

CHAPTER-1

1. Functioning of State Public Sector Undertakings

Introduction

1.1 As on 31 March 2017, there were 23 State Public Sector Undertakings (PSUs) comprising 22 State Government companies and one Statutory Corporation in Chhattisgarh (*Annexure - 1.1*) as depicted below in table - 1.1:

Type of PSUs	Working PSUs	Non-working PSUs ¹	Total
Government companies ²	19	3	22
Statutory Corporation	1	-	1
Total	20	3	23

During the year 2016-17 two PSUs³ were incorporated and entrusted for audit by CAG. Out of 20 working PSUs and three non-working PSUs, 17 working PSUs and three non-working PSUs⁴ had finalised their accounts for the years 2014-15 to 2016-17 as on 31 December 2017 (*Annexure - 1.2*). As per the latest finalised accounts of these 20 PSUs, 12 PSUs earned profit of ₹ 142.38 crore, seven PSUs incurred loss of ₹ 544.84 crore, and the remaining one PSU⁵ had no profit or loss. These PSUs registered a turnover of ₹ 23,094.67 crore as per their latest finalised accounts as of 31 December 2017.

The 20 PSUs generated an average return on investment (RoI) of 3.52 *per cent* on the investment (₹ 6,972.39 crore) made by the State Government. As against this, the average cost of borrowings of the State Government was 8.17 *per cent* during 2014-15 to 2016-17. Thus, the approximate loss to the public exchequer as a result of investment in the 20 PSUs that had finalised their accounts in the past three years amounted to ₹ 324.21 crore. The loss, if any, incurred by the remaining three PSUs that have not finalised their accounts, could not be assessed.

As on 31 March 2017, the 23 State PSUs had 19,683 employees⁶. The three non-working PSUs have had no activity for last three years and had an investment of ₹ 338.17 crore (share capital: ₹ 104.70 crore and loans: ₹ 233.47 crore) as on 31 March 2017.

Recommendations:

Since the continued existence of loss making and non-working PSUs causes a substantial drain on the public exchequer, the State Government

¹ PSUs which have had no activities for last three years.

² Companies referred to in Sections 2(45), 139 (5) and 139 (7) of the Companies Act, 2013.

³ Raipur Smart City Limited and Chhattisgarh Railway Corporation Limited.

⁴ Chhattisgarh Sondiha Coal Company Limited, CSPGCL AEL Parsa Collieries Limited and CMDC ICPL Coal Limited have finalised their accounts upto 2016-17.

⁵ The net expenditure of CMDC ICPL Coal Limited has been booked against capital work in progress during project construction period.

⁶ It includes one employee of non-working Company CSPGCL AEL Parsa Collieries Limited.

may review (i) the functioning of all loss making PSUs and (ii) examine the possibility of winding up of non-working PSUs.

Accountability framework

1.2 Section 139 and 143 of the Companies Act, 2013 (Act), applies to audit of Government companies. The Comptroller and Auditor General of India (CAG) appoints Chartered Accountants (CAs) as Statutory Auditors and conducts supplementary audit of these companies.

Audit of Chhattisgarh State Warehousing Corporation (CSWC) is governed by Section 31 (8) of the State Warehousing Corporations Act, 1962. Audit of CSWC is conducted by CAs appointed by the State Government on the advice of the CAG and supplementary audit is conducted by CAG under the legislation applicable to the Statutory Corporation.

The Reports of the CAG are submitted to the Government, who shall, in terms of the CAG's (Duties, Powers and Conditions of Service) Act, 1971, cause them to be laid before the Legislature.

1.3 The concerned Administrative Departments under the Government of Chhattisgarh exercise control over the affairs of these PSUs, whose Chief Executives and Directors to the Board are appointed by the State Government.

Stake of Government of Chhattisgarh

1.4 The State Government's stake in PSUs falls under three broad categories, viz., share capital and loans, special budgetary support by way of grants and subsidies to consumers and guarantees of loans availed by PSUs from Financial Institutions.

Investment in State PSUs

1.5 As on 31 March 2017, the investment (share capital and long-term loans) in 23 State PSUs by State Government, Central Government and others was ₹ 24,161 crore as detailed in table - 1.2 (further details are given in *Annexure - 1.1*).

Table - 1.2: Total investment in PSUs as on 31 March 2017								(₹ in crore)
Types of PSUs	Status of accounts finalised	Equity			Long term loans			Grand Total
		State Government	Others ⁷	Total	State Government	Others ⁸	Total	
Working PSUs	2014-15 to 2016-17 ⁹	6,646.87	5,428.95	12,075.82	325.52	11,413.89	11,739.41	23,815.23
	Prior to 2014-15	5.80	-	5.80	1.71	0.09	1.80	7.60
	Sub-total	6,652.67	5,428.95	12,081.62	327.23	11,413.98	11,741.21	23,822.83
Non-working PSUs	2014-15 to 2016-17	--	104.70	104.70	--	233.47	233.47	338.17
	Prior to 2014-15	--	--	--	--	--	--	--
	Sub-total	--	104.70	104.70	--	233.47	233.47	338.17
Total		6,652.67	5,533.65	12,186.32	327.23	11,647.45	11,974.68	24,161.00

(Source: As per annual accounts of the PSUs/information furnished by the PSUs)

1.6 The sector wise summary of investments in the State PSUs as on 31 March 2017 is given in table - 1.3.

Table - 1.3: Sector-wise investment in PSUs							(₹ in crore)
Name of Sector	Working PSUs		Non-Working PSUs		Total	Total Investment	Total Investment in last five years
	With three years' accounts	With-out three years' accounts	With three years' accounts	With-out three years' accounts			
Agriculture and allied	2	-	-	-	2	27.15	0
Finance	1	-	-	-	1	40.49	24.02
Infrastructure	1	3	-	-	4	12.60	(-) 16.16
Mining	2	-	3	-	5	430.71	381.40
Power	5	-	-	-	5	23,458.83	6,157.57
Services	6	-	-	-	6	191.22	(-) 120.18
Total	17	3	3	-	23	24,161.00	6,426.65

(Source: As per audited accounts/information furnished by the PSUs)

The thrust of the State Government investment in PSUs was in the Power sector consequent to the unbundling the erstwhile Chhattisgarh State Electricity Board (CSEB) into five companies¹⁰ in January 2009. Out of the State Government investment of ₹ 6,746.06 crore (₹ 6,593.69 crore in equity

⁷ Includes share capital of Central Government and investment of ₹ 0.92 crore and ₹ 5,530.61 crore by two State Government holding companies in their eight subsidiary companies.

⁸ Includes loans from Central Government and Financial Institutions.

⁹ Accounts finalised atleast upto 2014-15.

¹⁰ Chhattisgarh State Power Holding Company Limited, Chhattisgarh State Power Generation Company Limited, Chhattisgarh State Power Transmission Company Limited, Chhattisgarh State Power Distribution Company Limited and Chhattisgarh State Power Trading Company Limited.

and ₹ 152.37 crore in loans) in the power sector, ₹ 1,223.85 crore¹¹ was invested during 2012-17.

1.7 Differences between the figures of the Government equity and loans depicted in the Finance Accounts and in the records of PSUs are given in table - 1.4 below:

Table - 1.4: Equity and Loans outstanding as on 31 March 2017			
(₹ in crore)			
Investment	As per Finance Accounts	As per records of PSUs	Difference¹²
Equity	6,463.82	6,652.67	188.85
Loans	283.75	327.23	43.48
<i>(Source: Information furnished by PSUs and Finance Accounts, GoCG, 2016-17)</i>			

Differences between the figures relating to guarantees given by the State Government in the Finance Accounts and in the records of PSUs are given in the table - 1.5 below:

Table - 1.5: Guarantees outstanding as on 31 March 2017			
(₹ in crore)			
Guarantees outstanding	As per Finance Accounts	As per records of PSUs	Difference
	5,423.28	3,416.80	2,006.48
<i>(Source: Information furnished by PSUs and Finance Accounts, GoCG, 2016-17)</i>			

Recommendation:

The Finance Department, the administrative departments and the PSUs should take immediate steps to reconcile the differences in figures with the Accountant General (A & E), in a time bound manner.

Arrears in finalisation of accounts

1.8 The Companies Act, 2013 stipulates that the annual financial statements of companies are to be finalised within six months from the end of the relevant financial year i.e., by September end. Failure to do so may attract penal provisions, which stipulates that every officer of the concerned defaulting Company shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.

The accounts of the Chhattisgarh State Warehousing Corporation are required to be finalised, audited and presented to the Legislature as per the provisions of State Warehousing Corporations Act, 1962.

As of 31 December 2017, the accounts of 13 working companies were in arrears for periods of upto five years, as depicted in *Annexure - 1.3*. Delays in finalisation of accounts often result in unavailability or loss of crucial records over time, which is fraught with possibilities of misrepresentation of facts, fraud and misappropriation.

¹¹ Equity increased by ₹ 1438.67 crore and loans decreased by ₹ 214.82 crore.

¹² The main reasons for difference are non-record in the Finance Accounts and difference in classification of Government investment.

Out of 20 working PSUs, only seven PSUs¹³ finalised their accounts for 2016-17 and the remaining 13 PSUs have arrears of 20 accounts¹⁴. Out of 20 PSUs, accounts of 11 PSUs were in arrears for one year, one PSU for four years and one PSU for five years, as detailed in *Annexure - 1.3*. There were no accounts in arrears in the three non-working PSUs as on 31 December 2017.

Details of the directors of the 13 working companies whose accounts are in arrears and are liable under the above penal provisions of the Companies Act are given in *Annexure - 1.4 (a)* and *(b)*.

1.9 The State Government had extended budgetary support of ₹ 7,707.17 crore to eight PSUs {equity: ₹ 490 crore (one PSU), capital grants: ₹ 570.82 crore (three PSUs), others (subsidy and revenue grants): ₹ 3,236.05 crore (six PSUs) and guarantees: ₹ 3,410.30 crore (three PSUs)} during the period for which accounts were in arrears as detailed in *Annexure - 1.5*. Out of this, budgetary support of ₹ 315.63 crore was extended to two working PSUs¹⁵ whose accounts were in arrears for more than three years, of which ₹ 156.46 crore was extended to these PSUs during 2016-17.

The decision of the State Government to extend budgetary support to the above PSUs whose accounts were in arrears, was financially imprudent, since the State Government had no basis to assess the financial soundness of these PSUs.

Recommendations:

- 1. The Finance Department and the concerned administrative departments should ensure that the State PSUs take immediate action to make their accounts current, so that the directors of these PSUs do not continue to fall foul of the Companies Act.**
- 2. The Finance Department and the concerned administrative departments should ensure that budgetary support is not extended to such PSUs whose accounts are not current.**

Performance of PSUs as per their latest finalised accounts

1.10 The key financial ratios used to assess the performance of the 18 PSUs¹⁶ that finalised their accounts for the period 2014-15 to 2016-17 (*Annexure - 1.6*) are given in table - 1.6 below:

¹³ Sl. No. A2, A6, A9, A15, A18, A19 and B1 of *Annexure - 1.1*.

¹⁴ At the rate of one account per year.

¹⁵ Chhattisgarh Infrastructure Development Corporation Limited and Chhattisgarh State Industrial Development Corporation limited.

¹⁶ Financial ratios cannot be calculated for non-working PSUs or those PSUs whose accounts are in arrears.

Table - 1.6: Key parameters of working PSUs					
Particulars	Key parameters (in percentage)	2014-15	2015-16	2016-17	Average
Profit making PSUs	ROCE ¹⁷	1.52	5.03	24.43	10.33
	ROI ¹⁸	1.52	5.03	24.43	10.33
	ROE ¹⁹	0.77	2.12	10.03	4.31
Loss making PSUs	ROCE	(-) 60.51	(-) 249	(-) 7.47	(-) 105.66
	ROI	(-) 60.51	(-) 249	(-) 7.47	(-) 105.66
	ROE	(-)194.12	(-) 2,859.14	(-) 6.72	(-) 1,019.99
Aggregate of PSUs	ROCE	(-) 0.16	3.84	24.06	9.25
	ROI	(-) 0.16	3.84	24.06	9.25
	ROE	(-) 1.77	(-) 3.71	9.77	1.43
Cost of borrowing		8.61	8.28	7.63	8.17
<i>(Source: Information as per finalised accounts of PSUs and Finance Accounts, GoCG)</i>					

1.11 The major contributors to profit were Chhattisgarh State Power Transmission Company Limited (₹ 35.75 crore), Chhattisgarh State Warehousing Corporation (₹ 32.79 crore), Chhattisgarh State Power Generation Company Limited (₹ 32.11 crore), Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited (₹ 16.75 crore) and Chhattisgarh Rajya Van Vikas Nigam Limited (₹ 8.75 crore). The RoI of these companies ranged between 4.44 per cent and 41.24 per cent during 2014-17. On the other hand, Chhattisgarh State Power Distribution Company Limited incurred heavy loss (₹ 540.64 crore), as per the latest finalised accounts.

1.12 The State Government has not formulated any dividend policy for State PSUs. Consequently, though, as per their latest finalised accounts, nine PSUs with Government equity of ₹ 6,146.97 crore²⁰ earned an aggregate profit of ₹ 74.43 crore, only one PSU, Chhattisgarh Rajya Van Vikas Nigam Limited, proposed dividend of ₹ 0.87 crore i.e., 9.94 per cent of its profit.

Recommendation:

The Finance department may consider formulating a dividend policy for payment of specified dividend on equity invested in profit making PSUs on lines of Government of Uttar Pradesh (five per cent of equity capital) and Madhya Pradesh (20 per cent of profit after tax).

1.13 The Companies Act, 2013 stipulates that the Board of Directors of every Company should meet a minimum of four times in a year. It was observed, however, that out of 20 working PSUs, nine companies conducted less than four meetings during 2014-17 as detailed in table - 1.7 below:

¹⁷ Return on Capital employed = (Net profit/loss before dividend, interest and tax)/ Capital Employed.

¹⁸ Return on Investment (RoI) = (Net Profit before dividend, tax and interest)/ Investment.

¹⁹ Return on Equity (RoE) = (Net profit after tax – Preference dividend)/ Shareholders' fund.

²⁰ Shareholders' funds as per latest finalised accounts.

Table - 1.7: Details of meeting held in companies									
Sl. No.	Name of Company	No. of meetings held			Shortfall in meetings				
		2014-15	2015-16	2016-17	2014-15	2015-16	2016-17		
1	Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited	4	2	4	Nil	2	Nil		
2	Chhattisgarh Nishakt Jan Vitt Avam Vikas Nigam	1	Nil	Nil	3	4	4		
3	Chhattisgarh Infrastructure Development Corporation Limited	1	2	1	3	2	3		
4	Chhattisgarh Road Development Corporation Limited	2	2	2	2	2	2		
5	Chhattisgarh Mineral Development Corporation Limited	4	4	3	Nil	Nil	1		
6	Kerwa Coal Limited	1	3	3	3	1	1		
7	Chhattisgarh State Beverages Corporation Limited	4	4	3	Nil	Nil	1		
8	Chhattisgarh Medical Services Corporation Limited	4	3	4	Nil	1	Nil		
9	Chhattisgarh State Warehousing Corporation	2	3	2	2	1	2		

(Source: Data compiled from the companies record)

Winding up of non-working PSUs

1.14 There were three non-working PSUs as on 31 March 2017. However, the State Government has not yet decided on closure/revival of these companies.

Accounts Comments

1.15 Seventeen working companies²¹ forwarded their 22 audited accounts to the Accountant General during the year 2016-17²². Of these, 21 accounts for the period 2014-15 to 2016-17 of 16 companies were selected for supplementary audit. The Audit Reports of Statutory auditors appointed by CAG and the supplementary audit of CAG indicated that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and CAG are given in table - 1.8.

²¹ Sl. No. A1, A2, A3, A6, A8, A9, A10, A11, A12, A13, A14, A15, A16, A17, A18, A19 and B1 of *Annexure - 1.1*.

²² During the period from October 2016 to December 2017.

Table - 1.8: Impact of audit comments on working companies							
(₹ in crore)							
Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in Profit	9	26.35	8	31.09	9	114.64
2	Increase in Loss	4	6.09	3	7.94	2	167.80
3	Increase in Profit	5	150.74	4	177.42	3	1.46
4	Decrease in Loss	1	360.86	4	26.58	-	-
5	Material facts not disclosed	6	527.54	6	581.49	5	2,288.68
6	Errors of classification	6	77.76	3	17.12	1	15.37

During the year, the Statutory Auditors had given qualified certificates for 20 accounts finalised by the 16 working companies. Compliance to the Accounting Standards by the companies remained poor as there were 15 instances of non-compliance to Accounting Standards in nine accounts of eight²³ companies.

Recommendation:

The Finance department and the concerned Administrative departments should immediately review the working of the 16 companies where the Statutory Auditors had given qualified comments.

Response of Government to Audit

Performance Audits and Paragraphs

1.16 One Performance Audit report and four audit paragraphs have been issued (March 2017 to October 2017) to the managements of the companies and Additional Chief Secretaries/ Principal Secretaries of the respective departments with requests to furnish replies within six weeks. Replies of managements and departments have been received and incorporated in the respective performance audit/ audit paragraphs.

Follow up action on Audit Reports

Replies outstanding

1.17 The reports of the Comptroller and Auditor General of India (CAG) represent the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. The Finance department, Government of Chhattisgarh issued (April 2017) instructions to all Administrative departments to submit replies/explanatory notes to paragraphs/reviews included in the Audit Reports of the CAG within a period of three months of their presentation to the Legislature, without waiting for any questionnaires from the Committee on Public Undertakings (CoPU). The position of explanatory notes not received is given in table - 1.9.

²³ Sl. No. A2, A10, A11, A13, A14, A15, A17 and B1 of *Annexure - 1.1*.

Table - 1.9: Explanatory notes not received (as on 31 July 2018)					
Year of the Audit Report (Civil and Commercial/ PSUs)	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and Paragraphs in the Audit Report		Number of PAs/Paragraphs for which replies/ explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2008-09	26 March 2010	1	5	-	2
2014-15	31 March 2016	1	13	1	0
Total		2	18	1	2

While explanatory notes of PA and paragraphs included in the Audit Report for the year 2015-16 have been received, the explanatory notes of the Audit Reports for the year 2008-09 and 2014-15 are still awaited (July 2018).

Recommendation:

The concerned administrative departments²⁴ should comply with the directives (April 2017) of the Finance department and furnish timely response to audit observations.

Discussion of Audit Reports by CoPU

1.18 The status, as on 31 July 2018, of Performance Audits and Paragraphs that appeared in Audit Reports (Civil and Commercial) and Audit Reports (PSUs) and discussed by the CoPU is given in table - 1.10.

Table - 1.10: Performance Audits/ Paragraphs in Audit Reports discussed by CoPU (as on 31 July 2018)				
Period of Audit Report	Number of PAs/ Paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	PAs	Paragraphs	PAs	Paragraphs
2008-09	01	05	01	03
2009-10	01	08	01	08
2010-11	01	08	01	06
2011-12	01	10	-	09
2012-13	01	09	01	09
2013-14	01	11	01	08
2014-15	01	13	-	04
2015-16	01	10	-	02
Total	08	74	05	49

Compliance to Reports of CoPU

1.19 Action Taken Notes (ATN) to two paragraphs appearing in two Reports of the Committee on Public Undertakings (CoPU)²⁵ presented to the State Legislature between July 2008 and March 2010 had not been received (July 2018) as indicated in table - 1.11. These CoPU reports pertain to CAG Audit Reports for period from 2002-03 and 2004-05. CoPU reports on Audit Reports for the years 2005-06, 2006-07 and 2008-09 onwards are not presented so far (July 2018).

²⁴ Energy department, Food, Civil Supplies and Consumer Protection department, Commerce and Industries department, Geology and Mining department and Commercial Tax (Excise) department.

²⁵ Pertaining to two departments of GoCG, i.e., Food, Civil Supplies and Consumer Protection department and Energy department which appeared in the reports of the CAG of India for the years 2002-03 and 2004-05.

Table - 1.11: Compliance to CoPU Reports			
Year of the Audit Report	Total number of CoPU Reports ²⁶	Total number of recommendations in CoPU Reports	Number of recommendations where ATNs not received
2002-03	01	01	01
2004-05	01	01	01
Total	02	02	02

(Source: Information compiled by Audit)

Recommendation:

The State Government should ensure prompt compliance in the furnishing of ATNs on the reports of CoPU.

Restructuring of PSUs consequent to reorganisation of the State

1.20 Consequent to the reorganisation of the erstwhile Madhya Pradesh State into the states of Madhya Pradesh and Chhattisgarh w.e.f. 01 November 2000, the assets and liabilities of 19 PSUs²⁷ (out of the then existing 28 PSUs as detailed in *Annexure - 1.7*) were to be divided amongst the successor states. However, the division have been completed only in respect of 13 PSUs²⁸ as of December 2017.

Recommendation:

Since almost two decades have passed after the reorganisation of the State, the State Government is required to work closely with the Government of Madhya Pradesh for the expeditious division of assets and liabilities of the six PSUs, where the Government investment as on 1 November 2000 was ₹ 36.98 crore.

Reforms in Power Sector under Ujwal Discom Assurance Yojna (UDAY)

1.21 With an objective to improve the operational and financial efficiency of the State DISCOMs, Ministry of Power, Government of India (GoI) launched (November 2015) Ujwal Discom Assurance Yojna (UDAY), a scheme for the financial turnaround of power distribution companies.

Memorandum of Understanding (MoU) was signed (January 2016) between Ministry of Power, GoI, Government of Chhattisgarh and Chhattisgarh State Power Distribution Company Limited (CSPDCL) for implementation of the scheme with identified financial and operational targets.

The progress achieved so far in respect of important financial and operational targets fixed as per MoU and achievements thereof as on 31 March 2018 is given in *Annexure - 1.8*.

²⁶ Year of CoPU reports was 2008-09 to 2009-10 and there is no CoPU report after 2011-12.

²⁷ Sl. No. 1 to 10, 12, 13, 15, 16, 18 and 19 of *Annexure - 1.7* (remaining three companies are no more in existence).

²⁸ Sl. No. 1 to 5, 7 to 9, 12 and 13 of *Annexure - 1.7* (remaining three companies are no more in existence).

CSPDCL achieved all the financial targets except reduction of Aggregate Technical and Commercial (AT&C) loss and Collection efficiency targets, which were almost fully achieved. In so far as achievement of operational targets is concerned, the target for electricity access to unconnected households and distribution of light emitting diode (LED) under UJALA scheme was achieved. However, the performance of CSPDCL was not satisfactory in respect of distribution transformer metering, feeder metering, rural feeder audit and feeder segregation. Further, CSPDCL failed to make any progress in the area of smart metering.