

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 (UT) Public Sector Undertakings (PSUs) consist of only Government companies. The UT PSUs are established to carry out activities of commercial nature, while keeping in view the welfare of people and also occupy an important place in the State economy. As on 31 March 2015, in UT of Puducherry, there were 12 working Government companies and one non-working Government Company. None of the working Government companies were listed on the stock exchange. The details of the PSUs in UT of Puducherry as on 31 March 2015 are given below.

Table 5.1.1: Total number of PSUs as on 31 March 2015

Type of PSUs	Working PSUs	Non-working PSUs ¹	Total
Government Companies ²	12	1	13
Total	12	1	13

(Source: Details collected from the Government)

The working PSUs registered a turnover of ₹ 401.26 crore, as per their latest finalised accounts as of September 2015. This turnover was equal to 1.55 *per cent* of State Gross Domestic Product (GSDP) for 2014-15. The working PSUs incurred loss of ₹ 32.50 crore, as per their latest finalised accounts, as of September 2015. They had employed 4,600 employees as at the end of March 2015.

Since 2011-12, Pondicherry Electronics Limited is the only non-working PSU in UT of Puducherry. The assets and liabilities of this PSU were taken over by its holding Company (Pondicherry Industrial Promotion Development and Investment Corporation Limited) and the PSU is in the process of getting its name struck off from the Register of Companies.

¹ Non-working PSUs are those which have ceased to carry on their operations

² Government PSUs include companies referred to in Section 139 (5) and 139 (7) of the Companies Act, 2013

Accountability framework

5.1.2 The process of audit of Government companies is governed by provisions of Sections 139 and 143 of the Companies Act, 2013 (Act). According to Section 2(45) of the Act, “Government Company” means any Company in which not less than 51 *per cent* of the paid-up share capital is held by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments and includes a Company, which is a subsidiary Company of such a Government Company. Further, as per sub-Section 7 of Section 143 of the Act, the Comptroller and Auditor General of India (C&AG) may, in case of any Company covered under sub-Section (5) or sub-Section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted of the accounts of such Company and the provisions of Section 19 A of the C&AG’s (Duties, Power and Conditions of Service) Act, 1971 shall apply to the report of such test Audit. Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the C&AG. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

Statutory Audit

5.1.3 The financial statements of the Government companies (as defined in Section 2 (45) of the Companies Act, 2013) are audited by Statutory Auditors, who are appointed by C&AG as per the provisions of Section 139 (5) or (7) of the Act. The Statutory Auditors shall submit a copy of the Audit Report to the C&AG, which among other things, include financial statements of the Company under Section 143 (5) of the Act. These financial statements are subject to supplementary audit to be conducted by C&AG within 60 days from the date of receipt of the audit report under the provisions of Section 143 (6) of the Act.

Role of Government and Legislature

5.1.4 The UT Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government.

The Legislature of UT also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors’ Reports and comments of the C&AG, in respect of Government companies are to be placed before the Legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of C&AG are submitted to the Government under

Section 19 A of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

Stake of Government of UT of Puducherry

5.1.5 The UT Government's stake in PSUs is mainly of three types:

- **Share Capital and Loans:** In addition to the share capital contribution, UT Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support:** UT Government provides budgetary support by way of grants and subsidies to the PSUs, as and when required.
- **Guarantees:** UT Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

Investment in State PSUs

5.1.6 As on 31 March 2015, the investment (capital and long-term loans) in 12 PSUs was ₹ 735.68 crore, as per details given below:

Table 5.1.2: Total investment in PSUs

(₹ in crore)

Type of PSUs	Government Companies		
	Capital	Long-term loans	Total
Working PSUs	722.85	12.83	735.68
Total	722.85	12.83	735.68

As on 31 March 2015, the total investment in working PSUs consisted of 98.26 *per cent* towards capital and 1.74 *per cent* in long-term loans. The investment has grown by 1.63 *per cent* from ₹ 723.88 crore in 2010-11 to ₹ 735.68 crore in 2014-15.

5.1.7 The sector-wise summary of investments in the UT PSUs as on 31 March 2015 is given below:

Table 5.1.3: Sector-wise investment in PSUs

(₹ in crore)

Name of the Sector	Working PSUs	Investment (in <i>per cent</i>)
Manufacturing	410.01	55.73
Finance	148.59	20.20
Power	99.78	13.56
Service	52.37	7.12
Agriculture and allied	24.93	3.39
Total	735.68	100.00

Special support and returns during the year

5.1.8 The UT Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and interest waived in respect of UT PSUs for three years ended 2014-15 are given below:

Table 5.1.4: Details of budgetary support to PSUs

(₹ in crore)

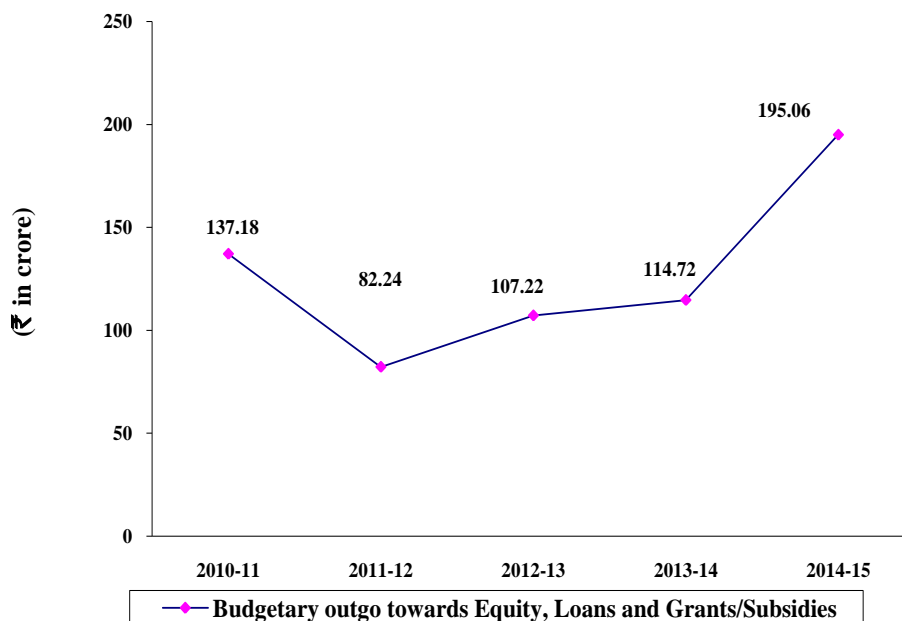
Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	1	0.25	3	3.83	3	7.96
2	Loans given from budget	---	---	---	---	---	---
3	Grants/subsidy from budget	9	106.97	7	110.89	9	187.10
4	Total outgo (1+2+3)	9³	107.22	8³	114.72	9³	195.06
5	Loans converted into equity	---	---	---	---	---	---
6	Loans written off	---	---	---	---	---	---
7	Interest/penal interest written off	---	---	---	---	---	---
8	Total waiver (6+7)	---	---	---	---	---	---
9	Guarantees issued	---	---	---	---	---	---
10	Guarantee commitment	1	3.61	1	3.30	1	3.15

(Source: Details furnished by the Companies)

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

³ 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

Chart 5.1.1: Budgetary support to PSUs



5.1.9 As regards guarantee commitment, only Puducherry Adi-Dravidar Development Corporation Limited availed the guarantee from the Government of India against which ₹ 3.15 crore was outstanding as on 31 March 2015. No guarantee commission was payable to the UT Government by any UT PSU.

Reconciliation with Finance Accounts

5.1.10 The figures in respect of equity, loans and guarantees, outstanding as per records of UT PSUs, should agree with that of the figures appearing in the Finance Accounts of the UT of Puducherry. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as on 31 March 2015 is stated below:

Table 5.1.5 : Equity and loans outstanding as per Finance Accounts vis-a-vis records of PSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	710.61	712.58	1.97
Loans	0.94	---	0.94

(Source: Finance Accounts for 2014-15 and details furnished by the companies)

Audit observed that the differences occurred in respect of equity and loans in two PSUs⁴ and one PSU⁵ respectively. Reconciliation of difference was

⁴ Puducherry Agro Products, Food and Civil Supplies Corporation Limited and Swadeshee-Bharathee Textile Mills Limited

⁵ Puducherry Agro Products, Food and Civil Supplies Corporation Limited

pending from March 2007 in case of one PSU⁶. The Secretary to Government of UT of Puducherry, Finance Department was addressed (January 2016) and his attention was drawn to the need for reconciliation of figures in Finance Accounts and as furnished by the companies in their respective accounts. The UT Government and PSUs should take concrete steps to reconcile the differences in a time bound manner.

Arrears in finalisation of accounts

5.1.11 The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year, *i.e.*, by September end, in accordance with the provisions of Section 96 (1) of the Act. Failure to do so, may attract penal provisions under Section 99 of the Act.

The table below provides the details of progress made by working PSUs in finalisation of accounts as on 30 September 2015.

Table 5.1.6 : Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1	Number of working PSUs	13	13	13	13	12 ⁷
2	Number of accounts finalised during the year	8	17	10	3	14
3	Number of accounts in arrears	25	21	24	34	29
4	Number of working PSUs with arrears in accounts	13	12	12	13	12
5	Extent of arrears (years)	1 to 3	1 to 3	1 to 4	1 to 5	1 to 5

(Source: Details compiled by audit based on certified accounts of Companies)

It can be observed that the number of accounts in arrears had decreased from 34 in 2013-14 to 29 in 2014-15.

The administrative departments have the responsibility to oversee the activities of these entities and ensure that the accounts are finalised and adopted by these PSUs within the stipulated period. The Accountant General (AG), Economic & Revenue Sector Audit, Tamil Nadu has brought out the position of the arrears of accounts to the notice of the Secretary, Finance Department every quarter. As there were arrears in accounts in 12 working PSUs upto 2014-15, their net worth could not be assessed in Audit.

5.1.12 The UT Government had invested ₹ 168.00 crore in nine PSUs ((equity: ₹ 14.04 crore (five PSUs) and grants: ₹ 153.96 crore (nine PSUs)),

⁶ Puducherry Agro Products, Food and Civil Supplies Corporation Limited

⁷ One PSU, *viz.*, Pondicherry Electronics Limited had become a non-working Company and is under the process of winding up

during the years for which accounts have not been finalised, as detailed in **Appendix 5.1**. Due to non-finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not and thus UT Government's investment in such PSUs remained outside the control of Legislature.

Impact of non-finalisation of accounts

5.1.13 As pointed out above (Para 5.1.10 to 5.1.12), the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant Statutes. In view of the above state of arrears of accounts, the actual contribution of PSUs to GSDP for the year 2014-15 could not be ascertained and their contribution to State exchequer was also not reported to the Legislature.

It is, therefore, recommended that:

- The UT Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies, which would be monitored by the cell.
- The UT Government may consider outsourcing the work relating to preparation of accounts, wherever the staff is inadequate or lacks expertise.

Performance of PSUs as per their latest finalised accounts

5.1.14 The financial position and working results of working Government companies are detailed in **Appendix 5.2**. A ratio of PSU turnover to GSDP shows the extent of PSU activities in the UT economy. Table below provides the details of working PSUs turnover and GSDP for a period of five years ending 2014-15.

Table 5.1.7 : Details of working PSUs turnover vis-a-vis GSDP

(₹ in crore)

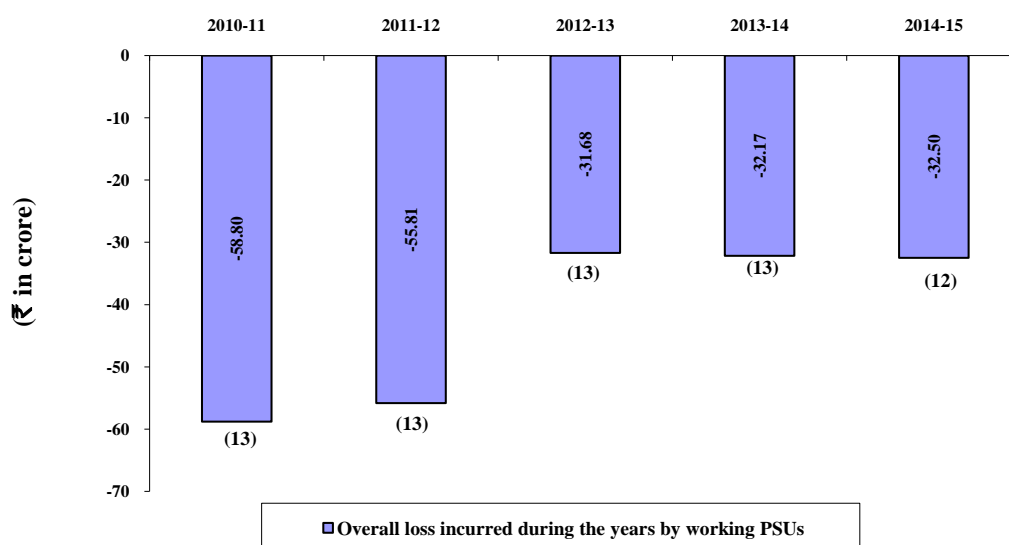
Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Turnover	338.35	336.68	373.92	378.86	401.26
GSDP	13,092	14,661	16,768	21,061	25,819
Percentage of turnover to GSDP	2.58	2.30	2.23	1.80	1.55

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

Turnover of PSUs has increased continuously from 2011-12 to 2014-15 and increased by 19.18 *per cent* in 2014-15 as compared to 2011-12. Percentage of turnover of PSUs to GSDP decreased from 2010-11 to 2014-15.

5.1.15 Overall losses incurred by working PSUs of UT of Puducherry, during 2010-11 to 2014-15, as per the latest finalised accounts are given below in bar chart.

Chart 5.1.2 : Profit/Loss of working PSUs



(Figures in brackets show the number of working PSUs in respective years)

Working PSUs of the UT collectively incurred continuous losses in all the five years ending 2014-15.

As per the latest finalised accounts, out of 12 working PSUs, two PSUs earned a profit of ₹ 13.54 crore and eight PSUs incurred a loss of ₹ 46.04 crore, leading to overall loss. Two⁸ companies neither earned profit nor incurred any loss.

⁸ Puducherry Backward Classes and Minorities Development Corporation Limited and Puducherry Corporation for the Development of Women and Differently Abled Persons Limited

5.1.16 Some other key parameters of PSUs are given below:

Table 5.1.8 : Key parameters of State PSUs

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Return on capital Employed (<i>per cent</i>)	NIL ⁹	NIL	NIL	NIL	NIL
Debt	19.59	15.35	NIL	NIL	12.83
Turnover	338.35	336.68	373.92	378.86	401.26
Debt/turnover ratio	0.06:1	0.05:1	NIL	NIL	0.03:1
Interest payments	10.56	15.15	12.88	12.98	17.12
Accumulated losses	378.51	449.45	496.38	490.12	520.39

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

5.1.17 The Government of UT of Puducherry had not formulated any policy for payment of minimum dividend on the share capital contributed by it. However, two PSUs¹⁰ which earned an aggregate profit of ₹ 13.54 crore, declared a dividend of ₹ 4.52 crore.

Winding up of non-working PSUs

5.1.18 There is one non-working PSU as on 31 March 2015, which is in the process of getting its name struck off from the Register of Companies.

Accounts Comments

5.1.19 Eleven working companies forwarded their 14 audited accounts to Accountant General during the year 2014-15. Of these, six accounts of six companies were selected for supplementary audit. The audit reports of Statutory Auditors appointed by C&AG and the supplementary audit of C&AG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and C&AG are given below:

Table 5.1.9 : Impact of audit comments on working companies

(₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Increase in loss	3	33.22	NIL	NIL	2	8.58
2	Decrease in loss	1	17.78	NIL	NIL	1	0.15
3	Increase in profit	NIL	NIL	NIL	NIL	1	0.42
4	Errors of classification	NIL	NIL	NIL	NIL	1	2.06
	Total	4	51.00	NIL	NIL	4	11.21

(Source: Latest finalised annual accounts of companies)

⁹ NIL indicates that Return on Capital Employed was negative during those years
¹⁰ Puducherry Power Corporation Limited and Puducherry Distilleries Limited

During the year, the Statutory Auditors had given unqualified certificates for nine Accounts and qualified certificates for five accounts. The compliance of companies with the Accounting Standards remained poor, as there were eight instances of non-compliance in five accounts during the year.

Response of the Government to Audit

Performance Audit and Paragraphs

5.1.20 For the Report of the C&AG for the year ended 31 March 2015, one audit paragraph was issued to the Secretary, Industries Department in September 2015, with a request to furnish replies within six weeks. However, the reply in respect of the above para was not received as of January 2016.

Follow-up action on Audit Reports

Replies outstanding

5.1.21 The Report of the C&AG represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. In view of this, the Administrative Departments have to submit replies/explanatory notes to paragraphs/reviews included in the Audit Reports of the C&AG within a period of two months of their presentation to the Legislature in the prescribed format, without waiting for any questionnaires from the Public Accounts Committee (PAC).

Table 5.1.10 : Explanatory notes not received (as on December 2015)

Year of the Audit Report	Date of placement of Audit Report in the UT Legislature	Number of Paragraphs in the Audit Report	Number of Paragraphs for which explanatory notes were not received
2010-11	30.07.2012	2	1
2011-12	29.07.2013	2	2
2012-13	23.09.2014	1	1
2013-14	06.05.2015	1	1
Total		6	5

From the above, it could be seen that out of six paragraphs, explanatory notes to five paragraphs in respect of three departments, which were commented upon, were awaited (December 2015).

Discussion of Audit Reports by PAC

5.1.22 The status as on 31 December 2015 of Performance Audits/paragraphs that appeared in Audit Reports of UT of Puducherry and discussed by PAC, was as under:

Table 5.1.11: Reviews/Paras appeared in Audit Reports vis-a-vis discussed as on 31 December 2015

Period of the Audit Report	Number of paragraphs	
	Appeared in Audit Report	Discussed
2009-10	1	Not yet discussed
2010-11	2	
2011-12	2	
2012-13	1	
2013-14	1	
Total	7	

Compliance to Reports of PAC

5.1.23 Action Taken Notes (ATNs) to 41 recommendations pertaining to three Reports of the PAC presented to the Legislature of UT of Puducherry between February 2011 and March 2015, had not been received (December 2015) as indicated below:

Table 5.1.12: Compliance to PAC Reports

Year of the PAC Report	Total number of PAC Reports	Total number of recommendations in PAC Report	Number of recommendations where ATNs not received
2010-11	2	20	8
2012-13	1	21	15
Total	3	41	23

These Reports of PAC contained recommendations in respect of paragraphs pertaining to seven Departments, which appeared in the Reports of C&AG for the years from 2002-03 to 2008-09.

It is recommended that the Government may ensure (a) sending of replies to Inspection Reports/Explanatory Notes/Draft Paragraphs/Performance Audits and ATNs on the recommendations of PAC as per the prescribed time schedule; (b) recovery of loss/outstanding advances/overpayments within the prescribed period; and (c) revamping of the system of responding to audit observations.

Coverage of this Report

5.1.24 This Chapter contains a paragraph on Pondicherry Industrial Promotion Development and Investment Corporation Limited involving financial effect of ₹ 1.95 crore.

**PONDICHERY INDUSTRIAL PROMOTION DEVELOPMENT
AND INVESTMENT CORPORATION LIMITED**

5.2 Idle investment

Construction of “Export Facilitation Centre” at a cost of ₹ 1.95 crore by utilising the ASIDE grant, without ascertaining the demand, led to idleness of the centre.

Pondicherry Industrial Promotion Development and Investment Corporation Limited (Company) decided (September 2001) to construct a commercial complex on its own land (measuring 190 square metres) at an estimated cost of ₹ 50 lakh.

In the meanwhile, Government of India (GoI) sanctioned (July / December 2002) ASIDE¹¹ grant of ₹ three crore to the Company for utilisation on export oriented activities. Following the receipt (July 2002 and March 2003) of ASIDE grant, the Company decided (June 2003) to construct an “Export Facilitation Centre” (EFC) at an estimated cost of ₹ 2.09 crore in place of the originally envisaged commercial complex.

As there was no response to six tenders floated between November 2003 and June 2008, the Company finally awarded (July 2010) construction of 6,613 square feet (sq.ft.) of four storeyed EFC and completed the work in April 2013 at a cost of ₹ 1.95 crore¹². The EFC, which became ready for occupation in July 2014, after completion of internal electrification works, was lying vacant since then due to lack of demand from entrepreneurs engaged in export business.

In this connection, Audit observed that:

- The Company originally proposed (September 2001) to construct a commercial complex in its land, but changed the proposal to construct EFC only after receipt of the ASIDE grant. Before taking up EFC, the Company did not conduct any feasibility study to ensure the demand for usage of the complex by the exporters.
- Further, even after the delayed start of construction of EFC by seven years from 2003 to 2010, the Company did not review its decision to construct the EFC considering the latest requirements of the export oriented units within Puducherry. However, after constructing the EFC, the Company recorded (March 2015) that there were very few export oriented units within Puducherry, resulting in the EFC not being utilised. Even after drastic reduction (March 2015) of the lease rent at ₹ 30 per sq.ft. per month, against the prevailing market rate of ₹ 80 per sq.ft. per month, the Company could not find a single occupant for EFC

¹¹ Government of India’s Assistance to States for Developing Export Infrastructure

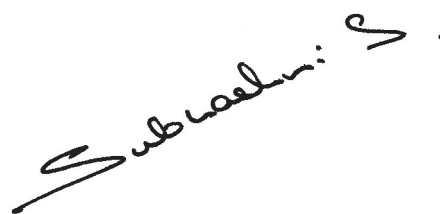
¹² The cost was met from ASIDE grant of ₹ one crore and the Company’s fund of ₹ 0.95 crore

indicating that the Company embarked on this venture without ascertaining its beneficial utilisation by the export oriented units, resulting in the EFC constructed at a cost of ₹ 1.95 crore not being utilised.

The Company replied (September 2015) that it had been taking action to lease out EFC by giving wide publicity. However, verification by Audit revealed that neither had the Company carried out any publicity after July 2014, nor leased out any portion of the EFC as of January 2016.

The matter was reported to the Government in November 2015; their reply was awaited (January 2016).

Chennai
The 04 April 2016



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

Countersigned



New Delhi
The 05 April 2016

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India