CHAPTER – VI

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

6 General

This chapter deals with the results of audit of Government companies and departmentally managed commercial undertakings.

Paragraphs 6.1.1 to 6.1.16 give an overview of Government companies and departmentally managed commercial undertakings, and paragraphs 6.2 to 6.4 deal with miscellaneous topics of interest.

6.1 Overview of Government companies and departmentally managed commercial undertakings

6.1.1 Introduction

As on 31 March 2005 there were five Government companies (three working companies and two non-working companies[#]) and two departmentally managed commercial undertakings *viz.*, State Transport Services[Ψ] and State Trading Scheme[Ψ] as against same number of Government companies and departmentally managed commercial undertakings as on 31 March 2004 under the control of the State Government. The results of audit of the Power (Electricity) Department are also incorporated in the Commercial chapter (Para 6.1.16 refers). The accounts of the Government companies (as defined in Section 617 of Companies Act, 1956) are audited by Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956. The accounts of departmentally managed commercial undertakings are audited by the CAG under Section 13 of CAG's (Duties, Powers and Conditions of Service) Act, 1971.

[#] *Non working Government companies are those that are in the process of liquidation/ closure/merger, etc.*

[Ψ] *State Transport Services and State Trading Scheme of Transport Department and Supply Department respectively are commercial in nature and prepare proforma accounts.*

Working Public Sector Undertakings (PSUs)

6.1.2 Investment in working PSUs

As on 31 March 2005, the total investment in three working PSUs (Government companies) was Rs.16.90 crore[#] (equity : Rs.8.94 crore and long term loan[Ψ]: Rs.7.96 crore) as against three working PSUs (Government companies) with a total investment of Rs.20.14 crore (equity : Rs.8.84 crore and long term loans : Rs.11.30 crore) as on 31 March 2004.

Decrease in investment in 2004-05 as compared to the previous year was mainly due to repayment of loans (Rs.3.34 crore) in Forest sector.

The summarised statement of Government investment in the working Government companies in the form of equity and loan is given in **Appendix – XXXV**.

As on 31 March 2005, the total investment in working Government companies, comprised 52.90 *per cent* of equity and 47.10 *per cent* of loan as compared to 43.89 *per cent* and 56.11 *per cent* respectively as on 31 March 2004.

6.1.3 Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues, and conversion of loans into equity by the State Government to working Government companies are given in **Appendices – XXXV and XXXVII**.

The budgetary outgo in the form of equity capital, loans and grants/subsidies from the State Government to working Government companies for the three years upto 2004-05 was Rs.22 lakh, nil and Rs.10 lakh respectively.

The Government had guaranteed the loans aggregating Rs.12 crore obtained by one working Government company (Sl. No.3 of **Appendix – XXXVII**) in 2003-04. At the end of 31 March 2005 the guarantees amounting to Rs.7.96 crore against two Government companies were outstanding.

6.1.4 Finalisation of accounts by working PSUs

The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Section 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of financial year.

[#] *State Government investment was Rs.8.94 crore (others: Rs.7.96 crore). Figure as per Finance Accounts 2004-05 is Rs.16.23 crore. The difference is under reconciliation.*

[Ψ] *Long term loans mentioned in the para 6.1.2 and 6.1.8 are excluding interest accrued and due on such loans.*

It can be seen from **Appendix – XXXVI** that none of the three working Government companies had finalised their accounts for the year 2004-05 within the stipulated period. During the period from October 2004 to July 2005, one working Government company finalised two accounts for previous years.

The accounts of all the three working companies were in arrears for periods ranging from one to 11 years as on 31 July 2005 as detailed below:

Table 6.1

Sl. No.	Number of working Government companies	Year from which accounts are in arrears	Number of years for which accounts are in arrear	Reference to Sl. No. of Appendix-II
1.	1	2004-05	1	1
2.	1	1999-2000 to 2004-05	6	3
3.	1	1994-95 to 2004-05	11	2

It is the responsibility of the Administrative Departments to oversee and ensure that the accounts are finalised and adopted by the companies within prescribed period. Though the concerned Administrative Departments and officials of the Government were appraised quarterly by the Audit regarding arrears in finalisation of accounts, no effective measures have been taken by the Government, and as a result, the net worth of these Government companies could not be assessed in audit.

6.1.5 Financial position and working results of working PSUs

The summarised financial results of working PSUs (Government companies) as per their latest finalised accounts are given in **Appendix – XXXVI**.

According to the latest finalised accounts of three working Government companies all the three companies had incurred an aggregate loss of Rs.6.34 crore.

6.1.6 Loss incurring working Government companies

One company, out of the three loss incurring working Government companies, (Sl. No.1 of **Appendix – XXXVI**) had accumulated losses amounting to Rs.15.43 crore which has eroded its paid up capital of Rs.1.97 crore.

6.1.7 Return on capital employed

As per the latest finalised accounts (upto July 2005) the capital employed[#] worked out to Rs.47.75 crore and total return[Ψ] thereon amounted to Rs.(-) 5.40 crore as compared to total return of Rs.(-) 3.29 crore in the previous year. The details of capital employed and total return on capital employed in case of working Government companies are given in **Appendix – XXXVI**.

Non-working Public Sector Undertakings (PSUs)

6.1.8 Investment in non-working PSUs

As on 31 March 2005, the total investment in two non-working PSUs (Government companies) was Rs.3.15 crore (equity: Rs.0.42 crore and long term loans: Rs.2.73 crore). There was no change in the total investment as compared to 2003-04.

The plants of both the non-working Government companies remained inoperative from December 1986 and July 1987 respectively and all the employees had been retrenched. Although no budgetary support was extended during 2004-05 to the non-working companies for disbursement of salaries and wages, the proposals for disposal of assets (including plant and machinery) of the companies were pending for long with the Government.

6.1.9 Finalisation of accounts of non-working Government companies

The accounts of two non-working companies were in arrears for periods ranging from 18 to 21 years as on 30 September 2005 as can be seen from **Appendix – XXXVI**.

6.1.10 Financial position and working results of non-working Government companies

The summarised financial results of non-working Government companies as per their latest finalised accounts are given in **Appendix – XXXVI**.

The summarised details of paid-up capital, net worth, cash loss and accumulated loss of one non-working PSU (Sl. No.4 of **Appendix – XXXVI**) as per its latest finalised accounts are given below while the other non-working PSU (Sl. No.5 of **Appendix – XXXVI**) was in its construction stage.

[#] *Capital employed represents net fixed assets (including capital work-in-progress) plus working capital except in case of Arunachal Pradesh Industrial Development and Financial Corporation Limited, where it represents a mean of aggregate of opening and closing balances of paid-up-capital, free reserves and borrowings (including refinance).*

[Ψ] *For calculating total return on capital employed, interest on borrowed fund is added to net profit/subtracted from the loss as disclosed in profit and loss account.*

Table 6.2

(Rupees in lakh)

Year	Paid-up capital	Net worth#	Cash lossΨ	Accumulated loss
1986-87	13.50	83.42	1.78	15.40

6.1.11 Internal Audit

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal audit/internal control systems in the companies audited by them in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act 1956 and to identify areas which need improvement. Accordingly, the Statutory Auditors in their reports qualified that one Company (Sl. No.1 of **Appendix – XXXVI**) did not have any internal audit system.

6.1.12 Recommendations for improving performance or closure of Government companies

Even after completion of five years of its existence, the turnover of one working Government company, *viz.*, Arunachal Pradesh Industrial Development and Financial Corporation Limited, had been less than Rupees five crore in each of the preceding five years of the latest finalised accounts. The Company also had been incurring losses for five consecutive years (as per latest finalised accounts) leading to negative net worth of Rs.11.97 crore. In view of poor turnover and continuous losses, the Government may either improve performance of the Company or consider its closure.

6.1.13 Response to Inspection reports, draft paras and reviews

Observations made during audit and not settled on the spot are communicated to the heads of the companies and concerned Departments of State Government through Inspection reports. The heads of the offices/companies are required to furnish replies to the Inspection reports through respective Heads of Departments within a period of six weeks. Inspection reports issued upto March 2005 pertaining to seven Government companies/departmental commercial undertakings and Power (Electricity) Department disclosed that 538 paragraphs relating to 100 Inspection reports remained outstanding at the end of September 2005. Of these, 48 Inspection reports containing 106 paragraphs had not been replied to for more than five years. Department-wise break-up of Inspection reports and audit observations outstanding as on 30 September 2005 is given in **Appendix – XXXVIII**.

Similarly, draft paragraphs and reviews on the working of the Government companies and departmentally managed commercial undertakings are forwarded to the Principal Secretary/Secretary of the Administrative

Net worth represents paid up capital plus free reserves less accumulated loss.

Ψ *Cash loss represents loss for the year less depreciation for the year.*

Department concerned demi officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It is observed that one draft paragraph which was forwarded to the Department of Power during July 2005 as detailed in **Appendix – XXXIX**, had not been replied to so far (October 2005).

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who failed to send replies to Inspection reports/draft paragraphs/reviews as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayment in time bound schedule and (c) system of responding to the audit observations is revamped.

6.1.14 Position of discussion of commercial chapter of Audit Report by the Committee on Public Undertakings (COPU)/Public Accounts Committee (PAC)

The reviews/paragraphs of commercial chapter of Audit Reports pending discussion as on 31 March 2005 by the PAC/COPU are as follows:

Table 6.3

Period of Audit Reports	Total number of reviews/ paragraphs appeared in Audit Report		Number of reviews/paragraphs pending discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
(1)	(2)	(3)	(4)	(5)
1987-1988	2	2	-	1
1988-1989	-	3	-	1
1989-1990	-	1	-	1
1990-1991	1	1	-	-
1991-1992	-	4	-	1
1992-1993	1	1	-	-
1993-1994	1	3	-	-
1994-1995	-	5	-	2
1995-1996	-	2	-	1
1996-1997	-	5	-	2
1997-1998	-	4	-	1
1998-1999	1	4	1	4
1999-2000	1	4	1	4
2000-2001	-	6	-	6
2001-2002	1	7	1	7
2002-2003	-	4	-	4
2003-2004	1	4	1	4

6.1.15 Departmentally managed Government commercial and quasi-commercial undertakings

Though the State Transport Services and the State Trading Scheme (Central Purchase Organisation) of Transport and Supply Directorates are commercial in nature and are functioning as such, they had not been declared as commercial organisations by the Government (October 2005).

Preparation of proforma accounts of the State Transport Services and of State Trading Scheme for 2001-02, 2002-03, 2003-04 and 2004-05 were in arrears.

The arrear in finalisation of accounts was last brought to the notice of the Government in June 2005.

The financial position, working results and operational performance of the State Transport Services for the three years upto 2000-01 as per finalised accounts are given in **Appendix – XL**.

During last three years upto 2000-01, the State Transport Services had incurred operating losses varying from Rs.1.53 crore to Rs.2.66 crore and net losses varying from Rs. 10.58 crore to Rs.12.60 crore. As on 31 March 2001, the accumulated loss stood at Rs.84.44 crore which was 88.91 *per cent* of capital of Rs.94.97 crore. As analysed in audit, the losses were attributable to high incidence of operating expenditure which increased from Rs.6.92 crore in 1998-99 to Rs.8.95 crore in 2000-01; the non-operating expenditure also increased from Rs.6.74 crore in 1998-99 to Rs.6.99 crore in 2000-01.

The working results of State Trading Scheme for the three years upto 2000-01 as per finalised accounts are given in **Appendix – XLI**.

With effect from September 1975, the selling price of each commodity had been fixed by adding 30 *per cent* to cost price to cover the overhead charges.

During the three years upto 2000-01, the actual overhead charges worked out to a higher percentage as follows:

Table 6.4

(Rupees in lakh)

		1998-99	1999-00	2000-01
1.	Overhead charges (items (b) and (c) of trading expenses)	250.46	263.64	216.40
2.	Cost of procurement (opening stock plus purchases less closing stock)	314.10	399.17	396.57
3.	Percentage of overhead cost to cost of procurement (percentage of 1 to 2)	79.74	66.05	54.57

The reasons for higher percentage of overhead charges to cost of procurement was attributable to high incidence of establishment and contingent charges which alone constituted 62.35 *per cent*, 49.08 *per cent* and 50.99 *per cent* of cost of procurement during the three years respectively.

6.1.16 Power (Electricity) Department

The operational performance of the Department for the last three years upto 2002-03 is given in **Appendix – XLII**. Submission of performance data for 2003-04 and 2004-05 by the Department is awaited (October 2005).

The Auxiliary Consumption was excessively high ranging from 7.41 to 8.46 *per cent* of total power generated.

The transmission and distribution (T&D) losses ranged from 49.22 to 56.12 *per cent* to total power available for sale as against the norms of 15.5 *per cent* fixed by the Central Electricity Authority (CEA). During three years upto 2002-03, the excess T&D loss beyond norm was 172 MU (Rs.27.81 crore in financial terms).

During the three years upto 2002-03, the losses per unit sold were Rs.6.27, Rs.6.13 and Rs.4.44 respectively. The total expenditure during the period was Rs.57.82 crore, Rs.57.85 crore and Rs.53.55 crore respectively as against revenue of Rs.13.60 crore, Rs.11.79 crore and Rs.12 crore in respective years. The Department incurred losses amounting to Rs.44.22 crore, Rs.46.06 crore and Rs.41.55 crore during the three years upto March 2003 respectively.

PARAGRAPHS

POWER DEPARTMENT

6.2 Non realisation of revenue

Billing of energy consumption charges in violation of terms and conditions of the agreement resulted in short realisation of revenue of Rs.69.46 lakh.

The Department of Power (DOP) entered into an agreement on 22 February 2001 with North Eastern Regional Institute of Science and Technology (NERIST) for supply of power at the connected load of 1200 KVA, categorised as bulk consumer. As per Clause 25 of the agreement, read with item No. VI. 6(b) of terms and conditions of supply of electrical energy of the DOP, NERIST was to be billed a monthly minimum energy charge of Rs.10.08 lakh[#].

Audit scrutiny (September 2004) revealed that Nagharlagun Electrical Sub-Division II, without following the clause of the agreement and the terms and conditions of supply, served monthly energy bills to NERIST on metered consumption basis. During April 2001 to June 2003, the billed amount in respect of 21 months (out of 36 months) fell short of minimum energy consumption charges amounting to Rs.69.46 lakh (Rs.211.68 lakh – 142.22 lakh) details of which are shown in **Appendix – XLIII**. This resulted in short billing and non-realisation of revenue amounting to Rs.69.46 lakh.

The matter was reported to the Government in May 2005. Government in reply (August 2005) stated that the revenue was collected as per the Government Notification (January 2000) applicable for all consumers. The reply is not tenable as NERIST had agreed to the terms and conditions of supply of electrical energy in February 2001 and supply was given accordingly.

6.3 Idle outlay

Expenditure of Rs.1.20 crore incurred for electrification of villages remained infructuous for want of power supply.

6.3.1 The Chief Engineer, Department of Power (DoP), Government of Arunachal Pradesh had decided to electrify 51 villages during 2001-02 under

[#] *(Rs.210 X sanctioned KVA X basic cost per unit or Rs.210 X 1200 KVA X Rs.4).*

Prime Minister Gramodya Yojana in Arunachal Pradesh and communicated the decision (September 2001) to all the executing divisions. Ziro Electrical Division had been entrusted to electrify five villages (out of 51) at an estimated cost of Rs.81.48 lakh. The estimate was framed to construct 23.5 KM 11 KV line, low-tension line of 12.5 KM and construction of five sub-stations without making any provision for construction of feeder line. The State grid was non existent in the area from which feeder line could be drawn to provide electricity.

Ziro Electrical Division, contrary to the prescribed CPWD Manual, had taken-up (February 2002) the work, without obtaining the Administrative Approval, Expenditure Sanction and Technical Sanction. The division communicated to the Chief Engineer (November 2003) about completion of the work (as per the estimate) after incurring an expenditure of Rs.81.60 lakh.

During audit (September 2004), it was seen that no service connection was released to the consumers due to non-existence of feeder line. The Division had affirmed (September 2004) this fact to Audit.

The Government in its reply (July 2005) stated that there were other schemes to electrify these villages and as these villages were at the border with the State of Assam, Assam State Electricity Board was also requested to provide connection from existing feeder line. The Government further stated that the Department should not to be blamed for keeping certain project half done with resultant effect on other schemes for the reasons like 'Border Dispute'.

The reply of the Government is not acceptable as a project of this magnitude (Rs.81.60 lakh) should not have been taken up without first ensuring that a feeder line could be drawn from a grid.

Thus, the Department of Power injudiciously electrified the villages without making provision for the feeder line leading to infructuous expenditure of Rs.81.60 lakh.

6.3.2 Along Electrical Division under the Department of Power, Government of Arunachal Pradesh spent an amount of Rs.33.71 lakh upto March 2002 on the electrification of three villages *viz*., Uli, Kangku and Hime under the Rural Electrification Corporation Scheme (code 230077). The villages were declared electrified in 1997-98 and the proposal for closure of the scheme was submitted by the Division in October 1999 to the Chief Engineer (Power), Department of Power, Government of Arunachal Pradesh.

It was observed during audit, that these villages were not electrified even upto May 2005. Though an attempt was made by the Department (March 2001) to supply the electricity to these villages by incurring an expenditure of Rs.4.80 lakh towards installation of 48 KW Diesel Generating (DG) set, this expenditure also became unfruitful as the DG set developed major defect and could not function.

The Government in its reply (July 2005) stated that the infrastructure created at these villages were at the fringe of inter state border between Assam and Arunachal Pradesh and part of un-demolished assets like distribution line, Power House building, *etc*., were still existing which could be utilised upon settlement of dispute.

The reply of the Government establishes the fact that these villages were wrongly declared electrified and the expenditure of Rs.38.51 lakh (Rs.33.71 lakh + Rs.4.80 lakh) incurred on the scheme has become infructuous.

6.4 Idle investment

Formulation and execution of an electrification scheme with wrong projection of availability of power without existence of grid resulted in idle investment of Rs.1.27 crore.

The Department of Power (January 2001) approved two schemes for electrification of eleven villages of East Kameng district at an estimated cost of Rs.1.57 crore under Chayangtajo Circle (five villages; estimated cost:Rs.71.54 lakh) and under Seppa Circle (six villages; estimated cost: Rs.85.21 lakh). The scope of work included construction of 33 KV lines (10 Kms), 11 KV lines (26.5 Kms), L.T. lines (10 Kms) and transformer Sub-stations (11 nos). The schemes envisaged service connection to 368 domestic consumers and 140 street light connections and projected an annual revenue of Rs. 1.02 lakh from second year (year of completion of works not indicated). As per project report the required power (total load:123.12 KW) was to be drawn from existing grid. The works were executed by Seppa Electrical Division and completed in August 2002 at a cost of Rs.1.27 crore.

Scrutiny of records (December 2004) of the Division revealed that the domestic/street light connections were not given as there was no grid to draw power for energisation of the lines, and as such no revenue envisaged in the project report was derived. The Executive Engineer of the Division admitted (December 2004) the facts and stated that the lines would be energised when 132 KV (proposed) line is completed.

Thus, due to formulation and execution of the schemes with wrong projection of availability of grid power, the investment of Rs.1.27 crore remained unproductive since August 2002 and the Department was also deprived of the anticipated revenue.

The matter was reported to the Government in July 2005. Replies had not been received (October 2005).