CHAPTER - VIII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

8 General

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

Paragraph 8.1 gives an overview of Government companies and departmentally managed commercial undertakings, and paragraphs 8.2 to 8.6 deal with miscellaneous topics of interest.

8.1 Overview of Government companies and departmentally managed commercial undertakings

8.1.1 Introduction

As on 31 March 2003 there were five Government companies (three working companies and two non-working companies) and two departmentally managed commercial undertakings *viz.,* State Transport Services and State Trading Scheme as against same number of Government companies and departmentally managed commercial undertakings as on 31 March 2002 under the control of the State Government. The accounts of the Government companies (as defined in Section 617 of Companies Act, 1956) are audited by Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619(2) of Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of Companies Act, 1956. The accounts of departmentally managed commercial undertakings are audited solely by the CAG under Section 13 of CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Working Government companies

8.1.2 Investment in working Government companies

As on 31 March 2003, the total investment in three working companies was Rs.10.73 crore (equity : Rs.8.84 crore and long term loan : Rs.1.89 crore) as against total investment of Rs.10.63 crore (equity : Rs.8.62 crore and long term loan : Rs.2.01 crore) as on 31 March 2002 in three working companies.

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

Due to repayment of loan amounting to Rs.11.74 lakh by one company and further investment of Rs.22 lakh in equity, the debt equity ratio has decreased from 0.23:1 in 2001-02 to 0.21:1 in 2002-03.

As on 31 March 2003, the total investment in working Government companies, comprised 82.38 *per cent* of equity and 17.62 *per cent* of loan compared to 81.09 *per cent* and 18.91 *per cent*, respectively as on 31 March 2002.

8.1.3 Budgetary outgo, grants/subsidies, and guarantees, waiver of dues and conversion of loan into equity

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

The budgetary outgo in the form of equity capital from State Government to three working Government companies during the three years upto 2002-03 was Rs.37 lakh, nil and Rs.22 lakh respectively.

During the year 2002-03, the Government had not given any fresh guarantee for raising loans by working Government companies. At the end of the year guarantees amounting to Rs.79.50 lakh (principal: Rs.76.20 lakh and interest: Rs.3.30 lakh) against one Government company were outstanding. There was one case of default in repayment of guaranteed loans during the year. No guarantee commission was payable to the Government by the Government companies.

8.1.4 Finalisation of accounts by working Government companies

The accounts of the companies for every financial year are required to be finalised within six months from the end of relevant financial year under Section 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of 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.

It can be noticed from **Appendix - XXXIII** that none of the three working Government companies had finalised their accounts for the year 2002-03 within the stipulated period. During the period from October 2002 to September 2003, one working Government company finalised its accounts for 1997-98.

The accounts of all the three working companies were in arrears for periods ranging from four to nine years as on 30 September 2003, as detailed below :

Table – 8.1

Sl. No.	Number of working Government companies	Year from which accounts are in arrear	Number of years for which accounts are in arrear	Reference to serial number of Appendix-XXXIII
1.	1	1994-95	9	2
2.	1	1998-99	5	3
3.	1	1999-2000	4	1

The administrative departments have 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 Government were apprised 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 PSUs could not be assessed in audit.

8.1.5 Financial position and working results of working companies

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

According to latest finalised accounts of three working Government companies, two companies had incurred an aggregate loss of Rs.96.52 lakh and one company earned profit of Rs.64.44 lakh.

8.1.6 Profit earning working Government company and dividend

The lone profit earning working Government company which finalised its accounts for 1997-98 (serial number 3 of **Appendix - XXXIII**) had earned profit for two or more successive years. No dividend has been declared during the year. The State Government has not formulated any dividend policy for payment of minimum dividend.

8.1.7 Loss incurring working Government companies

Of the two loss incurring working Government companies, one company (serial number 1 of **Appendix - XXXIII**) had accumulated losses amounting to Rs.6.18 crore which has far exceeded its paid up capital of Rs.1.63 crore.

Despite poor performance and complete erosion of paid up capital, the State Government continued to provide financial support to this company. According to available information, the financial support so provided by the State Government to this company by way of share capital contribution amounted to Rs.17 lakh during 2002-03.

8.1.8 Return on capital employed

As per the latest finalised accounts (upto September 2003) the capital employed[#] worked out to Rs.40.57 crore and total return[Ψ] thereon amounted to Rs.64.81 lakh which is 1.60 *per cent* as compared to total return of Rs.3.71 crore (8.43 *per cent*) in the previous year (accounts finalised upto September 2002). The details of capital employed and total return on capital employed in case of working Government companies are given in **Appendix - XXXIII**.

Non-working Government companies

8.1.9 Investment in non-working Government companies

As on 31 March 2003, the total investment in two[β] non-working Government companies was Rs.3.15 crore (equity: Rs.42.31 lakh and long term loan: Rs.2.73 crore) as against total investment of Rs.3.24 crore (equity: Rs.42.31 lakh and long term loan: Rs.2.82 crore) as on 31 March 2002 in two non-working Government companies. During the year 2002-03 there was a decrease of Rs.8.60 lakh in the long-term loan of Parasuram Cements Limited which it received from its holding company (Arunachal Pradesh Industrial Development and Financial Corporation Limited).

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 2002-03 to the non-working companies for disbursement of salaries and wages, the proposals for disposal of the companies' assets (including plant and machinery) were long pending with the Government.

As both the non-working companies were under liquidation/closure under Section 560 of the Companies Act, 1956 for seven to eight years and substantial investment of Rs.3.15 crore was involved in these companies, effective steps need to be taken for their expeditious liquidation.

8.1.10 Finalisation of accounts of non-working Government companies

The accounts of two non-working companies were in arrears for periods ranging from 16 to 20 years as on 30 September 2003 as could be noticed from **Appendix - XXXIII**.

[#] *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/ substracted from the loss as disclosed in profit and loss account.*

[β] *1. Parasuram Cements Ltd. and 2. Arunachal Horticulture Processing Industries Ltd.*

8.1.11 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 - XXXIII**.

The details of paid-up capital, net worth, cash loss and accumulated loss of one non-working PSU (serial number 4 of **Appendix – XXXIII**) as per its latest finalised accounts are given below while the other non-working PSU (serial number 5 of **Appendix - XXXIII**) was in its construction stage.

Table – 8.2

(Rupees in lakh)

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

8.1.12 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 Rs.5 crore in each of the preceding five years of 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.1.70 crore. In view of poor turnover and continuous losses, the Government may either improve performance of the company or consider its closure**.**

8.1.13 Internal audit

The statutory auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal control/internal audit systems in the companies audited in accordance with the directions issued by the Comptroller and Auditor General of India to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement.

The statutory auditors in their reports qualified that two companies (serial number 1 and 3 of **Appendix - XXXIII**) did not have any internal audit system.

8.1.14 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

\# *Parasuram Cements Ltd.*

heads of departments within a period of six weeks. Inspection reports issued upto March 2003 pertaining to eight Government companies/departmental commercial undertakings disclosed that 659 paragraphs relating to 122 inspection reports remained outstanding at the end of September 2003. Of these, 22 inspection reports containing 103 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 2003 is given in **Appendix - XXXVI**.

Similarly, draft paragraphs and reviews on the working of the Government companies and departmentally managed commercial undertakings are forwarded to the Principal Secretary/Secretary to the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It is observed that five draft paragraphs which were forwarded to the various departments during April - May 2003 as detailed in **Appendix - XXXVII**, have not been replied to so far (September 2003).

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 is taken within prescribed time, and, (c) the system of responding to the audit observations is revamped.

8.1.15 Position of discussion of commercial chapter of Audit Reports 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 2003 by the COPU are shown below :

Table – 8.3

Period of Audit Reports	Total number of reviews/ paragraphs appeared in Audit Report		Number of reviews/paragraphs pending discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1987-88	2	2	-	1
1988-89	-	3	-	1
1989-90	-	1	-	1
1990-91	1	1	-	-
1991-92	-	4	-	1
1992-93	1	1	-	-
1993-94	1	3	-	-
1994-95	-	5	-	2
1995-96	-	2	-	1
1996-97	-	5	-	2
1997-98	-	4	-	1
1998-99	1	4	1	4
1999-2000	1	4	1	4
2000-01	-	6	-	6

8.1.16 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 have not been declared as commercial organisations by the Government (September 2003).

Preparation of proforma accounts of the State Transport Services and State Trading Scheme for 2001-02 and 2002-03 was in arrears. The arrear in finalisation of accounts was last brought to the notice of the Government in September 2003.

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 - XXXV**.

During last three years upto 2000-01, the State Transport Services had incurred operating losses varying from Rs.1.53 crore to Rs.2.56 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 Government capital of Rs.94.97 crore. As analysed in audit, the losses were attributable to high incidence of salaries and wages, poor operation of buses per day (average 92.00 to 99.07 Kms) and low occupancy ratio (45.68 to 87.48 *per cent*).

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

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. However, during the three years upto 2000-01, the actual overhead charges worked out to a higher percentage as shown below:

Table – 8.4

(Rupees in lakh)

		1998-99	**1999-2000**	**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 higher percentage of overhead charges to cost of procurement was attributable to high incidence of establishment and contingent charges which alone constituted 62.35, 49.08 and 50.99 *per cent* of cost of procurement during the three years, respectively.

8.1.17 Power (Electricity) Department

The operational performance of the department for the last three years upto 2002-03 is given in **Appendix - XXXIX**.

The transmission and distribution (T&D) losses ranged from 49.22 to 56.12 *per cent* of total power available for sale as against the norms of 15.5 *per cent* fixed by the Central Electricity Authority (CEA). During the three years upto 2002-03, the excess T&D loss beyond norm was 158.49 million units or Rs.25.98 crore in financial terms.

During the three years upto 2002-03, the losses per unit sold were Rs.6.27, Rs.6.12 and Rs.4.45 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.12.00 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.

SECTION-B – PARAGRAPHS

FOREST DEPARTMENT

ARUNACHAL PRADESH FOREST CORPORATION LIMITED

8.2 Nugatory investment and wasteful expenditure

Lack of planning in setting up a tea estate and belated decision to close down the created division had led to futile investment (Rs.51.33 lakh) and wasteful expenditure (Rs.86.67 lakh)

The Company prepared (1994-95) a project report for Tupi and Longram tea estates and on similar line (without preparing any separate project report) had a tentative programme to set up a tea estate in 200 hectares of land of Ete Welfare Society at Bene (near Along) at a cost of Rs.3.91 crore. The company also created (1994-95) a separate division at Along for operation of the Bene tea estate. During 1994-95 to 1996-97, the company brought 23 hectares under tea plantation at a cost of Rs.51.33 lakh incurred from own source. But no tea factory was set up to process the harvested tea.

The tea is to be first harvested and then processed in some tea factory before it is marketed. It was observed in audit (June 2002) that green tea leaves (annual yield 60,000 Kg) of planted area became harvestable from 1998 plucking season. But the tea was never harvested, as there was no tea factory in nearby area to process it. In September 2001, after incurring expenditure of Rs.86.67 lakh (from 1997-98 to the date of close down) on establishment cost, the company decided to close the Along divisional office retaining only 11 hectares of the plantation area as 'demonstration park' and transferred the balance area to Ete Welfare Society. Thus, expenditure of Rs.51.33 lakh on plantation and Rs.86.67 lakh on establishment was futile.

Though the company was aware that a tea factory was needed to process the harvested tea and that no tea factory was located in the vicinity, it still went ahead with raising the plantation. The decision of the company in setting up the tea estate and belated decision to close down the Along divisional office, led to futile investment (Rs.51.33 lakh) and wasteful expenditure (Rs.86.67 lakh).

The matter was reported to the management and to the Government in July 2002 and in May 2003; replies have not been received (September 2003).

POWER DEPARTMENT

8.3 Futile investment and locking up of fund

Un-planned execution and consequent suspension of two works had led to blockage of Rs.83.89 lakh on incomplete works from May 1998 (Rs.41.02 lakh) and April 2001 (Rs.42.87 lakh) besides frustrating the objectives for which the schemes were undertaken

The department obtained administrative approval in March 1997 for construction of a 33 KV transmission line (Project-I) from Yatong to Hawai upto Latul - Phase I (length 16 Kms) costing Rs.49.91 lakh for upgradation of 11 KV line upto Yatong. Another administrative approval was accorded in March 1998 (Project-II) for construction of a 33 KV transmission line from Latul to Yasung (Walong) *via* Hawai (length 43 Kms) costing Rs.1.59 crore to provide power supply to 35 villages. The works executed departmentally by Hayuliang Electrical Division were scheduled to be completed and energised by 1998-99 and 1999-2000 respectively. The scope of work included erection of poles, fitting/fixing of eight items of equipments, and laying of overhead conductor.

It was observed (May 2002) in audit that without any recorded reasons, both the works remained suspended from May 1998 (Project-I) and April 2001 (Project-II) after incurring total expenditure of Rs.83.89 lakh (Project-I : Rs.41.02 lakh and Project-II : Rs.42.87 lakh). No time schedule/bar chart for monitoring the timely completion of the projects were prepared. The physical progress attained in respect of each of the items included in scope of work was never reconciled with the expenditure already incurred on them. It was also seen in audit that laying of conductor and fitting/fixing in respect of these two projects had not at all been taken up. Materials issued for erection of poles and fitting/fixing of equipments (one item and two items of project (a) and (b) respectively) represented 80.18 and 6.20 *per cent* of the total inventory for these works.

The Executive Engineer, Hayuliang Electrical Division admitted (February 2003) the facts and attributed the suspension of works to lack of funds from Government. He also stated that project-I would be taken up as and when Mati Nallah Hydel Project starts functioning and project-II would be resumed in 2003-04 on receipt of further budgetary allocations. No budgetary allocation has, however, been provided by the department during 2003-04.

The facts, thus, remain that due to unplanned execution of projects and their consequent suspension, investment of Rs.83.89 lakh could not meet its objective and has remained blocked from May 1998 (Rs.41.02 lakh) and April 2001 (Rs.42.87 lakh).

The matter was reported to the Government in June 2002; but no reply has been received (September 2003).

8.4 Locking up of fund on injudicious and unnecessary procurement of materials

Purchase of materials without assessment of requirement and inaction in disposal of surplus/unusable stock resulted in blocking of funds amounting to Rs.4.48 crore on unmoved (Rs.2.72 crore) and slow moving (Rs.1.76 crore) materials for over eight to 10 years.

As per General Financial Rules and para 37.4 of CPWD Manual Volume-II, materials should be purchased only for works in progress, and reserve stock should be kept with specific sanction and within monetary limit to be prescribed by competent authority. In August 1998, the Government issued directives to all engineering departments to transfer the excess stores to user departments and to submit list of unusable items to the Secretary of concerned department by September 1998 for disposal.

Keeping the above directives in view, the audit test checked records of various divisions. Test check of records of Hayuliang Electrical Division (May 2002) and Bomdila Electrical Division (January 2003) revealed that the divisions without any sanction held 124 items of electrical materials worth Rs.4.48 crore. These materials were procured between March 1993 and August 1995 under orders of the Chief Engineer, PWD without any indent and without assessment of requirements. Scrutiny of stock account in audit further revealed that 53 items worth Rs.2.72 crore were lying idle for over eight to 10 years since the date of their procurement, while issue of balance 71 items worth Rs.1.76 crore (Rs.4.48 crore – Rs.2.72 crore) during the period varied from 1.62 to 13.85 *per cent* out of total stock. These would indicate that the purchases were injudicious and also unnecessary. The department has not taken any action to assess and transfer the usable surplus stock to other user divisions and for disposal of unusable stock in spite of Government's directives of August 1998.

Table – 8.5

(Rupees in crore)

Sl. No.	Name of Division/Sub-division	Closing stock		Unmoved items with their value	
		Items	Value	Items	Value
1.	Namsai Sub-division (under Hayuling Electrical Division)	22	0.47	7	0.42
2.	Bomdila Electrical-Division				
	a. Bomdila sub-division	31	0.84	7	0.36
	b. Bhalukpong sub-division	71	3.17	39	1.94
	Total	102	4.01	46	2.30
	Total (1+2)	**124**	**4.48**	**53**	**2.72**

Thus, injudicious and unnecessary procurement of materials and inaction on surplus stores had locked up Government fund of Rs.4.48 crore for over eight to 10 years (unmoved: Rs.2.72 crore and slow moving: Rs.1.76 crore) besides entailing the risk of their loss due to obsolescence and deterioration as a result of prolonged storage.

The above matters were reported to the department and to the Government in June 2002 and March 2003; replies had not been received (September 2003).

8.5 Idle investment on inoperative micro hydel projects

Lack of survey to ascertain physical viability prior to execution of works and inaction to renovate the failed projects have rendered the investment of Rs.96.77 lakh unproductive

Three micro hydel projects with total installed capacity of 50 KW (sanctioned in March 1992) executed departmentally by Bomdila Electrical Division at a cost of Rs.69.22 lakh[#] were commissioned in March 1995 and September 1995. Another project costing Rs.27.55 lakh also executed departmentally could not be commissioned as the source of water had dried up/course of stream has changed. These projects were transferred to Seppa Electrical Division on its creation in March 1997. No survey as required under the para 4.2 of CPWD Manual *vis-à-vis* course behaviour of streams, flood estimation, and stability of soil was conducted by the department for ascertaining the physical viability of the projects.

Test check (January 2003) of records of Seppa Electrical Division revealed that all the three commissioned projects failed to generate any power and remained inoperative since the date of their commissioning due to driage of source of water/change of stream/insufficient flow of water, defects in turbine and flood damage of penstock pipe, intake pipe and intake channel. The Executive Engineer, Seppa Electrical Division, while submitting (December 1998 and December 1999) to the Chief Engineer (Power) the physical condition and status of the projects, stated that since the sets remained idle for long, the turbine/alternator along with their accessories may also require to be renovated. Decision to revive the projects after renovation considering the crucial aspect of source of water in the respective sites was awaited.

[#]

Sl. No.	*Name of project and capacity*	*Project cost (Rupees in lakh)*	*Date of commissioning*
1.	*Watte : 30 KW*	*41.77*	*March, 1995*
2.	*Marjungla : 10 KW*	*16.00*	*March, 1995*
3.	*18 mile Camp : 10 KW*	*11.45*	*September, 1995*
4.	*Relo (Veo) : 30 KW*	*27.55*	*Not Commissioned*

Thus, failure of the department to conduct survey, as provided in para 4.2 of CPWD Manual, before obtaining approval of the Government to take up these projects led to the execution of unviable projects causing unproductive investment of Rs.96.77 lakh.

The matter was reported to the Government in March 2003 but no reply has been received yet (September 2003).