

CHAPTER I

1. Overview of 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 Punjab, the State PSUs occupy an important place in the State economy. The working PSUs registered a turnover of Rs. 19,138.60 crore in 2008-09 as *per* their latest finalised accounts as of September 2009. This turnover was equal to 12.04 *per cent* of the State Gross Domestic Product (GDP) in 2008-09. Major activities of Punjab State PSUs are concentrated in the Power and Finance sectors. The working State PSUs incurred a loss of Rs. 1,590.59 crore in the aggregate for 2008-09 as *per* their latest finalised accounts. They had employed 0.80 lakh* employees as of 31 March 2009. The State PSUs do not include the Punjab Roadways, which is a Departmental Undertaking (DU) carrying out commercial operations as a part of a Government Department. Audit findings of this DU are incorporated in the Civil Audit Report *of the State.

1.2 As on 31 March 2009, there were 50 PSUs as *per* the details given below. Of these, only one Company i.e. Punjab Communications Limited was listed on the stock exchange.

Type of PSUs	Working PSUs	Non-working PSUs [¶]	Total
Government companies [♦]	28	17	45
Statutory corporations	5	-	5
Total	33	17	50

1.3 During the year, one PSU i.e. The Punjab Police Security Corporation Limited, was established whereas one PSU (Talwandi Sabo Power Limited) ceased to be a Government Company.

* As per the details provided by all 50 PSUs.

* Results of Performance Audit of Punjab Roadways have been incorporated in the integrated review on functioning of State Transport Undertakings included in this Report.

[¶] Non-working PSUs are those which have ceased to carry on their operations.

[♦] Includes three 619-B companies (deemed Government companies) namely Punjab Venture Capital Limited, Punjab Venture Investors Trust Limited and Nabha Power Limited.

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 Comptroller and Auditor General of India (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 five Statutory corporations, CAG is the sole auditor for the Punjab State Electricity Board, Punjab Scheduled Castes Land Development and Finance Corporation and PEPSU Road Transport Corporation. In respect of the Punjab State Warehousing Corporation and Punjab Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

Investment in the State PSUs

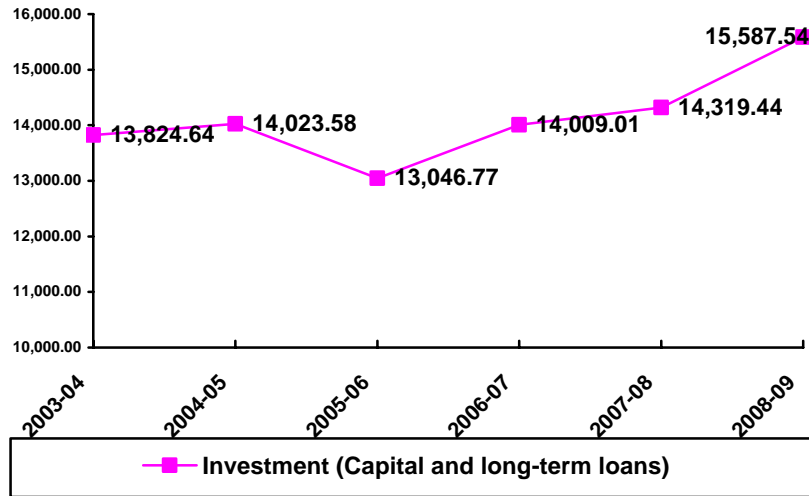
1.7 As on 31 March 2009, the investment (capital and long-term loans) in the 50 PSUs (including 619-B companies) was Rs. 15,587.54 crore as detailed below.

(Amount: Rupees in crore)

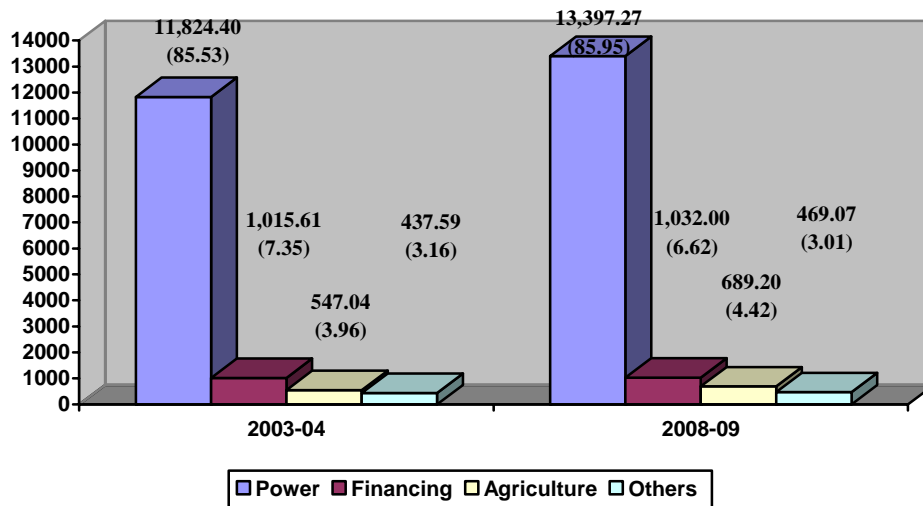
PSUs	Government companies			Statutory corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	648.62	1,365.02	2,013.64	3,160.85	10,362.30	13,523.15	15,536.79
Non-working PSUs	21.09	29.66	50.75	-	-	-	50.75
Total	669.71	1,394.68	2,064.39	3,160.85	10,362.30	13,523.15	15,587.54

A summarised position of Government investment in the State PSUs is given in *Annexure 1*.

1.8 As on 31 March 2009, of the total investment in the State PSUs, 99.67 per cent was in working PSUs and the remaining 0.33 per cent in non-working PSUs. This total investment consisted of 24.57 per cent as capital and 75.43 per cent as long-term loans. The investment has grown by 12.75 per cent from Rs. 13,824.64 crore in 2003-04 to Rs. 15,587.54 crore in 2008-09 as shown in the graph below:



1.9 The investment in 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 in the State was mainly in power sector which had seen its percentage share rising from 85.53 per cent in 2003-04 to 85.95 per cent in 2008-09.



(Figures in brackets show the percentage of total investment)

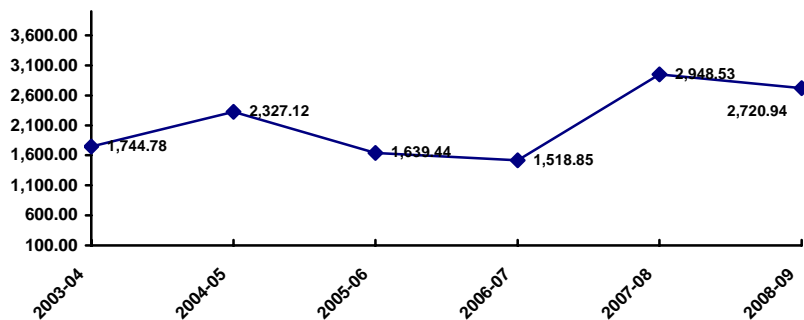
Budgetary outgo, grants/subsidies, guarantees and loans

1.10 The details regarding budgetary outgo from the State Government towards equity, loans, grants/ subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of the State PSUs are given in **Annexure 3**. The summarised position is 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	2	20.59	2	30.04	2	32.17
2.	Loans given from budget	-	-	-	-	-	-
3.	Grants/Subsidy received	3	1,498.26	5	2,918.49	4	2,688.77
4.	Total Outgo (1+2+3)	4 [®]	1,518.85	6 [®]	2,948.53	5 [®]	2,720.94
5.	Loans converted into equity	-	-	-	-	-	-
6.	Loans written off	-	-	-	-	-	-
7.	Interest/Penal interest written off	-	-	-	-	-	-
8.	Total Waiver (6+7)	-	-	-	-	-	-
9.	Guarantees issued	11	10,875.84	5	12,718.28	6	20,554.93
10.	Guarantee Commitment	12	8,355.23	11	9,894.99	10	18,322.37

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



-♦- Budgetary outgo towards Equity, Loans and Grants/ Subsidies

[®] Actual number of PSUs which received budgetary support.

The budgetary outgo in 2006-07 was all time low in preceding five years at Rs. 1,518.85 crore, which jumped to Rs. 2,948.53 crore in 2007-08 due to significant extension of grant/subsidy to power sector. The budgetary outgo was marginally lower at Rs. 2,720.94 crore in 2008-09.

1.12 The amount of guarantee commitment as on 31 March 2007 was Rs. 8,355.23 crore (12 PSUs) which increased to Rs. 9,894.99 crore (11 PSUs) as on 31 March 2008 and to Rs. 18,322.37 (10 PSUs) as on 31 March 2009.

The State Government charged guarantee fee at the rate of 1/8 *per cent* in case of PSUs engaged as procuring agencies and two *per cent* from the other PSUs. During the year the PSUs paid guarantee fee of Rs. 28.96 crore out of Rs. 29.23 crore payable, leaving a balance of Rs. 0.27 crore. Besides, Rs. 21.67 crore of guarantee fee pertaining to the period from February 2001 to February 2007 were not paid as at 31 March 2009.

Reconciliation with Finance Accounts

1.13 The figures in respect of equity, loans and guarantees outstanding as *per* the 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 the differences. The position in this regard as on 31 March 2009 is given below.

(Rupees in crore)			
Outstanding in respect of	Amount as per Finance Accounts (Provisional)	Amount as per records of PSUs	Difference
Equity	3,593.35	3,734.19	140.84
Loans	3,397.25	2,620.06	777.19
Guarantees	18,195.41	18,322.37	126.96

1.14 Audit observed the differences occurred in 24 PSUs and some of the differences were pending reconciliation since 1973-74. Letters/reminders have been issued (July 2009) to the State Government for reconciliation of the differences. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of the PSUs

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

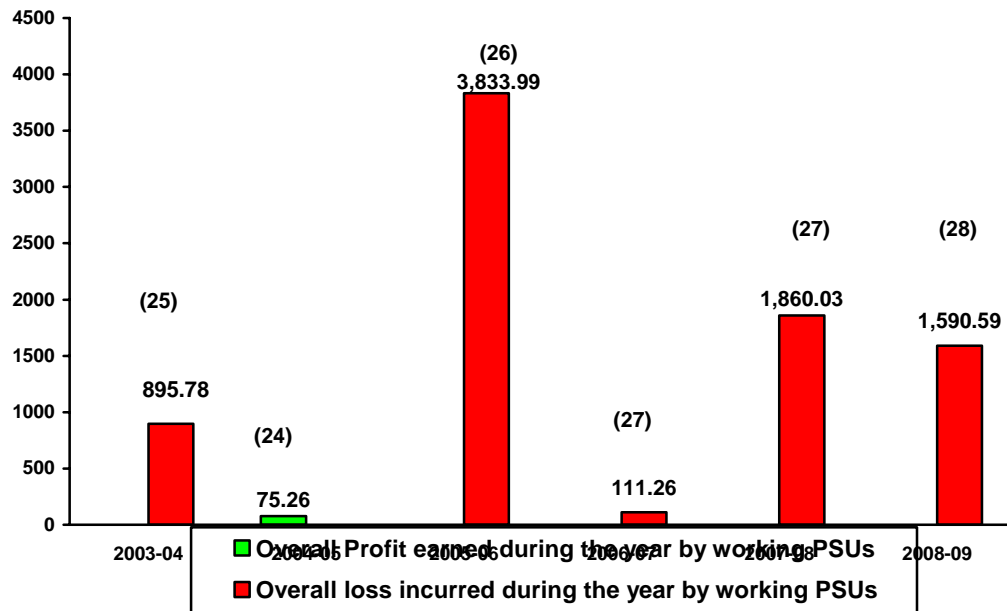
(Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover ^β	13,550.53	14,647.17	14,762.15	17,245.64	17,552.66	19,138.60
State GDP [⊗]	89,818	97,452	1,09,735	1,23,397	1,37,486	1,58,972
Percentage of turnover to the State GDP	15.09	15.03	13.45	13.98	12.77	12.04

The percentage of turnover to the State GDP declined from 15.09 in 2003-04 to 12.04 in 2008-09 as the turnover of PSUs did not increase in the proportion of corresponding increase in GDP.

1.16 Profit earned/losses incurred by the State working PSUs during 2003-04 to 2008-09 are given below in the bar chart.

(Rupees in crore)



(Figures in bracket represent the number of working PSUs in the respective years)

During 2004-09, the State working PSUs incurred losses every year, except the year 2004-05. The losses increased from Rs. 895.78 crore in 2003-04 to Rs. 1,590.59 crore in 2008-09. In 2005-06, the State working PSUs incurred heavy losses aggregating to Rs. 3,833.99 crore mainly due to writing off of excess Rural Electrification subsidy (Rs. 3,242.00 crore) by PSEB, which was booked in earlier years. During the year 2008-09, out of 33 working PSUs, 15 PSUs earned profit of Rs. 40.24 crore and 13 PSUs incurred loss of Rs. 1,630.83 crore. Two working PSUs prepared their accounts on 'no profit no loss' basis; two working PSUs were under construction and first account of one

^β Turnover as per the latest finalised accounts as of 30 September of subsequent year.

[⊗] 2003-04 to 2004-05 figures are revised estimates, 2005-06 and 2008-09 figures are provisional estimates, 2006-07 figure is quick estimate and 2007-08 is advance estimate.

had not been received. The major contributors to profit were four PSUs viz. Punjab Genco Limited (Rs. 11.30 crore), Punjab State Container and Warehousing Corporation Limited (Rs. 10.12 crore), Punjab Small Industries and Export Corporation Limited (Rs. 4.96 crore) and Punjab Communications Limited (Rs. 3.17 crore). The heavy losses were incurred by four PSUs viz. Punjab State Electricity Board (Rs. 1,389.60 crore), Punjab State Warehousing Corporation (Rs. 79.67 crore), Punjab State Grains Procurement Corporation Limited (Rs. 69.77 crore) and Punjab State Industrial Development Corporation Limited (Rs. 48.93 crore).

1.17 The losses of working PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. The latest Audit Reports of CAG contained audit comments on losses to the tune of Rs. 1,358.50 crore and infructuous investment of Rs. 21.56 crore, which were controllable with better management. The year wise details from the Audit Reports are given below.

(Rupees in crore)

Particulars	2006-07	2007-08	2008-09	Total
Net Profit (loss)	(111.26)	(1,860.03)	(1,590.59)	3,561.88
Controllable losses/ avoidable expenditure as per CAG's Audit Report	708.40	184.40	465.70	1,358.50
Infructuous Investment	17.68	3.88	-	21.56

1.18 The above losses pointed out in the 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 losses can be minimised/eliminated. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

1.19 Some other key parameters pertaining to the State PSUs are given below:

(Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed (in percentage)	4.64	9.39	-	8.00	-	0.96
Debt	10,368.94	10,556.84	9,388.99	10,249.92	10,523.48	11,756.98
Turnover [^]	13,550.53	14,647.17	14,762.15	17,245.64	17,552.66	19,138.60
Debt/ Turnover Ratio	0.77:1	0.72:1	0.64:1	0.59:1	0.60:1	0.61:1
Interest Payments	1,846.59	1,533.61	1,289.35	1,390.92	1,457.79	1,805.75
Accumulated Profits (losses)	(2,055.93)	(1,953.28)	(5,836.77)	(5,976.19)	(7,664.13)	(9,239.41)

(Above figures pertain to all PSUs except for turnover which is for working PSUs)

[^] Turnover of working PSUs as per the latest finalised accounts as of 30 September of subsequent year.

1.20 The percentage of consolidated return on capital employed of all PSUs increased from 4.64 in 2003-04 to 9.39 in 2004-05 and decreased to 8.00 in 2006-07 and further decreased to 0.96 in 2008-09. However it was negative in the year 2005-06 and 2007-08. The accumulated losses increased by more than four times from Rs. 2,055.93 crore in 2003-04 to Rs 9,239.41 crore in 2008-09.

The position of long term debts, which was at 77 *per cent* of the turnover in 2003-04, showed improvement till 2006-07 when it declined to 59 *per cent* of the turnover. The ratio of the debts to the turnover again increased gradually after 2006-07 and reached at 61 *per cent* of the turnover in 2008-09 causing pressure on profit margins due to corresponding increase in the interest liability.

1.21 The State Government had formulated (March 1999) a dividend policy under which all PSUs are required to pay a minimum return of four *per cent* on the funds invested by the State Government. As per their latest finalised accounts, 15 PSUs earned an aggregate profit of Rs. 40.24 crore of which two PSUs declared a dividend of Rs. 1.89 crore at the rate of 8 *per cent* and 25 *per cent*. The remaining 13 PSUs did not declare dividend despite earning profit of Rs. 27.73 crore.

Performance of major PSUs

1.22 The investment in working PSUs and their turnover together aggregated to Rs. 34,675.39 crore during 2008-09. Out of 33 working PSUs, each of the following four PSUs accounted for investment *plus* turnover of more than five *per cent* of the aggregate investment *plus* turnover. These four PSUs together accounted for 85.46 *per cent* of the aggregate investment *plus* turnover.

(Rupees in crore)

PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to aggregated investment plus turnover of all PSUs
(1)	(2)	(3)	(4)	(5)
Punjab State Electricity Board	12,898.92	7,913.14	20,812.06	60.02
Punjab State Civil Supplies Corporation Limited	3.73	4,460.56	4,464.29	12.87
Punjab State Grains Procurement Corporation Limited	1.05	2,546.54	2,547.59	7.35
Punjab Agro Foodgrains Corporation Limited	5.00	1,805.64	1,810.64	5.22
Total	12,908.70	16,725.88	29,634.58	85.46

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

Punjab State Electricity Board (PSEB)

1.23 PSEB earned profit of Rs. 12.89 crore during 2005-06. Thereafter, it incurred loss of Rs. 1,389.60 crore during 2007-08. However, turnover of PSEB increased from Rs. 6,701.08 crore during 2005-06 to Rs. 7,913.14 crore during 2007-08. The percentage of return on capital employed was 8.66 *per cent* during 2005-06 but during 2007-08 it was negative.

1.24 Deficiency in Planning

- Failure of the PSEB to consider the additional requirement of power transformers while finalizing the purchase order in May 2006 resulted in extra expenditure of Rs. 6.40 crore on the procurement of 26 power transformers (Paragraph 3.2.9 of the Audit Report Commercial-2007-08).
- Failure of the PSEB to repair the spare runner for use in case of emergency coupled with delay in placing order for the repair of damaged runner resulted in generation loss valuing Rs. 10.96 crore during December 2006 to July 2007 (Paragraph 4.11 of the Audit Report-Commercial-2007-08).

1.25 Deficiency in implementation

- Shortfall in installation of shunt capacitors resulted in non reduction of transmission losses of 44.19 MUs valued at Rs. 11.19 crore (Paragraph 3.1.26 of the Audit Report-Commercial-2005-06).
- PSEB failed to levy voltage surcharge on all large supply consumers resulting in under billing of Rs. 266.24 crore (Paragraph 3.2.9 of the Audit Report-Commercial-2006-07).
- Ineffective inventory management of PSEB resulted in shortage of material valuing Rs. 3.69 crore besides blockage of Rs. 14.97 crore in inventories (Paragraphs 3.2.26 to 3.2.31 of the Audit Report-Commercial-2007-08).

1.26 Non-achievement of norms

There was a consistent shortfall (ranging from 15.63 to 43.76 *per cent*) during the last five years in achievement of the norms prescribed for repair of failed transformers. The shortfall in preventive maintenance increased from 29.3 *per cent* (2000-01) to 58.6 *per cent* in 2004-05 (Paragraph 2.2.12 and 2.2.18 of the Audit Report Commercial-2004-05).

1.27 Deficiency in financial management

Non-restructuring of the State Government loans deprived saving of interest liability of Rs. 229.65 crore during 2004-06 (Paragraph 3.2.11 of the Audit Report-Commercial -2006-07).

Punjab State Civil Supplies Corporation Limited

1.28 The profit of the Company decreased from Rs. 13.36 crore in 2005-06 to Rs. 3.91 crore in 2008-09. However, the turnover of the Company increased from Rs. 3,521.94 crore in 2005-06 to Rs. 4,460.56 crore in 2008-09. The percentage of return on capital employed decreased from 18.89 *per cent* in 2005-06 to 13.30 *per cent* in 2008-09.

1.29 Deficiency in implementation

Non recovery of transportation charges from the millers in respect of paddy transported within eight kilometers resulted in loss of Rs. 13.85 crore to the PSU (Paragraph 4.2 of the Audit Report-Commercial 2006-07).

1.30 Deficiency in monitoring

Recovery from Food Corporation of India (FCI) of Rs. 44.00 crore, being the difference between Open Market Sale Scheme rates and actual sale of damaged wheat at lower rates was doubtful as the damaged wheat stock exceeded the norms suggested by a Committee of FCI (Paragraph 2.2.15 of the Audit Report-Commercial 2006-07).

Punjab State Grains Procurement Corporation Limited

1.31 The Company finalised its first accounts for the year 2003-04 during 2007-08 and accounts for subsequent four years up to 2007-08 were in arrears despite the Company having separate accounts department. The Company had incurred a loss of Rs. 77.13 crore in 2003-04.

1.32 Deficiency in financial management

Failure of the PSU to submit stock statement to the State Bank of India in time resulted in avoidable payment of penal interest of Rs. 1.33 crore (Paragraph 4.3 of the Audit Report-Commercial-2006-07).

Punjab Agro Foodgrains Corporation Limited

1.33 The profit of the Company increased from Rs. 0.95 crore during 2004-05 to Rs. 0.99 crore during 2006-07. However, the turnover decreased from Rs. 2,152.37 crore during 2004-05 to Rs. 1,805.64 crore during 2006-07. Similarly, the percentage of return on capital employed decreased from 0.64 *per cent* in 2004-05 to 0.24 *per cent* in 2006-07.

1.34 Deficiency in implementation

- Violation of the provisions of custom milling policy by the PSU facilitated misappropriation of paddy valued at Rs. 31.95 crore by the millers. (Paragraph 2.16 of the Audit Report- Commercial-2005-06).
- Excess time taken by the PSU for delivery of rice resulted in loss of interest of Rs. 18.00 crore (Paragraph 2.20 of the Audit Report- Commercial-2005-06).

1.35 Deficiency in monitoring

Non claiming of interest on carry over charges by the PSU as per the instructions of the Food Corporation of India resulted in non recovery of Rs. 10.90 crore with consequential loss of interest of Rs. 2.44 crore (Paragraph 4.14.8 of the Audit Report-Commercial-2006-07).

Conclusion

1.36 The cases of deficient planning, deficiencies in implementation, ineffective monitoring, failure in achievement of norms and deficiency in financial management indicate that the PSUs in the State are not functioning efficiently and there is 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 the PSUs.

Arrears in finalisation of accounts

1.37 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 the case of Statutory corporations, their accounts are to be 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 the 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	31	29	29	33	33
2.	Number of accounts finalised during the year	28	27	24	25	38
3.	Number of accounts in arrears	44	48	53	62	57
4.	Average arrears <i>per</i> PSU (3/1)	1.42	1.66	1.83	1.88	1.73
5.	Number of Working PSUs with arrears in accounts	25	23	24	29	25
6.	Extent of arrears (years)	1 to 5	1 to 4	1 to 4	1 to 5	1 to 5

1.38 The average number of accounts in arrears per working PSU increased from 1.42 in 2004-05 to 1.73 in 2008-09. The PSUs having arrears of accounts

need to take effective measures for early clearance of backlog and make the accounts up-to-date. The PSUs should also ensure that at least one year's accounts are finalised each year so as to restrict further accumulation of arrears.

1.39 In addition to the above, there were also arrears in finalisation of the accounts by the non-working PSUs. Out of 17 non-working PSUs, eight[♥] had gone into liquidation process. All the remaining nine non-working PSUs had arrears of accounts, for two to 18 years.

1.40 The State Government had invested Rs. 2,761.38 crore (Equity: Rs. 62.21 crore, grants/subsidy: Rs. 2,699.17 crore) in six 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. Thus, Government's investment in such PSUs remained outside the scrutiny of the State Legislature. Further, delay in finalisation of the accounts may result in risk of fraud and leakage of public money, apart from violation of the provisions of the Companies Act, 1956.

1.41 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 finalization of accounts, no remedial measures were taken. As a result of this the net worth of these PSUs could not be assessed in audit.

1.42 In view of the above mentioned state of arrears, it is recommended that:

- **The Government may set up a cell to oversee the clearance of arrears and set targets for individual companies which would be monitored by the cell.**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**

[♥] Companies at Sl. No. C-2, 6, 7,8,9,11,12 and 17 of *Annexure 2*.

Winding up of non-working PSUs

1.43 There were 17 non-working PSUs (all companies) as on 31 March 2009. Of these, eight[♥] PSUs were under liquidation/winding up process. The numbers of non-working companies at the end of each year during the past five years are given below.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
No. of non-working companies	28	30	19	17	17

The non-working PSUs are required to be closed down as their existence is not going to serve any purpose. During 2008-09, 13 non-working PSUs incurred an expenditure of Rs. 0.42 crore towards salary/establishment expenditure etc. This expenditure was financed through sale of assets (Rs. 0.07 crore) of these PSUs and other resources* (Rs. 0.35 crore).

1.44 The stages of closure in respect of the non-working PSUs are as follows:

Sl. No.	Particulars	Number
1.	Total No. of non-working PSUs	17
2.	Of (1) above, the No. under	
(a)	liquidation by Court (liquidator appointed)	3
(b)	Voluntary winding up (liquidator appointed)	5
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	7

1.45 During the year 2008-09, no company 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 six months to 26 years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted/pursued vigorously. The Government may make a decision regarding winding up of the remaining two non-working PSUs where no decision about their continuation or otherwise has been taken after they became defunct. The Government (Directorate of Disinvestment)[•] may expedite closing down of its non-working companies.

[♥] Companies at Sl. No. C-2,6,7,8,9,11,12 and 17 of *Annexure 2*.

* Includes borrowings from common pool fund of PSUs under liquidation, interest on investments, etc.

[•] A cell established for disinvestment of State Government equity in State PSUs/Subsidiaries and for restructuring/privatization, etc. of these PSUs.

Accounts comments and internal audit

1.46 Twenty three working companies forwarded their 35 accounts to Audit during the year 2008-09*. Of these, 30 accounts of 18 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	4	81.28	4	190.51	3	116.63
2.	Increase in loss	4	325.61	6	14.91	6	23.84
3.	Non-disclosure of material facts	-	-	-	-	2	1.59
4.	Errors of classification					2	432.53
	Total		406.89		205.42		574.59

The aggregate money value of total comments increased from Rs. 406.89 crore (eight accounts) in 2006-07 to Rs. 574.59 crore in (11 accounts) in 2008-09.

1.47 During the year, the statutory auditors had given unqualified certificates for 10 accounts, qualified certificates for 22 accounts and adverse certificates (which mean that accounts do not reflect a true and fair position) for three accounts. The compliance of companies with the Accounting Standards (AS) remained poor as there were 21 instances of non-compliance with the AS in 12 accounts during the year 2008-09*.

1.48 Some of the important comments in respect of the accounts of companies are stated below.

Punjab Agro Foodgrains Corporation Limited (2006-07)

- Non provision towards the difference of compound and simple rate of interest on wheat shown as recoverable from Food Corporation of India (FCI) without confirmation from GOI/FCI for the crop years 1999-2000 and 2000-2001 resulted in overstatement of profit for the year by Rs. 8.64 crore.

* October 2008 to September 2009.

- The valuation of closing stock of Jute bags (50 kg) at realizable rates instead of cost price which was lower, in contravention of AS-2 (valuation of inventories) resulted in overstatement of profit and current assets by Rs. 5.04 crore.

Punjab State Seeds Corporation Limited (2006-07)

Non-provision for interest on repayment of loans availed from Punjab Rural Development Fund resulted in understatement of unsecured loans as well as accumulated loss by Rs. 2.80 crore each.

Punjab Small Industries & Export Corporation Limited (2006-07)

- Non-provision for doubtful loans and advances of Rs. 6.25 crore had resulted in overstatement of profit to that extent.
- Non provision for arrears on account of conveyance allowance paid to the employees resulted in overstatement of accumulated profit and understatement of current liabilities and provisions by Rs. 2.86 crore each.

Punjab State Grains Procurement Corporation Limited (2004-05)

Against the establishment charges of Rs. 17.14 crore on movement of wheat stocks to be credited/paid to the Department of Food and Supplies, Rs. 12.81 crore only had been booked, which resulted in understatement of loss and liabilities by Rs. 4.33 crore.

Punjab Recorders Limited (2003-04)

Non accounting of dues of Rs. 4.79 crore payable to Punjab State Industrial Development Corporation Limited and Punjab Financial Corporation resulted in understatement of loans as well as losses to that extent.

1.49 Similarly, three working Statutory corporations forwarded their three accounts to Audit during the year 2008-09*. Of these, two accounts of two Statutory corporations pertained to sole audit by CAG which was completed. The remaining one account was selected for supplementary audit. The audit reports of statutory auditors and the sole/ 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 in the following table:

* October 2008 to September_2009.

(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.	Increase in loss	4	92.74	1	7.48	3 ^v	63.21
2.	Non-disclosure of material facts	1	79.12	1	72.63	2	170.05
3.	Errors of classification	1	38.22	1	302.90	1	299.09
	Total		210.08		383.01		532.35

The aggregate money value of total comments increased by more than 2.5 times from Rs. 210.08 crore in 2006-07 to Rs. 532.35 crore in 2008-09.

1.50 During the year, all the three accounts received qualified certificates. In addition, two accounts of two Statutory corporations which were received during last year but audited during 2008-09, also received qualified certificates.

Some of the important comments in respect of accounts of Statutory corporations are stated below:

Punjab Scheduled Castes Land Development and Finance Corporation (2006-07)

- Non provision against receivables from a Company under liquidation had resulted in overstatement of current assets, loans and advances and losses by Rs. 7.42 crore each.

Punjab State Electricity Board (2007-08)

- Employee's cost was understated by Rs. 6.46 crore due to wrong adjustment of payment of bonus against previous liabilities towards bonus payable, resulting in understatement of deficit to the same extent.
- Other debits were understated by Rs. 7.82 crore due to non-accounting of loss on the manufacture of PCC Poles (difference between Board's cost at its workshops and market price), resulting in understatement of deficit and overstatement of current assets to the same extent.
- Other debits were understated by Rs. 3.95 crore due to non-charging of expenditure incurred on survey/feasibility study of the project which had not matured/ sanctioned, resulting in understatement of deficit to the same extent.
- Other debits were understated by Rs 4.53 crore due to wrong adjustment of expenses incurred against previous years liabilities for expenses, resulting in understatement of deficit to the same extent.

^v Including one account each of two Statutory corporations (viz. Punjab Financial Corporation and Punjab Scheduled Castes Land Development & Finance Corporation), accounts of which were received during last year (2007-08) but audit was completed in current year (2008-09).

1.51 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report on 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 eight companies[‡] for the year 2007-08 and 13 companies[‡] for the year 2008-09 are given in the following table.

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies in respect of which 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	7	A-5, 6, 7, 8, 12, 13 & 27
2.	Absence of internal audit system commensurate with the nature and size of business of the company	8	A-5, 6, 7, 12, 13, 17, 26 & 27
3.	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	6	A-1, 5, 6, 7, 8 & 13
4.	Non existence of system of proper documentation of software programme / no approved IT plan	9	A-1, 5, 7, 8, 9, 12, 13, 17 & 27
5.	Non computerisation of operations	6	A-5, 7, 12, 13, 25 & 27
6.	Audit committee did not exist	3	A -6, 13 & 26
7.	No clear cut credit policy exist	6	A-6, 7, 8, 9, 13 & 16

Recoveries at the instance of Audit

1.52 During the course of propriety audit in 2008-09, recoveries of Rs. 7.82 crore were pointed out to the Management of PSEB, which were admitted by PSEB. Against this, an amount of Rs. 4.19 crore was recovered during the year 2008-09.

[‡] Sr. No.1, 5, 7, 8, 9, 12, 13 & 19 in *Annexure 2*.

[‡] Sr. No 1, 5, 6, 7, 8, 9, 12, 13, 16, 17, 25, 26 & 27 in *Annexure 2*.

Status of placement of Separate Audit Reports

1.53 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.	Punjab Financial Corporation	2006-07	2007-08	14 May 2009	Reply awaited from Government/PSU
2.	Punjab Scheduled Castes Land Development & Finance Corporation	2004-05	2005-06 2006-07	19 August 2008 29 December, 2008	-do-
3	Punjab State Electricity Board	2006-07	2007-08	12 March 2009	-do-
4	Punjab State Warehousing Corporation	2005-06	2006-07	17 February 2009	Accounts under printing
5	PEPSU Road Transport Corporation	2006-07	2007-08	27 May 2009	Accounts under printing

Delay in placement of SARs weakens the legislative control over Statutory corporations and dilutes the latter’s financial accountability. The matter relating to reasons for the delay in placement of SARs in legislature was taken up (September 2009) with the State Government reply for which was awaited. The Government should ensure prompt placement of SARs in the legislature.

Disinvestment, privatisation and restructuring of PSUs

1.54 The State Government established (July 2002) the Directorate of Disinvestment under the Department of Finance, with the function relating to disinvestment of State Government equity held in Public sector undertakings and their subsidiaries/promoted companies and restructuring/privatization etc. of the PSUs. However, no Company was disinvested/privatised by the Directorate during the year.

Reforms in power sector

1.55 The Punjab State Electricity Regulatory Commission (PSERC) was formed in March 1999 under Section 17 of the Electricity Regulatory Commissions Act,

1998* 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, the PSERC issued 24 orders (one on annual revenue requirements and 23 on others).

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

Sl. No.	Milestone	Achievement as of March 2009
1.	Reduction in transmission and distribution losses to 18 <i>per cent</i> by March 2003.	19.91 <i>per cent</i> during 2008-09.
2.	100 <i>per cent</i> metering of all 11 KV distribution feeders by September 2001.	Electronics meter on 8,772 nos. of 11 KV feeders out of 8,828 feeders stand installed up to 31 March 2009.
3.	100 <i>per cent</i> metering of all consumers by 30 June 2002.	All consumers (except Agriculture Power consumers) were metered. Out of 10.26 lakh agricultural consumers, 9.34 lakh consumers were unmetered.
4.	Securitize outstanding dues of Central Public Sector Undertakings.	Securitized.
5.	Establishment of State Electricity Regulatory Commission	Constituted in March 1999.
6.	Implementation of tariff orders issued by SERC during 2002-08 for distribution tariff to be implemented from 1 August 2002.	Since implemented.
7.	Installation of energy meters on grid/generating stations by 30 September 2001.	Installed.
8.	Replacement of electro mechanical meters with electronic meters by March 2006.	34.41 lakh electronics meters have been installed against 55.99 lakh metered consumers.
9.	Monitoring of MOU on quarterly basis.	Since the expiry of MOU on 31 March 2008, no steering committee meetings were held.

* Since replaced by the Electricity Act, 2003

It is evident that PSEB could not achieve target of reduction of T & D losses upto 18 *per cent*, 9.34 lakh Agriculture Power consumers were still unmetered and 21.58 lakh electromechanical meters were still to be replaced with electronic meters.

Discussion of Audit Reports by COPU

1.57 The status as on 30 September 2009 of reviews and paragraphs that appeared in the 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		Discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
1997-98	3	23	1	22
1998-99	4	22	2	21
1999-2000	4	23	4	23
2000-01	3	18	2	16
2001-02	4	17	-	9
2002-03	3	20	-	11
2003-04	2	20	-	9
2004-05	2	21	-	6
2005-06	3	25	-	3
2006-07	4	21	-	1
2007-08	3	21	-	-
Total	35	231	9	121