Chapter I

Functioning of State Public Sector Enterprises

Chapter-I

1. Functioning of State Public Sector Enterprises

1.1. Introduction

1.1.1 Purpose of the Report

This Chapter presents the summary of financial performance of State Public Sector Enterprises (SPSEs) of the Government of West Bengal for the year 2022-23, which comprise Government Companies, Statutory Corporations and Government controlled other Companies of the Government of West Bengal (GoWB) that fall within the audit jurisdiction of the Comptroller and Auditor General of India. These State Public Sector Enterprises were established to carry out activities of commercial nature keeping in view the welfare of people and boost the growth of Gross State Domestic Product (GSDP).

In this Chapter, the term State Public Sector Enterprises (SPSEs) encompasses those Government companies in which the direct holding of GoWB is 51 *per cent* or more, as well as the subsidiaries of such Government companies. The Statutory Corporations set up under Statutes enacted by the Parliament and the West Bengal Legislative Assembly, as well as other companies owned or controlled, directly or indirectly, by GoWB, have also been categorized as SPSEs.

The financial performance of SPSEs depicted in the Report has been taken from their financial statements as well as from the information received from the SPSEs. Impact of revision of accounts as well as significant comments issued as a result of sole audit/ supplementary audit conducted by the Comptroller and Auditor General of India (C&AG) on the financial statements of the SPSEs for the year 2022-23 (or of earlier years which were finalised during the current year) have also been covered in this Report. Moreover, the Report also contains the status of the compliance with provisions of the Companies Act, 2013 on Corporate Governance and Corporate Social Responsibility.

1.1.2 Definition of Government Companies/Corporations

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

1.1.3 Mandate of Audit

Audit of 'Government Companies' and 'Government controlled other Companies' is conducted by the C&AG under the provisions of section 143(5) to 143(7) of the Companies Act, 2013, read with Section 19 of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971, and the regulations made thereunder. Under the Companies Act, 2013, the C&AG appoints chartered accountants as statutory auditors for companies and gives directions on the manner in which the accounts are to be audited. In addition, C&AG conducts supplementary audit of the company's financial statements after the audit of Statutory Auditors. The statutes governing some statutory corporations require their accounts to be audited only by C&AG.

1.1.4 Accountability framework

The process of auditing Government companies is governed by respective provisions of Section 139 and 143 of the Companies Act, 2013 (Act). According to Section 2 (45) of the Act, Government Company means a company in which not less than 51 *per cent* of the paid-up share capital is held by the Central Government, or by any State Government/Governments, or partly by the Central Government and partly by one or more State Governments. This includes a company, which is a subsidiary company of such a Government company.

Further, as per Section 143(7) of the Act, the C&AG may, in case of any company covered under sub-Section (5) or sub-Section (7) of Section 139, if he considers necessary, by an order, cause test audit to be conducted on the accounts of such Company. The provisions of Section 19(A) 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/Governments or partly by Central Government and partly by one or more State Governments, is subject to audit by the C&AG. 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.

1.1.5 Name of SPSEs & their introduction to their activities including contribution of turnover of the SPSEs to the GSDP of the State.

1.1.5.1 Number of SPSEs

As on 31 March 2023, there were 84 SPSEs in West Bengal (***Appendix-1***) including 16 SPSEs under the jurisdiction of Office of the PAG (Audit-I), West Bengal. Of these 19 SPSEs are inactive including one statutory corporation *i.e.,* Great Eastern Hotel Limited. The details of the SPSEs in West Bengal as on 31 March 2023 are depicted in **Table 1.1**.

Table 1.1: Total number of SPSEs as on 31 March 2023

Type of SPSEs	Working SPSEs	Inactive SPSEs	Total
Government Companies	56	18	74
Statutory Corporations	8	1	9
Government controlled other Companies	1	-	1
Total	**65**	**19**	**84**

The SPSEs registered a total turnover/ revenue from operation, of ₹ 66,756.78 crore during the year 2022-23, as per their latest finalised accounts as of 30 September 2023. This turnover was equal to 4.29 *per cent* of

Gross State Domestic Product (GSDP)[1] for 2022-23. Only one SPSE[2] was listed under the Calcutta Stock Exchange Limited.

1.1.5.2 Contribution to the GSDP of the State

As of 31 March 2023, there were 65 working SPSEs with total investment of ₹47,774.40 crore and 19 inactive[3] SPSEs, which were non-operative for the last one to 17 years, with total investment of ₹ 1,487.23 crore. Out of 19 inactive SPSEs, two SPSEs[4] are under the process of liquidation in the National Company Law Tribunal (NCLT). Sector-wise details of turnover and percentage of turnover to GSDP of SPSEs are given in **Table 1.2**.

Table 1.2: Details of Turnover of Working and Inactive SPSEs

Sectors	Government Companies		Statutory Corporations		Total	Turnover of SPSEs (₹ in crore)	Percentage of Turnover to GSDP
	Working	Inactive	Working	Inactive			
(1)	(2)	(3)	(4)	(5)	(6) = (2+3+4+5)	(7)	(8)
Agriculture & Allied	10	01	01	-	12	723.46	0.05
Finance	06	01	03	-	10	624.20	0.04
Infrastructure	11	-	01	-	12	1,332.22	0.09
Manufacturing	09	16	-	-	25	147.56	0.01
Power	06	-	-	-	06	43,042.56	2.77
Service	11	-	03	01	15	20,099.56	1.29
Others	04	-	-	-	04	787.22	0.05
Total	**57**	**18**	**08**	**01**	**84**	**66,756.78**	**4.29**

*(**Source:** Latest finalised accounts of SPSEs.)*

It is evident from **Table 1.2** that the SPSEs in the Power Sector and Service sector had contributed 2.77 and 1.29 *per cent* respectively to GSDP in 2022-23.

A ratio of the turnover of the Government Companies and Corporations to the GSDP shows the extent of their activities in the State Economy. The Compounded Annual Growth Rate (CAGR) is a useful method to measure growth rate over multiple periods. The trend of contribution of SPSEs' turnover to GSDP during 2018-23, is given in **Table 1.3**.

Table 1.3: Contribution of SPSEs' turnover to GSDP

(₹ in crore)

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
SPSEs' Turnover	51,264.41	53,805.82	54,521.69	60,649.56	66,756.78
Percentage change of Turnover over previous year	16.78	4.96	1.33	11.24	10.10
GSDP at current prices	11,02,283	12,07,823	13,01,017	15,36,681	15,54,992
Percentage change of GSDP over previous year	7.98	9.57	7.72	18.11	1.19
Percentage of Turnover to GSDP	4.65	4.45	4.19	3.95	4.29

*(**Source:** Latest finalised accounts of SPSEs.)*

1 *Gross State Domestic Product at current prices - ₹ 15,54,992 crore. (Source: Economic Review, West Bengal: 2022-23).*

2 *WEBFIL Limited, the shares of which had not been traded for the last nine years i.e., from 2013-14 to 2022-23.*

3 *Inactive SPSEs are those which have ceased to carry on their operations.*

4 *West Bengal Tea Development Corporation Limited and Pulver Ash Projects Limited.*

As can be seen from **Table 1.3**, the contribution of SPSEs to GSDP ranged between 3.95 and 4.65 *per cent* during the last five years. The major contribution during 2022-23 was from West Bengal State Electricity Distribution Company Limited (WBSEDCL) ₹ 28,608.78 crore (42.85 *per cent*), West Bengal State Beverages Corporation Limited (WBSBCL) ₹ 15,298.89 crore (22.91 *per cent*) and West Bengal Power Development Corporation Limited (WBPDCL) ₹ 11,181.28 crore (16.74 *per cent*).

The Compounded Annual Growth Rate[5] of GSDP during 2018-19 to 2022-23 was 8.78 *per cent*, while during the same period the compounded annual growth of turnover was 8.75 *per cent*. This has resulted in decrease in share of turnover of SPSEs to the GSDP from 4.65 *per cent* to 4.29 *per cent*.

1.2 Investment in Government Companies and Corporations and Budgetary Support

The Government of West Bengal (GoWB) had investment in the SPSEs by way of Share capital and Loans. Besides, Grants and Subsidies are also given to SPSEs as a measure of financial support. The GoWB also gives guarantees on loans raised by SPSEs from Financial Institutions.

1.2.1 Equity holding in SPSEs

The details of equity investment in SPSEs pertaining to different sectors are given in **Table 1.4**.

Table 1.4: Investment of State Government in Equity of SPSEs

Sectors	Number of SPSEs	Equity holdings (₹ in crore) of			Total Paid Up Capital (₹ in crore)	Equity of GoWB as % of Total Paid Up Capital
		GoWB	GoI	Others		
(1)	(2)	(3)	(4)	(5)	(6)=(3+4+5)	(7)=(3/6)* 100
Agriculture & Allied	12	113.25	0.95	3.84	118.04	95.94
Finance	10	1,325.78	132.21	6.65	1,464.64	90.52
Infrastructure	12	1,973.17	-	5.15	1,978.32	99.74
Manufacturing	25	417.18	-	12.34	429.53	97.12
Power	6	13,467.36	-	5.14	13,472.45	99.96
Service	15	240.45	5.82	0.67	246.94	97.37
Others	4	5.78	-	0.81	6.59	87.71
Total	**84**	**17,542.97**	**138.98**	**34.60**	**17,716.55**	**99.02**

*(**Source:** Compiled from the accounts provided by SPSEs.)*

It is evident from **Table 1.4** that the equity investment of GoWB (₹17,542.97 crore) in SPSEs consists of 99 *per cent* of the total paid up capital. The equity investments of the GoWB were mainly concentrated (95.58 *per cent*) in the three sectors *viz.* Power (76.77 *per cent*), Infrastructure (11.25 *per cent*) and Finance (7.56 *per cent*). Government of India had equity investment of ₹ 138.98 crore, mainly in the Finance

[5] *Rate of Compounded Annual Growth is [{(Value of 2022-23/ Value of 2017-18)^(1/5years)}-1]*100. The SPSEs' turnover and State GDP for the year 2017-18 was ₹ 43,900.12 crore and ₹ 10,20,868 crore respectively.*

sector (95.13 *per cent*). Others[6] had contributed equity holding of ₹ 34.60 crore in SPSEs, mainly in the Manufacturing sector (35.68 *per cent*).

1.2.2 Loans given to SPSEs

The details of loans given by GoWB, GoI and Others (financial institutions) in respect of SPSEs pertaining to different sectors are given in **Table 1.5**.

Table 1.5: Details of loan given to SPSEs

Sectors	Number of SPSEs	Loan holdings (₹ in crore) of			Total Long Term Borrowing (₹ in crore)	Loan of GoWB as % of Total Borrowings
		GoWB	GoI	Others		
(1)	(2)	(3)	(4)	(5)	(6)=(3+4+5)	(7)=(3/6)* 100
Agriculture & Allied	12	143.26	0.27	36.80	180.33	79.44
Finance	10	54.85	153.27	5,894.79	6,102.91	0.90
Infrastructure	12	178.82	-	0.12	178.94	99.93
Manufacturing	25	1,983.18	-	37.89	2,021.07	98.13
Power	6	607.81	-	19,791.56	20,399.37	2.98
Service	15	2,285.35	-	289.50	2,574.85	88.76
Others	4	87.13	-	0.48	87.61	99.45
Total	**84**	**5,340.40**	**153.54**	**26,051.14**	**31,545.08**	**16.93**

*(**Source:** Compiled from the accounts provided by SPSEs.)*

The total long-term borrowings of 84 SPSEs as of 31 March 2023 were ₹ 31,545.08 crore **(Table 1.5)**. Of the total borrowings, 16.93 *per cent* was from GoWB while the remaining 82.58 *per cent* was sourced from 'Others'.

The GoI invested ₹ 153.54 crore as loans which were primarily invested in West Bengal Schedule Castes, Schedule Tribes and Other Backward Classes Development and Finance Corporation.

Out of 84 SPSEs, 27 SPSEs had availed long-term borrowings of ₹ 26,204.68 crore from 'Other than GoWB'[7]. These included borrowings from Banks (₹7,795.59 crore), from GoWB undertakings (₹4,205.54 crore) and other financial institutions (₹14,203.55 crore[8]). Of these, two[9] SPSEs are under liquidation with unpaid long-term borrowings of ₹ 13.41 crore.

Out of total long-term borrowings (₹ 26,204.68), the share of Power sector was ₹ 19,791.56 crore (64.08 *per cent*), which included loan of ₹ 2,600.79 crore from Banks and ₹ 17,190.77 crore from other financial institutions.

1.2.3 Adequacy of Assets

The asset coverage ratio is a solvency ratio whereby a company's ability to repay its debt/ obligations by selling its assets is evaluated. A company that has assets exceeding its short-term debt and liability obligations indicates to the

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6 *Companies which had invested equity share capital in SPSEs, in addition to the equity share capital invested by GoI and GoWB.*

7 *Includes GoI and Others(Refer Table 1.5).*

8 *Includes Non-SLR Bonds of ₹ 62.48 crore issued by West Bengal Financial Corporation, ₹ 2,171.15 crore Bonds issued by West Bengal State Electricity Distribution Company Limited and ₹ 153.54 crore from GoI.*

9 *Lily Products Limited (₹ 0.41 crore) and Pulver Ash Projects Limited (₹ 13.0 crore).*

lender that the company has a better chance of paying back the funds it lends in the event of its liquidation or closure of business. Therefore, a company with a high asset coverage ratio is considered to be less risky than a company with a low asset coverage ratio[10].

The Asset Coverage Ratio is calculated as ((Total Assets – Intangible Assets) – (Current Liabilities – Short-term Portion of Long-term Debt))/Total Debt. **Table 1.6** shows the Asset Coverage ratio of SPSEs, as per the latest finalised accounts as of 30 September 2023.

Table 1.6: Asset Coverage ratio of SPSEs, as per the latest finalised accounts as of 30 September 2023

Sector	Number of SPSEs	Assets	Intangible assets	Current Liabilities	Short Term portion of Long-Term Debts	Long Term Borrowings	Asset Coverage Ratio
		(₹ in crore)					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)= {(3-4)-(5-6)}/7
Agriculture & Allied	12	1817.59	1.44	1,619.01	-	180.33	1.09
Finance	10	14,353.60	0.38	3,469.04	-	6,102.91	1.78
Infrastructure	12	9,107.69	4.84	1,808.40	35.59	178.94	40.96
Manufacturing	25	2,167.94	0.04	3,291.81	15.61	2,015.07	(-) 0.55
Power	6	97,368.78	1,420.21	42,443.14	6,015.64	20,399.37	2.92
Service	15	9,242.55	1.96	9,449.56	162.33	2,574.85	(-) 0.02
Others	4	748.46	0.13	493.20	3.05	87.61	2.95
Total	**84**	**1,34,806.61**	**1,429.00**	**62,574.17**	**6,232.22**	**31,539.08**	**2.44**

*(**Source:** Latest finalised accounts of SPSEs.)*

As can be seen from **Table 1.6**, the asset coverage ratio of SPSEs, in the manufacturing and service sectors is negative, indicating that the SPSEs in these sectors are not financially solvent and will not be able to repay their debts in the event of their closure or liquidation. The 'Infrastructure' sector, which comprises mainly three SPSEs– WBHIDCL[11], WBHDCL and WBEIDCL[12], had a good assets coverage ratio of 40.96, followed by the 'Others' and 'Power' sectors, at 2.95 and 2.92, respectively.

1.2.4 Information on Loans and Subsidy / Grants by Central/State Government

The State Government provides financial support to SPSEs in various forms through annual budget. The summarized details of budgetary outgo towards equity, loans and grants/ subsidies in respect of State PSEs for three years from 2020-21 to 2022-23 are given in **Table 1.7**. The Central Government also provided financial assistance to three[13] SPSEs amounting to ₹ 124.32 crore during 2022-23.

[10] *The 'Asset Adequacy Ratio' is also called the 'Asset Coverage Ratio'.*

[11] *West Bengal Housing Infrastructure Development Corporation Limited.*

[12] *West Bengal Highway Development Corporation Limited and West Bengal Electronics Industry Development Corporation Limited.*

[13] *West Bengal State Electricity Transmission Company Limited: ₹ 3.32 Crore, West Bengal Transport Corporation:₹ 23 crore and New Town Kolkata Green Smart City Corporation Limited: ₹ 98 crore.*

Table 1.7: Details regarding budgetary support to SPSEs

(₹ in crore)

Sl. No.	Particulars	2020-21		2021-22		2022-23	
		Number of SPSEs	Amount	Number of SPSEs	Amount	Number of SPSEs	Amount
(i)	Equity Capital	2	108.16	2	128.27	4	527.77
(ii)	Loans	10	136.31	12	164.46	14	1,171.40
(iii)	Grants/Subsidies	19	1,715.95	16	2,043.77	14	2,038.90
(iv)	**Total Outgo (i+ii+iii)**		**1,960.42**		**2,336.50**		**3,738.07**
(v)	Loan repayment written off	-	-	-	-	-	-
(vi)	Loans converted into equity	-	-	-	-	-	-
(vii)	Guarantees issued	-	-	-	-	1	1,000
(viii)	Guarantee Commitment	3	3,718.16	3	6,031.11	4	8,886.22

*(**Source:** Latest finalised accounts of SPSEs and Chapter-I information.)*

Table 1.7 indicates that there has been a significant increase in the infusion of equity in SPSEs, by GoWB, during the last three years, with the equity infusion having increased from ₹ 108.16 crore (2020-21) to ₹ 527.77 crore (2022-23). During the year GoWB made equity infusion of ₹ 100 crore and ₹ 386.45 crore, in West Bengal Power Development Corporation Limited (WBPDCL) and West Bengal State Electricity Distribution Company Limited (WBSEDCL), respectively. There has also been an increase in Grants/Subsidy, which have risen from ₹ 1,716 crore in 2020-21 to ₹ 2,039 crore in 2022-23.

1.2.5 Disinvestment, Restructuring and Privatisation of SPSEs and reforms in SPSEs

The Government of West Bengal had decided (February 2017) to restructure SPSEs for improving operational efficiency and optimally utilising their manpower/ assets. Accordingly, the merger of Britannia Engineering Limited (BEL) with Westinghouse Saxby Farmers Limited with effect from April 2016 was approved by the Ministry of Corporate Affairs, Government of India's Order dated 16 September 2022. Further, another SPSE *viz*, West Bengal Tea Development Corporation Limited (WBTDCL) was wound up by an order of the National Company Law Tribunal (NCLT) in November 2019 and the official liquidator, Kolkata High Court had taken over the assets and other affairs of WBTDCL on 02 January 2020. The NCLT had admitted the application of the Government to wind up another SPSE *viz.* Pulver Ash Projects Limited and a Provisional Liquidator was appointed on 14 September 2022.

1.3 Returns from Government Companies and Corporations

1.3.1 Profit earned by SPSEs

The financial position and working results of Government companies and Statutory Corporations are detailed in ***Appendix-1***. As per the latest finalised accounts as of 30 September 2023, out of 65 Working SPSEs, 34 SPSEs earned profit of ₹ 1,714.37 crore whereas 31 SPSEs had suffered losses of ₹ 832.43 crore. Profit earned by SPSEs, is shown in **Table 1.8**.

Table 1.8: Profit earned by SPSEs

(₹ in crore)

Sector	Number of Working SPSEs	Profit after Tax
Agriculture & Allied	8	78.41
Finance	5	64.13
Infrastructure	9	61.80
Manufacturing	1	1.89
Power	5	1,348.81
Service	4	57.79
Others	2	101.54
Total	**34**	**1,714.37**

*(**Source:** Latest finalised accounts of SPSEs.)*

The list of SPSEs which earned profit more than ₹50 crore during 2022-23, is given in **Table 1.9** below.

Table 1.9: List of SPSEs which earned profit more than ₹ 50 crore during 2022-23

(₹ in crore)

Sl.No	Name of SPSEs	Net Profit
1	West Bengal Infrastructure Development Finance Corporation Limited	53.13
2	West Bengal Text Book Corporation Limited	59.59
3	West Bengal Power Development Corporation Limited	347.45
4	West Bengal State Electricity Transmission Company Limited	970.25
Total		**1,430.42**

*(**Source:** Latest finalised accounts of SPSEs.)*

It can be seen that these four SPSEs contributed 83.44 *per cent* of the total profit earned by 34 SPSEs during 2022-23.

1.3.2 Dividend paid by SPSEs

The Government of West Bengal does not have any stated dividend policy. Profit earned and Dividend paid by SPSEs, are shown in **Table 1.10**.

Table 1.10: Profit earned and Dividend paid by SPSEs

(₹ in crore)

Sector	Number of Working SPSEs	Net Profit after tax	Dividend paid to GoWB
Agriculture & Allied	8	78.41	-
Finance	5	64.13	-
Infrastructure	9	61.80	4.68
Manufacturing	1	1.89	-
Power	5	1,348.81	77.39
Service	4	57.79	-
Others	2	101.54	0.55
Total	**34**	**1,714.37**	**82.62**

*(**Source:** Latest finalised accounts of SPSEs.)*

It can be noticed from **Table 1.10** that, in spite of 34 working SPSEs having earned net profit of ₹ 1,714.37, dividend of only ₹ 82.62 crore (4.8 *per cent* of the profit earned) was received by the Government. SPSEs in the Finance sector, which had earned profit of ₹ 64.13 crore, had not paid dividend to the Government. Only West Bengal State Electricity Transmission Company Limited from the Power sector, Mackintosh Burn Limited from the Infrastructure sector and Saraswaty Press Limited from 'Others' sector, had paid dividend of ₹ 77.39 crore, ₹ 4.68 crore and 0.55 crore, respectively, to the State Government, during 2022-23.

1.4 Debt Servicing and legal compliances

1.4.1 Interest Coverage Ratio

Interest coverage ratio is used to determine the ability of an SPSE to pay interest on outstanding debt and is calculated by dividing earnings before interest and taxes (EBIT) of an SPSE by interest expenses of the same period. The lower the ratio, the lesser is the ability of the SPSEs to pay interest on debt. An interest coverage ratio below one indicated that the SPSEs were not generating sufficient revenues to meet their expenses on interest. The details of interest coverage ratio (ICR) in respect of SPSEs having interest burden as per their finalised latest accounts as of 30 September 2023 are shown sector-wise in **Table 1.11**.

Table 1.11: Interest Coverage Ratio relating to SPSEs

(₹ in crore)

Sector	Number of Working SPSEs having interest expenses	Earning before interest and taxes (EBIT)	Interest	Sector ICR
(1)	(2)	(3)	(4)	(5)=(3/4)
Agriculture & Allied	02	6.88	32.10	0.21
Finance	05	390.79	308.41	1.27
Infrastructure	05	(-) 7.67	9.81	(-) 0.78
Manufacturing	08	(-) 71.19	100.71	(-) 0.71
Power	04	4,894.07	3,310.78	1.48
Service	08	(-) 110.46	375.56	(-) 0.29
Others	04	132.35	12.02	11.01
Total	**36**	**5,234.77**	**4,149.39**	**1.26**

*(**Source:** Latest finalised accounts of SPSEs.)*

Out of the 65 working SPSEs, 36 SPSEs had liability of ₹ 4,149.39 crore during 2022-23 towards interest on loans as indicated in **Table 1.11** above. SPSEs in 'Others' sector generated sufficient revenues to meet their interest expenses followed by those in the Power sector. However, SPSEs under the Infrastructure Sector, Manufacturing sector and Service sector generated negative return and were unable to meet their interest cost.

1.4.2 Repayment of Principal Debt and Servicing of Interest charges

Table 1.12 shows the details of borrowings of SPSEs and repayments (including interest), as per their latest finalised accounts as of 30 September 2023.

Table 1.12: Repayment of Long-term Debt and Interest by SPSEs, as per their latest finalised accounts as of 30 September 2023

(₹ in crore)

Sector	Loans from sources other than the State Govt.			Loans from the State Govt.		
	Outstanding Loan	Repayment of Principal	Repayment of Interest	Outstanding Loan	Repayment of Principal	Repayment of Interest
Agriculture & Allied	37.07	10.00	10.00	143.26	-	-
Finance	6,048.06	-	-	54.85	-	-
Infrastructure	0.12	-	3.29	178.82	-	7.22
Manufacturing	37.89	-	6.12	1983.18	-	41.40
Power	19,791.56	814.30	2,995.05	607.81	53.73	44.18
Service	289.50	-	51.13	2,285.35	50.00	66.75
Others	0.48	-	-	87.13	-	0.78
Total	**26,204.68**	**824.30**	**3,065.59**	**5,340.40**	**103.73**	**160.33**

*(**Source:** Latest finalised accounts of SPSEs.)*

It can be seen from **Table 1.12** that the major portion of repayment of principal and interest on loans was from SPSEs in the Power sector, being ₹ 868.03 crore and ₹ 3,039.23 crore, which accounted for 93.53 *per cent* of the total repayments of principal and 94.21 *per cent* of the total repayments of interest, respectively. SPSEs in the Service sector paid interest of ₹ 117.88 crore which accounted for only 3.65 *per cent* of the total repayment of interest.

1.4.3 Outstanding loans disbursed by Government in respect of SPSEs

The latest accounts received from 84 SPSEs ranged for years from 2006-07 to 2022-23 (upto September 2023). As per these, repayments of loans were in arrear in respect of 47 SPSEs, with repayments of ₹ 12,881.17 crore (Principal: ₹ 5,340.40 crore and Interest: ₹ 7,540.77 crore) being in arrears (**Table 1.13**). This assumes significance since a majority (i.e. 56 *per cent*) of SPSEs have arrears in repayments. Due to non-availability of latest accounts (2022-23) of 62 out of 84 SPSEs, a comprehensive position of outstanding repayments could not be arrived at.

Table 1.13: Status of outstanding loans disbursed by Government to SPSEs

(₹ in crore)

Sl. No.	Accounts available upto	Number of SPSEs who had submitted their Accounts	Number of SPSEs against which repayments were in arrears	Outstanding Principal	Outstanding Interest
1.	2022-23	22	12	1,287.92	2,076.99
2.	2021-22	36	20	3,504.21	4,887.34
3.	2020-21	7	4	79.70	111.02
4.	2019-20	3	1	10.84	7.78
5.	2018-19	7	3	191.82	338.32
6.	2017-18	2	1	4.81	0.15

Sl. No.	Accounts available upto	Number of SPSEs who had submitted their Accounts	Number of SPSEs against which repayments were in arrears	Outstanding Principal	Outstanding Interest
7.	2016-17	3	3	124.84	10.18
8.	2015-16	1	-	-	-
9.	2012-13	1	1	26.78	25.99
10.	2007-08	1	1	26.69	47.43
11.	2006-07	1	1	82.79	35.57
Total		**84**	**47**	**5,340.40**	**7,540.77**

*(**Source:** Latest finalised accounts of SPSEs.)*

DPL stated that GoWB had approved the conversion of government loan of ₹ 391.69 crore into equity, which was returned to GoWB, as repayment of loan of same amount. Guarantee commission was not paid by WBPDCL and DPL. WBSEDCL had repaid principal of ₹ 5.23 crore, and ₹ 1.72 crore as interest, while WBSETCL had repaid ₹ 48.50 crore as principal, and ₹ 42.46 crore as interest, during 2022-23.

1.5 Operating efficiency of Government Companies

1.5.1 Analysis of Profit reported from Operating and Non-operating activities

Operating income is the income generated through the company's core business operations. Non-operating income includes gains and losses (expenses) generated by other activities or factors unrelated to its core business operations. **Table 1.14** shows the sector-wise details of operating income and non-operating income[14] of all working SPSEs, as per their latest finalised accounts as of 30 September 2023.

Table 1.14: Sector-wise details of Revenue from operations and other income of SPSEs

Sector	Number of Working SPSEs	Turnover/ Revenue from Operations	State Government Subsidy	Other Income	Total Revenue	Turnover as % of Total Revenue
		(₹ in crore)				
(1)	(2)	(3)	(4)	(5)	(6)=(3+4+5)	(7)=(3/6)*100
Agriculture & Allied	11	723.46	84.59	103.89	911.94	79.33
Finance	9	624.20	13.56	186.47	824.23	75.73
Infrastructure	12	1,332.22	-	166.55	1,498.77	88.89
Manufacturing	9	132.11	-	30.20	162.31	81.39
Power	6	43,042.56	770.96	2,032.22	45,845.74	93.89
Service	14	20,099.56	963.81	116.96	21,180.33	94.90
Others	4	787.22	-	7.04	794.26	99.11
Total	**65**	**66,741.33**	**1,832.92**	**2,643.33**	**71,217.58**	**93.72**

*(**Source:** Latest finalised accounts of SPSEs.)*

[14] *Operating Income is also known as "Revenue from Operations/Turnover" and Non-operating income refers to "Other Income".*

Table 1.14 indicates that SPSEs in the Finance, Agriculture & Allied, and Manufacturing sectors have lower percentage of operating income, ranging from 75.73 to 81.39 *per cent* of their total revenue, in comparison to other sectors like Infrastructure, Power and Service, which contributed around 88.89 to 94.90 *per cent*. Out of 65 working SPSEs, nine did not have revenue from operations, indicating that their core activities had been discontinued. This included two SPSEs from each of the Infrastructure, Service and Manufacturing as well as one each from the Agriculture, Finance and Power sectors. The Power and Service sectors have received a significant portion of subsidy, accounting for 42.06 and 52.58 *per cent,* respectively, of the total amount of subsidy disbursed. In the Service sector, a major portion of the subsidy was given to five transport corporations[15].

1.5.2 Return on Capital Employed

Return on Capital Employed (RoCE) is a ratio that measures a company's profitability and efficiency with which its capital is employed. RoCE is calculated by dividing a company's Earnings before Interest and Taxes (EBIT) by its capital employed.

The Capital Employed is the total amount of money invested in the business of a Company. It is calculated as Total assets *minus* current liabilities or Shareholders' fund *plus* Long-term Liabilities. Negative Capital Employed refers to a situation where the current liability of a company is more than its total assets.

Details of RoCE of working SPSEs, as per their latest finalised accounts as of 30 September 2023, are shown in **Table 1.15**.

Table 1.15: Return on Capital Employed of working SPSEs

Sector	Number of Working SPSEs	EBIT	Capital Employed	RoCE
		(₹ in crore)		(in *per cent*)
(1)	(2)	(3)	(4)	(5)=(3/4)*100
Agriculture & Allied	11	79.41	250.74	31.67
Finance	9	399.16	9,410.47	4.24
Infrastructure	12	43.66	3,275.42	1.33
Manufacturing	9	(-)71.92	(-) 677.75	-
Power	6	4,894.08	39,527.73	12.38
Service	14	(-)54.93	(-) 5,465.09	-
Others	4	132.35	250.29	52.88
Total	**65**	**5,421.81**	**46,571.81**	**11.64**

*(**Source:** Latest finalised accounts of SPSEs.)*

From **Table 1.15** given above, it could be inferred that SPSEs in 'Others' sector (52.88 *per cent*) and agriculture & allied sector (31.67 *per cent*) generated high returns whereas those in the manufacturing and Service sectors yielded negative return on capital employed. RoCE in respect of the Manufacturing and Service sectors could not be worked out, as the capital employed therein, was negative.

[15] *(i) Calcutta State Transport Corporation (ii) Calcutta Tramways Company Limited (iii) South Bengal State Transport Corporation (iv) North Bengal State Transport Corporation and (v) West Bengal Surface Transport Corporation Limited.*

1.5.3 Return on Equity by SPSEs

Return on equity (RoE) is a measure of financial performance, to assess how effectively management is using shareholders' funds to earn profits and is calculated by dividing net income (*i.e.* net profit after taxes) by shareholders' funds, expressed as a percentage.

Shareholders' funds of a Company are calculated by adding paidup capital including share application money and free reserves net of accumulated losses and deferred revenue expenditure. Shareholders' funds are also known as equity. A positive shareholders' fund implies that the company has adequate assets to cover its liabilities while negative shareholders' equity means that liabilities exceed assets. It is also known as net worth. If the accumulated loss of a company is more than its share capital, its shareholder's fund is negative.

Sector-wise RoE, computed in respect of all working SPSEs, as per their latest finalised accounts as of 30 September 2023, is shown in **Table 1.16**.

Table 1.16: Return on Equity

Sector	Number of Working SPSEs	Net Profit/Loss after tax	Shareholders fund[16]	Return on Equity
		(₹ in crore)		(in *per cent*)
(1)	(2)	(3)	(4)	(5)=(3/4)*100
Agriculture & Allied	11	16.38	178.13	9.20
Finance	9	59.75	3,312.37	1.80
Infrastructure	12	(-) 8.29	3,096.48	-
Manufacturing	9	(-) 172.86	(-) 1,500.18	-
Power	6	1,348.64	19,128.36	7.05
Service	14	(-) 446.87	(-) 8,023.09	-
Others	4	85.19	162.68	52.37
Total	**65**	**881.94**	**16,354.75**	**5.39**

*(**Source:** Latest finalised accounts of SPSEs.)*

The highest Return on Equity of SPSEs was in the 'Others' sector. This was due to the good performance of two SPSEs, *viz,* Saraswaty Press Limited (26.68 *per cent*) and West Bengal Text Book Corporation Limited[17] (24 *per cent*). RoE could not be worked out for three sectors *viz.* Infrastructure, Manufacturing and Service, as the shareholders' funds or net profit after tax was negative.

1.6 Loss incurring SPSEs

1.6.1 Losses incurred

Sector-wise details of working SPSEs which had incurred losses as per their latest finalised accounts as of 30 September 2023, are shown in **Table 1.17**.

[16] *Represents 'Paid-up share capital' plus 'free reserves and surplus' minus 'accumulated losses' minus 'deferred revenue expenditure'.*

[17] *Subsidiary of Saraswaty Press Limited.*

Table 1.17: SPSEs incurring losses, as per their latest audited accounts

Sector	Number of working SPSEs which had incurred losses	Loss after tax (₹ in crore)
Agriculture & Allied	5	(-) 36.72
Finance	2	(-) 29.69
Infrastructure	3	(-) 70.09
Manufacturing	8	(-) 174.75
Power	1	(-) 0.17
Service	10	(-) 504.66
Others	2	(-) 16.35
Total	**31**	**(-) 832.43**

*(**Source:** Latest finalised accounts of SPSEs.)*

Table 1.17 above depicts that SPSEs under the Service sector had incurred the maximum loss followed by those under the manufacturing and infrastructure sectors.

The SPSEs under Service sector which had incurred significant losses were CSTC[18] (₹ 135.05 crore), SBSTC[19] (₹ 109.43 crore) and WBTC[20] (₹ 91.71 crore). Similarly, Greater Calcutta Gas Supply Corporation Limited (₹ 65.83 crore) and The Shalimar Works (1980) Limited (₹ 34.78 crore) contributed most towards losses in the manufacturing sector. West Bengal Housing Infrastructure Development Corporation Limited (₹ 43.02 crore) and West Bengal Highway Development Corporation Limited (₹ 26.06 crore) contributed most towards losses in the infrastructure sector.

1.6.2 Erosion of Net worth/ capital in SPSEs

'Net worth' refers to the sum total of the paid-up capital and free reserves and surplus minus accumulated losses and deferred revenue expenditure. Essentially, it is a measure of what an entity is worth to the shareholders and is also referred to as shareholders' funds. A negative net worth indicates that the entire investment by the shareholders has been wiped out by accumulated losses and deferred revenue expenditure. **Table 1.18** indicates sector-wise details of the total paid-up capital, free reserves, reserve & surplus including accumulated losses and net worth of those SPSEs, whose net worth had turned negative.

Table 1.18: Sector-wise details of SPSEs having negative Net Worth

Sector	Number of SPSEs	Paid up Capital	Free Reserves	Reserve & Surplus	Shareholders' Funds/Net Worth
		(₹ in crore)			
(1)	(2)	(3)	(4)	(5)	(6)=(3+4+5)
Agriculture & Allied	5	85.99	0.61	(-) 750.80	(-) 664.20
Finance	2	51.96	-	(-) 182.51	(-) 130.55

18 *Calcutta State Transport Corporation.*

19 *South Bengal State Transport Corporation.*

20 *West Bengal Transport Corporation.*

Sector	Number of SPSEs	Paid up Capital	Free Reserves	Reserve & Surplus	Shareholders' Funds/Net Worth
		(₹ in crore)			
(1)	(2)	(3)	(4)	(5)	(6)=(3+4+5)
Manufacturing	22	420.98	11.14	(-) 4,708.77	(-) 4,264.88[21]
Power	3	1,820.38	-	(-) 3,550.34	(-) 1,729.96
Service	7	53.81	813.96	(-) 9,583.51	(-) 8,715.74
Others	2	0.99	-	(-) 243.81	(-) 242.82
Total	**41**	**2,434.11**	**825.71**	**(-) 19,019.72**	**(-) 15,748.15**

*(**Source:** Latest finalised accounts of SPSEs.)*

It is evident from **Table 1.18** that 41 SPSEs (out of 84 SPSEs), had negative net worth aggregating (-) ₹ 15,748.15 crore. Out of 41 SPSEs, net worth of 24 working SPSEs was (-) ₹ 12,596.65 crore whereas net worth of 17 inactive SPSEs (out of total 19 inactive SPSEs in the State) stood at (-) ₹ 3,151.48 crore.

Of these 41 SPSEs having negative net worth, 22 SPSEs from the Manufacturing sector and seven SPSEs from the Service sector had eroded their net worth to the extent of (-) ₹ 4,264.88 crore and (-) ₹ 8,715.74 crore respectively.

The SPSEs which had the highest negative net worth were: (i) Calcutta State Transport Corporation {(-) ₹ 3,003 crore} (ii) West Bengal Transport Corporation {(-) ₹ 2,967 crore} and (iii) Durgapur Projects Limited {(-) ₹ 1,726 crore}.

In respect of these 41 SPSEs, the State Government had extended equity and loans of ₹ 2,415 crore and ₹ 4,383 crore, respectively.

The total assets and total liabilities of 19 SPSEs were ₹ 199.81 crore which have been arrived at after adjustment of negative reserves and surplus.

The net loss after tax of these 41 SPSEs aggregated to (-) ₹ 919.63 crore. Out of loss of (-) ₹ 919.63 crore, the two sectors viz. Manufacturing sector {(-) ₹ 361.89 crore} and Service sector {(-) ₹ 461.34 crore} contributed to a loss of (-) ₹ 823.23 crore.

OVERSIGHT ROLE OF COMPTROLLER & AUDITOR GENERAL OF INDIA

1.7 Statutory Audit of SPSEs

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

Audit of Statutory Corporations is governed by their respective legislations. Out of eight working Statutory Corporations, C&AG is the sole auditor for

[21] *Money Receipts against share warrants of ₹ 11.50 crore of the 'National Iron & Steel Company (1984) Limited' and ₹ 0.27 crore of the Infusion India Limited , under the Manufacturing sector, have been considered.*

six Corporations[22]. In respect of the remaining two[23] of the working statutory corporations, financial audit is conducted by Chartered Accountants and supplementary audit by C&AG. In case of one non-working corporation, *i.e.*, Great Eastern Hotel Authority, C&AG is not entrusted with financial audit as per statute.

1.8 Submission of Accounts by SPSEs

1.8.1 Need for timely submission of Accounts

According to Section 394 of the Companies Act, 2013, an 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 C&AG. 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 an AGM of the shareholders, once every calendar year. It also states 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 its consideration.

Section 129(7) of the Companies Act, 2013, also provides for levy of penalty, such as 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, the annual accounts of various SPSEs were pending, and were in arrears, as on 30 September 2023, as discussed in **Paragraph 1.8.2**.

1.8.2 Timeliness in Preparation of Accounts by SPSEs

Accounts for the year 2022-23 were required to be submitted, by all the 84 SPSEs, by 30 September 2023. Details of arrears in submission of accounts of all SPSEs, as of 30 September, during the last five financial years, ending 31 March 2023, are given in **Table 1.19**.

Table 1.19: Details of arrears in submission of accounts of all SPSEs

Financial Year	Upto date Accounts		Accounts delayed upto 1 year		Accounts delayed for 2-3 years		Accounts delayed for 4-5 years		Accounts delayed for more than 5 years		Total number of SPSEs with Arrear Accounts	
	SPSEs	Accounts	SPSEs	Accounts	SPSEs	Accounts	SPSEs	Accounts	SPSEs	Accounts	SPSEs	Accounts
2018-19	35	35	30	30	08	17	05	21	06	52	49	120
2019-20	07	07	53	53	14	32	05	23	06	58	78	166
2020-21	25	28	32	32	16	38	06	26	07	69	61	165
2021-22	23	26	32	35	16	43	08	31	06	65	62	174
2022-23	22	22	36	36	10	23	09	38	07	66	62	163

(***Source:*** *Accounts of SPSEs.*)

22 *(i) Calcutta State Transport Corporation (ii) South Bengal State Transport Corporation, (iii) North Bengal State Transport Corporation (iv) West Bengal Scheduled Castes, Scheduled Tribes & Other Backward Classes Development and Finance Corporation (v) West Bengal Minorities Development and Finance Corporation and (vi) West Bengal Industrial Infrastructure Development Corporation.*

23 *West Bengal State Warehousing Corporation and West Bengal Financial Corporation.*

Table 1.19 above depicts that total 163 accounts are in arrear in respect of 62 SPSEs which includes 48 working and 14 inactive SPSEs. 48 working SPSEs had 89 accounts whereas 14 inactive SPSEs had 74 accounts in arrears. In absence of finalization of accounts for 2022-23 as well as for earlier years and their subsequent audit, in 62 out of 84 SPSEs ***(Appendix-1)***, assurance could not be given on whether the investment and expenditure incurred had been properly accounted for and the purpose for which the amount was invested was achieved. The investment of GoWB in these SPSEs, therefore, remained outside the oversight of State Legislature to that extent.

1.9 C&AG's Oversight- Audit of Accounts and Supplementary Audit

Financial Reporting Framework

Companies are required to prepare their 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 the National Advisory Committee on accounting standards. Statutory Corporations are required to prepare their accounts in the format prescribed under the rules framed in consultation with the C&AG and any other specific provision, relating to accounts, in the Acts governing such Corporations.

1.9.1 Audit of Accounts of Government Companies by Statutory Auditors

The statutory auditors appointed by the C&AG, under Section 139 of the Companies Act 2013, are required to conduct audit of accounts of government companies and submit their reports thereon, in accordance with Section 143 of the Companies Act, 2013.

The C&AG 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.

1.9.2 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 Acts, is of the management of an entity. The statutory auditors appointed by the C&AG, 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 the Institute of Chartered Accountants of India (ICAI) and directions given by the C&AG. The statutory auditors are required to submit their audit report to the C&AG, under Section 143 of the Companies Act, 2013.

The certified accounts of selected government companies, along with the reports of the statutory auditors, are reviewed by C&AG, 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.

1.10 Result of C&AG's oversight role

Audit of Accounts of SPSEs

As on 30 September 2023, 65 working Companies/Corporations had forwarded 66 accounts to the Office of the Principal Accountant General (Audit-I), West Bengal and Office of the Principal Accountant General (Audit-II), West Bengal. Supplementary audit of 43 accounts of 42 companies was conducted up to September 2023. 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.

Some of the significant comments, issued on supplementary audit of financial statements of the government companies, are detailed in ***Appendix-2***.

1.10.1 Instances of revision of Auditors' Reports, as a result of supplementary audit conducted by the C&AG

Instances of revision of Auditors' Reports as a result of supplementary audit conducted by the C&AG, are shown in **Table 1.20**.

Table 1.20: Instances of revision of Auditors' Report as a result of supplementary audit

Name of the Corporation	Year	Comment in brief	Brief of revision
West Bengal Small Industries Development Corporation Limited	2020-21	Service connection charges of ₹ 461.87 lakh were paid to WBSEDCL during 2020-21 and the expenditure was booked under assets and depreciation of ₹ 7.66 lakh was charged.	The booking of expenditure of ₹ 461.87 lakh in fixed assets, instead of being charges to the P&L A/c, resulted in overstatement of assets and understatement of other expenditure by ₹ 454.21 lakh (net of depreciation of ₹ 7.66 lakh). Consequently, profit for the year was overstated by an equal amount.
		The deferred tax, i.e. difference between carrying amount of fixed assets, as per the financial statements and the income tax return, was ₹ 2,783.41 lakh. It was booked, considering the Net Book Value of the property, plant and equipment, which included Assets by Grant and WDV thereon. However, for tax purposes, the amount shown under Assets by Grant should have been excluded from the Net Book Value of the said Assets. However, the same was not done, which resulted in excess balance of ₹ 330.13 lakh.	The difference between the carrying amount of fixed assets, as per the financial statements, and those as per the Income Tax Act, was arrived at, considering the assets by grant, while computing the net Book value of fixed assets, as per the financial statements, which should not have been included for tax purposes, resulting in excess computation of ₹ 330.09 lakh, under the sub-head, 'difference between the carrying amount of fixed assets in the financial statements and the income tax return', which, consequently, resulted in excess deferred tax credit of ₹ 330.09 lakh to the profit & loss statement, resulting in profit for the year, as well as the total comprehensive income being overstated by ₹ 330.09 lakh and the deferred tax liability (net) being understated by an equal amount.

Name of the Corporation	Year	Comment in brief	Brief of revision
The Durgapur Projects Limited	2022-23	For the year 2021-22, the Company had accounted for sale of fly ash of ₹ 13.25 crore, as income, under the head 'Other Operating Revenue', in deviation of the Ministry of Environment and Forest's Notification, which resulted in overstatement of 'Revenue from Operations' and understatement of 'Reserve for Fly Ash Utilisation', by ₹ 13.25 crore, each. Against the above, corrective entry was not passed by the Company in 2022-23.	As per Note 2(iii), the company had changed the accounting policy, from the financial year 2022-23, for accounting of sale of fly ash and had accounted for the amount so collected, net of expenses, for the year 2022-23, under the "Fly ash utilization reserve fund", in accordance with the guidelines issued by MOE&F dated 3rd November 2009. However, no accounting effect was given for the previous financial years.

The statutory auditors' reports, on Financial Statements of two SPSEs[24], were revised as a result of supplementary audit of the Financial Statements conducted by the C&AG as shown in **Table 1.20**.

1.10.2 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 C&AG, under Section 143(6) (b) of the Companies Act, 2013. Besides these comments on accounts, irregularities or deficiencies observed by C&AG, in the financial reports or in the reporting process, are also communicated to the management, through a 'Management Letter', for taking corrective action.

The broad nature of irregularities highlighted in these Management Letters were as under:

- Application and interpretation of accounting policies and practices;
- Adjustments arising out of audit;
- Non-reconciliation of old balances;
- Misclassifications of assets, liabilities, income and expenditures *etc*.;
- Inadequate/non-disclosures in 'Notes to Accounts';
- Non-reporting on C&AG's directions; and
- Non-maintenance of proper books of accounts.

[24] *West Bengal Small Industries Development Corporation Limited and The Durgapur Projects Limited.*

The Managements of the concerned SPSEs had given assurances that corrective action would be taken in the subsequent year. 23 such 'Management letters' were issued to 18 SPSEs till December 2023, drawing attention of the Management on the above issues, as shown in ***Appendix-3***.

1.11 Corporate Governance

1.11.1 Introduction

Corporate Governance focusses on building the confidence of various stakeholders including customers, suppliers, employees, shareholders, bankers and society at large. A company is directed and controlled with the system of rules, practices and processes of Corporate Governance. Further, the Corporate Governance framework of any SPSE depends upon four pillars namely transparency, full disclosure, independent monitoring and fairness to all. Adherence to the principles of Corporate Governance brings accountability, transparency in business and enhances confidence of the stakeholders.

1.11.2 Provisions contained in the Companies Act, 2013

The Companies Act, 2013 (Act) was enacted on 29 August 2013 replacing the Companies Act, 1956. In addition, the Ministry of Corporate Affairs has also notified (31 March 2014) Companies Rules 2014 on Management and Administration, Appointment and Qualification of Directors, Meetings of the Board and its powers and Accounts. The Companies Act, 2013 together with the Companies Rules provide a robust framework for corporate governance. The requirement *inter alia* provides for:

- Appointment of Independent Directors in Public Companies and Qualifications for Independent Directors along with the duties and guidelines for professional conduct {Section 149(6) of Companies Act, 2013 read with Rule 5 of the Companies (Appointment and Qualification of Directors) Rules, 2014}.
- Mandatory establishment of certain committees like Audit Committee {Rule 4 of Companies (Appointment and Qualification of Directors) Rules, 2014 and Section 177(1) of the Companies Act, 2013}, Nomination and Remuneration Committee {Section 178(1) of the Companies Act, 2013 read with Rule 6 of the Companies (Meetings of Board and its powers) Rules, 2014} and Whistle Blower Mechanism Section 177(9) of the Companies Act, 2013 read with Rule 7 of the Companies (Meetings of Board and its power).
- Mandatory appointment of one woman director on the Board in Public Companies having paid-up share capital of ₹ 100 crore or more or turnover of ₹ 300 crore or more {Section 149(1) of the Companies Act, 2013 read with Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014}.
- Holding of a minimum of four meetings of the Board of Directors every year in such a manner that not more than 120 days shall intervene between two consecutive meetings of the Board {Section 173(1) of the Companies Act, 2013}.

1.11.3 Review of compliance of the Corporate Governance provisions

As on 31 March 2023, there were 84 SPSEs (75 Government Companies and nine Statutory Corporations) under the audit jurisdiction of the C&AG of India in West Bengal. An analysis of compliance, of the provisions pertaining to Corporate Governance, by the SPSEs under administrative control of various Departments in West Bengal, based on information provided by these SPSEs, is discussed below:

1.11.4 Composition and Meetings of the Board of Directors

The Board of Directors (BoDs) is the instrument of Corporate Governance. It is the agency for the implementation of governance policies and practices. It is imperative that the BoDs devote attention to Corporate Governance and must be equipped with the requisite representation and its members should meet regularly. As per Section 173(1) of the Companies Act, 2013, every company shall hold the first meeting of the Board of Directors within thirty days of the date of its incorporation and thereafter hold a minimum number of four meetings of its Board of Directors every year in such a manner that not more than one hundred and twenty days shall intervene between two consecutive meetings of the Board.

In light of this provision, it was seen that only 49 SPSEs in the State had complied with this requirement and have conducted four or more Board Meetings in 2022-23.

Further, in case of 16 SPSEs, it was observed that the intervening period between two BoD meetings was more than the prescribed time limit of 120 days, as depicted in the ***Appendix-4***.

1.11.5 Representation of Independent Director in the Board

According to Section 149 (6) of the Companies Act, 2013 an independent director means a director other than a managing director or a whole-time director or a nominee director, who is a person of integrity and possesses relevant expertise and experience.

The presence of independent directors on the Board, capable of taking an independent view on the decisions of the management is considered as a means of protecting the interests of shareholders and other stakeholders. As per rule 4 of Companies (Appointment and Qualification of Directors) Rules, 2014, the following class or classes of companies shall have at least two directors as independent directors:

- Public Companies having paid up share capital of ₹ 10 crore or more; or
- Public Companies having turnover of ₹ 100 crore or more; or
- Public Companies which have, in aggregate, outstanding loans, debentures and deposits, exceeding ₹ 50 crore.

In light of the above provisions, it has been observed that out of 46 SPSEs which were required to have an Independent Director (ID), only 13 SPSEs had appointed an ID on their Board, whereas two SPSEs had not provided information ***(Appendix-5)***.

1.11.6 Representation of Woman Director (WD) in the Board

Section 149 (1) of the Companies Act, 2013 read with Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014 provides that every public company fulfilling the following criteria shall have at least one Woman Director (WD) in its Board:

- Paid-up share capital of ₹ 100 crore or more, or
- Turnover of ₹ 300 crore or more.

Audit, however, has observed that out of 17 SPSEs who were required to have one WD on their respective Boards, only 11 SPSEs ***(Appendix-6)*** had appointed a WD, while two SPSEs did not provide the required information.

1.12 Audit Committee and Other Committees of the Board

1.12.1 Constitution and Composition of Audit Committee

Audit Committee is one of the important pillars of the Corporate Governance mechanism in the Company. It is charged with oversight of financial reporting and disclosures. It boosts confidence in the integrity of the Company's financial reporting, the internal control process and the risk management systems. It reviews and monitors the auditor's independence and performance and effectiveness of audit process. It examines the financial statements and the auditor's report thereon.

As per Section 177 (1) of the Act, 2013 and Rule 6 of the Companies (Meetings of Board and its powers) Rules, 2014, the BoD of every listed public company and all public companies with a paid up capital of ₹ 10 crore or more; or having turnover of ₹ 100 crore or more; or having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding ₹ 50 crore or more, except Joint Venture Companies and wholly owned subsidiary companies, shall constitute an Audit Committee.

Audit observed that out of 46 SPSEs ***(Appendix-5)***, who were required to have an Audit Committee, only 12 SPSEs had constituted an Audit Committee whereas two SPSEs had not provided required information ***(Appendix-5)***.

1.12.2 Nomination and Remuneration Committee

As per Section 178(1) of the Act, 2013 and Rule 6 of the Companies (Meetings of Board and its powers) Rules, 2014, the BoD of every listed public company and all public companies with a paid up capital of ₹ 10 crore or more; or having turnover of ₹ 100 crore or more; or having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding ₹ 50 crore or more, shall constitute a Nomination and Remuneration Committee (NRC). NRC should comprise at least three Directors, all of whom should be non-executive Directors and at least half shall be independent, while the Chairman of the Committee shall be an Independent Director. The NRC shall identify persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, recommend to the Board their appointment and removal and shall carry out evaluation of every director's performance. The NRC shall formulate the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy, relating to the remuneration for the directors, key managerial personnel and other employees.

As per Section 178(8) of the Companies Act, 2013, in case of any contravention of the provisions of section 177 (Audit Committee) and section 178 (Nomination and Remuneration Committee), the company shall be punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than twenty-five thousand rupees but which may extend to one lakh rupees, or with both.

Audit noticed that 46 SPSEs, as shown in ***(Appendix-5)***, were required to constitute the NRC. However, out of these, only nine SPSEs constituted the NRC as on 31 March 2023, whereas two SPSEs had not provided required information.

1.12.3 Whistle Blower Mechanism (WBM)

Section 177(9) of the Companies Act, 2013 read with Rule 7 of the Companies (Meetings of Board and its power) rules provides that every listed company; Companies which accept deposits from the public; Companies which have borrowed money from banks and public financial institutions in excess of ₹ 50 crore, shall establish a Vigil Mechanism for their directors and employees to report genuine concerns and grievances about unethical behaviour, suspected fraud or violation of the Company's code of conduct or ethics policy. The Section also provides for adequate safeguards against victimization of persons who use such a mechanism.

Audit noticed that out of seven[25] SPSEs, which were required to establish the Whistle Blower Mechanism during 2022-23, one[26] SPSE had not established the Whistle Blower Mechanism.

1.13 Internal Audit Framework

1.13.1 Role of Internal audit

The Institute of Internal Auditors (IIA) defines Internal Auditing as: "An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. The internal audit activity helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes." Accordingly, the role of internal audit is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively.

The framework governing internal audits issued (February 2009) by ICAI[27], defines internal audit as an independent assurance on the effectiveness of

[25] *The Durgapur Projects Ltd, West Bengal Power Development Corporation Ltd, West Bengal Essential Commodities Supply Corporation Ltd, West Bengal Infrastructure Development Finance Corporation Ltd, West Bengal State Electricity Distribution Company Ltd, West Bengal State Electricity Transmission Company Ltd and WEBFIL Ltd.*

[26] *West Bengal Essential Commodities Supply Corporation Ltd.*

[27] *Standards of Internal Audit (SIA) 120.*

internal controls and risk management processes to enhance governance and achieve organisational objectives.

1.13.2 Legal Framework

Section 138(1) of the Companies Act, 2013 read with Rule 13 of Companies (Accounts) Rules, 2014, provides that (a) every listed company; (b) every unlisted public company having paid up share capital of ₹ 50 crore or more; or turnover of ₹ 200 crore or more during the preceding financial year; or outstanding loans or borrowings from banks or public financial institutions exceeding ₹ 100 crore or more; or outstanding deposits of ₹ 25 crore or more at any point of time during the preceding financial year, shall be required to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company. Section 138 (2) of the Companies Act, 2013 provides that the Central Government may, by rule, prescribe the manner and the intervals in which the internal audit shall be conducted and reported to the Board.

Audit observed that out of 22 SPSEs ***(Appendix-7)***, who were required to appoint an Internal Auditor as per provisions of the Act referred above, 15 SPSEs had conducted internal audit through Chartered Accountant firms and two SPSEs had conducted internal audit through their internal audit wing ***(Appendix-7)***. Further, two SPSEs had not provided required information and three SPSEs had not conducted internal audit during 2022-23.

1.14 Corporate Social Responsibility

1.14.1 Introduction

Corporate Social Responsibility (CSR) is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the local community at large. It recognizes the interests of its stakeholders and the general community at large by covering sustainability, social impact and ethics. The concept of CSR rests on the ideology of give and take. Companies take resources in the form of raw materials, human resources *etc*., from society. By performing CSR activities, the companies are giving something back to the society.

India is the first country in the world to make CSR mandatory, with the coming into force of Section 135 and schedule VII of the Companies Act, 2013 in April 2014. The Companies Act, 2013 and the Companies CSR Rules 2014 mandate and regulate social spending by Companies. The inclusion of the CSR mandate under the Companies Act, 2013 is an attempt to supplement the Government’s efforts of equitably delivering the benefits of growth and to engage the Corporate Sector with the State’s development agenda.

1.14.2 Legal Framework

Section 135 of Companies Act, 2013 (hereafter referred to as the Act), deals with the subject of Corporate Social Responsibility (CSR), lays down the qualifying criteria based on net worth, turnover and net profit during any financial year for companies which are required to undertake CSR activities and *inter alia* specifies the broad modalities of selection, implementation and monitoring of CSR activities by the Board of Directors of the Company. The activities which may be included by the Companies in their CSR policies are listed in Schedule VII of the Act. The provisions of Section 135 of the Act and Schedule VII of the Act are applicable to all Companies including SPSEs.

The Act makes it mandatory for any Company to spend annually, at least two *per cent* of average net profit (calculated as per section 198 of the Act) of three immediate preceding financial years towards CSR activities. If the company fails to spend such amount, the unspent amount be transferred to Fund specified in Schedule VII or the Unspent Corporate Social Responsibility Account, as the case may be, as per provisions of sub-section (5) or sub-section (6) of Section 135 of the Companies Act, 2013. If a company is in default in complying with the provisions of sub-section (5) or sub-section (6), the company shall be liable to a penalty of twice the amount required to be transferred by the company to the Fund specified in Schedule VII or the Unspent Corporate Social Responsibility Account, as the case may be, or one crore rupees, whichever is less, and every officer of the company who is in default shall be liable to a penalty of one-tenth of the amount required to be transferred by the company to such Fund specified in Schedule VII, or the Unspent Corporate Social Responsibility Account, as the case may be, or two lakh rupees, whichever is less.

In February 2014, Ministry of Corporate Affairs of India (MCA) issued Companies (Corporate Social Responsibility Policy) Rules, 2014. The CSR Rules were made applicable to all Companies w.e.f. 1 April 2014. The compliance of the provisions of CSR under the Act i.e., constitution of CSR Committee, formulation of CSR Policy and spending of prescribed amount on CSR activities came into force from April 2014.

1.14.3 Applicability of CSR

As per section 135(1) of Companies Act 2013, every company having net worth of ₹ 500 crore or more, or turnover of ₹ 1,000 crore or more or a net profit of ₹ 5 crore or more during any financial year shall constitute a CSR Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director. Moreover, section 135(9) of the Act states that where the amount to be spent by a company under sub-section (5) does not exceed fifty lakh rupees, the requirement under sub-section (1) for constitution of the CSR Committee shall not be applicable and the functions of such Committee provided under this section shall, in such cases, be discharged by the Board of Directors of such company.

19 SPSEs meet the criteria stipulated in section 135(1) of the Companies Act as per their latest finalised accounts, of which only nine SPSEs are to frame CSR Committee. Three SPSEs incurred losses and remaining 16 SPSEs were to spend ₹ 37.66 crore towards CSR activities calculated @ two *per cent* of average net profit of three immediate preceding financial years against which 10 SPSEs had spent only ₹ 25.98 crore ***(Appendix-8)***.