

## Introduction

### Functioning of State Public Sector Undertakings

#### General

1. State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. State PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and occupy an important place in the State economy. As on 31 March 2018, there were 74 PSUs in Madhya Pradesh, including three<sup>1</sup> Statutory Corporations (including one non-functional Statutory Corporation<sup>2</sup>) and 71 Government Companies (including 16 non-functional Government Companies) under the audit jurisdiction of the Comptroller & Auditor General of India. None of these Government Companies were listed on the stock exchange. During the year two<sup>3</sup> PSUs were amalgamated with their holding Company.<sup>4</sup>

2. The financial performance of the PSUs on the basis of latest finalised accounts as on 31 December 2018 is covered in this report. The nature of PSUs and the position of accounts are indicated in table below:

**Table 1: Nature of PSUs covered in the Report**

| Nature of PSUs   | Total Number | Number of PSUs of which accounts received during the reporting period |                       |                       |           | Number of PSUs of which accounts are in arrear (total accounts in arrear) three or more years |
|--|--------------|---|-----------------------|-----------------------|-----------|---|
|  |              | Accounts upto 2017-18 <sup>5</sup>                                    | Accounts upto 2016-17 | Accounts upto 2015-16 | Total     |   |
| <b>Government Companies/ Statutory Corporations covered in this Report</b>     |              |   |                       |                       |           |   |
| Working Government Companies <sup>6</sup>                                      | 43           | 21  | 17                    | 05                    | 43        | 00  |
| Statutory Corporations   | 02           | 02  | 00                    | 00                    | 02        | 00  |
| <b>Total (Covered in this Report)</b>  | <b>45</b>    | <b>23</b>   | <b>17</b>             | <b>05</b>             | <b>45</b> | <b>00</b>   |
| <b>Government Companies/ Statutory Corporations not covered in this Report</b> |              |   |                       |                       |           |   |
| Working Government Companies <sup>7</sup>                                      | 12           | 04  | 02                    | 01                    | 07        | 05 (28)   |
| Non-functional Government Companies <sup>8</sup>                               | 16           | 08  | 01                    | 00                    | 09        | 07(116)   |
| Non-functional Statutory Corporations <sup>9</sup>                             | 01           | 00  | 00                    | 00                    | 00        | 01 (10)   |
| <b>Total (Not covered in this Report)</b>                                      | <b>29</b>    | <b>12</b>   | <b>03</b>             | <b>01</b>             | <b>16</b> | <b>13(154)</b>  |
| <b>Total</b>   | <b>74</b>    | <b>35</b>   | <b>20</b>             | <b>06</b>             | <b>61</b> | <b>13(154)</b>  |

<sup>1</sup> Madhya Pradesh State Road Transport Corporation, Madhya Pradesh State Warehousing and Logistics Corporation and Madhya Pradesh Financial Corporation.

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

<sup>3</sup> SEZ Limited and Crystal IT Park Limited.

<sup>4</sup> MPAKVN (Indore) Ltd.

<sup>5</sup> From January 2018 to December 2018.

<sup>6</sup> Government PSUs include Government controlled other Companies referred to in Section 139(5) and 139(7) of the Companies Act 2013.

<sup>7</sup> Companies at Sr. No. 1 to 9 of *Annexure 3.2* and E9 to E11 of *Annexure 1.1*.

<sup>8</sup> Companies at Sr. No. 10 to 20, and 22 to 25 of *Annexure 3.2* and E8 of *Annexure 1.1*.

<sup>9</sup> Corporation at Sr. No. 21 of *Annexure 3.2*.

This Report does not include 29 PSUs whose accounts are in arrears for three years or more or were defunct/ under liquidation or first accounts were not received or were not due or have not commenced operations till 2017-18 as detailed in **Annexure-1.1 and 3.2**. The PSUs covered in this report registered an annual turnover of ₹ 81,694.55 crore as per their latest finalised accounts as on 31 December 2018. This turnover was equal to 11.55 *per cent* of Gross State Domestic Product (GSDP) for the year 2017-18 (₹ 7,07,046.99 crore). The PSUs covered in this Report suffered a loss of ₹ 3,961.81 crore as per their latest finalised accounts. As on March 2018, the State PSUs covered in this report had employed around sixty thousand employees.

There are 29 PSUs (including one Statutory Corporation) which are not covered in this report having an investment of ₹ 1,381.80 crore towards capital (₹ 448.12 crore) and long term loans (₹ 933.68 crore). This is a critical area as the investments in these PSUs do not contribute to the economic growth of the State.

### Accountability framework

3. The procedure for audit of Government Companies are laid down in Sections 139 and 143 of the Companies Act, 2013 (Act 2013). According to Section 2(45) of the Act 2013, a Government Company means any company in which not less than fifty one *per cent* of the paid-up share capital is held 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, and includes a company which is a subsidiary company of such a Government Company. Besides, any other company<sup>10</sup> 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.

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. Section 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 one hundred and eighty days from the commencement of the financial year. Section 139(7) of the Companies Acts, 2013 provides that in case of a Government Company or Government Controlled Other Company, the first auditors are to be appointed by the CAG within sixty days from the date of registration of the company and in case CAG does not appoint such auditor within the said period, the Board of Directors of the Company or the members of the Company have to appoint such auditor.

Further, as per sub-Section 7 of Section 143 of the Act 2013, the Comptroller and Auditor General of India (CAG) may, in case of any company covered under sub-Section (5) or sub-Section (7) of Section 139, if considered

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<sup>10</sup> Ministry of Corporate Affairs- (Removal of Difficulties) Seventh Order 2014 dated 4 September 2014.

necessary, by an order, cause test audit to be conducted of the accounts of such Company and the provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test audit. Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

### ***Statutory Audit***

**4.** The financial statements of the Government Companies (as defined in Section 2(45) of the Act 2013) are audited by Statutory Auditors, who are appointed by the CAG as per the provisions of Section 139(5) or (7) of the Act 2013. The Statutory Auditors submit a copy of the Audit Report to the CAG including, financial statements of the Company under Section 143(5) of the Act 2013. These financial statements are also subject to supplementary audit by the CAG within sixty days from the date of receipt of the audit report under the provisions of Section 143(6) of the Act 2013.

Audit of Statutory Corporations is governed by their respective legislations. Out of three Statutory Corporations, the CAG is sole auditor for Madhya Pradesh State Road Transport Corporation. In respect of Madhya Pradesh Warehousing and Logistics Corporation and Madhya Pradesh Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit is conducted by the CAG.

### **Submission of accounts by PSUs**

#### ***5. Need for timely finalization and submission***

According to Sections 394 and 395 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 Houses or both the Houses of 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 respective Acts regulating Statutory Corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the companies from the Consolidated Fund of the State.

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 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.

### **Role of Government and Legislature**

6. The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the State Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of State Government Companies and Separate Audit Reports in case of Statutory Corporations are to be placed before the State Legislature under Section 394 of the Act 2013 or as stipulated in the respective Acts. The Audit Reports of the CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

### **Investment by Government of Madhya Pradesh in State Public Sector Undertakings (PSUs)**

7. The Government of Madhya Pradesh (GoMP) has high financial stakes in the PSUs. This is of mainly three types:

- **Share capital and loans** – In addition to the share capital contribution, GoMP also provides financial assistance by way of loans to the PSUs from time to time.
- **Special financial support** – GoMP provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees** – GoMP also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

8. The sector-wise summary of investment in the PSUs as on 31 March 2018 is given below:

**Table 2: Sector-wise investment in PSUs**

| Name of sector   | Government Companies |                            | Statutory Corporations |                            | Total     | Investment (₹ in crore) |                  |                  |
|------------------|----------------------|----------------------------|------------------------|----------------------------|-----------|-------------------------|------------------|------------------|
|                  | Working              | Not covered in this report | Working                | Not covered in this report |           | Equity                  | Long term loans  | Total            |
| Power            | 07                   | 04                         | -                      | -                          | 11        | 25,482.46               | 44,345.07        | 69,827.53        |
| Other than power | 36                   | 24                         | 02                     | 01                         | 63        | 2,247.20                | 4,472.41         | 6,719.61         |
| <b>Total</b>     | <b>43</b>            | <b>28</b>                  | <b>02</b>              | <b>01</b>                  | <b>74</b> | <b>27,729.66</b>        | <b>48,817.48</b> | <b>76,547.14</b> |

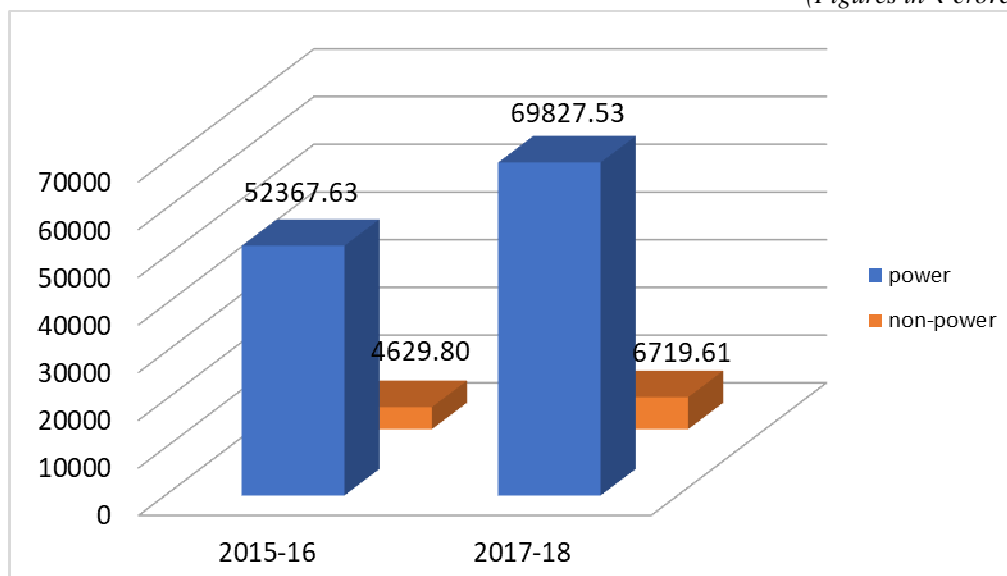
*Source: Compiled based on annual accounts of PSUs and sanction/ release orders for equity and loans.*

The thrust of PSU investment was mainly in power sector during the last three years. The power sector received investments of ₹ 17,459.90 crore (89.31 per cent) out of total investment of ₹ 19,549.71 crore made during the period from 2015-16 to 2017-18.

9. The investment in power and other than power sector at the end of 31 March 2016 and 31 March 2018 is indicated in the chart below:

**Chart 1: Sector-wise investment in PSUs**

(Figures in ₹ crore)



Keeping in view the huge investment in Power Sector, we are presenting the results of audit of seven Power Sector PSUs in Part I<sup>11</sup> of this report and of the 38 PSUs (other than power sector) in the Part II<sup>12</sup> of the report.

<sup>11</sup> The Part I includes Chapter-1 (Functioning of Power Sector Undertakings) and Chapter-2 (Compliance Audit Observations relating to Power Sector Undertakings).

<sup>12</sup> The Part II includes Chapter-3 (Functioning of PSUs other than Power Sector), Chapter-4 (Performance Audit relating to PSUs other than Power Sector) and Chapter-5 (Compliance Audit Observation relating to other than Power Sector Undertakings).

