Chapter – VII

Government Commercial And Trading Activities

7.1 Overview of Government companies and Statutory corporation

Introduction

7.1.1 As on 31 March 2004, there were 14 Government companies (all working companies) and one Statutory corporation (working) as against the same number of working Government companies and working Statutory corporation as on 31 March 2003 under the control of the State Government. During the year 2003-04, the audit of one new company viz. Sewage & Infrastructural Development Corporation Limited was entrusted and one company viz. Goa Construction, Housing and Finance Corporation Limited was merged with the State Housing Board. The accounts of 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 provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per provisions of Section 619 of the Companies Act, 1956. The audit arrangement of Statutory corporation is as shown below:

Name of the corporation	Authority for audit by the CAG	Audit arrangement
Goa Industrial Development Corporation	Section 25(2) of the Goa Industrial Development Corporation Act, 1965 and Section 19(3) of CAG's (Duties, Powers and Conditions of Service) Act, 1971	Sole audit up to the period 31 March 2007 has been entrusted to the CAG.

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

7.1.2 The total investment[≠] in 15 working PSUs (14 Government companies and one Statutory corporation) at the end of March 2003 and March 2004 was as follows:

(Amount: Rupees in crore)

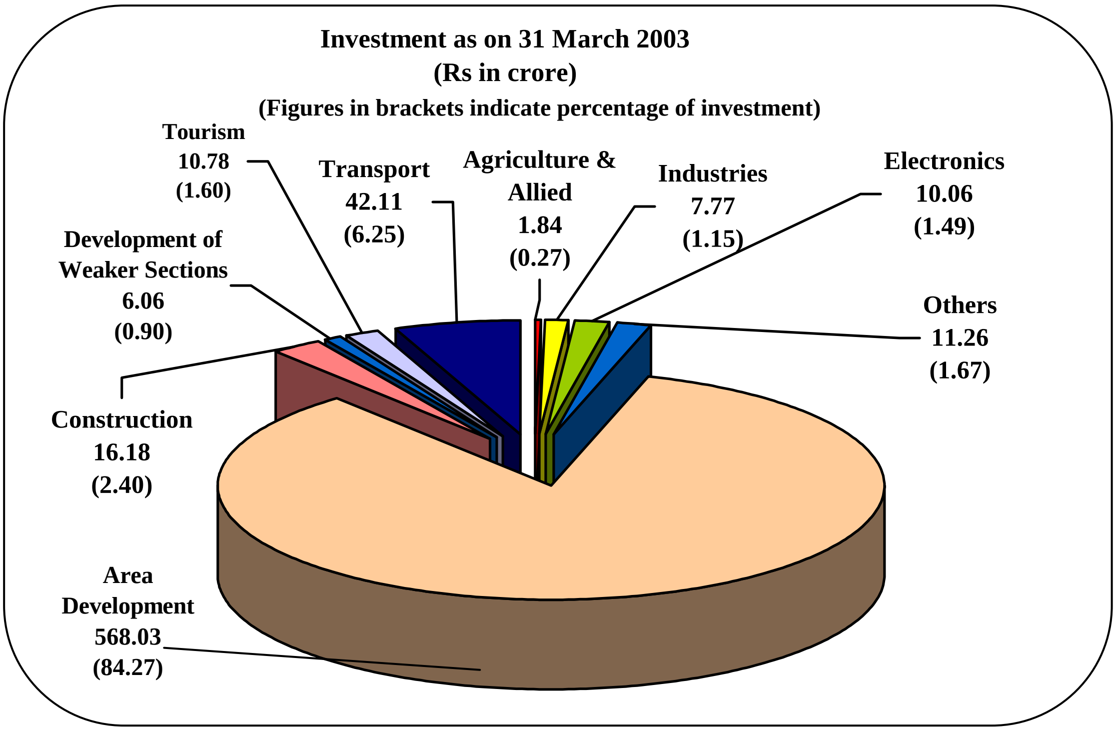
Year	Number of working PSUs	Investment in working PSUs			
		Equity	Share application money	Loans[*]	Total
2002-03	15	120.06	2.50	551.53	674.09
2003-04	15	130.71	26.65	448.67	606.03

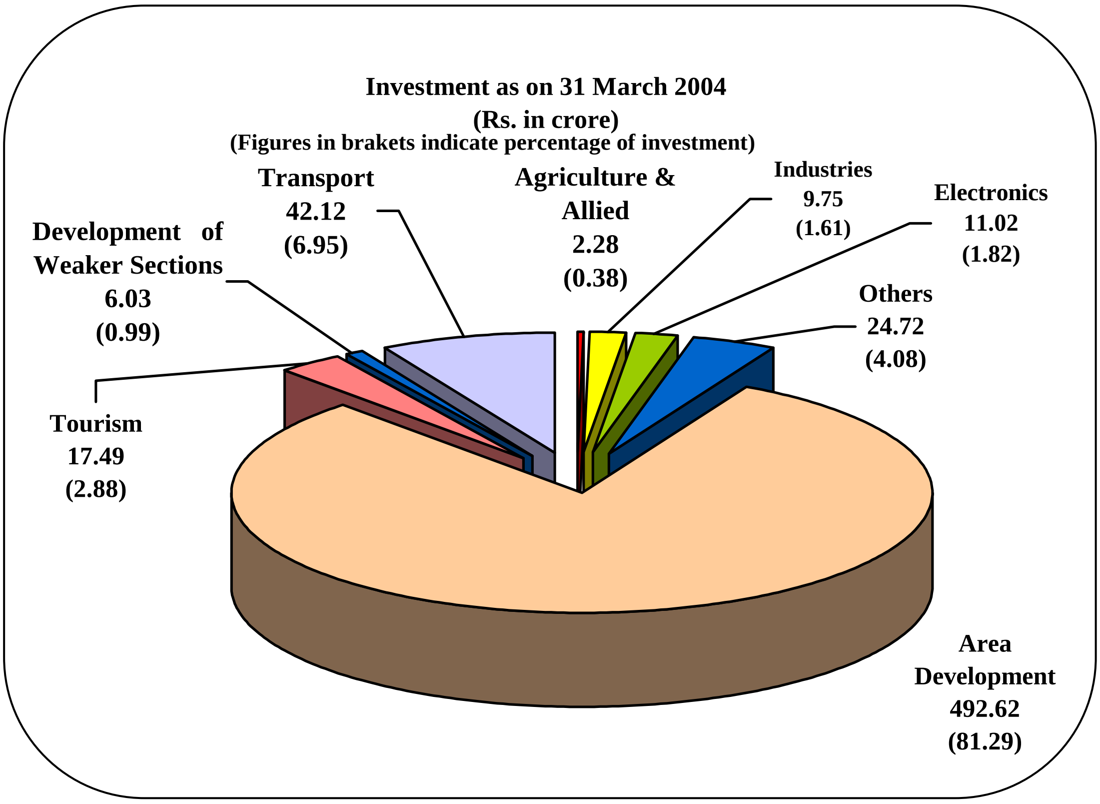
The analysis of investment in working PSUs is given in the following paragraphs.

[≠] Figures as per Finance Accounts is Rs. 91.23 crore. The difference is under reconciliation.
[*] Long-term loans mentioned in Para 7.1.2 and 7.1.3 are excluding interest accrued and due on such loans.

Sector wise investment in working Government companies and Statutory corporation

The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2003 and 31 March 2004 are shown below in the pie charts:





Working Government companies

7.1.3 The total investment in 14 working Government companies at the end of March 2003 and March 2004 was as follows.

(Amount: Rupees in crore)

Year	Number of working Government companies	Investment in working Government companies			
		Equity	Share application money	Loans	Total
2002-03	14	94.04	2.50	521.53	618.07
2003-04	14	103.07	26.65	448.67	578.39

The summarised statement of Government investment in working Government companies in the form of equity and loans is given in ***Appendix-7.1***.

As on 31 March 2004, the total investment in working Government companies comprised 22.16 *per cent* of equity capital and 77.84 *per cent* of loans as compared to 15.62 and 84.38 *per cent* respectively, as on 31 March 2003.

The decline in loan in 2003-04 was due to repayment of loans by six [∞] companies, conversion of loan into equity in one[♣] company and merger of one[π] company with State Housing Board (autonomous body).

Working Statutory Corporation

7.1.4 The total investment in one working Statutory corporation at the end of March 2003 and March 2004 was as follows:

(Amount: Rupees in crore)

Sl. No.	Name of the corporation	2002-03		2003-04	
		Capital[•]	Loans	Capital[•]	Loans
1	Goa Industrial Development Corporation	26.02	30.00	27.64	-

The summarised statement of Government investment in the working Statutory corporation in the form of equity and loans is given in ***Appendix-7.1***.

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

[∞] SI. No. A-7,8,10,11,12 and 13 of Appendix 7.1

[♣] S. No. A-3 of Appendix 7.1

[π] Goa construction, Housing and Finance Corporation Limited.

[•] Amount payable to the State Government is treated as capital from State Government.

7.1.5 The details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by State Government to working Government companies and working Statutory corporation are given in ***Appendix7.1*** and ***Appendix7.3***.

The budgetary outgo in the form of equity capital, loans and grants/subsidies from the State Government to working Government companies and working Statutory corporation during 2003-04 is given below:

(Amount: Rupees in crore)

Particulars	2001-02				2002-03				2003-04			
	Companies		Corporation		Companies		Corporation		Companies		Corporation	
	No.	Amount	No.	Amount	No.	Amount	No	Amount	No.	Amount	No.	Amount
Equity capital	6	11.51	-	-	4	5.05	1	0.05	3	7.69	1	1.62
Loans given from budget	1	1.49	-	-	-	-	-	-	-	-	-	-
Grants/subsidies	3	10.18	-	-	4	11.11	-	-	5	15.63	-	-
Total Outgo	**9@**	**23.18**	**-**	**-**	**7@**	**16.16**	**1**	**0.05**	**7**	**23.32**	**1**	**1.62**

During 2003-04, the Government had guaranteed loans aggregating Rs.139.30 crore obtained by three working Government companies. At the end of the year, guarantees of Rs.426.65 crore obtained by three Government companies were outstanding as against the outstanding guarantees of Rs.399.34 crore as on 31 March 2003. There was no case of default by the State Government companies/corporation in repayment of guaranteed loan during the year.

Finalisation of accounts by working PSUs

7.1.6 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, 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 financial year. Similarly, in case of Statutory corporation, their accounts are finalised, audited and presented to the State Legislature as per the provisions of the Act.

It would be noticed from ***Appendix-7.2*** that out of 14 working Government companies and one Statutory corporation, only three[#] working Government companies had finalised their accounts for 2003-04 within the stipulated period. During October 2003 to September 2004, three[•] working Government companies and one Statutory corporation finalised four accounts for previous years.

[@] Total number of companies/corporation which have received budgetary support from the State Government in the form of equity, loans, grants and subsidy.

[#] Sr. No. A-2, 3 and 4 of Appendix-7.2.

[•] Sr.No. A-1, 5,10 and B-1 of Appendix-7.2.

The accounts of 11 working Government companies were in arrears for periods ranging from one to four years as on 30 September 2004, as detailed below. Besides, accounts of the lone Statutory corporation (B-1) was also in arrear for one year, i.e. 2003-04.

Sl. No.	Number of working companies	Year for which accounts are in arrears	Number of years for whichaccounts are in arrears	Reference to Sl. No. of Appendix-7.2
(1)	(2)	(3)	(4)	(5)
1	1	2000-01 to 2003-04	4	A-10
2	1	2001-02 to 2003-04	3	A-5
3	1	2002-03 to 2003-04	2	A-9
4	8	2003-04	1	A1,6,7,8,11,12,13,14
Total	**11**			

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though Audit apprised the administrative departments and officials concerned of the Government regarding arrears in finalisation of accounts, no effective measures have been taken by the Government. As a result, the net worth of these PSUs could not be assessed in audit.

Financial position and working results of working PSUs

7.1.7 The summarised financial results of working PSUs (Government companies and Statutory corporation) as per their latest finalised accounts are given in ***Appendix- 7.2***. Besides, statement showing financial position and working results of lone working Statutory corporation is given in ***Appendix-7.4***.

According to the latest finalised accounts of 14 working Government companies and one working Statutory corporation, eight companies had incurred an aggregate loss of Rs.31.19 crore, whereas five companies earned an aggregate profit of Rs.1.01 crore and the Statutory corporation incurred a loss of Rs.2.89 crore. One company, viz., Sewage and Infrastructural Development Corporation Limited had not started commercial activities.

Working Government companies

Profit earning working companies and dividend

7.1.8 Out of three working Government companies, which finalised their accounts for 2003-04 by September 2004, two companies (Sl. No. A - 2 and 4 of ***Appendix-7.2***) earned an aggregate profit of Rs.53.96 lakh but did not declare any dividend.

Similarly, out of five working Government companies which finalised their accounts for previous years during October 2003 to September 2004, only two Companies (Sl. No. A - 8 and 13 of ***Appendix-7.2***) earned profit of Rs.9.87 lakh. The State Government has not formulated a dividend policy for payment of minimum dividend by the companies/corporation.

Loss incurring Government companies

7.1.9 One company (Sl. No. A-3 of ***Appendix 7.2***), which finalised its accounts for 2003-04 by September 2004, incurred a loss of Rs.56.52 lakh. Of the eight loss incurring working Government companies, five[#] companies had accumulated losses aggregating Rs.155.45 crore which exceeded their aggregate paid-up capital of Rs.74.29 crore by more than one time.

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies in the form of subsidy, *etc.* According to available information total financial support of Rs.11.99 crore was provided by the State Government by way of subsidy to two[♣] such loss making companies during 2003-04.

Working Statutory corporation

Loss incurring Statutory corporation

7.1.10 The lone Statutory corporation, which finalised its accounts for 2002-03 incurred a loss of Rs.2.89 crore during the year.

Return on capital employed

7.1.11 As per the latest finalised accounts (up to September 2004) the capital employed[⊘] worked out to Rs.622.14 crore in 14 working Government companies and total return[★] thereon amounted to Rs.35.95 crore which was 5.78 *per cent*, as compared to total return of Rs.31.94 crore (5.27 *per cent*) in the previous year (account finalised up to September 2003). Similarly, the capital employed and total return thereon in case of the lone working Statutory corporation as per the latest finalised accounts worked out to Rs.61.77 crore and (-) Rs.2.89 crore. The details of capital employed and total return on capital employed in case of working Government companies and Statutory corporation are given in ***Appendix-7.2***.

[#] Sl. Nos A-3,5,7, 12 and 14 of Appendix 7.2

[♣] EDC Limited and Kadamba Transport Corporation Limited (Appendix 7.3).

[⊘] 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 borrowing (including refinance).

[★] 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.

Status of placement of Separate Audit Report of Statutory corporation in Legislature

7.1.12 The following table gives the status of placement of Separate Audit Report (SAR) on the accounts of Statutory corporation issued by the CAG in the Legislature by the Government.

Sl. No	Name of Statutory corporation	Years up to which SAR placed in Legislature	Years for which SAR not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in the Legislature
1.	Goa Industrial Development Corporation	2001-02	2002-03	SAR under process	-----

Disinvestment, privatisation and restructuring of Public Sector Undertakings

7.1.13 The State Government did not undertake the exercise of disinvest, privatise or restructure any of its PSUs during 2003-04.

Results of audit of accounts of PSUs by the Comptroller and Auditor General of India

7.1.14 During October 2003 to September 2004, the accounts of six working Government companies and one working Statutory corporation were selected for audit. The net impact of the important audit observations, as a result of review of accounts of these PSUs, was as follows:

Sl. No.	Details	Number of accounts		Amount *(Rupees in lakh)*	
		Government companies	Statutory corporation	Government companies	Statutory corporation
i)	Increase in loss	4	1	473.18	45.27
ii)	Non-disclosure of material facts	2	1	1.23	18.18
iii)	Errors of classification	-	1		39.40

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

Errors and omissions noticed in case of Government companies

Goa Tourism Development Corporation Limited (2002-03)

7.1.15 Non-provision of water and sewage charges of Rs 15.30 lakh demanded by Public Works Department resulted in understatement of current liabilities and losses by the same amount.

Goa Meat Complex Limited (2003-04)

7.1.16. Department of Animal Husbandry and Veterinary Services, Government of Goa had conveyed its approval in April 1996 to the Director of

Animal Husbandry and Veterinary Services for recovery of Rs 200 per animal as service charges from the Company. The Government has neither made any claim for service charges after 1995-96 nor has the fact of non-payment of service charges been disclosed by the Company by way of note to the accounts.

Internal audit/internal control

7.1.17 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report on various aspects including the internal control/internal audit systems in the companies audited in accordance with directions issued by the Comptroller and Auditor General of India under Section 619(3)(a) of the Companies Act, 1956 and to identify the areas which needed improvement.

An illustrative resume of major recommendations/comments made by Statutory Auditors on possible improvement in the internal audit system in respect of State Government companies is indicated below:

- Scope of work needed to be enlarged and strengthened and the compliance mechanism is inadequate (Sl. No. A-3 of ***Appendix 7.2***).
- Internal audit did not cover principal areas of operation of the company (Sl. No. A-10 of ***Appendix 7.2***).
- Scope of internal audit was inadequate (Sl. No. A-2 of ***Appendix 7.2***).

Recommendation for closure of PSUs

7.1.18 Even after completion of five years of their existence, the turnover of five working Government companies (Sl. No.A-1, 2, 6, 10 and 13 of ***Appendix-7.2***) has been less than rupees five crore in each of the preceding five years of their latest finalised accounts. Similarly, one working Government company (Sl. No.A-12 of ***Appendix-7.2***) had been incurring losses for five consecutive years as per its latest finalised accounts leading to negative net worth. In view of poor turnover and continuous losses, the Government may either improve performance of the above six Government companies or consider their closure. The Government stated (February 2000) that action regarding Goa State Scheduled Caste and Other Backward Classes Development Corporation Limited would be taken only in consultation with the Government of India, Ministry of Social Justice and Empowerment. Information about progress made was awaited (September 2004).

Response to inspection reports, draft paras and reviews

7.1.19 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and departments concerned of State 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 2004 pertaining to 15 PSUs disclosed that 130 paragraphs relating to 30 inspection reports remained outstanding at the end of September 2004. Department-wise break-up of Inspection Reports and audit observations outstanding as on 30 September 2004 is given in ***Appendix-7.5***.

Similarly, draft paragraphs are forwarded to the Principal Secretary/Secretary of the administrative department concerned seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that two draft paragraphs forwarded to Finance and Forest Departments during September-October 2004 have not been replied to so far (February 2005).

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 is taken in a time bound schedule, and (c) the system of responding to audit observations is revamped.

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

7.1.20 The position of reviews and paragraphs of Chapter on Commercial and Trading Activities included in Audit Reports (Civil) – Government of Goa and reviews and paragraphs pending discussion by COPU at the end of March 2004 is given below:

Period of Audit Report	Number of reviews and paragraphs appeared in the Commercial Chapter of Audit Report		Number of reviews and paragraphs pending discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1992-93	1	--	1	--
1993-94	1	--	1	--
1995-96	1	--	1	--
1998-99	1	2	1	2
2000-01	--	1	--	1
2001-02	1	--	1	--
2002-03	1	1	1	1
Total	**6**	**4**	**6**	**4**

619-B companies

7.1.21 There was only one working company coming under Section 619-B of the Companies Act, 1956. ***Appendix-7.6*** gives the details of paid-up capital, investment by way of equity, loans and grants and summarised working results of this company based on its latest available accounts.

Departmentally managed Government commercial/quasi commercial undertakings

7.1.22 There were two departmentally managed Government commercial/quasi commercial undertakings *viz*. Electricity Department and River Navigation Department in the State as on 31 March 2004.

The *pro forma* accounts of River Navigation Department for the years 2001-02 to 2003-04 and Electricity Department for the year 2003-04 were in arrears (December 2004).

The summarised financial results of the Electricity Department for 2000-01 to 2002-03 and that of River Navigation Department for 1998-99 to 2000-01 are given in ***Appendix-7.7***.

7.2 TRANSACTION AUDIT OBSERVATIONS

EDC Limited

7.2.1 Injudicious investment in the equity of private limited companies

Injudicious investment in the equity of private limited companies, the shares of which could not be freely traded, resulted in non-recovery of rupees one crore and interest thereon.

Mention was made in Para 8.3.1 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000, Government of Goa on the loss of income, interest and investment to the tune of Rs 1.50 crore to the Company due to non-acceptance of the buy back offer in respect of shares held in Marmagoa Steel Limited. In Action Taken Note, the Company stated (August 2003) that the disposal of the shares was deferred at the instance of the Government. The following cases of loss to the Company due to participation in the equity of private limited companies without formulating any policy norms in this regard were further noticed during audit.

The Company sanctioned (June 1997) financial assistance of Rs 50 lakh by way of participation in the equity of Desai Cement Company Private Limited, Ponda (DCC) for setting up a clinker grinding unit for production of cement. The amount was disbursed in five installments during October 1997 to March 1998. According to the agreement (September 1997), DCC was to buy back the equity in three equal installments at the end of third, fourth and fifth year from the commencement of production, with a minimum annual return of 21.5 per cent. The Company also had a right to nominate a Director on the Board of Directors of DCC. The personal guarantee of the promoter Directors was obtained. DCC started commercial production in March 1998.

Though the first installment was due in April 2001, the Company sent a demand to DCC for buy back and payment of Rs 30.60 lakh (principal and return at 21.5 per cent) only in November 2001. There was no response from DCC. The Company did not take any follow up action and made another demand for Rs 33.30 lakh in January 2003 in response to which DCC offered (February 2003) to buy back the equity at Rs 3.37 per share. The Company decided (March 2003) to transfer the shares to DCC at a total price of Rs 55 lakh (principal with 10 per cent interest) in full settlement as against Rs 1.18 crore receivable under the agreement. DCC, however paid (November 2003) rupees five lakh towards interest only and the principal of Rs 50 lakh remained unpaid so far (December 2004).

Similarly, the Company extended (July 1998) assistance of Rs. 50 lakh to Karapur Agro Private Limited, Goa (KAPL), by way of participation in its equity capital in two installments.

After the expiry of three years in July 2001, the Company called upon KAPL to buy back 1/3 of the shares at Rs. 172.24 per share as worked out in terms of the agreement. KAPL did not buy back the shares on the ground that it had become sick due to heavy losses. While the Company contemplated (March 2003) legal action for recovery of the amount, KAPL offered to buy back the shares at the principal amount of Rs. 50 lakh in a phased manner. The Company agreed to the proposal with slight modifications and asked KAPL to buy back the shares at Rs 50 Lakh plus 10 *per cent* interest (rupees five lakh) within six months and communicate their acceptance in seven days along with down payment of Rs. 7.5 lakh. However, the conditions in the offer were not accepted by KAPL who, in turn informed EDC that they would buy back the shares at Rs. 55 lakh between August 2004 and August 2005 and not within six months. The Company neither insisted on the down payment which was a condition in the settlement offer nor did it initiate any recovery action after withdrawing the offer, but granted further extension of time up to 31 October 2004. No payment had been received from the party so far (December 2004).

Thus, the sanction of financial assistance by way of equity participation in the above companies, without proper pre-sanction appraisal, inadequate security/mortgage of assets and failure to appoint nominee directors for timely monitoring of the functioning of the assisted companies resulted in non recovery of rupees one crore and loss of interest of Rs 1.36 crore thereon (up to December 2004). The Company did not initiate any action to invoke the personal guarantee of the promoter directors to recover the dues.

The Government stated (February 2005) that the investments are covered by legal documents as well as personal guarantees of the promoters. In the case of DCC, the settlement package has been withdrawn and the Company had decided to initiate legal action against the promoters. As regards KAPL they have been given extension of time up to 30 September 2005 for repayment of the dues. The fact, however, remains that the Company could not effect recoveries.

7.2.2 Undue favour to a private firm

Defective appraisal of credit worthiness, inadequacy of securities and indiscrete extensions granted to a firm resulted in non recovery of Rs. 6.98 crore.

Anderson Marine (Pvt) Ltd. (firm), engaged in the business of shipbuilding and marine engineering services, sought (July 1997) financial assistance of Rs. 4.40 crore from the Company for rearranging its financing structure and for working capital requirements. While evaluating the credit worthiness of the firm it was known to the Company that:

- The firm was indebted to Punjab National Bank (PNB) and a suit had been filed by PNB for recovering Rs. 1.08 crore plus interest.
- It was also indebted to Maharashtra State Financial Corporation (MSFC) for an amount of Rs. 1.88 crore of which Rs. 1.01 crore was overdue for payment as at August 1997.
- First charge on the assets of the firm was not possible unless the debts of Rs 3.50 crore to PNB/MSFC were paid off.
- The firm was defaulter to the Company also due to non payment of Rs. 89.64 lakh availed of during November 1997 to February 1998

under bill discounting facility extended in October 1997 for six months.

Inspite of all these adverse information /reports in regard to the creditworthiness of the firm, inadequacy of security and default in payment of earlier loan, the Company sanctioned (December 1997) a further loan of Rs. 4.50 crore. The Company disbursed (May 1999) rupees three crore at 20.5 *per cent* interest to be repaid in 30 quarterly installments of Rs. 10 lakh each with moratorium of six months from the first date of disbursement. The first installment was due from March 2000.

The Company could not recover the amount from the firm towards repayment of loan. The total dues as at December 2003 stood at Rs. 6.98 crore. The attempt of the Company (November 2003) to recover the dues by attaching and selling the properties of the firm also did not materialize as the maximum amount offered (Rs. 2.70 crore) in the auction (Jan 2004) was less than the principal amount (Rs 3.61 crore). The Company decided (March 2004) to waive the interest of Rs. 3.37 crore (up to December 2003) and offered one time settlement (OTS) to the firm to pay the principal amount (Rs. 3.61 crore) within 30 days.

The firm did not make any payment and sought extension of time up to 30 September 2004, which was granted by the Company. Despite further extension of time up to 19 October 2004, no payment had been received from the firm (December 2004).

Thus, disbursement of loan despite known poor credit worthiness and without obtaining adequate security resulted in non-recovery of principal amount of Rs. 3.61 crore and loss of interest to the tune of Rs. 3.37 crore.

The Government stated (February 2005) that the Company had decided to restore the OTS package at Rs. 3.70 crore payable before 31 March 2005 considering that huge statutory dues were outstanding against the firm. The fact remained that the Company did not have any effective means to recover the dues due to its decision to extend loan to a firm which was in serious financial difficulties at the time of sanction and lack of adequate security.

Goa State Infrastructure Development Corporation Limited

7.2.3 Unproductive expenditure on development of projects

Agreement for development and implementation of projects with private participation without adequate feasibility studies resulted in unproductive expenditure of Rs 66.41 lakh.

Pursuant to the decision taken by the Government of Goa, the Company decided (June 2001) to develop four projects at various locations[#] at an estimated cost of Rs. 115 crore. In order to implement these projects the Company entered into separate agreements with an investment banker, viz., Infrastructure Leasing and Financial Services Limited, Mumbai (ILFS) during January-December 2001. These agreements were to form a project development and promotion partnership for implementation of these projects, under which the role of ILFS was to assist the Company from conceptualisation to implementation.

Audit scrutiny (April 2004) revealed that the Company entered into the agreements with ILFS without conducting a pre-feasibility study to assess the suitability and feasibility of the projects at the proposed locations. ILFS submitted (September 2001 to April 2002) the initial screening report for these projects and the Company paid Rs. 66.41 lakh (Beach management - Rs. 20.09 lakh, Parking lot - Rs. 23.03 lakh, Golf Course - Rs. 10.59 lakh and Ropeway - Rs. 12.70 lakh) towards acceptance fee, professional fees and other expenses.

The Company, however, decided (June 2002) to keep all the projects in abeyance. Beach management project was kept in abeyance due to opposition from the public and NGOs and the other three projects viz. the Golf Course, the parking lot project and the ropeways projects were considered unviable due to non-availability of land, lack of financial viability, insufficient tourist traffic and coastal zone restrictions. In January 2003, the Company decided to abandon these projects and the expenditure of Rs. 66.41 lakh incurred for the preparation of the initial screening report was written off during 2001-02 and 2002-03.

Thus, the hasty appointment of a private sector agency for financial participation to implement the projects without making a proper assessment of the suitability of the locations, availability of basic requirements such as land, restrictions of coastal zone regulations, pattern of tourist traffic etc., resulted in a wasteful expenditure of Rs. 66.41 lakh.

In reply to preliminary audit observation, the management stated (August 2004) that the projects had been kept in abeyance due to difficulties envisaged at that time and these projects could be taken up in future. It was also stated that the expenditure was incurred for assessing the financial viability and feasibility of the projects costing Rs. 115 crore and the expenditure incurred was a small fraction of the total project cost.

The reply was not tenable since the projects were unviable *ab-initio* as land at these locations was not available; the regulations did not permit development;

[#] Beach Management at Miramar, Construction of a parking lot at Panaji, Golf Course at Betul and Ropeways at two locations at Baradi and at Altinho.

and the projected tourist demand was insufficient for the ropeway and Golf Course. Further, as per the agreement, the Company was to carry out feasibility studies and obtain necessary approvals before entering into agreement especially considering the huge costs involved which had not been done.

The matter was reported to the Management/Government in September 2004; their replies were awaited (February 2005).

Goa Forest Development Corporation Limited

7.2.4 Non recovery on sale of cashew fruits and nuts

Failure to collect the sale price of cashew fruits and nuts before handing over the plantation for extraction as per agreement resulted in accumulation and non recovery of arrears to the extent of Rs 69.07 lakh.

Income from the sale of cashew is one of the main sources of revenue to the Goa Forest Development Corporation Limited (Company). The rights of collection of cashew nuts and fruits from cashew plantations of the Company are auctioned in January – February every year. The conditions for auction sale provided that:

- Upon the bid being accepted by the Company, the successful bidder whose bid is up to Rs. 15,000 is required to pay full sale price along with 10 *per cent* of the accepted bid amount as security deposit immediately after closure of auction and where the bid amount is more than Rs. 15,000, the successful bidder is required to pay Rs. 15,000 plus 50 *per cent* of the balance amount in excess of Rs. 15,000 along with 10 *per cent* as security deposit immediately after closure of the auction. The balance amount of the contract value is payable within 15 days of the acceptance of the bid. If the contractor shall at any time make default in the payment of the balance amount within the stipulated period, all rights of collection shall be forfeited and the plantation may be resold at his risk and cost.
- The plantation should be handed over to the contractor for collection of the produce only after execution of the agreement and payment of the entire amount.
- The Managing Director of the Company, however, could grant time up to a maximum of 30 days for payment of the dues with 14 *per cent* interest in specific and genuine cases.
- The dues and any interest thereon would be recovered as arrears of land revenue in case of default.

Audit scrutiny (March 2004) revealed that the Company failed to enforce the terms and conditions of auction sale agreement during 1997-98 to 2003-04 and allowed the bidders to extract the produce without collecting the full bid amount. As a result, dues of Rs. 69.07 lakh and interest thereon of Rs 4.15 lakh up to 2001-02 relating to the period from 1997-98 to 2003-04 were pending realization from the bidders.

In reply to preliminary audit observation, the management stated (August 2004) that the Company had no alternative but to allow the bidders to collect the produce in order to prevent huge losses due to the perishable nature of the crops and that the bidders sustained losses as the yield was subject to vagaries of nature leading to subsequent default in the payment of the bid amount and a special drive was being conducted to recover the arrears by taking action to attach the properties of the defaulters. The reply is not tenable because if the Company had enforced the conditions of sale, which also take into account the perishable nature of the commodity, the bid amounts would have been recovered in advance.

The matter was reported to the Management/Government in October 2004; their replies were awaited (February 2005).

Sd/-

Panaji **(SANGITA CHOURE)**
The 11 July 2005 **Accountant General, Goa**

Countersigned

Sd/-

New Delhi **(VIJAYENDRA N. KAUL)**
The 29 July 2005 **Comptroller and Auditor General of India**