

CHAPTER V
FUNCTIONING OF STATE
PUBLIC SECTOR
ENTERPRISES

Chapter V FUNCTIONING OF STATE PUBLIC SECTOR ENTERPRISES

SUMMARY OF FINANCIAL PERFORMANCE OF STATE PUBLIC ENTERPRISES

5.1 Introduction

This Chapter presents the financial performance of ‘Government Companies’, ‘Statutory Corporations’ and ‘Government Controlled Other Companies’. The term State Public Sector Enterprises (SPSEs) encompasses the State Government owned companies set up under the Companies Act, 2013 and Statutory Corporations setup under the statutes enacted by the Parliament and State legislature.

A Government Company is defined in Section 2(45) of the Companies Act, 2013 as a company in which not less than 51 *per cent* of the paid-up share capital is held by Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary of a Government Company.

Besides, any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments are referred to in this Report as Government controlled other Companies.

5.2 Mandate

Audit of ‘Government companies’ and ‘Government Controlled Other Companies’ is conducted by the CAG under the provisions of Section 143(5) to 143(7) of the Companies Act, 2013 read with Section 19 of the CAG’s (Duties, Powers and Conditions of Service) Act, 1971 and the Regulations made there under. Under the Companies Act, 2013, the CAG appoints the Chartered Accountants as Statutory Auditors for companies and gives directions on the manner in which the accounts are to be audited. In addition, CAG has right to conduct a supplementary audit. The statutes governing some Statutory Corporations require their accounts to be audited only by the CAG.

5.3 Working and non-working SPSEs

As on 31 March 2020, there were seven SPSEs (six working and one non-working) under the audit jurisdiction of the CAG in Arunachal Pradesh as detailed in **Table 5.1**.

Table 5.1: Details of working and non-working SPSEs

Type of SPSEs	Working SPSEs	Non-working SPSEs ¹	Total
Government Companies	6	1	7
Total	6	1	7

¹ Non-working SPSEs are those which have ceased to carry on their operations

Table 5.2 provides the comparative details of working SPSEs turnover and State GSDP for a period of three years ending 2019-20.

Table 5.2: Contribution of SPSEs-turnover to GSDP

Particulars	(₹ in crore)		
	2017-18	2018-19	2019-20
SPSEs-Turnover ²	24.86	28.96	26.61
GSDP	22,434.48	24,602.88	27,036.64
Percentage of Turnover to GSDP	0.11	0.12	0.10

Source: As per latest finalised accounts of SPSEs.

As could be noticed from the table above, the contribution of the SPSEs to the GSDP of the state was negligible during the last three years (2017-18 to 2019-20). The contribution of SPSEs-turnover to GSDP over the past three years decreased by 0.01 per cent from 0.11 per cent (2017-18) to 0.10 per cent (2019-20). The major contributors to SPSEs-turnover during 2019-20 were Arunachal Pradesh Industrial Development and Financial Corporation Limited (₹ 10.24 crore) and Arunachal Pradesh Forest Corporation Limited (₹ 8.97 crore) (Appendix 5.1).

5.4 Investment in SPSEs

State Government's investment in SPSEs

The State's investment in the SPSEs was by way of Equity Share Capital and Long Term Loans. The figures in respect of Equity Capital and Loans provided by the State Government as per the records of the SPSEs should agree with the corresponding figures appearing in the Finance Accounts of the State. In case of differences in the figures, the SPSEs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard for last three years is given in **Table 5.3**.

Table 5.3: Equity and Loans outstanding³ as per the State Finance Accounts vis-à-vis records of SPSEs for last three years

Year	Amount as per Finance Accounts			Amount as per records of SPSEs			Difference		
	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20
Equity	9.00	9.00	9.00	19.39	19.49	19.49	10.39	10.49	10.49
Loans	36.25	36.25	36.25 ⁴	7.84	8.38	8.38	28.41	27.87	27.87

Source: As per State Finance Accounts and as per records of SPSEs

² As per the latest finalised accounts of working SPSEs as on 30 September of respective year

³ Figures as per SPSEs' records are provisional and as provided by the SPSEs as none of the SPSEs had finalised their current accounts (2019-20)

⁴ Represents Loan provided to 'public sector and other undertakings' in four sectors namely, Agriculture & Allied (₹ 20.00 crore); Power (₹ 10.00 crore); Non-ferrous Mining (₹ 0.15 crore) and Industrial Financing (₹ 6.10 crore). SPSE-wise details of Loans not available in the State Finance Accounts

It can be noticed from the table above that, as on 31 March 2020, as per records of SPSEs, the Equity investment and Loan given by Government of Arunachal Pradesh (GoAP) increased from ₹ 27.23 crore in 2017-18 to ₹ 27.87 crore in 2019-20, an increase of 2.35 per cent (₹ 0.64 crore). However, there were differences in the figures of Equity (₹ 10.49 crore) and Loan (₹ 27.87 crore) as per two sets of records, which were pending reconciliation for more than 10 years.

Though the Principal Secretary, Finance Department, GoAP as well as the Management of the SPSEs concerned were appraised regularly about the differences impressing upon the need for early reconciliation, no significant progress was noticed in this regard.

The State Government and the SPSEs concerned should take concrete steps to reconcile the differences in a time-bound manner. The Government should correct the system of financing the SPSEs and the Finance Accounts may be updated.

5.5 Budgetary Assistance to SPSEs

The State Government provides financial support to SPSEs in various forms through annual budgetary allocations. The summarised details of budgetary support towards Equity, Loans and Grants/ subsidies in respect of SPSEs during past three years are given in Table 5.4.

Table 5.4: Details regarding annual budgetary support to SPSEs

(₹ in crore)

Particulars	2017-18		2018-19		2019-20	
	No. of SPSEs	Amount	No. of SPSEs	Amount	No. of SPSEs	Amount
Equity capital to end of the year	-	Nil	-	Nil	-	Nil
Loans given to end of the year	-	Nil	-	Nil	-	Nil
Grants/subsidy from budget	2	5.55	3	9.88	2	4.79
Total Outgo		5.55		9.88		4.79

Source: As per SPSEs records

It can be noticed from the table above that the budgetary support provided by State Government to SPSEs during 2019-20 was lowest in last three years. During the three years from 2017-18 to 2019-20, the State Government had not provided any budgetary support to SPSEs in the form of Equity or Loans. During 2019-20, the recipients of budgetary assistance in the form of Grants/subsidy were Arunachal Pradesh Forest Corporation Limited (₹ 2.60 crore) and Hydro Power Development Corporation of Arunachal Pradesh Limited (₹ 2.19 crore).

5.6 Returns from Government Companies and Corporations

Profit earned and Dividend paid by SPSEs

The position of aggregate profit earned and dividend paid by profit earning SPSEs during the past three years as per the latest finalised accounts as on 30 September of respective year is given in **Table 5.5**.

Table 5.5: Details of profits earned and dividend paid by working SPSEs

Year	2017-18	2018-19	2019-20
Number of profit earning working SPSEs	3	4	4
Aggregate profit earned (₹ in crore)	10.28	8.18	6.07 ⁵
Dividend paid	-	-	-

As can be noticed from table above, during last three years, three to four working SPSEs earned profits ranging from ₹ 10.28 crore (2017-18) to ₹ 6.07 crore (2019-20). However, none of these SPSEs had declared any dividend during the past three years. There was no recorded information about the existence of any specific policy of the State Government regarding payment of minimum dividend by the SPSEs.

5.7 Long Term Debt of SPSEs

The position of outstanding Long Term Debts of the SPSEs during the last three years as per their latest finalised accounts is given in **Table 5.6**.

Table 5.6: Position of Outstanding loans of the SPSEs

Particulars	(₹ in crore)		
	2017-18	2018-19	2019-20
Total Loans outstanding (State Government and Others)	31.33	31.50	31.50
Turnover	24.58	24.75	24.75
Interest on Total Loans ⁶	0.76	0.76	0.76

It can be noticed from the table above that more than 78 per cent of SPSE borrowings during last three years, was outstanding against Loans borrowed from the State Government. Further, during 2019-20, major portion to the extent of ₹ 24.66 crore (including interest overdue: ₹ 17.35 crore) out of total outstanding (₹ 24.75 crore) against the State Government Loans, pertained to one SPSE (Arunachal Pradesh Industrial Development and Financial Corporation Limited). As on 31 March 2020, however, four out of seven SPSEs (all working) did not have any outstanding long term loans.

⁵ Including negligible profits of ₹ 12,371.00 earned by Arunachal Pradesh Industrial Development and Financial Corporation Limited

⁶ Interest figures as available in the latest finalised accounts of respective SPSEs

5.8 Operating Efficiency of SPSEs

Key parameters

Some of the key parameters of the operational efficiency of working SPSEs for last three years as per their latest finalised accounts as on 30 September of the respective year are given in **Table 5.7**.

Table 5.7: Key parameters of operational efficiency of working SPSEs

(₹ in crore)

Year	No. of working SPSEs	Paid up capital	Overall accumulated profits (+)/ losses(-)	Overall net profits/ losses(-)	EBIT
2017-18	5	15.80	(+) 1.26	7.53	8.29
2018-19	6	16.79	(+) 7.60	6.56	7.32
2019-20	6	16.79	(+) 7.51	3.58	4.34

From the table above, it can be seen that, over the last three years the position of the Net overall losses and 'Earnings Before Interest and Tax' (EBIT) has declined.

5.9 Return on Capital Employed

Return on Capital Employed (ROCE) is a profitability metric that measures the long term profitability and efficiency of the total capital employed by a company. Companies create value when they generate returns on the capital employed in excess of the cost of capital. ROCE is an important metric for long term lenders. ROCE is calculated by dividing a company's EBIT by the Capital Employed.

During 2019-20, the overall capital employed in respect of six working SPSEs as per their latest finalised accounts was ₹ 54.34 crore. Further, out of six working SPSEs, only three SPSEs had positive ROCE **Appendix 5.1**.

In comparison, however, the overall capital employed in respect of working SPSEs during the previous two years (2017-18 and 2018-19) was ₹ 46.93 crore and ₹ 54.43 crore respectively.

5.10 Return on Equity (ROE)

Return on equity⁷ (ROE) is a measure of financial performance of companies calculated by dividing the 'net income earned' by the Equity. During 2019-20, four out of six working SPSEs earned profits of ₹ 6.07 crore as per their latest finalised accounts as on 30 September 2020 as detailed in **Appendix 5.1**. The ROE of two profit making SPSEs⁸

⁷ **Return on Equity** = (Net Profit after Tax and preference Dividend ÷ Equity) x 100, where **Equity** = Paid up Capital plus Free Reserves minus Accumulated Loss minus Deferred Revenue Expenditure

⁸ Arunachal Pradesh Industrial Development and Financial Corporation Limited and Arunachal Pradesh Forest Corporation Limited

was not workable as the accumulated losses (₹ 25.00 crore) of these SPSEs had completely eroded their paid up capital (₹ 8.65 crore). The ROE of remaining two SPSEs, which earned profit was 5.98 per cent (Arunachal Police Housing and Welfare Corporation Limited) and 6.69 per cent (Hydro Power Development Corporation of Arunachal Pradesh Limited).

5.11 SPSEs incurring Losses

The position of aggregate losses incurred by loss making working SPSEs during the past three years as per their latest finalised accounts is given **Table 5.8**.

Table 5.8: Details of losses of working SPSEs

Year	2017-18	2018-19	2019-20
Total No. of working SPSEs	5	6	6
Number of loss making working SPSEs	2	2	2
Aggregate losses (₹ in crore)	(-) 2.75	(-) 1.62	(-) 2.49

The details of the losses of working SPSEs incurred during 2019-20 are given in **Table 5.9**.

Table 5.9: Details of loss making working SPSEs during 2019-20

Sl. No.	Name of the Company	Latest finalised accounts	Net Loss (₹ in crore)
1	Arunachal Pradesh Donyi Polo Hotel Corporation Limited	2018-19	2.21
2.	Arunachal Pradesh Mineral Development and Trading Corporation Limited	1999-2000	0.28
Total			2.49

5.12 SPSEs having complete erosion of capital

The paid-up capital and accumulated profits of six working SPSEs as per their latest finalised accounts as on 30 September 2019 were ₹ 16.79 crore and ₹ 7.51 crore respectively. Analysis of investment and accumulated losses of these SPSEs revealed that the accumulated losses of three working SPSEs (₹ 27.29 crore) had completely eroded their paid up capital (₹ 9.64 crore) as detailed in **Table 5.10**.

Table 5.10: Erosion of Capital of working SPSEs

Sl. No.	Company/ Corporation	Latest finalised Accounts	Paid up capital	Accumulated losses (₹ in crore)
1	Arunachal Pradesh Industrial Development and Financial Corporation Limited	2017-18	4.15	20.42
2	Arunachal Pradesh Forest Corporation Limited	2005-06	4.50	4.58
3	Arunachal Pradesh Donyi Polo Hotel Corporation Limited	2018-19	0.99	2.29
Total			9.64	27.29

Accumulation of huge losses by these SPSEs had eroded public wealth, which is a cause of serious concern and the State Government needs to review the working of these SPSEs to either improve their profitability or close their operations.

OVERSIGHT ROLE OF COMPTROLLER & AUDITOR GENERAL OF INDIA

5.13 Audit of State Public Sector Enterprises (SPSEs)

Comptroller & Auditor General of India (CAG) appoints the statutory auditors of a Government Company and Government Controlled Other Company under Section 139 (5) and (7) of the Companies Act, 2013. CAG has a right to conduct a supplementary audit and supplement or comment upon the Audit Report of the statutory auditor. Statutes governing some corporations require that their accounts be audited by the CAG and a report be submitted to the State Legislature.

5.14 Appointment of Statutory Auditors of SPSEs by CAG

Sections 139 (5) of the Companies Act, 2013 provides that the statutory auditors in case of a Government Company or Government Controlled Other Company are to be appointed by the CAG within a period of 180 days from the commencement of the financial year. The statutory auditors of these SPSEs are appointed by the CAG.

5.15 Submission of Accounts by SPSEs

Need for timely submission

According to Section 394 of the Companies Act 2013, Annual Report on the working and affairs of a Government Company, is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation laid before the State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG.. This mechanism provides the necessary Legislative control over the utilisation of public funds invested in the companies from the State budget.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statement for the financial year has to be placed in the said AGM for their consideration.

Section 129 (7) of the Companies Act, 2013 also provides for levy of penalty like fine and imprisonment on the persons including directors of the company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

Despite above, annual accounts of various SPSEs were pending as on 30 September 2020, as discussed below.

5.16 Timeliness in preparation of Accounts by SPSEs

The details relating to finalisation of accounts by six working SPSEs during the last three years as of 30 September of respective year are given in **Table 5.11**.

Table 5.11: Position relating to finalisation of accounts of working SPSUs

Sl. No.	Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
1	Number of Working SPSUs/ other companies	5	5	5	6	6
2	Number of accounts finalised during the year	1	3	2	2	2
3	Number of accounts in arrears	33	35	38	42	46
4	Number of Working SPSUs with arrears in accounts	5	5	5	6	6
5	Extent of arrears (numbers in years)	1 to 16	1 to 17	1 to 18	1 to 19	1 to 20

As can be observed from the above table, the number of accounts in arrears has shown an increasing trend during the five-year period 2015-16 to 2019-20. Out of the total 46 accounts in arrears as on 31 March 2020, 34 Accounts pertained to two PSUs viz., Arunachal Pradesh Mineral Development and Trading Corporation Limited (20 Accounts) and Arunachal Pradesh Forest Corporation Limited (14 Accounts). The earliest Accounts in arrears was since 2000-01, which related to Arunachal Pradesh Mineral Development and Trading Corporation Limited.

The Administrative Departments concerned have the responsibility to oversee the activities of these entities and to ensure that the accounts of SPSEs under their control are finalised and adopted by the SPSEs within the stipulated period.

The Principal Accountant General Arunachal Pradesh (PAG) has been regularly pursuing this issue with the Chief Secretary, Government of Arunachal Pradesh and the Administrative Departments concerned for liquidating the arrears in accounts of PSUs. However, the State Government and the PSUs concerned could not address the issue to clear pendency of accounts of the PSUs in a time bound manner

5.17 CAG's oversight - Audit of Accounts and Supplementary Audit

Financial reporting framework

Companies are required to prepare the financial statements in the format laid down in Schedule III to the Companies Act, 2013 and in adherence to the mandatory Accounting Standards prescribed by the Central Government, in consultation with National Advisory Committee on Accounting Standards. The Statutory Corporations are required to prepare their accounts in the format prescribed under the rules, framed in consultation with the CAG and any other specific provision relating to accounts in the Act governing such corporations.

5.18 Audit of Accounts of Government Companies by Statutory Auditors

The statutory auditors appointed by the CAG under Section 139 of the Companies Act 2013, conduct audit of accounts of the Government Companies and submit their report thereon in accordance with Section 143 of the Companies Act, 2013.

The CAG plays an oversight role by monitoring the performance of the statutory auditors in audit of the public sector enterprises with the overall objective that the statutory auditors discharge the functions assigned to them properly and effectively.

This function is discharged by exercising the power:

- to issue directions to the statutory auditors under Section 143 (5) of the Companies Act, 2013 and
- to supplement or comment upon the statutory auditor's report under Section 143 (6) of the Companies Act, 2013.

5.19 Supplementary Audit of Accounts of Government Companies

The prime responsibility for preparation of financial statements in accordance with the financial reporting framework prescribed under the Companies Act, 2013 or other relevant Act is of the Management of an entity.

The statutory auditors appointed by the CAG under Section 139 of the Companies Act, 2013 are responsible for expressing an opinion on the financial statements under section 143 of the Companies Act, 2013 based on independent audit in accordance with the Standard Auditing Practices of Institute of Chartered Accountants of India (ICAI) and directions given by the CAG. The statutory auditors are required to submit the Audit Report to the CAG under Section 143 of the Companies Act, 2013.

The certified accounts of selected Government Companies along with the report of the statutory auditors are reviewed by CAG by carrying out a supplementary audit. Based on such review, significant audit observations, if any, are reported under Section 143 (6) of the Companies Act, 2013 to be placed before the Annual General Meeting.

5.20 Result of CAG's oversight role

During 2019-20, two working companies had forwarded two audited accounts to the Principal Accountant General, Arunachal Pradesh. None of the two audited accounts were selected for supplementary audit during the year and hence Non-Review Certificates (NRC) were issued against both the accounts of two companies.


5.21 Conclusion

- As on 31 March 2020, the State of Arunachal Pradesh had total seven SPSEs (all Government companies), which included one non-working SPSE. As on 31 March 2020, there were differences in the figures of State's investment in Equity (₹ 10.49 crore) and Loan (₹ 27.87 crore) of SPSEs as per State Finance Accounts *vis-à-vis* records of SPSEs.
- During 2019-20 the State Government has provided budgetary support of ₹ 4.79 crore to two SPSEs in the form of Grants/subsidy. The recipients of the budgetary assistance were Arunachal Pradesh Forest Corporation Limited (₹ 2.60 crore) and Hydro Power Development Corporation of Arunachal Pradesh Limited (₹ 2.19 crore). The State Government did not provide equity or loan assistance to any SPSE during 2017-20.
- During 2019-20, out of six working SPSEs, four SPSEs earned profits (₹ 6.07 crore) as per their latest finalised accounts. Further, the accumulated losses (₹ 27.29 crore) of three working SPSEs had completely eroded their paid-up capital (₹ 9.64 crore).
- As on 30 September 2020, all six working SPSEs had a total arrear of total 46 Accounts ranging from one to 20 Accounts. The highest pendency of accounts pertained to Arunachal Pradesh Mineral Development and Trading Corporation Limited (20 Accounts) and Arunachal Pradesh Forest Corporation Limited (14 Accounts).

5.22 Recommendations


- The State Government and the SPSEs concerned should take concrete steps to reconcile the differences in the investment figures (Equity and Long term Loans) of the State Government as appearing in the State Finance Accounts *vis-à-vis* SPSE records in a time-bound manner.
- Accumulation of huge losses by three out of six working SPSEs had eroded public wealth, which is a cause of concern and the State Government needs to review the working of these SPSEs to either improve their profitability or close their operations.
- The Administrative Departments overseeing the SPSEs having backlog of Accounts need to ensure that these SPSEs finalise and adopt their Accounts within the stipulated period, failing which financial support to them be reviewed.

Itanagar
The: 14 August 2021


(CHERRING ANGRUP BODH)
Principal Accountant General (Audit),
Arunachal Pradesh

Countersigned

New Delhi
The: 23 August 2021


(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

