CHAPTER – VII

COMMERCIAL ACTIVITIES

7.1 Overview of Government companies

Introduction

As on 31 March 2003, there were 20 Government companies (14 working and 6 non-working companies) as against 17 Government companies (10 working companies and 7 non-working companies) as on 31 March 2002 under the control of the State Government. The State of Uttaranchal was created on 9 November 2000. Consequently, as per State Government's order, 14[1] Government companies (seven working and seven non-working) which were under the control of Government of Uttar Pradesh were transferred to Government of Uttaranchal in August and September 2001 and three[2] new companies were incorporated during 2001-02. During 2002-03, one[3] company, which was a subsidiary of Uttar Pradesh State Industrial Development Corporation Limited was transferred to Kumaon Mandal Vikas Nigam Limited under the control of State of Uttaranchal, two[4] new companies were incorporated. 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 provision 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.

Working Government Companies

Investment in working Government companies

7.1.1 Total investment in 14 working Government companies at the end of March 2003 and 10 working Government companies at the end of March 2002 was as follows:

(Rs. in crore)

Year	Number of working companies	Investment in working companies			
		Equity	Share application money	Loan[5]	Total
2001-02	10	55.03	5.95	64.76	125.74

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[1] 13 companies vide G.O. No. 1832/Bureau/Vipra/2001 dated August 2, 2001 and one Company (Kichha Sugar Company Limited) vide G.O. No. 222/SC/10-2-2001-73/2000 dated 29 September 2001.
2 Serial number A-11,A-12 and A-13 of *Appendix XVI*.

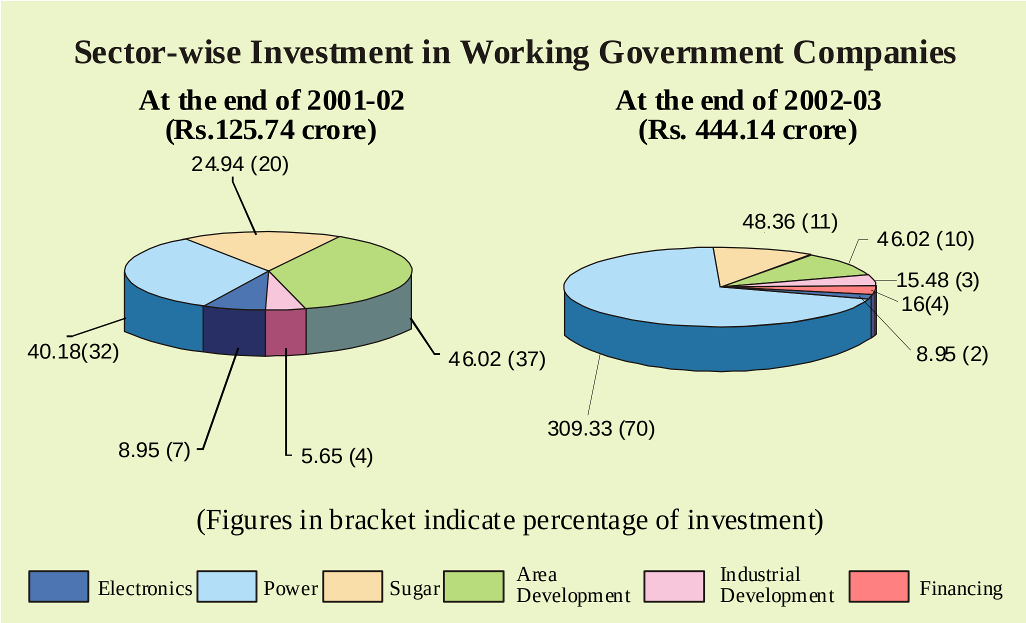
3 Serial number A-2 of *Appendix XV*.
4 Serial No. A-9 and A-14 of *Appendix XVI.*

[5] Long term loans mentioned in paragraph 7.1.1 is excluding interest accrued and due on such loans.

2002-03	14	85.58	-	358.56	444.14

The analysis of investment in working Government companies is given in the following paragraphs.

The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2002 and 31 March 2003 are given below in the pie charts:



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

Investment in the current year increased over the previous year mainly due to contributions made by the State Government towards capital and loans to six[1] Government companies.

As on 31 March 2003, the total investment in working Government companies comprised 19.27 *per cent* of equity capital and 80.73 *per cent* of loans as compared to 48.50 *per cent* and 51.50 *per cent*, respectively, as on 31 March 2002.

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

7.1.2 The details regarding budgetary outgo, guarantees/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State

[1] Serial nos. A-2, A-10, A-11, A-12, A-13 and A-14 of ***Appendix XV***.

Government to working Government companies are given in ***Appendix XV and XVII.***

The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from the State Government to working Government companies for the three years up to 2002-03 are given below:

(Rs. in crore)

Attributes	**2000-01**		**2001-02**		**2002-03**	
	No.	**Amount**	**No.**	**Amount**	**No.**	**Amount**
A (i) Equity: Capital outgo from budget	1	1.24	4	11.29	3	17.05
(ii) Loans given from budget	1	9.07	4	40.26	5	113.98
Total A (i) + (ii)		**10.31**		**51.55**		**131.03**
B (i) Grant towards Projects/ Programmes /Schemes	---	---	1	3.55	2	36.72
(ii) Subsidy	1	0.05	-	-		
Total B (i) + (ii)	**1**	**0.05**	**1**	**3.55**	**2**	**36.72**
Total outgo A+B	**2**[1]	**10.36**	**5**[1]	**55.10**	**7**[1]	**167.75**

During the year 2002-03, the Government had guaranteed the loans aggregating Rs.1113.48 crore obtained by three working companies[2]. The Government had foregone Rupees three crore by way of giving moratorium on loan re-payment and also converted its loan amounting to Rupees one crore into equity capital in the Kichha Sugar Company Limited during 2002-03. At the end of the year, guarantees amounting to Rs.1083.10 crore against four working Government companies[3] was outstanding. Unlike other States, no guarantee commission is being charged by the State Government.

Finalisation of accounts by working Government companies

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

It was noticed from ***Appendix XVI*** that out of 13[4] working Government companies, none of the working Government company finalised its accounts for the year 2002-03 within the stipulated period. During the period from October

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[1] Indicates actual number of companies which received budgetary support in the form of equity, loans, grants and subsidies from the Government in respective years.

2 Serial No.3, 4, and 5 of ***Appendix XVII***.

3 Serial No. 1, 3, 4 and 5 of ***Appendix XV****II*.

4 Accounts of one company (serial No. A-14 of ***Appendix XVI***) was not due.

2002 to September 2003, two working Government companies finalised two accounts for previous years.

The accounts of 13[4] working Government companies were in arrear for periods ranging from 1 to 16 years as on 30 September 2003 as detailed below:

Sl. No.	Number of working Government companies	Year from which accounts are in arrear	Number of years for which accounts are in arrear	Reference to serial number of *Appendix XVIII*
1	1	1987-88	16	8
2	1	1990-91	13	7
3	1	1994-95	9	4
4	1	1996-97	7	6
5	2	1997-98	6	2,3
6	1	1998-99	5	5
7	1	2000-01	3	1
8	4	2001-02	2	9,11,12,13
9	1	2002-03	1	10

The administrative departments have 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 accounts, no effective measures have been taken by the Government and as a result, the net worth of these companies could not be assessed in audit.

Financial position and working results of working Government companies

7.1.4 The summarised financial results of working Government companies as per latest accounts are given in ***Appendix XVI.***

According to latest accounts of nine[1] working Government companies (out of 14), seven companies had incurred an aggregate loss of Rs.6.79 crore and one company (Kumaon Mandal Vikas Nigam Limited) earned a profit of Rs.1.01 crore. One Company is under construction[2] .

Profit earning working Government companies and dividend

7.1.5 Out of nine working Government companies, none of the company finalised its accounts for 2002-03 by September 2003. The Government has not formulated any dividend policy for PSUs.

Similarly, out of two working Government companies, which finalised their accounts for previous years during October 2002 to September 2003, none of the companies earned profit (***Appendix XVI***).

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[1] In respect of five companies, first accounts have not been received.

[2] Sl. No. A-3 of ***Appendix XVI.***

Loss incurring working Government companies

7.1.6 Of the seven loss incurring working Government companies, three[1] companies had accumulated losses aggregating Rs.13.33 crore, which exceeded their paid-up capital of Rs.2.48 crore (***Appendix XVI***).

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to one[2] company amounting to Rs.78.58 lakh by way of loan during 2002-03.

Return on Capital Employed

7.1.7 As per the latest accounts (up to September 2003), the capital employed[3] worked out to Rs.97.30 crore in 14 working Government companies and total return[4] thereon amounted Rs.2.17 crore (2.23 *per cent*) as compared to total return of Rs.2.10 crore (2.27 *per cent*) in the previous year (accounts finalised up to September 2002).

The details of capital employed and total return on capital employed in case of working Government companies are given in ***Appendix XVI***.

Non-working Government companies

Investment in non-working Government companies

7.1.8 The total investment in seven non-working Government companies at the end of March 2002 and at the end of March 2003 was as follows:

(Rs. in crore)

Year	Number of non-working companies	Investment in non-working Government companies			
		Equity	Share application money	Loan	Total
2001-02	7	3.14	-	0.17	3.31
2002-03	6	4.73	-	0.17	4.90

The classification of non-working Government companies was as under:

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1 Serial No. A-1, A-2 and A-7 of ***Appendix XVI***.

2 Serial No. A-2 of ***Appendix XV***.

3 Capital employed represents net fixed assets (including capital work-in-progress) *plus* working capital.

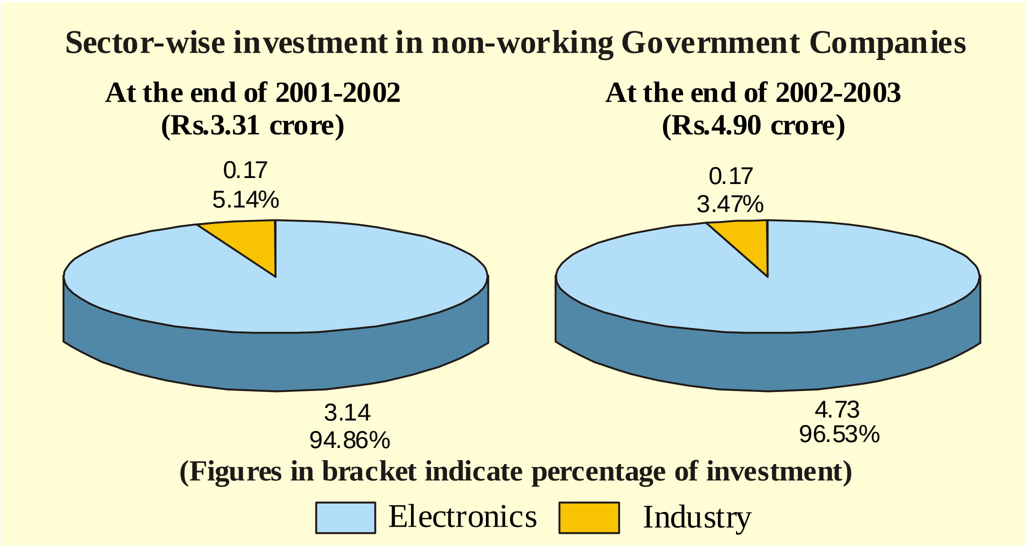
4 For calculating total return on capital employed, interest on borrowed funds is added to net profit / subtracted from the loss as disclosed in the profit and loss account.

(Rs. in crore)

Sl. No.	Status of non-working companies	Number of companies	Investment	
			Equity	Long term loans
(i)	Under liquidation	3[1]	4.51	-
(ii)	Others[2]	3	0.22	0.17
	Total	**6**	**4.73**	**0.17**

Of the above non-working Government Companies, three Government companies were under liquidation or closure under Section 560 of the Companies Act, 1956 for 6 to 12 years and substantial investment of Rs.4.51 crore was involved in these companies. Effective steps need to be taken for their expeditious liquidation or revival.

The investment in equity and long term loans in various sectors and *per* centage thereof at the end of 31 March 2002 and 2003 are indicated below in the following pie charts:



Budgetary outgo, grant/subsidy, guarantees, waiver of dues and conversion of loans into equity

7.1.9 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to non-working Government companies are given in ***Appendix XV and XVII.***

The State Government had not paid budgetary support to non-working Government companies during 2002-03.

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[1] Serial No. B-1, B-5 and B-6 of ***Appendix XV***.

[2] Defunct and non-operating companies.

Finalisation of accounts by non-working Government companies

7.1.10 The accounts of six non working companies were in arrear for periods ranging from 7 to 16 years as on 30 September 2003 as could be noticed from ***Appendix XVI***.

Financial position and working results of non-working Government companies

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

The summarised details of paid-up capital, net worth, cash loss/profits and accumulated loss/ profit of non-working Government companies as per latest accounts are given below:

(Rs. in crore)

Particular	Paid-up capital	Net worth[1]	Cash loss(-) / profit[2] (+)	Accumulated loss(-)/profit (+)
Non-working companies	4.70	(-) 4.07	(-) 1.75	(-) 8.76

Results of audit by Comptroller and Auditor General of India

7.1.12 During the period from October 2002 to September 2003, the audit of accounts of two Government companies (one working and one non-working) were selected for review. The net impact of the important audit observations as a result of review of the Government companies was as follows:

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

Details	No. of accounts	Rs. in lakh
(i) Increase in loss	-	25.78
(ii) Non disclosure of material facts	1	34.47

7.1.13 Errors and omissions noticed in case of Government companies

Kichha Sugar Company Limited (2001-02)

- Stock of Sugar (Rs.64.25 crore) was understated by Rs.4.07 crore due to non provision of excise duty on closing stock of sugar stored in factory godown and bonded warehouses resulting in understatement of current liabilities by Rs.4.07

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

2 Cash loss/profit represents loss/profit *plus* depreciation for the year.

Teletronix Limited (under liquidation) (1995-96)

- Sundry Debtors (Rs.1.41 crore) included Rs.25.78 lakh due from private parties, which had become time barred and, therefore, not recoverable. No provision for bad debts was made by the Company resulting in overstatement of sundry debtors and understatement of loss by Rs.25.78 lakh.

Internal audit/Internal control

7.1.14 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 Comptroller and Auditor General of India to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. The Statutory auditors, in the case of one company, commented that the time spent by internal auditor was not adequate considering the size of the company and the staff of the company employed for internal audit needed training.

Recommendation for closure of Government companies

7.1.15 Even after completion of five years of their existence, the turnover (sales and other income) of five working Government companies (***Appendix-XVIII***) have been less than Rs.5 crore in each of the preceding five years of latest accounts. Similarly, three working Government companies (***Appendix-XIX***) had also been incurring losses for five consecutive years (as per latest accounts) leading to negative net worth. In view of poor turnover and continuous losses, the Government may either improve performance of above Government companies or consider their closure.

Response to Inspection Reports, Draft paras and reviews

7.1.16 Audit observations noticed during audit and not settled on the spot are communicated to the Head of Government companies and concerned departments of State Government through Inspection Reports. The Heads of Government companies 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 2003 pertaining to 12 Government companies disclosed that 1131 paragraphs relating to 389 Inspection Reports remained outstanding at the end of September 2003.

Of these, seven Inspection Reports containing 18 paragraphs had not been replied for more than five years. Department-wise break-up of Inspection Reports and Audit Observations outstanding as on 30 September 2003 is given in ***Appendix-XX***.

Similarly, draft paragraphs and reviews on the working of Government companies are forwarded to the Principal Secretary, Finance and 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 three draft paragraphs forwarded to the various departments during July 2003, as detailed in ***Appendix-XXI***, had not been replied so far.

It is recommended that the Government should ensure that (a) 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 in a time bound schedule and (c) system of responding to the audit observations is revamped.

Position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings

7.1.17 On creation of Uttaranchal State from 9 November 2000, the reviews and paragraphs pertaining to Uttaranchal have been transferred by the Committee on Public Undertakings (COPU) of Uttar Pradesh to the COPU of Uttaranchal. These have to be discussed by COPU of Uttaranchal.

The status of Audit Reports (Commercial) and paragraphs pending for discussion in the COPU of Uttaranchal State is given below:

Period	**Reviews and paragraphs appeared in the Audit Report**		**Reviews and paragraphs awaiting for discussion**	
1999-2000[*]	3	4	3	3
2000-2001[@]	1	8	1	8
2001-2002[@]	1	1	Report is yet to be laid in the House	

7.1.18 Departmentally managed Government commercial/quasi-commercial undertakings

General

7.1.19 Consequent upon formation of Uttaranchal State with effect from 9 November 2000 under the Uttar Pradesh Reorganisation Act 2000, the assets and liabilities of the undertakings already situated in the Uttaranchal State were to be passed on to the newly formed state.

Accordingly, the assets and liabilities of the following undertakings located within the State stood transferred to the newly created State from the aforesaid date.

[*] Paragraphs/Reviews pertaining to Uttaranchal State but included in the combined Audit Report of Uttaranchal and Uttar Pradesh

[@] Paragraphs/Reviews included in the Audit Reports of Uttaranchal

Sl. No.	Department	Name of the undertakings
1	**Food and Civil Supplies**	**Grain Supply Scheme:** **Regional Food Controller, Dehradun** **Regional Food Controller, Haldwani**
2	**Irrigation**	**Irrigation Workshop Division, Roorkee**
3	**Animal Husbandry**	**State Livestock and Agricultural Farms, Kalsi, Dehradun** **State Livestock and Agricultural Farms, Manjhara, Dehradun**
4	**Health**	**Rishkul Ayurvedic Pharmacy, Hardwar** **State Vaccine Institute, Patwadnagar, Nainital**

Lack of accountability for the use of public fund in departmentally managed commercial and quasi-commercial undertakings

7.1.20 Activities of quasi-commercial nature are performed by the departmental undertakings of Government departments. These undertakings are to prepare pro-forma accounts annually in the prescribed format showing the results of financial operation so that Government can assess the results of their working. The Heads of Departments in Government are to ensure that the undertakings, which are funded by the budgetary release, prepare the accounts and submit the same to the Accountant General for audit by 30 June.

As of June 2003, the value of the assets and liabilities of these undertakings passed on to the State of Uttaranchal remained undetermined. In absence of the value of the assets and liabilities acquired, none of these undertakings have finalised their accounts for the period 9 November 2000-March 2001, 2001-02 and 2002-03. Thus, the accounts in all the cases were in arrears for a period of three years. As a result, accountability of the Management and Government in respect of the public funds spent by these undertakings are not ensured.

Miscellaneous topics of interest relating to Government companies

Uttar Pradesh Seeds and Tarai Development Corporation Limited

7.2 Loss due to acceptance of excess certified wheat seeds from growers

The Company had to dispose off the sub-standard wheat seeds at distressed rates resulting in loss of Rs. 10.99 crore caused by overstocking due to sowing on excess area, excess acceptance of wheat

seeds from the farmers over the prescribed limit and non-lifting by the Government agencies.

The Company is carrying on production, processing and marketing of certified seed of foodgrains and vegetables within and outside the State. Foundation Seeds (FS) are provided by the Company to its authorised growers and multiplied seeds are taken from them which are processed by treating them with certain chemicals, got certified by Seeds Certification Agency of the Government and packed for sale. The stock, remaining unsold during the crop year, is carried over and preserved for its sale in the next crop year after due revalidation.

It was seen during audit (September 2002) that based on expected demands, the Company approved (September 1999) the production and processing of 8,85,000 quintals of wheat seeds of different varieties in Rabi crop year 1999-2000 for its sale in 2000-01. The Management, however, in the absence of any indication of increase in demand and without obtaining prior approval from the Board of Directors, accepted from the growers 9,82,970 quintals (against 8,85,000 quintals) of seed of different varieties for processing, out of which 9,23,535 quintals only was treated leaving behind 59,435 quintals untreated seeds. Apart from above, 14,000 quintals FS of previous season was also available for sale as certified seed. Thus, total 9,96,970 quintals certified seed was available for sale in Rabi 2000-01. Out of the treated seeds including FS (937535 quintals) only 7,67,234 quintals (including FS) was sold as seed, and out of untreated seed (59435 quintals), 49,752 quintals was disposed off as foodgrain at the distressed rates. Remaining 1,79,984 quintals seed was carried over for sale in the next crop year. Out of the carried over stock, 16,000 quintals was sold as good seed and 9,683 quintals untreated seed was sold as foodgrain at the distressed rates. The remaining 1,54,301 quintals seed was found sub-standard during revalidation in 2001-02 and was rejected due to loss of germination. The entire 1,54,301 quintals sub-standard seed was disposed off at distress rates. As such, the Company suffered a loss of Rs. 10.99 crore[1] on disposal of 59,435 quintals untreated and 1,54,301 quintals sub-standard seeds at distressed rates.

The main reasons for overstocking and resultant loss as analysed by Audit were:

- Twelve varieties of wheat seed were sown on excess area varying from 7 to 369 hectares as compared to that approved by the Board of Directors.

- The produce was accepted from growers at higher yield rates varying from 27.84 to 33.80 quintal per hectare in six varieties against the norms of 25 quintals per hectare which contributed to overstocking.

- Non-lifting of allotted quota by the Government Departments for which no action could be taken in the absence of any contractual binding.

The Management stated (July 2003) that the targets for increased production and acceptance of excess yield was made in view of State Government's Agriculture Policy to increase the seed replacement rate from 12 to 20 *per cent* but the off take of certified seeds by the farmers was poor which resulted in accumulation of stock. The reply is not tenable because the target of production for 1999-2000 were fixed far in excess of usual marketable quantity even after considering the Government policy and, therefore, acceptance of seeds should have been kept limited to at the most to the targeted level only.

The matter was reported to the Government in May 2003: reply was awaited (May 2004).

7.3 Loss in sale of wheat seeds of low germination and avoidable loss due to imprudent decision

The Company suffered loss of Rs. 89.46 lakh in sale of sub-standard seeds due to rejection of highest rates without recording any reasons by the Managing Director.

Sections 6 & 7 of the Seeds Act, 1966 provide that seeds cannot be sold unless (i) such seed conforms to the minimum limits of germination and purity and (ii) the container of such seed bears in the prescribed manner, the mark or label containing the correct particulars thereof.

The Board of Directors decided (September 2001) to dispose off 1,47,109 quintals sub-standard wheat seeds (rejected due to germination below minimum limit of 85 *per cent*) through tender for starch making. It was observed in audit (September 2002) that the Management, in contravention to the provisions of 'Seeds Act' and decision of the Board of Directors, had sold (December 2001 to February 2002) 68,139 quintals sub-standard seed for sowing purposes through its distributors thereby risking the farming prospects. In the meantime, tender was invited (February 2002) for disposal of the remaining 78,970 quintals sub-standard seeds for starch making in which rates ranging between Rs. 460 and Rs. 490 per quintal were received. The Managing Director without recording any reason for not finalizing the tender, decided (April 2002) to invite fresh tender. In fresh tender invited in April 2002, bidders offered rates varying from Rs. 288 to Rs 385 per quintal which were much lower than those received in the tender of February 2002. The lower rates offered in tender of April 2002 were accepted and 78,970 quintals sub-standard seed was sold (May-June 2002) for starch making resulting in a loss of Rs. 89.46 lakh. Thus, due to imprudent decision of the Managing Director, the Company could not get benefit of higher rates obtained in February 2002. No responsibility for the loss has been fixed by the Company.

In reply (August 2003), the Management accepted the audit observation but insisted on obtaining a reply from the then Managing Director (retired from this Company and now working as Managing Director of Uttar Pradesh Beej Nigam). Reply of the Management is not tenable as due to continuity in

Administration, the Management's responsibility cannot be absolved from taking appropriate action for wrong decision making.

The matter was reported to the Government in May 2003; reply was awaited (May 2004).

7.4 Loss due to excess processing of paddy seeds and its disposal at distressed rates

Over ambitious production of paddy seeds resulted in its disposal at a loss of Rs. 1.35 crore.

The Company sold around 30,000 quintals (20,000 quintals of Narendra-359 and 10,000 quintals of Pusa-44 varieties) of paddy seeds in Kharif 2000 season. Further, target for processing of 40,000 and 15,000 quintals respectively was fixed for sale in Kharif 2001 on unrealistic parameters without ascertaining concrete increase in market demand and processed 42,594 and 18,269 quintals of these seeds of the said varieties. The Company could, however, sell only 23,296 and 11,250 quintals seeds of these varieties and 26,317 quintals seeds (both varieties) valuing Rs. 2.56 crore remained unsold.

The Board of Directors of the Company decided (September 2001) to dispose it off and also passed instructions that efforts might be made to obtain reports from Technical Universities and Research Institutions and, if it was fit for human consumption after husking, paddy might be sold for rice purpose so that better prices could be obtained but, if it was not fit for human consumption, the seed be disposed off through tender for starch making.

It was observed in audit (September 2002) that the Management did not make efforts to ascertain from the Technical Universities/Research Organisation about the fitness of the husked paddy seeds for human consumption as desired by the Board of Directors and, without defacing the packing as rejected, sold the (October/November 2001) entire[1] quantity of 26,317 quintals paddy as seeds to the rice millers for Rs. 1.21 crore at rates varying from Rs. 431 to 486 per quintal by taking an undertaking to the effect that the seeds will not be sold by them for human consumption.

Thus, fixing of over ambitious targets without proper assessment of demand resulted in a loss of Rs. 1.35 crore. Moreover, since the seed was not rejected and the packing was not defaced, its sale by the millers as seed or in the shape of rice cannot be ruled out.

While admitting the contention of audit the Company replied (May 2003) that stock of seeds had piled up due to non-lifting of allotted seeds by Agriculture Department as the seeds of these varieties had low demand and were not suitable for the State.

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[1] Rs.8.67 crore loss on selling 1,54,301 quintals substandard seeds at distress rates *plus* loss of Rs.2.32 crore on disposal of 59435 quintals of untreated seeds at distress rates.

The matter was reported to the Government (June 2003); reply was awaited (May 2004).