CHAPTER – VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

7 General

This chapter deals with the results of audit of Government companies and departmentally managed commercial undertakings.

Paragraphs 7.1.1 to 7.1.16 give an overview of Government companies and departmentally managed commercial undertakings, and paragraphs 7.2 to 7.4 deal with miscellaneous topics of interest.

7.1 Overview of Government companies and departmentally managed commercial undertakings

7.1.1 Introduction

As on 31 March 2006 there were five Government companies (three working companies and two non-working companies[59]) and two departmentally managed commercial undertakings *viz.*, State Transport Services and State Trading Scheme[60] as against same number of Government companies and departmentally managed commercial undertakings as on 31 March 2005 under the control of the State Government. The results of audit of the Power (Electricity) Department are also incorporated in the Commercial chapter (Para 7.1.16 refers). The accounts of the Government companies (as defined in Section 617 of Companies Act, 1956) are audited by Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619(4) of the Companies Act, 1956. The accounts of departmentally managed commercial undertakings are audited by the CAG under Section 13 of CAG's (Duties, Powers and Conditions of Service) Act, 1971.

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59 *Non working Government companies are those that are in the process of liquidation/ closure/merger, etc.*

60 *State Transport Services and State Trading Scheme of Transport Department and Supply Department respectively are commercial in nature and proforma accounts are prepared by them.*

Working Public Sector Undertakings (PSUs)

7.1.2 Investment in working PSUs

As on 31 March 2006, the total investment in three working PSUs (Government companies) was Rs.14.60 crore[61] (equity Rs.9.04 crore and long term loan[62]: Rs.5.56 crore) as against total investment of Rs.16.90 crore (equity : Rs.8.94 crore and long term loans : Rs.7.96 crore) in three working PSUs (Government companies) as on 31 March 2005.

Decrease in investment in 2005-06 as compared to the previous year was mainly due to repayment of loans (Rs.2.40 crore) by PSUs in Forest sector.

The summarised statement of Government investment in the working Government companies in the form of equity and loan is given in **Appendix – XLI**.

As on 31 March 2006, the total investment in working Government companies, comprised 61.92 *per cent* of equity and 38.08 *per cent* of loans as compared to 52.90 *per cent* and 47.10 *per cent* respectively as on 31 March 2005.

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

The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues, and conversion of loans into equity by the State Government to working Government companies are given in **Appendices – XLI & XLIII**.

The budgetary outgo in the form of equity capital, loans and grants/subsidies from the State Government to working Government companies for the three years upto 2005-06 was Rs.nil, Rs.10 lakh and Rs.10 lakh respectively.

The Government had guaranteed the loans aggregating Rs.12 crore obtained by one working Government company (Sl. No.3 of **Appendix – XLIII**) in 2003-04.

At the end of 31 March 2006 the guarantees amounting to Rs.5.56 crore against two Government companies were outstanding.

7.1.4 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 relevant financial year under Section 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with

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61 *State Government investment was Rs.9.04 crore (others :Rs.5.56 crore). Figure as per Finance Accounts 2005-06 is Rs.27.77 crore. The difference is under reconciliation.*

62 *Long term loans mentioned in the para 6.1.2 and 6.1.8 are excluding interest accrued and due on such loans.*

Section 19 of the Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of financial year.

It can be seen from **Appendix – XLII** that none of the three working Government companies had finalised their accounts for the year 2005-06 within the stipulated period. During the period from August 2005 to September 2006 only one working Government company finalised its account for the year 2004-05.

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

Table 7.1

Sl. No.	Number of working Government companies	Year from which accounts are in arrears	Number of years for which accounts are in arrear	Reference to Sl. No. of Appendix-XLII
1.	1	2005-06	1	1
2.	1	1999-2000 to 2005-06	7	3
3.	1	1994-95 to 2005-06	12	2

It is the responsibility of the Administrative Departments to oversee and ensure that the accounts are finalised and adopted by the companies within prescribed period. Though the concerned Administrative Departments and officials of the Government were apprised quarterly by the Audit regarding arrears in finalisation of the accounts, no effective measures have been taken by the Government and, as a result, the net worth of these Government companies could not be assessed in audit.

7.1.5 Financial position and working results of working PSUs

The summarised financial results of working PSUs (Government companies) as per their latest finalised accounts are given in **Appendix – XLII**.

According to the latest finalised accounts of three working Government companies all the three companies had incurred an aggregate loss of Rs.4.97 crore.

7.1.6 Loss incurring working Government companies

One company, out of the three loss incurring working Government companies, (Sl. No.1 of **Appendix – XLII**) had accumulated losses amounting to Rs.16.80 crore which has eroded its paid up capital of Rs.2.07 crore.

7.1.7 Return on capital employed

As per the latest annual accounts finalised upto September 2006, the capital employed[63] worked out to Rs.49.26 crore and total return[64] thereon amounted to Rs.(-) 4.02 crore as compared to total return of Rs.(-) 5.40 crore in the previous year. The details of capital employed and total return on capital employed in case of working Government companies are given in **Appendix – XLII**.

Non-working Public Sector Undertakings (PSUs)

7.1.8 Investment in non-working PSUs

As on 31 March 2006, the total investment in two non-working PSUs (Government companies) was Rs.3.15 crore (equity: Rs.0.42 crore and long term loans: Rs.2.73 crore). There was no change in the total investment as compared to 2004-05.

The plants of both the non-working Government companies remained inoperative from December 1986 and July 1987 and all the employees had been retrenched. Although no budgetary support was extended during 2005-06 to the non-working companies for disbursement of salaries and wages, the proposals for disposal of assets (including plant and machinery) of the companies were pending for long with the Government.

7.1.9 Finalisation of accounts of non-working Government companies

The accounts of two non-working companies were in arrear for periods ranging from 19 to 22 years as on 30 September 2006 as can be seen from **Appendix – XLII**.

7.1.10 Financial position and working results of non-working Government companies

The summarised financial results of non-working Government companies as per their latest finalised accounts are given in **Appendix – XLII**.

The summarised details of paid-up capital, net worth, cash loss and accumulated loss of one non-working PSU (Sl. No.4 of **Appendix – XLII**) as per its latest finalised accounts are given below while the other non-working PSU (Sl. No.5 of **Appendix – XLII**) was in construction stage.

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63 *Capital employed represents net fixed assets (including capital work-in-progress) plus working capital except in case of Arunachal Pradesh Industrial Development and Financial Corporation Limited, where it represents a mean of aggregate of opening and closing balances of paid-up-capital, free reserves and borrowings (including refinance).*

64 *For calculating total return on capital employed, interest on borrowed fund is added to net profit/subtracted from the loss as disclosed in profit and loss account.*

Table 7.2

(Rupees in lakh)

Year	Paid-up capital	Net worth[65]	Cash loss[66]	Accumulated loss
1986-87	13.50	83.42	1.78	15.40

7.1.11 Internal Audit

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal audit/internal control systems in the companies audited by them 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 need improvement. Accordingly, the Statutory Auditors in their reports qualified that one Company (Sl. No.1 of **Appendix – XLII**) did not have any internal audit system.

7.1.12 Recommendations for improving performance or closure of Government companies

Even after completion of 28 years of its existence, the turnover of one working Government company, *viz.*, Arunachal Pradesh Industrial Development and Financial Corporation Limited, had been less than Rupees five crore in each of the preceding five years of the latest finalised accounts. The Company also had been incurring losses for five consecutive years (as per latest finalised accounts) leading to negative net worth of Rs.13.29 crore. In view of poor turnover and continuous losses, the Government may take measures either to improve the performance of the Company or consider its closure.

7.1.13 Response to Inspection reports, draft paras and reviews

Observations made during audit and not settled on the spot are communicated to the heads of the companies and concerned Departments of State Government through Inspection reports. The heads of the offices/companies are required to furnish replies to the Inspection reports through respective Heads of Departments within a period of six weeks. Inspection reports issued upto March 2006 pertaining to seven Government companies/departmental commercial undertakings and Power (Electricity) Department disclosed that 368 paragraphs relating to 63 Inspection reports remained outstanding at the end of September 2006. Of these, 24 Inspection reports containing 98 paragraphs had not been replied to for more than five years. Department-wise break-up of Inspection reports and audit observations outstanding as on 30 September 2006 is given in **Appendix – XLIV**.

Similarly, draft paragraphs and reviews on the working of the Government companies and departmentally managed commercial undertakings are forwarded to the Principal Secretary/Secretary of the Administrative

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65 *Net worth represents paid up capital plus free reserves less accumulated loss.*

66 *Cash loss represents loss for the year less depreciation for the year.*

Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Three draft paragraphs which were forwarded to the Department of Power and Environment and Forest Department during April and June 2006 as detailed in **Appendix – XLV** have not been replied to so far (November 2006).

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 is taken to recover loss/outstanding advances/overpayments in a time bound schedule and (c) the system of responding to audit observations is revamped.

7.1.14 Position of discussion of commercial chapter of Audit Report by the Committee on Public Undertakings (COPU)/Public Accounts Committee (PAC)

The position of reviews/paragraphs of Commercial Chapter of Audit Reports discussed in COPU/PAC as on 31 March 2006 was as follows:

Table 7.3

Period of Audit Reports	Total number of reviews/ paragraphs appeared in Audit Report		Number of reviews/paragraphs discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
1987-1988	2	2	2	1
1988-1989	-	3	-	2
1989-1990	-	1	-	-
1990-1991	1	1	1	1
1991-1992	-	4	-	3
1992-1993	1	1	1	1
1993-1994	1	3	1	3
1994-1995	-	5	-	3
1995-1996	-	2	-	1
1996-1997	-	5	-	3
1997-1998	-	4	-	3
1998-1999	1	4	-	-
1999-2000	1	4	-	-
2000-2001	-	6	-	3
2001-2002	1	7	-	4
2002-2003	-	4	-	3
2003-2004	1	4	-	-
2004-2005	-	3	-	-

7.1.15 Departmentally managed Government commercial and quasi-commercial undertakings

Though the State Transport Services and the State Trading Scheme (Central Purchase Organisation) of Transport and Supply Directorates are commercial in nature and are functioning as such, they had not been declared as commercial organisations by the Government (November 2006).

Preparation of proforma accounts of the State Transport Services for 2005-06 and of the State Trading Scheme for 2002-03 to 2005-06 were in arrears. The arrear in finalisation of accounts was last brought to the notice of the Government in October 2006.

The financial position, working results and operational performance of the State Transport Services for the three years upto 2004-05 as per finalised accounts are given in **Appendix – XLVI**.

During last three years upto 2004-05, the State Transport Services had incurred operating losses varying from Rs.8.76 crore to Rs.20.26 crore and net losses varying from Rs.14.17 crore to Rs. 26.38 crore. As on 31 March 2005, the accumulated loss stood at Rs.147.14 crore which was 93.06 *per cent* of capital of Rs.158.12 crore. As analysed in audit, the losses were attributable to high incidence of operating expenditure which increased from Rs.15.73 crore in 2002-03 to Rs.21.09 crore in 2004-05; poor load factor for low density of population; concession to students and staff; operation on un-economic routes; competition from private bus/sumo operators and high percentage of off-road vehicles.

The working results of the State Trading scheme for the three years upto 2001-02 as per finalised accounts are given in **Appendix – XLVII**.

With effect from September 1975, the selling price of each commodity had been fixed by adding 30 *per cent* to cost price to cover the overhead charges.

During the three years upto 2001-02, the actual overhead charges worked out to a higher percentage as follows:

Table 7.4

(Rupees in lakh)

		1999-00	**2000-01**	**2001-02**
1.	Overhead charges (items (b) and (c) of trading expenses)	263.64	216.40	390.95
2.	Cost of procurement (opening stock plus purchases less closing stock)	399.17	396.57	239.59
3.	Percentage of overhead cost to cost of procurement (percentage of 1 to 2)	66.05	54.57	163.17

The reasons for higher percentage of overhead charges to cost of procurement was attributable to high incidence of establishment and contingent charges which alone constituted 49.08 *per cent*, 50.99 *per cent* and 121.79 *per cent* of cost of procurement during the three years respectively.

7.1.16 Power (Electricity) Department

The operational performance of the Department for the last three years upto 2002-03 is given in **Appendix – XLVIII**. Submission of performance data for 2003-04, 2004-05 and 2005-06 by the Department is awaited (November 2006).

The Auxiliary Consumption was excessively high ranging from 7.41 to 8.46 *per cent* of total power generated.

The transmission and distribution (T&D) losses ranged from 49.22 to 56.12 *per cent* to total power available for sale as against the norms of 15.5 *per cent* fixed by the Central Electricity Authority (CEA). During three years upto 2002-03, the excess T&D loss beyond norm was 172 MU (Rs.27.81 crore in financial terms).

During the three years upto 2002-03, the losses per unit sold were Rs.6.27, Rs.6.13 and Rs.4.44 respectively. The total expenditure during the period was Rs.57.82 crore, Rs.57.85 crore and Rs.53.55 crore respectively as against revenue of Rs.13.60 crore, Rs.11.79 crore and Rs.12 crore in respective years. The Department incurred losses amounting to Rs.44.22 crore, Rs.46.06 crore and Rs.41.55 crore during the three years upto March 2003 respectively.

PARAGRAPHS

POWER DEPARTMENT

7.2 Extending undue favour to a consumer

Undue favour to a consumer through non observance of the provisions of the power purchase agreement and consequent short/non-billing of energy valued at Rs.3.12 crore and surcharge of Rs.0.74 crore.

Department of Power (DOP), entered into (April 2004) a Power Purchase Agreement (PPA) with Adani Exports Limited (AEL), Ahmedabad to sell surplus energy during peak and off-peak hours. The delivery point of energy was Bongaigaon sub-station of Power Grid Corporation of India Limited.

The PPA, *interalia*, provided that the energy supplied by the DOP at the delivery point, as measured by North Eastern Regional Electricity Board (NEREB) in its Regional Energy Accounting (REA), would be treated as energy supplied to AEL. The total energy supplied by DOP to AEL during the month would be based on the REA issued by NEREB. This would form the basis for monthly billing and would be binding on both the parties. Surcharge of 18 (eighteen) *per cent* would be levied on all outstanding dues in case the payments were not released by AEL within 30 days of the receipt of the bill from the Government (clause 4.3.2).

Scrutiny of records (November 2005) by Audit of Executive Engineer, Capital Electrical Division (CED) of DOP revealed that CED had, during the period from May 2004 to March 2005 raised energy bills for 159.60 million units on AEL. The bills were raised without taking into account the energy transmitted as per REA. Verification of REA, however, revealed that DOP had supplied 175.19 million units during the same period. It was noticed that no bill was raised for the month of July 2004 for the supply of energy. The bill for July 2004 was 74 *per cent* of the total difference.

Thus, DOP had not raised the bills as per the REA and had extended undue favour to AEL by not/short billing for Rs.3.12 crore[67] besides non-levy of surcharge of Rs.0.74 crore.

The matter was reported to the Department and Government in April 2006; their replies are awaited (November 2006).

7.3 Unfruitful expenditure

Unfruitful expenditure of Rs. 1.29 crore due to faulty execution of a project besides forgoing revenue amounting to Rs. 1.12 crore.

Miao Electrical Division (MED) of Department of Power (DOP) Government of Arunachal Pradesh prepared a project report (March 2001) for construction

[67] *1,55, 91,353 units @ Rs.2 per unit is Rs. 3.12 crore. (17,51,87,905-15,95,96,552).*

of 33 KV line from Margherita to Changlang at an estimated cost of Rs. 1.29 crore to be completed within 24 months from the date of sanction/allocation of funds. The project report was submitted to the Chief Engineer (CE) for Government approval which was approved in July 2001. The project was to be funded from Rural Infrastructure Development Fund (RIDF). The annual revenue after completion of the project was estimated at Rs. 0.71 crore.

The objectives of the project were (a) to reduce the line losses (b) sale of extra energy by drawing more power from central grid; and (c) saving of the operating and maintenance cost of diesel generating sets.

MED started the work on the project in December 2001 and completed the same in January 2005 at a cost of Rs. 1.29 crore.

The line, however, could not be energised due to:

- Non-availability of feeder line at Margherita as the feeder line was located at Ledo, which is six Kilometers away from Margherita; and
- Non-installation, testing and commissioning of 2 X 1.63 MVA 33/11 KV Switchyard at Changlang.

Thus, the project was executed without considering the requirement of feeder line at Margherita and also without providing for the 33/11 KV switchyard at Changlang. This led to unfruitful expenditure of Rs.1.29 crore besides forgoing the projected revenue of Rs. 1.12[68] crore from January 2005 to July 2006.

The matter was reported to the Department and Government in June 2006; their replies are awaited (November 2006).

ENVIRONMENT AND FOREST DEPARTMENT

ARUNACHAL PRADESH FOREST CORPORATION LIMITED

7.4 Avoidable loss

Non-execution of agreement and non-collection of security deposit resulted in an avoidable loss of Rs.13.98 lakh.

The Divisional Manager (DM) of Arunachal Pradesh Forest Corporation Limited (APFCL) submitted (April 2003) to the Managing Director (MD) the details of rates offered by bidders for disposal of Green Tea Leaves (GTL).

68 *Annual revenue of Rs. 71 lakh for 19 months from January 2005 to July 2006. =71/12x19=Rs. 1.1241 crore.*

These rates were communicated for the purpose of entering into agreements with the successful bidders for disposal of the GTL from Mopa Tea Estate (MTE) for the season 2003-04. Amongst the rates communicated by the DM, rate of Agro Chemical Center (firm) was the highest at Rs. 6.76 per kg of GTL.

The MD instructed the DM in (April and May 2003) to enter into Agreement with the firm and collect security deposit in the form of FDR as per the terms and conditions of Notice Inviting Tender (NIT). The DM communicated (June 2003) the refusal of the firm for depositing the security in FDR form and proposed to collect the same in the form of bank guarantee, which was accepted by the APFCL (July 2003).

Audit scrutiny revealed that the DM without collecting the security deposit or entering into any agreement started supplying the GTL from April 2003. Upto January 2004 APFCL had supplied 4.24 lakh KGs of GTL worth Rs.28.65 lakh to the firm .The firm stopped procuring GTL after January 2004 and paid only Rs.14.67 lakh (upto December 2004) leaving a balance of Rs.13.98 lakh which is still outstanding (July 2006).

Thus, non-execution of agreement and non-collection of security deposit, resulted in avoidable loss of Rs.13.98 lakh (Rs.28.65 lakh less Rs.14.67 lakh).

The matter was reported to Management and Government in June 2006; their replies are awaited (November 2006).

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