CHAPTER VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

7.1 Introduction

This chapter deals with the results of Government companies and departmentally managed commercial undertakings. Paragraphs 7.2 to 7.15 deal with general view of Government companies and the Government's investment in Public Sector Undertakings(PSUs). Paragraph 7.16 is on Pondicherry Distilleries Limited.

7.2 Overview of Government companies

As on 31 March 2003, there were 11 Government companies including one subsidiary company (all working companies) as against same number of Government companies and one departmentally managed commercial undertaking as on 31 March 2002 under the control of the Government of Pondicherry. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956.

7.3 Working of Public Sector Undertakings

Investment in working PSUs

7.3.1 Total investment in Government companies in the form of equity and loans as on 31 March 2002 and 31 March 2003 was as under:

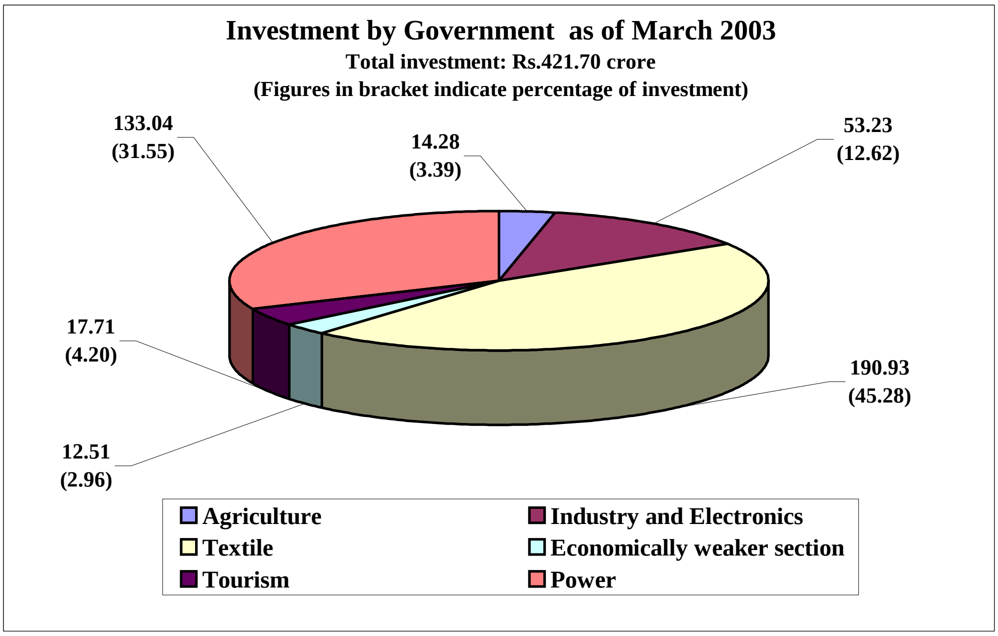
Year	Number of companies	Investment (Rupees in crore)			
		Equity	Share application money	Long-term loans*	Total
2001-02	11	379.81	5.52	19.01	404.34
2002-03	11	402.42	5.50	13.78	421.70

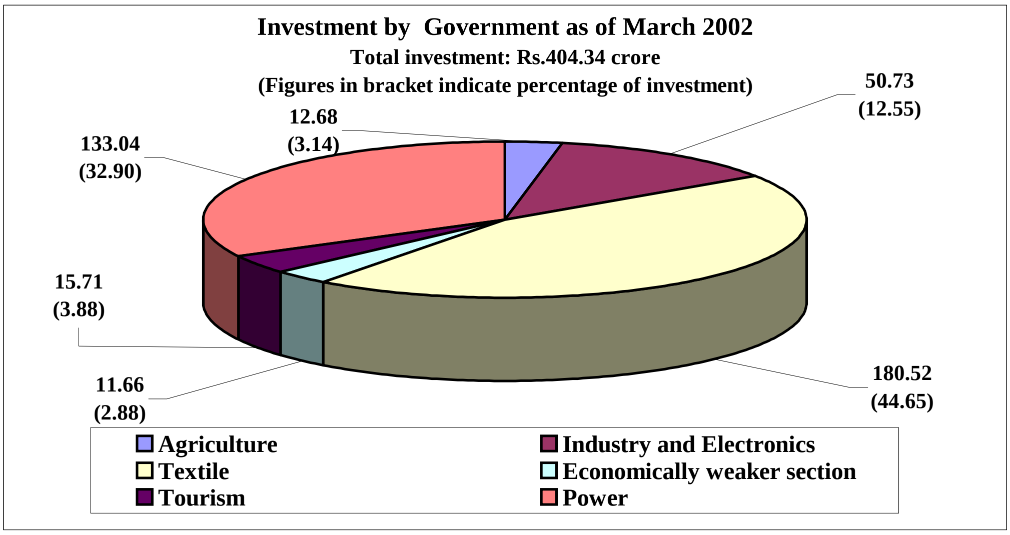
*** Excludes interest accrued and due on such loans**

7.3.2 The summarised statement of Government investment in working Government companies in the form of equity and loans is detailed in Appendix 24.

7.3.3 As on 31 March 2003, the total investment in working Government companies comprised 96.73 *per cent* of equity capital and 3.27 *per cent* of loans as compared to 95.30 *per cent* and 4.70 *per cent*, respectively as on 31 March 2002. The main reason for increase in capital was induction of substantial equity (Rs 15.30 crore) in textile sector. The debt equity ratio was 0.03:1 during 2002-03 as against 0.05:1 in 2001-02.

7.3.4 The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2003 and 31 March 2002 are indicated below in the pie charts.





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

7.4.1 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by Government to working Government companies are given in Appendix 24 and 26.

7.4.2 The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from the Government to working Government companies for the three years up to 2002-03 are given below:

(Rupees in crore)

Particulars	2000-01		2001-02		2002-03	
	Number	Amount	Number	Amount	Number	Amount
Equity capital outgo from budget	7	26.10	6	31.56	8	22.59
Grants	5	2.09	5	3.14	5	4.19
Subsidy towards Projects/ Programmes/Schemes	1	0.20	3	12.97	2	0.27
Total outgo	**7**[14]	**28.39**	**8**[14]	**47.67**	**8**[14]	**27.05**

During the year 2002-03, no working Government company received guarantee from Government of India for raising loan. However, out of loan of Rs 5 crore guaranteed by Government of India during earlier years to one working Government company, Rs 3.78 crore were outstanding on 31 March 2003. During the year, loan of Rs 20.38 lakh given to a Government company (Serial number 6 of Appendix 25) was converted into equity.

7.5 Finalisation of accounts by working PSUs

7.5.1 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 the 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.

7.5.2 However, as could be noticed from Appendix 25, out of 11 working Government companies, only six companies finalised their accounts for the year 2002-03 within the stipulated period. During the period from

[14] **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**

October 2002 to September 2003, eight working Government companies finalised nine accounts for previous years.

7.5.3 The accounts of five working Government companies were in arrears for periods ranging from one to four years as on 30 September 2003 as detailed below:

Serial number	Number of working companies	Period for which accounts are in arrears	Number of years for which accounts are in arrears	Reference to Serial number of Appendix 25
1.	1	1999-2000 to 2002-03	4	10
2.	3	2001-02 and 2002-03	2	2, 7 and 8
3.	1	2002-03	1	3

7.5.4 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 and as a result, net worth of these PSUs could not be assessed in Audit.

7.6 Financial position and working results of working PSUs

7.6.1 The summarised financial results of working Government PSUs as per latest finalised accounts are given in Appendix 25.

7.6.2 According to latest finalised accounts of 11 working Government companies, four companies incurred aggregate loss of Rs 28.76 crore and five companies earned aggregate profit of Rs 15.21 crore. In respect of two companies (Serial numbers 8 and 9 of Appendix 25) the entire loss was met by the Government of Union Territory of Pondicherry.

7.7 Profit earning working companies and dividend

7.7.1 Out of the six working Government companies which finalised their accounts for 2002-03 by September 2003, four companies (Serial numbers 1, 4, 5 and 11 of Appendix 25) earned aggregate profit of Rs 13.03 crore. Of these four profit earning companies, three companies (Serial numbers 1, 4 and 11 of Appendix 25) declared aggregated dividend of Rs 1.33 crore for

2002-03. The dividend as a percentage of share capital in these companies worked out to 0.71. The total return of above dividend of Rs 1.33 crore worked out to 0.33 *per cent* in 2002-03 on the total equity investment of Rs 398.17 crore by the Union Territory Government in all the 11 Government companies as against the dividend of Rs 1.46 crore (0.39 *per cent*) in the previous year. The Government had not formulated any dividend policy for payment of minimum dividend.

7.7.2 Similarly, out of eight working Government companies, which finalised their accounts for previous years by September 2003, one company earned an aggregate profit of Rs 2.18 crore and this company earned profit for two or more successive years.

7.8 Loss incurring working Government companies

7.8.1 Of the four loss incurring working Government companies, three companies (Serial numbers 2, 6 and 10 of Appendix 25) had accumulated losses aggregating to Rs 202.05 crore which exceeded their paid-up capital of Rs 198.39 crore.

7.8.2 Despite poor performance and complete erosion of paid-up capital, the Government continued to provide financial support to these companies in the form of equity, grant and subsidy. According to available information, the total financial support so provided by the Government by way of equity, grant and subsidy during the year to these three companies was Rs 19.93 crore.

7.9 Return on capital employed

As per the latest finalised accounts (up to September 2003), the capital employed[15] worked out to Rs 330.91 crore in 11 working companies and total return[16] thereon amounted to Rs (-)9.40 crore, as compared to total return of Rs (-)8.36 crore in the previous year (accounts finalised up to September 2002). The details of capital employed and total return on

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[15] **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 borrowings (including refinance)**

[16] **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**

capital employed in case of working Government companies are given in Appendix 25.

7.10 Non-working PSUs

There was no non-working PSUs in the Union Territory.

7.11 Disinvestment, privatisation and restructuring of PSUs

During the year 2002-03, there was no case of disinvestment, privatisation and restructuring of PSUs.

7.12 Results of audit of accounts of PSUs by Comptroller and Auditor General of India

7.12.1 During the period from October 2002 to September 2003, 13 accounts of nine working Government companies were selected for review and "Nil Comments" were issued for ten accounts.

7.12.2 The net impact of the important audit observations as a result of the review of the remaining three accounts was as follows:

Serial number	Details	Number of accounts of working Government companies	Amount (Rupees in lakh)
1.	Decrease in profit	1	10.12
2.	Increase in loss	1	4.34
3.	Under statement of share capital advance	1	14.33

7.13 Internal audit/internal control

7.13.1 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal control/internal audit systems in the companies audited in accordance with the directions issued by the Comptroller and Auditor General of India to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify areas, which needed improvement. Directions/sub-directions under the Act, *ibid*, were issued to the Statutory Auditors in respect of 11 Government companies between October 2002 and September 2003. In pursuance of directions so issued, reports of Statutory Auditors in respect of three Government companies were received (October 2003).

7.13.2 In Pondicherry Industrial Promotion Development and Investment Corporation Limited and Pondicherry Textiles Corporation Limited, the Statutory Auditors have commented that the scope of internal audit was not clearly defined and that the internal audit report covered more on systems and not on actual operations and the deficiencies thereon. They have suggested that the internal audit coverage should be oriented more on operation and transaction audit.

7.14 Response to Inspection Reports, Draft Paragraphs and Reviews

7.14.1 Audit observations noticed during audit and not settled on the spot are communicated to the Head of PSUs and concerned departments of 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 up to March 2003 pertaining to 11 PSUs disclosed that 118 paragraphs relating to 27 Inspection Reports remained outstanding at the end of September 2003. Department-wise break-up of Inspection Reports and Audit observations outstanding as on 30 September 2003 is given in Appendix 27.

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

7.15 619-B Companies

There was no 619-B company in the Union Territory.

PONDICHERRY DISTILLERIES LIMITED

7.16 Avoidable payment of interest on Income Tax

Incorrect computation of Advance Income Tax resulted in avoidable interest payment of Rs 23.92 lakh.

Under Section 208 of the Income Tax Act, 1961 (Act) it was obligatory to pay advance tax during the financial year in every case where amount of tax payable exceeded Rs 5,000. Advance tax on the current income as calculated under Section 209 of the Act was payable in four instalments between June and March of every financial year failing which the assessee was liable to pay simple interest for default in payment of advance tax at the rate of 1.25 *per cent* per month under Section 234 B of the Act and 1.25 *per cent* per month for deferment of advance tax under Section 234 C of the Act. The Act further stipulated that in the event of the assessee not filing income tax return within the time prescribed under Section 139, an interest at the rate of 1.25 *per cent* per month under Section 234 A was also payable.

Audit observed that the Company paid advance tax of Rs 36.54 lakh for the financial year 2001-02 as against actual tax liability of Rs 1.42 crore. As the amount of advance tax paid was less than the actual tax liability, the Company became liable to pay interest under Section 234 B (Rs 19.78 lakh) and under Section 234 C (Rs 7.50 lakh). Further, the Company filed the income tax return for the financial year 2001-02 in June 2003 as against October 2002 prescribed under Section 139 and as such it also became liable to pay interest of Rs 10.55 lakh under Section 234 A of the Act. The Company paid shortfall in the advance tax (Rs 1.06 crore) and total interest (Rs 37.83 lakh) in June 2003.

The Company stated (September 2003) that short computation of advance tax payable was due to:

- provision of Rs 1.20 crore for implementing Voluntary Retirement Scheme (VRS) which could not be implemented in the financial year;

- an appeal filed (October 2000) against the Sales Tax demand of Rs 3.14 crore and pending its outcome made a provision for this amount and

- the belief that it could avail Income tax holiday applicable for new units under Section 80 I of the Act.

The Company further stated (September 2003) that it had earned interest on the amount of advance tax not paid.

The reply is not tenable as

- The maximum allowable deduction under Section 35 DDA of the Act for VRS payments was 20 *per cent* only in one year; and

- Income tax holiday available for new industrial undertakings (Section 80 I of the Act) was not applicable to the Company as its Blending and Bottling unit was neither new nor an industrial undertaking.

- Further, even after taking into account that the Company had earned an interest of Rs 13.91 lakh (for 15 months from April 2002 to June 2003) by investing the advance tax short remitted (Rs 1.06 crore), the avoidable interest payment works out to Rs 23.92 lakh.

Thus, incorrect computation of advance tax payable by the Company resulted in avoidable interest payment of Rs 23.92 lakh.

The matter was referred to the Government in September 2003; reply had not been received (January 2004).

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Chennai, Principal Accountant General (Audit) I

The Tamil Nadu and Pondicherry.

Countersigned

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

The Comptroller and Auditor General of India.