

## Executive Summary

### I. Financial performance of State Public Sector Enterprises

There were 36 State Public Sector Enterprises (SPSEs) under the audit jurisdiction of the Comptroller and Auditor General of India as on 31 March 2020. These included 28 Government Companies, six Government Controlled Other Companies and two Statutory Corporations. This Report deals with 26 Government Companies and Corporations (including two Statutory Corporations), three Government Controlled Other Companies; seven SPSEs (including three Government Controlled Other Companies) were inactive/under liquidation or first accounts not received are not covered in this Report.

*(Para 1.1 and 2.1)*

#### Investment by Government of Haryana

Of the 29 SPSEs included in this Report, the accounts of 24 SPSEs indicate that the Government of Haryana (GoH) had an investment of ₹ 35,718.68 crore in share capital. The loans given by GoH outstanding as on 31 March 2020 amounted to ₹ 341.48 crore. Investment by the GoH in equity of SPSEs registered a net increase of ₹ 5,830.10 crore and loans outstanding decreased by ₹ 2.71 crore during 2019-20 as compared to the previous year.

*(Para 1.2 and 2.2)*

#### Return on Equity

Net worth of all four power sector SPSEs was positive and their ROE was 7.82 *per cent* during 2019-20. The number of SPSEs (other than power sector) that earned profit was 17; the Return on Equity of these 17 SPSEs was 14.56 *per cent*. Return on Equity in all the 25 SPSEs (other than power sector) including six loss making SPSEs was 12.16 *per cent* in 2019-20.

*(Para 1.3.1 and 2.3.1)*

No power sector SPSE declared/paid dividend. In other than power sector, three SPSEs declared dividend of ₹ 6.52 crore against the net profit of ₹ 47.33 crore for the year 2018-19.

*(Para 1.3.2 and 2.3.2)*

There were six SPSEs that incurred losses during the year 2019-20. The losses incurred by these companies increased from ₹ 37.43 crore in 2018-19 to ₹ 38.10 crore in 2019-20.

*(Para 2.4)*

### **Net Worth/Accumulated Loss**

There were seven SPSEs (other than power sector) with accumulated losses of ₹ 249 crore. Of the seven SPSEs, three SPSEs incurred losses in the year 2019-20 amounting to ₹16.92 crore and four SPSEs had not incurred loss in the year 2019-20, even though they had accumulated loss of ₹ 231 crore.

*(Para 2.4.1)*

### **Return on the basis of Present Value of Investment**

The Present Value of investments of the State Government upto 31 March 2020 worked out to ₹ 65,319.59 crore as compared to ₹ 612.33 crore in 1999-2000. The total earnings for power sector SPSEs was negative during 1999-2000 to 2016-17 (except 2002-03 and 2003-04) and below the minimum expected return during 2017-18 to 2019-20, which indicates that the Government could not recover its cost of funds. The total earnings for SPSEs other than power sector also remained below the minimum expected return except for the years 2008-09 and 2014-15.

*(Para 1.4.3 and 2.5.3)*

*The State Government had formulated (October 2003) a dividend policy under which all state SPSEs were required to pay a minimum return of four per cent on the paid-up share capital of the State Government. Despite having distributable profits of some of the SPSEs, they have not declared any dividend. It is recommended that the State Government may take up the matter through its nominees on the Board of Directors.*

## **II. Oversight Role of CAG**

As of 31 March 2020, there were 28 State Government Companies and six State Government Controlled Other Companies under the purview of CAG's audit. Of these, accounts for the year 2019-20 were due from 27 State Government Companies and five State Government Controlled Other Companies. A total of nine Government Companies and one State Government Controlled Other Company submitted their accounts for the year 2019-20 for audit by CAG on or before 31 December 2020. Of these, accounts of seven State Government Companies and one State Government Controlled Other Company were reviewed in audit by the CAG. Accounts of 18 State Government Companies

and four State Government Controlled Other Companies were in arrears for various reasons.

**(Para 3.3.2 and 3.5.1)**

Significant comments were issued on financial statements of State Government Companies, the financial impact of which on the profitability was ₹ 108.21 crore and on assets/liabilities was ₹ 478.86 crore.

**(Para 3.5.2)**

Irregularities and deficiencies in the financial reports or in the reporting process observed during supplementary audit which were not material were communicated to the Management of four SPSEs through 'Management Letter' for taking corrective action.

**(Para 3.7)**

***In absence of finalisation of accounts and their subsequent audits, it could not be ensured whether the investments and expenditure incurred had been properly accounted for and the purpose for which the amount was invested was achieved. Delay in finalisation of accounts may also result in fraud and leakage of public money apart from violation of the provisions of the relevant statutes. It is therefore, recommended that the annual accounts should be prepared and finalised within the prescribed time.***

### **III. Corporate Governance**

The review of Corporate Governance covered 22 SPSEs under the administrative control of various Departments. Provisions of the Companies Act, 2013 and Companies Rules, 2014 regarding Corporate Governance, though mandatory, were not being complied with by some of the SPSEs. During the year, the following significant departures from the prescribed guidelines were noticed:

- In nine SPSEs, the Independent Directors neither attended the Board meetings nor the General meetings.

**(Para 4.3.4 and 4.3.5)**

- In three SPSEs, separate meetings of Independent Directors were not conducted.

**(Para 4.3.6.1)**

- Vacancies of independent directors were not filled in time in four SPSEs. Vacancies of key managerial personnel were not filled in time in seven SPSEs.

**(Para 4.5)**

- While 11 SPSEs under review constituted audit committee, the number of independent directors in the audit committee was below the prescribed number in three SPSEs.

*(Para 4.6.1)*

- The Haryana Vidyut Prasaran Nigam Limited has not made compliance of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, whose bonds are listed in Bombay Stock Exchange.

*(Para 4.6.3)*

- There was no Whistle Blower Mechanism in five SPSEs.

*(Para 4.8.1)*

*Haryana Bureau of Public Enterprises should prepare a policy for appointment of Independent Directors stating the standard terms and conditions including timeline for initiation of proposal for their appointment, sitting fees etc. Government of Haryana may impress upon the respective Administrative Ministries/Departments to ensure compliance of provisions as contained in the Companies Act, 2013 read with Companies Rules, 2014 so as to achieve the objectives of Corporate Governance in SPSEs.*

#### **IV. Corporate Social Responsibility**

Out of 25 working State Public Sector Enterprises (SPSEs) in 2018-19, 10 SPSEs were required to undertake Corporate Social Responsibility (CSR) activities. Audit reviewed the CSR activities carried out by these 10 SPSEs during the year 2019-20. Following significant observations were made in the review:

- Of the ten SPSEs, six have framed their CSR policy and another three did not have CSR policy in place. One SPSE has framed its CSR policy but it was not approved by the Board. Eight out of 10 SPSEs had constituted their CSR committees.

*(Para 5.5.1 and 5.5.3)*

- The two *per cent* of average net profit calculated by seven out of ten SPSEs, for CSR activities, was ₹ 17.50 crore. These SPSEs allocated ₹ 28.66 crore towards CSR including carryover of ₹ 11.16 crore for previous years. The actual spending there against was ₹ 21.37 crore.

*(Para 5.6.1 and 5.6.2)*

- Employment and skill development received the maximum focus (73 *per cent*) which includes spending of ₹ 12.20 crore on setting up of Indian Institute of Information Technology in Sonapat by Haryana State Industrial and Infrastructure Development Corporation Limited, but the areas of education, sports, slum development and environment sustainability remained the neglected areas.

*(Para 5.7.3)*

- All the seven SPSEs, which had framed CSR policy, had specified the monitoring mechanism in the policy.

*(Para 5.8)*

*It is recommended that all SPSEs which meet the criteria should frame their CSR Policy and constitute CSR Committee in compliance of provisions of the Companies Act, 2013 and CSR Rules.*

## **V. Impact of implementation of Indian Accounting Standards in State Public Sector Enterprises**

The Ministry of Corporate Affairs, Government of India notified Indian Accounting Standards (Ind AS), keeping the Indian economic and legal environment in view. These Ind AS are mandatorily to be adopted by prescribed class of companies w.e.f. 1 April 2016. The objective of audit was to study the implementation of Ind AS in Phase I & II to assess whether various provisions of Ind AS were complied with by the State Public Sector Enterprises (SPSEs) at the time of adoption of Ind AS and their impact on the financial statements of SPSEs.

The study covered seven SPSEs which were required to adopt Ind AS in Phase I & II during 2016-17 with the following impacts:

- Ind AS permits a first time adopter to elect to continue with the carrying value of its Property, Plants and Equipments (PPEs) and intangible assets. Six SPSEs chose to continue with the carrying value of its PPEs and intangible assets as at the date of transition to Ind AS.

*(Para 6.4)*

- Haryana State Industrial and Infrastructure Development Corporation Limited and Haryana Power Generation Corporation Limited reported decrease in Profit After Tax (PAT) by ₹ 6.82 crore and ₹ 177.42 crore respectively while Haryana Vidyut Prasaran Nigam Limited reported increase in PAT by ₹ 94.42 crore due to adoption of Ind AS. The changes in valuation of different items of revenue, expenditure, assets and liabilities consequent to adoption of Ind AS materially affect the PAT of enterprise.

**(Para 6.6.1)**

- While increase in revenue of ₹ 18.72 crore and ₹ 0.09 crore was noticed in Haryana Vidyut Prasaran Nigam Limited and Haryana State Industrial and Infrastructure Development Corporation Limited respectively, a decrease in revenue of ₹ 16.89 crore was observed in respect of Haryana Power Generation Corporation Limited.

**(Para 6.6.2)**

- While increase of ₹2,054.02 crore and ₹ 203.32 crore in values of total assets was noticed in Haryana State Industrial and Infrastructure Development Corporation Limited and Haryana Power Generation Corporation Limited respectively, a decrease of ₹ 5.73 crore in total value of assets was noticed in Haryana Vidyut Prasaran Nigam Limited.

**(Para 6.6.3)**

- Net worth of three SPSEs decreased by ₹ 439.90 crore consequent to adoption of Ind AS. The maximum decrease of ₹ 339.81 crore in net worth was noticed in Haryana Vidyut Prasaran Nigam Limited.

**(Para 6.6.4)**