25.74**

(Source: As per the latest accounts finalised during respective years)

The return on funds invested was worked out by dividing the total earnings[25] by the historical cost of UT Government investments. In all the years under review, the overall ROI was negative and the same ranged between 15.71 to 25.74 *per cent.* At the end of March 2018, the overall ROI was negative at 25.74 *per cent.*

Analysis of ROI revealed that:

PSUs under Other Sector category was positive in all the years which increased from 108.63 in 2013-14 to 181.32 *per cent* in 2017-18.

PSUs under Competitive Sector category witnessed huge losses and the ROI in these PSUs was negative and fluctuating in the range of 21.12 to 31.83 *per cent.* The major reason for negative return from PSUs under CS category was due to huge losses incurred by all the PSUs, except for the profit reported by PIPDIC during 2013-14 and 2016-17, which was negative and ranged between ` 31.35 crore and ` 47.26 crore during 2013-18. The losses were mainly due to losses incurred by the two textile companies *viz.,* Pondicherry Textile Corporation Limited and Swadeshee-Bharathee Textile Mills Limited.

In respect of PSUs under Social Sector category, the ROI during 2013-14 to 2017-18 was negative and ranged between 5.46 *per cent* to 34.56 *per cent* which was mainly due to the loss sustained by Puducherry Agro Products, Food and Civil Supplies Corporation Limited (PAPSCO) in its public distribution activities.

(b) Return on Investments (ROI) on the basis of Present Value (PV) of the investment

An analysis of the earnings *vis-à-vis* investments in respect of 11 PSUs (other than Power Sector) where funds had been infused by the UT Government was carried out to assess the profitability of these PSUs. Traditional calculation of return based only on historical cost of investment may not be a correct indicator of the adequacy of the return on the investment since such calculations ignore the PV of money. The PV of the Government investments has been computed to assess the rate of return on the PV of investments of UT Government in the PSUs as compared to historical value of investments. In order to bring the historical cost of investments to its PV at the end of each year, the past investments/year-wise funds infused have been compounded at the year-wise average rate of interest. For the purpose of compounding, the average rate of Government borrowings, which was the minimum cost of funds to the Government for the concerned year was considered. Accordingly, PV of the UT Government investment was computed in respect of those 11 PSUs where funds have been infused by the UT Government in the shape of equity since inception of these companies till 31 March 2018.

The PV of the UT Government investment in 11 PSUs was computed on the basis of following assumptions:

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[25] This includes Net profit (+)/Loss (-) of all the PSUs including subsidiaries.

- The loans advanced by the UT Government are interest bearing and hence, the same has not been considered for calculating PV as only Interest Free Loans (IFL) has to be considered for the purpose. The funds made available in the form of grant/subsidies have not been reckoned as investment since they do not qualify to be considered as investment as indicated in Paragraph 4.3.10.1.
- The dividend paid by the PSUs have been deducted from the total investment in the respective years.
- The average rate of interest on Government borrowings for the relevant financial year[26] was adopted as compounded rate for arriving at PV since they represent the cost incurred by the Government towards investment of funds for the year and therefore considered as the minimum expected rate of ROI made by the Government.

4.3.10.1 The UT Government's investment in these 11 PSUs in the form of equity for the period from 2009-10 to 2017-18 and the consolidated position of the PV and the total earnings of PSUs (other than Power Sector) for the same period are indicated in **Table 4.24**.

Table 4.24: Year-wise details of investment by the UT Government and PV of Government investment for the period from 2010-11 to 2017-18

(₹ in crore)

Financial year	PV of total investment at the beginning of the year	Equity infused by the UT Government during the year	IFL given by UT Government during the year	IFL converted into grant/ equity	Dividend paid by the PSUs	Total investment at the end of the year after adjusting dividend	Average rate of interest on Government borrowings (in *per cent*)	PV of total investment at the end of the year	Minimum expected return to recover cost of funds for the year	Actual total earnings for the year
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)=(2+3+4-5-6)**	**(8)**	**(9)=(7+(7x8/100)**	**(10)=(9x8/100)**	**(11)**
Upto 2009-10	--	144.52	--	--	1.44	143.08	8.00	154.53	--	--
2010-11	154.53	21.24	--	--	1.03	174.74	7.81	188.38	14.71	(-)69.89
2011-12	188.38	6.61	--	--	0.93	194.06	7.80	209.19	16.32	(-)56.49
2012-13	209.19	0.25	--	--	0.44	209.00	8.00	225.72	18.06	(-)39.63
2013-14	225.72	3.83	--	--	1.47	228.08	7.70	245.64	18.91	(-)39.10
2014-15	245.65	7.96	--	--	1.01	252.59	7.90	272.55	21.53	(-)41.28
2015-16	272.55	0.31	--	--	--	272.86	7.50	293.33	22.00	(-)43.39
2016-17	293.33	--	--	--	1.39	291.94	7.20	312.96	22.53	(-)27.81
2017-18	312.96	--	--	--	--	312.96	8.02	338.06	27.11	(-)45.56
Total		**184.72**	**--**	**--**	**7.71**					

(Source: Details as per annual accounts and as furnished by the PSUs.)

[26] The average rate of interest on Government borrowings was adopted from the Reports of the CAG of India on Union Territory Finances for the concerned year wherein the calculation for the average rate for interest paid = Interest Payment/ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2]*100.

The funds infused in these PSUs upto March 2010 was ` 144.52 crore comprising only of equity. During 2010-18, a total equity of ` 40.20 crore was infused in these PSUs. During the same period, these PSUs paid a total dividend of ` 7.71 crore. After deducting the dividend paid, the total investment worked out to ` 177.01 crore. The PV of the funds infused in these PSUs at the end of March 2018 worked out to ` 338.06 crore. During 2010-11 to 2017-18, the total earnings were negative in all the years and was thus far below the minimum expected return and consequently the cost of funds infused in these PSUs could not be recovered. The net aggregate loss was in the range of ` 27.81 crore to ` 69.89 crore against the expected profit between ` 14.71 crore to ` 27.11 crore. The losses from PSUs under Competitive Sector and Social Sector had set off the profit earned by the PSU under Other Sector (refer **Table 4.25**).

Analysis of comparison of sector-wise ROI of funds at historical cost with its PV revealed that PSU under Other Sector had positive returns whereas Social and Competitive Sector PSUs had negative returns in all the five years during 2013-14 to 2017-18. If the PSUs are earning profit, the rate of return calculated on historical cost would be higher whereas, the same would be less if calculated on the PV of the investments. In case of losses, the rate of return would already be negative and hence, the comparative position was not calculated. The sector-wise comparative position of ROI on the historical cost and with its PV during five years ended 2017-18 are given in **Table 4.25**.

Table 4.25: Comparative position of ROI on historical cost basis and PV

(₹ in crore)

Year wise sector-wise break-up	Total earnings	Historical cost of funds invested in the form of equity	ROI on historical cost (in percentage)	PV of the funds invested in the form of equity	ROI on the PV (in percentage)
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)=(2/5x100)**
2013-14					
Social Sector	(-)5.61	25.19	(-)22.27	36.32	*
Competitive Sector	(-)38.65	141.20	(-)27.37	201.70	*
Others	5.16	4.75	108.63	7.62	67.72
Total	**(-)39.10**	**171.14**	**(-)22.85**	**245.64**	*
2014-15					
Social Sector	(-)8.81	25.50	(-)34.55	39.53	*
Competitive Sector	(-)37.23	148.85	(-)25.01	225.88	*
Others	4.76	3.74	127.27	7.13	66.76
Total	**(-)41.28**	**178.09**	**(-)23.18**	**272.55**	*
2015-16					
Social Sector	(-)7.30	25.81	(-)28.28	42.83	*
Competitive Sector	(-)40.85	148.85	(-)27.44	242.83	*
Others	4.76	3.74	127.27	7.67	62.06
Total	**(-)43.39**	**178.40**	**(-)24.32**	**293.33**	*

Year wise sector-wise break-up	Total earnings	Historical cost of funds invested in the form of equity	ROI on historical cost (in percentage)	PV of the funds invested in the form of equity	ROI on the PV (in percentage)
(1)	(2)	(3)	(4)	(5)	(6)=(2/5x100)
2016-17					
Social Sector	(-)1.41	25.81	(-)5.46	45.92	*
Competitive Sector	(-)31.35	148.47	(-)21.12	259.90	*
Others	4.95	2.73	181.32	7.14	69.33
Total	**(-)27.81**	**177.01**	**(-)15.71**	**312.96**	*
2017-18					
Social Sector	(-)3.25	25.81	(-)12.59	49.60	*
Competitive Sector	(-) 47.26	148.47	(-) 31.83	280.75	*
Others	4.95	2.73	181.32	7.71	64.20
Total	**(-)45.56**	**177.01**	**(-)25.74**	**338.06**	*

* In view of the loss, rate of return was not calculated on PV of the investment.
(Source: As per the latest accounts finalised during respective years)

From the **Table 4.25**, it is evident that the ROI under PV method was lesser than the return calculated under historical method. In respect of PSUs under Others category, the rate of return was positive during all the years 2013-18 and ranged between 108.63 and 181.32 *per cent* on the historical cost of funds infused, whereas the rate of return on the PV of investment was between 62.06 and 69.33 *per cent*.

In respect of PSUs under Social Sector, the rate of return calculated on the historical cost of funds infused was negative and it was in the range of 5.46 to 34.55 *per cent* during the years 2013-14 to 2017-18.

PSUs under Competitive Sector (CS) category witnessed huge losses amounting to ` 195.34 crore out of the net aggregate losses of ` 197.14 crore. The ROI in these PSUs was negative in all the five years which was in the range of 21.12 to 31.83 *per cent* on historical cost. The major reason for negative return from PSUs under CS category were due to losses incurred by the two textile companies *viz.,* Pondicherry Textile Corporation Limited and Swadeshee-Bharathee Textile Mills Limited. Continuous loss of these PSUs resulted in erosion of net worth as discussed in Paragraph 4.3.11.

4.3.11 Erosion of net worth

Net worth means the sum total of paid up capital plus free reserves and surplus minus accumulated losses and deferred revenue expenditure. Essentially it is a measure of what an entity is worth to the owners. A negative net worth indicates that the entire investment by the owners had been wiped out by accumulated losses and deferred revenue expenditure. As per the latest finalised accounts, the paid up capital of 12 PSUs stood at ` 616.76 crore and its aggregate accumulated losses (net of free reserves of ` 45.32 crore in three

PSUs) stood at ` 711.63 crore leaving a negative net worth of these PSUs at ` 94.87 crore. The details of which are given in **Table 4.26**.

Table 4.26: Net worth of 12 PSUs (other than Power Sector) during 2013 -18

(₹ in crore)

Year wise sector-wise break-up	Paid up capital	Accumulated profit (+)/ loss(-) at the end of the year	Deferred revenue expenditure	Net worth
2013-14				
Social Sector	32.18	(-)19.09	--	13.09
Competitive Sector	565.19	(-)549.56	--	15.63
Others	8.45	35.59	--	44.04
Total	**605.82**	**(-) 533.06**	**--**	**72.76**
2014-15				
Social Sector	32.49	(-)30.36	--	2.13
Competitive Sector	568.09	(-)574.91	--	(-)6.82
Others	8.45	39.13	--	47.58
Total	**609.03**	**(-) 566.14**	**--**	**42.89**
2015-16				
Social Sector	32.80	(-)30.13	--	2.67
Competitive Sector	568.34	(-) 590.07	--	(-) 21.73
Others	8.45	39.13	--	47.58
Total	**609.59**	**(-) 581.07**	**--**	**28.52**
2016-17				
Social Sector	32.80	(-)32.99	--	(-)0.19
Competitive Sector	575.51	(-)682.17	--	(-) 106.66
Others	8.45	42.85	--	51.30
Total	**616.76**	**(-) 672.31**	**--**	**(-) 55.55**
2017-18				
Social Sector	32.80	(-)37.69	--	(-)4.89
Competitive Sector	575.51	(-) 716.79	--	(-) 141.28
Others	8.45	42.85	--	51.30
Total	**616.76**	**(-) 711.63**	**--**	**(-) 94.87**

(Source: Audit Reports and latest finalised accounts during the respective years)

It is evident from the table above, one PSU under Other Sector has been earning profit and had accumulated profit in all the years. Consequently, its net worth was also positive and showed increasing trend from ` 44.04 crore in 2013-14 to ` 51.30 crore in 2017-18.

The six PSUs under Competitive Sector were incurring losses in all the years and its accumulated losses increased from ` 549.56 crore in 2013-14 to ` 716.79 crore in 2017-18. The net worth of these six PSUs was positive during

2013-14 at ` 15.63 crore and it turned negative during 2014-15 at ` 6.82 crore. The position further deteriorated in the subsequent years and stood at ` 141.28 crore at the end of 2017-18. The negative net worth under this category of PSUs was mainly from Pondicherry Textile Corporation (PONTEX) which reported a net erosion of ` 206.35 crore at the end of March 2018 which was to some extent compensated by the positive net worth of PIPDIC. The main reasons for the negative net worth of PONTEX was the accumulated losses on account of insufficient revenue to absorb the fixed costs.

The net worth of four PSUs under Social Sector category was positive at ` 13.09 crore (2013-14) and though diminishing remained positive till 2015-16. Thereafter it turned negative and stood at ` 4.89 crore at the end of 2017-18.

The negative net worth indicated that the liabilities of these PSUs have exceeded the assets and instead of paying returns to the shareholders, the shareholders owe money.

4.3.12 Dividend payout

The UT Government had not formulated any policy for payment of minimum dividend on the share capital contributed by it. The UT Government had contributed to the equity of all the 11 PSUs in other than Power Sector Category. The total equity contributed by the UT Government in these 11 working PSUs at the end of March 2014 was ` 595.45 crore, which increased to ` 606.49 crore at the end of March 2018. Against this equity, the dividend paid by the PSUs to the Government was in the range of ` 1.01 crore to ` 1.47 crore during 2013-18. Details of total equity infused in the 11 PSUs, profit earned by PSUs and the dividend paid to the UT Government during 2013-18 are given in **Table 4.27**.

Table 4.27: Declaration of dividend by PSUs other than Power Sector during 2013-18

(₹ in crore)

Year	Total number of PSUs		Equity infused		PSUs which earned profit		PSUs which declared dividend		Dividend pay-out ratio
	Number of PSUs	Equity amount (including equity infused during the year)	Number of PSUs	Amount	Number of PSUs	Amount	Number of PSUs	Dividend paid	
1	2	3	4	5	6	7	8	9	10 = 9/3x100
2013-14	12	595.45	1	0.31	2	7.37	2	1.47	0.25
2014-15	11	598.76	2	3.31	1	4.76	1	1.01	0.17
2015-16	11	599.32	2	0.56	2	6.21	0	0.00	--
2016-17	11	606.49	2	7.17	3	10.18	2	1.39	0.23
2017-18	11	606.49	--	--	3	8.93	0	0.00	--

(Source: Latest finalised accounts of PSUs)

During 2013-18, the major contributors to profit were PIPDIC and PDL. Both these PSUs declared a dividend ` 3.87 crore against equity investment of

` 121.03 crore. The dividend payout on the total equity investments constituted a meagre percentage ranging from 0.17 to 0.25.

4.3.13 Return on Equity

Return on Equity (ROE) is a measure of financial performance to assess how effectively management is using shareholders' funds to create profits and is calculated by dividing net income (*i.e.*, net profit after taxes) by shareholders' funds. It is expressed as a percentage and can be calculated for any company if both the net income and shareholders' funds are positive. Shareholders' fund of a company is calculated by adding paid up capital and free reserves net of accumulated losses and deferred revenue expenditure and reveals how much would be left for a company's stakeholders if all assets were sold and all debts were paid. A positive shareholders' fund reveals that the company has enough assets to cover its liabilities while negative figures means that liabilities exceed the assets. ROE has been computed in respect of 11 working PSUs (other than Power Sector Undertakings) and the details of shareholders' funds and ROE during 2013-18 are given in **Table 4.28**.

Table 4.28: ROE relating to 11 working PSUs during 2013-18

(₹ in crore)

Year	Net income	Shareholders' funds	ROE (in *per cent*)
2013-14	(-) 39.10	72.76	--
2014-15	(-) 41.28	42.89	--
2015-16	(-) 43.39	28.52	--
2016-17	(-) 27.81	(-) 55.55	--
2017-18	(-) 45.56	(-) 94.87	--

As can be seen from **Table 4.28**, during all the last five years ending 2017-18, the net income was negative and thus, the ROE could not be worked out.

4.3.14 Return on capital employed

Return on Capital Employed (ROCE) is a ratio that measures a company's profitability and the efficiency on the capital employed. ROCE is calculated by dividing a company's earnings before interest and taxes (EBIT) by the capital employed[27]. The details of ROCE of the PSUs (other than Power Sector) during the period from 2013-14 to 2017-18 are given in **Table 4.29**.

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27 Capital employed = Shareholders funds plus long term loans.

Table 4.29: Return on Capital Employed

(₹ in crore)

Year	EBIT	Capital Employed	ROCE (in *per cent*)
2013-14	(-) 22.41	72.76	--
2014-15	(-) 21.12	55.72	--
2015-16	(-) 23.26	40.38	--
2016-17	(-) 8.71	(-) 45.16	--
2017-18	(-) 23.77	(-) 78.28	--

(Source: As per the latest finailsed accounts)

The EBIT of these PSUs was negative during all the five year period 2013-18 which ranged between ` 8.71 crore and ` 23.77 crore.

4.3.15 Analysis of long term loans of the PSUs (other than Power Sector)

Analysis of the long term loans of the PSUs of other than Power Sector which had leverage during 2013-18 was carried out to assess the ability of the companies to service the debt owed by the PSUs to Government, banks and other financial institutions. This was assessed through the interest coverage ratio and debt turnover ratio in the following paragraphs.

4.3.15.1 Interest Coverage

Interest Coverage Ratio (ICR) is used to determine the ability of a PSU to pay interest on outstanding debt and is calculated by dividing earnings before interest and taxes (EBIT) of a PSU by interest expenses of the same period. The lower the ratio, the lesser the ability of the PSU to pay interest on debt. An interest coverage ratio below one indicated that the PSU was not generating sufficient revenues to meet its expenses on interest. The details of positive and negative interest coverage ratio during the period 2013-18 are given in **Table 4.30**.

Table 4.30: Interest coverage ratio of working PSUs (other than Power Sector)

Year	Interest (₹ in crore)	EBIT (₹ in crore)	Number of PSUs having interest liability	Number of PSUs with negative ICR	Number of PSUs with ICR more than zero and upto one	Number of PSUs having ICR more than one
2013-14	12.98	(-) 22.41	9	7	1	1
2014-15	17.07	(-) 21.12	7	4	3	--
2015-16	17.02	(-) 23.26	8	5	2	1
2016-17	17.12	(-) 8.71	8	5	2	1
2017-18	19.82	(-) 23.77	7	4	1	2

(Source: As per the latest finailised accounts during the respective years)

Of the seven PSUs having liability of loans during 2017-18, four PSUs had negative ICR indicating that these PSUs could not generate adequate income to pay off its interest liability. Two PSUs had ICR more than one indicating sufficient income to pay off its interest burden and one PSU could partially payoff its interest liability.

4.3.15.2 Debt turnover ratio

The details of the total debts and the turnover of the PSUs (other than Power Sector) are given in **Table 4.31**.

Table 4.31: Key parameters of the PSUs

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Debt	Nil	12.83	11.86	10.39	16.59
Turnover	298.67	304.84	318.89	270.54	307.99
Debt-turnover ratio	--	0.04:1	0.04:1	0.04:1	0.05:1

(Source: As per the latest finailsed accounts)

During the last five years, the turnover of these PSUs fluctuated between ` 298.67 crore and ` 318.89 crore during 2013-14 and 2017-18, whereas the debt ranged between ` 10.39 crore and ` 16.59 crore during the same period. However, the debt-turnover ratio almost remained constant throughout this period.

4.3.16 Winding up of non-functional PSUs

There is only one non-functional PSU as on 31 March 2018, *viz.,* Pondicherry Electronics Limited (PELECON) which is a subsidiary of Pondicherry Industrial Promotion Development and Investment Corporation Limited (PIPDIC). PELECON is in the process of winding up and consequently PIPDIC, the Holding Company, has assumed the assets and liabilities of PELECON as on 31 March 2013. The proceedings for getting the name of PELECON struck off from the Register of Companies under Fast Track Exit Scheme is under process.

4.3.17 Performance Audit and Compliance Audit paragraphs

For the Chapter on Government Commercial and Trading Activities included in the Report of the Comptroller and Auditor General of India - Government of Union Territory of Puducherry for the year ended 31 March 2018, one Thematic Audit on Recruitment, Engagement and Deployment of personnel in Puducherry PSUs during 2013-14 to 2017-18 was issued to the Chief Secretary to Government of UT of Puducherry and Principal Secretaries/ Secretaries of the respective Administrative Departments with request to furnish replies within four weeks. Replies to the Thematic Audit have been received from the UT Government and taken into account while finalising this paragraph. The total financial impact of this Thematic Audit is ` 185.39 crore (including ` 5.92 crore in respect of the Power Sector PSU).

4.3.18 Follow up action on Audit Reports

The Report of the CAG represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. In view of this, the Administrative Departments have to submit replies/explanatory notes to paragraphs/reviews included in the Audit Reports of the CAG within a period of three months of their presentation to the Legislature in the prescribed format without waiting for any questionnaire from the Public Accounts Committee (PAC).

4.3.18.1 Replies outstanding

Table 4.32 gives the status of receipt of explanatory notes in respect of the Audit Reports presented before the UT Legislature.

Table 4.32: Explanatory notes not received (as on 31 December 2018)

Year of the Audit Report	Date of placement of Audit Report in the UT Legislature	Total Performance Audits (PAs) and Paragraphs in the Audit Report		Number of PAs/Paragraphs for which explanatory notes were not received	
		Performance Audit	Paragraphs	Performance Audit	Paragraphs
2010-11	30.07.2012	Nil	02	Nil	01
2011-12	29.07.2013	Nil	02	Nil	Nil
2012-13	23.09.2014	Nil	01	Nil	01
2013-14	06.05.2015	Nil	01	Nil	01
2014-15	08.09.2016	Nil	01	Nil	01
2015-16	15.06.2017	Nil	01	Nil	01
Total		**Nil**	**08**	**Nil**	**05**

From **Table 4.32**, it could be seen that out of eight paragraphs, explanatory notes to five paragraphs in respect of four Departments, which were commented upon, were not received (December 2018).

4.3.18.2 Discussion of Audit Reports by PAC

The status of performance audits/paragraphs that appeared in Audit Reports of UT of Puducherry and discussed by PAC as on 31 December 2018 was as given in **Table 4.33**.

Table 4.33: Reviews/Paras appeared in Audit Reports *vis-à-vis* discussed as on 31 December 2018

Period of Audit Report	Number of PAs/Paragraphs			
	Appeared in Audit Report		Paragraph Discussed	
	PAs	Paragraphs	PAs	Paragraphs
2010-11	Nil	02	Nil	02
2011-12	Nil	02	Nil	Not discussed
2012-13	Nil	01	Nil	Not discussed
2013-14	Nil	01	Nil	Not discussed
2014-15	Nil	01	Nil	Not discussed
2015-16	Nil	01	Nil	Not discussed
Total	**Nil**	**08**	**Nil**	**02**

4.3.18.3 Compliance to Reports of PAC

Action Taken Notes (ATNs) to 84 recommendations pertaining to 20 Reports of the PAC presented to the Legislature of Government of UT of Puducherry between February 2011 and March 2017 had not been received (December 2018) as indicated in **Table 4.34**.

Table 4.34: Compliance to PAC Reports

Year of the PAC Report	Total number of PAC Reports	Total number of recommendations in PAC Report	Number of recommendations where ATNs not received
Upto 2010-11	15	101	30
2011-12	--	--	--
2012-13	01	20	14
2013-14	02	25	22
2014-15	02	36	18
2015-16	--	--	--
2016-17	--	--	--
Total	**20**	**182**	**84**

These Reports of PAC contained recommendations in respect of paragraphs pertaining to eight Departments, which appeared in the Reports of CAG of India for Government of Union Territory of Puducherry for the years from 2002-03 to 2008-09.

It is recommended that the Government may prescribe a time schedule and resource person in each PSUs to ensure (a) sending replies to the Performance Audit Reports and Paragraphs, Explanatory Notes and ATNs on the recommendations of PAC as per the prescribed time schedule; (b) recovery of loss/outstanding advances/overpayments within the prescribed period; and (c) revamping of the system of responding to audit observations. The Government may establish a system to monitor compliance to above.

4.3.19 Coverage of this Chapter

This Chapter contains a Thematic Audit on Recruitment, Engagement and Deployment of Personnel in Puducherry PSUs during 2013-14 to 2017-18 involving financial impact of ` 185.39 crore.

4.4 Audit on Recruitment, Engagement and Deployment of Personnel in Puducherry PSUs during 2013-14 to 2017-18

4.4.1 Introduction

Public Sector Undertakings (PSUs)[28] of Government of Union Territory of Puducherry (UT Government), for the matters relating to recruitment, pay and allowances and other related entitlements, have been following the Rules applicable to the employees of Government of India (GOI), and Recruitment Rules (RR) framed thereunder by the respective PSUs. Accordingly, pay and allowances to the employees of Autonomous Institutions, Corporations, Societies, Boards and Local Bodies are regulated as per the directives of the Government from time to time.

UT Government, while issuing orders for implementation of the recommendations of Sixth Central Pay Commission (CPC), directed[29] (October 2008) that in case of creation of new posts including daily rated posts or up-gradation, the relevant RR needs to be amended suitably and the approval of the Government should be obtained for such amendments. It further stated that the perks and allowances applicable for employees of PSUs should not be superior to the employees of UT Government. The employees of all non-profit making or financially non-viable PSUs will be entitled to the minimum bonus payable under Bonus Act, 1965 and not entitled to get any *ex-gratia* payment. For engagement and regularisation of casual labourers, UT Government introduced (February 2009)[30] a new scheme called "Puducherry Casual Labourers (Engagement and Regularisation) Scheme 2009" (PCL (ER) Scheme 2009).

The sanctioned strength and persons-in-position (PIP) of regular employees and casual labourers (CLR) of 12 PSUs of UT Government and expenditure incurred towards pay and allowances and other entitlements during 2013-18 are given in **Table 4.35**.

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28 Twelve PSUs: (i) Puducherry Distilleries Limited (PDL), (ii) Pondicherry Industrial Promotion Development and Investment Corporation Limited (PIPDIC), (iii) Pondicherry Textile Corporation Limited (PTC), (iv) Puducherry Road Transport Corporation Limited (PRTC), (v) Puducherry Agro Service and Industries Corporation Limited (PASIC), (vi) Puducherry Adi Dravidar Development Corporation Limited (PADCO), (vii) Puducherry Power Corporation Limited (PPCL), (viii) Puducherry Corporation for the Development of Women and Differently Abled Persons Limited (PCDWDAP), (ix) Puducherry Agro Products, Food and Civil Supplies Corporation Limited (PAPSCO), (x) Puducherry Backward Classes and Minorities Development Corporation Limited (PBCMDC), (xi) Puducherry Tourism Development Corporation Limited (PTDC) and (xii) Swadeshee-Bharathee Textile Mills Limited (SBTML).

29 Finance Department G.O Ms. No 66/F3/2008 dated 24 October 2008.

30 G.O.Ms. No 22 dated 27 February 2009.

Table 4.35: Statement showing sanctioned strength and Persons-in-Position

Sl. No	Name of the PSU	Sanctioned strength as on 31 March 2018	Persons-in-Position as on 31 March 2018				Expenditure incurred towards pay and other entitlements during 2013-18 (₹ in crore)		
			Regular	CLR	Total	Percentage to sanctioned strength	Regular	CLR	Total
1	PDL	182	131	42	173	95.05	26.09	3.60	29.69
2	PIPDIC	171	90	100	190	111.11	27.77	5.50	33.27
3	PTC	827	795	2	797	96.37	50.89	0.43	51.32
4	PRTC	801	481	281	762	95.13	81.47	6.62	88.09
5	PASIC	421	330	203	533	126.60	55.92	14.86	70.78
6	PADCO	81	68	15	83	102.47	13.56	1.42	14.98
7	PPCL	169	117	11	128	75.74	34.46	1.43	35.89
8	PCDWDAP	1,428	1,284	6	1,290	90.34	169.64	0.31	169.95
9	PAPSCO	346	307	790	1,097	317.05	30.67	16.33	47.00
10	PBCMDC	40	40	27	67	167.50	4.59	2.00	6.59
11	PTDC	319	237	10	247	77.43	39.79	0.65	40.44
12	SBTML	615	315	246	561	91.22	30.91	6.52	37.43
Total		**5,400**	**4,195**	**1,733**	**5,928**		**565.76**	**59.67**	**625.43**

(Source: Details furnished by the PSUs)

The main objectives of the audit was to ascertain whether the RR of PSUs were in conformity with rules of Government; recruitments/upgradation of posts were made in compliance with RR; payment of pay and allowances/incentives were made as per the norms of UT Government; Statutory dues were duly remitted and there was adequate internal control mechanism. The audit was commenced with an Entry Conference held on 19 April 2018 with Chief Secretary of UT Government to explain the scope of audit and objectives. The present Audit covered the recruitment process, fixation of pay and allowances, promotions and up-gradations, grant of other allowances and deployment of personnel in all 12 PSUs during the period 2013-18. Replies (November 2018) and the response of UT Government during the Exit Conference (chaired by Chief Secretary) held on 28 December 2018 were considered and included in the Report wherever deemed necessary.

Audit Findings

4.4.2 Granting of Sixth CPC scale without amending RR

Out of total 12 PSUs, three PSUs (PTC, PBCMDC and SBTML) were yet to formulate its own RR (September 2018). UT Government recommended

(October 2008) the implementation of Sixth CPC recommendations to 10 PSUs (except PTC and SBTML) and instructed (October 2008) that RR should be amended substituting the existing pay scales by the new scale of pay duly approved by the Government. Audit observed that these 10 PSUs granted the new scale of pay without amending its RR. Further, subsequent to the implementation of Sixth CPC recommendations, PSUs had carried out creation, up-gradation and modification of post with revision in the scale of pay without obtaining the approval of UT Government. Audit observed that these PSUs did not submit the necessary proposals duly amending the RR to UT Government for seeking its approval. Instances of such omissions as noticed during the audit are discussed in subsequent paragraphs.

4.4.3 Irregular appointments

Puducherry Distilleries Limited (PDL) decided (October 2014/August 2015) to increase the post of Multi Purpose Workers (MPW) from 17 to 58 with grade pay of ` 1,800 and approved the modification of RR. It was decided to appoint these MPW through direct recruitment by conducting trade test[31]. It was also decided to consider their existing 53 CLR for this recruitment process. Necessary changes in the RR (essential educational qualification: Secondary School Leaving Certificate (SSLC) or equivalent and Age: between 18 and 32 years) were approved by the Board (August 2015), but the same were not sent to UT Government for its approval. Meanwhile, the PDL notified (October 2015) the direct recruitment and issued advertisement in the newspaper calling for the applications. In response, applications were received only from 53 existing CLRs and no other applications were received and thus, all the 53 applicants were appointed as MPW in December 2015.

Audit observed that PDL had not conducted the work study for assessment of vacancies before increasing the number of posts from 17 to 58. Further, in the newspaper advertisement, PDL had not indicated any mailing address to which the applications are to be sent *i.e*, the mailing post box number was kept blank *("the Box No.......... C/O The Indian Express, Anna Salai, Chennai 600 002")*. The incomplete advertisement did not give scope for candidates from open market and restricted the applications from insiders only, i.e., existing 53 CLRs. Thus, the recruitment process lacked transparency and the PDL consciously ensured that no outside candidate participated in the recruitment process favouring existing CLRs.

It was further observed that out of 53 CLRs, only nine applicants satisfied both the age and educational qualification; 39 persons did not satisfy the age criteria, 29 persons did not satisfy the educational criteria and 24 persons did not satisfy both the criteria. The Departmental Selection Committee comprising the then Managing Director, Company Secretary and General

[31] Final external assessment undertaken to meet the requirement included in an occupational qualification for a listed trade.

Manager (Works) recommended to appoint all the 53 candidates relaxing the age and educational qualification. The sequence of the events indicated that the existing 53 CLRs were indirectly regularised. Thus, the recruitment of 53 MPW tantamount to regularisation of existing casual labourers and pay and allowances paid ` 1.71 crore (` 5.04 lakh per month for 34 months) for the period from December 2015 to September 2018 was irregular.

PDL in its reply (November 2018) stated that it had regularised (April 2015) 53 CLRs with the approval (April 2015) of Honorable Chief Minister. However, Secretary to Government (Transport/Industries and Commerce) had requested (September 2018) PDL to fix responsibility on the official, who had engaged without following the due procedure and to take corrective action for illegal engagement of CLRs.

4.4.4 Puducherry Power Corporation Limited (PPCL) appointed Executive Engineer (EE) in its plant at Karaikal in March 2002 in the scale of pay of ` 10,000-325-15,200. The Selection Committee fixed the basic pay at the maximum of the time scale, by granting 16 advance increments considering his previous employment in Steel Authority of India Limited (SAIL), a PSU functioning under GOI. On completion of 10 years of his service as EE, for grant of Modified Assured Career Progression (MACP)[32] to him, PPCL submitted a proposal to UT Government (November 2012) seeking its approval. UT Government had not acceded (March 2014) for grant of MACP stating that the grant of 16 advance increments at entry stage was not in order and as the same was not approved by UT Government.

PPCL submitted another proposal to UT Government in November 2016 for his promotion as Superintending Engineer (SE). UT Government, reiterating the irregular grant of 16 advance increments at entry stage turned down (March 2017) the proposal and directed that the promotion to SE should be kept in abeyance and the excess amount paid should be recovered. However, PPCL did not implement the order of the UT Government and continued to pay the salary in the scale applicable to SE (November 2018).

As per the Office Memorandum (OM) dated 7 August 1989[33], in case of the candidates recruited from Central Autonomous Bodies (CAB), the pay fixation is to be made by the employing Ministries/Departments after verification of all the relevant documents to be produced by the candidates, who were employed in such organisation. In this connection, Audit observed that the selected individual did not produce the requisite evidence such as application through proper channel, NOC and Last Pay drawn Certificate (LPC) from the previous employer (SAIL). However, the initial pay was fixed in the maximum of the time scale without verification of relevant documents which resulted in payment of salaries at higher amount and was irregular. The excess payment

[32] Modified Assured Career Progression Scheme notified by Government of India in September 2010 for financial up-gradation after prescribed years.

[33] No. 12/1/88-Estt (Pay-1) dated 7 August 1989 issued by Department of Personnel and Training.

on this account worked out to ` 39.09 lakh (up to October 2018), which needed to be recovered. Further, the responsibility needs to be fixed for the irregular fixation of pay.

UT Government in its reply stated that NOC from previous employer and verification of LPC did not arise as the Board of Directors had unbridled power in the appointment and service condition of the officers appointed in PPCL. The reply was not tenable for the reason that as per the OM, the pay fixation of any person recruited from CAB should be made with due approval of the Administrative Department after verification of all relevant documents including NOC and LPC and thus, the action of the Board in the instant case was beyond its power.

4.4.5 In Puducherry Road Transport Corporation Limited (PRTC), the sanctioned strength of drivers and conductors as on 01 April 2015 was 272 and 290 respectively. In view of the then vacancy of 83 drivers and 117 conductors, it was decided (January 2014) to engage 60 drivers and conductors each on contract basis[34]. Accordingly, the PRTC issued public advertisement in the newspapers[35] on 31 July 2013. Subsequently, considering the proposed purchase of additional 40 new buses, PRTC reassessed the requirement and decided (June/August 2015) to recruit 120 drivers and 80 conductors additionally. PRTC appointed 152 drivers and 154 conductors at a consolidated monthly pay of ` 7,500 and ` 7,000 respectively in September/November 2015, taking the total strength to 341 drivers and 327 conductors.

Audit observed that PRTC had engaged 69 drivers and 37 conductors in excess of the sanctioned strength for which approval of the UT Government was not obtained. Further, it was observed that the notification for recruitment of conductors prescribed a minimum educational qualification of SSLC and selection on the basis of skill test, physical fitness test and personal interview. Scrutiny of the notified merit list containing 130 conductors revealed that selection was made on the basis of educational qualification and there was no documentary support indicating the fulfilment of skill test, physical fitness test and personal interview. Though the notified merit list contained 130 candidates only, appointment orders were issued to 154 candidates and thus the fulfillment of eligibility criteria by the remaining 24 candidates could not be verified in audit. Under the circumstances, the recruitment process of conductors lacked transparency. Thus, accountability needs to be fixed for appointment of 24 conductors without following the due process.

UT Government in its reply stated "all the conductor applicants were given the appointment on the basis of the decision taken at higher level". During the Exit Conference, it was stated that the number of applicants were less/ on par with the required number of conductors and thus, all the applicants were appointed. The reply is not tenable for the reason that PRTC did not follow the

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[34] For a period of 11 months at a consolidated wages, extendable based on the performance of the individuals.

[35] Dinamalar, Dinakaran and Daily Thanthi (Puducherry and Villupuram editions).

selection process prescribed in the recruitment notification and thus recruitment lacked transparency.

4.4.6 Irregular grant of financial up-gradation

As per OM dated 19 May 2009[36], for grant of financial up-gradation under MACP, a Screening Committee consisting of a Chairperson and two members should be formed and the members of the Committee should be holding post at least one level above the grade in which the MACP is to be considered. The financial up-gradation to the grade pay of ` 7,600 and above should be granted subject to benchmark of "Very Good".

PRTC, as per the decision (July 2010) of the Review Committee Meeting, granted (September 2010) first MACP to General Manager cum Company Secretary from ` 15,600-39,100-grade pay ` 6,600 to the next pay level of ` 15,600-39,100-grade pay ` 7,600 with effect from 01 September 2008 after completion of 10 years of continuous service. On completion of 20 years of continuous service, second financial upgradation from grade pay of ` 7,600 to next level grade pay of ` 8,700 with effect from 20 January 2017 was granted (January 2018), as per the recommendations of the Screening Committee.

Audit observed that for grant of first financial up-gradation, the Review Committee comprised the required three members, Managing Director as Chairperson, who was holding the post one level above to the post for which the MACP was considered, the second member was holding the post of same level of General Manager and the third member was the beneficiary himself. PRTC did not refer the matter to the Government for nomination of eligible member and thus, the first financial up-gradation was granted without following the due process. For grant of second financial up-gradation, the Screening Committee comprised two members only, Managing Director as Chairperson and other member being Assistant Manager *i.e.,* holding the post with lower level of General Manager. Thus, the Committees which recommended the financial up-gradations were not competent. Further, it was observed that while sanctioning the first financial up-gradation, the Committee did not verify the fitness as to the required benchmark of "Very Good" and the second financial up-gradation was granted in spite of the verification that the performance of the officer was only to the level of "Good". Thus, the grant of both the financial up-gradations to the individual lacked authority resulting in excess payment of ` 6.95 lakh, which needs to be recovered.

UT Government in its reply stated that the guidelines issued by GOI and UT Government would be followed in future. However, the fact remained that the excess payment was not recovered from the individual so far (December 2018). During the Exit Conference, Chief Secretary stated that the matter would be reviewed and appropriate action would be taken in due course.

[36] No. 35034/3/2008-Estt (Pay-1) dated 19 May 2009 issued by Department of Personnel and Training.

4.4.7 Up-gradation and modification of posts with revision of scale of pay

UT Government directed (October 2008) that creation of new posts should be made with prior approval of Administrative Reforms Wing and Finance Department. Audit noticed that three PSUs had up-graded/modified 242 posts by revising the scale of pay, restructuring of posts and re-designation of existing categories of posts as given in **Table 4.36**.

Table 4.36 : Details of up-gradation of posts in PSUs without the approval of UT Government

Sl. No	Name of the PSU	Category of post	Number of employees	Effective from	Financial impact (₹ in crore)	Remarks
1	PADCO	Working Assistant	7	December 2010	0.49	No approval of UT Government
		Junior Accountant	1	January 1996	0.04	
		Manager to Field Inspector	18	April 2018	0.05	
2	PTDC	Manager to MTS	25	January 2015	0.18	UT Government turned down the proposal in November 2014
		Assistant Manager to Bartender	156	Between September 2015 and February 2016	0.83	No approval of UT Government.
3	SBTML	Accounts Officer to Assistant Manager, Junior Plus and Supervisor	35	September 2015 and December 2017	0.08	No approval of UT Government
Total			**242**		**1.67**	

Note: Financial impact was worked out from the date of upgradation to September 2018
(Source: Records of concerned PSUs)

Audit observed that PSUs did not obtain the required approval of UT Government for up-gradation of posts by amending RR before effecting the promotions and releasing the salary at up-graded pay scale. Audit worked out the excess payment of salary on this account totalling ` 1.67 crore, which lacked authority and needed to be recovered.

UT Government in its reply stated that PADCO and PTDC had initiated action for ratification. In respect of SBTML, promotion was given based on the seniority, which was followed in National Textile Corporation Limited. The fact, however, remained that no recovery has been initiated by the above PSUs so far (December 2018).

4.4.8 Engagement of CLR, DRL and voucher paid labourers

As per the directives (October 2008) of UT Government, no daily rated posts should be created without the specific written approval of the Government. Audit observed that the following five PSUs had engaged a total of 544 CLR/Daily Rated Labourers (DRL)/Voucher Paid Labourers (VPL) during the period mentioned thereagainst without the approval of the Government as detailed in **Table 4.37**.

Table 4.37: Details of engagement of CLR/DRL/VPL without the approval of Government

Sl.No.	Name of the PSU	Number of persons	Month of appointment	Salary/Wage range (in ₹)	Salary paid (₹ in crore)
1	PDL	42	Between July 2011and June 2017	250/day	1.36
2	PDL	15-23	Between July 2011 and April 2016	250/day	0.57
3	PIPDIC	97	Between December 2005 and August 2014	2,000 to 12,500 per month	6.24
4	PBCMDC	27	Between February 2012 and December 2014	230 to 290/day	1.37
5	PTDC	100	February 2016	6,000 per month	1.03
6	SBTML	255	Between August 2013 and March 2017	250 to 350/day	7.71
Total		**544**			**18.28**

Note: Salary paid upto September 2018 from the date of appointment
(Source: Records of concerned PSUs)

In the absence of the assessment of the requirement of the above engagement, the correctness of the expenditure could not be verified in Audit.

- In PDL, wages totalling ` 0.
  Office towards the engagement of 15 to 23 CLRs for the expansion project at Karaikal during July 2011 to April 2016. A detailed verification of the engagement of these CLRs revealed that the PDL did not verify the credentials of these CLRs *viz*., address, age, educational qualifications, PAN, Family Card to establish the genuineness of the employees. Hence, the genuineness of this payment was doubtful.

- In PIPDIC, even though the Board decided (January 2014) all the Special Cleaning Casual Labourers (SCCL) be disengaged with immediate effect for the reason that SCCLs did not attend their work properly in spite of repeated instructions, they were disengaged only for a period of six months and re-engaged (July 2014) without considering the requirement and also without obtaining approval of the Board.

- PDL, PBCMDC, PTDC and SBTML did not follow the due procedures as prescribed in GO.Ms.No.22 dated 27 February 2009 such as notification to the Employment Exchange with the concurrence of Finance Department, prior approval of UT Government, no engagement of Casual Labourer against regular vacancies and no engagement of CLRs beyond 200 days in a year.

UT Government in reply stated that in PIPDIC, it was necessitated to engage CLRs to keep the industrial estates clean and in PDL, CLRs were engaged at the instance of the non-official Chairman. The reply was not acceptable for the reason that CLRs were engaged without following the due procedure as per the directives of UT Government as stated above and no evidence was produced to Audit in support of instruction from non-official Chairman of PDL.

4.4.9 Regularisation of CLR/DRL/VPL

As per the directives of UT Government contained in PCL (ER) Scheme 2009, regularisation of CLRs should be made only with the prior approval of UT Government with due justification for creation of post by conducting work study and formation of DPC. It was noticed that in four PSUs (PRTC, PAPSCO, PBCMDC and PTDC) 89 CLRs were regularised, out of which only 48 CLRs fulfilled the prescribed age and educational qualification. Six CLRs were not having prescribed educational qualification, 30 CLRs were overaged and four persons were not having both age and educational qualification as given in **Table 4.38**.

Table 4.38: Regularisation of CLR/DRL/VPL without following directives of UT Government

Sl. No	Name of the PSUs	Month of regulari-sation	Number of employees	Posts to which regularised	Those not possessing required qualifications			Financial Impact (₹ in crore)
					Educational	Age	Both	
1	PRTC	August 2014	12	2 Junior Assistant, 1 Peon and 9 Watchman	0	6	2	0.42
2	PAPSCO	October 2013	37	Helper	2	11	1	2.74
3	PBCMDC	July 2014	30	19 MTS (J.A), 1 Driver, 5 MTS (General), 1 MTS (Security), 4 MTS (House Keeping)	4	7	1	0.47
4	PTDC	October 2015	10	Sanitary Assistants	0	6	0	0.27
Total			**89**		**6**	**30**	**4**	**3.90**

Note: The Financial impact was up to September 2018 from the date of regularisation
(Source: Records of concerned PSUs)

A further analysis indicated that, in PAPSCO three CLRs had submitted forged School Leaving Certificates and Chief Vigilance Office requested (November 2015) to initiate disciplinary proceedings for major penalty. However, PAPSCO had not taken any action in this regard and these CLRs were continuing in the employment. In PBCMDC, out of 30 regularised employees, 19 employees of MTS category were promoted (January 2015) as Junior Assistant in the upgraded scale of pay within six months against the minimum qualifying service of three years[37]. This has resulted in irregular payment of salary to the extent of ` 0.47 lakh from July 2014 to September 2018.

[37] Authority: G.O. Ms. No.74/DP&AR/CC dated 14.12.2010 as amended vide G.O. Ms. No. 115/DP&AR/CCVI dated 28 November 2016.

UT Government in its reply stated that PSUs had regularised the CLRs with the approval of the Board and in case of PAPSCO, the matter was referred to Vigilance Department. The reply was not tenable as approval of UT Government was not obtained and in particular, the PAPSCO had not taken any departmental action for submission of bogus certificate by the three helpers and still they are continuing in the employment. The fact, however, remained that no recovery had been initiated by the above PSUs (December 2018).

4.4.10 Surplus manpower due to closure/discontinuation of schemes

UT Government directed (October 2008) that the PSUs should review the manpower requirement on a realistic basis and retain the minimum required employees and find ways and means to weed out the excess staff. But, none of the PSUs carried out the manpower assessment (November 2018). The Persons-in-Position including casual labourers exceeded the sanctioned strength in five PSUs (PIPDIC, PASIC, PADCO, PAPSCO and PBCMDC) ranging from 102 to 317 *per cent* (as given in **Table 4.35**). In the absence of manpower assessment, the judicious deployment of the staff employed could not be assessed in audit. Specific instances noticed in PAPSCO and PASIC are discussed below:

4.4.10.1 As of March 2018, PAPSCO had 307 regular employees as against the sanctioned strength of 346 employees. In addition, PAPSCO had 504 DRL and 287 VPL/coolie employees as on that date. As per the directives of UT Government (October 2008) in respect of implementation of Sixth CPC recommendation, PAPSCO did not review the requirements of manpower on realistic basis to weed out the excess staff. In the absence of such assessment, Audit compared the sanctioned strength as assessed by the One Man Committee (as approved by the Board) in August 2005 with the actual strength in March 2018 and found that 934 employees were additionally employed as given in **Table 4.39**.

Table 4.39: Details showing the surplus manpower in PAPSCO

Sl. No.	Name of the post	Strength assessed as per the One Man Committee and approved by the Board in June 2005	Persons-in-Position as of March 2018	Surplus	Wages per annum (₹ in crore)
1	Helper	105	248	143	2.63
2	DRL	0	504	504	3.27
3	Voucher paid labourers/Coolie	0	287	287	1.29
Total			**1,039**	**934**	**7.19**

Note: Wages calculated at the minimum amount payable for the total number of persons engaged

(Source: Details furnished by the PAPSCO)

Further, Audit noticed that the PAPSCO had discontinued (September 2013) the Public Distribution System activities and closed medical shops, cost price shops and fair price shops. However, it did not reassess the manpower requirement in the light of closure of activities to weed out the excess

DRL/VPL and continued to pay the wages to all the employees engaged for the closed activities also. Audit observed that failure to review the manpower requirements on a realistic basis resulted in unproductive expenditure of ` 7.19 crore *per annum* and total expenditure of ` 35.95 crore during the period 2013-18.

UT Government in its reply stated that it had constituted (November 2018) a Committee to identify the optimal number of employees and downsizing surplus employees would be taken up after receipt of the Report of the Committee. However, the fact remained that PAPSCO did not implement the recommendations of the One Man Committee appointed in the year 2005 and continued with the surplus staff since then.

4.4.10.2 PASIC discontinued (2007-08) various operations on account of withdrawal of Government schemes such as supply of vegetables and eggs to educational institutions and closure/reduction of activities such as horticulture, garden maintenance and landscaping for Government Departments in which 336 employees under five different categories were engaged as detailed in **Table 4.40**.

Table 4.40 : Details showing surplus employees in PASIC

Sl. No	Categories of employees	Number of employees	Idle wage *per annum* (₹ in crore)
1	Helpers including all service placement staff	120	2.81
2	Civil section	7	0.24
3	Cleaners	5	0.12
4	Drivers	5	0.17
5	Full time casual labourers (FTCL) including service placement staff	199	3.20
Total		**336**	**6.54**

Note: July 2017 salary paid in June 2018 is taken for the above working
(Source: Records of PASIC)

However, the PASIC did not take any initiative to weed out the excess employees. Audit observed that failure to review the manpower requirements on a realistic basis resulted in unproductive expenditure of ` 6.54 crore *per annum* and total expenditure of ` 32.70 crore during the period 2013-18. The inaction to weed out the excess manpower in these PSUs lacked justification.

UT Government in its reply stated that most of the activities had come to standstill due to the non-availability of working capital and the Company was not in a position to lay-off or disengage the employees.

4.4.11 Irregular Payment of allowances and perks

4.4.11.1 Payment of ex-gratia in violation of Government directives

As per the Bonus Act, 1965 and directives (October 2008) of UT Government, the employees of non-profit making or financially non-viable institutions were entitled to minimum bonus only and no *ex-gratia* or additional bonus than the minimum statutory bonus shall be payable. Audit observed that 12 PSUs incurred loss in one or more years during 2013-18 and paid *ex-gratia* during the year in which there was no profit. The excess payment on this account worked out to ` 13.04 crore as detailed in **Appendix 4.5**. Excess payment without the approval of the Government lacked authority and needed to be recovered.

UT Government in its reply stated that *ex-gratia* was paid to employees other than minimum bonus based on the practice/precedence being consistently followed in the previous years even though incurring losses. The reply was not tenable as payment of *ex-gratia* was in violation of the specific directions in this regard and accountability needed to be fixed for irregular sanction. During the Exit Conference, Chief Secretary stated that *ex-gratia* would be linked to productivity in future.

4.4.11.2 Payment of financial benefits in excess of entitlement

As per the directives (October 2008) of UT Government, the allowances to the employees of PSUs should not be higher than the entitlement of the employees of UT Government. Audit observed that three PSUs (PDL, PIPDIC and PPCL) had paid financial benefits such as cash gifts on the occasion of May Day, Deepavali, Pongal, Birthday of employee, New Year, Ayudha Pooja, Independence Day and Retirement Day, which were not the part of the Sixth CPC recommendations and thus, the employees of PSUs were not entitled to. Further, the sanction was in violation of the directives of UT Government. The Board of the respective PSUs had approved such allowances and did not seek the approval of the UT Government. The total payment on this account worked out to ` 8.70 crore (**Appendix 4.6**), which was irregular and needed to be recovered from the respective employees.

UT Government in its reply stated that payment of cash gifts/allowances were made by the PSUs with the approval of Board. The fact, however, remained that the sanction of gifts/allowances were in violation of the directives of UT Government for which accountability needed to be fixed.

4.4.11.3 Irregular grant of Over Time Allowances

As per the directives (October 2008) of UT Government, no Over-time Allowance (OTA) shall be paid to any employees for the extra work done without the approval of Finance Department. In case anybody was required to carry out overtime work, they may be compensated by compensatory off. Audit observed that PPCL has made OTA payment of ` 1.29 crore during 2013-18 to their employees based on the Board's decision (September 2009) for which approval of the Finance Department was not obtained. In the absence of the approval of the competent authority, the above payment was irregular and needed to be recovered from the employees.

UT Government in its reply stated that the OTA was made as per the Factories Act, 1948 for which approval of UT Government was not obtained. As the directives of UT Government was regularity in nature to control the expenditure, the sanction of OTA by PPCL without the approval of Finance Department lacked justification for which accountability needed to be fixed.

4.4.11.4 Additional Charge Allowance

As per the orders[38] of UT Government, officials holding the additional charges shall be entitled to Additional Charge Allowance (ACA) subject to maximum amount of ` 1,500 per month. Audit observed that five PSUs (PTC, PRTC, PADCO, PBCMDC and PTDC) had paid ACA over and above the entitlements *i.e*, in the range of ` 5,000 to ` 27,138 per month to officials, who were holding additional charges as Managing Director/Company Secretary. This had resulted in excess payment of ACA of ` 25.62 lakh (**Appendix 4.7**) during 2013-18. The excess payment was irregular and needed to be recovered from the respective officials.

UT Government in its reply stated that ACA was paid as a higher rate due to non-revision of allowance since 1999 and further, in PTC, it was allowed based on the earlier practice followed in respect of compensatory allowance paid to those holding charges at the rate of 20 *per cent* of the total emoluments excluding House Rent Allowance. However, the fact remained that PSUs did not approach UT Government for enhancement of ACA and payment at enhanced rate without approval lacked justification.

4.4.11.5 Project allowance

As per directives[39] of GOI under the Fundamental Rules and Service Rules, Project Allowance (PA) was to be granted to compensate the employees for lack of amenities such as schools, markets, housing and dispensaries in the places of construction of major projects. Audit observed that, the Engineering Wing of PADCO, which was engaged in construction of hostels, Anganwadi centres and other civic amenities works for the benefit of Scheduled Caste beneficiaries in different places under the administrative area of Puducherry, interpreted these works as “Project” for lack of amenities such as schools, markets, housing and dispensaries at the place of construction and granted PA in the range of ` 1,500 and ` 3,000 per month to its entire employees. The activities carried out by PADCO did not qualify to be classified as “Project” and the grant of PA to its employees. The total payment of ` 25.70 lakh during 2013-18 to 52 employees on this account was irregular and needed to be recovered from the respective employees.

UT Government in its reply stated that PA was now reduced to ` 1,000 to ` 1,500 per month. The reply was not tenable as the employees of PADCO are not entitled for PA and even at a reduced rate was also irregular for which accountability needed to be fixed.

4.4.12 Service placements to other Departments

Eleven PSUs (PDL, PIPDIC, PRTC, PASIC, PADCO, PPCL, PCDWDAP, PAPSCO, PBCMDC, PTDC and SBTML) had deputed 234 employees (112 regular employees and 122 CLR/DRL) to other Offices/ Departments/

[38] GO. Ms. No 75/99/F3 dated 21.12.1999 issued by Finance Department of UT Government.

[39] OM.No.20011/5/73-E.II(B) dated 17.01.1975 as amended vide OM.No.6(3)/2008 - E.II (B) dated 29.08.2008.

Offices of Member of Legislative Assembly/ Minister on service placement basis during 2013-18 and incurred the expenditure of ` 9.33 crore towards their pay and allowances. Out of total 234 employees, only 77 employees were deputed on specific written request from the respective indenting departments. In respect of the remaining 157 officials, neither written request nor the acknowledgements from the receiving departments/offices were on record. PSUs had not issued any office order to the employees indicating the place of posting, tenure and terms and conditions. In the absence of any specific orders, the genuineness of such placement could not be verified in Audit. Audit further observed that, except PTDC, other PSUs had not initiated any action to recover the entitlements paid to the service placement employees from the office concerned. This had resulted in unwarranted expenditure of ` 9.32 crore during the audit period to 11 PSUs (**Appendix 4.8**).

UT Government in its reply stated that steps would be taken to recall the staff placed on service placement and the expenditure incurred to be recovered from the concerned organisations. The fact, however, remained that no recovery had been initiated by the above PSUs (December 2018).

4.4.13 Defaults in remittance of EPF and ESI

As per paragraph 38 (1) of the Employees Provident Fund Scheme, 1952 (EPF) and Regulation 31 of Employees State Insurance (General) Regulations, 1950 (ESI), the employers were required to pay the contribution, subscription and administrative charges within fifteen days of close of every month and the delay in remittance would attract penalty as prescribed under the respective legislations[40]. Audit noticed that during 2013-18, eight PSUs (PTC, PRTC, PASIC, PCDWDAP, PAPSCO, PBCMDC, PTDC and SBTML) had defaulted in remittances of EPF and ESI within due dates. On account of such delay, these PSUs paid a penalty of ` 11.43 crore (EPF: ` 9.72 crore and ESI: ` 1.71 crore) during the above period. At the end of March 2018, six PSUs (PTC, PRTC, PASIC, PAPSCO, PTDC and SBTML) had accumulated the dues and the outstanding amount stood at ` 39.85 crore (EPF: ` 36.11 crore and ESI: ` 3.74 crore). Audit observed that PSUs had defaulted in remittances citing the financial crisis, further PSUs utilised the employees' subscription totalling a sum of ` 10.40 crore (EPF: ` 10.31 crore and ESI: ` nine lakh) for its working capital. These PSUs did not work out any viable plan to remit the statutory dues.

UT Government in its reply stated that EPF contribution had not been remitted due to heavy financial crisis and non-generation of revenue in the above PSUs. However, the fact remained that UT Government needed to evolve a viable plan to discharge the statutory obligations (December 2018).

4.4.14 As per Para 26 of EPF Scheme, if the pay of an employee exceeds ` 15,000[41] per month, a joint request from the employer and employee is required for contribution towards EPF on the pay over and above the limit. As

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40 As per Section 7Q and 14 B of EPF and Miscellaneous Provisions Act, 1952 and Section 39 (5) (a) and 85 (B) of ESI Act, 1948.

41 ` 6500 per month up to August 2014.

the contribution towards EPF over and above the required pay level (*i.e.*` 15,000 per month) involved additional financial impact, this required approval of the UT Government. Audit noticed that five PSUs (PDL, PIPDIC, PTC, PPCL and SBTML) did not take cognizance of the above provisions and continued the contribution at the higher rate irrespective of the monthly pay of the employees. This had resulted in excess contribution from employer side amounting to ` 6.57 crore during 2013-18. Audit observed that the PSUs did not obtain the approval of the UT Government for employer contribution over and above the minimum limit fixed under the provisions of EPF Scheme.

UT Government, in its reply, stated that PSUs had not obtained the necessary approval for payment of employer's contribution of EPF over and above the ceiling limit of ` 15,000.

4.4.15 Outstanding payment of salary and terminal benefits

The directives (October 2008) of UT Government stipulated that all the institutions should ensure that revenue resources are fully tapped and find ways and means to further mobilise their own revenue. Contrary to the above directives, four PSUs (PTC, PASIC, PCDWDAP and PAPSCO), did not study/analyse the alternate options to mobilise adequate resources for its operational requirements and were dependent on grants from Government for payment of salaries to its employees. Audit noticed that these four PSUs had not paid salary for a period ranging from one to 68 months to their 3,753 employees amounting to ` 99.74 crore (**Appendix 4.9**) due to financial crisis, non-receipt of grant and failure to increase the income of the Company. Further, five PSUs (PTC, PRTC, PASIC, PAPSCO and SBTML) had not settled the terminal benefits of retired employees in respect of gratuity including arrear of premium of Group Gratuity policy to Life Insurance Corporation and leave encashment etc., to their employees to the extent of ` 58.17 crore (**Appendix 4.9**). Audit observed that neither the Management of the PSUs nor the Administrative Department of UT Government had attempted to discharge the financial obligations to its own employees.

UT Government in its reply stated that PSUs could not settle the salary and terminal benefits etc., due to shortage of funds for working capital and inability to mobilise funds, however, it did not spell out any action plan in this regard (December 2018).

4.4.16 Internal Audit and Internal Control

All the PSUs had conducted internal audit through a firm of Chartered Accountants. However, a review of the scope of internal audit in PSUs revealed that the establishment matters and pay and allowances were not covered and these areas remained out of the purview of internal audit. It was further observed that these PSUs were not having effective internal check to verify the fresh appointments, grant of increments, advances to employees provident fund accounts, expenditure on salary/wages, service records and manpower analysis such as clear demarcation of functional responsibilities, allocation and actual deployment of manpower and did not institute proper system for reviewing the work load and adequacy of manpower resources periodically.

UT Government in its reply stated that PSUs had engaged Internal Auditors and the reply was not specific to the absence of internal control system.

4.4.17 Conclusion

The PSUs had not revised RR in line with the directives of UT Government. The recruitments, up-gradation, modification of posts and scale of pay were made without prior approval of UT Government and the prescribed procedures. Further, PSUs had not weeded out/redeployed surplus manpower, which resulted in unproductive wages. Besides, PSUs incurred irregular expenditure on account of cash gifts/allowances, overtime and project allowances. PSUs had not remitted the statutory dues of EPF and ESI within due date warranting avoidable payment of interest and penal charges. On account of paucity of funds, six PSUs did not pay salaries and terminal benefits to their employees for a period up to 68 months.

Chennai
The 5th February 2020

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Countersigned

New Delhi
The 7th February 2020

(RAJIV MEHRISHI)
Comptroller and Auditor General of India