CHAPTER VII
GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

7.1 Introduction

This chapter deals with Government companies and departmentally managed commercial undertakings. Paragraphs 7.2 to 7.13 deal with general view of Government companies and the Government's investment in Public Sector Undertakings. Paragraphs 7.14.1 to 7.14.18 contain a review on Pondicherry Agro Products, Food and Civil Supplies Corporation Limited (PAPSCO).

7.2 Overview of Government companies

As on 31 March 2004 there were 11 Government companies including one subsidiary company as against the same number of Government companies as on 31 March 2003 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 Public Sector Undertakings (PSUs)

Investment in working PSUs

7.3.1 Total investment in Government companies in the form of equity and loans as on 31 March 2003 and 31 March 2004 was as under:

(Rupees in crore)

Year	Number of companies	Investment			Total
		Equity	Share application money	Long term loans[24]	
2002-03	11	402.42	5.50	13.78	421.70
2003-04	11	428.67	1.00	8.14	437.81[25]

[24] **Long term loans are excluding interest accrued and due on such loans**

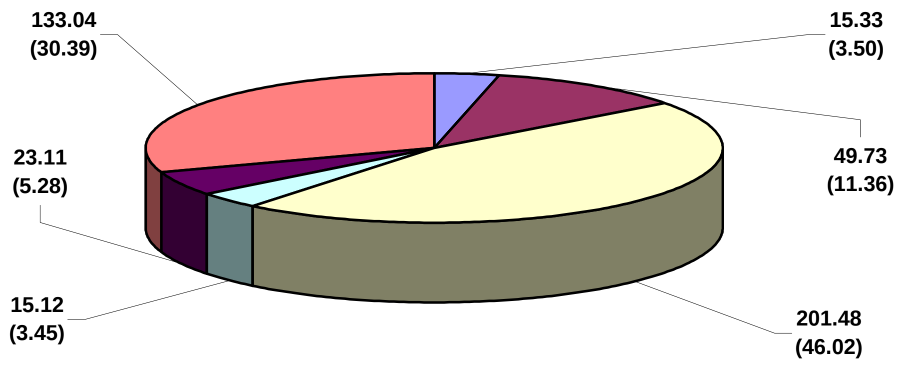
7.3.2 The summarised statement of Government investment in the working Government companies in the form of equity and loans is detailed in Appendix 18.

7.3.3 As on 31 March 2004, the total investment in the working Government companies comprised 98.14 *per cent* equity capital and 1.86 *per cent* loans as compared to 96.73 *per cent* and 3.27 *per cent* respectively as on 31 March 2003. The main reason for increase in capital was induction of substantial equity (Rs 17.64 crore) in the textile sector.

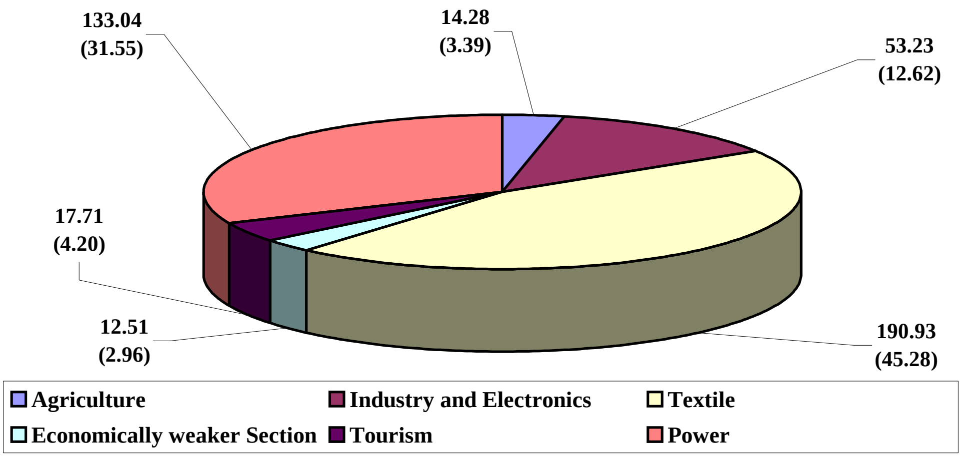
7.3.4 The investments (equity and long-term loans) in various sectors at the end of 31 March 2004 and 31 March 2003 are indicated below in the pie charts.

[25] **The figures as per Finance Accounts is Rs 416.78 crore; the difference is under reconciliation**

Investment in Government companies as of March 2004
Total investment:Rs.437.81 crore
(Figures in brackets indicate percentage of investment)



Investment in Government companies as of March 2003
Total investment: Rs.421.70 crore
(Figures in brackets indicate percentage of investment)



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 Appendices 18 and 20.

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 2003-04 are given below:

(Rupees in crore)

Particulars	2001-02		2002-03		2003-04	
	Number	Amount	Number	Amount	Number	Amount

Equity capital outgo from budget	6	31.56	8	22.59	8	22.92
Grants	5	3.14	5	4.19	6	7.61
Subsidy towards Projects/ Programmes/Schemes	3	12.97	2	0.27	1	0.20
Total outgo	8[26]	47.67	8[26]	27.05	8[26]	30.73

At the end of the year guarantees of Rs 3.30 crore against one working Government company was outstanding. During the year, loan of Rs 3.40 crore given to a Government company (serial number 10 of Appendix 18) 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 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.

7.5.2 However, as could be noticed from Appendix 19, out of 11 working Government companies only six companies finalised their accounts for the year 2003-04 within the stipulated period. During the period from October 2003 to September 2004, five working Government companies finalised eight accounts for previous years.

7.5.3 The accounts of five working Government companies were in arrears for periods ranging from one to three years as on 30 September 2004 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 19
1.	1	2001-02 to 2003-04	3	10
2.	1	2002-03 & 2003-04	2	2
3.	3	2003-04	1	6, 7 & 8

[26] **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**

7.5.4 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 and officials of the Government were appraised quarterly by 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 19.

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 22.98 crore. Details of profit and loss, according to the year of latest finalised accounts are given below:

Year of latest accounts finalised	Profit earning companies		Loss making companies	
	No. of companies	Amount of profit (Rupees in crore)	No. of companies	Amount of loss (Rupees in crore)
2000-01	---	---	1	3.03
2001-02	---	---	1	0.62
2002-03	---	---	2	25.11
2003-04	5	22.98	---	---
Total	**5**	**22.98**	**4**	**28.76**

In respect of two companies (serial number 8 and 9 of Appendix 19) the entire loss was met by the Government of Union Territory of Pondicherry.

7.7 Profit earning working companies and dividend

Out of the six working Government companies which finalised their accounts for 2003-04 by September 2004, five companies (serial numbers 1, 3, 4, 5 and 11 of Appendix 19) earned aggregate profit of Rs 22.98 crore. Of these five profit earning companies, three companies (serial number 1, 4 and 11 of Appendix 19) declared aggregate dividend of Rs 2.41 crore for 2003-04. The dividend as a percentage of share capital in these companies worked out to 1.32. The total return of above dividend of Rs 2.41 crore worked out to 0.57 *per cent* on the total equity investment of Rs 419.64 crore by the Union Territory Government in all the 11 Government companies as against the dividend of Rs 1.33 crore (0.33 *per cent*) in the previous year. The Government had not formulated any dividend policy for payment of minimum dividend.

7.8 Loss making working Government companies

7.8.1 Of the four loss making working Government companies, three companies (serial numbers 2, 6 and 10 of Appendix 19) had accumulated losses aggregating to Rs 207.79 crore which exceeded their paid up capital of Rs 202.39 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 20.94 crore. The Government also converted loan of Rs 3.40 crore given to one of these companies (serial number 10 of Appendix 19) into equity during the year.

7.9 Return on capital employed

As per the latest finalised accounts (up to September 2004), the capital employed[27] worked out to Rs 362.04 crore in 11 working companies and total return[28] thereon amounted to Rs (–)1.29 crore, as compared to total return of Rs (-)9.40 crore in the previous year (accounts finalised up to September 2003). The details of capital employed and return on capital employed in case of working Government companies are given in Appendix 19.

7.10 Disinvestment, privatisation and restructuring of Public Sector Undertakings

During the year 2003-04, there was no case of privatisation and restructuring of PSUs.

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

During the period from October 2003 to September 2004, eight accounts of six working Government companies were selected for review and "Nil Comments" were issued for seven accounts. In respect of one Government company (serial number 3 of Appendix 19), the accounts for the year 2002-03 were revised based on audit observations and the profit carried to balance sheet decreased by Rs 14.50 lakh.

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[27] **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)**

[28] **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**

7.12 Internal audit/internal control

7.12.1 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 under the Act ibid were issued to the Statutory Auditors in respect of 10 Government companies between October 2003 and September 2004 and reports in respect of nine Government companies were received (September 2004).

7.12.2 In Pondicherry Tourism and Transport Development Corporation Limited, the Statutory Auditors have commented that the Company did not have an adequate internal audit system commensurate with the size and nature of its business in all respects. In Pondicherry Adi-dravidar Development Corporation Limited, Statutory Auditors have observed that the compliance mechanism of the internal audit observations needed to be improved.

7.13 Response to Inspection Reports, Draft Paragraphs and Reviews

7.13.1 Audit observations are communicated to the Heads 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 2004 pertaining to 11 PSUs disclosed that 35 paragraphs relating to 18 Inspection Reports remained outstanding at the end of September 2004. Department-wise break-up of Inspection Reports and Audit observations outstanding as on 30 September 2004 is given in Appendix 21.

7.13.2 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.

7.14 Pondicherry Agro Products, Food and Civil Supplies Corporation Limited

Highlights

- The Company was incorporated in September 1990 with the main objective of undertaking public distribution activities in the Union Territory of Pondicherry.

(Paragraph 7.14.1)

- Accumulated loss of Rs 7.67 crore as on 31 March 2003 had eroded the paid-up capital of Rs 5.95 crore as on that date.

(Paragraph 7.14.6)

- In view of the declining trend in PDS activities the Company diversified into areas of non-PDS activities. The Company did not approach the Government for reimbursement of the loss of Rs 1.76 crore sustained in PDS activities during the four years ended 31 March 2003.

(Paragraphs 7.14.7 and 7.14.9)

- Failure to recover empty gunny bags or their cost from retail outlets resulted in revenue loss of Rs 87.39 lakh during the five years ended 31 March 2004.

(Paragraph 7.14.11)

- Retail vegetable outlets run by the Company incurred losses of Rs 48.03 lakh during 1999-2004 due to non-reduction in the salaries and wages corresponding to reduction in the number of retail vegetable outlets.

(Paragraph 7.14.15)

Introduction

7.14.1 The Government of Union Territory of Pondicherry (Government) felt the need for an agency of their own to perform the functions of procurement and distribution of essential commodities, since the consumer federation in the co-operative sector was not able to fully discharge these functions. Accordingly, Pondicherry Agro Products, Food and Civil Supplies Corporation Limited (PAPSCO) was incorporated (September 1990) as a fully owned subsidiary of Pondicherry Agro Service and Industries Corporation Limited (PASIC), another Government Company. Subsequently, Government contributed (March 1995) towards share capital of the PAPSCO and hence, the status of the Company changed from subsidiary of PASIC to that of a Government Company. The Company was running 42 Public Distribution Retail outlets, 10 vegetable shops, 13 Indian Made Foreign Liquor (IMFL) and two cost price shops, as on 31 March 2004, through its Head office at Pondicherry and two Branch offices at Karaikal and Mahe.

Objectives

7.14.2 The main objectives as envisaged in the Memorandum of Association of the Company are:

- To administer the Public Distribution System (PDS) as main agent of Civil Supplies Department within the Union Territory of Pondicherry for free supply of all commodities/articles, whether scheduled or non-scheduled, controlled or decontrolled at fair prices, including procurement of essential commodities, lifting of controlled commodities allotted by the Government of India and distributing them to fair price shops and running of own fair price shops.

- To manufacture, process, buy, stock, sell, supply, distribute or otherwise deal in any or all such materials, machines, products and services, which may be needed for agriculture, food and civil supplies activities.

- To lend, deposit, advance or provide finance for industrial or agricultural development in India.

- To carry on in India or any part of the world, the business of purchasing, importing, exporting, selling, transporting, stocking, rendering services of all kinds and descriptions and generally dealing in IMFL and beer of all brands.

- To carry on in India or any part of the world, the business of manufacturing, preparing, purchasing, selling, supplying patent and non-patent medicines, drugs, formulation capsules, tablets, *etc*. (inserted in February 2004).

The present activities of the Company are restricted to the first, fourth and fifth mentioned objectives.

Scope of Audit

7.14.3 The present review conducted during February to April 2004 by test checking records of the Company at its Headquarters office at Pondicherry (controlling 55[29] shops) and Karaikal branch (controlling 12[30] shops) covered the activities of the Company for the five years ended 31 March 2004.

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[29] **32 Public Distribution shops, 10 vegetable shops, 11 IMFL shops and two cost price shops**

[30] **10 Public Distribution shops and two IMFL shops**

Audit findings as a result of test check were reported to the Government/Company in June 2004 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that the view point of Government/Company was taken into consideration before finalising the review. The meeting of ARCPSE held on 25 June 2004 was attended by the Managing Director of the Company and the Secretary, Department of Civil Supplies and Consumer Affairs, Government of Union Territory of Pondicherry. The views expressed by the members have been taken into consideration during finalisation of the review.

Organisational set up

7.14.4 The management of the Company is vested in a Board of Directors consisting of six Directors including a Chairman and a Managing Director. All the Directors are appointed by the Government. The day-to-day management is being looked after by the Managing Director, who is assisted by a Deputy General Manager.

Funding

Share capital

7.14.5 The authorised and paid-up share capital of the Company as on 31 March 2003 were Rs 10 crore and Rs 5.95 crore respectively. While PASIC contributed Rs five lakh at the time of formation of the Company, the rest of the share capital has been contributed by the Government. The paid-up share capital includes Rs 53.76 lakh allotted (December 1996) in consideration of the market value of 0.45 hectare of land to be transferred by the Government to the Company for construction of godown. The land could not be alienated so far (July 2004) in the absence of consent from the Government of India.

Grants-in-aid

During 1999-2003, the Company received Rs 2.10 crore as grants-in-aid from the Government. Audit observed that Rs 1.12 crore were released as grants-in-aid for specific purposes like purchase of vehicles (Rs 20 lakh), establishment of cost price shops (Rs 25 lakh) and IMFL shops (Rs 30 lakh), reimbursement of losses incurred by PDS retail outlets (Rs 14.50 lakh), conducting festival bazaars (Rs 22.40 lakh). No vehicle has been purchased so far out of grants. Besides these grants, Rs 97.72 lakh was paid as assistance, which was utilised by the Company for its working capital requirements.

The Government stated (June 2004) that due to paucity of funds, the Company was forced to utilise grants for its working capital requirements.

Financial position and working results

7.14.6 The financial position and working results of the Company for the four years ended 31 March 2003 are given in Appendices 22 and 23 respectively.

Audit analysis of financial position and working results revealed that:

- Accounts have been finalised up to 2001-02 only and the figures for 2002-03 are provisional. Figures for 2003-04 were not available. The Company does not have any officer to oversee and co-ordinate the finance and accounting functions. The accounting functions of the company are being out sourced to Chartered Accountants from 2003-04. The Government stated (June 2004) that in view of the poor financial position, the Company could not have proper accounts personnel.

- The net worth of the Company was negative throughout the period of review.

- Accumulated losses of Rs 7.67 crore as on 31 March 2003 eroded the paid-up capital of Rs 5.95 crore.

- Cost of sales (including administrative and selling expenses) was more than sales realisation in all the four years ended 31 March 2003. Administrative and selling expenses, which formed 9.37 *per cent* of cost of sales in 1999-2000 steadily increased to 22.84 *per cent* in 2001-02 and marginally declined to 20.98 *per cent* in 2002-03.

- Sales volume in 2001-02 declined by almost 50 *per cent* compared to that in 1999-2000. This was stated to be due to poor off-take of PDS commodities. The improvement in 2002-03 was due to increase in non-PDS sales realisation.

Review of activities

7.14.7 The present activities of the Company include both PDS and non-PDS transactions. The turnover of the Company under PDS and Non-PDS activities during 1999-2003 is given below:

(Rupees in lakh)

Year	Total turnover	PDS		Non-PDS	
		Value	Percentage	Value	Percentage
1999-2000	2152.10	1869.57	87	282.53	13
2000-01	1715.82	1369.88	80	345.94	20
2001-02	1094.78	613.85	56	480.93	44
2002-03	1448.99	689.56	48	759.43	52

The turnover under PDS activities declined to 48 *per cent* during 2002-03 from 87 *per cent* during 1999-2000, whereas the non-PDS activities rose to 52 *per cent* from 13 *per cent* during the same period. During 2002-03, the turnover of non-PDS activities exceeded the volume of PDS activities. The Company, which was formed with the main objective of acting as an agency for the Government to perform the functions of procurement and distribution of essential commodities is drifting towards non-PDS activities. Thus, the main objective of the Company has become a subsidiary activity.

In view of the declining trend in the PDS activity, the Company diversified its activities in the areas like, sand mining, cost price shops, IMFL retail shops and medical shops, *etc*., besides supply of rice and nutritious food to Government departments under various schemes.

The Government stated (June 2004) that the Company was forced to diversify its activities to other fields for its existence.

Handling of Public Distribution System

7.14.8 The Company was formed with the main objective of handling the PDS on behalf of the Government in the Union Territory of Pondicherry since co-operative sector was not able to fully discharge the functions. Audit observed that out of total 393 PDS outlets in the Union Territory of Pondicherry, the Company operated 42 outlets constituting 10.68 *per cent* only.

Loss in wholesale operations

7.14.9 For the wholesale and retail operations, the Company was entitled to margins fixed by Government from time to time. The Company has been incurring losses as the wholesale margins allowed by the Government were not sufficient to meet the cost of operations. The wholesale margin of Rs 20 per quintal for handling PDS rice and wheat fixed by the Government in June 1997 was not revised during subsequent five years. It was only from August 2002 and January 2003 that the margin was revised to Rs 35 per quintal against Rs 71.50 per quintal demanded by the Company.

The Company did not approach the Government for reimbursement of the loss of Rs 1.76 crore sustained in PDS activities during the four years ended 31 March 2003

Non-revision of margin was stated to be the main reason for the losses suffered by the Company in PDS operations, as the increase in cost of operations was not matched by increase in margin. During the four years ended 31 March 2003, the Company incurred losses aggregating Rs 1.76 crore in the wholesale operations.

The Company did not approach the Government seeking reimbursement of the losses incurred in the wholesale operations, as they did with some success in the cases of losses sustained on retail operation as mentioned in the following paragraph.

Loss in retail outlets

7.14.10 Based on the directive of Government of Union Territory of Pondicherry, the Company took over retail fair price shops for distribution of PDS commodities. The retail margin of Rs 30 per quintal fixed in June 1997 was not revised till August 2002 for Above Poverty Line (APL) and January 2003 for Below Poverty Line (BPL). The margin was then revised to Rs 35 per quintal against Rs 85 per quintal demanded by the Company. The Company has been incurring losses continuously in the operation of these retail outlets, but only in 2000-01 it sought financial assistance from Government. During the three years ended 2000-03, the Company incurred loss of Rs 48.37 lakh out of which only Rs 25 lakh were reimbursed by the Government.

The Company has not approached the Government for making good the balance of the loss of Rs 23.37 lakh so far (July 2004).

Non-collection of empty gunny bags

7.14.11 The Company is issuing foodgrains to the various retail outlets for public distribution. The retail distributors are entitled to a retail margin fixed by the Government. The Government of India took the cost of empty gunnies into account while fixing the retail margin for sugar. Audit observed that the Government did not consider this while fixing the retail margin for rice and wheat. As such, the Company should have insisted on return of gunny bags by the retailers or should have collected the cost of empty gunny bags retained by them. Neither the Company nor the Government had taken any action in this regard especially, when the Company has been incurring losses in the PDS operation. During 1999-2004, the Company allowed retailers to retain 6.85 lakh gunny bags valuing Rs 87.39 lakh.

Failure to recover empty gunny bags or their cost from retail outlets resulted in revenue loss of Rs 87.39 lakh during the five years ended 31 March 2004

The Government stated (June 2004) that the margin available for the retailers in the PDS was very meagre and not sufficient to meet the expenditure. Hence, in order to compensate the loss to a certain extent, the Government did not contemplate retrieving the gunnies or recover the cost. The reply is not tenable as the Company, which has been incurring losses in the retail activities, should have considered the cost of empty gunny bags while fixing the retail margin as in the case of sugar.

Delay in claiming differential margin

7.14.12 Based on the information furnished by the wholesalers/retailers on cost of handling of PDS sugar, Government of India fixes the margin for distribution of PDS sugar. The Government of India fixed (June 1993) the wholesale margin at Rs 19.80 per quintal *plus* actual transportation charges. As per the general norms (April 1994) applicable to wholesalers/retailers for claiming of margins for handling PDS sugar, the margins were to be revised every year based on proposals from State Government. The

Company/Government never approached the Government of India for revision of the margin fixed in June 1993. It was only when the fair price shop dealers association represented to enhance the margin that the Company forwarded (September 2002) proposals for revision of the margin for 1994-99. The orders of the Government of India are still awaited (July 2004). The Company has also not submitted any proposal for further revision of margin for 1999-2003 so far (July 2004).

Delay in sending proposals for revision of the margin money annually resulted in non-realisation of wholesale margin of Rs 19.85 lakh for 1994-99 and Rs 10.79 lakh (worked out on the basis of calculations of September 2002) for 1999-2004.

Non-PDS activities

7.14.13 Even though the Company is engaged in various non-PDS activities, no separate profit and loss account is prepared activity-wise to enable the management to analyse the performance, identify loss making ventures and take remedial measures to make them viable.

The observations of audit in respect of the non-PDS activities are given below:

Performance of Modern Rice Mill

7.14.14 Based on the policy decision of the Government to protect the farming community and for ensuring uninterrupted supply of quality rice to the public, the Company took over (February 1995) the sick Easwari Modern Rice Mill (EMRM) on lease for eight years making a payment of Rupees three lakh to the proprietor and Rs 33 lakh to Pondicherry Industrial Promotion Development and Investment Corporation Limited from whom the owner of EMRM had taken loan. The paddy requirement of the mill was procured from the local regulated market and the rice was distributed to Government departments under various schemes and to the public through retail outlets.

Audit observed that prior to the take over of the mill on lease, the Company had appointed (April 1991) EMRM as the hulling agent. At that time, the Company had contemplated 68 *per cent* out turn for conversion of various varieties of paddy into boiled/raw rice. The Company, however, could not achieve this 68 *per cent* out turn after taking over the mill on lease. A review of the performance of the mill indicated that the actual out turn ranged between 63.36 and 68 *per cent* for boiled rice and between 50.39 and 61.84 *per cent* for raw rice during the five years up to 2003-04. This resulted in less production of 109.414 MT valuing Rs 12.56 lakh.

The Government stated (June 2004) that the reason for poor out turn was procurement of poor quality of paddy. The reply was not tenable as there were no records to indicate any complaints in the quality of paddy procured during the period.

Performance of vegetable retail outlets

7.14.15 The Company is operating vegetable retail outlets in Pondicherry with the objective of catering to the demands for fresh vegetables, fruits and quality eggs. The requirements are being procured from wholesale markets, stored in a central chilling centre and distributed to the various retail outlets. The operational performance of the retail outlets for the five years up to 2003-04 are tabulated below:

(Rupees in lakh)

Serial number		1999-2000	2000-01	2001-02	2002-03	2003-04
(i)	Number of retail outlets at the close of the year	30	30	23	14	10
(ii)	Number of employees	80	85	70	71	49
(iii)	Purchases	91.14	95.26	56.95	47.98	58.19
(iv)	Sales	98.51	102.49	62.73	55.21	62.47
(v)	Margin available	7.37	7.23	5.78	7.23	4.28
(vi)	Salaries and wages	12.38	14.76	16.34	19.51	16.93
(vii)	Loss sustained	5.01	7.53	10.56	12.28	12.65
(viii)	Value of shortage/wastage	6.38	6.67	3.99	3.36	3.64

- A review of the above table would reveal that the Company has been incurring losses throughout the period of review. The total losses aggregated Rs 48.03 lakh during the five years. The Board decided (June 2001) to close/wind up the retail outlets, which were not viable and uneconomical. Audit observed that even though the Company reduced the outlets from 30 in 1999-2000 to 10 in 2003-04, the average loss sustained per retail outlet increased from Rs 0.17 lakh to Rs 1.27 lakh during the same period.

Retail vegetable outlets run by the company incurred losses of Rs 48.03 lakh during 1999-2004 due to non-reduction in the salaries and wages corresponding to reduction in the number of retail vegetable outlets

- The retail outlets were unable to recover the expenses on salaries and wages. It is pertinent to mention that though the number of shops came down by more than 60 *per cent* during the last five years, there was no corresponding reduction in the expenses on salaries and wages. This was the main reason for the losses suffered by the vegetable shops.

- The value of shortage/wastage during the five years aggregated Rs 24.04 lakh representing 7 *per cent* of the purchase value. The Company did not analyse the reasons for taking measures to bring down the loss in this regard.

The Government stated (June 2004) that vegetables being a perishable item with fluctuation in prices the loss could not be avoided and added that there was no scope of further reduction of manpower.

Establishment of cost price shops

7.14.16 The high powered price monitoring cell of the Government felt (July 2001) that the price trend of essential commodities in the neighbouring areas of Tamil Nadu was lesser than what was prevailing in Pondicherry and directed the Company to sell quality commodities by opening cost price shops and allocated Rs 25 lakh as additional plan allocation for financial assistance to the Company. The Company proposed (October 2001) to set up four cost price shops and forwarded proposals to the Government seeking financial assistance at the rate of Rs 6.25 lakh per shop. The materials required for the cost price shop were proposed to be purchased from manufacturers or distributors directly as far as possible and the remaining from wholesale dealers.

The Government sanctioned (December 2001) Rs 25 lakh as grants-in-aid for the establishment of four shops. Audit observed that the Company established (October 2003) only two shops as against four shops proposed. The Company has not returned the balance of Rs 12.50 lakh of the grant to the Government so far (July 2004) and there is no proposals to establish the two remaining shops in the near future.

Manpower analysis

7.14.17 The Company had not conducted any studies to assess its manpower requirement based on the workload involved. As a result, the Company's work force remained almost constant at around 310 including 224 casual labourers during the last five years.

The Company regularised the services of 101 casual labourers out of 224 labourers on March 2003 involving additional expenditure of Rs 15.24 lakh *per annum* on pay and allowances. This was done despite the fact that the turnover of the Company declined sharply from Rs 21.52 crore in 1999-2000 to Rs 14.49 crore in 2002-03.

The Government stated (June 2004) that as model employer, the Company could not downsize the manpower.

Internal audit

7.14.18 The Company appoints Chartered Accountants every year as Internal Auditors. Internal Audit was completed up to 2001-02 only. A review of the scope of work of the Internal Auditors indicated that it relates mainly to accounting functions. The Statutory Auditors have been commenting that the Internal Audit coverage required to be further widened to make it commensurate with the size and nature of its business. No action has been taken by the Company in this regard so far (July 2004). Audit observed that important findings in the Internal Audit reports are not brought to the knowledge of the Board.

Conclusion

The Company incorporated with the main objective of handling PDS activities, has been incurring continuous losses in these operations and was heavily dependent on non-PDS activities for its existence. The high administrative cost is a matter of concern and the company has to assess its manpower requirement commensurate with the level of its activities.

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The

Countersigned

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India.

New Delhi**,**
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