GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

5.1 Introduction

This chapter deals with the functioning of the Government companies. Paragraphs 5.2 to 5.13 give an overview of the Government companies and the Government's investment in the Public Sector Undertakings (PSUs). Paragraphs 5.14 and 5.15 contain transaction audit observations on Puducherry Distilleries Limited and Puducherry Agro Service and Industries Corporation Limited.

5.2 Overview of Government companies

As on 31 March 2008, there were 13 Government companies (all working) including one subsidiary company under the control of the Government of the Union Territory of Puducherry (UT Government) as against same number of companies (all working) as on 31 March 2007. Accounts of Government companies are audited by Statutory Auditors 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 by the CAG as per provisions of Section 619 of the Companies Act, 1956.

5.3 Working Public Sector Undertakings (PSUs)

Investment in working PSUs

The total investment in Government companies in the form of equity and loans as on 31 March 2007 and 31 March 2008 was as under:

(Rupees in crore)

Year	Number of companies	Investment			Total
		Equity	Share application money	Long term loans[1]	
2006-07	13	505.35	58.70	40.40	604.45
2007-08	13	535.14	70.96	14.89	620.99[2]

Source: Particulars furnished by companies

1 Long term loans are excluding interest accrued and due on such loans

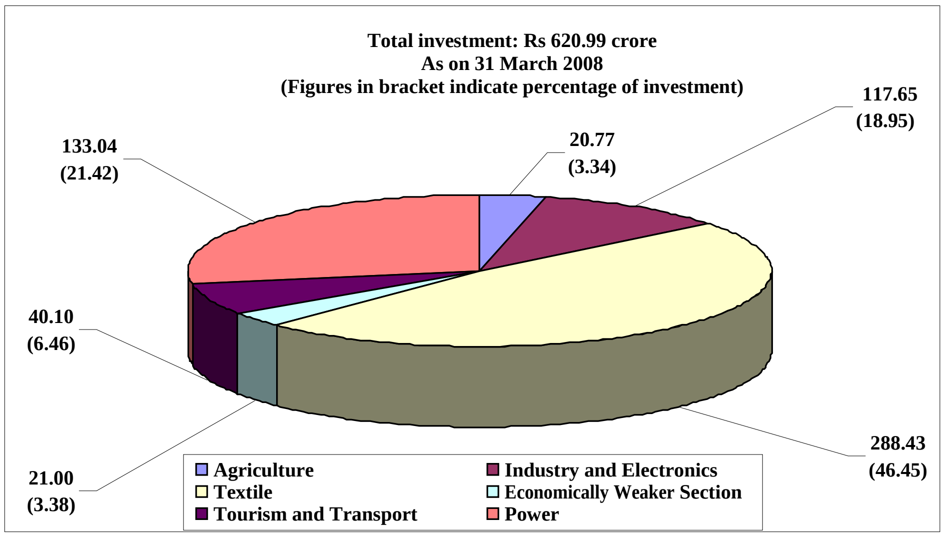
2 UT Government's investment in the working PSUs was Rs 596.67 crore (Others: Rs 24.32 crore). The figure as per Finance Accounts is Rs 596.10 crore and the difference is under reconciliation.

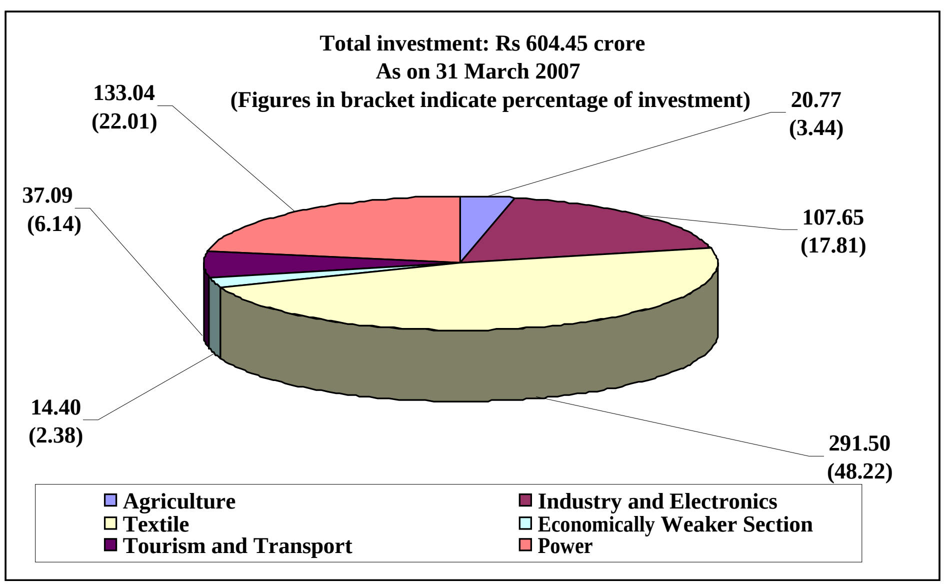
As on 31 March 2008, the total investment in working companies comprised of 97.60 *per cent* equity capital and 2.40 *per cent* loans as compared to 93.32 *per cent* and 6.68 *per cent* respectively as on 31 March 2007.

The summarised statement of Government investment in working Government companies in the form of equity and loans is detailed in **Appendix 5.1**.

The investment (equity and long-term loans) in various sectors at the end of 31 March 2008 and 31 March 2007 are indicated below in the pie charts**:**

SECTOR-WISE INVESTMENT IN WORKING COMPANIES





5.4 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 by the Government to the working Government companies are given in **Appendices 5.1 and 5.3.**

The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from the UT Government to the working Government companies for the three years upto 2007-08 are given below:

(Rupees in crore)

Particulars	2005-06		2006-07		2007-08	
	Number	**Amount**	**Number**	**Amount**	**Number**	**Amount**
Equity capital outgo from budget	8	21.93	9	87.41	7	32.05
Grants	5	21.20	5	18.04	5	25.40
Subsidy towards Projects/Programmes/ Schemes	2	1.13	2	4.94	2	0.63
Total outgo	**8**[3]	**44.26**	**10**[3]	**110.39**	**9**[3]	**58.08**

At the end of 2007-08, guarantee of Rs 3.19 crore against one working Government company (Pondicherry Adi-dravidar Development Corporation Limited) was outstanding. During the year 2007-08, the UT Government did not waive any of its dues.

5.5 Finalisation of accounts by working PSUs

The accounts of companies for every financial year are required to be finalised within six months from the end of the 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. They are also to be laid before the Legislature within nine months from the end of the financial year.

Out of 13 working Government companies, only one Company had finalised its accounts for 2007-08 within the stipulated period as can be seen from **Appendix 5.2**. During the period from October 2007 to September 2008, 10 companies finalised 11 accounts for previous years.

3 These are the actual number of companies which received budgetary support in the form of equity, grants and subsidy from the Government during the respective years

The accounts of 12 companies were in arrears for periods ranging from one to three years as on 30 September 2008 as detailed below:

Serial Number	Number of working companies	Period for which accounts were in arrears	Number of years for which accounts were in arrears	Reference to Serial Number of Appendix 5.2
1.	3	2005-06 to 2007-08	3	8, 9 and 12
2.	2	2006-07 and 2007-08	2	2 and 11
3.	7	2007-08	1	1, 4, 5, 6, 7, 10 and 13

The UT Government had invested[4] Rs 85.70 crore (equity: Rs 40.15 crore; loans: Rs 0.94 crore and grants/subsidy: Rs 44.61 crore) in 12 working PSUs during the years for which accounts have not been finalised as detailed in **Appendix 5.4**. In the absence of timely finalisation of accounts and their audit, it cannot be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of provisions of the Companies Act, 1956.

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments were informed every quarter by the Audit of the arrears in finalisation of accounts of PSUs under their administrative control, no remedial measures had been taken, as a result of which the net worth of these PSUs could not be assessed in audit.

5.6 Financial position and working results of working PSUs

The summarised financial results of working Government PSUs as per the latest finalised accounts are given in **Appendix 5.2**

According to the latest finalised accounts of 13 working Government companies, six[5] companies incurred an aggregate loss of Rs 41.15 crore

[4] Information as provided by the companies

[5] Pondicherry Electronics Limited, Pondicherry Textile Corporation Limited, Swadeshee-Bharathee Textile Mills Limited, Pondicherry Adi-dravidar Development Corporation Limited, Puducherry Tourism Development Corporation Limited and Puducherry Road Transport Corporation Limited

and five[6] companies earned an aggregate profit of Rs 22.07 crore. In respect of two[7] companies, entire loss was met by the UT Government. Details of profit and loss, as per their latest finalised accounts, are given below:

Year of latest accounts finalised	Profit earning companies		Loss making companies	
	Number of companies	Amount of profit (Rupees in crore)	Number of companies	Amount of loss (Rupees in crore)
2004-05	---	---	2	2.56
2005-06	1	0.06	1	1.49
2006-07	3	15.27	3	37.10
2007-08	1	6.74	---	---
Total	**5**	**22.07**	**6**	**41.15**

Source: Annual accounts of the companies.

5.7 Profit earning companies and dividend

One Company (Puducherry Distilleries Limited) which finalised its accounts for 2007-08, earned a profit of Rs 6.74 crore and declared a dividend of Rs 1.35 crore. The dividend as a percentage of share capital of this Company worked out to 15.98 *per cent*. The total return in 2007-08 by way of dividend of Rs 1.35 crore worked out to 0.23 *per cent* of total equity investment of Rs 595.74 crore by the Union Territory Government in all the Government companies as against dividend of Rs 0.81 crore (0.15 *per cent*) in the previous year. The Government has not framed any policy for payment of minimum dividend.

Similarly, out of 10 working Government companies, which finalised their accounts for the previous years during October 2007 to September 2008, four Government companies earned an aggregate profit of Rs 15.33 crore. Only three companies (Serial numbers 1, 4 and 13 of **Appendix 5.2**) declared dividend of Rs 3.29 crore. All these companies earned profit for two or more successive years.

6 Puducherry Agro Services and Industries Corporation Limited, Pondicherry Agro Products, Food and Civil Supplies Corporation Limited, Puducherry Distilleries Limited, Pondicherry Industrial Promotion Development and Investment Corporation Limited and Puducherry Power Corporation Limited

7 Pondicherry Corporation for Development of Women and Handicapped Persons Limited and Puducherry Backward Classes and Minorities Development Corporation Limited

5.8 Loss incurring Government companies

Out of six loss incurring Government companies, three companies had accumulated losses of Rs 295.25 crore, which exceeded their paid up capital of Rs 259.07 crore. Despite poor performance and complete erosion of the paid-up capital, the UT Government continued to provide financial support to these companies. As per available information, total financial support provided by the UT Government to these companies during 2007-08 amounted to Rs 30.10 crore.

5.9 Return on capital employed

As per latest finalised annual accounts of PSUs, capital employed[8] worked out to Rs 571.93 crore and total return[9] thereon amounted to (-)Rs 14.55 crore, as compared to capital employed of Rs 530.83 crore and total return of (-)Rs 11.34 crore in the previous year. The details of capital employed and total return on capital employed of working Government companies are given in **Appendix 5.2.**

5.10 Results of audit of accounts of PSUs

Some of the important comments made by Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG) under Section 619(2) of the Companies Act, 1956 in their audit reports on the accounts of the companies finalised during the period from October 2007 to September 2008 are given below:

Pondicherry Textile Corporation Limited (Accounting year 2006-07)

- Inventories included process stock of Rs 8.94 crore, which included unpacked grey cloth valued at cost of Rs 7.37 crore. As the net realisable value of the finished goods had been less than their cost of production, grey cloth was overvalued by Rs 1.89 crore. This overvaluation resulted in understatement of losses to the same extent.

---

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

9 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

- The Company granted interim relief to the workers for the period from 1999 to 2003 and also employed outside contractors for undertaking stitching and repair work. The Company was liable for enhanced ESI contribution on interim relief and on the payments made for the stitching work outsourced to the tune of Rs 1.42 crore. The Company considered these known liabilities as contingent liabilities. This resulted in understatement of current liabilities as well as loss to the same extent.

5.11 During the period from October 2007 to September 2008, for supplementary audit of accounts under section 619 of the Companies Act 1956, six PSUs were selected. As a result of supplementary audit by the CAG, two companies namely, Pondicherry Agro Service and Industries Corporation Limited (PASIC) and Pondicherry Agro Products, Food and Civil Supplies Corporation Limited (PAPSCO) agreed to revise their accounts. Due to such revision there was decrease in profit in respect of PASIC. The revised accounts of PAPSCO were awaited (September 2008).

In addition, PASIC treated the interest income of Rs 20.85 lakh earned on unutilised grant-in aid as other income instead of treating the same as part of grant-in aid, resulting in overstatement of other income (prior period – Rs 7.39 lakh and current year - Rs 13.46 lakh).

5.12 Internal audit/internal control

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal control/internal audit systems in 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.

Statutory Auditors had observed deficiencies in Pondicherry Textile Corporation Limited (accounting year 2006-07) with regard to its weak internal audit system and lack of effective internal controls in the areas of confirmation of balances from debtors, co-ordination between purchases and stores departments and clearance of goods by agents.

5.13 Response to inspection reports, draft paragraphs and reviews

Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of the Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through the respective heads of departments within a period of six weeks. Inspection reports issued up to March 2008 pertaining to 12 PSUs disclosed that 151 paragraphs relating to 29 inspection reports remained outstanding at the end of August 2008 (**Appendix 5.5)**.

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

TRANSACTION AUDIT OBSERVATIONS

PUDUCHERRY DISTILLERIES LIMITED

5.14 Undue benefit due to non-claiming of reduction in Excise Duty

Failure to pursue with the supplier of rectified spirit its obligation to pass on the benefit of abolished excise duty to the Company resulted in undue benefit of Rs 29.12 lakh to the supplier.

The Company entered (January 2007) into an agreement with Siddapur Distilleries Limited (SDL), Bagalkot, Karnataka for purchase of 20 lakh litres of Rectified Spirit (RS) at Rs 28.35 per litre Free on Road (FOR) destination basis (inclusive of all taxes, freight, insurance, *etc*.) over a period of three months i.e., upto April 2007. The purchase order was extended for another three lakh litres for supply by June 2007. Against this, the Company received 10 lakh litres of RS upto the end of March 2007 and balance 13 lakh litres between April and June 2007. The price *inter alia* included basic price of Rs 22.94 and the State Excise Duty of rupees three. Consequent to abolition of the excise duty on RS and introduction of value added tax by the Government of Karnataka with effect from 1 April 2007, SDL increased its basic price from Rs 22.94 to Rs 25.18 per litre and charged three *per cent* of Central Sales Tax against production of "C" Form by the Company.

Audit observed that SDL increased its basic price only to off-set the decrease in the price on account of abolition of the State excise duty. But the Company did not pursue with the supplier to pass on the benefit of abolished excise duty and accepted the revised price without any justification. Thus, the Company passed on an undue benefit of Rs 29.12 lakh to SDL.

The Company stated (June 2008) that the agreed price was on FOR basis and payments were made accordingly. The reply of the Company is not acceptable as all the statutory levies were to be paid only on actual basis. Not claiming the benefit of reduction in excise duty by the Company on the ground that rates were on FOR basis was not justifiable.

The matter was reported to the Government in August 2008, their reply was awaited (October 2008).

PUDUCHERRY AGRO SERVICE AND INDUSTRIES CORPORATION LIMITED

5.15 Non-recovery of dues

Supply of mineral water to a stockist in contravention of the terms of supply led to accumulation of dues and its non-recovery.

The Company appointed (June 2003) Sai and Company as a stockist for distributing canned mineral water in Chennai without inviting any bids so as to judge the capability and financial soundness of the indenting firms. After receipt (17 June 2003) of an initial deposit amount of Rs 40,000 as security for the cans, the Company communicated (21 August 2003) the terms and conditions of appointment to the stockist without entering into any formal agreement. The terms and conditions of appointment, *inter alia*, stipulated that the supply of water would be effected only against advance payment.

Audit noticed (October 2007) that the Company sold water on credit resulting in accumulation of dues of Rs 3.84 lakh by 31 March 2004. The Company continued to supply mineral water without insisting upon clearance of the outstanding dues and advance payment for further supplies, which led to further increase in accumulation of the dues to Rs 13.15 lakh at the end of November 2005, when the Company stopped further supplies to the stockist. Its subsequent efforts to collect the dues from the stockist did not yield any result as the whereabouts of the stockists could not be located by the Company. On this being pointed out by Audit, the Company filed (April 2008) a civil suit for recovery of Rs 13.15 lakh with interest at 24 *per cent per annum*.

Thus, supply of mineral water on credit, in contravention of the terms of appointment, led to non- recovery of Rs 13.15 lakh.

The matter was reported to the Company/Government in September 2008; their replies were awaited (October 2008).

(SHANKAR NARAYAN)

Chennai, Principal Accountant General (Civil Audit)

The Tamil Nadu and Puducherry.

Countersigned

New Delhi**,** **(VINOD RAI)**

The Comptroller and Auditor General of India.