CHAPTER – VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

7. General

This chapter deals with the results of audit of accounts of the Government companies and departmentally managed commercial undertakings. Paragraph 7.1 gives a general view of the Government companies and departmentally managed commercial undertakings, paragraphs 7.2 to 7.5 deal with miscellaneous topics of interest.

7.1 Overview of Government companies and Departmentally managed commercial undertakings

7.1.1 Introduction

As on 31 March 2006 there were five Government companies (all working) and two departmentally managed commercial undertakings *viz.*, State Trading Scheme[38] under the Food and Civil Supplies Department, Mizoram State Transport[38] under the Transport Department as against the same number of Government companies and Departmentally managed commercial undertakings as on 31 March 2005 under the control of the State Government. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors who are appointed by the Comptroller and Auditor General of India (C&AG) as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit by the C&AG as per provisions of Section 619 (4) of the Companies Act, 1956. The accounts of departmentally managed. Government commercial undertakings are audited by the C&AG under Section 13 of C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

Working Public Sector Undertakings (PSUs)

7.1.2 Investment in working PSUs

As on 31 March 2006, the total investment in five working PSUs (all Government companies) was Rs.76.77 crore[39] (equity: Rs.43.60 crore and long term loans[40]: Rs.22.86 crore and share application money: Rs.10.31 crore) against total investment of Rs.68.33 crore (equity: Rs.42.67 crore and long term

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[38] *State Trading Scheme and Mizoram State Transport are undertakings under the Food, Civil Supplies and Consumer Affairs Department and Transport Department respectively for which proforma accounts are prepared.*

[39] *State Government investment was Rs.47.65 crore (Others: Rs.29.12 crore). Figure as per Finance Account 2005-06 is Rs.1.45 crore. The difference is under reconciliation.*

[40] *Long term loans in paragraphs 7.1.2, 7.1.3 and 7.1.4 are excluding interest accrued and due on such loans.*

loans: Rs.20.82 crore and share application money : Rs.4.84 crore) in these PSUs as on 31 March 2005. The analysis of investment in working PSUs is given in the following paragraphs.

7.1.3 Sector-wise investment in working Government companies

The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2006 and 31 March 2005 are indicated in the following pie charts:

Chart: 7.1

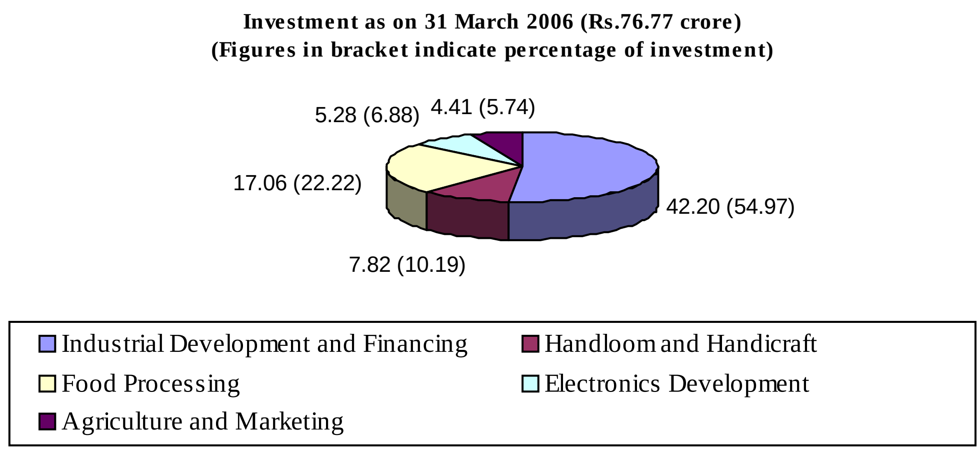
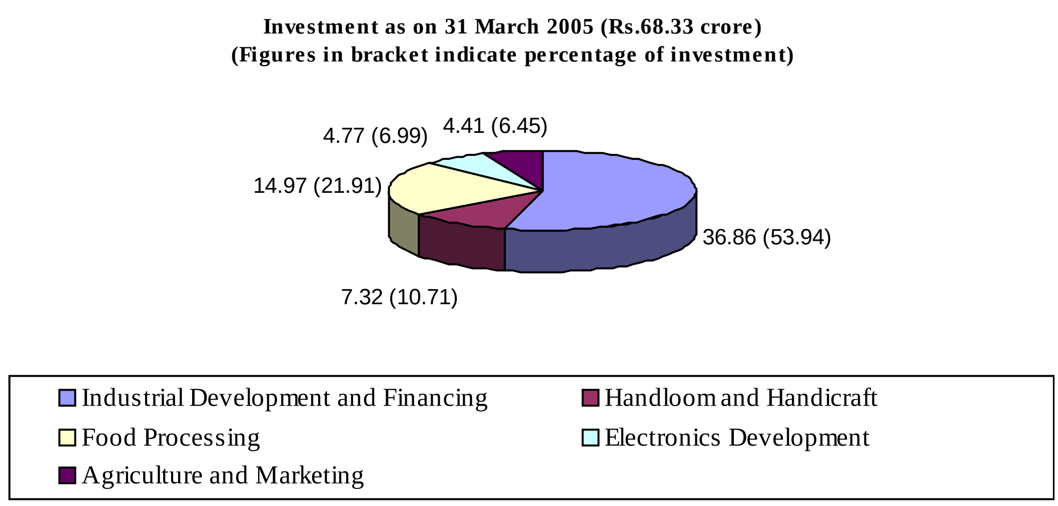


Chart: 7.2



7.1.4 Working Government companies

The total investment in working Government companies at the end of March 2005 and March 2006 was as follows:

Table: 7.1

(Rupees in crore)

Year	Number of companies	Equity	Share application money	Loans	Total
2004-05	5	42.67	4.84	20.82	68.33
2005-06	5	43.60	10.31	22.86	76.77

The increase in total investment was due to increase in equity mainly in PSUs in the Industrial Development and Financing, Food Processing, Handloom and Handicrafts, and Electronics Development sectors.

The summarised position of Government investment in the working Government companies in the form of equity and loans is detailed in ***Appendix* – 7.1.**

As on 31 March 2006, the total investment in Government companies comprised 70.22 *per cent* investment in equity capital and 29.78 *per cent* in loans as compared to 69.53 *per cent* and 30.47 *per cent* respectively as on 31 March 2005.

7.1.5 Budgetary outgo, grants/subsidies, guarantees, 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 as provided to the working Government companies by the State Government are given in ***Appendices* – 7.1 and 7.3.**

The budgetary outgo in the form of equity capital and grant/subsidy from the State Government to the working Government companies for the three years upto 31 March 2006 was as follows:

Table: 7.2

(Rupees in crore)

	2003-04		2004-05		2005-06	
	Companies		Companies		Companies	
	No.	Amount	No.	Amount	No.	Amount
Equity capital	4	1.67	4	1.67	4	6.16
Grants/subsidy	4	2.86	3	1.12	4	1.12
Total:	**5**[41]	**4.53**	**5**[41]	**2.79**	**5**[41]	**7.28**

During 2005-06, the State Government had guaranteed the loans of Rupees one crore obtained by the Mizoram Food and Allied Industries Corporation Ltd. At the end of the year, guarantees amounting to Rs.20.68 crore were outstanding against Zoram Industrial Development Corporation Limited and Mizoram Food and Allied Industries Corporation Ltd. No guarantee commission was payable to the Government by the Government companies. There was no case of conversion of Government loans into equity, moratorium on loan repayment and waiver of interest.

[41] These are the actual number of companies which have received budgetary support in the form of equity, loans, grants and subsidy from the State Government during respective years

7.1.6 Finalisation of accounts by working PSUs

The accounts of the Government companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 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. The accounts duly audited are also to be laid before the Legislature within nine months from the end of the financial year.

Out of five working Government companies, only one company *viz.*, Zoram Industrial Development Corporation Limited finalised its accounts for the year 2005-06. During October 2005 to September 2006, two working Government companies finalised their accounts for previous years.

The accounts of four Government companies were in arrears for periods ranging from five to seven years as on 30 September 2006, as detailed below:

Table: 7.3

Sl. No.	No. of working Government companies	Year from which accounts are in arrear	Number of years for which accounts are in arrear	Reference to Sl. No. of Appendix 7.2
1.	1	2001-02 to 2005-06	5	3
2.	1	1999-2000 to 2005-06	7	2
3.	2	2000-01 to 2005-06	6	4 & 5

The Administrative Department have to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned Administrative Department of the Government were being apprised quarterly by the audit regarding arrears in finalisation of accounts, no remedial measures have been taken by the Government to get the accounts finalised and as a result the net worth of these companies could not be assessed in audit.

7.1.7 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* – 7.2.** According to the latest finalised accounts, all the working Government companies had incurred an aggregate loss of Rs.5.03 crore.

7.1.8 Return on capital employed

The details of capital employed and total return on capital employed in case of working Government companies are given in ***Appendix* – 7.2**. As per the latest finalised accounts of five working companies, the capital employed[42]

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

worked out to Rs.50.72 crore in five Government companies and total return[43] thereon amounted to Rs.(-)3.69 crore as compared to total return of Rs.(-)2.85 crore in the previous year.

7.1.9 Results of audit of accounts of PSUs by the Comptroller and Auditor General of India

During the period from October 2005 to September 2006, the accounts of one Government company were selected for audit. The major errors and omissions noticed during the audit are mentioned below:

7.1.10 Zoram Industrial Development Corporation Limited (2005-06)

The company failed to disclose in the notes to accounts that the loans amounting to Rs.2.29 crore were subjudice; that debtors amounting to Rs.30.81 crore represented overdue interest on loans; an amount of Rs.0.86 crore was received against one time settlement (OTS) of 44 loan cases sacrificing Rs.0.60 crore on account of interest.

An amount of Rs.4.56 crore received as share application money contribution from the State Government had been shown under the head "Current Liabilities" instead of "Share Capital".

7.1.11 Internal Audit/Internal Control

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 to them by the Comptroller & Auditor General of India under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which need improvement. The Statutory Auditors in their reports on the annual accounts of the companies pointed out that in four companies (Sl. No.1 to 4 of ***Appendix* – 7.2)** the internal audit system was not commensurate with the size and nature of the business of these companies.

7.1.12 Recommendations for closure of PSUs

Even after completion of 13 to 15 years of their existence, the turnover of four working Government companies (Sl. Nos. 2 to 5 of ***Appendix* – 7.2**) has been less than Rupees five crore in each of the preceding five years as per their latest finalised accounts. Similarly, four Government companies (Sl. No. 1 to 4 of ***Appendix* – 7.2**) had been incurring losses for five consecutive years leading to negative net worth. In view of poor turnover and continuous losses, the Government may either improve the performance of these Government companies or consider their closure.

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

7.1.13 Departmentally managed Government commercial and quasi-commercial undertakings

As on 31 March 2006, there were two Departmentally managed commercial undertakings *viz.*, State Trading Scheme under Food and Civil Supplies Department and Mizoram State Transport under Transport Department.

The proforma accounts of the State Trading Scheme for 2003-04 to 2005-06 and of Mizoram State Transport for 2002-03 to 2005-06 were in arrear (September 2006). Delay in finalisation of the proforma accounts was last brought to the notice of the Finance Department and the Secretary, Food and Civil Supplies Department in October 2006.

7.1.14 State Trading Scheme

Based on the latest finalised accounts, the financial position and working results on the operation of the scheme for the three years from 2000-01 to 2002-03 are tabulated in ***Appendix* – 7.4**.

It may be seen from ***Appendix* – 7.4** that the accumulated loss of the State Trading Scheme as on 31 March 2003 (after provision of interest on Government capital of Rs.59 crore) was Rs.52.69 crore The Scheme was to run on a 'no profit no loss basis' so that maximum benefit could be given to the general public by recovering from them only the cost price of food and incidental charges as far as possible. As per proforma accounts for the years 2000-01 and 2001-02, the Scheme incurred trading losses amounting to Rs.7.06 crore and Rs.1.70 crore respectively. Audit scrutiny, however, revealed that the trading losses for these two years would turn into trading profits of Rs.4.77 crore and Rs.8.86 crore respectively if the sales pertaining to Aizawl centre amounting Rs.11.83 crore and Rs.10.56 crore respectively would have been accounted for as sales in the accounts. On this being pointed out by audit, necessary adjustments entries were carried out in the Proforma accounts for 2002-03. During 2002-03, the Scheme earned trading profit of Rs.0.16 crore.

7.1.15 Mizoram State Transport

The operational performance of Mizoram State Transport for three years ended 31 March 2004 is given in ***Appendix* – 7.5.** It may be seen from the Appendix that during the three years ending 31 March 2004, Mizoram State Transport had incurred operating losses of Rs.5.12 crore, Rs.7.49 crore and Rs.6.76 crore respectively. The net losses incurred worked out to Rs.8.69 crore, Rs.8.57 crore and Rs.8.05 crore during these years respectively. The reasons for incurring heavy losses were attributed by the Management to poor utilisation of buses (47 to 52 *per cent*), low load factor (occupancy) of 32.52 to 46.53 *per cent*, poor operation of buses per day (55.90 to 115 kilometers), incorporation of unapportioned salaries/wages and expenses of other functional units of the Transport Directorate as expenses of MST and high incidence of salaries and allowances and other operating expenses. The losses per kilometer operated during the three years upto 2003-04 were Rs.32.63, Rs.54.72 and Rs.48.99 respectively.

7.1.16 Power and Electricity Department

The operational performance of the Department for the last three years upto 2004-05 is given in ***Appendix* – 7.6.**

The total expenditure on power sold during three years upto 2004-05 was Rs.74.60 crore, Rs.85.81 crore and Rs.101.91 crore as against the revenue of Rs.20.09 crore, Rs.26.37 crore and Rs.54.41 crore respectively. Thus, losses of Rs.54.51 crore, Rs.59.44 crore and Rs.47.50 crore respectively were incurred during these three years.

The percentage of transmission and distribution (T&D) losses varied from 38.71 to 45 *per cent* as against the norm of 15.5 *per cent* fixed by the Central Electricity Authority. During the year 2004-05, the excess T&D losses over the norms were 47.60 million units valuing Rs.8.43 crore (worked out at average revenue per unit).

7.1.17 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 the State Government through Inspection Reports. The heads of companies/offices 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 2006 pertaining to five Government companies, two Departmentally managed commercial undertakings and the Power and Electricity Department disclosed that 285 paragraphs relating to 52 inspection reports remained outstanding at the end of September 2006. Of these, 15 inspection reports containing 23 paragraphs had not been replied to for more than six years. Department-wise break-up of inspection Reports and paragraphs outstanding as on 30 September 2006 is given in ***Appendix* – 7.7.**

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 Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Five draft paragraphs were forwarded to various Departments during April 2006 to August 2006. Reply of the Government in respect of one draft paragraph pertaining to Power and Electricity Department has not been received so far (October 2006).

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

7.1.18 Position of discussion of Commercial Chapter of Audit Reports by the Committee on Public Undertakings (COPU)/Public Accounts Committee (PAC)

The following table gives details regarding the number of reviews and paragraphs of the Commercial Chapter of the Audit Reports discussed by COPU/PAC (as at the end of 30 September 2006):

Table: 7.5

Period of Audit Reports	Total number of Reviews/paragraphs appeared in commercial chapter		Number of Reviews/Paragraphs discussed	
	Reviews	**Paragraphs**	**Reviews**	**Paragraphs**
1993-1994	-	4	-	3
1995-1996	1	4	1	2
1996-1997	-	4	-	2
1997-1998	1	3	1	2
1998-1999	-	3	-	2
1999-2000	1	7	-	3
2000-2001	-	2	-	2
2001-2002	-	4	-	-
2002-2003	1	5	-	-
2003-2004	-	5	-	-
2004-2005	1	2	-	-
Total	**5**	**43**	**2**	**16**

7.1.19 619-B Companies

There was no deemed Government company in the State under Section 619-B of the Companies Act, 1956.

PARAGRAPHS

POWER AND ELECTRICITY DEPARTMENT

7.2 Doubtful execution of works

Work regarding fixing of 105 electric poles and stringing of conductors within two days of their receipt valuing Rs.15.98 lakh shown as completed only to utilise the budget provision before the close of year.

The Government of Mizoram, Department of Power and Electricity accorded (21 March 2005) administrative approval and expenditure sanction for construction of two kilometre 11 KV line for evacuation of power from the 33 KV sub-station at Mualpui to Chite/new Jail II feeder at an estimated cost of Rs.11.48 lakh and for replacement of rusted poles within Aizawl city at an estimated cost of Rs.4.50 lakh. These works were to be executed by the Executive Engineer, Distribution Division, Aizawl.

As per approved estimates for 11 KV line work, 45 steel tabulator poles (sp-35) were required and for replacement of rusted poles, 73 poles (sp-29) were required by the Division. As per the quarterly progress report, both the works were reported completed on 31 March 2005 by the Division.

Audit scrutiny (March 2006) of the cash abstract and payment vouchers revealed that the Division had shown the entire estimated amount as spent by 29 March 2005. The payments included Rs.2.92 lakh and Rs.3.77 lakh for procurement of 45 and 60 (against the requirement of 73) steel poles respectively against the Proforma bills dated 29 March 2005.

The Division, however, could neither produce any record to Audit to establish the fact that they had received and utilised both types of poles in the works nor could any records be produced showing availability of rusted poles. Moreover, the time taken for placing of supply order (29 March 2005) for purchase of poles to completion (31 March 2005) of the work (including fixing of 105 poles and stringing of conductors) was only two days raising doubts about the actual execution of the works.

The Government stated (August 2006) that the poles were issued by the Stores Division and received by the Distribution Division and these were included in the Material at Site (MAS) account. From the reply as well as non submission of records it appears that the work was not executed and was shown as completed only to utilise the budget provision before 31 March 2005.

7.3 Avoidable excess expenditure

Purchase of electrical and mechanical equipment at higher rates and purchase in excess of the requirement resulted in incurring of excess avoidable expenditure of Rs.25.59 lakh.

The Stores Division of Power and Electricity Department (PED) of the Government of Mizoram, was engaged in centralised procurement of materials for issue to the Divisions against their indents. In case of non-availability of material with the Stores Division, the indenting Divisions were allowed to purchase the materials from the market after following all codal provisions regarding procurement of material.

Scrutiny of records (February 2006) of the Executive Engineer (EE) of Maicham Project Division (MPD) by Audit revealed that the EE invited (January 2004) quotations for supply of electrical and mechanical equipment for manufacture of Reinforced Cement Concrete (RCC) Hume Pipe for Maicham hydro electric project phase II.

In response to the above tender, six firms (two manufacturers and four suppliers) submitted their quotations, but only three quotations were available on record. The Division purchased (August 2004) the required quantity of material (as per the quotation) at a negotiated price of Rs.18.88 lakh from a supplier ignoring the lowest price of Rs.10.89 lakh quoted by a manufacturer resulting in excess expenditure of Rs. 7.99 lakh. The comparative statement and the reasons for rejection of the lowest rates were not available on record.

Further, Maicham Project Division purchased 18 MS mould cases with end rings for 140 mm dia, at Rs. 1.10 lakh each against the requirement of two cases only. The reasons for procurement of 16 MS mould cases in excess of the requirement at a cost of Rs 17.60 lakh (16 x Rs.1.10 lakh) were not available on record.

Thus, purchase of electrical and mechanical equipment at higher rates by not considering the lowest offer and purchase in excess of the requirement resulted in excess avoidable expenditure of Rs. 25.59[44] lakh.

The Government stated (August 2006) that the offer of the selected firm was the lowest and that the need for 18 MS mould cases was felt to maximise the production of hume pipes. The reply is not tenable because, as per tenders, the rate offered by the manufacturer was the lowest. The reply is also silent as to how the additional MS mould cases would maximise the production of hume pipes without other ancillary machinery.

[44] *Rs.17.60 lakh for excess procurement of 16 numbers of MS mould cases with end rings plus Rs.7.99 lakh for not considering the offer of the lowest manufacturer.*

7.4 Non-realisation of dues

Belated action and reconnection without recovery of outstanding dues resulted in non-recovery of Rs.36.94 lakh from a consumer.

Power and Electricity Department (PED) Government of Mizoram releases service connections to consumers in accordance with the terms and conditions (T&C) of supply of electrical energy Rules introduced in August 1994.

As per sub-clause 11 of clause 29 of the T&C, if a consumer fails to pay three consecutive electricity bills the PED has a right to disconnect the electric supply after serving proper notice(s) to the consumer to that effect.

Test check of records (December 2005) during audit of the Electrical Construction Division revealed that the Division had released (30.5.1993) a service connection to a Medium Industrial Power Consumer[45] for a connected load of 250 KVA without installation of any energy meter. The consumer did not pay any energy bill, raised on flat rate as per 1992 tariff, till the Division (November 1996) disconnected the power supply. Reconnection was, however, made on the directives of the Chief Engineer, in the same month without recovering the outstanding energy bills amounting to Rs 4.20 lakh.

Though the fact of non-payment of dues by the consumer was pointed out by Audit in August 2002 but the Division did not take any action for recovery/disconnection, as a result of which the dues mounted to Rs. 36.94 lakh till June 2004 when the division finally disconnected the power supply.

Thus, the Department suffered a loss of Rs. 36.94 lakh. The loss of Rs. 32.74 lakh (Rs.36.94 lakh – Rs.4.20 lakh) could have been avoided had the Chief Engineer not ordered the reconnection in November 1996. The loss could have been still less had the Department taken action when the non-payment by the consumer was pointed out by Audit in August 2002. There was nothing on record to indicate whether security deposit had been obtained from the consumer. Even if the security deposit of Rs.0.34 lakh (250 KVA at the rate of Rs.45 per KVA for one month) was obtained, it will be insufficient to recover the dues.

The Government accepted the facts in August 2006.

[45] *Khadi and village Industries (Gur and Khandsari Center Saitual.*

7.5 Avoidable extra expenditure

Purchase of equipment at higher rates by ignoring the valid lowest offer resulted in avoidable extra expenditure of Rs.19.67 lakh.

The Meter Relay and Testing (MRT) Division, Power and Electricity Department Government of Mizoram (P&ED) invited two limited tenders (27 January 2004) from the selected firms for (i) design, manufacture, supply, installation, testing and commissioning of fixed type three phase energy Meter Testing Bench and (ii) design, manufacture and supply of Portable Type Meter Testing Sets. The list of manufacturers to whom the restricted NIT was issued was not available on record. The last date for submission and opening of tenders was 25 February 2004, which was subsequently extended to 03 March 2004.

In response to the first tender at (i) above, three firms quoted their rates. The quotation of firm 'A' was Rs.4.53 lakh and that of firm 'B' was Rs.6.49 lakh per bench respectively. The quotation of firm 'C' was not considered due to non submission of earnest money. In response to the second tender at (ii) above two firms 'A' and 'B' quoted the rates of Rs.2.53 lakh and Rs.3.24 lakh per set respectively.

The MRT Division after scrutiny of quotations recommended to the Departmental Purchase Advisory Board (DPAB) the lowest offer of firm 'A' in both the cases.

DPAB in its meeting (26 March 2004) rejected the offer of firm 'A' in both cases on the grounds that they had not submitted documentary evidence of (a) actual supply of similar equipments in the past and (b) financial soundness for taking up of the work and recommended the offer of firm 'B' at their offered rates. The rejection of firm 'A' in both the cases was not justified as the tender was a limited tender where only pre-selected firms were allowed to quote. Moreover, firm 'A' had furnished on 01 March 2004 (well before the opening of tender and meeting of DPAB) the necessary documents *i.e.* (a) actual supply of similar equipments in the past and (b) financial soundness for taking up the work. The fact that Firm 'A' was a genuine manufacturer was also known to the P&ED as it was a supplier of other products to the Department.

The MRT Division purchased five number of three phase energy Meter Testing Bench at the rate of Rs.6.49 lakh per bench for Rs.32.45 lakh and 14 portable type meter testing sets at the rate of Rs.3.24 lakh per set for Rs.45.30 lakh respectively between March and August 2004.

Rejection of the lower rates offered by firm 'A' without any valid reasons led to avoidable extra expenditure of Rs.19.67 lakh[46].

[46] *Rs.6.49 – Rs4.53 = Rs.1.96 x 5 benches = Rs.9.78 lakh for meter testing bench plus Rs.3.24 – Rs.2.53 = Rs.0.71 lakh x 14 sets = Rs.9.89 lakh for meter testing sets.*

The matter was reported to the Department/Government (April 2006); their replies are awaited (September 2006).

(Rajib Sharma)

Shillong
The

Principal Accountant General (Audit)
Meghalaya, Arunachal Pradesh and
Mizoram

Countersigned

New Delhi
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