

CHAPTER-V

FUNCTIONING OF STATE PUBLIC SECTOR ENTERPRISES

CHAPTER V: FUNCTIONING OF STATE PUBLIC SECTOR ENTERPRISES

SUMMARY OF FINANCIAL PERFORMANCE OF STATE PUBLIC SECTOR ENTERPRISES

5.1 Introduction

This Chapter presents the financial performance of the State Public Sector Enterprises (SPSE) which consist of ‘Government Companies’, ‘Statutory Corporations’ and ‘Government Controlled Other Companies’. The term State Public Sector Enterprises (SPSEs) encompasses all the State Government owned companies set up under the Companies Act, 2013 and Statutory Corporations set up 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 of the company's financial statements. The statutes governing some Statutory Corporations require their accounts to be audited only by CAG.

5.3 Working and non-working SPSEs

As on 31 March 2020, the state of Meghalaya had 18 SPSEs¹, which were under the audit jurisdiction of the C&AG, as shown in **Table 5.1**. The status of finalisation of the year wise accounts and other details of these 18 SPSEs is given in **Appendix 5.1**.

¹ Shillong Smart City Limited is yet to submit its first account as on 30 September 2020.

Table 5.1: Details of working and non-working SPSEs

Type of SPSEs	Working SPSEs	Non-working SPSEs	Total
Government Companies	15	1	16
Statutory Corporations	2	-	2
Total	17	1	18

The Meghalaya Electronics Development Corporation, which was incorporated in the year 1986, had been in the process of liquidation since June 2011.

One company *i.e.* Shillong Smart City Limited, incorporated on the 22 January 2019 for which entrustment of the supplementary audit was given to this office on 24 December 2019 was yet to submit its first account as on 30 September 2020.

Table 5.2 below 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	1,137	1,121	1,204
GSDP	29,508	33,481	36,572
Percentage of Turnover to GSDP	3.85	3.35	3.29

Source: As per latest finalised accounts of SPSEs (Appendix 5.1).

As seen from the table above, the contribution of SPSEs to the GSDP reduced from 3.85 *per cent* in 2017-18 to 3.29 *per cent* in 2019-20. The major contributors to SPSEs-turnover during 2019-20 were Meghalaya Power Distribution Corporation Limited (₹ 831.90 crore) and Meghalaya Power Generation Corporation Limited (₹ 191.36 crore).

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 Equity Capital and Loans given by the State Government to SPSEs as reflected in the records of the SPSEs should agree with the corresponding figures appearing in the Finance Accounts of the State for correct and transparent reporting. 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**.

² As per the latest finalised accounts of working SPSEs as on 30th September of respective years.

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

(₹ in crore)

Year	2017-18			2018-19			2019-20		
	Amount as per			Amount as per			Amount as per		
	Finance Accounts #	Records of SPSEs ³	Difference	Finance Accounts	Records of SPSEs ³	Difference	Finance Accounts	Records of SPSEs ³	Difference
Equity	2,519.82	2,501.78	18.04	2,525.73	2,532.97	7.24	2,535.71	2,668.50	132.79
Loans	623.45	171.55	451.90	652.28	203.24	449.04	665.62	205.94	459.68

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

Does not include figures of Cooperative Societies

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 GoM increased from ₹ 2,673.33 crore in 2017-18 to ₹ 2,874.44 crore in 2019-20, an increase of 7.52 per cent. However, there were differences in the figures of Equity (₹ 132.79 crore) and Loan (₹ 459.68 crore) as per two sets of records. Out of 16⁴ SPSEs where State Government had made direct investment, the difference occurred in respect of 11 SPSEs.

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 outgo from budget	4	90.47	4	31.19	3	135.53
Loans given from budget	3	1.38	3	31.69	1	2.70
Grants/subsidy from budget	8	115.53	10	222.31	6	125.30
Total Outgo		207.38		285.19		263.53

Source: As per SPSEs records

It can be noticed from the table above that the budgetary support provided by State Government to SPSEs increased from ₹ 207.38 crore in 2017-18 to ₹ 263.53 crore in

³ Figures are provisional and as provided by the SPSEs as none of 17 SPSEs had finalised their current accounts.

⁴ Excluding one Government company (Shillong Smart City Limited) which is yet to submit its first accounts.

2019-20, mainly due to budgetary support to four⁵ power sector PSUs amounting to ₹ 231.97 crore (equity ₹ 118.18 crore, loan ₹ 2.70 crore and grants/subsidies ₹ 111.09 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	4	4	3
Aggregate profit earned (₹ in crore)	8.94	9.61	2.83
Dividend paid	-	-	-

Source: As per latest finalised accounts of SPSEs. (See Appendix 5.1)

As can be noticed from table above, during last three years, only three to four SPSEs earned profits ranging from ₹ 2.83 crore (2019-20) to ₹ 9.61 crore (2018-19). The profits earned had declined over the period and 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. As such the State Government did not get any returns on the investment made by them.

During 2019-20, out of 16⁶ working SPSEs, three⁷ SPSEs earned aggregate profits of ₹ 2.83 crore as per their latest finalised accounts (detailed in **Appendix 5.1**) and all of them are non-power 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)	1,751.68	1,938.43	1,921.98
State Government Loans outstanding	298.53	314.42	327.40
Interest on Total Loans	154.92	166.84	251.67
Interest on State Loan ⁸	23.11	24.59	25.94

Source: As per latest finalised accounts of SPSEs. (Appendix 5.1)

⁵ Meghalaya Energy Corporation Limited, Meghalaya Power Generation Corporation Limited, Meghalaya Power Transmission Corporation Limited and Meghalaya Power Distribution Corporation Limited

⁶ Excluding one Government company (Shillong Smart City Limited) which is yet to submit its first accounts.

⁷ Forest Development Corporation Limited, Meghalaya Tourism Development Corporation Limited and Meghalaya State Warehousing Corporation.

⁸ Interest figures as available in the latest finalised accounts of respective SPSEs.

It can be noticed from the table above that, the total long term borrowings of the SPSEs (Companies and Corporations) from all sources registered an increase of ₹ 186.75 crore from ₹ 1,751.68 crore (2017-18) to ₹ 1,938.43 crore (2018-19) as per their latest finalised accounts as on September 2020. This was mainly due to new loan of ₹ 170.87 crore taken as per latest finalised accounts of 2018-19 by one power sector SPSE (Meghalaya Energy Corporation Limited) from Rural Electrification Corporation, for working capital purposes.

As on 31 March 2020, however, nine out of 16 working SPSEs did not have any outstanding long-term loans.

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** below:

Table 5.7: Key parameters of operational efficiency of working SPSEs

Year	No. of working SPSEs	Paid up capital	(₹ in crore)			
			Net overall Accumulated profits (+)/losses(-)	Net overall profits (+)/losses(-)	EBIT	Capital Employed ⁹
2017-18	16	4,395.95	(-) 2,164.62	(-) 410.17	(-)255.23	4,001.69
2018-19	16	4,425.05	(-) 2,229.77	(-) 419.16	(-) 252.25	3964.00
2019-20	16 ¹⁰	4,605.73	(-) 2,747.35	(-) 514.75	(-) 263.09	3780.36

Source: As per latest finalised accounts of SPSEs. (Appendix 5.1)

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) had worsened. The Capital Employed of SPSEs during 2019-20 has also reduced mainly due to increase in accumulated losses over the years.

During 2019-20, all the 16 working SPSEs were under net accumulated losses. The major contributors to the accumulated losses of SPSEs during 2019-20 were Meghalaya Power Distribution Corporation Limited (₹ 1,778.59 crore), Meghalaya Power Generation Corporation Limited (₹ 363.70 crore), Meghalaya Energy Corporation Limited (₹ 152.09 crore) and Meghalaya Transport Corporation (₹ 106.69 crore).

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

⁹ Capital Employed = Paid up share capital *plus* Free reserves and Surplus *plus* Long term loans *minus* Accumulated losses *minus* Deferred revenue expenditure.

¹⁰ Excluding one Government company (Shillong Smart City Limited) which is yet to submit its first accounts.

of the cost of capital. ROCE is an important metric for long term lenders. ROCE is calculated by dividing a company's Earnings before Interest and Taxes (EBIT) by the Capital Employed.

During 2019-20, the overall capital employed in respect of 16 working SPSEs as per their latest finalised accounts was ₹ 3,780.36 crore. Further, out of 16 working SPSEs, only four SPSEs¹¹ had positive ROCE.

In comparison, however, the overall capital employed in respect of working SPSEs during the previous two years (2017-18 and 2018-19) was ₹ 4,001.69 crore and ₹ 3,964.00 crore respectively, showing a downward trend in each successive year. Further, out of 16 working SPSEs, only five SPSEs each in 2017-18¹² and 2018-19¹³ had positive ROCE during each of the previous two years.

5.10 Return on Equity (ROE)

Return on equity¹⁴ (ROE) is a measure of financial performance of companies calculated by dividing the 'net income earned' by the Equity. During 2019-20, three working SPSEs earned profits as per their latest finalised accounts as on 30 September 2020. However, ROE of one profit making SPSE (Meghalaya Tourism Development Corporation Limited) was not workable as the accumulated losses (₹ 8.42 crore) of this SPSE had completely eroded its paid-up capital (₹ 7.96 crore).

The ROE of remaining two SPSEs which earned profit was 4.18 and 100 *per cent* (*Appendix 5.1*) as detailed in **Table 5.8** below:

Table 5.8: Return on Equity

SI No.	Name of the Company	Year of Accounts	ROE (in per cent)
1.	Forest Development Corporation of Meghalaya Limited	2015-16	100.00 ¹⁵
2.	Meghalaya State Warehousing Corporation	2017-18	4.18

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 in **Table 5.9**.

¹¹ Forest Development Corporation of Meghalaya Limited, Meghalaya Energy Corporation Limited, Meghalaya Tourism Development Corporation Limited and Meghalaya State Warehousing Corporation.

¹² Meghalaya Government Construction Corporation Limited, Meghalaya Mineral Development Corporation Limited, Meghalaya Power Generation Corporation Limited, Meghalaya Power Transmission Corporation Limited and Meghalaya State Warehousing Corporation.

¹³ Forest Development Corporation of Meghalaya Limited, Meghalaya Infrastructure Development and Finance Corporation Limited, Meghalaya Power Generation Corporation Limited, Meghalaya Power Transmission Corporation Limited and Meghalaya State Warehousing Corporation.

¹⁴ 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.

¹⁵ [Paid up Capital (₹ 1.97 crore) + Accumulated losses (₹ - 0.45 crore)] ÷ Profit during the year (₹ 1.52 crore) X 100

Table 5.9: Details of loss making working SPSEs

Year	2017-18	2018-19	2019-20
Total No. of working SPSEs	16	16	16
Number of loss making working SPSEs	11	11	12 ¹⁶
Aggregate losses (₹ in crore)	419.11	428.77	517.58

The details of major contributors to losses of working SPSEs incurred during 2019-20 are given in **Table 5.10** below:

Table 5.10: Major contributors to losses of working SPSEs during 2019-20

(₹ in crore)			
Sl. No.	Name of the Company	Latest finalised accounts	Net Loss (₹ in crore)
1	Meghalaya Power Distribution Corporation Limited	2017-18	286.55
2.	Meghalaya Power Generation Corporation Limited	2017-18	163.54
3.	Mawmluh Cherra Cement Limited	2018-19	25.22
4.	Meghalaya Energy Corporation Limited	2017-18	14.61
5	Meghalaya Power Transmission Corporation Limited	2017-18	13.84
Total			503.76

From the table above, it can be noticed that approximately 97 per cent of the losses incurred by working SPSEs during 2019-20 was on account of the four PSEs in the Power sector and Mawmluh Cherra Cement Limited.

5.12 SPSEs having complete erosion of capital

The aggregate paid-up capital and accumulated losses of 16 working SPSEs as per their latest finalised accounts as on 30 September 2020 were ₹ 4,605.73 crore and (-) ₹ 2,747.35 crore respectively. Analysis of investment and accumulated losses of these SPSEs revealed that the accumulated losses of seven working SPSEs (₹ 2,159.69 crore) had completely eroded their paid-up capital (₹ 1,147.33 crore) as detailed in **Table 5.11**.

Table 5.11: Erosion of Capital of SPSEs

(₹ in crore)			
Name of SPSE	Latest finalised accounts	Paid up capital	Accumulated losses
Meghalaya Government Construction Corporation Limited (MGCCCL)	2018-19	0.75	19.04
Meghalaya Handloom & Handicraft Development Corporation Limited (MHHDCCL)	2018-19	1.50	5.06
Meghalaya Mineral Development Corporation Limited (MMDCL)	2018-19	2.32	7.10
Meghalaya Tourism Development Corporation Limited (MTDCL)	2018-19	7.96	8.42
Meghalaya Transport Corporation (MTC)	2015-16	93.05	106.69
Mawmluh Cherra Cements Limited (MCCL)	2018-19	197.51	234.79
Meghalaya Power Distribution Corporation Limited (MePDCL)	2017-18	844.24	1778.59
Total		1147.33	2159.69

Source: As per latest finalised accounts of the SPSEs.

¹⁶ Details of loss making SPSEs are given in Appendix 5.1.

Out of the total eroded paid-up capital of ₹ 1,147.33 crore, the major portion pertained to MePDCL (73.58 *per cent*) followed by MCCL (17.21 *per cent*) and MTC (8.11 *per cent*). The reasons for under performance of these SPSEs had been highlighted in the previous audit reports as summarised below: -

- MePDCL had accumulated huge losses because of low revenue realised against the sale of power which was not sufficient to meet even the power purchase cost (including transmission/wheeling charges) mainly due to poor billing and collection efficiency and high power purchase cost¹⁷.
- Similarly, despite major capital investment in the MCCL, the Company could achieve only 22 *per cent* capacity utilisation against the projected capacity utilisation of 60 to 75 *per cent* which was mainly on account of excessive machine stoppages, idling of machineries/equipment and absence of skilled staff¹⁸.
- The MTC failed to grow as a major operator in the State public transport system and could not compete with the private players in the State on account of several reasons like, absence of a well thought state transport policy and long term planning for gradual and systematic increase in its share in the State Public Transport, inability to increase the fleet strength due to the financial constraints, operational inefficiencies and high cost of operations leading to continuous operational losses, *etc.*¹⁹.

Accumulation of huge losses by these 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.

5.13 Performance of power sector SPSEs

The power sector SPSEs play an important role in the economy of the State. Apart from providing critical infrastructure required for development of the State's economy, the sector also adds significantly to the Gross State Domestic Product (GSDP). As mentioned under **Paragraph 5.3**, SPSE-turnover to GSDP during 2019-20 stood at 3.29 *per cent*; of which, major portion to the extent of 3.03 *per cent* (₹ 1,109.26 crore) was contributed by the power sector SPSEs.

High losses of power sector SPSEs

The position of aggregate losses incurred by four power sector SPSEs during the past three years as per their latest finalised accounts is given in **Table 5.12**.

¹⁷ Para No. 4.2.13, 4.2.8 and 4.2.9 of the Report of the Comptroller & Auditor General of India on Social, Economic, General & Economic (PSUs) Sectors – Government of Meghalaya for the year ended 31 March 2017.

¹⁸ Para 3.2 of the Report of the Comptroller & Auditor General of India on Social & Economic Sectors – Government of Meghalaya for the year ended 31 March 2019.

¹⁹ Para 4.2 of the Report of the Comptroller & Auditor General of India on Social, Economic, General & Economic (PSUs) Sectors – Government of Meghalaya for the year ended 31 March 2017.

Table 5.12: Details of aggregate losses of power sector SPSEs

Year	2016-17	2017-18	2018-19	2019-20
Total No. of power sector SPSEs	4	4	4	4
Number of loss making SPSEs	3	3	3	4
Number of profit earning SPSEs ²⁰	1	1	1	-
Net overall losses in power sector (₹ in crore)	(-) 234.92	(-) 369.72	(-) 369.19	(-) 478.54
Accumulated losses (₹ in crore)	(-) 1,226.91	(-) 1,812.90	(-) 1,836.03	(-) 2,314.57

Key parameters

Some of the key parameters of the operational efficiency of four power sector SPSEs as per their latest finalised accounts as on 30 September 2020 are given in **Table 5.13** below:

Table 5.13: Key parameters of the operations of power sector SPSEs during 2019-20
(₹ in crore)

Sl. No.	Name of the Company	Latest finalised accounts	Paid up capital	Net Loss for the year	Accumulated losses	Net worth ²¹
1	Meghalaya Power Distribution Corporation Limited (MePDCL)	2017-18	844.24	(-) 286.55	(-) 1,778.59	(-) 934.25
2.	Meghalaya Power Generation Corporation Limited (MePGCL)	2017-18	798.91	(-) 163.54	(-) 363.70	(+) 435.21
3	Meghalaya Energy Corporation Limited (MeECL)	2017-18	2,070.87	(-) 14.61	(-) 152.09	(+) 1,918.78
4	Meghalaya Power Transmission Corporation Limited (MePTCL)	2017-18	423.82	(-) 13.84	(-) 20.19	(+) 403.63
	Total		4,137.84	(-) 478.54	(-) 2,314.57	

It can be seen from the tables 5.12 and 5.13 above that during last four years (2016-17 to 2019-20), the overall losses of power sector SPSEs have increased by more than two folds from ₹ 234.92 crore (2016-17) to ₹ 478.54 crore (2019-20). Further, during 2019-20, the net worth of one SPSE (MePDCL) was negative at (-) ₹ 934.25 crore due to complete erosion of its equity capital by the accumulated losses. The net worth of MePDCL turned negative for the first time during 2016-17 when it's paid up capital (₹ 801.20 crore) was completely eroded by the accumulated losses (₹ 961.42 crore) as per it's latest finalised accounts (2014-15) as on 30 September 2017. During October 2017 to September 2020, MePDCL had finalised three annual accounts (2015-16 to 2017-18). However, the net worth of the Company remained negative during all these years.

This gradual process of incurring losses by the power sector SPSEs is a drain on the State's economy and resources. Despite constant deterioration in the overall performance of four power sector SPSEs, the State Government continued to provide

²⁰ During 2016-17 to 2018-19, Meghalaya Power Transmission Corporation Limited was the only power sector SPSE, which registered profit of ₹ 7.17 crore (2016-17) and ₹ 8.15 crore (2017-18 & 2018-19) as per its latest finalised accounts.

²¹ Net Worth means the sum total of the 'paid-up capital' and 'free reserves and surplus' minus 'accumulated losses' and 'deferred revenue expenditure'.

significant budgetary support to these SPSEs. Analysis of records of power sector SPSEs revealed that the State Government provided budgetary support aggregating ₹ 430.04 crore to four power sector SPSEs during 2017-18 (₹ 137.26 crore), 2018-19 (₹ 60.81 crore) and 2019-20 (₹ 231.97 crore) by way of equity (₹ 164.98 crore), loans (₹ 35.77 crore) and grants/subsidy (₹ 229.29 crore). This included budgetary support of ₹ 157.09 crore provided to MePDCL during 2017-18 (₹ 94.26 crore), 2018-19 (₹ 12.22 crore) and 2019-20 (₹ 50.61 crore) by way of loans (₹ 1.73 crore) and grants/subsidy (₹ 155.36 crore).

OVERSIGHT ROLE OF COMPTROLLER & AUDITOR GENERAL OF INDIA

5.14 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.

5.15 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 18 SPSEs (excluding Meghalaya Transport Corporation, a statutory corporation for which CAG is the sole auditor) are appointed by the CAG.

5.16 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. Almost similar provisions exist in the Act regulating the only statutory corporation (Meghalaya Transport Corporation) in the State. 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 and in arrears as on 30 September 2020, as discussed below.

5.17 Timeliness in preparation of accounts by SPSEs

The details relating to finalisation of accounts by 17 working SPSEs (15 Government Companies and two Statutory Corporations) during the last three years as of 30 September of respective year are given in **Table 5.14**.

Table 5.14: Position relating to finalisation of Accounts of working SPSEs

Sl. No.	Particulars	2017-18	2018-19	2019-20
1.	Number of working SPSEs	16	16	17
2.	Number of Accounts finalised during the year	30	16	20
3.	Number of Accounts in arrears	32	32	29
4.	Number of Working SPSEs with arrears in Accounts	16	16	17
5.	Extent of arrears (number in years)	1 to 7	1 to 5	1 to 4

As can be seen from table above, although the situation improved gradually during last five years in terms of number of accounts finalised and extent of arrears, 29 accounts of 17 working SPSEs were still in arrears for one to four years as on 30 September 2020. Out of the total arrears of 29 accounts, Meghalaya Transport Corporation and Forest Development Corporation of Meghalaya Limited have maximum accounts in arrears for four years each. Shillong Smart City Limited, incorporated on the 22 January 2019 had not submitted its first accounts as of 30 September 2020.

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 Accountant General (Audit), Meghalaya had been regularly pursuing with the Chief Secretary of Meghalaya and the administrative departments concerned for liquidating the arrears of 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.

5.18 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.

5.19 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.

5.20 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.

5.21 Result of CAG's oversight role

Audit of accounts of SPSEs

Government Companies

During 2019-20, 14 working companies had forwarded 18 accounts to the Accountant General (Audit), Meghalaya. 15 accounts of 12 Companies were selected for

Supplementary audit during the year. Non-Review Certificates (NRC) were issued against three accounts of two Companies.

Statutory Corporation

The Accountant General (Audit), Meghalaya is the sole auditor of Meghalaya Transport Corporation (MTC). MTC forwarded two accounts during the year and both were selected for audit.

The audit reports of Statutory Auditors appointed by the C&AG and the supplementary audit conducted by the C&AG indicated that the quality of maintenance of SPSEs' accounts needs to be improved substantially. The results of the C&AG's audit review are detailed below:

Significant comments of the C&AG issued as supplement to the statutory auditors' reports on Government Companies/Government Controlled Other Companies

Some of the significant comments issued on supplementary audit of financial statements of the Government Companies are detailed **Table 5.15**.

Table 5.15: Gist of significant comments on the accounts of the SPSEs

Sl. No.	Name of the Company	Comments
1	Meghalaya Energy Corporation Limited (Year of Accounts: 2017-18)	<ul style="list-style-type: none"> The Company had not included ₹ 5.53 crore being the inventories available with Material Management Division as per Physical Verification Report as on 31 March 2018. This has resulted in understatement of 'Inventories' with corresponding overstatement of 'Retained Earnings - Other Equity (debit balance)' (Note-9) by ₹ 5.53 crore each. The Company booked the consultancy charges amounting to ₹ 1.26 crore paid on behalf of the subsidiary companies, in their accounting, this expenditure, pertains to subsidiary companies (Meghalaya Power Generation Corporation Limited, Meghalaya Power Transmission Corporation Limited and Meghalaya Power Distribution Corporation Limited) should have been booked in the respective companies accounts. This has resulted in overstatement of 'Other Expenses' and 'loss for the year' by ₹ 1.26 crore each.
2	Meghalaya Power Generation Corporation Limited (Year of Accounts: 2017-18)	<ul style="list-style-type: none"> The Company included ₹ 4.99 crore, being the liabilities for supply of material (capital) lying unadjusted since 2013-14. The Company did not have the party-wise details to whom the amount was payable as well the details of the scheme works on which the said materials were utilised. The Company has not accounted ₹ 1.02 crore of the agency charges (7.50 per cent of the total project cost) received by the holding company (Meghalaya Energy Corporation Limited) from the Education Department, Government of Meghalaya on behalf of the Company against construction of school under Rashtriya Madhyamik Siksha Abhiyan Scheme. This has correspondingly resulted in overstatement of 'loss for the year' and understatement of 'Other Current Assets – Receivables from Meghalaya Energy Corporation Limited' by ₹ 1.02 crore each.
3	Meghalaya Power Distribution Corporation Limited (Year of Accounts: 2017-18)	<ul style="list-style-type: none"> The Company did not account ₹ 10.08 crore depreciation for the period from 2008-09 to 2016-17 on the capital expenditure (₹ 26.32 crore) incurred (November 2008) towards Building and Lines and Cables HV under APDRP Scheme though capitalized during 2017-18. This has correspondingly resulted in understatement of 'depreciation for the year' by ₹ 10.08 crore with corresponding understatement of 'loss for the year' to the same extent.

Sl. No.	Name of the Company	Comments
4	Meghalaya Power Transmission Corporation Limited (Year of Accounts: 2017-18)	<ul style="list-style-type: none"> Company has not included ₹ 51.81 lakh being the Annual Maintenance Contract Charges payable for the year to Watchmen guarding, Lines Maintenance and SCADA/EMS Systems at SLDC. Non accounting of the same has resulted in understatement of 'Other Expenses' & understatement of 'Loss for the year' by ₹ 51.81 lakh respectively.
5	Meghalaya Industrial Development Corporation Limited (Year of Accounts: 2017-18)	<ul style="list-style-type: none"> The Company's current liabilities were understated by ₹0.63 crore, due to improper adjustment of the advances paid (November 2017) to the contractor (M/s MD Construction) for construction of business incubation centre at Bakasapura against the 'current liabilities' relating to various projects. The Company should have shown both the items separately under 'current assets' and 'current liabilities'. This has correspondingly resulted in understatement of 'current liabilities' to the same extent. The Company received (March 2015) first instalment of ₹ 9.30 crore towards grant under ASIDE Scheme for creation of infrastructure for four projects and kept the same unutilised till March 2018. The Company received (March 2015) first instalment of ₹ 9.30 crore towards grant under ASIDE Scheme for creation of infrastructure for four projects and kept the same unutilised till March 2018. As per the sanction order, the Scheme fund was to be utilised till March 2016 and in case the fund is not utilised within the prescribed time, interest at the rate of 10 per cent per annum was chargeable on unspent scheme fund. Contrary to the Scheme conditions, the Company have not provided for the interest liability and have neither disclosed the reason for non-provisioning for the same.
6	Meghalaya Transport Corporation (Year of Accounts: 2015-16)	<ul style="list-style-type: none"> House Rent Receivable of ₹ 0.25 crore was understated due to non-accounting of Penal interest receivable from one tenant (Hotel ELGIN) for default in payment of rent dues (₹ 0.81 crore) as on 31st March 2016. This resulted in understatement of 'Non-operating revenue' and overstatement of 'Loss for the year' by ₹ 0.25 crore each. Sundry Debtors amount aggregating to ₹ 7.68 crore, for which the Corporation could not produce supporting documents. The Corporation also did not make any correspondence during the year to confirm the existence of these balances. Hence, the authenticity of these figures could not be verified in audit.
7	Meghalaya Bamboo Chips Limited (Year of Accounts: 2018-19)	<ul style="list-style-type: none"> The Auditor's Report stated that the Company has a regular programme of physical verification of its fixed assets. Also in their report, it was stated that the title deeds of immovable properties are held in the name of the company. However, scrutiny of available records revealed that there was no such regular programme of physical verification of fixed assets. Also the landed property was not held by the Company.

Non Compliance with provisions of Accounting Standards (AS) /Indian AS

In exercise of the powers conferred by Section 469 of the Companies Act, 2013, read with Section 129 (1), Section 132 and Section 133 of the said Act, the Central Government prescribed Accounting Standards prescribed Accounting Standards 1 to 7 and 9 to 29. Besides these, the Central Government notified 41 Indian Accounting Standards (Ind AS) through Companies (Indian Accounting Standards) Rules, 2015 and Companies (Indian Accounting Standards) (Amendment) Rules, 2016.

During the course of supplementary audit, the CAG observed that the following companies had not complied with the Accounting Standards/Ind AS as detailed below:

Table 5.16: Companies who had not complied with the Accounting Standards/Ind AS

Accounting Standard/Ind AS		Name of the Company	Year	Deviation
AS 6	Accounting of Government Grants	Meghalaya Mineral Development Corporation Limited	2018-19	Grants receivable amounting to ₹ 34.61 lakh should have been recognized in the accounts as per AS 6 and 'Principle of Conservatism'.
AS 10	Accounting for Property, Plant & Equipment	Meghalaya Mineral Development Corporation Limited	2018-19	The Company should have disclosed 'useful lives' and 'depreciation rates used' for each class of 'Property, Plant & Equipment'.
Ind AS 119	Accounting for Property, Plant & Equipment	Meghalaya Power Transmission Corporation Limited	2017-18	The Company should have included ₹1.27 crore being the software communication system which should have been segregated from the hardware components. This has resulted in overstatement of Office Equipment (Hardware Component) and understatement of Intangible Assets (Software Component) by ₹ 1.27 crore each.

5.22 Management Letters

One of the objectives of financial audit is to establish communication on audit matters arising from the audit of financial statements between the auditor and those charged with the responsibility of governance of the corporate entity.

The material observations on the financial statements of SPSEs were reported as comments by the CAG under Section 143 (6)(b) of the Companies Act, 2013. Besides these comments on accounts, irregularities or deficiencies observed by CAG in the financial reports or in the reporting process, are also communicated to the management through a 'Management Letter' for taking corrective action. These deficiencies generally related to -

- application and interpretation of accounting policies and practices,
- adjustments arising out of audit that could have a significant effect on the financial statements and
- inadequate or non-disclosure of certain information on which management of the concerned PSE gave assurances that corrective action would be taken in the subsequent year.

As per latest finalised accounts as on 30 September of respective years, 'Management Letters' were issued to five SPSEs as shown in **Table 5.17**.

Table 5.17: List of the SPSEs where Management Letters were issued

Sl. No.	Name of the SPSEs (Year of accounts finalised)
1	Meghalaya Tourism Development Corporation Limited (2017-18)
2	Meghalaya Tourism Development Corporation Limited (2018-19)
3	Meghalaya Industrial Development Corporation Limited (2017-18)
4	Meghalaya Bamboo Chips Limited (2017-18)
5	Meghalaya Bamboo Chips Limited (2018-19)

5.23 Conclusions

As on 31 March 2020, the State of Meghalaya had 18 SPSEs, which included 16 Government companies (15 working and one non-working) and two Statutory Corporations (all working). As on 31 March 2020, there was a difference of ₹ 592.47 crore in the investment figures of the State Government (Equity: ₹ 132.79 crore; Long-term Loans: ₹ 459.68 crore) as per State Finance Accounts vis-à-vis records of SPSEs.

During 2019-20 the State Government has provided budgetary support of ₹ 263.53 crore to SPSEs in the form of Equity (₹ 135.53 crore), Loans (₹ 2.70 crore) and Grants/subsidy (₹ 125.30 crore). The major recipients of budgetary assistance during 2019-20 were four power sector companies, which received budgetary allocation of ₹ 231.97 crore (87.99 per cent) in the form of Equity (₹ 118.18 crore), Loans (₹ 2.70 crore) and Grants/subsidies (₹ 111.09 crore).

The overall losses of power sector SPSEs in last four years have increased by more than two folds from ₹ 234.92 crore (2016-17) to ₹ 478.54 crore (2019-20). Further, the net worth of one SPSE (Meghalaya Power Distribution Company Limited) was negative at (-) ₹ 934.25 crore due to complete erosion of its equity capital by the accumulated losses. Net worth of this SPSE had been negative for last four years since 2016-17 to 2019-20 as per its latest finalised accounts.

The losses of the power sector SPSEs are a drain on the State's economy and resources. Despite the consistent State budgetary support provided by the State Government, aggregating ₹ 430.04 crore to four power sector SPSEs during 2017-18 (₹ 137.26 crore), 2018-19 (₹ 60.81 crore) and 2019-20 (₹ 231.97 crore) by way of equity (₹ 164.98 crore), loans (₹ 35.77 crore) and grants/subsidy (₹ 229.29 crore), their performance has not improved.

During 2019-20, out of 16 working SPSEs (excluding one SPSE which has not finalised its first accounts), three SPSEs earned profits (₹ 2.83 crore) as per their latest finalised accounts. Further, the accumulated losses (₹ 2,159.69 crore) of seven working SPSEs had completely eroded their paid-up capital (₹ 1,147.33 crore).

As on 30 September 2020, all 17 working SPSEs had a total arrear of 29 Accounts ranging from one to four Accounts. The highest number of accounts pending finalisation (four Accounts each) pertained to Meghalaya Transport Corporation and Forest Development Corporation of Meghalaya Limited.

5.24 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 seven out of 17 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 losses of the Power Sector Companies, need to be critically reviewed to increase their revenues and decrease their losses.*
- *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.*



Shillong
The: 31 August 2021

(Shefali Srivastava Andaleeb)
Accountant General (Audit), Meghalaya

Countersigned



New Delhi
The: 07 September 2021

(Girish Chandra Murmu)
Comptroller and Auditor General of India

