CHAPTER – VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

7.1 Overview of Government companies and Statutory corporation

7.1.1 Introduction

As on 31 March 2002, there were 14 Government companies (all working companies) and one working Statutory corporation as against 13 working Government companies and one working Statutory corporation as on 31 March 2001 under the control of the State Government. During the year, audit of one new company *viz,* Goa State Infrastructure Development Corporation Limited (incorporated on 20 February 2001) was entrusted. The accounts of 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 CAG as per provisions of Section 619 of the Companies Act, 1956. The audit arrangement of Statutory corporation is as shown below :

Name of the corporation	Authority for audit by the CAG	Audit arrangement
Goa Industrial Development Corporation	Section 25(2) of the Goa Industrial Development Corporation Act, 1965 and Section 19(3) of CAG's (Duties, Powers and Conditions of Service) Act, 1971	Sole audit entrusted to the CAG up to 31 March 2007

7.1.2 Working Public Sector Undertakings (PSUs)

7.1.2.1 Investment in working PSUs

The total investment in 14 working PSUs (13 Government companies and one Statutory corporation) and 15 working PSUs (14 Government companies and one Statutory corporation) at the end of March 2001 and 2002, respectively, was as follows:

(Rupees in crore)

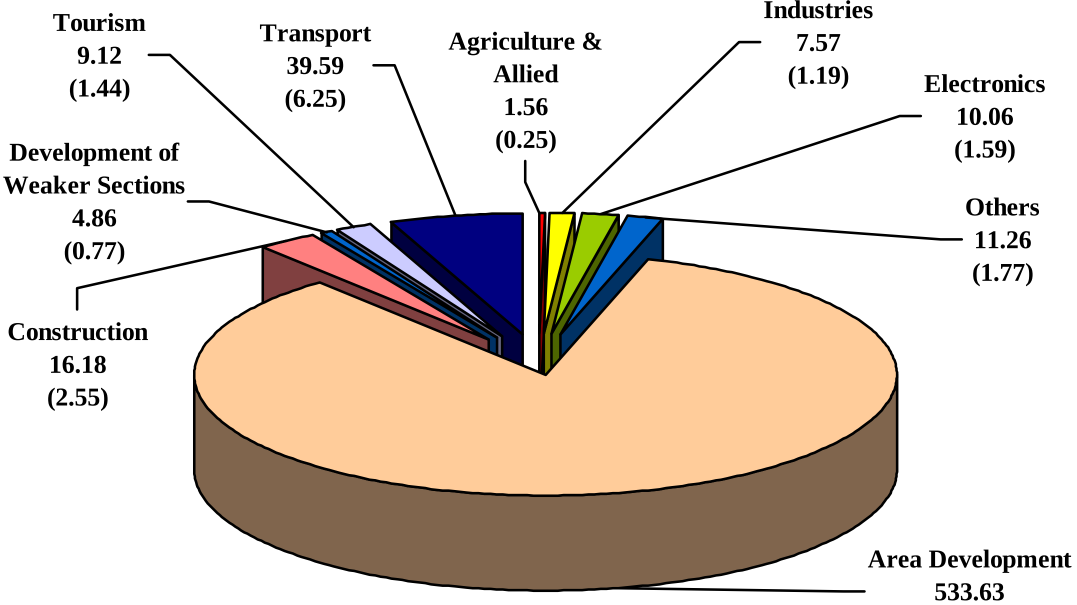
Year	Number of working PSUs	Investment in working PSUs			
		Equity	Share application money	Loan	Total
2000-01	14	104.40	-	363.39	467.79
2001-02	15	110.91	5.00	517.92	633.83

The analysis of investment in working PSUs is given in the following paragraphs.

The investment (equity and long term loans) in various sectors and percentages thereof at the end of 31 March 2002 and 31 March 2001 are indicated below in the pie charts:

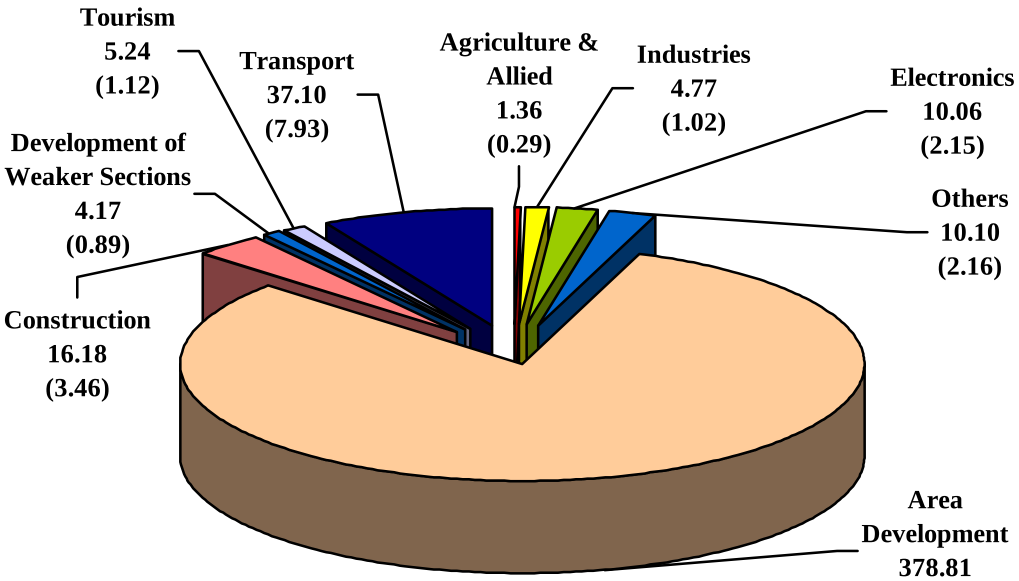
Sector wise investment in working Government companies and Statutory corporation

Investment as on 31 March 2002
(Rupees in crore)



(Figures in brakets indicate percentage of investment)

Investment as on 31 March 2001
(Rupees in crore)



(Figures in brakets indicate percentage of investment)

7.1.2.1.1 Working Government companies

Total investment in 13 working Government companies and 14 working Government companies at the end of March 2001 and March 2002, respectively, was as follows.

(Rupees in crore)

Year	Number of working Government companies	Investment in working Government companies			
		Equity	Share application money	Loans	Total
2000-01	13	79.93	---	363.39	443.32
2001-02	14	86.44	5.00	517.92	609.36

The summarised statement of Government investment in working Government companies in the form of equity and loans is detailed in Appendix-V.

As on 31 March 2002, the total investment in working Government companies, comprised 15.01 *per cent* of equity capital and 84.99 *per cent* of loans as compared to 18.03 *per cent* and 81.97 *per cent* respectively, as on 31 March 2001.

Due to addition of substantial loans in a new company (A-9 of Appendix-V) included under area development, the debt equity ratio increased from 4.55:1 in 2001 to 5.66:1 in 2002.

7.1.2.1.2 Working Statutory Corporation

The total investment in one working Statutory corporation at the end of March 2001 and March 2002 was as follows:

(Rupees in crore)

Sr. No.	Name of the corporation	2000-2001		2001-2002	
		Capital	Loan	Capital	Loan
1	Goa Industrial Development Corporation	24.47	---	24.47	---

The summarised statement of Government investment in the working Statutory corporation in the form of equity and loans is detailed in Appendix-V.

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

The details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by State Government to working Government companies and working Statutory corporation are given in Appendix-V and VII.

The budgetary outgo in the form of equity capital, loans and grants/subsidies from the State Government to working Government companies and working Statutory corporation during 1999-2002 are given below:

(Rupees in crore)

Particulars	1999-2000				2000-2001				2001-2002			
	Companies		Corporation		Companies		Corporation		Companies		Corporation	
	No.	Amount	No.	Amount	No.	Amount	No	Amount	No.	Amount	No.	Amount
Equity capital	1	0.10	-	-	3	0.35	1	1.50	6	11.51	-	-
Loans given from budget	1	0.47	-	-	1	1.18	-	-	1	1.49	-	-
Grants/subsidies	3	3.55	-	-	4	5.09	-	-	3	10.18	-	-
Total Outgo	**4[@]**	**4.12**	**-**	**-**	**6[@]**	**6.62**	**1**	**1.50**	**9[@]**	**23.18**	**-**	**-**

During the year 2001-2002, the Government had guaranteed loans aggregating to Rs.250.01 crore obtained by three working Government companies. At the end of the year, guarantees amounting to Rs.272.44 crore obtained by three Government companies were outstanding as against the outstanding guarantees of Rs.77.36 crore obtained by three working Government companies as on 31 March 2001. There was no case of default in repayment of guaranteed loan during the year.

7.1.2.3 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 relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of financial year. Similarly, in case of Statutory corporation, their accounts are finalised, audited and presented to the State Legislature as per the provisions of the Act.

However, as could be noticed from Appendix-VI, out of 14 working Government companies, only five working Government companies finalised their accounts for the year 2001-02 within stipulated period. During the period from October 2001 to September 2002, five working Government companies finalised five accounts for previous years. The accounts of one Statutory corporation was in arrears for one year.

The accounts of 9 working Government companies and one Statutory corporation were in arrears for periods ranging from one year to three years as

[@] Indicates total number of companies/corporation which have received budgetary support from the State Government in the form of equity, loans, grants and subsidy.

on 30 September 2002 as detailed below:

Sl. No.	Number of working companies/corporation		Year for which accounts are in arrears	Number of years for which accounts are in arrears	Reference to Sl. No. of Appendix-VI	
	Government companies	Statutory corporation			Government companies	Statutory corporation
1	2	3	4	5	6	7
1	1	---	1999-00 to 2001-02	3	A-10	---
2	2	---	2000-01 to 2001-02	2	A-5,7	---
3	6	1	2001-02	1	A-1, 2, 4, 8,13,14	B-1
TOTAL	**9**	**1**				

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs 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. As a result, the net worth of these PSUs could not be assessed in audit.

7.1.2.4 Financial position and working results of working PSUs

The summarised financial results of working PSUs (Government companies and Statutory corporation) as per their latest finalised accounts are given in Appendix-VI. Besides, statement showing financial position and working results of individual working Statutory corporation for the three years for which accounts are finalised are given in Appendix-VIII and IX, respectively.

According to latest finalised accounts of 14 working Government companies and one working Statutory corporation, 11 companies and one corporation had incurred an aggregate loss of Rs.13.52 crore and Rs.1.44 crore, respectively, whereas three companies earned an aggregate profit of Rs.0.56 crore.

7.1.2.4.1 Working Government companies

7.1.2.4.1.1 One profit earning working company which finalised its accounts for the year 2001-02 by September 2002, earned profit of Rs.48.08 lakh but did not declare any dividend. The State Government has not formulated dividend policy for payment of minimum dividend.

7.1.2.4.1.2 Loss incurring Government companies

Of the 11 loss incurring working Government companies, five companies had accumulated losses aggregating Rs.67.90 crore which exceeded their aggregate paid-up capital of Rs.28.93 crore by more than two times.

7.1.2.4.1.3 Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies in the form of contribution towards equity, further grant of loans, conversion of loan in to equity, subsidy *etc.* According to available information total financial support so provided by the State Government was Rs.5.62 crore by way of subsidy to one Company (Kadamba Transport Corporation Limited) during 2001-02.

7.1.2.4.2 Working Statutory corporation

7.1.2.4.2.1 Loss incurring Statutory corporation

The lone Statutory corporation, which finalised its accounts for the year 2000-01 incurred a loss of Rs.1.44 crore during the year and had an accumulated profit of Rs.8.32 crore.

7.1.2.4.2.2 Operational performance of working Statutory corporation

The operational performance of the working Statutory corporation is given in Appendix-X.

7.1.2.5 Return on capital employed

As per the latest finalised accounts (up to September 2002) the capital employed[⊘] worked out to Rs.583.23 crore in 14 working Government companies and total return[*] thereon amounted to Rs.23.88 crore which was 4.09 *per cent*, as compared to total return of Rs.27.43 crore (6.83 *per cent*) in the previous year (account finalised up to September 2001). Similarly, the capital employed and total return thereon in case of working Statutory corporation as per the latest finalised accounts (up to September 2002) worked out to Rs.30.12 crore and Rs.(-)1.04 crore, respectively. The details of capital employed and total return on capital employed in case of working Government companies and Statutory corporation are given in Appendix-VI

7.1.3 Status of placement of Separate Audit Report of Statutory corporation in Legislature

The following table indicates the status of placement of Separate Audit Report (SARs) on the accounts of Statutory corporation issued by the CAG in the Legislature by the Government.

Sl. No	Name of Statutory corporation	Years up to which SAR placed in Legislature	Years for which SAR not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in the Legislature
1.	Goa Industrial Development Corporation	1999-2000	2000-01	31-10-2002	--

⊘ Capital employed represents net fixed assets (including capital works-in-progress) *plus* working capital except in finance companies and corporations where it represents a mean of aggregate of opening and closing balances of paid-up capital, free-reserves, bonds, deposits and borrowing (including refinance).

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

7.1.4 Disinvestment, privatisation and restructuring of Public Sector Undertakings

The State Government did not undertake the exercise of disinvestment, privatisation and restructuring of any of its PSUs during 2001-02.

7.1.5 Results of audit of accounts of PSU's by the Comptroller and Auditor General of India

During the period from October 2001 to September 2002, the audit of accounts of six working Government companies and one working Statutory corporation were selected for review. The net impact of the important audit observations, as a result of review of accounts of these PSUs, were as follows:

Sl. No.	Details	Number of accounts		*(Rupees in lakh)*	
		Working Government companies	Working Statutory corporation	Working Government companies	Working Statutory corporation
i)	Decrease in profit	2	--	25.75	--
ii)	Increase in losses	3	--	355.55	--
iii)	Non-disclosure of material facts	2	--	479.06	--
iv)	Errors of classification	1	--	31.51	--

Some of the major errors and omissions noticed in the course of review of annual accounts of some of the above companies and corporation are mentioned below:

7.1.5.1 Errors and omissions noticed in case of Government companies

1. Goa Tourism Development Corporation Limited (2000-01)

The amount of capital grants of Rs.21.10 lakh received from Government of India for renovation/upgradation of tourist cottages was included in income. This resulted in overstatement of income and understatement of Reserve and Surplus as well as loss for the year by Rs.21.10 lakh.

2. Kadamba Transport Corporation Limited (2000-01)

Due to non-provision of liability towards leave encashment, benefit on retirement of employees, provisions and loss were understated to the extent of Rs.3.29 crore.

3. Goa Handicrafts, Rural and Small Scale Industries Development Corporation Limited (2000-01)

Due to non-provision of liability on account of leave encashment, the profit for the year was overstated to the extent of Rs.24.86 lakh.

7.1.6 Recommendation for closure of PSUs

Even after completion of five years of their existence, the turnover of five working Government companies (Sl. No. A-1, 2, 7, 10, 13 of Appendix-V have been less than Rs.5 crore in each of the preceding five years of their latest finalised accounts. Similarly, one working Government company (Sl. No.A-12 of Appendix-V had been incurring losses for five consecutive years as per its latest finalised accounts leading to negative net worth. In view of poor turnover and continuous losses, the Government may either improve performance of above six Government companies or consider their closure. On being pointed out by Audit, the Government stated (February 2000) that a decision to wind up a company *viz.* Goa Construction, Housing and Finance Corporation Limited had been taken. The Government further stated that action regarding Goa State Schedule Caste and Other Backward Classes Development Corporation Limited would be taken only in consultation with the Government of India, Ministry of Social Justice and Empowerment. Further progress was awaited (September 2002).

7.1.7 Response to Inspection Reports, Draft Paras and Reviews

Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of State Government through Inspection Reports. The heads of PSUs 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 2002 pertaining to 13 PSUs disclosed that 87 paragraphs relating to 16 Inspection Reports remained outstanding at the end of September 2002. Of these, 2 Inspection Reports containing 11 paragraphs had not been replied for more than one year. Department-wise break-up of Inspection Reports and Audit Observations outstanding as on 30 September 2002 is given in Appendix-XI.

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 as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayment is taken in a time bound schedule and (c) the system of responding to the audit observations is revamped.

7.1.8 Position of discussion of Audit Reports (Civil) by the Committee on Public Undertakings (COPU)

The position of discussion of Chapter on Commercial and Trading Activities included in Audit Reports (Civil) – Government of Goa, reviews and paragraphs pending for discussion by COPU at the end of March 2002 is shown below:

Period of Audit Report	Number of Reviews and Paragraphs appeared in the Commercial Chapter of Audit Report		Number of Reviews/Paragraphs pending for discussion	
	Reviews	**Paragraphs**	**Reviews**	**Paragraphs**
1992-93	1	--	1	--
1993-94	1	--	1	--
1995-96	1	--	1	--
1998-99	1	2	1	2
1999-00	1	3	1	3
2000-01	--	1	--	1
Total	**5**	**6**	**5**	**6**

The COPU held their last meeting on 27 October 1995 and completed discussion on Commercial Chapter of Audit Reports (Civil)-Government of Goa for the years 1988-89 to 1991-92. The Committee have made recommendations vide their 9th and 11th report. However, action taken thereon was awaited from the three companies and one Statutory corporation (September 2002).

The Audit Report (Civil) for the year 2000-2001 was placed before the State Legislature on 26 August 2002.

7.1.9 619-B Companies

There was only one working company coming under Section 619-B of the Companies Act, 1956. Appendix-XII indicates the details of paid-up capital, investment by way of equity, loans and grants and summarised working results of this company based on its latest available accounts.

7.1.10 Departmentally managed Government commercial/quasi commercial undertakings

There were two Departmentally managed Government commercial/quasi commercial undertakings *viz*. Electricity Department and River Navigation Department in the state as on 31 March 2002.

The *pro forma* accounts of River Navigation Department for the years 1997-98 to 2001-02 were in arrears (October 2002).

The summarised financial results of the Electricity Department for the years 1999-2000 to 2001-02 and that of River Navigation Department for the years 1994-95 to 1996-97 are given in Appendix-XIII.

7.2 Review on Goa Antibiotics and Pharmaceuticals Limited

Highlights

Goa Antibiotics and Pharmaceuticals Limited (Company) was established in 1980 mainly for the manufacture of pharmaceuticals formulations. The Company had been functioning under a scheme of rehabilitation approved by the Board for Industrial and Financial Reconstruction (BIFR) since July 1998.

(Paragraph 7.2.1)

Despite relief and concessions under BIFR scheme, the accumulated loss increased and it was Rs.18.31 crore as on 31 March 2002 which exceeded paid capital (Rs.1.55 crore) by about eleven times.

(Paragraph 7.2.7.1)

Lack of certificate of Good Manufacturing Practices approved by World Health Organisation deprived the Company of business valuing Rs.9.47 crore.

(Paragraph 7.2.8.1.1)

Failure to effect bulk purchases and purchases in piecemeal resulted in avoidable extra expenditure of Rs.1.07 crore during 1998-2002.

(Paragraph 7.2.8.1.3)

Rejection of the lowest offer, failure to avail discount offered and failure to avail exemption in customs duty in purchases of chloroquin phosphate resulted in avoidable extra expenditure of Rs.1.03 crore.

(Paragraph 7.2.8.1.3.1, 7.2.8.1.3.2 and 7.2.8.1.3.3)

Due to sale of products below the transfer cost, the Company incurred loss of Rs.0.51 crore at Secunderabad and Indore depots.

(Paragraph 7.2.8.1.4.3)

Defective marketing arrangement with a private firm led to non recovery of dues amounting to Rs.7.49 crore, the case was under arbitration.

(Paragraph 7.2.8.1.4.5)

7.2.1 Introduction

The Company was incorporated in December 1980, as a subsidiary of Hindustan Antibiotics Limited (HAL), a Government of India Undertaking, for the manufacture of pharmaceutical formulations at Tuem, Pernem Goa. In August 1987, HAL disinvested its shares in favour of Economic Development Corporation of Goa Limited (EDC), a Government of Goa Undertaking. The Company thereafter remained a subsidiary of EDC. The Company had been functioning under a scheme of rehabilitation approved by the Board for Industrial and Financial Reconstruction (BIFR) since July 1998.

7.2.2 Objectives

The main objectives of the Company were to:

- carry on business as manufacturers and dealers of drugs, pharmaceuticals and chemicals;

- manufacture and deal in surgical, electrical, photographic and other scientific apparatus and instruments of all descriptions;

- manufacture medicinal, pharmaceutical, biological and other preparations and chemicals independently or under license, and

- prepare synthetic and other food for human consumption, cattle and other feeds of all kinds.

The Company’s activities were mainly confined to manufacture of formulations *viz*. tablets, capsules, injectables and syrups and sales thereof. Besides, the Company operated two medical shops and traded in surgical kits on a small scale.

7.2.3 Organisational set up

The management of the Company is vested in a Board of Directors (BOD) consisting of not less than three and not more than twelve directors. As on 31 March 2002, there were six directors, out of which four (Vice Chairman, Managing Director and two directors) were nominated by EDC, one was nominated by the Central Bank of India, the monitoring agency appointed by BIFR and one was nominated by the State Government.

The Managing Director looked after the day to day activities of the Company and was assisted by a General Manger (Finance) and five Assistant General Managers (purchases, production, quality control, marketing and administration).

7.2.4 Scope of Audit

The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India, Government of Goa for the year ended 31 March 1990 and the Committee on Public Undertaking (COPU) discussed the report and submitted its recommendations to the Goa Legislative Assembly in July 1996. The main recommendations of COPU were (a) to ensure availability of raw materials before accepting orders, (b) to popularise the sale of Company's products and (c) to fix inventory levels. However, the Company failed to implement the above recommendations and commitment as discussed in the ensuing paragraphs.

The present review, conducted between January to March 2002, covers the working of all departments of the Company, two (Secunderabad and Indore) out of seven[☯] depots and both medical shops during 1997-2002.

7.2.5 Rehabilitation programme

The Company made (April 1997) a reference to BIFR as its accumulated loss (Rs.5.39 crore) had eroded paid up capital (Rs.1.55 crore) as on that date. The BIFR registered (July 1997) the Company as a sick industrial company and sanctioned (July 1998) a revival scheme on the basis of report of operating agency (Central Bank of India). The scheme envisaged:

- rationalisation of product mix, discontinuation of un-remunerative products and concentration on high value products;
- doubling the manufacturing capacity of tablets, which had a high demand and profit margin;
- replacement of existing capsule manufacturing machines, which were labour intensive, with two automatic machines;
- addition of one automatic machine for syrups, which would carry out bottle washing, filling, capping, sealing and labeling;
- reduction in accumulated loss to Rs.2.99 crore in 2001-02 from Rs.5.39 crore in 1996-97;
- not to increase financial burden of the Company by pressing for any undue demands by workers; and
- EDC to allow the Company to retain the interest payable on loans up to 1999-2000 as quasi capital and to contribute additional funds as interest free loan in case projected results not achieved.

The Company received Rs.7.93 crore as interest free loan from EDC during 1997-2002 and was allowed to retain Rs.3.41 crore towards interest on loans advanced prior to introduction of rehabilitation scheme. Due to poor marketing performance, its accumulated loss increased more than three times to Rs.18.31 crore as on 31 March 2002.

The Company did not achieve any of the objectives envisaged in the scheme (March 2002). The Company attributed (August 2001) the non-achievement of the targets envisaged under the scheme to:

[☯] Secundarabad, Indore, Mumbai, Lucknow, Patna, Raipur and Hubli.

a) Failure of the marketing agreement with Goa Food and Pharma Private Limited (GFPPL).

b) Absence of Good Manufacturing Practices (GMP) certificate from World Health Organisation (WHO).

c) Shortage of working capital.

7.2.6 Funding

7.2.6.1 Capital structure

Against the authorised share capital of Rs.5.00 crore, the paid up capital of the Company as on 31 March 2002 was Rs.1.55 crore, which was fully subscribed by EDC.

7.2.6.2 Borrowings

The Company borrowed funds from EDC and banks to meet its working capital requirements. As on 31 March 2002, the Company had outstanding loan of Rs.22.08 crore (EDC: Rs.16.06 crore and banks: Rs.6.02 crore).

7.2.7 Financial position and working results

7.2.7.1 Financial position

Despite relief under BIFR scheme, the accumulated loss increased from Rs.6.93 crore to Rs.18.31 crore during 1997-2002.

The financial position of the Company for 1997-2002 is given in Appendix-XIV.

The accumulated loss increased from Rs.6.93 crore to Rs.18.31 crore during 1997-2002 which exceeded paid up capital (Rs.1.55 crore) by about eleven times despite relief under BIFR scheme. The Company met the losses through borrowings, mainly from holding company which increased from Rs.8.13 crore to Rs.19.47 crore during 1997-2002.

7.2.7.2 Working results

Administrative expenses increased by Rs.21.96 lakh per annum due to regularisation of 65 casual workers which was against the commitment by the Company in rehabilitation package.

The working results of the Company for 1997-2002 are given in Appendix-XV.

The Company incurred a loss of Rs.1.54 crore during the year 1997-98 which increased to Rs.3.02 crore and to Rs.4.15 crore during the years 1998-99 and 1999-2000 respectively. This was due to reduction in marketing activities on termination (November 1998) of marketing agreement with GFPPL (discussed in paragraph 8.2.8.1.4.5). However, the Company strengthened its marketing activities by appointing C&F agents and distributors, consequently, the loss declined to Rs.3.47 crore (2000-01) and further to Rs.0.74 crore (2001-02).

The administrative expenditure increased from Rs.1.65 crore in 1997-98 to Rs.2.85 crore in 2001-2002. This was despite the Company's commitment in rehabilitation package, not to increase the administrative cost. The Company as per the agreement with workers union, regularised the services of 65 casual labours during 1998-2000 resulting in additional administrative expenses of Rs.21.96 lakh per annum.

7.2.8 Activities

7.2.8.1 Manufacturing activity

The rehabilitation scheme envisaged taking up production of fourth generation formulations which were in high demand and had a high profit margin. The Company had not taken up manufacture of fourth generation formulations so far (March 2002) and had been manufacturing only 77 formulations as against 198 formulations for which licenses were available.

7.2.8.1.1 Certificate of Good Manufacturing Practices (GMP)

An essential qualification for participation in tenders for supplies to WHO aided projects was a WHO approved GMP certificate. The Company obtained (February 2000) GMP certificate for only Chloroquin Phosphate tablets.

The Company estimated (November 2000) that the cost of renovation and system upgradation required for obtaining such certificate for other formulations would be about Rs.2 crore. The Company requested (February 2001) EDC to make available the fund for the above requirement but EDC had not sanctioned the funds (March 2002).

Failure to obtain certificate of Good Manufacturing practices deprived the business of Rs.9.47 crore

It was observed in audit that Government institutions in several states *viz*. Tamil Nadu, Karnataka and Punjab *etc*. were also insisting for WHO approved GMP certificate even in respect of tenders for supplies other than those to WHO aided projects. Due to non-availability of such certificate in respect of other formulations, the Company could not participate in 18 tenders of formulations valuing Rs.9.47 crore during September 1999 to December 2001.

7.2.8.1.2 Production performance

7.2.8.1.2.1 Capacity utilisation

Actual production *vis-a-vis* installed capacity in respect of vials, tablets, capsules, liquid syrup, dry syrup and ampoules are given in Appendix-XVI. It would be observed therefrom that there was gross under utilisation of capacity particularly in vials, capsules, dry syrups and ampoules.

7.2.8.1.3 Purchases

Piecemeal purchases at varying rates, resulted in extra expenditure of Rs.1.07 crore.

The Company procured raw materials from open market at the prevailing price as and when required. Based on the item-wise minimum rate at which purchases were made in a quarter, the avoidable extra expenditure on purchases at higher rates within the same quarter was Rs.1.07 crore during 1998-2002 (up to December 2001).

Thus, failure to forecast requirements and arrange purchases deprived the Company of benefit of lower rates through bulk purchases and resulted in extra expenditure of Rs.1.07 crore.

7.2.8.1.3.1 Purchase of Chloroquin Phosphate

The Company had a requirement of 100 MT of Chloroquin Phosphate to meet an order (November 1999) for supply of 40 crore Chloroquin Phosphate tablets to Hospital Services Consultancy Corporation Limited (HSCC), Noida. The total quantity procured was 101 MT (70 MT indigenous and 31 MT imported) at a total cost of Rs.7.81 crore during the period February to October 2000. Scrutiny of purchases revealed the following points:

Failure to purchase the material at initially accepted rate resulted in avoidable extra expenditure of Rs.17 lakh

The Company started the procurement of material after receipt of the order and called for the quotations in November/December 1999. Even after knowing the actual requirement based on orders received, the Company did not resort to bulk purchases to avail the benefit of economic rates. Considering that the supplies to HSCC were to be made in three months, the Company could have purchased the material in bulk at initially accepted rates (Rs.7.67 lakh per MT and Rs.7.47 lakh per MT) at a total cost of Rs.7.64 crore against the actual expenditure of Rs.7.81 crore and extra expenditure of Rs.17.00 lakh could have been avoided.

7.2.8.1.3.2 Rejection of lowest offer

The Company received (November 1999) quotations from indigenous suppliers for supply of 50 MT of Chloroquin Phosphate. Gharpure Laboratories Private Limited (GLPL) quoted Rs.7.37 lakh per MT (lowest rate), whereas Mangalam Drugs and Organic Limited (MDOL) quoted the rate of Rs.7.67 lakh per MT (second lowest). GLPL had stipulated payment through Letter of Credit (LOC) while MDOL had stipulated for advance payment and offered a discount of three *per cent* thereon. The Company rejected (January 2000) the offer of GLPL on the ground that obtaining the LOC limit would take some time and placed (January 2000) order on MDOL on terms of advance payment.

The rejection of lowest offer on the ground that funds were not available for LOC and at the same time acceptance of the second lowest offer with advance payment was not justified as the offer of MDOL even after discount (Rs.7.44 lakh per MT) was higher by Rs.6423 per MT. This resulted in avoidable extra expenditure of Rs.3.21 lakh.

Rejection of lowest offer and failure to avail the discount resulted in extra expenditure of Rs.14.71 lakh.

Further, discount of three *per cent*, considered as a basis for placing order, was neither indicated in the order nor the quoted rate was reduced by three *per cent*. Consequently, the discount of Rs.11.50 lakh from MDOL was also not availed by the Company. Thus, the Company incurred avoidable extra expenditure of Rs.14.71 lakh on the purchase of Chloroquin Phosphate.

7.2.8.1.3.3 Failure to avail exemption in customs duty

Failure to obtain customs duty exemption resulted in avoidable extra expenditure of Rs.0.71 crore

The tenders invited (September 1999) by HSCC stipulated that customs duty exemption certificates was to be issued by it and rates were to be quoted accordingly. It was observed in audit that the Company did not apply and obtain such exemption certificate from HSCC and customs duty aggregating Rs.0.71 crore on import of 31 MT of chloroqine phosphate was paid. Reasons for not obtaining such certificate were not available on record. The Company in reply to Audit enquiry stated (August 2002) that the matter was in correspondence with HSCC. The reply was not acceptable as the Company did not apply for certificate from HSCC resulting in avoidable extra expenditure of Rs.0.71 crore.

7.2.8.1.4 Marketing

The Company was predominantly engaged in marketing formulations in generic form to hospitals, Government departments *etc.* The deliveries were effected through seven depots and five Carrying and Forwarding agents in locations* where there were no depots. Trade sales were effected through distributors appointed on year to year basis. The Company had license for 69 branded products of which only about 20 to 25 branded products were marketed during 1998-2002. Sale of branded products (including sales to institutions through tender participation) declined from Rs.0.92 crore in 1998-99 to Rs.0.84 crore in 1999-2000 and to Rs.31.60 lakh in 2000-01 due to failure of marketing agreement with GFPPL. However, it increased to Rs.1.10 crore during 2001-02.

The COPU had recommended (July 1996) that the Company should take steps to popularise the sale of its branded products. It was observed in audit that no effective steps were taken to popularise the branded products through advertisements and incentive schemes *etc*.

7.2.8.1.4.1 Profitability in manufacturing activity

Volume of sales did not increase as envisaged under the rehabilitation scheme.

The rehabilitation scheme of BIFR, envisaged estimated sales of Rs.18.50 crore in 1997-98 and Rs.35.00 crore in 2001-02 with resultant contribution ranging from Rs.3.00 crore to Rs.5.37 crore. The details of projected sales, variable cost, contribution and *vis-à-vis* actuals there against during 1997-2002 are given in Appendix-XVII. It would be seen therefrom that the Company did not achieve the projected sales (except 1997-98) and contribution during 1997-2002.

It was observed in Audit that the Company was not able to increase its volume of sales due to its poor performance in participation of tenders.

7.2.8.1.4.2 Product mix

The rehabilitation scheme envisaged to rationalise product mix, discontinue unprofitable products and increase capacity for products with higher profitability and to introduce new products with higher profitability.

* Maharashtra, Utter Pradesh, Madhya Pradesh, Bihar and Tamil Nadu

No detailed study to identify product-wise profitability was conducted by the Company.

It was observed in audit that the Company had not carried out a detailed study to identify product-wise profitability with reference to variable cost, average sales realisation and market rates. The Company had also not taken any steps to identify and introduce new products with higher profitability.

7.2.8.1.4.3 Pricing

The price to be quoted for each product in a tender was decided by the Managing Director of the Company in consultation with the Finance and Marketing department. Pricing was based on the total estimated cost of each product including administrative and financial overheads allocated uniformly to each product at predetermined rates based on previous year's data.

Pricing in respect of trade sales were decided twice in a year by the Managing Director and the goods were transferred to each depot at a lower rate than price list approved for each area of sales. Sales below price lists were permitted with the approval of Managing Director.

Sale of products below the transfer price resulted in loss of Rs.0.51 crore.

However, the scrutiny of sales records and stock registers for the year 1999-2000 onwards at Secunderabad and Indore depots of the Company revealed that the medicines were sold below the transfer price resulting in loss of Rs.0.51 crore as per details given below:

(Rupees in lakh)

Products	Indore Depot			Secunderabad Depot			Total Loss
	Transfer price	Sales Price	Loss	Transfer price	Sales Price	Loss	
1) Injectables	107.79	90.09	17.70	27.05	22.58	4.47	22.17
2) Syrup	32.90	27.31	5.59	NIL	-	-	5.59
3) Tablets	88.81	79.75	9.06	46.88	41.99	4.89	13.95
4) Capsules	56.22	47.35	8.87	NIL	-	-	8.87
Total	**285.72**	**244.50**	**41.22**	**73..93**	**64.57**	**9.36**	**50.58**

7.2.8.1.4.3.1 Supply of Chloroquin Phosphate tablets

Delay in supply of Chlroquine Phosphate tablets resulted in payment of penalty.

Pursuant to tenders invited (September 1999) by HSCC for supply of 40 crore Chloroquin Phosphate tablets (250 mg), the Company submitted its tender at the rate of Rs.219.78 per thousand tablets. The tender conditions stipulated that the deliveries were to be effected within 8 to 12 weeks from the date of order, failing which penalty was leviable. The Company received the order in November 1999 and the order was executed (April to November 2000) through own production (26 crore tablets) and outside agencies (14 crore tablets). Due to delay in execution of the order, HSCC levied penalty of Rs.87.91 lakh, of which Rs.43.95 lakh was adjusted against dues payable to the Company; balance Rs.43.96 lakh was yet to be paid (March 2002).

7.2.8.1.4.3.2 Supply of paracetamol and cotrimaxazole tablets

The Company received (July/August 1999) an order for supply of paracetamol and cotrimaxazole tablets valuing Rs.1.59 crore from HSCC. The tender conditions stipulated that the supplies were to be treated as deemed export and the basic raw materials could be imported without customs duty under special imprest import license, based on project authority certificate to be obtained from HSCC.

The Company placed (October 1999) orders for above supply with Nestor Pharma Limited (NPL) at rates five *per cent* below the rate of supply to HSCC. The order on NPL stipulated that the terms of supply to HSCC would also apply to NPL. Thus, NPL was entitled to get the deemed export benefit on import of raw materials. NPL demanded (November 1999) the Company to obtain license for import of the raw material and replenish the stock within three months, failing which the Company was liable to pay the difference of cost between imported and indigenous raw materials. The Board of Directors agreed (December 1999) to this demand.

Non availing of deemed export benefit resulted in avoidable loss of Rs.30.15 lakh.

The Company obtained the project authority certificate from HSCC in December 1999 and the special imprest import license in February 2000, but did not import the raw materials. Thus, NPL demanded Rs.30.15 lakh for the difference of cost between imported and indigenous raw materials.

The Company had paid only Rs.6 lakh to NPL and the balance amount was yet to be paid (March 2002). NPL issued (January 2002) a legal notice to the Company. Further progress was awaited (March 2002).

7.2.8.1.4.3.3 Delay in obtaining refund of earnest money and security deposit

As on 31 March 2002, an amount of Rs.35.19 lakh was outstanding on account of earnest money deposit (EMD) and security deposit from various institutions against the participation in various tenders. Of this, Rs.13.97 lakh was outstanding for more than three years, Rs.12.56 lakh for two to three years and Rs.1.10 lakh were outstanding for one to two years. The Company stated (October 2002) that it had been following up with various institutions through its various marketing offices for refund of amount. It further stated that it was difficult to get refund of EMD made during the marketing arrangement contract with GFPPL.

7.2.8.1.4.4 Irregular payment of consultancy charges

The Company submitted (February 1994) a tender to the Director General of Supplies and Disposals (DGS&D) for supply of Oral Rehydration Salt (ORS) through its C&F Agent, SMC Health Aids Distributors (SMC). The tender was rejected on the ground that the Company, through SMC, had submitted false and fabricated drug license as manufacturer of ORS and a ban was imposed (September 1995) on the Company restricting it from having business dealings with Government Departments for a period of five years. Though the ban was revoked at the instance of Minister of Industries, Goa, the Company also reimbursed Rs.15 lakh to SMC during March 1997 to April 1998 for its efforts to get the ban revoked. Moreover, the Company paid Rs.3.78 lakh to SMC without any vouchers. The reimbursement of expenses was irregular, since in the opinion of the Company, SMC was responsible for misconduct leading to the ban, and the ban was revoked at the instance of the Minister of Industries, Goa.

7.2.8.1.4.5 Marketing arrangement with Goa Food and Pharma Private Limited

The promoters of SMC promoted another company *viz.* Goa Food and Pharma Private Limited (GFPPL) and submitted a proposal for marketing the Company's products on exclusive all India basis. The Company without carefully examining the proposal signed (March 1997) the agreement with GFPPL which was appointed as non exclusive marketing consultant for marketing and distribution of Company's all products in India for a period of three years.

The salient features of the agreement were as under:

i) GFPPL was to provide minimum net profit of 3 to 5 *per cent* on agreed sectoral turnover (institutional, trade and export) after considering all raw materials, manufacturing, administration, financial and marketing costs.

ii) GFPPL was to compensate the Company for shortfall in the minimum net profit, if targeted sales was not achieved. The projected sales at the end of the three years was Rs.31.50 crore with minimum net profit of Rs.1.14 crore.

iii) GFPPL was to ensure collection of dues for institutional sales within 60 days and for trade sales within 45 days from the date of invoice and was liable for penalty of 2 *per cent* per month for delayed payment.

It was noticed in audit that GFPPL was allowed a credit period of more than sixty days and the security deposit of Rs.12.50 lakh from GFPPL was grossly insufficient to cover average sales (Rs.4 crore) of two months. The total sale effected through GFPPL during March 1997 to November 1998 was only Rs.12.66 crore and the Company could recover Rs.8.05 crore only.

Defective marketing agreement with a private firm led to non-recovery of dues of Rs.7.49 crore, which was under arbitration.

As the performance of GFPPL was not satisfactory, the Company terminated (November 1998) the agreement. As on 31 March 2002, GFPPL owed Rs.7.49 crore comprising principal (Rs.4.84 crore) and interest (Rs.2.65 crore) against the security deposit of Rs.12.50 lakh.

GFPPL had also claimed Rs.2.01 crore from the Company towards losses incurred on account of non-supply/delay in supply. The matter was under arbitration since April 1999.

7.2.9 Inventory

COPU had recommended in July 1996 that the Company should fix minimum, maximum and reorder levels for inventory of raw materials and packing materials. However, the Company had not fixed such levels so far. The Company stated (October 2002) that fixation of levels of inventory was difficult as the sales were mainly to institutions and orders thereof were not certain. It was not acceptable in audit as the minimum, maximum and reorder levels for inventory of raw materials could be fixed in respect of branded and regular products like paracetamol, *etc.*

7.2.9.1 Delay in transfer of goods from factory for sale

As per practices of the Company, production was normally done on the basis of orders received and finished goods should not remain in stock for longer periods in normal course. However, scrutiny of factory records indicated that there were 1438 instances where transfer of finished goods to depots was made beyond 90 days from the date of manufacture. Age-wise analysis of the delay revealed that there were 1244 instances of transfer with delay up to 12 months, 173 instances of transfers with delay between 12 and 24 months and 21 instances of transfers with delay beyond 24 months. It was further observed in Audit that in case of transfers with delay of 24 months from date of manufacture, the balance shelf life was found to be only 3 to 9 months. The aggregate value of stocks transferred to depots after 90 days was Rs.4.01 crore with consequent loss of interest of Rs.12.35 lakh.

It was also observed in Audit that the Company had written off stocks valuing Rs.39.69 lakh during1997-2002 on account of expiry of shelf life. The Company stated (October 2002) that the products produced in anticipation of orders were not easily consumed when the Company failed to get the orders. This situation could have been avoided had the Company followed a proper system of inventory management.

7.2.10 Credit policy and debt recovery

The Company did not have an approved credit policy. The tender conditions in direct institutional sales stipulated a credit period of 60 days and the sales other than institutional sales were made only on cash and carry basis. It was however, observed in Audit that materials were supplied on credit basis without any written approval or commitment regarding the credit period allowed.

The Company had debtors aggregating Rs.13.92 crore as on 31 March 2002 (Government institutions: Rs.1.64 crore and others: Rs.12.28 crore). Of these, Rs.3.20 crore were considered doubtful and Rs.10.72 crore, including Rs.4.84 crore from GFPPL, were considered recoverable.

It was observed in Audit that the Company was following a policy of providing for dues outstanding for more than three years and writing them off after four years. The Company had written off dues aggregating Rs.64.41 lakh (Government institutions: Rs.13.59 lakh and private: Rs.50.82 lakh) during 1997-2002. The Company did not take effective steps to recover these dues and has been writing them off in a routing manner.

7.2.11 Computerisation and Management Information System

The Company had computerised recording of purchase orders, receipt and issue of material, stocks statements, production details and financial accounts including sales and debtors. These applications were developed in DOS based FOXPRO and were run on LAN with Novell Netware as the operating system. As on 31 March 2002 the Company had hardware worth Rs.10.86 lakh procured during 1996-2002 for implementing the above functions through computers.

Scrutiny in audit of the Information Technology (IT) systems, policy, outsourcing *etc.* revealed the following lacunae:

i) The Company did not have IT policy or any other formal documentation relating to computerisation of its functions. The work of computerisation was entrusted to Softpro at a cost of Rs.2.43 lakh on single quotation basis without any formal agreement outlining the scope of work to be done;

ii) Requirements of user sections were not documented; application software for each of the above functions were developed between 1994 and 1998 and implemented without formal testing and approval of the software;

iii) The application for purchase orders and stores were not integrated. As a result, report on outstanding supplies indicated all orders as pending.

iv) The product-wise report on sales did not facilitate separate report for direct institutional sales and sales to institutions through distributors as both were clubbed under institutional sales.

It was further observed in audit that the Company had to depend on pre-defined reports given in the software by Softpro. The Company did not have trained personnel who could generate required reports. The Company depended solely on the consultants for any modification or additional MIS from the system as access to the database was retained by the consultants.

The Company did not prepare quarterly financial statements with a view to have mid term appraisal of financial position. In absence of the same, the required MIS data for managerial decision was not submitted to the BOD.

7.2.12 Costing

Maintenance of cost records was mandatory in terms of order issued by Government of India (GOI) under Section 209(1) of the Companies Act, 1956 read with Cost Accounting Records (Formulations) Rules, 1988. The GOI issued (August 2000) orders that audit of cost accounts of the Company was mandatory from the year 2000-01.

COPU had also recommended (July 1996) that the Company should maintain proper cost records as required under Section 209(1) of Companies Act, 1956. The Company, in its written reply to COPU had stated that cost records were since being maintained by the Company.

However, scrutiny of the records indicated that:

(a) Cost records were not maintained in the prescribed format. Product-wise direct costs and allocation of indirect cost and overheads to each product and product line were not worked out.

(b) Though the Company had determined the standard machine and labour hours and data on actual machine and labour hours were maintained in a computerised system the data was incomplete. Besides, cost of idle machine and labour hours was not worked out by the Company.

The Company stated (October 2002) that the work of designing cost accounting system was in progress.

7.2.13 Accounting manual and internal audit

The Company had so far (March 2002) not developed its own accounting/internal audit manual. Internal audit of the Company conducted through Chartered Accountants mainly covered compliance to systems and procedures. It did not cover critical areas of capacity utilisation, efficiency in purchases, marketing performance and deficiency in costing procedures. The reports of the internal auditors were never submitted to the Board of Directors.

The matter was reported to Government in June 2002; their replies were awaited (October 2002).

Conclusion

The Company functioning under a rehabilitation scheme of BIFR since July 1998, failed to achieve objectives envisaged in the Revival Scheme. The Company continued to incur losses during 1997-2002 as various measures proposed for increasing profitability were not implemented. Consequently, accumulated loss far exceeded the paid up capital. Absence of certificate of Good Manufacturing Practices approved by the World Health Organisation, piecemeal purchases, absence of proper costing system for deciding profitable product mix and competitive rates, negligible generic (trade) sales and poor marketing performance led to the critical financial position of the Company.

The Company needs to take the following immediate remedial measures:

- Obtain certificate of Good Manufacturing Practices approved by the World Health Organisation;
- Introduce a separate costing department and introduce scientific methods of costing;
- Identify profitable product mix;
- Popularise branded products and increase generic sales; and
- Increase capacity utilisation and introduce system of bulk purchases.

Mumbai **(NANDINI Y. KAPDI)**

The Principal Director of Audit (Central)

Countersigned

New Delhi **(VIJAYENDRA N. KAUL)**

The Comptroller and Auditor General of India