

CHAPTER V
GOVERNMENT COMMERCIAL
AND
TRADING ACTIVITIES

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5.1 Overview of Union Territory of Puducherry Public Sector Undertakings

Introduction

5.1.1 The Union Territory Public Sector Undertakings (PSUs) were established to carry out commercial activities keeping in view the welfare of people. As on 31 March 2014, there were 13 working Government companies and none of them was listed on the stock exchange(s). These PSUs registered a turnover of ₹ 378.86 crore¹ as per their latest finalised accounts (September 2014). This turnover was equal to 1.80 *per cent* of Gross State Domestic Product (GSDP) of ₹ 21,061 crore for 2013-14. Major activities of PSUs are concentrated in the manufacturing and financing sectors. The PSUs incurred an aggregate loss of ₹ 32.17 crore as per their latest finalised accounts (September 2014). They had employed 5,765 employees as on 31 March 2014.

5.1.2 No PSU was either established or closed during 2013-14.

5.1.3 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government Company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government Company also includes its subsidiaries.

5.1.4 The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by statutory auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per the 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.

¹ During 2013-14, only three companies finalised their accounts pertaining to earlier years and none of the companies finalised their account for 2013-14

Investments in State PSUs

5.1.5 As on 31 March 2014, investment (capital and long-term loans) in 13 PSUs was ₹ 714.98 crore as per details given below:

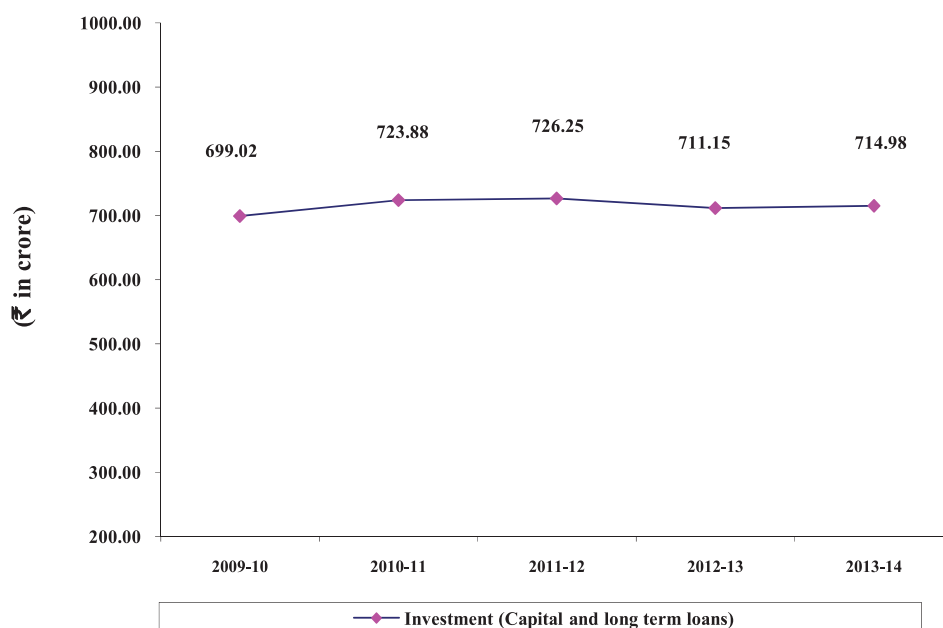
(₹ in crore)

Type of PSUs	Capital	Long Term Loans	Total
Working PSUs	714.98	Nil	714.98

(Source: Details furnished by the companies)

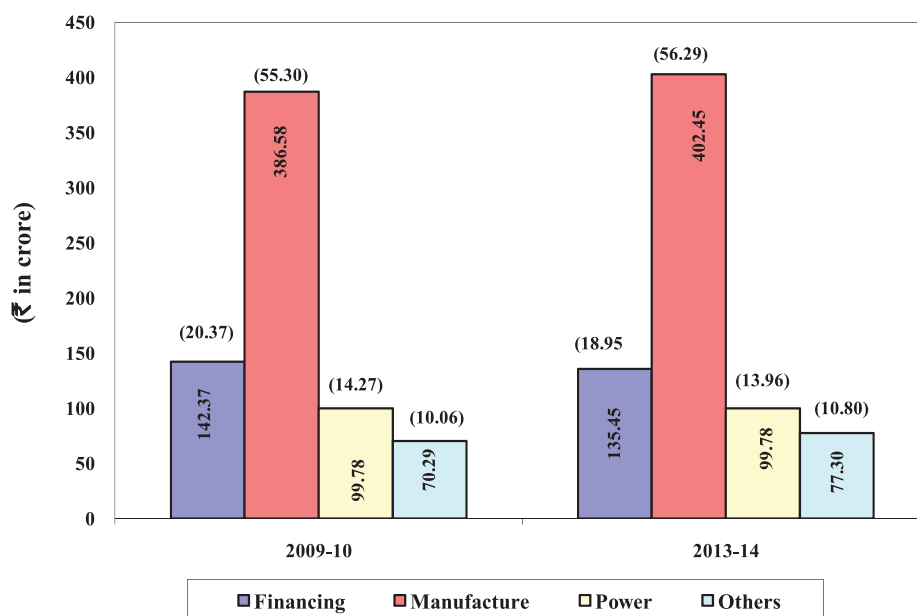
A summarised position of Government investment in PSUs of UT of Puducherry is detailed in **Appendix 5.1**.

5.1.6 As on 31 March 2014, the total investment in 13 PSUs was towards capital only. The investment has grown by 2.28 per cent from ₹ 699.02 crore in 2009-10 to ₹ 714.98 crore in 2013-14.



(Source : Details furnished by the Companies)

5.1.7 Investments in various important sectors and percentage thereof at the end of 31 March 2010 and 31 March 2014 are indicated below:



(Figures in brackets show the sector percentage to total investment)
(Source : Details furnished by the Companies)

Budgetary outgo, grants/subsidies, guarantees and loans

5.1.8 Details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of PSUs are given in **Appendix 5.2**. Summarised details of budgetary support from Government of UT of Puducherry are given below for three years ended 31 March 2014.

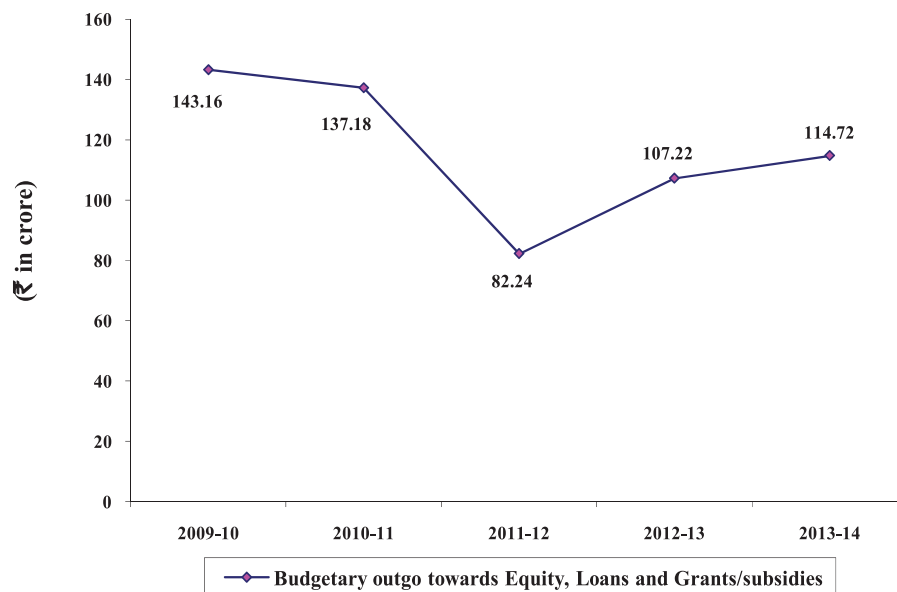
(Amount – ₹ in crore)

Sl.No	Particulars	2011-12		2012-13		2013-14	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	5	6.73	1	0.25	3	3.83
2	Loans given from budget	Nil	Nil	Nil	Nil	Nil	Nil
3	Grants/Subsidy received	6	75.51	9	106.97	7	110.89
4	Total outgo (1+2+3)	8 ²	82.24	9 ²	107.22	8 ²	114.72
5	Loan converted into equity	Nil	Nil	Nil	Nil	Nil	Nil
6	Guarantee commitment	1	3.64	1	3.61	1	3.30

(Source: Details furnished by the companies)

² These are the actual number of Companies which have received budgetary support in the form of equity, loans and grants/subsidies from the UT Government during the respective years

5.1.9 Details regarding budgetary outgo towards equity, loans and grants/subsidies for the past five years are given in the graph below:



(Source : Details furnished by the Companies)

5.1.10 As regards guarantee commitment, only Puducherry Adi-dravidar Development Corporation Limited availed the guarantee from Government of India against which ₹ 3.30 crore was outstanding as on 31 March 2014. No guarantee commission was payable to the UT Government by any UT PSU.

Absence of accurate figure for investment in PSUs

5.1.11 Figures in respect of equity and loans outstanding as per records of UT PSUs should agree with that of the figures appearing in the Finance Accounts of the Government of UT of Puducherry. In case the figures do not agree, the concerned PSUs and the Finance Department should reconcile the differences. The position in this regard as at 31 March 2014 is stated below:

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts 2013-14	Amount as per records of PSUs	Difference
Equity	707.14	704.61	2.53
Loans	0.94	Nil	0.94
Guarantees	3.30	3.30	Nil

(Source: Finance Accounts for 2013-14 and details furnished by the companies)

5.1.12 Audit observed that differences occurred in two PSUs and were pending reconciliation for over seven years up to 2013-14. The UT Government and PSUs may take concrete steps to reconcile the differences in a time bound manner.

Performance of PSUs

5.1.13 Financial results of PSUs are detailed in **Appendix 5.3**. The ratio of PSUs' turnover to State GDP shows the extent of PSUs activities in the State economy. The table below provides details of PSUs' turnover vis-a-vis UT GSDP for the period 2009-10 to 2013-14.

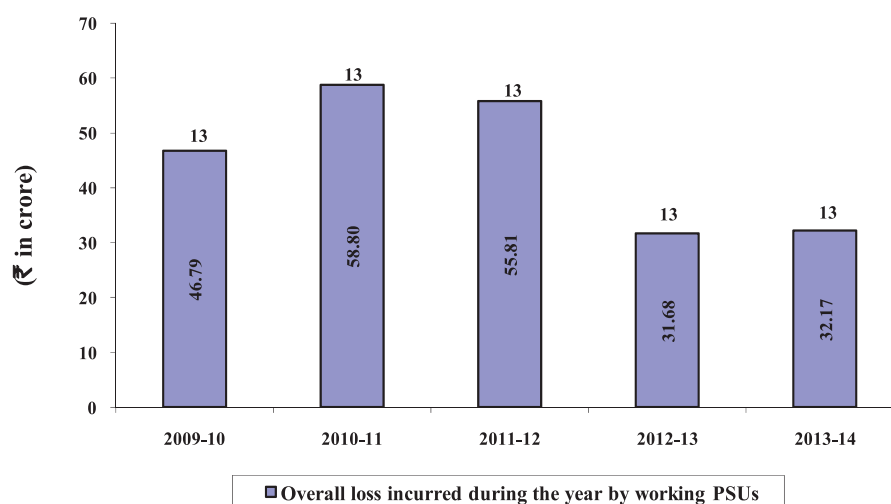
(₹ in crore)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Turnover	308.53	338.35	336.68	373.92	378.86 ³
GSDP	12,304	13,092	14,661	16,768	21,061
Percentage of Turnover to state GDP	2.51	2.58	2.30	2.23	1.80

(Source: Details furnished by the companies and GSDP furnished by the UT Government)

Compared to 2009-10, the percentage of turnover to GSDP showed a decreasing trend from 2010-11 onwards indicating the decline in contribution of PSUs of UT to GSDP.

5.1.14 Losses incurred by UT PSUs during the period 2009-14 are given below:



(Source : As per latest finalised accounts of the Companies)

³ Turnover as per latest finalised accounts as on 30 September 2014

During the year 2013-14, out of 13 PSUs, three PSUs earned profit of ₹ 14.30 crore while nine PSUs incurred loss of ₹ 46.47 crore leading to overall loss. One PSU, viz., Puducherry Backward Classes and Minorities Development Company prepared its accounts on 'no profit no loss' basis. The contributors to profit were Puducherry Power Corporation Limited (₹ 6.93 crore), Puducherry Distilleries Limited (₹ 5.16 crore) and Pondicherry Industrial Promotion, Development and Investment Corporation Limited (₹ 2.21 crore). Heavy losses were incurred by Pondicherry Textiles Corporation Limited (₹ 16.85 crore) and Swadeshee-Bharathee Textile Mills Limited (₹ 11.36 crore).

5.1.15 Losses of PSUs were mainly attributable to deficiencies in financial management, planning, implementation of projects, operational management and monitoring. The Audit Reports of the CAG for the three years ending March 2014 reflect avoidable expenditure/loss to the extent of ₹ 5.22 crore and idle investment of ₹ 3.48 crore. This could have been controlled with better management. Year-wise details from Audit Reports are stated below:

(₹ in crore)

Particulars	2011-12	2012-13	2013-14	Total
Net Profit (loss)	(55.81)	(31.68)	(32.17)	119.66
Controllable losses as per CAG's Audit Report	1.99	Nil	3.23	5.22
Idle investment	Nil	3.48	Nil	3.48

(Source: Latest finalised accounts of companies and CAG's Audit Report)

5.1.16 The above losses pointed out by Audit Reports of the CAG were based on test check of records of PSUs. Therefore, the actual controllable losses could be much more than this. The PSUs can discharge their role efficiently only if they are financially prudent. The above situation points towards a need for greater professionalism and accountability in the functioning of PSUs.

5.1.17 Some other key parameters pertaining to UT PSUs are given below:

(₹ in crore)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Return on Capital Employed (per cent)	Nil	Nil	Nil	Nil	Nil
Debt	16.46	19.59	15.35	Nil	Nil
Turnover	308.53	338.35	336.68	373.92	378.86
Debt/Turnover Ratio	0.05:1	0.06:1	0.05:1	Nil	Nil
Interest Payments	10.49	10.56	15.15	12.88	12.98
Accumulated Losses	268.60	378.51	449.45	496.38	490.12

(Source: Details furnished by the companies and latest finalised accounts of companies)

5.1.18 As per the latest finalised accounts of PSUs as on 30 September 2014, the capital employed worked out to ₹ 638.40 crore in comparison to capital employed of ₹ 561.28 crore in 2009-10. During the last five years, overall return on capital employed remained “NIL”.

5.1.19 The State Government had not formulated any policy for payment of minimum dividend on the share capital contributed by it. As per the latest finalised accounts, three PSUs⁴ earned an aggregate profit of ₹ 14.30 crore and declared a dividend of ₹ 4.24 crore.

Arrears in finalisation of accounts

5.1.20 Annual accounts of companies are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230 and 619 of the Companies Act, 1956. The table below provides details of progress made by PSUs in finalisation of accounts by September 2014.

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
1	Number of PSUs	13	13	13	13	13
2	Number of accounts finalised during the year	13	8	17	10	3
3	Number of accounts in arrears	20	25	21	24	34
4	Number of PSUs with arrears in accounts	13	13	12	12	13
5	Extent of arrears	1 to 3 years	1 to 3 years	1 to 3 years	1 to 4 years	1 to 5 years

(Source: Details compiled by audit)

5.1.21 It could be seen from the table that all the 13 companies have arrears in finalisation of accounts ranging from one to five years as on 30 September 2014. The companies should take efforts to reduce the arrears in finalisation of accounts.

5.1.22 As of September 2014, the UT Government has invested ₹ 297.63 crore (Equity: ₹ 9.38 crore, Grants/Subsidies: ₹ 288.25 crore) in eight PSUs during the years for which accounts have not been finalised as detailed in **Appendix 5.4**. In the absence of accounts and their audit, investments and expenditure incurred cannot be vouchsafed.

⁴ Puducherry Power Corporation Limited, Puducherry Distilleries Limited and Pondicherry Industrial Promotion Development and Investment Corporation Limited

5.1.23 Administrative departments overseeing the activities of these PSUs have also to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed periodically by Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this, the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up (August/October 2014) with the Secretary to UT Government, Finance Department to expedite the finalisation of accounts in arrears.

5.1.24 It is therefore, recommended that the UT Government should monitor and ensure timely finalisation of accounts with special focus on arrears and comply with the provisions of the Companies Act, 1956.

Adverse comments on the accounts and Internal Audit of PSUs

5.1.25 Three companies forwarded their accounts to Accountant General (AG) during the year 2013-14. Of these, accounts of two companies were selected for supplementary audit. The audit reports of statutory auditors and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved. The details of aggregate money value of comments of statutory auditors and CAG are given below:

(Amount ₹ in crore)

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Increase in loss	2	10.23	3	33.22	Nil	Nil
2	Decrease in loss	Nil	Nil	1	17.78	Nil	Nil
3	Errors of classification	Nil	Nil	Nil	Nil	Nil	Nil
	Total	2	10.23	4	51.00	Nil	Nil

(Source: Annual accounts of the companies)

5.1.26 During the year, the statutory auditors had given qualified certificates for two accounts and unqualified certificate for one account.

5.1.27 The qualification in respect of two accounts of companies was due to:

Puducherry Backward Classes and Minorities Development Corporation Limited (2010-11)

- (i) Non-reconciliation of loan ledgers with general ledger.
- (ii) Non-provision of Bad and Doubtful advances in respect of overdue principal, interest and other dues from beneficiaries.

(iii) Non-provision of accrued gratuity liability in terms of Accounting Standard-15.

Puducherry Distilleries Limited (2011-12)

Non-reconciliation of interest accrued on the advances paid to staff with their personal data statements, the effect of which on the financial statements was not ascertainable.

5.1.28 Statutory auditors are required to furnish a detailed report upon various aspects including internal control/internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the statutory auditors on possible improvement in the internal audit/internal control system during the year 2013-14 is given below:

Sl.No	Nature of comments made by statutory auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Appendix 5.3
1	There was no system of preparing short term/long term business plans and to review the same with actuals	1	6
2	Internal audit requires strengthening	1	7
3	Internal audit manual not prescribed	3	6,7 &11
4	Delineated fraud policy not available	3	6,7 &11
5	Non-formation/non-convening of Audit Committee in compliance with Section 292-A of the Companies Act, 1956	1	6

(Source: Reports furnished by statutory auditors under Section 619(3) (a) of the Companies Act, 1956)

The companies concerned should address the issues commented upon by the statutory auditors and take effective remedial action.

Pondicherry Textiles Corporation Limited

5.2 Avoidable payment

The Company's failure to contribute employer's contribution at concessional rate under employees' provident fund scheme resulted in extra payment of ₹ 2.72 crore.

As per the amendment (with effect from 22 September 1997) to Section 6 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (Act), the employers were required to contribute to the fund at the rate of 12 *per cent* of the monthly wages of the employees. However, as laid down in the Act, the rate of contribution was only 10 *per cent*, in case the companies satisfied any one of the following conditions:

- The Company which had been declared as sick industrial Company by the Board for Industrial and Financial Reconstruction.
- Any establishment, which at the end of any financial year had accumulated losses exceeding its entire net worth.

Audit noticed (April 2014) that Pondicherry Textiles Corporation Limited (Company), had been incurring losses from 1993-94 and had its accumulated losses exceeding its entire network from 2007-08 to 2012-13, as detailed below:

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Paid-up capital	269.22	294.22	343.27	356.35	361.35	361.35
Net worth	(-)56.91	(-)79.28	(-)86.11	(-)102.62	(-)114.06	(-)125.15
Accumulated losses	324.15	372.04	428.43	458.56	475.41	486.50

(Source : Details furnished by the Company)

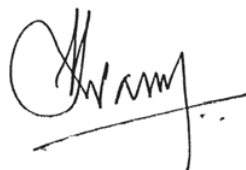
The Company fulfilled the criteria for making contribution to the provident fund at the concessional rate of 10 *per cent* from 2007-08 onwards. However, Audit scrutiny revealed that the Company made employers contribution at 12 *per cent* to the provident fund amounting to ₹ 17.98 crore for the period from April 2007 to June 2011 and stopped contributing to the provident fund from July 2011 onwards in view of its unfavourable financial position.

In this connection, Audit observed that the Company failed to avail the benefit of the concessional rate even after having negative network. The avoidable contribution made in excess of the concessional rate during the said period worked out to ₹ 2.72 crore (**Appendix 5.5**), which resulted in the Company foregoing the opportunity of reducing the other liabilities to that extent.

The Company replied (December 2014) that it was considering various options of restructuring and hence it was considered prudent to maintain *status quo* in respect of the pay matters. It added that based on the observations of Audit, steps would be taken to apply the concessional rate of 10 *per cent* of the employer's contribution to the provident fund.

The matter was reported to Government in October 2014; their reply was awaited (January 2015).

Chennai
The 25 March 2015



(K. SRINIVASAN)
Principal Accountant General
(General and Social Sector Audit)
Tamil Nadu and Puducherry

Countersigned



New Delhi
The 30 March 2015

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India