

**CHAPTER V**  
**UNION TERRITORY**  
**PUBLIC SECTOR**  
**UNDERTAKINGS**



## CHAPTER V - UNION TERRITORY PUBLIC SECTOR UNDERTAKINGS

This chapter discusses the financial performance of Government Companies as revealed from their accounts. The term Union Territory Public Sector Undertakings (PSUs) encompasses those Government companies in which the direct holding of the Union Territory (UT) Government of Puducherry is 51 *per cent* or more and includes subsidiary of such Government companies.

### 5.1 Definition of Government Companies

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<sup>1</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.

### 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 thereunder. Under the Companies Act, 2013, the CAG appoints the Chartered Accountants as Statutory Auditors for companies under Section 139 (5) and (7) of the Companies Act (Act), 2013 and gives directions on the manner in which the accounts are to be audited. In addition, CAG has the right to conduct supplementary audit and issue comments upon or supplement the Audit Report of the Statutory Auditor. The statutes governing some Statutory Corporations require their accounts to be audited only by CAG.

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<sup>1</sup> Companies (Removal of Difficulties) Seventh Order, 2014 issued by Ministry of Corporate Affairs vide Gazette Notification dated 04 September 2014.

### 5.3 Coverage and nature of PSUs

As on 31 March 2020, there were 13<sup>2</sup> PSUs (including one non-functional PSU<sup>3</sup>) under the audit jurisdiction of the CAG as indicated in **Table 5.1**.

**Table 5.1: Coverage and nature of PSUs covered in this report**

Nature of the PSUs	Total number of PSUs	Number of UTPSUs covered in the Report				
		Accounts up to			2016-17 <sup>4</sup> and Total prior	Total
		2019-20	2018-19	2017-18		
Working Government Companies	12	Nil	2	3	7	12
Total Companies	12	Nil	2	3	7	12
Non-Functional Government Companies	1 <sup>#</sup>	--	--	--		--
<b>Total</b>	<b>13<sup>5</sup></b>	<b>Nil</b>	<b>2</b>	<b>3</b>	<b>7</b>	<b>12</b>

# Pondicherry Electronics Limited is in the process of winding up since 2013-14 and its accounts are not anticipated

There is no Statutory Corporation in the UT of Puducherry. The details of Government Companies under the purview of CAG's audit during 2019-20 are given in **Appendix 5.1**. None of these Government Companies are listed on the Stock Exchange.

### 5.4 Contribution of the PSUs to the GSDP of the UT

A ratio of turnover of the PSUs to the Gross State Domestic Product (GSDP) shows the extent of activities of the PSUs in its economy. The details of turnover of PSUs and the GSDP for a period of three years ending 31 March 2020 are given in **Table 5.2**.

**Table 5.2: Details of turnover of PSUs vis-à-vis GSDP of UT of Puducherry**

(₹ in crore)

Particulars	2017-18	2018-19	2019-20
Turnover	387.18	376.43	414.89
GSDP of Puducherry	32,129	34,433	38,253
Percentage of Turnover to GSDP of Puducherry	1.21	1.09	1.08

<sup>2</sup> There are no Statutory Corporation/Government controlled other companies in the UT of Puducherry.

<sup>3</sup> Non-functional PSUs are those which have not been carrying on any business or operation and defined as 'inactive company' under Section 455 of the Companies Act, 2013 as "non-functional companies" in this Report.

<sup>4</sup> Accounts for the years 2012-13:1, 2013-14:1, 2014-15:2, 2015-16:1 and 2016-17: 2.

<sup>5</sup> None of the companies are listed in the Stock Exchange.

As per their latest audited accounts available in respective years, the turnover of these PSUs recorded increase of 7.16 *per cent* during 2019-20 as compared to 2017-18. However, the contribution of PSUs in GSDP is marginal.

## 5.5 Investment in UT Government Companies

### 5.5.1 Equity holding and Loans in PSUs

The amount of investment in equity and loans in 12<sup>6</sup> working UT Government companies as at the end of 31 March 2020 was ₹ 728.36 crore (₹ 759.90 crore till 31.03.2019) as shown in **Table 5.3**.

**Table 5.3: Equity investment and loans in Government Companies**

(₹ in crore)

Sl. No.	Sources of investment	As on 31 March 2020			As on 31 March 2019		
		Equity	Long Term Loans	Total	Equity	Long Term Loans	Total
1.	UT Government	712.39	5.70	718.09	706.57	2.86	709.43
2.	Central Government	1.68	0.00	1.68	1.68	40.20	41.88
3.	Financial Institutions and Others	8.59	0.00	8.59	8.59	0.00	8.59
<b>Total</b>		<b>722.66</b>	<b>5.70</b>	<b>728.36</b>	<b>716.84</b>	<b>43.06</b>	<b>759.90</b>
	Percentage of investment of UT Government to Total investment	98.58	100	98.59	98.57	6.64	93.36

(Source: Details received from PSUs)

The total long-term loans outstanding in two PSUs<sup>7</sup> out of 12 Government companies from UT Government as on 31 March 2020 was ₹ 5.70 crore. During 2019-20, the long-term loans of Government Companies registered decrease of ₹ 37.36 crore as the PSUs had repaid the loans.

### 5.5.2 Disinvestment, restructuring or privatisation

During the year 2019-20, there was no case of privatisation of PSUs. The UT Government has not prepared any policy on disinvestment of UT Government equity invested in the PSUs.

<sup>6</sup> The accounts of all the 12 PSUs were in arrears for one to seven years.

<sup>7</sup> Puducherry Adi-draavidar Development Corporation Limited and Puducherry Road Transport Corporation Limited.

## 5.6 Returns from PSUs

### 5.6.1 Profit earned by PSUs

Six PSUs earned profit in 2019-20 as compared to four in 2018-19 as per the latest accounts finalised during the respective years. The profit earned increased to ₹ 28.05 crore in 2019-20 from ₹ 9.35 crore in 2018-19. Two PSUs which incurred losses during the previous year reported profit in 2019-20 viz., Swadeshee Bharathee Textile Mills Limited (SBTML) due to receipt of revenue grant from Government of UT of Puducherry for settlement of its electricity dues of ₹ 21.53 crore and Puducherry Tourism Development Corporation Limited (PTDC) due to increase in its revenue from operations.

The increase in profit to ₹ 28.05 crore (2019-20) from ₹ 9.35 crore (2018-19) increased the Return on Equity (ROE) of the six PSUs from 8.36 per cent in 2019-20 as compared to 4.79 per cent in four PSUs in 2018-19. However, despite the increase in profit, the ROE of all the 12 PSUs (i.e., including six loss making companies) was negative in 2019-20.

### 5.6.2 Dividend pay-out by PSUs

During 2019-20, out of the 12 working PSUs, two PSUs declared dividend. The details of profit earned and dividend declared by Government companies as per the latest finalised accounts is given in the **Table 5.4**.

**Table 5.4: Profit earned and dividend declared**

Category	No. of PSUs	Paid up capital (₹ in crore)	Net profit (₹ in crore)	Dividend declared (₹ in crore)
PSUs	2 <sup>8</sup>	108.23	3.58	1.16
<b>Total</b>	<b>2</b>	<b>108.23</b>	<b>3.58</b>	<b>1.16</b>

(Source: As per the latest finalised accounts during the respective years)

The dividend declared by two PSUs was ₹ 1.16 crore as against dividend of ₹ 1.21 crore declared by one PSU<sup>9</sup> during the previous year. The dividend declared as a percentage of net profit of these two profit earning PSUs was 32.40.

The UT Government had not formulated any policy for payment of minimum dividend on the share capital contributed by it. The return in the form of dividend on aggregate investment of ₹ 712.39 crore made by the UT Government in equity capital of 12 PSUs was a meagre 0.16 per cent.

<sup>8</sup> Puducherry Power Corporation Limited and Puducherry Distilleries Limited.

<sup>9</sup> Puducherry Power Corporation Limited.

## 5.7 Debt Servicing

### 5.7.1 Interest Coverage

Interest coverage ratio (ICR) is used to determine the ability of a company to pay interest on outstanding debt and is calculated by dividing a company's earnings before interest and taxes (EBIT) by interest expenses of the same period. The lower the ratio, the lesser is the ability of the company to pay interest on debt. An ICR below one indicated that the company was not generating sufficient revenues to meet its expenses on interest. The details of positive and negative interest coverage ratio of PSUs, which had outstanding loans during the period from 2017-18 to 2019-20 are given in **Table 5.5**.

**Table 5.5: Interest Coverage Ratio**

Year	Interest (₹ in crore)	Earnings before interest and tax (EBIT) (₹ in crore)	No. of PSUs	No. of PSUs having ICR > 1	No. of PSUs having ICR < 1
2017-18	19.82	(-) 23.77	7	2	5
2018-19	20.13	(-) 36.29	7	2	5
2019-20	19.46	0.01	8	4	4

(Source : As per the latest finalised accounts during the respective years)

Of the eight PSUs with interest liability, four PSUs were having interest coverage ratio less than one indicating that they were not generating sufficient revenues to meet their expenses on interest.

## 5.8 Operating efficiency of Government Companies

### 5.8.1 Return on Capital Employed (ROCE)

ROCE is a ratio that measures a company's profitability and the efficiency with which its capital is employed. ROCE is calculated by dividing a company's earnings before interest and taxes (EBIT) by the capital employed<sup>10</sup>. The PSU- wise details of ROCE are given in **Appendix 5.2**. The consolidated ROCE of 12 working Government Companies during the period from 2017-18 to 2019-20 is given in **Table 5.6**.

**Table 5.6: Return on Capital Employed**

Year	EBIT (₹ in crore)	Capital employed (₹ in crore)	ROCE (in percentage)
2017-18	(-) 13.26	55.59	--
2018-19	(-) 34.42	62.72	--
2019-20	(-) 3.03	62.11	--

(Source: As per the latest finalised accounts during the respective years)

<sup>10</sup> Capital Employed = Paid up Share capital + Free Reserves and surplus + Long term loans – Accumulated losses – Deferred Revenue Expenditure.

The EBIT of the 12 PSUs was negative during the three-year period ended 2019-20 and consequently, the ROCE of all these companies remained negative during the same period.

ROCE in respect of Monopoly<sup>11</sup> and Non-monopoly PSUs are given in **Table 5.7**.

**Table 5.7: ROCE of Monopoly vs. Non-monopoly PSUs**

Year	Monopoly				Non-monopoly			
	No. of PSUs	EBIT	Capital employed	ROCE (in %)	No. of PSUs	EBIT	Capital employed	ROCE (in %)
		(₹ in crore)				(₹ in crore)		
2017-18	6	15.63	194.15	8.05	6	(-) 28.89	(-) 138.56	--
2018-19	6	(-) 1.77	208.49	--	6	(-) 32.65	(-) 145.77	--
2019-20	6	(-) 9.62	213.62	--	6	6.59	(-) 151.51	--

(Source: As per the latest finalised accounts during the respective years)

The ROCE of the six monopoly sector companies was 8.05 in 2017-18 whereas, during 2018-19 and 2019-20 the return was negative though the capital employed was positive in all the three years and was also on the increasing trend. The ROCE and Capital Employed of all the six non monopoly sector companies was negative in all the three years.

### 5.8.2 Return on Equity (ROE) of PSUs

ROE<sup>12</sup> is a measure of financial performance of companies calculated by dividing net income by shareholders' equity. The PSU-wise details of ROE are given in **Appendix 5.3**. The consolidated ROE of 12 Government companies during the period from 2017-18 to 2019-20 is given in **Table 5.8**.

**Table 5.8: Return on Equity**

Year	Net Profit after Tax (₹ in crore)	Shareholders Equity (₹ in crore)	ROE (in percentage)
2017-18	(-) 39.05	39.00	--
2018-19	(-) 57.76	19.66	--
2019-20	(-) 24.32	19.34	--

(Source: As per the latest finalised accounts during the respective years)

It was observed from **Table 5.8** that during all the last three years ending 2019-20, net income was negative and therefore, the ROE also remained negative.

<sup>11</sup> A PSU is classified as monopoly if there is no competition in the geographical area in which it operates, whereas non-monopoly refers to PSUs in competitive sector.

<sup>12</sup> Return on Equity = (Net Profit after Tax and preference Dividend/Equity) \*100 where Equity = Paid up capital + Free Reserves – Accumulated loss – Deferred Revenue Expenditure.



ROE in respect of Monopoly and Non-monopoly PSUs are given in **Table 5.9**.

**Table 5.9: ROE of Monopoly Vs. Non-monopoly PSUs**

Year	Monopoly				Non-monopoly			
	No. of PSUs	Equity	Net Profit after Tax	ROE (in percentage)	No. of PSUs	Equity	Net Profit after Tax	ROE (in percentage)
		₹ in crore)				₹ in crore)		
2017-18	6	180.28	8.21	4.55	6	(-) 141.28	(-) 47.26	—
2018-19	6	168.15	(-) 6.69	--	6	(-) 148.49	(-) 51.07	—
2019-20	6	173.65	(-) 13.32	--	6	(-) 154.31	(-) 11.00	—

(Source: As per the latest finalised accounts during the respective years)

It could be seen that the equity of monopoly PSUs was positive in all the three years whereas, the ROE was 4.55 *per cent* in 2017-18 and thereafter, it became negative during 2018-19 and 2019-20. The Equity of non-monopoly PSUs as well as ROE remained negative during all the three years ended 2019-20.

### 5.8.3 Rate of Real Return on Government Investment (RORR)

RORR measures the profitability and efficiency with which equity and similar non-interest bearing capitals have been employed, after adjusting them for their time value, and assumes significance when compared with the conventional Rate of Return (ROR), which is calculated by dividing the Net Profit after Tax by the sum of all such investments counted on historical cost basis.

The UT Government has direct investment in all the 12 PSUs. Audit examined the RORR in respect of these 12 PSUs.

The RORR of the UT Government investment in these PSUs was computed on the basis of following assumptions:

- The actual infusion by the UT Government in the PSUs in the form of equity and interest free loans have only been reckoned as investments whereas, the funds made available in the form of grants/subsidy given by the UT Government to the PSUs have not been reckoned as investment since they do not qualify to be considered as investment infusion by the UT Government.
- In the cases where interest free loans given to the PSUs were later converted into equity, the amount of loan converted into equity has been deducted from the amount of interest free loans and added to the equity of that year.

- The dividend actually paid during the year by the PSUs has been deducted from the total investment in the respective years.
- The average rate of interest on Government borrowings for the relevant financial year<sup>13</sup> was adopted as compounded rate for arriving at Present Value (PV) since they represent the cost incurred by the Government towards investment of funds for the year and therefore considered as the minimum expected rate of return on investments made by the Government.
- For the purpose of RORR calculation of UT Government investment, the period beginning 2009-10 till 2019-20 has been taken considering the investment of UT Government in these 12 PSUs as on 31 March 2010 as PV of UT Government investment in the beginning of 2009-10.

**Table 5.10: Year-wise details of investment by the UT Government and RORR of Government Funds from 2009-10 to 2019-20**

(₹ in crore)

Financial year	Present value of total investment at the beginning of the year	Equity infused by the UT Government during the year	Interest free loan given by the UT Government during the year	Interest free loan converted as grant during the year	Dividend paid by the PSU	Total investment at the end of the year after adjusting dividend	Average rate of interest on Government borrowings (in per cent)	Present value of total investment at the end of the year	Minimum expected return to recover cost of funds for the year	Total earnings for the year	RORR (in percentage)
1	2	3	4	5	6	(7)=(2+3+4-5-6)	8	(9)=(7+(7x8)/100)	(10)=(9x8/100)	11	12
Upto 2009-10	--	244.30	--	--	6.46	237.84	8.00	256.87	20.55	--	--
2010-11	256.87	21.24	--	--	5.47	272.64	7.81	293.93	22.96	(-) 58.80	(-) 20.00
2011-12	293.93	6.61	--	--	0.93	299.61	7.80	322.98	25.19	(-) 55.81	(-) 17.28
2012-13	322.98	0.25	--	--	3.62	319.61	8.00	345.18	27.61	(-) 31.68	(-) 9.18
2013-14	345.18	3.83	--	--	4.24	344.77	7.70	371.32	28.59	(-) 32.17	(-) 8.66
2014-15	371.32	7.96	--	--	4.52	374.76	7.90	404.36	31.94	(-) 32.50	(-) 8.04
2015-16	404.36	0.31	--	--	0.00	404.67	7.50	435.02	32.63	(-) 70.62	(-) 16.23
2016-17	435.02	--	--	--	1.39	433.63	7.20	464.85	33.47	(-) 24.79	(-) 5.33
2017-18	464.85	--	--	--	3.81	461.04	8.02	498.02	39.94	(-) 39.05	(-) 7.84
2018-19	498.02	--	--	--	1.21	496.81	7.88	535.96	42.23	(-) 57.76	(-) 10.78
2019-20	535.96	--	--	--	2.61	533.35	7.42	572.92	42.51	(-) 24.32	(-) 4.25
<b>Total</b>		<b>284.50</b>	<b>--</b>	<b>--</b>	<b>34.26</b>	<b>4,178.72</b>					

(Source: Details as per latest accounts finalised during the respective years)

<sup>13</sup> The average rate of interest on Government borrowings was adopted from the Reports of the CAG of India on Union Territory Finances for the concerned year wherein the calculation for the average rate for interest paid = Interest Payment/ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2] \*100.

As the total earnings<sup>14</sup> of all the PSUs in aggregate was negative over the years, RORR was also negative in all the years.

**Table 5.11: Consolidated RORR on UT Government investment for the year 2019-20**

Total Earnings/Loss in 2019-20 (₹ in crore)	Investment by the UT Government since inception till 2019-20 (₹ in crore)	Return on UT Government investment on the basis of historical value (in percentage)	Present value of UT Government investment at the end of 2019-20 (₹ in crore)	RORR on UT Government investment considering the present value of investments (in percentage)
A	B	C	D	E
Value of column 11 of above table	Value of the column (3-6) of above table	A*100/B	Value of column 9 of above table	A*100/D
(-) 24.32	250.24	(-) 9.72	572.92	(-) 4.25

It could be seen from **Table 5.11** that since the PSUs incurred overall loss during 2019-20, the RORR calculated on historical value was negative at 9.72 per cent as compared to present value which was also negative and worked out to 4.25.

## 5.9 PSUs incurring losses

### 5.9.1 Loss incurred by Government Companies

There were six Government Companies that incurred losses during the year 2019-20. The losses incurred by these PSUs decreased to ₹ 52.37 crore in 2019-20 from ₹ 67.11 crore during 2018-19 (eight PSUs) as given in **Table 5.12**.

**Table 5.12: Number of PSUs that incurred losses during 2019-20**

Year	No of PSUs incurred loss	Net loss for the year (₹ in crore)	Accumulated loss (₹ in crore)	Net worth <sup>15</sup> (₹ in crore)
2017-18	7	54.49	743.91	(-) 158.47
2018-19	8	67.11	764.61	(-) 175.36
2019-20	6	52.37	720.17	(-) 274.43

(Source: As per the latest finalised accounts during the respective years)

The reasons for the decrease in loss were mainly due to two PSUs which incurred losses during 2018-19 reported profit during 2019-20 as stated in Paragraph 5.6.1. Heavy losses were incurred by Pondicherry Textile

<sup>14</sup> This includes Net Profit (+)/Loss (-) of all the PSUs including subsidiaries.

<sup>15</sup> Net worth means the sum total of the paid-up share capital and free reserves and surplus less accumulated loss and deferred revenue expenditure. Free reserves mean all reserves created out of profits and share premium account but do not include reserves created out of revaluation of assets and write back of depreciation provision.

Corporation Limited amounting to ₹ 27.31 crore due to heavy expenditure incurred towards employee cost and finance costs.

Thus, out of the total 12 working PSUs, six PSUs earned profit of ₹ 28.05 crore and six PSUs incurred losses of ₹ 52.37 crore aggregating to overall loss of ₹ 24.32 crore during 2019-20.

### **5.9.2 Erosion of capital in Government Companies**

As on 31 March 2020, there were eight Government companies with accumulated losses of ₹ 801.88 crore. Of these eight PSUs, six PSUs incurred losses in the year 2019-20 amounting to ₹ 52.37 crore, two<sup>16</sup> PSUs had not incurred loss in the year 2019-20, even though they had accumulated loss of ₹ 81.71 crore.

Net worth of seven out of eight PSUs had been completely eroded by accumulated loss and their net worth was negative. The net worth of these seven PSUs was ₹ 305.59 crore against equity investment of ₹ 482.13 crore by UT Government in these PSUs as on 31 March 2020. Out of seven PSUs, whose capital had been eroded (negative net worth), two PSUs had earned profit of ₹ 23.24 crore during 2019-20 (**Appendix 5.4**).

In respect of one PSU<sup>17</sup> whose capital had been eroded, Government loans outstanding as on 31 March 2020 amounted to ₹ 2.72 crore.

Net worth was less than half of the paid up capital in respect of one out of five PSUs whose net worth was positive at the end of 31 March 2020, indicating its potential financial sickness.

Five PSUs had positive net worth of ₹ 324.93 crore. In the overall, net worth of all the 12 working Government companies was ₹ 19.34 crore against their paid up capital of ₹ 722.35 crore as per the latest finalised accounts.

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

### **5.10.1 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 Legislature together with a copy of the Audit

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<sup>16</sup> Swadeshee Bharathee Textile Mills Limited (SBTML) and Puducherry Tourism Development Corporation Limited (PTDC).

<sup>17</sup> Puducherry Road Transport Corporation Limited (PRTC).

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 Consolidated Fund of Union Territory.

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 the above, annual accounts of various PSUs were pending as detailed in the following paragraph.

### 5.10.2 Timeliness in preparation of accounts by Government Companies

As of 31 March 2020, there were 12 Government Companies and one Subsidiary Company under the purview of CAG's audit. Accounts of all the 12 Government Companies were in arrears for various reasons (**Appendix 5.5**). During the year, seven companies submitted their 15 arrear accounts for audit by CAG. Details of arrears in submission of accounts of Government Companies are given in **Table 5.13**.

**Table 5.13: Details of arrears in submission of accounts of Government Companies**

Particulars		Government Companies		
		Government Companies	Non Functional Company <sup>#</sup>	Total
Total number of Companies under the Purview of CAG's audit as on 31.03.2020		12	1	13
Number of companies from which accounts for 2019-20 were due		12	--	12
Number of companies which presented the accounts for 2019-20 for CAG's audit		--	--	--
Number of accounts in arrears <sup>18</sup>		12	--	12
Break-up of Arrears	(i) Under Liquidation			
	(ii) Defunct			
	(iii) First Accounts not submitted			
	(iv) Others	12	--	12

<sup>18</sup> as on 31 March 2021.

Particulars		Government Companies		
		Government Companies	Non Functional Company <sup>#</sup>	Total
Age-wise analysis of arrears	One year (2019-20)	2	0	2
	Two years (2019-20 and 2018-19)	3	0	3
	Three years and more	7	0	7

# Refers to PELECON which is in the process of winding up and its assets and liabilities have been assumed by its holding company PIPDIC and hence, its accounts have not been considered due.

## 5.11 CAG's oversight - Audit of accounts and supplementary audit

### 5.11.1 Financial reporting frame work

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.

### 5.11.2 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 PSUs 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
- supplement or comment upon the statutory auditor's report under Section 143 (6) of the Companies Act, 2013.

### 5.11.3 Supplementary Audit of accounts of Government Companies

The prime responsibility for preparation of financial statements in accordance with the financial reporting frame work prescribed under the Companies Act, 2013 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.

## **5.12 Result of CAG's oversight role**

None of the 12 Government Companies submitted its financial statements for the year 2019-20. As these companies are in arrears in submission of their financial statements, they failed to comply with the provisions of Section 96 and Section 129 of the Companies Act, 2013 with respect to the provisions relating to holding the AGM. However, these companies submitted their 15 arrear accounts during the year 2020-21. Of these, five accounts<sup>19</sup> were reviewed in audit by the CAG.

The results of the review are detailed below:

### **5.12.1 Revision of Auditor's Report**

As a result of supplementary audit of the financial statements of the five companies selected for review, by the CAG, the statutory auditors of one Government Company *viz.*, Swadeshee Bharathee Textile Mills Limited had revised their report based on the observations of CAG.

### **5.12.2 Non Compliance with provisions of Accounting Standards/ IND 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 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,

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<sup>19</sup> Puducherry Road Transport Corporation Limited, Swadeshee Bharathee Textile Mills Limited, Puducherry Tourism Development Corporation Limited, Puducherry Distilleries Limited and Puducherry Power Corporation Limited.



2016. However, Ind AS is not applicable to any of the PSUs as they do not fall under the criteria stipulated for compliance to Ind AS.

The statutory auditors reported that two companies<sup>20</sup> as detailed in **Appendix 5.6** did not comply with mandatory Accounting Standards.

### 5.13 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 PSUs were reported as comments by the CAG under Section 143 (5) of the Companies Act, 2013. Besides these comments, irregularities or deficiencies observed by CAG in the financial reports or in the reporting process, were also communicated to the management through a 'Management Letter' for taking corrective action.

During the year, CAG issued 'Management Letters' to four PSUs<sup>21</sup> (**Appendix 5.7**).

The deficiencies brought to the notice of the management were mainly related to their failure to take corrective action on the qualifications of statutory auditors.

### 5.14 Conclusion

- As on March 2020, the UT Government of Puducherry had made a total investment (Equity and Long term loans) of ₹ 718.09 crore in 12 PSUs. Out of these PSUs, six PSUs earned a profit of ₹ 28.05 crore and six PSUs incurred a loss of ₹ 52.37 crore, leading to overall loss of ₹ 24.32 crore.
- The Net worth of seven PSUs was negative at ₹ 305.59 crore as its equity had been completely eroded by accumulated losses.
- Accounts of all the 12 Government PSUs were in arrears ranging from one to seven years.

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<sup>20</sup> Puducherry Road Transport Corporation Limited and Swadeshee Bharathee Textile Mills Limited.

<sup>21</sup> Puducherry Road Transport Corporation Limited, Swadeshee Bharathee Textile Mills Limited, Puducherry Tourism Development Corporation Limited and Puducherry Distilleries Limited.



## 5.15 Recommendations

- The UT Government may reconsider continuing with those Government Companies which have been loss making for very long, especially if these companies are not fulfilling any social welfare purpose.
- UT Government may ensure timely submission of Financial Statements of PSUs, as in the absence of finalisation of accounts, Government investments in such PSUs remain outside the oversight of the UT Legislature.

Chennai,  
The 24 July 2021



**(VISHWANATH SINGH JADON)**  
Accountant General (Audit - II),  
Tamil Nadu and Puducherry

Countersigned

New Delhi,  
The 26 July 2021



**(GIRISH CHANDRA MURMU)**  
Comptroller and Auditor General of India

