

**CHAPTER VII**  
**GOVERNMENT COMMERCIAL**  
**AND TRADING ACTIVITIES**



## GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

### 7.1 Introduction

This Chapter deals with Government companies and departmentally managed commercial undertakings. Paragraphs 7.2 to 7.13 give an overview of the Government companies and the Government's investment in the Public Sector Undertakings.

### 7.2 Overview of Government companies

As on 31 March 2005 there were 11 Government companies including one subsidiary company under the control of the Government of Pondicherry. The Union Territory had the same number of Government companies as on 31 March 2004. 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 conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956.

### 7.3 Working Public Sector Undertakings (PSUs)

#### Investment in working PSUs

7.3.1 Total investment in Government companies in the form of equity and loans as on 31 March 2004 and 31 March 2005 was as under:

Year	Number of companies	Investment			Total
		Equity	Share application money	Long term loans <sup>1</sup>	
2003-04	11	428.67	1.00	8.14	437.81
2004-05	11	449.72	2.00	3.79	455.51 <sup>2</sup>

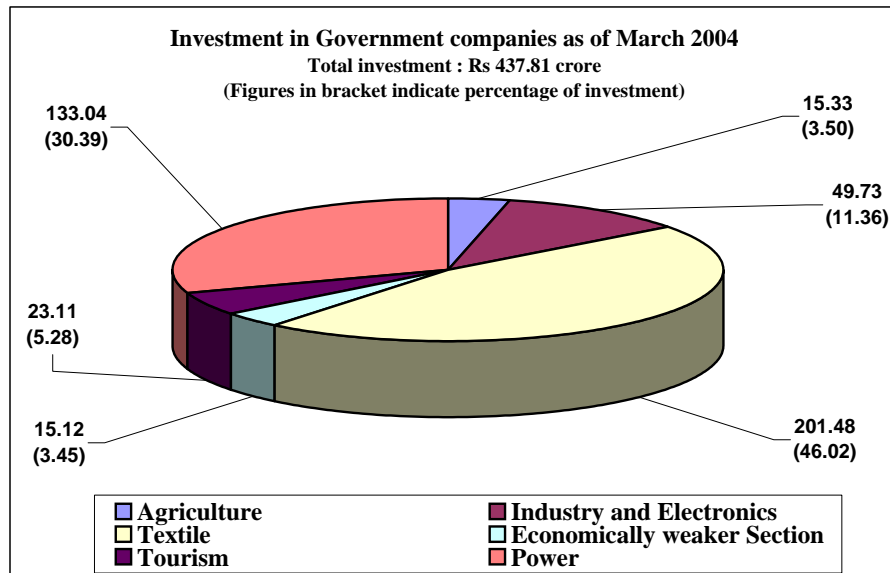
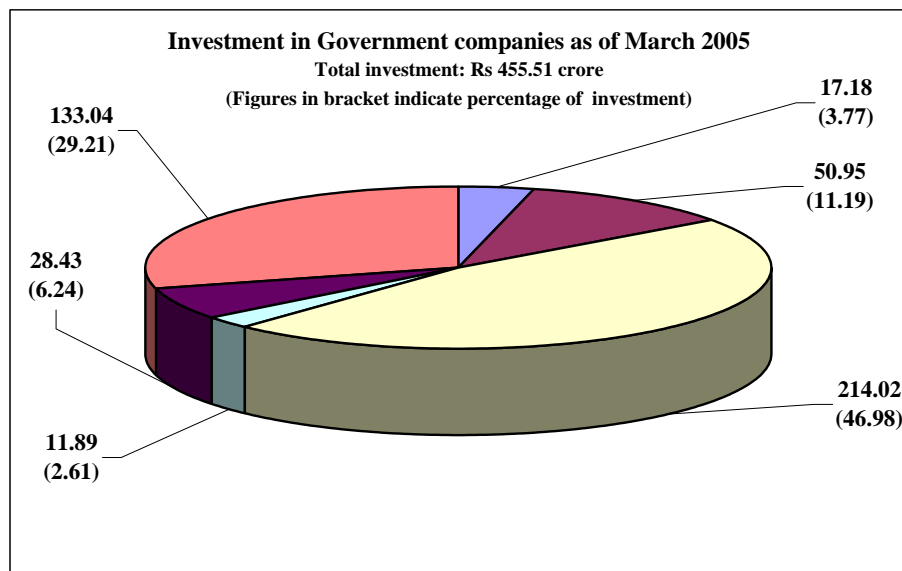
<sup>1</sup> Long term loans are excluding interest accrued and due on such loans

<sup>2</sup> UT Government's investment in working PSUs was Rs 441.35 crore (others: Rs 14.16 crore). The figure as per Finance Accounts 2004-05 is Rs 442.86 crore and the difference is under reconciliation

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

**7.3.3** As on 31 March 2005, the total investment in the working Government companies comprised 99.17 per cent equity capital and 0.83 per cent of loans as compared to 98.14 per cent and 1.86 per cent respectively as on 31 March 2004.

**7.3.4** The investments (equity and long-term loans) in various sectors at the end of 31 March 2005 and 31 March 2004 are indicated below in the pie charts.



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

**7.4.1** The details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by Government to working Government companies are given in **Appendices XI and XIII**.

**7.4.2** The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from the Government to working Government companies for the three years up to 2004-05 are given below:

**(Rupees in crore)**

Particulars	2002-03		2003-04		2004-05	
	Number	Amount	Number	Amount	Number	Amount
Equity capital outgo from budget	8	22.59	8	22.92	8	22.04
Grants	5	4.19	6	7.61	6	6.64
Subsidy towards Projects/ Programmes/Schemes	2	0.27	1	0.20	1	0.40
Total outgo	8 <sup>3</sup>	27.05	8 <sup>3</sup>	30.73	8 <sup>3</sup>	29.08

At the end of the year, guarantees of Rs 2.70 crore against one working Government company were outstanding. During the year, loan of Rs one crore given to a Government company (serial number 2 of **Appendix XI**) was converted into equity.

## 7.5 Finalisation of accounts by working PSUs

**7.5.1** The accounts of the companies for every financial year are required to be finalised within six months from the end of the 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, Power and Conditions of Service) Act, 1971. The accounts are to be laid before the Legislature within nine months from the end of the financial year.

**7.5.2** As could be noticed from **Appendix XII**, out of 11 working Government companies, only six companies finalised their accounts for the year 2004-05 within the stipulated period. During the period from October 2004 to September 2005, four working Government companies finalised five accounts for previous years.

<sup>3</sup> These are the actual number of companies which received budgetary support in the form of equity, grants and subsidy from the Government during the respective years

**7.5.3** The accounts of five working Government companies were in arrears for periods ranging from one to two years as on 30 September 2005, as detailed below:

Serial number	Number of working companies	Period for which accounts are in arrears	Number of years for which accounts are in arrears	Reference to Sl. No. of Appendix XII
1.	3	2003-04 & 2004-05	2	2, 8 & 10
2.	2	2004-05	1	6 & 7

**7.5.4** The administrative departments have to monitor and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments were informed every quarter by Audit of the arrears in finalisation of accounts, no remedial measures had been taken, as a result of which the net worth of these PSUs could not be assessed in audit.

## **7.6 Financial position and working results of working PSUs**

**7.6.1** The summarised financial results of working Government PSUs as per the latest finalised accounts are given in **Appendix XII**.

**7.6.2** According to the latest finalised accounts of 11 working Government companies, four companies incurred an aggregate loss of Rs 23.32 crore and five companies earned an aggregate profit of Rs 16.26 crore. Details of profit and loss, according to the year of latest finalised accounts, are given below:

Year of latest accounts finalised	Profit earning companies		Loss making companies	
	Number of companies	Amount of profit (Rupees in crore)	No. of companies	Amount of loss (Rupees in crore)
2002-03	---	---	2	1.45
2003-04	---	---	2	21.87
2004-05	5	16.26	---	---
<b>Total</b>	<b>5</b>	<b>16.26</b>	<b>4</b>	<b>23.32</b>

In respect of two companies (serial numbers 8 and 9 of **Appendix XII**), the entire loss was met by the Government of the Union Territory of Pondicherry.

## 7.7 Profit earning companies and dividend

Out of the six Government companies which finalised their accounts for 2004-05 by September 2005, five companies (serial numbers 1, 3, 4, 5 and 11 of **Appendix XII**) earned an aggregate profit of Rs 16.26 crore. Of these five profit earning companies, three companies (serial numbers 1, 3 and 11 of **Appendix XII**) declared an aggregate dividend of Rs 1.67 crore for 2004-05. The dividend as a percentage of share capital in these companies worked out to 1.11. The total return of the dividend of Rs 1.67 crore worked out to 0.38 *per cent* on the total equity investment of Rs 441.35 crore by the Union Territory Government in all the 11 Government companies as against the dividend of Rs 2.41 crore (0.57 *per cent*) in the previous year. There is no Government policy for payment of minimum dividend.

## 7.8 Loss making Government companies

**7.8.1** Of the four loss making Government companies, three companies (serial numbers 2, 6 and 7 of **Appendix XII**) had accumulated losses aggregating Rs 215.09 crore which exceeded their paid-up capital of Rs 209.91 crore.

**7.8.2** Despite poor performance and complete erosion of paid-up capital, the Government continued to provide financial support to these companies in the form of equity, grant and subsidy. According to available information, the total financial support so provided by the Government by way of equity, grant and subsidy during the year to these three companies was Rs 18.43 crore. The Government of the Union Territory also converted loan of Rs one crore given to one of these companies (serial number 2 of **Appendix XII**) into equity during the year.

## 7.9 Return on capital employed

As per the latest finalised accounts (up to September 2005), the capital employed<sup>4</sup> worked out to Rs 381.76 crore in 11 companies and

---

<sup>4</sup> Capital employed represents net fixed assets (including capital works-in-progress) PLUS working capital except in finance companies and corporations where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance)

total return<sup>5</sup> thereon amounted to Rs (-) 2.96 crore, as compared to total return of Rs (-)1.29 crore in the previous year (accounts finalised up to September 2004). The details of capital employed and return on capital employed of working Government companies are given in **Appendix XII**.

### **7.10 Disinvestment, privatisation and restructuring of Public Sector Undertakings**

During the year 2004-05, there was no case of privatisation and restructuring of PSUs.

### **7.11 Results of audit of accounts of PSUs by Comptroller and Auditor General of India**

During the period from October 2004 to September 2005, ten accounts of nine Government companies were selected for review. As a result of the observations made by the CAG, the loss of one company (serial number 10 of **Appendix XII**) increased by Rs 10.97 lakh.

### **7.12 Internal audit/internal control**

**7.12.1** The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal control/internal audit systems in the companies audited in accordance with the directions issued by the Comptroller and Auditor General of India to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify areas, which need improvement. Directions under the Act *ibid* were issued to the Statutory Auditors in respect of 10 Government companies between October 2004 and September 2005 and reports in respect of six Government companies were received (September 2005).

---

<sup>5</sup> 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



Some of the important observations made by the Statutory Auditors on internal audit/internal control are as follows:

Observations	Company
Internal Audit not commensurate with the nature and size of business	Pondicherry Tourism and Transport Development Corporation Limited and Pondicherry Agro Products, Food and Civil Supplies Corporation Limited
Inadequate internal control	Pondicherry Tourism and Transport Development Corporation Limited
Fixed assets register not updated	Pondicherry Adi-draavidar Development Corporation Limited
Non-maintenance of subsidiary ledgers/non-reconciliation with general ledger	Pondicherry Tourism and Transport Development Corporation Limited and Pondicherry Adi-draavidar Development Corporation Limited
Incorrect procedure of accounting purchases/ expenses	Pondicherry Agro Products, Food and Civil Supplies Corporation Limited

### 7.13 Response to Inspection Reports, Draft Paragraphs and Reviews

**7.13.1** Audit observations are communicated to the Heads of PSUs and concerned departments of Government through Inspection Reports. The Heads of PSUs are required to furnish replies to the Inspection Reports through respective Heads of Departments within a period of six weeks. Inspection Reports issued up to March 2005 pertaining to 11 PSUs disclosed that 75 paragraphs relating to 22 Inspection Reports remained outstanding at the end of September 2005. Department-wise break-up of Inspection Reports and Audit observations outstanding as on 30 September 2005 is given in **Appendix XIV**.

**7.13.2** It is recommended that (a) the Government should ensure that procedure exists for action against the officials who failed 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 within the prescribed time and (c) the system of responding to the audit observations is revamped.

Chennai,  
The

**(SANJEEV SALUJA)**  
Principal Accountant General (Civil Audit)  
Tamil Nadu and Pondicherry.

Countersigned

New Delhi,  
The

**(VIJAYENDRA N. KAUL)**  
Comptroller and Auditor General of India.