CHAPTER VII: GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

7.1 Overview of Government companies and Statutory corporation

7.1.1 Introduction

As on 31 March 2006, there were 10 Government companies (nine working companies and one non-working company) and one Statutory corporation as against the same number of companies and corporation 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 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 (4) of the Companies Act, 1956. The audit of Tripura Road Transport Corporation (TRTC), the only Statutory corporation, is conducted by the CAG, as sole Auditor, under Section 33 (2) of the Road Transport Corporations Act, 1950.

Working Public Sector Undertakings (PSUs)

7.1.2 Investment in the PSUs

As on 31 March 2006, the total investment in ten working PSUs (nine Government companies and one Statutory corporation) was Rs. 309.56 crore[1] (equity: Rs. 301.48 crore; long term loans**:** Rs. 8.08 crore[2]), as against a total investment of Rs. 287.11 crore (equity: Rs. 278.00 crore; long term loans: Rs. 9.03 core) as on 31 March 2005 (**Appendix XXXV**).

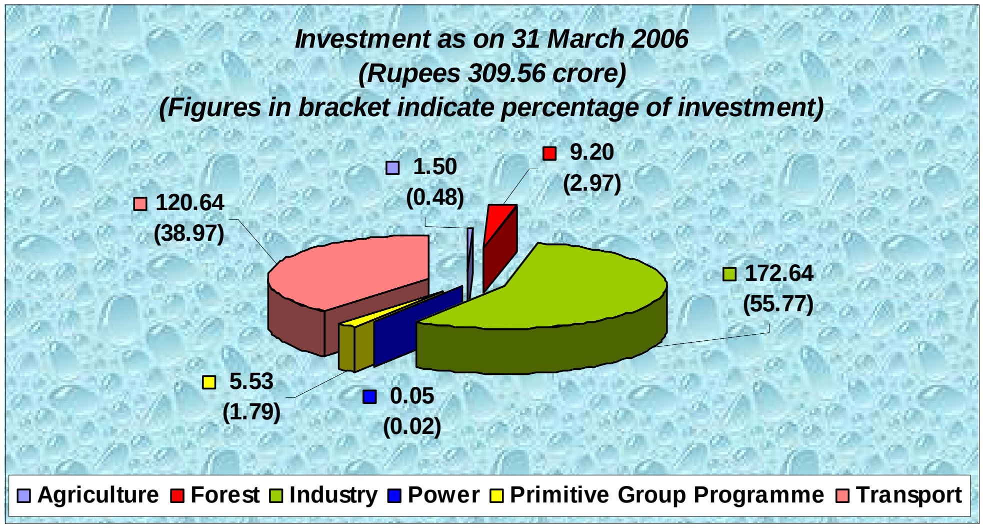
Increase in total investment was mainly due to increase in investment in PSUs in the industry and transport sectors. The analysis of investment in working PSUs is given in the succeeding paragraphs.

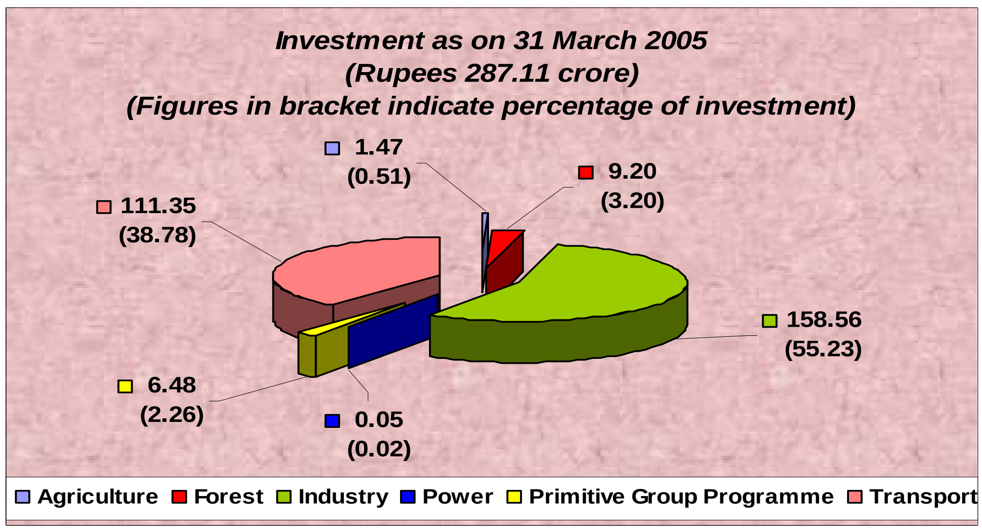
7.1.3 Sector-wise investment in working Government companies and Statutory corporation

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

[1] State Government's investment was Rs.299.02 crore (Others Rs.10.54 crore). The figure as per Finance Accounts is Rs. 296.81 crore. The difference is under reconciliation.

[2] Long term loans mentioned in paragraphs 7.1.2, 7.1.3, 7.1.4 & 7.1.5 are excluding interest accrued and due on such loans.





7.1.4 Working Government companies

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

Year	Number of working Government Companies	Equity	Share application money	Long term loans	Total
(Rupees in crore)					
2004-05	9[3]	166.98	-	8.78	175.76
2005-06	9[3]	181.09	-	7.83	188.92

Increase in the total investment was mainly due to equity received by the Industry Sector.

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

[3] Out of nine working Government Companies, one company (Tripura Jute Mills Limited, Sl. No. A-6 of Appendix-XXXV) has been referred to Bureau of Industrial and Financial Reconstruction (BIFR).

As on 31 March 2006, the total investment in working Government companies comprised 96 *per cent* of equity capital and four *per cent* of loans as compared to 95 *per cent* of equity capital and five *per cent* of loans as on 31 March 2005.

7.1.5 Working Statutory corporation

The total investment in one working Statutory corporation at the end of March 2005 and March 2006 was as follows:

Table No. 7.1.1

Name of the Corporation	2004-05 (Provisional)		2005-06 (Provisional)	
	Capital	Loan	Capital	Loan
	(Rupees in crore)			
Tripura Road Transport Corporation	111.10	0.25	120.40	0.25
Total	**111.10**	**0.25**	**120.40**	**0.25**

The summarised statement of Government investment in Tripura Road Transport Corporation in the form of equity and loans is detailed in **Appendix XXXV.**

As on 31 March 2006, the total investment in working Statutory corporations comprised 99.79 *per cent* of equity capital and 0.21 *per cent* of loans as compared to 99.77 *per cent* and 0.23 *per cent* respectively as on 31 March 2005.

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

The details of budgetary outgo, grants/subsidies, waiver of dues, conversion of loans into equity and guarantees issued by the State Government to working Government companies and Statutory corporations are given in **Appendix XXXVII**.

The budgetary outgo in the form of equity capital, loans and subsidies from the State Government to Working Government companies and Working Statutory corporation for the three years upto 31 March 2006 is given below:

Table No. 7.1.2

(Rupees in crore)

	2003-04				2004-05				2005-06			
	Companies		Corporation		Companies		Corporation		Companies		Corporation	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity Capital	4	9.11	1	9.24	7	14.19	1	8.80	6	14.11	1	9.30
Loans	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Subsidy	2	0.94	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Total outgo	**6**	**10.05**	**1**	**9.24**	**7**	**14.19**	**1**	**8.80**	**6**	**14.11**	**1**	**9.30**

During the year 2005-06, no guarantee was given.

7.1.7 Finalisation of accounts by working PSUs

The accounts of the companies for every financial year are required to be finalised within six months from the end of 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, Powers and Conditions of Service) Act, 1971. They are also to be laid before the State Legislature within nine months form the end of financial year. Similarly, in case of the Statutory corporation, the accounts are finalised, audited and presented to the Legislature as per the provisions of the respective Act.

None of the 10 working PSU, (nine working Government companies and one Statutory corporation), had finalised their accounts for the year 2005-06 up to 30 September 2006 as can be noticed from **Appendix XXXVI.** During the period from October 2005 to 30 September 2006, five working Government companies finalised five accounts for previous years. During this period, one account for the previous year of the Statutory corporation had been finalised.

The accounts of all the working Government companies and one Statutory corporation were in arrears for periods ranging from one to 12 years as on 30 September 2006 as detailed below:

Table No. 7.1.3

Number of working companies/corporation		Period for which accounts were in arrears	Number of years for which accounts were in arrears	Reference to Sl. No. of Appendix -XXXVI	
Government companies	Statutory corporation			Government companies	Statutory corporation
1	-	1994-95 to 2005-06	12	5 of A	-
1	-	1995-96 to 2005-06	11	3 of A	-
1	-	1997-98 to 2005-06	9	2 of A	-
2	-	1999-2000 to 2005-06	7	6 &7 of A	-
1	-	2000-01 to 2005-06	6	1 of A	-
1	-	2001-02 to 2005-06	5	4 of A	-
-	1	2002-03 to 2005-06	4	-	1 of B
1	-	2004-05 to 2005-06	2	9 of A	-
1	-	2005-06	1	8 of A	-

It is the responsibility of the administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. The concerned administrative departments and officials of the Government were apprised quarterly by Audit regarding arrears in finalisation of accounts. As a result of arrears in accounts, the net worth of these PSUs could not be assessed in audit.

7.1.8 Financial position and working results of working PSUs

The summarised financial results of the working PSUs (Government companies and Statutory corporation) as per their latest finalised accounts are given in **Appendix XXXVI.** Besides, the financial position and working results of the Statutory corporation for the last three years as per the latest finalised / provisional accounts are indicated in **Appendices XXXVIII** and **XXXIX** respectively.

According to the latest finalised accounts of nine working Government companies and one Statutory corporation, six companies and one working Statutory corporation had incurred an aggregate loss of Rs. 7.83 crore and Rs. 13.04 crore respectively. Two companies *viz.*, Tripura Forest Development and Plantation Corporation Limited, and Tripura Rehabilitation Plantation Corporation Limited had earned an aggregate profit of Rs.1.77 crore. One company *viz.*, Tripura State Electricity Corporation Limited is yet to start its commercial operations.

Working Government companies

7.1.9 Profit earning working companies and dividend

Out of nine working Government companies which finalised their accounts upto September 2006, two Government companies[4] earned a profit of Rs. 1.77 crore. One company i.e. Tripura Forest Development and Plantation Corporation Limited declared dividend of Rs. 26.71 lakh during 2005-06.

7.1.10 Loss incurring companies

Of the six loss making companies, three[5] had accumulated losses aggregating Rs. 72.36 crore which exceeded their paid-up capital by Rs. 19.12 crore.

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies in the form of contribution towards equity, *etc*. According to the available information the total financial support so provided by the State Government by way of equity during 2005-06 amounted to Rs.7.60 crore.

Working Statutory corporation

7.1.11 Loss incurring Statutory corporation

The only Statutory corporation (Tripura Road Transport Corporation) had accumulated loss of Rs. 116.79 crore as on 31 March 2002 (year upto which the accounts were finalised) which exceeded its paid-up capital of Rs. 83.68 crore.

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to the Statutory corporation in the form of contribution towards equity. According to available information, the total financial support so provided by the State Government by way of equity during 2005-06 to this corporation was Rs. 9.30 crore.

7.1.12 Operational performance of the TRTC

The operational performance of the working Statutory corporation (Tripura Road Transport Corporation) is given in **Appendix XL**. The important observations on its operational performance are given below:

[4] Tripura Forest Development and Plantation Corporation Limited and Tripura Rehabilitation Plantation Corporation Ltd.

[5] Tripura Small Industries Corporation Limited, Tripura Handloom and Handicrafts Development Corporation Limited and Tripura Jute Mills Limited.

- The percentage of utilisation of buses decreased from 61 in 2004-05 to 50 in 2005-06. Percentage of utilisation of trucks remained the same (50 *per cent*) in 2005-06 as compared to 2004-05.
- Operating revenue earned per kilometre (Rs. 12.51) in 2005-06 was very low in comparison to average expenditure per kilometre (Rs. 50.69) resulting in loss of Rs. 38.18 per kilometre.
- Similarly, the corporation had also incurred loss of Rs. 74.65 per kilometre in operating the trucks during 2005-06.

7.1.13 Return on capital employed (ROCE)

The details of capital employed and total return on capital employed in case of working Government companies and Statutory corporation are given in **Appendix XXXVI.** According to the latest finalised accounts (up to August 2006), the capital employed[6] worked out to Rs. 50.52 crore in eight working companies and total return[7] thereon amounted to (–) Rs. 5.40 crore as compared to total return of (–) Rs. 5.81 crore in the previous year. Similarly, the capital employed and total return thereon in case of the working Statutory corporation according to the latest finalised accounts (2001-02) worked out to (–) Rs. 25.86 crore and (–) Rs. 8.08 crore respectively against the total return of (–) Rs. 5.09 crore in the previous year.

In respect of the only two profit making PSUs *viz* Tripura Forest Development and Plantation Corporation Limited (TFDPCL) and Tripura Rehabilitation Plantation Corporation Limited (TRPCL), the ROCE was 9.75 *per cent* and 2.35 *per cent* in the years 1996-97 and 2003-04 respectively, the year for which the accounts were finalised.

7.1.14 Power Sector Reforms

Tripura State Electricity Corporation Limited (TSECL) was set up in June 2004 under the Companies Act, 1956 and the activities of generation and distribution of Electricity in the State were transferred from the Power Department to the Company. The Company started functioning with effect from 1 January 2005. To reduce the transmission and distribution losses, the following steps were to be taken as per the MOU signed in August 2003 between the State Government and the Ministry of Power, Government of India:

- Installation of meters on 11 KV feeders by 31 December 2003.
- 100 *per cent* metering on the LT side of distribution transformer.
- 100 *per cent* metering of all consumers by 31 December 2003.
- Development of Distribution Management Information System.

Though the Power Department stated in August 2004 that works for installation of meters in 11 KV feeders were completed, it appeared from the Monthly Status Report of the TSECL as of July 2006 that 71.37 *per cent* of the

[6] Capital employed represents net fixed assets (including capital work in progress) *plus* working capital.
[7] 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.

works were completed (162 meters out of 227 feeders). This information also differs from that furnished during 2004-05 by the TSECL. The discrepancy has not been clarified (September 2006).

The progress in metering of distribution transformers by TSECL was insignificant. As of August 2006, out of total 6,037 distribution transformers, only 61 were metered (two on 11 KV side and 59 on LT side).

Against the target of 100 *per cent* metering of all consumers for industrial, commercial and urban / semi-urban categories by December 2003 and rural consumers by August 2005, 100 *per cent* metering for industrial and commercial consumers, 88.10 *per cent* for urban / semi-urban consumers, and 84.56 *per cent* for rural consumers have been completed as of July 2006.

As of March 2006, an amount of Rs. 16.44 crore being revenue realisation against supply of power, was outstanding. Of this, an amount of Rs. 12.37 crore was outstanding against Government Departments/PSUs.

Non-working Public Sector Undertakings (PSUs)

7.1.15 Investment in non-working PSUs

There was only one company (Tripura State Bank Ltd) which had been non-working for about 36 years and under process of liquidation under Section 560 of the Companies Act, 1956. As on 31 March 2006, the total investment in this company in the form of equity was Rs. 4 lakh. Effective steps need to be taken for its expeditious liquidation.

The matter was taken up (August 2004) with the Commissioner-cum-Secretary of the Finance Department to ascertain the present status of this non-working company; the reply was awaited (August 2006).

7.1.16 Status of placement of Separate Audit Reports of Statutory corporation in Legislature

Separate Audit Report (SAR) as issued by the Comptroller and Auditor General of India on the accounts of TRTC for 2000-01 was placed in the Legislature but the SAR for 2001-02, issued to the Government on 3 March 2006 was yet to be placed. The TRTC had not prepared its accounts for the later years.

7.1.17 Disinvestment, privatisation and restructuring of PSUs

There was no case of disinvestment, privatisation, merger or closure of any State PSUs during 2005-06. The Power Department of the State was restructured and Tripura State Electricity Corporation Ltd. was incorporated under the Companies Act, 1956 and started functioning from 1 January 2005.

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

During July 2005 to September 2006, six accounts of seven Government companies were selected for supplementary audit. The net impact of the audit observations was increase in loss by Rs.1.82 crore.

Some of the major errors and omissions noticed during the course of audit of annual accounts of the above companies are mentioned below:

(a) Tripura Handloom and Handicrafts Development Corporation Limited (1993-94)

- Interest of Rs.1.01 crore accrued on loans was not provided for in financial statements, resulting in understatement of loss.
- Closing stock of finished goods was valued at cost, in contravention of Accounting Standard (AS)-2, which prescribes the valuation at cost or net realisable value, whichever is lower.
- The company did not disclose its policy on depreciation and treatment of retirement benefits, as required by AS-1.

(b) Tripura Industrial Development Corporation Limited (2000-2001)

- Non-compliance of AS-15 resulted in understatement of provision as well as loss by Rs. 2.45 lakh.

(c) Tripura Jute Mills Limited (1998-99)

- Non-provision of capital work-in-progress resulted in overstatement of fixed assets, and understatement of provision and loss by Rs.8.71 lakh.
- Non-compliance of AS-15 resulted in understatement of current liabilities by Rs. 188.43 lakh (provisions for retirement benefits).
- Non-compliance of Section 113 of the Companies Act, 1956, regarding issue of share certificates, resulted in Statutory penalty of Rs.12.78 lakh at the rate of Rs.500 per day for 2,555 days. Non-provision of the Statutory liability resulted in understatement of liabilities for other expenses as well as loss by Rs.12.78 lakh.
- Non-provision for Statutory liability on account of fee payable to the Registrar of Companies for increase in authorized share capital resulted in understatement of liabilities for other expenses and loss by Rs.17 lakh.

7.1.19 Internal Audit

No internal audit arrangement had been made in any of the PSUs as of August 2006. None of the companies had introduced regular internal audit control systems or prescribed internal audit standards.

7.1.20 Recommendations for the PSUs

In view of the poor operating and financial performance of most of the PSUs, the following recommendations are made:

- Government should institute a system of corporate governance in the PSUs with clear lines of responsibility and accountability.

- PSUs should be asked to prepare their pending accounts in a time bound manner so that their correct financial position is established and accountability determined.
- Further financial assistance from the Government should be linked to clearly established performance milestones, in accordance with a clearly established corporate plan, so that the PSUs stop being a drain on scarce public resources.

7.1.21 Persistent non-compliance of Accounting Standards in preparation of annual financial statements

Accounting Standards (AS) are the acceptable standards of accounting recommended by the Institute of Chartered Accountants of India and prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards. The purpose of introducing AS is to facilitate the adoption of standard accounting practices by companies so that the annual accounts prepared exhibit a true and fair view of the transactions and also to facilitate the comparability of the information contained in published financial statements of companies. Under Section 211 (3A) of the Companies Act, 1956 it is obligatory for every company to prepare the financial statements (profit and loss account and balance sheet) in accordance with the AS.

A review of the financial statements and the Statutory Auditor's reports thereon in respect of the nine accounts of four Government companies finalised during the last three years from 2003-04 to 2005-06 revealed non-compliance with Accounting Standards 1, 2, 4, 12 and 15 as detailed in **Appendix XLI**. It would be seen from the Appendix that:

- Accounting Standard 1, dealing with the items in respect of which Accounting Policies are to be framed, was not complied with by two[8] companies.
- Accounting Standard 2, which states that inventories at the end of the year are to be valued at lower of the cost or net realisable value, was not complied with by two[9] companies.
- Accounting Standard 4 (contingencies and events occurring after the balance sheet date), which states that the impact of events occurring after the balance sheet date (i.e. after finalisation of accounts and before approval by the Board of Directors) is to be adjusted in the accounts, and in case of non-adjustment the fact of non-adjustment due to the event is to be disclosed, was not complied with by four[10] companies.
- Accounting Standard 12, pertaining to the differences between capital and revenue grants and accounting of grants, was not complied with by one company[11].
- Accounting Standard 15 (accounting of retirement benefits) pertaining to the accounting of liability towards retirement benefits such as gratuity,

[8] Sl No. 1, 5 and 8 of **Appendix XLI**.
[9] Sl. No. 1 and 6 of **Appendix XLI**
[10] Sl. No. 1, 3, 4, 6, 7, 8 and 9 of **Appendix XLI**.
[11] Sl. No. 9 of **Appendix XLI**.

pension etc on accrual basis, was not complied with by three companies[12].

The matter was reported to the Government in September 2006; reply has not been received (September 2006).

7.1.22 Delay in placement of Annual Reports of Government companies before State Legislature

As per Section 619A (3) of the Companies Act, 1956, where the State Government is a member of a company, the State Government shall cause an Annual Report on the working and affairs of the company along with the audit report and comments or supplement of the Comptroller and Auditor General of India, to be placed before State Legislature within three months from the date of the Annual General meeting (AGM) in which the accounts have been adopted. The Annual Report consists of the report by the Board of Directors (BOD) on the working of company (as required in Section 217 of the Companies Act, 1956) annual financial statements for the year and Auditors' Report thereon with the comments/supplementary report of the Comptroller and Auditor General of India. The placing of the Annual Report before the State Legislature gives the Legislature an opportunity to have important information regarding the performance of a Government company, in which the State Government is a major share holder.

Audit scrutiny of related records in respect of nine companies (details given in the **Appendix XLII**) revealed that there were significant delays in placement of their Annual Reports before the State Legislature, mainly due to delay in finalisation of accounts and holding of AGMs. The following points were noticed in this connection:

- None of the above companies placed its accounts before the Legislature within the stipulated period of nine months from the date of closure of accounts and only two companies (TRPCL and TSECL) held the AGM within the stipulated period of six months from the date of closure of accounts.
- The delay in holding of AGM ranged from five years (THCL: 1998-99) to 11 years (THHDCL: 1998-99), except in the case of one company (TRPCL: 2003-04) where the delay was two months only.
- Tripura Horticulture Corporation Limited was yet to hold the AGM, though the accounts for the year 1999-2000 were approved by the BOD in March 2001.
- The accounts finalised during 2004-05 by seven companies related to very old periods, ranging from 1993-94 (TSICL) to 1999-2000 (TIDCL and THCL), except in the case of TRPCL (2003-04) and TSECL (2004-05). The annual reports pertaining to these periods had not been placed in the Legislature till date (September 2006).
- Tripura Handloom and Handicrafts Development Corporation Limited was yet to place before the Legislature the accounts for the year 1992-93 though the AGM had been held in January 2005.

[12] Sl. No. 1, 2, 3, 5, 6 and 8 of **Appendix XLI**.

- Tripura Horticulture Corporation Limited was yet to place before the Legislature the accounts for the year 1998-99 though the AGM had been held in October 2004.

The undue delay by the companies in finalisation of accounts and their placement before the Legislature was in contravention of statutory obligations under the Companies Act, 1956 and undermined the accountability to the Legislature.

The matter was reported to the Government in October 2006; reply has not been received (October 2006).

7.1.23 Response to Inspection Reports, paragraphs and reviews

Audit observations raised during audit and not settled on the spot are communicated to the heads of PSUs and the concerned departments of the State Government through Inspection Reports. The Government had prescribed that the first reply to the Inspection Reports should be furnished by the heads of PSUs through respective heads of departments within one month from the date of their receipt. Review of Inspection Reports issued upto March 2006 relating to eight PSUs disclosed that replies to 171 paragraphs of 42 Inspection Reports remained outstanding at the end of September 2006. Of these, Inspection Reports containing 78 paragraphs had not been replied to for more than a year. The Department-wise break-up of Inspection Reports and paragraphs issued upto 31 March 2006 and outstanding as on 30 September 2006 is given in **Appendix XLIII.**

Similarly, draft paragraphs and reviews are forwarded to the Secretary of the administrative department concerned demi-officially seeking confirmation of the facts and figures and their comments thereon within a period of six weeks. Out of one draft paragraph and one draft review forwarded to the Government during March-July 2006, replies in respect of one draft paragraph from the Power Department had not been received.

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 to recover loss/outstanding advances/ overpayment is taken in a time bound manner, and (c) the system of responding to audit observations is streamlined to ensure accountability and prompt response.

7.1.24 Position of ATNs in respect of recommendations of the COPU / PAC on paragraphs / reviews contained in the CAG's Audit Report – Commercial Chapter

Out of 20 reviews and 81 paragraphs that appeared in the Commercial Chapter (titled 'Government Commercial and Trading Activities') of the Audit Reports for 1988-89 to 2004-05, 15 reviews and 30 paragraphs have been discussed by COPU, and three reviews and eight paragraphs by the PAC (August 2006).

Of the 15 reviews and 30 paragraphs discussed in the COPU, reports containing the recommendations in respect of six reviews and 14 paragraphs relating to seven Audit Reports had been published. Action taken notes on these recommendations have been received and discussed by the COPU.

Against three reviews and eight paragraphs (relating to the Power Department) already discussed by the PAC, action taken notes on the recommendations of the PAC in respect of two reviews and five paragraphs were yet to be received (August 2006).

7.1.25 619-B Companies

There was one company coming under Section 619-B of the Companies Act, 1956. The table given below indicates the details of paid-up capital, and summarised working results of the company based on the latest available accounts:

(Rupees in lakh)

Name of the company	Year of accounts	Paid-up capital	Investment by			Profit(+)/ loss(-)	Accumulated profit (+)/ loss(-)
			State Government	Government companies[13]	Others		
Tripura Natural Gas Company	2001-02	53.65	NIL	53.65	NIL	12.19	12.27

[13] Two Government companies *viz.* Tripura Industrial Development Corporation Limited and Assam Gas Company Limited.

SECTION – A

INDUSTRIES AND COMMERCE DEPARTMENT

7.2 Performance review on the Working of the Tripura Tea Development Corporation Limited

Highlights

The Company incurred loss in all the four years from 2001 to 2005 and the accumulated losses of Rs. 7.82 crore had eroded most of the paid up capital, despite capital infusion by the Government from time to time.

(Paragraph 7.2.7)

More than 70 *per cent* of the available land was not cultivated for over 20 years. In one tea estate owned by the Company the uncultivated area was more than 93 *per cent*.

(Paragraph 7.2.8)

The plantation density was 24.89 to 83.30 *per cent* below the norm adopted by the Company, which led to shortfall in production and estimated loss of Rs. 1.96 crore per year during 2001-06. The attempts for replantation were inadequate.

(Paragraph 7.2.9)

The shortfall in production of green leaves reckoned against the norms fixed by the Tea Board entailed estimated loss of Rs. 1.89 crore during 2001-02 to 2005-06.

(Paragraph 7.2.10)

Mortality of plants was over 18 *per cent* against the permissible limit of 5 *per cent*.

(Paragraph 7.2.11)

The cost of sales of made tea (ranging from Rs. 61.04 to Rs. 72.78 per kg) was substantially higher than selling price (Rs. 40.00 to Rs. 50.00 per kg), which resulted in losses of Rs. 5.29 crore during 2001-05.

(Paragraph 7.2.13)

The Company, against the requirement of 740 labourers according to norms, engaged labourers ranging between 1372 and 1558 in seven tea estates. The extra expenditure involved was Rs. 5.70 crore. The number of laboureres had gone up, despite continued losses and poor performance.

(Paragraph 7.2.14)

7.2.1 Introduction

Tripura Tea Development Corporation Limited (Company) was incorporated in August 1980 with the main objectives to:

- Purchase, take over and develop tea estates on sale;
- Promote, take on lease and manage the tea estates after being satisfied about their economic viability;
- Plant, grow, cultivate and raise plantations of tea, forest plants and other agricultural or horticultural crops.

As on March 2006, the Company had three estates of its own, at Machmara (2800 acres), Kamalasagar (846.50 acres) and Brahmakunda (350 acres). The Company took over the management of four other tea estates at Luxmilonga, Tufanialonga, Kalacherra and Mohanpur as custodian in November 1986. Besides managing these seven tea estates, the Company also runs its own Central Tea Processing Factory (CTPF) at Durgabari.

The management of the Company is vested in a Board of Directors consisting of ten directors including the Chairman, the Vice-Chairman and a part time Managing Director. The Managing Director is assisted by one Project Manager, one Accounts Officer and one Technical Consultant.

7.2.2 Scope of Audit

The present performance review conducted during the period May and June 2006 examines the activities for the period 2001-06 of the head office of the Company, five tea estates[1] and CTPF at Durgabari. The Company has prepared provisional accounts upto the year 2004-05. The discussion has been restricted upto 2004-05 wherever figures of 2005-06 were not available.

7.2.3 Audit objectives

The audit objectives were to ascertain whether:

- utilisation of available land for plantation was such as to make the tea estates economically viable;
- the plantation / other operations of the Company were being conducted efficiently, effectively and economically;
- mortality of plants at plantation stage was within norms;
- the performance of the Tea Processing Factory was as per the targets.

7.2.4 Audit criteria

The audit criteria considered for assessing the achievement of audit objectives were:

- Norms fixed by the Tea Board / Company;
- Targets of performance fixed as per the Memorandum of Understanding entered into with the Government of Tripura;
- Working procedures and internal control system prescribed.

7.2.5 Audit Methodology

The audit methodology adopted for attaining the audit objectives with reference to audit criteria was:

- examination of agenda and minutes of Board of Directors' meetings;
- examination of data regarding gross area available, area actually covered under tea plantation;
- examination of production registers, sales records, excise records and records relating to manpower employment and various other expenditure;
- issue of audit enquiries; and
- interaction with the Management.

[1] Kamalasagar, Luxmilonga, Tufanialonga, Mohanpur and Brahmakunda.

7.2.6 Audit findings

The audit findings arising from the performance review of the Company were reported to the Management / Government in July 2006 and were discussed in the meeting of the Audit Review Committee for State Public Sector Enterprise held on 25 September 2006. The Director of Industries and Commerce Department along with the representatives of the Company attended the meeting. The views expressed by the Management during the meeting have been taken into consideration while finalising the report.

The audit findings are discussed in the succeeding paragraphs.

7.2.7 Financial performance

The paid up capital of the Company as on 31 March 2005 was Rs. 11.06 crore (11,06,500 equity shares of Rs. 100 each) against the authorised share capital of Rs. 20 crore.

The financial position and working results of the Company, based on the provisional accounts for the years from 2001-02 to 2004-05, are given in **Appendix XLIV** and **Appendix XLV** respectively. It would be seen therefrom that:

The Company incurred losses in all the years during 2001-05, and the accumulated losses had increased from Rs. 5.01 crore in 2001-02 to Rs. 7.82 crore in 2004-05, eroding the paid up capital to the extent of 70.68 *per cent*. The State Government, however, continued to infuse capital into the Company from year to year.

A Memorandum of Understanding (MOU) is signed by the Company with the Government of Tripura every year fixing the targets of performance, which are required to be evaluated by the Government in the following year.

Performance of the tea estates

7.2.8 Land utilisation

As of 01 April 2001, the Company had 6,317.50 acres of land under seven tea estates out of which only 1,798.04 acres (28.46 *per cent*) were under cultivation. The estate-wise area covered under tea plantation as on 31 March 2006 is shown in the table below:

Table 7.2.1

(Area in acre)

Name of the tea estates	Gross area	Cultivated area as of April 2001	Area under cultivation as of March 2006	Uncultivated area	Percentage of uncultivated area
Kamalasagar	846.50	262.05	271.55	574.95	67.92
Machmara	2,800.00	174.40	181.40	2,618.60	93.52
Brahmakunda	350.00	173.10	180.00	170.00	48.57
Luxmilonga	611.00	419.19	225.19	385.81	63.14
Tufanialonga	350.00	224.30	230.30	119.70	34.20
Kalacherra	1,000.00	298.00	306.50	693.50	69.35
Mohanpur	360.00	247.00	259.00	101.00	28.05
Total	**6,317.50**	**1,798.04**	**1,653.94**	**4,663.56**	**73.82**

It would be evident from the table that 4,663.56 acres (73.82 *per cent*) of land in seven tea estates remained unutilised for 20 years or more. Even in case of the estates owned by it, the Company failed to utilise substantial parts of the land, including over 93 *per cent* of the virgin land in its Machmara Tea Estate, which remained unutilised since inception of the Company.

The loss of production due to non-utilisation of land worked out to minimum of 48.44 lakh kg of green leaves per year in respect of the owned estates, calculated at 1440 kg green leaves per acre (productivity norm fixed as per the MOU signed with the Government). The value of this calculated at the average selling price of Rs. 5.55 per kg of green leaves during 2001-02 to 2005-06 worked out to Rs. 2.69 crore per year.

The cultivated area had decreased from 1,798.04 acres in 2001-02 to 1,653.94 acres in 2005-06, mainly due to reduction of cultivated area in Luxmilonga Tea Estate due to overaged and unproductive bushes.

While the average productive age of a plant is upto 40 years[2], the plantations in the four sick gardens managed by the Company as custodian were 60 to 70 years old. No action was taken to develop the gardens by replantation, while work force much in excess of the requirement was maintained (paragraph 7.2.14) resulting in continuous losses and non-viability of the gardens.

The Management gave (May 2006) the following reasons for under-cultivation:

- Dispute regarding ownership of gardens taken as custodian
- Lack of adequate irrigation facilities.
- 25 *per cent* of gross area consists of paddy land and land with steep slope where tea plantation was not feasible.
- 10 *per cent* of gross area was required for office buildings of the garden, factory site and labourers shed.

The Management further stated (June 2006) that the rubber plantation in Kamalasagar and Machmara tea estates and black pepper plantation in Brahmakunda tea estate had been started in 2006-07 to utilise the vacant area.

The Government stated (September 2006) that the documents regarding ownership of the areas under possession of the tea estates had not been provided to the Company (Management) by the Revenue Department. This, along with the lack of technical skill and assured irrigation facility, and non-availability of adequate funds restrained expansion of new plantations.

7.2.9 Lack of adequate plantation density

According to the information furnished by the Tea Board, the ideal bush population per acre is 6,000 but the Company follows the norm of 5,000 bushes per acre. The details of the number of bushes as per norm, available bushes and shortfall are given in the following table:

[2] Information supplied by Tea Board.

Table 7.2.2

Name of the estate	Cultivated area as on March 2006 (acres)	No. of bushes as per norm (lakh)	No. of bushes available as of March 2006 (lakh)	Shortfall in bush population (lakh)	Percentage of shortfall
Kamalasagar	271.55	13.58	8.59	4.99	36.75
Machmara	181.40	9.07	6.56	2.51	27.67
Brahmakunda	180.00	9.00	6.76	2.24	24.89
Luxmilonga	225.19	11.26	5.25	6.01	53.37
Tufanialonga	230.30	11.52	4.89	6.63	57.55
Kalacherra	306.50	15.33	2.56	12.77	83.30
Mohanpur	259.00	12.95	2.42	10.53	81.31
Total	**1653.94**	**82.71**	**37.03**	**45.68**	**55.22 (Average)**

From the above table it would be seen that the shortfall in plantation density in the various tea estates of the Company ranged between 24.89 to 83.30 *per cent*, which reduced the effective tea bearing area by 55.22 *per cent*. This resulted in shortfall in the production of green leaves of 35.40 lakh kg valued at Rs. 1.96 crore per year (calculated at the production norm of the Tea Board of 775 gram of green leaves per bush and average selling price of green leaves of Rs. 5.55 per kg) during the period 2001-06.

While the shortfall in the plantation density was higher in the four 'managed'[3] estates, ranging between 53.37 and 83.30 *per cent*, the shortfall in the owned estates was also substantial, ranging from 24.89 to 36.75 *per cent*. The efforts made by the Company to increase the plantation density by replantation were inadequate as against the shortfall of 45.68 lakh bushes, the Company had planted only 8.32 lakh tea plants (18 *per cent*) during 2001-02 to 2005-06, of which only 6.66 lakh plants survived.

7.2.10 Production of green leaves

As of March 2006, the total number of bushes available in the estates were 37.03 lakh over an area of 1,653.94 acres. This meant that the average bush population per acre was 2,239, which is less than 50 *per cent* of the norm of 5,000 bushes per acre followed by the Company. Accordingly, 1,735 kg of green leaves would be expected from 2,239 bushes per acre, at the rate of 775 grams per bush as per the norm fixed by the Tea Board.

Table 7.2.3 shows the target and production of green leaves during 2001-02 to 2005-06.

[3] Luxmilonga, Tufanialonga, Kalacherra and Mohanpur.

Table 7.2.3

(In lakh kg)

Year	Culti-vated area in acre	Produc-tion to be obtained as per norms (at 1735 kg)	Target fixed by the Com-pany	Actual achieve-ment	Shortfall with reference to targets	Shortfall with reference to norms	Rate per kg of green leaves (in Rupees)	Value of shortfall with reference to norms (Rupees in lakh)	Value of shortfall with reference to targets (Rupees in lakh)
2001-02	1798.44	31.20	26.00	21.37	4.63	9.83	6.00	58.98	27.78
2002-03	1839.44	31.91	25.70	20.78	4.92	11.13	5.00	56.65	24.60
2003-04	1652.04	28.66	24.60	24.40	0.20	4.26	5.50	23.43	1.10
2004-05	1653.94	28.70	25.41	24.71	0.70	3.99	6.00	23.94	4.20
2005-06	1653.94	28.70	26.90	23.72	3.18	4.98	5.25	26.14	16.70
Total	**-**	**149.17**	**128.61**	**114.98**	**13.63**	**34.19**	**-**	**189.14**	**74.38**

It would be seen that during 2001-06 total production targets fixed by the Company were 14 *per cent* less than the norm but even the reduced targets could not be achieved, the shortfall being 13.63 lakh kg of green leaves, which entailed loss of revenue of Rs. 0.74 crore as per the targets fixed by the Company, which would increase to Rs. 1.89 crore when compared to the norms fixed by the Tea Board.

The Management attributed (June 2006) the low production of green leaves to overaged bushes and lack of irrigation facilities in all the tea estates except Kamalasagar tea estate. The Management did not make any effort to improve the irrigation facilities.

The Management stated (August 2006) that lack of natural water sources affected the irrigation facilities in Machmara Estate and that it was reluctant to make huge investment in irrigation facilities in the four ‘managed’ estates which were under litigation.

The Government attributed (September 2006) the low yield of green leaves to lack of infrastructural facilities, absence of professional management and lack of technical skill.

7.2.11 Mortality of tea plants at the planting stage

According to the information furnished by the Tea Board, the admissible rate of mortality of tea plants at planting stage should not exceed 5 *per cent*, but the mortality in the seven tea estates of the Company ranged between 18.64 and 21.05 *per cent*, as shown in the following table:

Table 7.2.4

(Number of tea plants in lakh)

Name of Tea Estate	Number of Tea plants planted	Number of Tea plants survived	Number of Tea plants that did not survive	Percentage of mortality
Kamalasagar	2.21	1.77	0.44	19.90
Machmara	1.17	0.94	0.23	19.65
Brahmakunda	0.99	0.79	0.20	20.20
Luxmilonga	1.84	1.47	0.37	20.10
Tufanialonga	0.95	0.76	0.19	20.00
Kalacherra	0.59	0.48	0.11	18.64
Mohanpur	0.57	0.45	0.12	21.05

High rate of mortality was attributed (June 2006) by the Management to lack of rainfall and irrigation facilities, even though the data show that the mortality rate in Kamalasagar (stated to have adequate irrigation facility) is almost the same as in the estates where irrigation facilities were not provided.

The Government attributed (September 2006) the high mortality to unscientific plantations and inferior quality of nursery plants.

Performance of the Central Tea Processing Factory (CTPF)

7.2.12 Production

The Central Tea Processing Factory at Durgabari was set up in 1993 at a cost of Rs. 3.53 crore. The following table gives the details of installed capacity, target fixed, actual production at CTPF during the period ending 2004-05:

Table 7.2.5

	2001-02	2002-03	2003-04	2004-05	Total
Installed capacity of producing made tea (lakh kg)	8.00	8.00	8.00	8.00	-
Target fixed (MOU) for made tea (in lakh kg)	7.50	6.50	6.09	5.50	25.59
Green leaves supplied (lakh kg)	32.43	26.58	29.93	25.60	114.54
Made tea required to be produced (lakh kg)	7.13	5.85	6.58	5.63	25.19
Made tea produced (lakh kg)	6.58	5.43	6.10	5.26	23.37
Shortfall in production (lakh kg)	0.55	0.42	0.48	0.37	1.82
Value of the shortfall (rupees in lakh)	23.39	19.53	19.20	18.50	80.62

It would be seen that:

- Against the installed capacity of 8 lakh kg of made tea per year, the Company entered into an MOU with the Government for producing much less quantity, ranging from 5.5 to 7.5 lakh kg.
- The quantity of made tea produced was less than the target fixed in the MOU in all the years from 2001-05 (except in 2003-04).

According to the norms[4] 22 to 23 kg of made tea can be produced by processing 100 kg of green leaves. During 2001-05, the factory processed 114.54 lakh kg of green leaves, which should have produced 25.19 lakh kg of made tea (at the rate of 22 kg from 100 kg green leaves). The factory, however, produced only 23.37 lakh kg (92.77 *per cent*) of made tea, the shortfall amounted to 1.82 lakh kg of made tea. The Management had not analysed the reasons for this shortfall, which entailed loss of Rs. 80.62 lakh calculated on the basis of the prevailing market price of made tea (Guwahati auction market).

7.2.13 Profitability

Against the cost of sales of made tea ranging from Rs. 61.04 to 72.78 per kg, the selling price received by the Company (through Guwahati auction market) ranged between Rs. 40 and Rs. 50 per kg. As a result, the Company incurred

[4] The norms followed by the Company.

loss of Rs. 5.29 crore during the period 2001-05 as shown in Table 7.2.6 below:

Table 7.2.6

	2001-02	2002-03	2003-04	2004-05	Total
Made tea produced (lakh kg)	6.58	5.43	6.10	5.26	23.37
Cost of sales per kg (in rupees)	69.80	72.78	61.04	65.00	-
Selling price per kg received (in rupees)	42.52	46.50	40.00	50.00	-
Loss in selling tea per kg (in rupees)	27.28	26.28	21.04	15.00	-
Net loss in producing made tea (rupees in lakh)	179.50	142.70	128.34	78.90	529.44

The Management stated (June 2006) that the optimum capacity of CTPF could not be utilised due to non availability of green leaves.

The Government stated (September 2006) that the infrastructure of CTPF was very weak; it lacked professional management and trained and skilled manpower; the factory was running with the staff meant purely for plantation; and substantial quantity of coarse and injured green leaves were supplied to the factory which resulted in low yield and poor quality of made tea.

Manpower management

7.2.14 Engagement of excess labourers

The norms[5] followed by the Company require that 5,000 bushes are to be planted in one acre of land and one labourer is to be engaged for 5,000 bushes. Thus, 740 labourers were required to attend to 37.03 lakh bushes available in the tea estates. The year-wise number of labourers engaged by the tea estates during 2001-06 is shown in the following table:

Table 7.2.7

Number of labourers in the tea estates

Name of the Tea Estates	2001-02	2002-03	2003-04	2004-05	2005-06
Kamalasagar	371	350	350	325	350
Machmara	160	145	145	146	189
Brahmakunda	183	183	181	168	181
Luxmilonga	260	246	246	247	251
Tufanialonga	192	180	180	180	194
Kalacherra	203	180	152	138	203
Mohanpur	169	175	175	168	190
Total	**1,538**	**1,459**	**1,429**	**1,372**	**1,558**

It will be seen that the number of men in position as on 31 March 2006 was much in excess of the norms (740). While the overall number of persons employed decreased from 1,538 in 2001-02 to 1,372 in 2004-05, it increased to 1,558 in 2005-06. Engagement of excess manpower lacked justification in view of the low productivity and continued losses of the Company. Even in

[5] Information furnished by the Company / Government.

the Machmara tea estate, which had more than 93 *per cent* of its land uncultivated, the number of labourers had increased from 146 in 2004-05 to 189 in 2005-06.

The Company incurred a minimum expenditure of Rs. 5.70 crore towards payment of wages to the labourers deployed in excess of the norms (details in **Appendix XLVI**). This contributed significantly to the increase in the cost of sales of made tea.

Out of 1,558 workers employed by the Company, 849 were permanent and 709 casual. **Appendix XLVI** also shows that of the 818 labourers deployed in excess, 536 (65.53 *per cent*) were employed in the four estates, the management of which was taken over by the Company in November 1986.

The Government stated (September 2006) that the labourers were employed on the basis of area under tea plantations, and not on the basis of the number of bushes. The reply is not tenable as employment of labourers merely on the basis of area, without adequate plantation, lacked any justification.

7.2.15 Non-realisation of sale proceeds of green leaves

Despite the overall shortage of green leaves for its processing factory the Company entered into an agreement (September 2002) with Sarala Tea Company (STC) for the sale of green leaves of Machmara Tea Estate at the rate of Rs. 5.40 per kg during the year 2002-03. The Company did not make any provision for Bank guarantee or security deposit at the time of the agreement.

STC lifted 1.37 lakh kg of green leaves (value Rs. 7.40 lakh) between September 2002 and January 2003 and paid only Rs. 0.64 lakh. Failing to recover the balance amount of Rs. 6.76 lakh, the Company filed a money suit in 2004 and obtained an exparte order in February 2005 directing STC to pay Rs. 6.06 lakh along with interest at the rate of 7 *per cent.* No payment had been made up to August 2006 and the matter was sub-judice in the High Court.

7.2.16 Loss due to damage of green leaves

Records of the Central Tea Processing Factory showed that 46,326 kg of green leaves were damaged as detailed below:

Table 7.2.8

Date	Quantity damaged (kg)	Rate (in rupees)	Value (Rs. in lakh)
17 October 2003	26,371	5.50	1.45
8 September 2005	19,955	5.25	1.05
Total	**46,326**		**2.50**

Reasons for the damage of the green leaves were not on record. Audit analysis showed that though the factory machines were in working condition during the period, these quantities were not issued to the factory for processing. Audit scrutiny revealed that these damages occurred mainly due to improper storage.

The damage resulted in process loss of 10,192 kg of made tea valued at Rs. 6.42 lakh[6].

The Government stated (September 2006) that CTPF was lacking professional management and there were no designated officials posted in CTPF to supervise and monitor day to day activities. This indicated that there was no proper internal control in the Company.

7.2.17 Internal Control

The operational and financial performance of the Company indicated very poor internal control. The Management as well as the Board of Directors failed to exercise proper control and provide good corporate governance. Consequently, the Company failed to achieve its objectives and had to depend on infusion of share capital by the Government. The situation was accentuated by the lack of any corporate plan to improve the situation and bring about a turnaround.

7.2.18 Conclusion

The low utilisation of the cultivable land, high mortality at the planting stage, and lack of adequate irrigation facilities in the plantation area, led to shortfall in production of green leaves which resulted in inadequate supply of green leaves to the processing plant. Engagement of labourers in excess of norms, high manufacturing and administrative expenses led to high cost of sales, far in excess of the sales price. Despite the continuous losses and substantive depletion of its equity base, necessitating periodic capital infusion from the Government, the Management did not take any steps to increase the productivity, reduce the costs and increase the profitability, thereby defeating the objectives for which the Company was set up.

7.2.19 Recommendations

- The Company should consider treating the individual tea estates as business units, to facilitate planning and operation on professional lines and with accountability.
- Financial assistance from Government should be linked to a corporate plan, to be prepared by the Management and approved by the Board, with clearly defined milestones for operational and financial performance.
- Optimum utilisation of the capacity of the Central Tea Processing Factory should be ensured and the efficiency of its operation improved.
- The Company should explore ways and means for downsizing the work force to reduce the overhead charges.
- A sound system of internal controls including internal audit arrangement should be instituted.

[6] Calculated on an average cost of sales of Rs. 63.02 per kg for the years 2003-04 and 2004-05.

SECTION - B

POWER DEPARTMENT

TRIPURA STATE ELECTRICITY CORPORATION LIMITED

7.3 Idle expenditure

Failure of the Company to properly plan and execute the renovation/modernisation of Gumti Hydel Power Station led to an idle expenditure of Rs. 55.54 lakh besides loss of benefits of modernisation.

Para 24.1.4 of CPWD Manual Volume II as adopted by the Power Department, Government of Tripura provides that no work should be commenced without prior execution of contract documents and no order of supplies should be placed without at least a written agreement as to the price and other terms of agreement.

Test check (June-July 2005) of records of the Tripura State Electricity Corporation Ltd. (TSECL) revealed that the then Executive Engineer (EE), Gumti Electrical Division, Jatanbari purchased (November 1996 to October 1997) from Bharat Heavy Electrical Ltd. (BHEL) one G-40 electro hydraulic governor with accessories, at a cost of Rs. 53.29 lakh, without entering into a formal agreement for purchase of the equipment or for its erection, commissioning and testing.

It was only in January 1999 that the EE issued work order to BHEL for supervision for complete erection, commissioning and testing at the negotiated rate of Rs. 7.50 lakh with the stipulation to complete the work within 45 days; however, contrary to the recommendation of the Works Advisory Board (WAB), which had approved the proposal, the EE did not enter into formal agreement with BHEL, for completion of the work. BHEL completed only 30 *per cent* of the work (March 2001) for which it was paid Rs. 2.25 lakh, and the TSECL had been unable to complete the remaining work either through BHEL or any other agency.

On this being pointed out by Audit, the Deputy General Manager and the Additional General Manager stated (October 2005, September 2006) that the matter would be pursued with the agency to complete the work without further delay.

Thus, due to failure of TSECL to enter into proper agreements, in contravention of manualised provisions and specific recommendations of the WAB, regarding execution of contract documents, the work remained incomplete for more than seven years, resulting in idle and unfruitful expenditure of Rs. 55.54 lakh (Rs. 53.29 lakh plus Rs. 2.25 lakh) and loss of benefits from the renovation/modernisation of the plant.

The matter was reported to the Government in April 2006; their reply had not been received so far (September 2006).

(P.K. Tiwari)

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The **Comptroller and Auditor General of India**