

## 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 a commercial nature while keeping in view the public welfare. The State working PSUs registered a turnover of ₹ 58237.27 crore as per their latest audited accounts as of September 2013. The major activities of Madhya Pradesh PSUs are concentrated in the power sector. The working PSUs of the State incurred an overall loss of ₹ 4031.63 crore in the aggregate as per their latest audited accounts as of September 2013. They had employed 58459<sup>1</sup> employees as of 31 March 2013.

**1.2** As on 31 March 2013, there were 64 PSUs (55 working and nine non working) as per the details given in table no. 1.1. None of the companies was listed in any of the stock exchanges.

**Table No. 1.1**

Type of PSUs	Working PSUs	Non-working PSUs <sup>2</sup>	Total
Government companies <sup>3</sup>	52	9	61
Statutory corporations	3	Nil	3
<b>Total</b>	<b>55</b>	<b>9</b>	<b>64</b>

**1.3** During the year 2012-13, one PSU<sup>4</sup> was established and one PSU<sup>5</sup> was closed down.

#### 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 not less than 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, 1956.

<sup>1</sup> As per the details provided by 42 working PSUs. The remaining 13 working PSUs did not furnish the details.

<sup>2</sup> Non- working PSUs are those which have ceased to carry on their operations.

<sup>3</sup> Includes 619-B Companies.

<sup>4</sup> MP Audyogik Kendra Vikas Nigam(Sagar) Limited.

<sup>5</sup> Madhya Pradesh State Electricity Board wound up without liquidation w.e.f 26 April 2012.

**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 the 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 the CAG as per the provisions of Section 619 (4) of the Companies Act, 1956.

**1.6** Audit of Statutory corporations is governed by their respective legislations<sup>6</sup>. Out of three statutory corporations, CAG is the sole auditor for Madhya Pradesh Road Transport Corporation (MPRTC). In respect of Madhya Pradesh Warehousing and Logistics Corporation (MPWLC) and Madhya Pradesh Financial Corporation (MPFC) the audit is conducted by Chartered Accountants and supplementary audit is done by CAG.

### Investment in State PSUs

**1.7** As on 31 March 2013, the investment in 64 PSUs (including 619-B Companies) was ₹ 46365.94 crore as per details given in the table no. 1.2:

**Table No. 1.2** (₹ in crore)

Type of PSUs	Government companies			Statutory corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	16863.12	27401.22	44264.34	511.01	1396.58	1907.59	46171.93
Non-working PSUs	59.57	134.44	194.01	--	--	--	194.01
<b>Total</b>	<b>16922.69</b>	<b>27535.66</b>	<b>44458.35</b>	<b>511.01</b>	<b>1396.58</b>	<b>1907.59</b>	<b>46365.94</b>

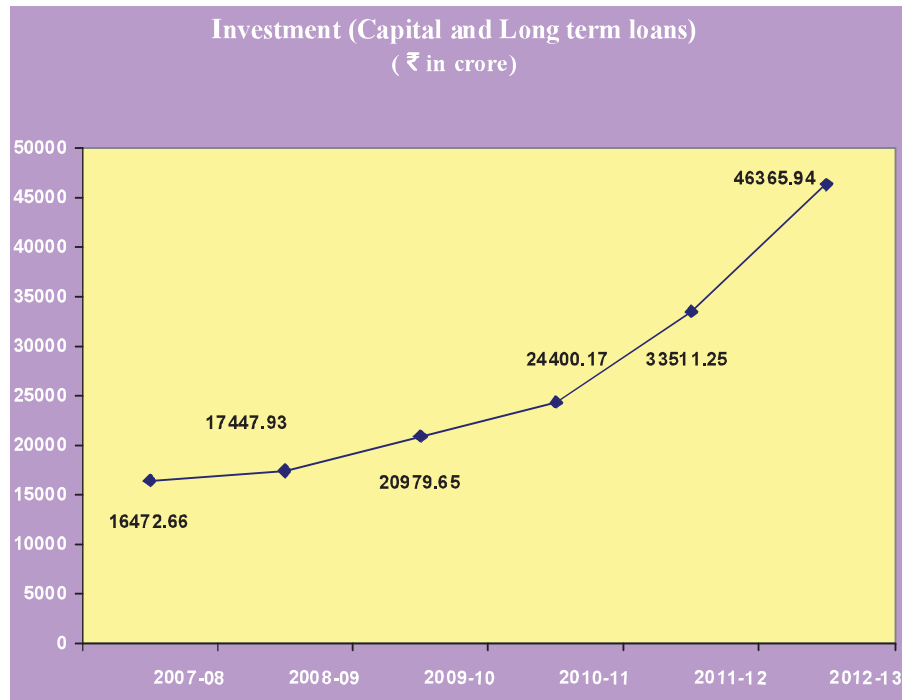
(Source: Information as furnished by the PSUs)

A summarised position of Government investment in State PSUs is detailed in **Annexure 1.1**.

**1.8** As on 31 March 2013, of the total investment in State PSUs, 99.58 per cent was in working PSUs and the remaining 0.42 per cent in non-working PSUs. This total investment consisted of 37.60 per cent towards Capital and 62.40 per cent in Long-term loans. The investment has grown by 181.47 per cent from ₹ 16472.66 crore in 2007-08 to ₹ 46365.94 crore in 2012-13 as shown in the chart no. 1.1.

<sup>6</sup> MPRTC: Road Transport Corporations Act, 1950; MPWLC: Warehousing Corporations Act, 1962; MPFC: State Financial Corporations Act, 1951.

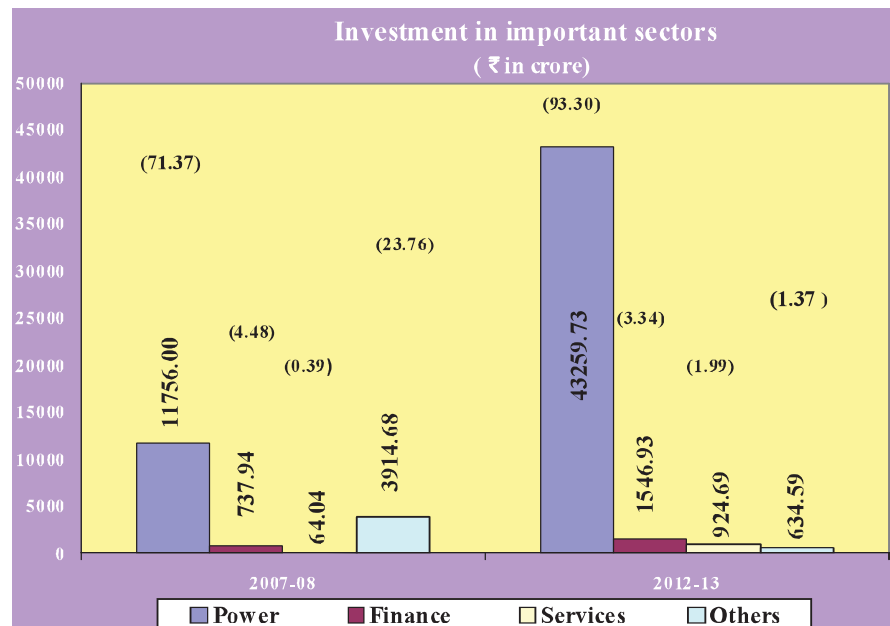
Chart No. 1.1



(Source: Information as furnished by the PSUs)

1.9 The investment in various important sectors and percentage thereof to total investment at the end of 31 March 2008 and 31 March 2013 are indicated in the chart no. 1.2.

Chart No. 1.2



(Figures in brackets show percentage of total investment)

The thrust of PSUs investment was mainly in the power sector which increased from ₹ 11756.00 crore in 2007-08 to ₹ 43259.73 crore during 2012-13. The Government investment increased in the power, finance and service sectors while it decreased in other sectors during 2012-13 in comparison to 2007-08.

### Budgetary outgo towards Equity, Grants/Subsidies, Guarantees and Loans

1.10 The details regarding budgetary outgo from the State Government and Government of India towards equity, loans, grants/subsidies, guarantees issued and loans converted into equity in respect of State PSUs are given in *Annexure I.2*. The summarised details are given in the table no. 1.3 for the three years ended 2012-13.

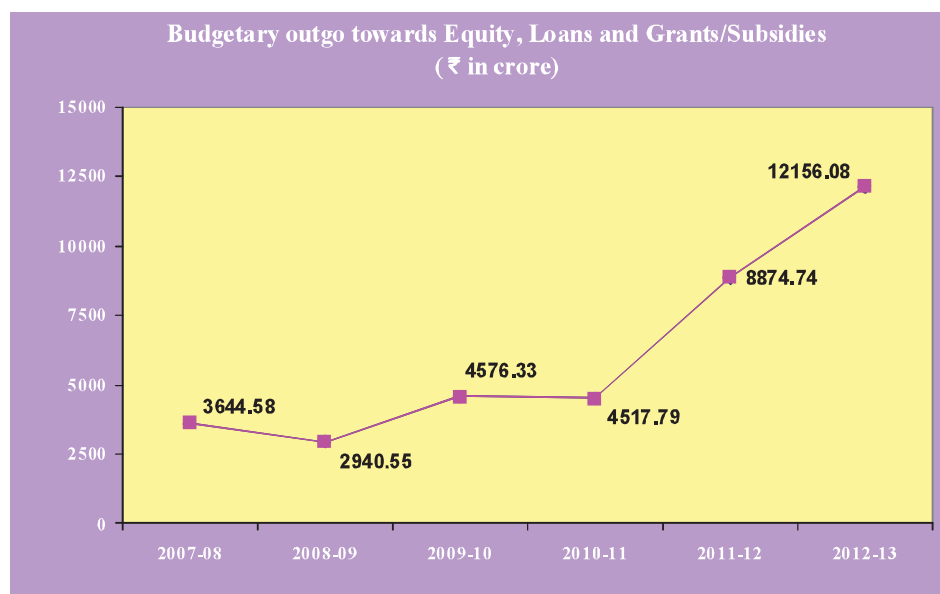
**Table no. 1.3**

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount (₹ in crore)
1.	Equity Capital outgo from budget	10	1060.63	9	1147.38	9	1418.65
2.	Loans given from budget	6	989.25	6	1745.99	4	2148.50
3.	Grants/Subsidy received	14	2467.91	18	5981.37	18	8588.93
4.	Total Outgo (1+2+3)		4517.79		8874.74		12156.08
5.	Loans converted into equity	--	--	--	--		--
6.	Guarantees issued	6	748.63	8	2429.15	7	5303.11
7.	Guarantee Commitment	7	3247.37	7	3259.42	8	4815.88

(Source: Information as furnished by the PSUs)

1.11 The details regarding budgetary outgo towards equity, loans and grants/subsidies for the past six years are given in the chart no. 1.3

**Chart No. 1.3**



(Source: Information as furnished by the PSUs)

The budgetary outgo towards equity, loans and grants/subsidies has increased from ₹ 8874.74 crore in 2011-12 to ₹ 12156.08 crore in 2012-13 due to increase in equity in 9 PSUs<sup>7</sup>, increase in loans in 4 PSUs<sup>8</sup> and increase in grants/subsidies in 18 PSUs<sup>9</sup>.

**1.12** The PSUs are liable to pay guarantee commission (GC) at rates ranging from 0.5 per cent to one per cent per annum to the State Government on the maximum amount of guarantees sanctioned irrespective of the amount availed or outstanding. The guarantee commitment by the Government at the end of 2012-13 was ₹ 4815.88 crore against eight<sup>10</sup> PSUs against which the GC of ₹ 40.63 crore was payable as on 31 March 2013. Only three<sup>11</sup> PSUs had paid the GC to the extent of ₹ 1.98 crore.

### 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 those appearing in the Finance Accounts of the State. In case the figures do not agree, the Finance Department and the concerned PSUs should carry out reconciliation. The position in this regard as at 31 March 2013 is stated in the table no. 1.4:

**Table no. 1.4** (₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	9414.00	12355.75	2941.75
Loans	21190.62	17072.77	4117.85
Guarantees	6281.62	5303.11	978.51

(Source: Finance Accounts 2012-13 and the information as furnished by the PSUs)

**1.14** We observed that the difference occurred in respect of 31 PSUs. In order to reconcile the discrepancy in figures of investment on equity and loans made by State Government in Government companies/corporations, we had taken up the matter with the heads of all the concerned PSUs for reconciliation of figures. The 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 of Statutory corporations and working results of Statutory corporations are detailed in *Annexure 1.3, 1.4 and 1.5* respectively.

**1.16** The aggregate profit earned/ losses incurred by State working PSUs during the period 2007-08 to 2012-13 as per latest audited accounts are given in the chart no. 1.4:

<sup>7</sup> S. No. A-6, 7, 9, 13, 14, 15, 16, 17, B-1 of Annexure-1.2

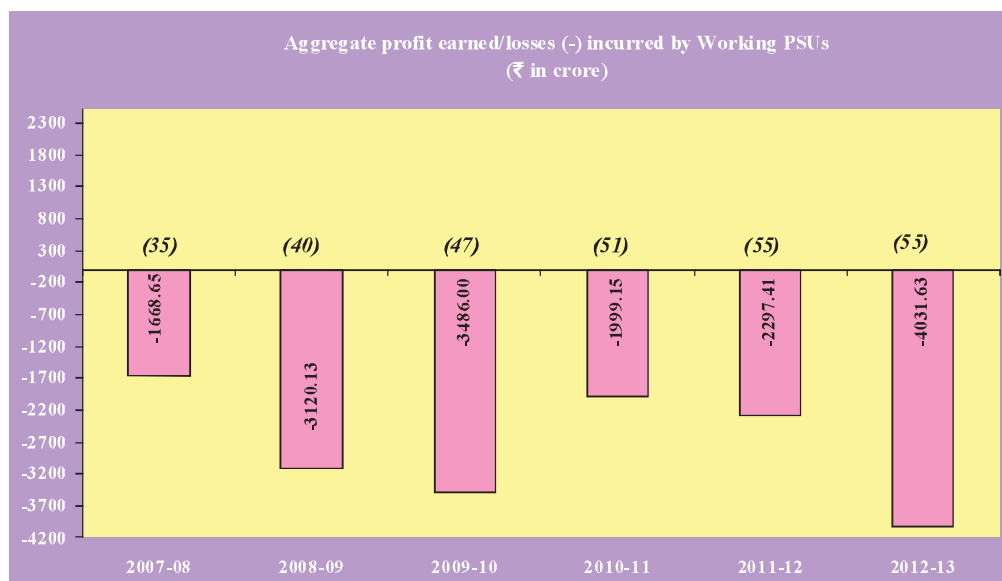
<sup>8</sup> S. No. A-6, 14, 16, 17 of Annexure-1.2

<sup>9</sup> S. No. A-1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14, 15, 16, 18, 19 and 20 of Annexure-1.2

<sup>10</sup> S. No. A-6, 8, 13, 14, 15, 16, 17, and B-1 of Annexure-1.2

<sup>11</sup> S. No. A-32, A-36 and B-2 of Annexure-1.3

**Chart No. 1.4**



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

State working PSUs incurred losses of ₹ 4031.63 crore as per latest audited accounts, Out of 55 working PSUs, 26 PSUs earned total profit of ₹ 275.94 crore while Seven<sup>12</sup> PSUs neither earned profit nor incurred losses and 18 PSUs incurred loss of ₹ 4307.57 crore. Four<sup>13</sup> PSUs did not furnish their first accounts. The major contributors to profit were Madhya Pradesh State Mining Corporation Limited (₹ 45.77 crore), Madhya Pradesh Warehousing & Logistics Corporation (₹ 41.72 crore), Madhya Pradesh Rajya Van Vikas Nigam Limited (₹ 37.18 crore), Madhya Pradesh Road Development Corporation Limited (₹ 26.03 crore), and Madhya Pradesh State Agro Industries Development Corporation Limited (₹ 25.92 crore). The major contributors to losses were Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited (₹ 1432.23 crore), Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (₹ 1424.99 crore), Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (₹ 1414.93 crore) and Madhya Pradesh Power Generating Company Limited (₹ 10.33 crore). The main reason for significant increase in losses over 2011-12 was due to heavy losses incurred by all three Discoms.

**1.17** A review of the latest three years Audit Reports of CAG shows that the State PSUs incurred controllable losses to the tune of ₹ 458.22 crore and infructuous Investment of ₹ 62.97 crore which were controllable with better management as indicated in the table no. 1.5 :

**Table no. 1.5** (₹ in crore)

Particulars	2010-11	2011-12	2012-13	Total
Net Profit (loss)	(1999.15)	(2297.41)	(4031.63)	(8328.19)
Controllable losses as per CAG's Audit Report	800.85	27.35	458.22	1286.42
Infructuous Investment	--	180.29	62.97	243.26

<sup>12</sup> A-19 ,23, 31 ,37, 38, 41 and 51 of Annexure-1.1

<sup>13</sup> Companies at serial No. A-9 ,16, 49, 50 of Annexure-1.3

**1.18** The State Government had formulated (July 2005) a dividend policy for payment of minimum dividend of 20 *per cent* on profit after tax. As per their latest audited accounts as on 30 September 2013, 26 PSUs earned a total profit of ₹ 275.94 crore but only three<sup>14</sup> PSUs declared a dividend of ₹ 15.82 crore and the remaining 23 profit making PSUs did not declare any dividend.

### Arrears in finalisation of accounts

**1.19** 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 Section 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 no. 1.6 provides the details of working PSUs and the status of finalisation of accounts by September 2013.

**Table no. 1.6**

Sl. No	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1	Number of working PSUs	40	47	51	55	55
2.	Number of accounts finalised during the year	25	49	59	50	49*
3.	Number of accounts in arrears	69	66	58	63	64
4.	Average arrears per PSU (3/1)	1.73	1.40	1.14	1.15	1.16
5.	Number of working PSUs with arrears in accounts	29	33	26	26	25
6.	Extent of arrears	1 to 8 years	1 to 8 years	1 to 7 years	1 to 8 years	1 to 9 years

(Source: Information as furnished by the PSUs)

**1.20** The number of accounts in arrear decreased upto the year 2010-11 thereafter it had increased gradually upto the year 2012-13. During the year 2012-13, 49 accounts were finalised in respect of 55 working PSU's and arrear stood at 64.

**1.21** In addition to the above, there were arrears in finalisation of accounts by non-working PSUs. Out of nine non-working PSUs, seven<sup>15</sup> had gone into liquidation. Arrears of accounts in respect of the remaining two<sup>16</sup> non-working PSUs ranged from three to five years.

**1.22** The State Government had invested ₹ 296.60 crore (Equity: ₹ 18.43 crore, Loan: 9.00, Subsidy: ₹ 160.70 crore and Grants: ₹ 108.47 crore) in

<sup>14</sup>Madhya Pradesh State Civil Supplies Corporation Limited, Madhya Pradesh State Mining Corporation Limited and Sant Ravidas Hastha Shilp Evam Vikas Nigam Limited.

\* Includes 48 accounts of working PSU's and 01 account of statutory corporation (MP Warehousing & logistic corp.)

<sup>15</sup> Madhya Pradesh Lift Irrigation Corporation Ltd; Madhya Pradesh State Dairy Development Corporation Ltd; Madhya Pradesh Film Development Corporation Ltd; Madhya Pradesh Panchayati Raj Vitt Evam Gramin Vikas Nigam Ltd; Madhya Pradesh Rajya Setu Nirman Nigam Ltd; Optel Telecommunication Ltd and Madhya Pradesh Vidyut Yantra Ltd.

<sup>16</sup> Madhya Pradesh State Industries Corporation Ltd and Madhya Pradesh State Textile Corporation Ltd.

11 PSUs during the years for which accounts have not been finalised as detailed in **Annexure 1.6**. In the absence of accounts and their subsequent audit, it cannot 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.

**1.23** 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 administrative departments concerned were informed of the arrears in finalisation of accounts on a quarterly basis by Audit and the matter was taken up in September 2013 to the Chief Secretary/ Principal Secretary Finance, no remedial measures were taken.

**1.24** In view of the above state of arrears, it is recommended that the Government should monitor and ensure timely finalisation of accounts in compliance with the provisions of the Companies Act, 1956.

#### **Winding up of non-working PSUs**

**1.25** There were nine non-working PSUs as on 31 March 2013. Of these, seven PSUs have commenced the process of winding up.

**1.26** During the year 2012-13, no companies/corporations have concluded the process of winding up. The stages<sup>17</sup> of closure in respect of non-working PSUs are given in table no. 1.7:

**Table No. 1.7**

<b>Sl. No.</b>	<b>Particulars</b>	<b>Companies</b>
1.	Total No. of non-working PSUs	9
2.	Of (1) above, the number of PSUs as under:	
(a)	voluntary winding up (liquidator appointed)	7 <sup>18</sup>
(b)	Closure, i.e. closing orders/ instruction issued but liquidation process not yet started.	2 <sup>19</sup>

**1.27** The process of voluntary winding up under the Companies Act is much faster and needs to be adopted/ pursued vigorously. The Government may suitably review the necessity of continuation of non working PSUs in view of their non functioning.

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<sup>17</sup> Adopted from Audit Report 2011-12, as no conclusive information was furnished by the companies

<sup>18</sup> Madhya Pradesh Lift Irrigation Corporation Ltd; Madhya Pradesh State Dairy Development Corporation Ltd; Madhya Pradesh Film Development Corporation Ltd; Madhya Pradesh Panchayati Raj Vitt Evam Gramin Vikas Nigam Ltd; Madhya Pradesh Rajya Setu Nirman Nigam Ltd; Optel Telecommunication Ltd; Madhya Pradesh Vidyut Yantra Ltd.

<sup>19</sup> Madhya Pradesh State Industries Corporation Ltd and Madhya Pradesh State Textile Corporation Ltd.



### Comments on Accounts

**1.28** During the period October 2012 to September 2013, 43 working companies forwarded their 48 audited accounts. Of these, 27 accounts of 22 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 is stated in the table no. 1.8:

**Table no. 1.8**

Sl. No	Particulars	2010-11		2011-12		2012-13	
		No. of accounts	Amount (₹ in crore)	No. of accounts	Amount (₹ in crore)	No. of accounts	Amount (₹ in crore)
1.	Decrease in profit	11	208.26	8	463.78	3	8.39
2.	Increase in loss	3	64.36	4	40.45	2	52.16
3.	Non-disclosure of material facts	4	59.25	2	107.32	2	697.28
4.	Errors of classification	4	94.14	5	176.33	2	2548.36

*(Source: Aggregate amount of Statutory Auditors & CAG comments)*

The above table shows the aggregate money value of comments of the Statutory Auditors and the CAG has significant effect on profitability of PSUs, and accounting under proper head of account.

**1.29** During the year, the Statutory Auditors had given qualified certificates for all the accounts of working companies. Additionally, CAG issued comments on eight accounts during the supplementary audit. The compliance with the Accounting Standards remained poor as there were 95 instances of non-compliance with Accounting Standards (AS) issued by the Institute of Chartered Accountants of India in 16 accounts during the year.

**1.30** Some of the important comments of CAG in respect of accounts of Companies are stated below:

**Madhya Pradesh State Electronics Development Corporation Limited (2011-12)**

- The Government grant received by the Company for Software Technology Park ₹ 1.32 crore was income included under other Current Assets instead of accounting under Capital work-in-progress.

**Madhya Pradesh Power Management Company limited (2012-13)**

- The investment in equity of Subsidiary Companies was under stated by ₹ 697.12 crore, which also resulted in understatement of Share Capital to the same extent.
- Non accounting of Generation Based Incentive for January 2013, resulted in understatement of other income and other non Current Assets by ₹ 72 lakh.

- Amount of ₹ 2.06 crore paid as earned leave encashment to the employees on retirement by the Company was recoverable from the MP Power Transmission Corporation (MPTC). This had resulted in overstatement of Employee Benefit expenses and understatement of Trade Receivable from MPTC by ₹ 2.06 crore.

**Madhya Pradesh State Civil Supplies Corporation Limited, (2011-12)**

- The Company had wrongly classified an amount which pertains to Cash Credit as Non Current Liabilities, which resulted in overstatement of Non Current Liabilities and understatement of Current Liabilities by ₹ 2548.30 crore.
- The company had not capitalised the Fixed Assets of office building, which resulted in understatement of Fixed Assets and overstatement of Capital Work-in-Progress (Advance) by ₹ 1.56 crore.

**1.31** During the year 2012-13 only one Statutory Corporation i.e. Madhya Pradesh Warehousing and Logistic Corporation forwarded its accounts for the year 2011-12 and no significant comments were noticed in supplementary audit of the Corporation.

**Comments on Internal Control**

**1.32** 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 during the year 2012-13 are given in the table no. 1.9 :

**Table no. 1.9**

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.	Absence of Internal Audit system commensurate with the nature of business and size of the Company	8	A-6, A-15, A-20, A-26, A-27, A-29, A-33 and A-38
2.	Non maintenance of cost record	2	A-33, A-44
3.	Non maintenance of proper records showing full particulars including quantitative details, location, identification number, date of acquisitions, depreciated value of fixed assets.	11	A-1, A-3, A-6, A-20, A-21, A-32, A-33, A-34, A-35, A-36 and A-43

*(Source: As per Statutory Auditors comments in their Audit Reports)*

### Recoveries at the instance of audit

**1.33** During the course of audit in 2012-13, recoveries of ₹ 25.80 crore were pointed out to the Management of various PSUs of which a sum of ₹ 24.59 crore was admitted by 9<sup>20</sup> PSUs. However, six<sup>21</sup> PSUs made recovery of ₹ 3.77 crore only during the year 2012-13.

### Status of placement of Separate Audit Reports

**1.34** The table no. 1.10 shows the status of placement of Separate Audit Reports (SARs) issued by CAG on the accounts of Statutory corporations in the State Legislature.

**Table no. 1.10**

Sl. No.	Name of Statutory corporation	Year for which SARs placed in Legislature		
		Year of SAR	Date of issue to the Government	Date of placement in Legislature
1.	Madhya Pradesh Warehousing and Logistics Corporation	2011-12	09 January 2013	19 March 2013
2.	Madhya Pradesh Financial Corporation	2011-12	13 December 2012	20 February 2013

The Madhya Pradesh Road Transport Corporation (MPRTC) had not placed the SARs in the State Legislature for the years 2006-07 and 2007-08 which were issued on 13 April 2009. No reasons for non placement were furnished by the MPRTC.

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 the SARs in the legislature(s).

### Disinvestment, Privatisation and Restructuring of PSUs

**1.35** The State Government did not undertake disinvestment and privatisation of the PSUs during 2012-13. However, the MP Power Trading Company Limited has been renamed as MP Power Management Company Limited with effect from 10 April 2012 and it has been made the holding Company of the three<sup>22</sup> Power Distribution Companies of Madhya Pradesh. The Madhya Pradesh State Electricity Board stood wound up without liquidation with effect from 26 April 2012, and the name of Madhya Pradesh Hashta shilp Evam Hath Kargha Vikas Nigam renamed as Sant Ravidas Madhya Pradesh Hashta shilp Evam Hath Kargha Vikas Nigam with effect from 26 February 2013.

<sup>20</sup> M.P. AKVN (Indore) Ltd, M.P. Madhya Kshetra vidyut vitaran co. Ltd., M.P. Pashchim Kshetra vidyut vitaran co. Ltd, M.P. Power Generating Co Ltd., M.P. Financial Corp. Ltd., M.P. Police Housing Corp. Ltd, M.P. Poorv Kshetra vidyut vitaran co. Ltd, M.P. AKVN (Bhopal) Ltd, SEZ (Indore) Ltd.

<sup>21</sup> M.P. AKVN (Indore) Ltd, M.P. Madhya Kshetra vidyut vitaran co. Ltd., M.P. Pashchim Kshetra vidyut vitaran co. Ltd, M.P. Power Generating Co Ltd., M.P. Financial Corp. Ltd., M.P. Police Housing Corp. Ltd.

<sup>22</sup> MP Poorv Kshetra Vidyut Vitaran. Co. Ltd Jabalpur, MP Paschim Kshetra Vidyut Vitaran Co. Ltd Indore, MP Madhya Kshetra Vidyut Vitaran.Co. Ltd.Bhopal.