

## CHAPTER – VIII

### GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

#### 8 General

This chapter deals with the results of audit of Government companies and Departmentally managed commercial undertakings. Paragraph 8.1 gives a general view of Government companies and Departmentally managed Commercial undertakings and Paragraph 8.2 deals with miscellaneous topics of interest.

#### *8.1 Overview of Government Companies and Departmentally managed Commercial undertakings*

##### *Introduction*

**8.1.1** As on 31 March 2001 there were five Government companies (all working) and two Departmentally managed Commercial undertakings *viz.*, State Trading Scheme under Food and Civil Supplies Department and Mizoram State Transport under Transport Department as against same number of Government companies and Departmentally managed Commercial undertakings as on 31 March 2000 under the control of the State Government. 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 of the Companies Act, 1956. The accounts of Departmentally managed Government Commercial undertakings are audited solely by the CAG under Section 13 of CAG's (Duties, Powers and Conditions of Service) Act, 1971.

##### *Working Government Companies*

**8.1.2** Total investment in five working Government companies as on 31 March 2001 was Rs.41.51 crore (equity : Rs.34.91 crore; long term loans : Rs.3.23 crore; share application money : Rs.3.37 crore) as against total investment of Rs.36.36 crore (equity : Rs.31.80 crore; long term loan : Rs.2.24 crore; share application money : Rs.2.32 crore) as on 31 March 2000.

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

**8.1.4** As on 31 March 2001, of total investment in Government companies, 92.22 per cent comprised equity capital and 7.78 per cent comprised loans compared to 93.84 per cent and 6.16 per cent respectively as on 31 March 2000.

**8.1.5** Due to significant increase of long term loans amounting to Rs.1.83 crore in Industrial Development and Financing Sector, the debt equity ratio has increased from 0.07:1 in 1999-2000 to 0.08:1 in 2000-2001.

***Budgetary outgo, grants, subsidies, Guarantees, waiver of dues and conversion of loan into equity***

**8.1.6** The details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loan into equity by State Government to working Government companies are given in **Appendices – XXV and XXVI**.

**8.1.7** The budgetary outgo from State Government to the working Government companies for the three years upto 2000-2001 in the form of equity capital and grant/subsidy is given below :

**Table 8.1**

	(Rupees in crore)					
	1998-99		1999-2000		2000-2001	
	Companies		Companies		Companies	
	No.	Amount	No.	Amount	No.	Amount
Equity Capital	3	1.07	4	1.99	5	3.03
Grants/subsidy	2	0.49	1	0.04	-	-
<b>Total :</b>	<b>5<sup>#</sup></b>	<b>1.56</b>	<b>4<sup>#</sup></b>	<b>2.03</b>	<b>5<sup>#</sup></b>	<b>3.03</b>

**8.1.8** During the year 2000-2001, the Government had guaranteed the loans aggregating Rs.2.50 crore obtained by one Government company. At the end of the year guarantees amounting Rs.3.23 crore were outstanding. The repayment of Rs.3.23 crore (Zoram Industrial Development Corporation Limited : Rs.3.03 crore and Mizoram Food and Allied Industries Corporation Limited : Rs.0.20 crore) became overdue and action thereagainst was awaited. No guarantee commission was payable to the Government by the Government companies.

<sup>#</sup> These are the actual number of companies which have received budgetary support in the form of equity, loans, grants and subsidy from the State Government during respective years.

### ***Finalisation of accounts by the working Government Companies***

**8.1.9** 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 Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of 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.

**8.1.10** However, as could be noticed from **Appendix – XXVII**, out of 5 working Government companies only one company *viz.*, Zoram Industrial Development Corporation Limited had finalised its accounts for 2000-2001 within stipulated period. During the period from October 2000 to September 2001, 4 working Government companies finalised 4 accounts relating to previous years.

**8.1.11** The accounts of four Government companies were in arrears for periods ranging from 3 to 9 years as on 30 September 2001 as detailed below :-

**Table 8.2**

<b>Sl. No.</b>	<b>Year from which accounts are in arrear</b>	<b>Number of years for which accounts are in arrear</b>	<b>No. of companies</b>	<b>Reference to Sl. No. of Appendix - XXVII</b>
1.	1998-99	3	2	2 & 4
2.	1997-98	4	1	3
3.	1992-93	9	1	5

**8.1.12** The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within prescribed period. Though the concerned administrative departments and officials of the Government were appraised quarterly by the Audit regarding arrears in finalisation of accounts, no effective measures had been taken by the Government and as a result, the investments made in these Government companies could not be assessed in audit.

### ***Financial Position and Working results of Working Government Companies***

**8.1.13** The summarised financial results of working Government companies as per latest finalised accounts are given in **Appendix-XXVII**.

**8.1.14** One company *viz.*, Mizoram Agricultural Marketing Development Corporation Limited has not finalised its accounts since inception. According

to latest finalised accounts (upto September 2001) the remaining four Government companies had incurred an aggregate loss of Rs.2.89 crore.

### ***Return on Capital Employed***

**8.1.15** As per the latest finalised accounts (upto September 2001), the capital employed<sup>#</sup> worked out to Rs.47.91 crore in four Government companies but return<sup>†</sup> thereon was negative (-Rs.1.73 crore). The details of capital employed and total return on capital employed are given in **Appendix – XXVII**.

### ***Results of audit by Comptroller and Auditor General of India***

**8.1.16** During the period from October 2000 to September 2001, the audit of accounts of 4 working Government companies were selected for review. The net impact of the important audit observations as a result of review of the companies were as follows:

**Table 8.3**

	<b>Details</b>	<b>No. of accounts</b>	<b>Rupees in lakh</b>
(i)	Decrease in profit	---	---
(ii)	Increase in profit	---	---
(iii)	Increase in loss	2	154.57
(iv)	Decrease in loss	1	0.37
(v)	Non-disclosure of material facts	---	---
(vi)	Errors of classification	---	---

**8.1.17** Some of the major errors and omissions noticed in the course of review of annual accounts of some of the above companies are mentioned below:-

### ***Zoram Industrial Development Corporation Limited (Accounts for 2000-2001)***

**8.1.18** Loans amounting to Rs.942.80 lakh have not been classified and provided for in accounts as Bad and Doubtful Debts as per RBI Guidelines. As a result, accumulated loss has been understated besides overstatement of loans by Rs.942.80 lakh.

<sup>#</sup> Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in the case of Zoram Industrial Development Corporation Limited where it represents a mean of the aggregate of opening and closing balances of paid-up capital, free reserves and borrowings (including refinance).

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

***Recommendations for improvement in performance or closure of Government companies***

**8.1.19** Even after completion of five years of their existence, the turnover of four working Government Companies have been less than Rs.5 crore in each of the preceding five years of latest finalised accounts. Similarly, all four Government Companies had been incurring losses for five consecutive years (as per latest finalised accounts). In view of poor turnover and continuous losses, the Government may either improve performance of above Government Companies or consider their closure.

***Departmentally managed Government Commercial and quasi-Commercial Undertaking***

**8.1.20** As on 31 March 2001, there were two departmentally managed Commercial undertakings viz., State Trading Scheme under Food and Civil Supplies Department and Mizoram State Transport under Transport Department.

**8.1.21** The proforma accounts of State Trading Scheme under Food and Civil Supplies Department had been finalised upto 1997-1998. Submission of proforma accounts for the years 1998-1999 to 2000-2001 were in arrears (October 2001). Delay in finalisation of proforma accounts was last brought to the notice of the Government (October 2001).

**8.1.22** The accumulated loss of State Trading Scheme as on 31 March 1998 (after provision of interest on Government Capital amounting to Rs.49.66 crore) was Rs.45.68 crore. The summarised working results of State Trading Scheme for the three years upto 1997-1998 are tabulated below:

**Table 8.4****(Rupees in crore)**

<b>Particulars</b>	<b>1995-96</b>	<b>1996-97</b>	<b>1997-98</b>
<b>A. Income</b>			
(i) Sale of foodstuffs	51.87	60.45	84.02
(ii) Transport subsidy	8.52	9.64	18.89
(iii) Other income	0.02	0.08	---
(iv) Increase (+)/Decrease (-) in stock (closing stock less opening stock)	(+) 10.51	(+) 0.94	(-) 6.31
<b>Total 'A'</b>	<b>70.92</b>	<b>71.11</b>	<b>96.60</b>
<b>B. Expenditure</b>			
(i) Purchase of foodstuffs	62.38	61.39	73.26
(ii) Transportation Charges	7.99	9.14	18.89
(iii) Employees cost	0.77	0.80	-
<b>Total 'B'</b>	<b>71.14</b>	<b>71.33</b>	<b>92.15</b>
1. Trading Profit (+)/ Loss (-) (A+B)	(-) 0.22	(-) 0.22	(+) 4.45
2. Interest on Government capital	3.14	3.61	4.38
3. Net profit (+)/loss (-)	(-) 3.36	(-) 3.83	(+) 0.07

**8.1.23** The Scheme was to run on 'no profit no loss basis' so that maximum benefit can be given to the general public recovering from them only cost price of foodstuff and incidental charges as far as possible. During 1995-1996 and 1996-1997, the Scheme incurred trading losses amounting to Rs.0.22 crore and Rs.0.22 crore respectively mainly due to short reimbursement of transport subsidy by the Food Corporation of India. During 1997-1998, there was trading profit of Rs.4.45 crore mainly due to increase in ex-godown price by the Department consequent on increase of central issue price of PDS items by the Central Government coupled with higher quantity of stock sold at increased rate.

**8.1.24** Audit of proforma accounts of the scheme for 1997-1998 revealed the following points:

**8.1.25** Employee's cost amounting to Rs.78.43 lakh has not been provided in the accounts. Sales for the year has been understated by Rs.15.39 lakh due to non-accountal of value of 1920.82 quintals of rice issued to refugees and realisable from the Deputy Commissioners. Taking these into consideration, the trading profit for the year (Rs.445.93 lakh) would come down to Rs.382.89 lakh and the net profit of Rs.7.80 lakh as per accounts would turn into net loss of Rs.55.25 lakh.

**8.1.26** The blocked fund on Sundry Debtors had led to incidence of interest on capital amounting to Rs.340.03 lakh, Rs.344.26 lakh and Rs.227.43 lakh respectively during three years upto 1997-1998. This had adversely effected the net working results of the scheme.

**8.1.27** Sundry Debtors included Rs.306.79 lakh realisable from Administrative Officers (AOs)/Block Development Officers (BDOs) responsible for shortage of foodstuff, supply and sale proceeds but this amount differs from Rs.143.52 lakh as per Register maintained as control ledger in the Directorate due to non-posting of all the cases therein.

**8.1.28** Further, examination of cases revealed that an amount of Rs.143.37 lakh realisable from 21 AOs/BDOs falling under the following categories had become irrecoverable, the write off orders for which have not been obtained from Government:

**Table 8.5**

(Rupees in lakh)

Sl. No.	Status of Cases	No. of cases	Amount
1.	Expired	4	29.67
2.	Terminated/removed/discharged from service	4	26.16
3.	Charges exonerated/dropped by Government	10	48.18
4.	Retired /resigned from service	2	16.02
5.	Exonerated by Hon'ble Court	1	23.34
<b>Total :</b>		<b>21</b>	<b>143.37</b>

**8.1.29** The working results and operational performance of Mizoram State Transport for the three years ended 31 March 2001 are given in **Appendix – XXVIII**.

**8.1.30** It may be seen from the Appendix that during the three years upto 2001, the State Transport Services had incurred operating losses amounting to Rs.3.44 crore, Rs.4.34 crore and Rs.5.73 crore and net losses amounting Rs.6.73 crore, Rs.8.69 crore and Rs.11.01 crore respectively. The reasons for incurring heavy losses were attributable to poor utilisation of buses (47 to 51 *per cent*), low load factor (Occupancy) of 52.40 to 64 *per cent*, poor operation of buses per day (54.84 to 61.90 kilometers), incorporation of unapportioned salaries/wages and expenses of other functional units of Transport Directorate as expenses of MST, and high incidence of salary and allowances and other operating expenses. The loss per kilometer operated during the three years upto 2000-2001 were Rs.20.55, Rs.24.19 and Rs.33.97 respectively.

***Response to Inspection Reports, Draft Paras and Reviews***

**8.1.31** Observations made during audit and not settled on the spot are communicated to the head of the companies and concerned departments of State Government through Inspection Reports. The heads of companies/ offices 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 2001 pertaining to 8 Government companies/ Departmental Undertakings disclosed that 359 paragraphs relating to 79 Inspection Reports remained outstanding at the end of September 2001. Of these, 5 Inspection Reports containing 16 paragraphs had not been replied for more than 6 years. Department-wise break-up of Inspection Reports and Audit observations outstanding as on 30 September 2001 is given in **Appendix-XXIX**.

**8.1.32** 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 department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that the replies to 3 draft paragraphs forwarded to various departments during March 2001 to June 2001 as detailed in **Appendix-XXX**, had not been received.

**8.1.33** It is recommended that (a) the Government should ensure that procedure exists for action against the officials who fail to send replies to Inspection Reports/draft paragraphs/reviews as per time schedules, (b) action to recover loss/outstanding advances/overpayment in a time bound schedule, and (c) revamping the system of responding to the audit observations.

***Position of discussion of Commercial Chapter of Audit Reports by the Committee on Public Undertakings/Public Accounts Committee***

**8.1.34** The reviews/paragraphs of commercial Chapter of Audit Reports pending discussion as on 31 December 2001 by the Committee on Public Undertakings (COPU) are shown below:



**Table 8.6**

Period of Audit Reports	Total number of Reviews/Paragraphs appeared in Audit Report		Number of Reviews/Paragraphs pending discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1983-84	2	1	2	1
1985-86	-	2	-	2
1988-89	1	5	1	-
1989-90	-	6	-	5
1990-91	1	3	1	-
1992-93	-	5	-	4
1993-94	-	4	-	3
1995-96	1	4	1	1
1996-97	-	4	-	3
1997-98	1	3	-	1
1998-99	-	3	-	3
1999-2000	1	6	1	6

**8.1.35** Recommendations on 2 reviews (1 review in full and 2 sub paras of another review) and 6 paragraphs pertaining to the years 1995-1996, 1996-1997 and 1997-1998 were made by COPU in its 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> Reports presented to the House in October 2001. However, Action Taken Notes on the recommendations of COPU are awaited (December 2001).

***Electricity (Power) Department***

**8.1.36** The Department has not prepared proforma accounts pending constitution of State Electricity Board. The matter was last referred to the Chief Secretary in August 2001.

**8.1.37** The operational performances of the Department for the last three years upto 2000-2001 are given in **Appendix – XXXI**.

**8.1.38** The total expenditures on power sold during three years upto 2000-2001 were Rs.43.08 crore, Rs.51.74 crore and Rs.76.82 crore as against the revenue of Rs.8 crore, Rs.9.68 crore and Rs.20.33 crore respectively. The losses incurred during three years upto 2000-2001 were Rs.35.08 crore, Rs.42.06 crore and Rs.56.49 crore respectively.

**8.1.39** The percentage of transmission and distribution (T&D) losses varied from 43.98 to 45.95 *per cent* as against 15.5 *per cent* (norm) fixed by the Central Electricity Authority. During the three years upto 2000-2001, the excess T&D losses over norm was 195.62 million units and the loss thereof was Rs.20.69 crore worked out at average revenue per unit.

## SECTION – B – PARAGRAPHS

### FOOD AND CIVIL SUPPLIES DEPARTMENT

#### 8.2 Misappropriation of Rice

**Shortage of 1853.58 quintals of rice valued at Rs.20.77 lakh at ex-godown price in Pullen and Saitual godowns entailed misappropriation.**

**8.2.1** As envisaged vide Paragraph 5.5.(V) of Supply Manual no shortage of rice due to drainage/shrinkage is allowed since the commodity purchased from Central stock and sent for storage in godowns have already passed the initial stages of storage elsewhere, and there is no further chance of losses due to drainage/shrinkage. Further, the officer in-charge of the concerned centre would be responsible for proper maintenance of stock in the godown.

**8.2.2** Test check (March 2001) of stock accounts of two centres under control of the District Civil Supply Officer 'East' (DCSO 'E') revealed the following irregularities:

**8.2.3** In Pullen Centre, though the actual closing stock of grade 'A' rice as on 31 July 2000 was 2084.77 quintals, the opening stock on 01 August 2000 was shown as 515.49 quintals only by the relieved store keeper who also physically handed over the said quantity to the relieving store keeper on 01 August 2000. The new store keeper, accordingly, opened the stock account from 01 August 2000 with the physically handed over stock (515.49 quintals). This resulted in misappropriation of 1569.28 quintals of grade 'A' rice valuing Rs.18.52 lakh worked out at issue (ex-godown) rate of Rs.1180 per quintal .

**8.2.4** Similarly, during the change of incumbency on 11 June 1997 in Saitual Centre of Serchhip PDC, 284.30 quintals of superfine (Gr. 'A') rice valuing Rs.2.25 lakh at issue (ex-godown) rate of Rs.790 per quintal were found short as per stock accounts.

**8.2.5** On the above facts, being pointed out in audit (May 2000), the DCSO, Aizawl (East) stated (July 2001) that the delinquent SIFCS of Pullen Centre has been placed under suspension with effect from 13 June 2001, while in respect of shortage at Serchhip Centre the matter was stated to have been reported to Government in July 2001. Further developments of the cases including recovery of value of stock and deposit of the same into Government account were awaited (August 2001).

**8.2.6** The above matters were reported to the Government in May 2000, replies have not been received (December 2001).

## **POWER AND ELECTRICITY DEPARTMENT**

### **8.3 Injudicious purchase and locking up of Government Fund**

**Injudicious and unnecessary purchase of electrical stores resulted in locking up of Government money to the tune of Rs.114.47 lakh besides entailing risk of loss due to prolonged storage.**

**8.3.1** General Financial Rules provide that purchase of stores shall be made in accordance with definite requirements and care shall be taken not to purchase stores much in advance of actual requirement.

**8.3.2** During test check (September 2000) of records of Electrical Stores Division, Aizawl, it was seen that the Division was having a balance of Rs.81.20 lakh of certain electrical items as on 1 April 1999 but even then purchase of these items valuing Rs.37.44 lakh were made during the period from May 1999 to November 1999 and out of total stock valued at Rs.118.64 lakh, material worth Rs.4.17 lakh was only issued.

**8.3.3** This has resulted in injudicious and unnecessary purchase of materials without assessing actual requirement and locking up Government money to the tune of Rs.114.47 lakh.

8.3.4 The matter was reported to the Department/Government in December 2000 and September 2001; their replies have not been received (December 2001).

Shillong  
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