

## Chapter I

### 1. Overview of State Public Sector Undertakings

#### Introduction

**1.1** The State Public Sector Undertakings (PSUs) consist of State Government companies and Statutory corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of the people. In Orissa, the State PSUs occupy an important place in the state economy. The working State PSUs registered a turnover of Rs. 8,093.78 crore for 2008-09 as *per* their latest finalised accounts as of September 2009. This turnover was equal to 6.63 *per cent* of State Gross Domestic Product (GDP) for 2008-09. Major activities of Orissa State PSUs are concentrated in the power sector. The State PSUs earned a profit of Rs. 1,177.42 crore in the aggregate for 2008-09 as *per* their latest finalised accounts. They had employed 0.25 lakh<sup>\*</sup> employees as of 31 March 2009. The State PSUs do not include one<sup>±</sup> prominent Departmental Undertaking (DU), which carries out commercial operations but is a part of Government department. Audit findings of this DU are incorporated in the Civil Audit Report for the State.

**1.2** As on 31 March 2009, there were 66 PSUs as *per* the details given below. None of these companies was listed on the stock exchange.

Type of PSUs	Working PSUs	Non-working PSUs <sup>¶</sup>	Total
Government Companies <sup>♦</sup>	30	33	63
Statutory Corporations	03	--	03
<b>Total</b>	<b>33</b>	<b>33</b>	<b>66</b>

**1.3** During the year 2008-09, one PSU (Baitarni West Coal Company Limited) was established on 22 April 2008. The Company is registered under Section 619-B of the Companies Act, 1956.

<sup>\*</sup> As per the details provided by 48 PSUs. Remaining 18 (Non-working) PSUs did not furnish the details.

<sup>±</sup> Principal Chief Conservator of Forest (Kendu Leaf).

<sup>¶</sup> Non-working PSUs are those which have ceased to carry on their operations.

<sup>♦</sup> Includes 619-B companies.

### Audit Mandate

**1.4** Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as *per* Section 619-B of the Companies Act.

**1.5** The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG as *per* the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as *per* the provisions of Section 619 of the Companies Act, 1956.

**1.6** Audit of statutory corporations is governed by their respective legislations. Out of three statutory corporations, CAG is the sole auditor for Orissa State Road Transport Corporation. In respect of Orissa State Warehousing Corporation and Orissa State Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit is done by CAG.

### Investment in State PSUs

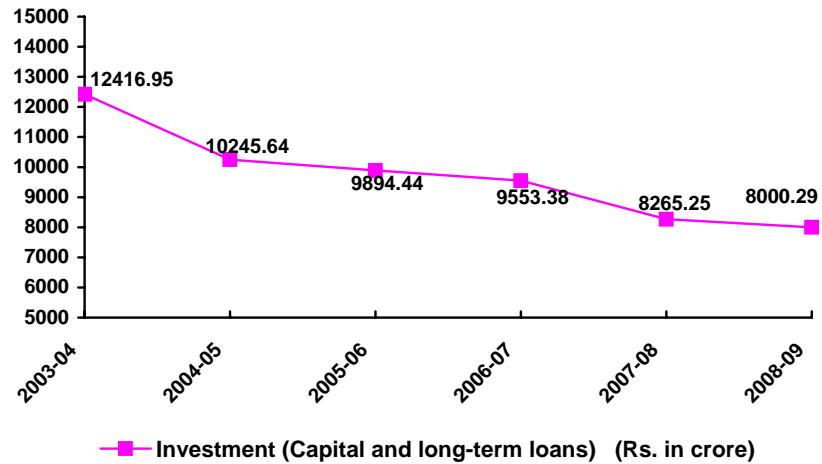
**1.7** As on 31 March 2009, the investment (capital and long-term loans) in 66 PSUs (including 619-B companies) was Rs. 8,000.29 crore as *per* details given below.

(Rupees in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	1804.86	5314.33	7119.19	536.82	182.55	719.37	7838.56
Non-working PSUs	85.39	76.34	161.73	--	--	--	161.73
<b>Total</b>	<b>1890.25</b>	<b>5390.67</b>	<b>7280.92</b>	<b>536.82</b>	<b>182.55</b>	<b>719.37</b>	<b>8000.29</b>

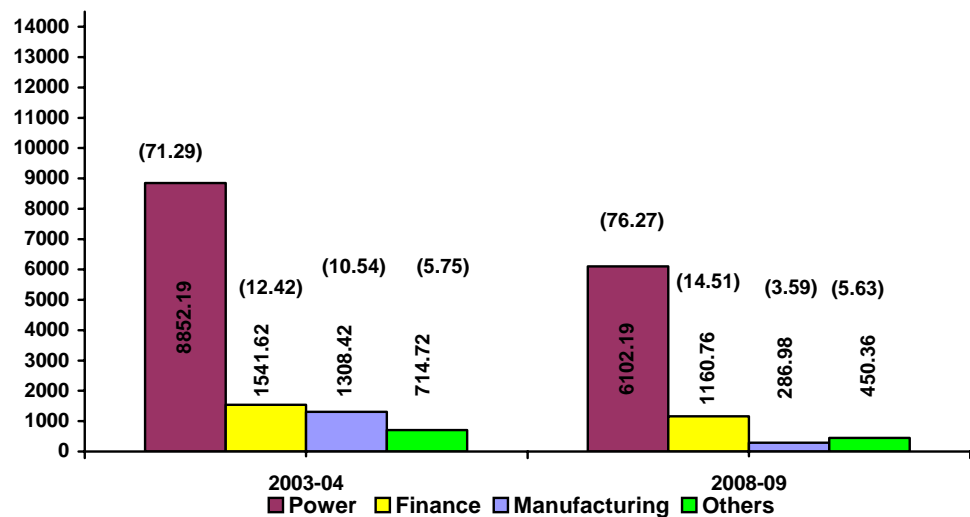
A summarised position of government investment in State PSUs is detailed in **Annexure 1**.

**1.8** As on 31 March 2009, of the total investment in State PSUs, 97.98 per cent was in working PSUs and the remaining 2.02 per cent in non-working PSUs. This total investment consisted of 30.34 per cent towards capital and 69.66 per cent in long-term loans. The investment has decreased by 35.57 per cent from Rs. 12,416.95 crore in 2003-04 to Rs. 8,000.29 crore in 2008-09 as shown in the graph below.



The decline in investment was mainly due to repayment of loan in power sector.

**1.9** The investment in various important sectors and percentage thereof at the end of 31 March 2004 and 31 March 2009 are indicated below in the bar chart. The thrust of PSU investment was mainly on the power sector which ranged between 71.29 and 81.49 per cent of the total investment during the five years ending 31 March 2009. The Government investment has decreased in all sectors during the last five years ending 31 March 2009. Though the percentage share in power sector has increased from 71.29 (2003-04) to 76.27 of the total investment, the investment in the sector has reduced by Rs. 2,750 crore (22.15 per cent) as on 31 March 2009.



(Figures in brackets show the percentage of total investment)

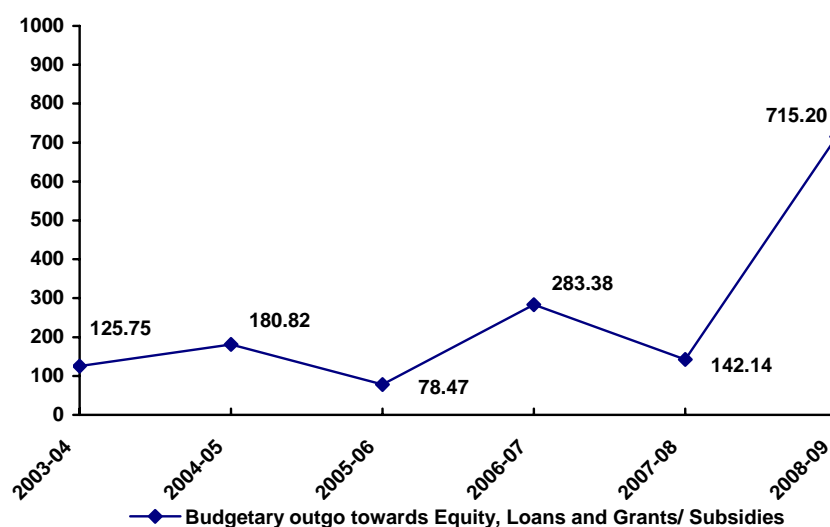
**Budgetary outgo, grants/subsidies, guarantees and loans**

**1.10** The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Annexure 3**. The summarised details are given below for three years ended 2008-09.

(Amount: Rupees in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	--	--	1	9.95	4	54.22
2.	Loans given from budget	2	234.12	2	75.40	1	52.52
3.	Grants/Subsidy received	8	49.26	7	56.79	15	608.46
4.	Total outgo (1+2+3)	8*	283.38	8*	142.14	17*	715.20
5.	Loans converted into equity	--	--	1	271.05	1	1.73
6.	Loans written off	--	--	--	--	--	--
7.	Interest/Penal interest written off	--	--	--	--	2	84.98
8.	Total waiver (6+7)	--	--	--	--	2	84.98
9.	Guarantees issued	2	46.01	--	--	--	--
10.	Guarantee commitment	12	2185.30	10	1633.23	8	1131.59

**1.11** The details regarding budgetary outgo towards equity, loans and grants/ subsidies for the past five years are given in a graph below.



\* Actual number of companies/corporations which received equity/loans/grants/subsidy from the State Government.

The budgetary outgo towards equity, loans and grants/ subsidies has increased sharply from Rs. 125.75 crore in 2003-04 to Rs. 715.20 in 2008-09 mainly due to release of subsidy of Rs. 564 crore during 2008-09 to Orissa State Civil Supplies Corporation Limited.

**1.12** The PSUs are liable to pay guarantee commission (GC) at the rate of 0.5 *per cent* per annum to the State Government on the maximum of the guarantee sanctioned irrespective of the amount availed or outstanding as on 1 April of each year till liquidation of loan as per guidelines (November 2002) of Government of Orissa. There is no instance of issue of guarantee to any of the state PSUs during 2007-08 and 2008-09. The guarantee commitment by the Government at the end of 2008-09 was Rs. 1,131.59 crore against eight PSUs. During the year the Government has exempted Rs. 5.59 crore towards guarantee commission outstanding against Orissa State Financial Corporation (OSFC) and interest amounting to Rs. 84.98 crore against Orissa Small Industries Corporation Limited (Rs. 2.90 crore) and OSFC (Rs. 82.08 crore). During the year 2008-09 five PSUs paid GC of Rs. 1.65 crore to the State Government while GC of Rs. 11.44 crore is outstanding in respect of four PSUs.

#### Reconciliation with Finance Accounts

**1.13** The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2009 is stated below.

(Rupees in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	1309.83	2001.61	691.78
Loans	1979.05	1894.20	84.85
Guarantees	1156.65	1131.59	25.06

**1.14** Audit observed that the differences occurred in respect of 26 PSUs and some of the differences were pending reconciliation since many years. In order to reconcile the discrepancy in figures of investment on equity and loans made by State Government in Government companies/corporations as indicated in the Audit Report (Commercial) and the Finance Accounts, letters were written to the Principal Secretaries to Government of Orissa in Public Enterprises Department and Finance Department with copies to the concerned Administrative Departments of the State PSUs. Besides, four meetings were held with four PSUs<sup>#</sup> during February to July 2009 and one workshop was organised on “Gap Analysis of the Finance Accounts” in May 2009. The

<sup>#</sup> Agricultural Promotion and Investment Corporation of Orissa Limited, Industrial Promotion and Investment Corporation of Orissa Limited, Orissa Agro Industries Corporation Limited and Orissa Film Development Corporation Limited.

Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

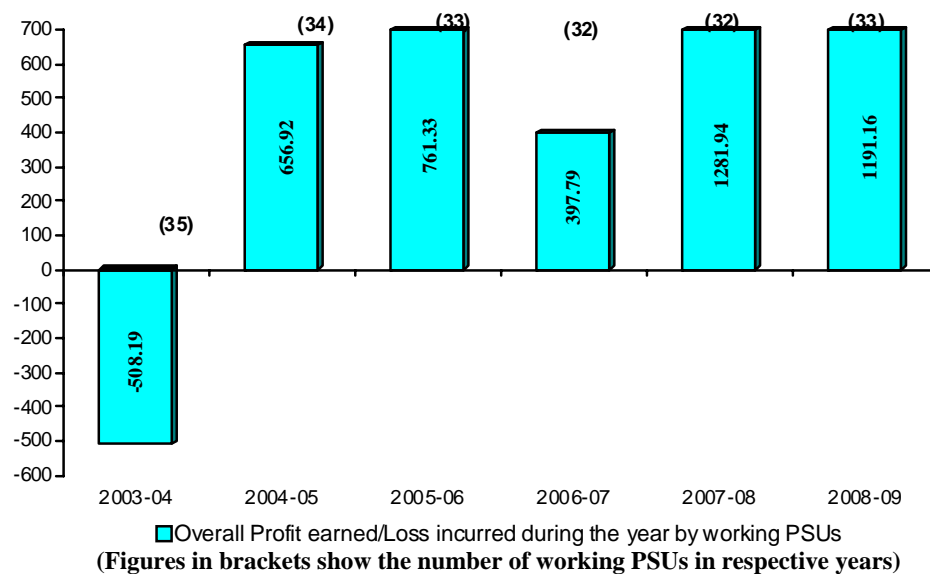
### Performance of PSUs

**1.15** The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in **Annexure 2, 5 and 6** respectively. A ratio of working State PSUs turnover to State GDP shows the extent of PSU activities in the State economy. The table below provides the details of working PSU turnover and State GDP for the period 2003-04 to 2008-09.

**(Amount: Rupees in crore)**

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover <sup>∞</sup>	5622.46	4929.01	5493.67	5772.26	7257.81	8093.78
State GDP	61422	71428	78953	93374	106466	122165
Percentage of turnover to State GDP	9.15	6.90	6.96	6.18	6.82	6.63

**1.16** Profit (losses) earned (incurred) by State working PSUs during 2003-04 to 2008-09 are given below in a bar chart.



From the above it can be seen that the working PSUs earned overall profit in all the years which ranged between Rs. 397.79 crore (2006-07) and Rs. 1,281.94 crore (2007-08) except for 2003-04 when the overall loss incurred was Rs. 508.19 crore. During the year 2008-09, out of 33 working PSUs, 20 PSUs earned profit of Rs. 1,231.53 crore and nine PSUs incurred

<sup>∞</sup> Turnover as per the latest finalised accounts as of 30 September.

loss of Rs. 40.37 crore. Two working PSUs prepared their accounts on a 'no profit no loss' basis and two companies have not yet started their commercial production. The major contributors to profit were Orissa Mining Corporation Limited (Rs. 879.26 crore), Orissa Power Generation Corporation Limited (Rs. 161.29 crore), GRIDCO Limited (Rs. 98.14 crore) and Industrial Promotion and Investment Corporation of Orissa Limited (Rs. 24.91 crore). Heavy losses were incurred by Orissa Power Transmission Corporation Limited (Rs. 15.22 crore), Orissa Rural Housing and Development Corporation Limited (Rs. 12.40 crore) and Orissa Forest Development Corporation Limited (Rs. 5.59 crore).

**1.17** The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of projects, running their operations and monitoring. A review of the latest Audit Reports of CAG shows that the working State PSUs incurred losses to the tune of Rs. 1,000.37 crore and infructuous investment of Rs. 409.43 crore which were controllable with better management. Year-wise details from Audit Reports are stated below.

(Amount: Rupees in crore)

Particulars	2006-07	2007-08	2008-09	Total
Net Profit (loss)	397.79	1,281.94	1,191.16	2,870.89
Controllable losses as per CAG's Audit Report	276.05	306.94	417.38	1,000.37
Infructuous investment	146.02	4.06	259.35	409.43

**1.18** The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the profits can be enhanced substantially. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for greater professionalism and accountability in the functioning of PSUs.

**1.19** Some other key parameters pertaining to State PSUs are given below.

(Amount: Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed (Per cent)	1.38	15.28	14.80	10.94	18.59	15.14
Debt	10,150.97	8,206.82	7,828.13	7,495.60	5,929.23	5,573.22
Turnover <sup>x</sup>	5,622.46	4,929.01	5,493.67	5,772.26	7,257.81	8,093.78
Debt/ Turnover ratio	1.81:1	1.67:1	1.42:1	1.30:1	0.82:1	0.69:1
Interest payment <sup>#</sup>	688.64	472.71	650.29	580.45	478.85	402.59
Accumulated profit/ (loss)	(2,668.97)	(2,099.43)	(1,541.66)	(1,441.03)	(17.36)	1,269.44

<sup>x</sup> Turnover of working PSUs as per the latest finalised accounts as of 30 September.

<sup>#</sup> Interest payment of working PSUs as per the latest finalised accounts as of 30 September.

**1.20** The above parameters clearly exhibit an improvement in the financial position of the PSUs. The return on capital employed has increased from a mere 1.38 *per cent* in 2003-04 to 15.14 *per cent* in 2008-09. The debt turnover ratio has improved from 1.81:1 in 2003-04 to 0.69:1 in 2008-09 as the debt was reduced from Rs. 10,150.97 crore to Rs. 5,573.23 crore respectively. As against accumulated losses of Rs. 2,668.97 crore in 2003-04, the PSUs registered an accumulated profit of Rs. 1,269.44 crore in 2008-09.

**1.21** As per the recommendations of the Tenth Finance Commission the State must adopt a modest rate of return on the investment made in commercial, promotional and commercial & promotional public enterprises at the rate of six *per cent*, one *per cent* and four *per cent* respectively, as dividend on equity. As per their latest finalised accounts, 20 PSUs earned an aggregate profit of Rs. 1,231.53 crore and only one PSU (Orissa Mining Corporation Limited) declared interim dividend of Rs. 200 crore.

**Performance of major PSUs**

**1.22** The investment in working PSUs and their turnover together aggregated to Rs. 15,932.34 crore during 2008-09. Out of 33 working PSUs, the following six PSUs accounted for individual investment *plus* turnover of more than five *per cent* of aggregate investment *plus* turnover. These six PSUs together accounted for 81.40 *per cent* of aggregate investment *plus* turnover.

(Amount: Rupees in crore)

PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to Aggregate Investment plus Turnover
(1)	(2)	(3)	(4)	(5)
Orissa Mining Corporation Limited	31.45	1,963.27	1,994.72	12.52
GRIDCO Limited	2,262.96	2,766.83	5,029.79	31.57
Orissa Hydro Power Corporation Limited	2,218.61	329.11	2,547.72	15.99
Orissa Power Generation Corporation Limited	507.97	432.78	940.75	5.90
Orissa Power Transmission Corporation Limited	1,110.30	399.76	1,510.06	9.48
Orissa State Civil Supplies Corporation Limited	9.78	936.39	946.17	5.94
<b>Total</b>	<b>6,141.07</b>	<b>6,828.14</b>	<b>12,969.21</b>	<b>81.40</b>

Some of the major audit findings of the past five years for the above PSUs are stated in the succeeding paragraphs.



### ***Orissa Mining Corporation Limited***

The Company had arrear of accounts for one year as of September 2009. The profit of the Company has risen continuously in the past three years from Rs. 211.74 crore in 2005-06 to Rs. 879.26 crore in 2007-08. Similarly, the turnover too has risen from Rs. 1,081 crore to Rs. 1,963.27 crore during this period. The return on capital employed has also increased from 35.52 *per cent* to 45.29 *per cent*.

#### **1.23 Deficiency in planning**

- The failure of the Company to install a new chrome ore beneficiation plant to process low grade chrome ore of 9.86 lakh MT to chrome concentrate deprived it and the Government of India the opportunity to earn additional revenue of Rs. 555.81 crore and export duty of Rs. 90.55 crore respectively. (Paragraph 2.1.23 of Audit Report 2007-08).

#### **1.24 Delay in implementation**

- The inability of the Company to achieve the targeted production of ores during 2003-08 (except 2006-07) due to the shortfall in production of iron ore by 45.59 lakh MT by the contractors resulted in loss of contribution of Rs. 350.10 crore. (Paragraph 2.1.9 of Audit Report 2007-08).

#### **1.25 Deficiency in monitoring**

- The Company extended undue benefit of Rs. 15.52 crore to a contractor due to payment of higher wage component. (Paragraph 3.7 of Audit Report 2004-05).
- The Company extended undue benefit of Rs. 14.82 crore to the contractor due to payment of dewatering charges disregarding the actual deployment of pumps. (Paragraph 3.1 of Audit Report 2006-07).

#### **1.26 Deficiency in financial management**

- Failure of the Company to collect Entry tax from the buyers at the time of sale resulted in avoidable burden of Rs. 2.35 crore. (Paragraph 3.13 of Audit Report 2005-06).

### ***GRIDCO Limited***

The profit of the Company has risen from Rs. 236.88 crore in 2006-07 to Rs. 566.05 crore in 2007-08 which decreased to Rs. 98.14 crore in 2008-09. Similarly, the turnover too has risen from Rs. 2,897.57 crore in 2006-07 to Rs. 3,246.64 crore in 2007-08, which decreased to Rs. 2,766.83 crore in 2008-09. However, the return on capital employed declined from 83.65 *per cent* in 2006-07 to 15.88 *per cent* in 2008-09.

**1.27 Deficiency in planning**

- Though the Company was aware of the scenario of shortfall in availability of power, it entered into power supply agreement, which led to failure in fulfilling the commitment and payment of penalty of Rs. 5.69 crore. (Paragraph 3.8 of Audit Report 2005-06).

**1.28 Deficiency in implementation**

- The Company failed to commission Dissolved Gas Analysis equipment which resulted in wasteful expenditure of Rs. 1.12 crore. (Paragraph 3.3 of Audit Report 2004-05).

***Orissa Hydro Power Corporation Limited***

The profit of the Company has risen from Rs. 53.93 crore in 2006-07 to Rs. 121.39 crore in 2007-08 which declined to Rs. 17.57 crore in 2008-09. Similarly, the turnover too has risen from Rs. 303.65 crore in 2006-07 to Rs. 386.04 crore in 2007-08 which declined to Rs. 329.11 crore in 2008-09. The return on capital employed has risen from 2.77 *per cent* in 2006-07 to 5.15 *per cent* in 2007-08 which declined to 0.95 *per cent* in 2008-09.

**1.29 Deficiency in implementation**

- Failure of the Company to award the work to the Original Equipment Manufacturer as per Government directive led to avoidable loss of Rs. 21.06 crore besides laxity in recovery of liquidated damages of Rs. 48.43 lakh from BHEL Limited. (Paragraph 3.1 of Audit Report 2007-08).

**1.30 Deficiencies in financial management**

- Failure of the Company to take timely remedial measures resulted in loss of revenue of Rs. 22.12 crore. (Paragraph 3.12 of Audit Report 2005-06).
- Non-acceptance of bonds of Rs. 250 crore by the Company led to loss of interest of Rs. 127.50 crore. (Paragraph 3.6 of Audit Report 2006-07).

***Orissa Power Generation Corporation Limited***

The profit of the Company has risen from Rs. 147.85 crore in 2005-06 to Rs. 181.53 crore in 2006-07 which declined to Rs. 161.29 crore in 2007-08. The turnover of the Company, however, continuously declined from Rs. 448.78 crore in 2005-06 to Rs. 432.78 crore in 2007-08. The return on capital employed, however, increased from 14.25 to 19.89 *per cent* and declined to 16.22 *per cent* during the same period.

### **1.31 Deficiency in financial management**

- There was extension of undue benefit of Rs. 1.82 crore to the contractors by the Company by paying compensation in violation of the agreed settlement. (Paragraph 3.1 of Audit Report 2004-05).

#### ***Orissa Power Transmission Corporation Limited***

The Company had arrear of accounts for one year as of September 2009. The loss of the Company has declined from Rs. 24.95 crore in 2005-06 to Rs. 9.06 crore in 2006-07 which has increased to Rs. 15.22 crore in 2007-08. Similarly, the turnover of the Company has declined from Rs. 362.08 crore to Rs. 355.35 crore and increased to Rs. 399.76 crore during this period. The return on capital employed has also increased from 4.16 to 5.71 *per cent* and declined to 5.33 *per cent* during this period.

### **1.32 Deficiencies in planning**

- The construction of substation by the Company despite being aware of fall in demand of load led to idle investment and consequential loss of interest of Rs. 55.25 crore. (Paragraph 2.3.9 of Audit Report 2006-07).
- Non-commissioning of 18 transformers of total capacity of 2,830 MVA by seven months to almost nine years of their receipt led to foregoing of revenue of Rs. 139.43 crore per annum. (Paragraph 2.3.10 of Audit Report 2006-07).

#### ***Orissa State Civil Supplies Corporation Limited***

The Company had arrears of accounts for two years as of September 2009. The arrears were for four years as of September 2006. The Company is functioning on 'no profit no loss basis'. The turnover of the Company decreased marginally from Rs. 709.21 crore in 2004-05 to Rs. 709.10 crore in 2005-06 and increased to Rs. 936.39 crore in 2006-07.

### **1.33 Deficiencies in monitoring**

- There were instances of excess lifting and distribution of rice costing Rs. 3.37 crore due to non-reduction of Antyodaya Anna Yojana Cards from the Below Poverty Line card strength and not accounting for death and migration cases. (Paragraphs 2.2.12 and 2.2.13 of Audit Report 2004-05).
- Non-recovery of holding charges resulted in loss to the Company and undue favour to the custom millers for Rs. 0.71 crore. (Paragraph 3.16 of Audit Report 2007-08).

### Conclusion

**1.34** The above details indicate that the State PSUs are not functioning efficiently and there is tremendous scope for improvement in their overall performance. They need to imbibe greater degree of professionalism to ensure delivery of their products and services efficiently and profitably. The State Government should introduce a performance based system of accountability for PSUs.

#### Arrears in finalisation of accounts

**1.35** The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2009.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Number of Working PSUs	34	33	32	32	33
2.	Number of accounts finalised during the year	38	36	33	35	34
3.	Number of accounts in arrears	70	67	65	62	54
4.	Average arrears <i>per</i> PSU (3/1)	2.06	2.03	2.03	1.94	1.64
5.	Number of Working PSUs with arrears in accounts	30	29	31	29	28
6.	Extent of arrears	1 to 7 years	1 to 7 years	1 to 7 years	1 to 7 years	1 to 5 years

**1.36** From the above table it would be seen that though the companies have been finalising at least one account per year, concrete steps to clear the arrears completely were not taken. Further, Orissa State Cashew Development Corporation Limited and Orissa Bridge and Construction Corporation Limited have not finalised any accounts during the year ended 30 September 2009. The main reasons as stated by the companies for delay in finalisation of accounts is lack of trained staff.

**1.37** In addition to the above, there were also arrears in finalisation of accounts by non-working PSUs. Out of 33 non-working PSUs, 20 had gone into liquidation process. Of the remaining 13 non-working PSUs, all PSUs had arrears of accounts for 1 to 38 years.

**1.38** The State Government had invested Rs. 926.10 crore (Equity: Rs. 51.77 crore, loans: Rs. 231.60 crore, grants: Rs. 642.73 crore) in 16 PSUs during the years for which accounts have not been finalised as detailed in **Annexure 4**. In the absence of accounts and their subsequent audit, it can not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

**1.39** The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed every quarter by the Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up (July 2009) with the Chief Secretary /and Commissioner-cum-Secretary, Public Enterprises Department, Government of Orissa who monitors the finalisation of arrear accounts by the PSUs.

**1.40 In view of the above state of arrears, it is recommended that:**

- **The Government may set the targets for individual companies which would be monitored by the Public Enterprises Department.**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**

#### Winding up of non-working PSUs

**1.41** There were 33 non-working PSUs (all companies) as on 31 March 2009. Of these, 20 PSUs have commenced liquidation process. The number of non-working companies at the end of each year during the past five years is given below.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
No. of non-working companies	35	32	32	31	33

The non-working PSUs are required to be closed down as their existence is not going to serve any purpose. During 2008-09, five<sup>#</sup> non-working PSUs incurred an expenditure of Rs. 0.32 crore towards establishment expenditure, salary etc.

<sup>#</sup> Konark Television Limited, Orissa State Handloom Development Corporation Limited, Orissa State Commercial Transport Corporation Limited, Orissa State Electronics Development Corporation Limited and Orissa State Textile Corporation Limited.

This expenditure was financed by the State Government by way of grants.

**1.42** The stages of closure in respect of non-working PSUs are given below.

Sl. No.	Particulars	Number of Company
1.	Total number of non-working PSUs	33
2.	Of (1) above, the number under	
(a)	Liquidation by Court	11
(b)	Voluntary winding up	9
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	13

**1.43** During the year 2008-09, one company (General Engineering and Scientific Works Limited) was finally wound up. The companies which have taken the route of winding up by Court order are under liquidation for a period ranging from 1 to 35 years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted/ pursued vigorously. The Government may take a decision regarding winding up of 13 non-working PSUs, where no decision about their continuation or otherwise has been taken after they became non-working. The Government may consider setting up a cell to expedite closing down its non-working companies.

#### Accounts Comments and Internal Audit

**1.44** Twenty eight working companies forwarded their audited 32 accounts to the Accountant General during the year 2008-09. Of these, 27 accounts of 23 companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate 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 below.

(Amount: Rupees in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	5	16.27	12	25.51	11	38.78
2.	Increase in loss	5	19.36	5	26.22	7	350.72
3.	Non-disclosure of material facts	8	65.95	12	110.83	9	146.55
4.	Errors of classification	4	10.32	8	25.26	7	23.45

**1.45** During the year, the Statutory Auditors had given qualified certificates for all the accounts received. The compliance of companies with the Accounting Standards remained poor as there were 25 instances of non-compliance with Accounting Standards (AS) in 32 accounts during the year.

**1.46** Some of the important comments in respect of accounts of companies are stated below:

***Orissa Power Transmission Corporation Limited (2007-08)***

- Non-provision of arrear dues on revision of pension with effect from 1 January 2006 has resulted in understatement of Current Liabilities & Provisions, Pension (Expenditure) and loss for the year by Rs. 65.44 crore.
- Non-accountal of leave encashment of Rs. 46.83 crore and ex-gratia payment of Rs. 3.10 crore on accrual basis in violation of section 209(3)(b) of the Companies Act, 1956 has resulted in understatement of Current Liabilities & Provisions, Administration, General and other expenses and loss for the year by Rs. 49.93 crore.

***Orissa Mining Corporation Limited (2007-08)***

- Short provision of Net Present Value (NPV) on broken forest land of 12 mines has resulted in understatement of liability for NPV and overstatement of profit by Rs. 26.61 crore.

***Orissa State Seeds Corporation Limited (2007-08)***

- Non-accounting of production incentive for the year 2007-08 receivable from the Government of Orissa has resulted in understatement of other income, profit for the year and sundry debtors by Rs. 2.51 crore.

***Orissa Power Generation Corporation Limited (2007-08)***

- Non-computation of depreciation on Ash Pond as per accounting policy of the Company resulted in understatement of depreciation and overstatement of fixed assets and profit by Rs. 2.03 crore.

***IDCOL Kalinga Iron Works Limited (2007-08)***

- The normal practice of the Company with respect to scrap valuation overstated the profit to the tune of Rs. 1.02 crore.

***GRIDCO Limited (2008-09)***

- Non-recognition of income from interest on long term loans granted to distribution companies resulted in understatement of profit and interest accrued on loan by Rs. 93.39 crore.

**1.47** Similarly, two\* working Statutory corporations forwarded their two accounts to the Accountant General during the year 2008-09. Both the accounts were selected for supplementary audit. The details of

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\* Orissa State Financial Corporation and Orissa State Warehousing Corporation

aggregate money value of comments of Statutory Auditors and CAG are given below.

(Amount: Rupees in crore)

Sl. No	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	0.20	2	0.29	1	0.74
2.	Non-disclosure of material facts	1	4.63	1	0.60	--	--
3.	Errors of classification	--	--	2	17.96	--	--

**1.48** During October 2008 to September 2009, the Statutory Auditors had given qualified certificates for two accounts. There was no instance of non-compliance with AS in the two accounts.

**1.49** Some of the important comments in respect of accounts of Statutory corporations are stated below.

**Orissa State Warehousing Corporation (2006-07)**

- Non-provision of the arrear in respect of Dearness allowance payable to the employees of the Corporation has resulted in understatement of establishment charges, other liabilities and overstatement of profit by Rs. 65.54 lakh.
- Liability due to disallowance of insurance claim of Rs. 54.23 lakh is lying unadjusted since long and no settlement has been made by the Corporation.

**1.50** The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/ internal control system in respect of 17 companies<sup>‡</sup> for the year 2007-08 and 18 companies<sup>‡</sup> for the year 2008-09 are given below.

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Annexure 2
1.	Non-fixation of minimum/ maximum limits of store and spares	11	A-2,5,6,7,12,19,20,24 & 25 C-24 & 33
2.	Absence of internal audit system commensurate with the nature and size of business of the company	18	A- 2,3,4,5,6,7,12,13,15,19, 22,25,27,28,29 & 30 C- 3 & 6

<sup>‡</sup> Sl. No.A- 2,3,4,5,6,7,11,12,13,19,20,25,27,28 &29 and C- 24 & 33 of Annexure 2.

<sup>‡</sup> Sl. No.A- 2,3,4,5,6,7,12,13,15,19,22,24,25,28,29 & 30 and C- 3 & 6 of Annexure 2.



Sl. No.	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Annexure 2
3.	Non-maintenance of cost record	5	A- 4,7,13 & 19 C- 24
4.	Non-maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations	15	A- 2,4,5,6,7,11,12,13,15,19, 24, 29 & 30 C- 24 & 33

#### Recoveries at the instance of audit

**1.51** During the course of audit in 2008-09, recoveries of Rs. 1.10 crore were pointed out to the Management of Orissa Power Transmission Corporation Limited, of which recoveries of Rs. 0.20 crore were admitted by the Company. An amount of Rs. 0.20 crore was recovered during the year 2008-09.

#### Status of placement of Separate Audit Reports

**1.52** The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory corporations in the Legislature by the Government.

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1.	Orissa State Financial Corporation	2007-08	NA	NA	NA
2.	Orissa State Warehousing Corporation	2004-05	2005-06	The accounts for the year 2005-06 have not been adopted in the Annual General Meeting (AGM) by the Corporation (September 2009).	
3.	Orissa State Road Transport Corporation	2005-06	NA	NA	NA

Delay in placement of SARs weakens the legislative control over Statutory corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the legislature.

#### Disinvestment, Privatisation and Restructuring of PSUs

**1.53** The State Cabinet accepted (August 1996) the recommendations of the Cabinet Sub-Committee formed (October 1995) for 34 Public Sector Enterprises (PSEs) for disinvestment/ privatisation/ restructuring/ liquidation. The private investors, however, did not show much interest and little progress

was made on reforms. As per the record notes of discussions held (15 April 1999) between the Union Ministry of Finance and the State Government for a fiscal reform programme, the State Government was to take up a time bound reform programme for disinvestment and restructuring of certain State level PSEs. A Task Force on Public Enterprises Reform was constituted (10 October 2000) for framing a clear policy framework on Public Enterprises Reform. In accordance with the recommendations of the Task Force, the State Government and the Department of Expenditure, Union Ministry of Finance signed (11 October 2001) an MOU to achieve fiscal sustainability in the medium term in accordance with the Orissa Medium Term Fiscal Reform Programme in two phases (first phase 2002-2005 and second phase 2005-2007) which included Public Sector Restructuring Programme. In pursuance of the programme, four State Government companies (viz. IDCOL Cement Limited, IDCOL Rolling Mills Limited, Hirakud Industrial Works Limited and ORICHEM Limited) were privatised through disinvestment of shares during the period December 2003 to May 2007.

The present status (May 2009) of the Reform Programme in respect of other Public Sector Enterprises of second phase (2005-2007) is given below:

Name of the enterprise	Action to be taken	Date by which action to be completed	Present status
IDCOL Piping and Engineering Works Limited	Privatise or close	October 1999*	Assets have been sold.
SN Corporation Limited	Privatise	--	Assets have been sold.
Orissa State Seeds Corporation Limited	Privatise	--	Draft memorandum prepared by the Company and after finalisation in consultation with related Departments will be placed before the Cabinet for approval.
Orissa State Textile Corporation Limited	Close	March 2000*	Action for privatisation was held up as the acquisition of Bhaskar Textile Mills (a unit of the Company) was challenged by the erstwhile owner and the judgment of the Court is awaited.
Kanti Sharma Refractories Limited	Close	--	Compulsory winding up petition has been filed before the Hon'ble High Court on 29 March 2008.
Orissa State Electronic Development Corporation	Close	--	Steps have been initiated to implement the decision of the State Cabinet to close down the Company.
ELMARC Limited	Close	--	All employees have been relieved through VRS. It has been decided to follow the striking off route.
Orissa State Commercial Transport Corporation Limited	Close	--	The land at Baliparbat has been transferred to the Forest Department. Out of 48 lots of movable assets 47 lots have been disposed.

\* Included in the first phase.

Name of the enterprise	Action to be taken	Date by which action to be completed	Present status
New Mayurbhanj Textiles Limited	Close	--	Assets valuing Rs. 15.65 lakh were sold during 2006-07. It has been decided to dispose of the movable assets at Rs. 1.45 lakh. Steps are being taken to liquidate the Company.
IDCOL Ferro Chrome and Alloys Limited	Privatise	October 1999*	A concrete analysis is to be made to determine the comparative gain if IFCAL is disinvested or not disinvested. The Vision Document submitted by IDCOL to the Industries Department is being analysed.
Kalinga Studios Limited	Privatise	2002-05	All regular employees have been retrenched under the provisions of ID Act and the process for transfer of the land in favour of the Company and also the privatisation process is under progress.
Konark Television Limited	Close	--	The Company is under liquidation.
Orissa Textile Mills Limited	Close	--	The Company is under liquidation
Konark Jute Limited	Privatise	--	Bids have been received for privatisation. The transaction has been stalled due to a legal challenge.
Orissa Agro Industries Corporation Limited	Restructure	--	VRS is being implemented to rightsize the manpower. Cabinet memorandum for restructuring is on the verge of finalisation.
Orissa Cashew Development Corporation Limited	Restructure	--	Manpower restructuring is in progress and 170 employees have already been separated through VRS. The Cabinet memorandum is in the process of finalisation.
Orissa Forest Development Corporation Limited	Restructure	--	Government has approved the restructuring plan. VRS is being implemented to rightsize the manpower. A high power committee under the Chairmanship of the Development Commissioner-cum-Additional Chief Secretary, Orissa is reviewing the implementation of the restructuring plan from time-to-time.
Orissa Lift Irrigation Corporation Limited	Restructure	2002-05	Implementation of the Government approved restructuring plan is in progress.
Orissa Construction Corporation Limited	Restructure	--	Implementation of Government-approved restructuring plan is in progress.
Orissa Bridge & Construction Corporation Limited	Restructure	--	Restructuring plan is under process to obtain Government approval. Manpower restructuring is in progress and 177 employees have been relieved through VRS. Steps are being undertaken to make the Company sustainable.
Orissa State Handloom Development Corporation Limited	Close	--	The Company is under liquidation.

\* Included in the first phase.

Name of the enterprise	Action to be taken	Date by which action to be completed	Present status
Orissa Instruments Company Limited	Close	--	The admitted liabilities are Rs. 57.36 lakh. IDCO has been requested to clear the pending dues.
Orissa State Leather Corporation Limited	Close	--	The AGM for passing winding up resolution will be convened after BoD is reconstituted.
Orissa State Financial Corporation	Restructure	2002-05	The restructuring plan has been approved. VRS is being implemented for surplus employees and organisational restructuring is in progress.

### Reforms in Power Sector

**1.54** The State has Orissa Electricity Regulatory Commission (OERC) formed in August 1996 under the Orissa Electricity Reforms Act, 1995 with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licenses. During 2008-09, OERC issued 67 orders (eight on annual revenue requirements and 59 on others).

**1.55** Memorandum of Understanding (MoU) was signed in (June 2001) between the Union Ministry of Power and the State Government as a joint commitment for implementation of reforms programme in the power sector with identified milestones. The progress achieved so far in respect of important milestones is stated below.

Sl. No.	Particulars	Milestone	Achievement as at March 2008
1.	Hundred <i>per cent</i> electrification of all villages.	March 2012	Out of 46989 villages, 23045 villages (49 <i>per cent</i> ) were electrified.
2.	Hundred <i>per cent</i> metering of all distribution feeders.	December 2005	Metering of 11 KV feeders has been completed up to 87.8 <i>per cent</i> .
3.	Hundred <i>per cent</i> metering of all consumers.	December 2005	Out of 95.5 <i>per cent</i> consumers metered, 88 <i>per cent</i> meters are working.
4.	Transmission and distribution losses will not exceed 34 <i>per cent</i> , which have to be brought down to 20 <i>per cent</i> .	2010	Transmission loss at 4.6 <i>per cent</i> and distribution loss at 45.5 <i>per cent</i> .
5.	Establishment of State Electricity Regulatory Commission.	April 1996	Established in August 1996.

In the absence of updated data from the State Government (Energy Department), the actual progress made so far in the above matter could not be ascertained.

**Discussion of Audit Reports by COPU**

**1.56** The status as on 30 September 2009 of reviews and paragraphs that appeared in Audit Reports (Commercial) and discussed by the Committee on Public Undertakings (COPU) is as under.

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
2005-06	4	17	1	0
2006-07	4	21	0	1
2007-08	5	20	0	0
<b>Total</b>	<b>13</b>	<b>58</b>	<b>1</b>	<b>1</b>

**1.57** The matter relating to clearance of backlog of reviews/ paragraphs was also discussed with Chief Secretary/ Finance Secretary in January 2009 and Chairperson of COPU in April 2008, July 2008 and August 2009.