

Chapter-I

1. Overview of Government companies and Statutory corporations

Introduction

1.1 As on 31 March 2006, there were 26 Government companies (19 working companies and seven non-working* companies) and two Statutory corporations (both working) as against 27 Government companies (19 working and eight non-working companies) and two Statutory corporations as on 31 March 2005 under the control of the State Government. The name of one non working Company (Haryana Dairy Development Corporation Limited) was struck off (15 July 2005) from the register of companies under section 560 (5) of the Companies Act, 1956. In addition, the State had formed the Haryana Electricity Regulatory Commission whose audit is also being conducted by the Comptroller and Auditor General of India (CAG). The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per the provisions of Section 619 of the Companies Act, 1956. The audit arrangements of the statutory corporations are as shown below:

Sl. No.	Name of the corporation	Authority for the audit by the CAG	Audit arrangement
1.	Haryana Financial Corporation	Section 37(6) of the State Financial Corporations Act, 1951.	audit by Chartered Accountants and supplementary audit by CAG
2.	Haryana Warehousing Corporation	Section 31(8) of the State Warehousing Corporations Act, 1962.	audit by Chartered Accountants and supplementary audit by CAG

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

1.2 As on 31 March 2006, the total investment in the 21 working PSUs (19 Government companies and two statutory corporations) was Rs. 10,700.55 crore (equity: Rs. 2,205.41 crore; long-term# loans:

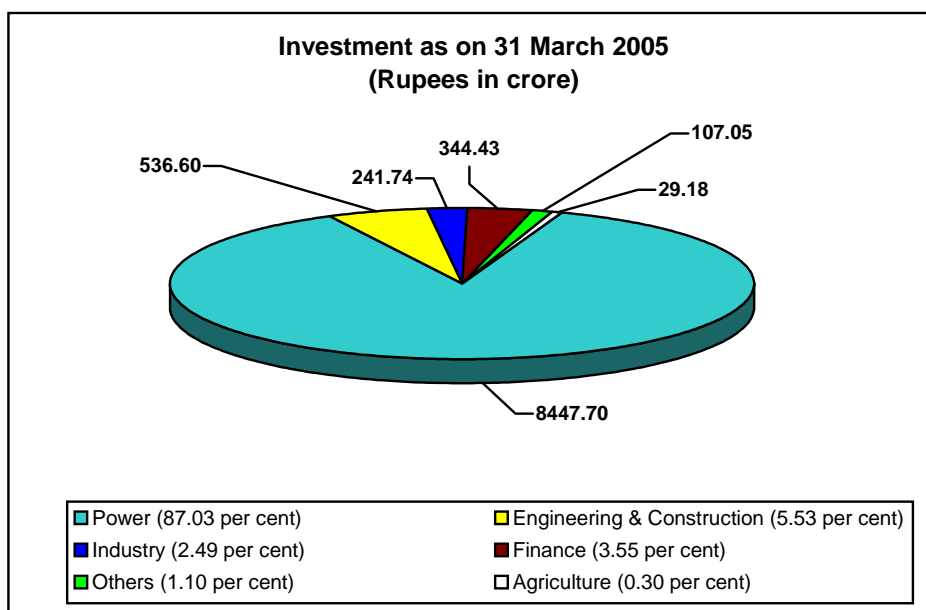
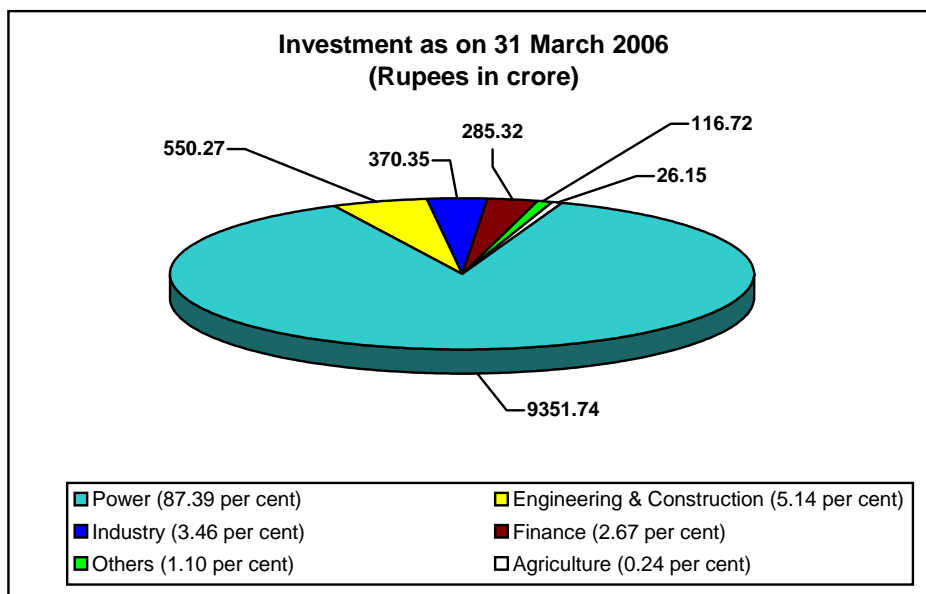
* Non-working companies are those, which are under process of liquidation/closure/ merger etc.

Long-term loans mentioned in para 1.2, 1.3 and 1.4 are excluding interest accrued and due on such loans.

Rs. 7,655.51 crore and share application money: Rs.839.63 crore) as against total investment of Rs. 9,706.70 crore (equity: Rs. 2,274.30 crore, long-term loans: Rs. 7,079.00 crore and share application money: Rs. 353.40 crore) as on 31 March 2005. Analysis of investment in working PSUs is given in the following paragraphs.

Sector wise investment in working Government companies and Statutory corporations

The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2006 and 31 March 2005 are indicated below in the pie charts:



Working Government companies

1.3 The total investment in working Government companies at the end of March 2005 and March 2006 was as follows:

(Amount: Rupees in crore)

Year	Number of working Government companies	Equity	Share application money	Long-term loans	Total
2004-05	19	2,237.53	353.40	6,756.56	9,347.49
2005-06	19	2,165.64	839.63	7,396.36	10,401.63

As on 31 March 2006, the total investment in working Government companies comprised 28.89 per cent equity capital and 71.11 per cent loans compared to 27.72 and 72.28 per cent of equity capital and loans, respectively as on 31 March 2005.

A summarised position of Government investment in working Government companies in the form of equity and loans is detailed in **Annexure 1**.

Due to increase in paid up capital of power sector companies the debt equity ratio of working Government companies as a whole decreased from 2.61:1 in 2004-05 to 2.46:1 in 2005-06.

Working Statutory corporations

1.4 The total investment in two working Statutory corporations at the end of March 2005 and March 2006 was as follows:

(Amount: Rupees in crore)

Name of the corporation	2004-05		2005-06	
	Capital	Long-term loans	Capital	Long-term loans
Haryana Financial Corporation	30.93	313.51	33.93	251.39
Haryana Warehousing Corporation	5.84	8.93	5.84	7.76
Total	36.77	322.44	39.77	259.15

A summarised position of Government investment in the working Statutory corporations in the form of equity and loans is detailed in **Annexure 1**.

Due to decrease in long-term loans of both the corporations, the debt equity ratio as a whole decreased from 8.77:1 in 2004-05 to 6.52:1 in 2005-06.

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

1.5 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to working Government companies and working Statutory corporations are given in **Annexures 1 and 3**.

The State Government did not provide any financial support in the form of equity capital, loans or grants/subsidies to Statutory corporations during 2003-06 except rupees three crore provided as equity capital to Haryana Financial Corporation

during 2005-06. The budgetary outgo* in the form of equity capital, loans and grants/subsidies from the State Government to working Government companies during 2003-04 to 2005-06 is given below:

(Amount: Rupees in crore)

Particulars	2003-04		2004-05		2005-06	
	No. of companies	Amount	No. of companies	Amount	No. of companies	Amount
Equity capital	10	130.19	7	166.98	12	348.47
Loans	3	87.79	3	21.96	2	5.09
Grants/Subsidy towards						
1.Projects/ Programmes/ Schemes	7	77.74	5	16.10	8	1,306.73
2.Others	6	926.57	5	1,170.74	3	9.37
Total grants/ subsidy		1,004.31		1,186.84		1,316.10
Total outgo		1,222.29		1,375.78		1,669.66

During the year 2005-06, the Government had guaranteed loans aggregating Rs. 893.02 crore obtained by three working Government companies (Rs. 368.02 crore) and two working Statutory corporations (Rs. 525 crore). At the end of the year, guarantees amounting to Rs. 3,744.42 crore against 11 working Government companies (Rs 3,699 crore) and one working Statutory Corporation (Rs. 45.42 crore) were outstanding. The guarantee commission paid/payable to the Government by four Government companies and one Statutory corporation during the year was Rs. 7.90 crore and Rs 48.75 lakh, respectively.

Finalisation of accounts by working PSUs

1.6 Out of the 21 working PSUs (19 Government companies and two Statutory corporations), both the Statutory corporations and six Government companies had finalised their accounts for the year 2005-06 by 30 September 2006. During the period from October 2005 to September 2006, 16 working Government companies finalised 17 accounts for previous years. Similarly, two corporations finalised two accounts for the previous year during this period.

The accounts of 13 working Government companies involving 31 accounts were in arrears for periods ranging from one to seven years as on 30 September 2006 as detailed below:

Sl. No.	No. of working Government companies	Period for which accounts were in arrears	Number of years for which accounts were in arrears	Reference to Serial No. of Annexure 2
1.	1	1999-2000 to 2005-06	7	A8
2.	3	2002-03 to 2005-06	4	A12, A13,A15
3.	3	2004-05 to 2005-06	2	A5, A6, A16
4.	6	2005-06	1	A9, A10, A11, A14, A18, A19

* Reconciliation of figures with Finance Accounts is pending.

Financial position and working results of working PSUs

1.7 The summarised financial results of working PSUs as per their latest finalised accounts are given in **Annexure 2**. Besides, statements showing financial position and working results of individual working Statutory corporations for the latest three years are given in **Annexure 4** and **5**, respectively.

According to the latest finalised accounts of the 19 working Government companies and two working Statutory corporations, seven companies had incurred an aggregate loss of Rs. 454.31 crore. Ten companies and two corporations earned an aggregate profit of Rs.17.35 crore and Rs. 51.71 crore, respectively. One company (Sl. No. A10 of **Annexure 2**) did not prepare a profit and loss account as it capitalised excess of expenditure over income and another company (Sl. No. A16 of **Annexure 2**) neither showed profit nor loss, as its total income was equal to expenditure.

Working Government companies

Profit earning working Government companies and dividend

1.8 Out of the six Government companies which finalised their accounts for the year 2005-06 up to 30 September 2006, five[^] companies earned aggregate profit of Rs.14.44 crore. Out of the 16 Government companies, which finalised their accounts for previous years by 30 September 2006, seven[§] companies earned an aggregate profit of Rs. 3.64 crore. Five companies earned profit for two or more successive years. The State Government had formulated (October 2003) a dividend policy under which all PSUs are required to pay a minimum return of four *per cent* on the paid up share capital contributed by the State Government. Two companies (Sl. No. A2 and A4 of **Annexure 2**) declared dividend of Rs. 1.22 crore during the year 2005-06 which works out to 0.06 *per cent* of total equity investment of Rs. 2001.12 crore by the state Government in working Government companies.

Loss incurring working Government companies

1.9 Of the seven loss incurring working Government companies, two[#] companies had accumulated losses aggregating Rs. 5,588.64 crore, which was more than ten times of their aggregate paid up capital of Rs. 526.80 crore.

Working Statutory corporations

Profit earning Statutory corporations

1.10 Both the Statutory corporations (Sl. No. B-1 & B-2 of Annexure 2) finalised their accounts for the year 2005-06 up to 30 September 2006 and booked profit of Rs. 51.71 crore. One corporation (Sl.No. B-1 of **Annexure 2**), however, had accumulated loss of Rs. 154.17 crore, which was more than four times of its paid-up capital of Rs. 33.93 crore. The other

[^] Sl. No. A-1, 2, 3, 4 and 7 of **Annexure-2**.

[§] Sl. No. A-2,3, 5,6 ,8,12 and 15 of **Annexure 2**.

[#] Sl. No. A-9 and 19 of **Annexure 2**.

corporation (Sl.No. B-2 of **Annexure 2**) declared dividend of Rs. 1.33 crore. The dividend as a percentage of total share capital in above profit earning corporations worked out to 3.34 *per cent*.

Operational performance of working Statutory corporations

1.11 The operational performance of the working Statutory corporations is given in **Annexure 6**. In Haryana Financial Corporation, the overdue amount of loans had increased from Rs. 1,249.50 crore in 2003-04 to Rs. 1,582.34 crore in 2005-06. The percentage of overdue loans to total outstanding loans also increased from 58.08 to 67.72 during this period.

Return on capital employed

1.12 As per the latest finalised accounts (up to 30 September 2006), the capital employed* worked out to Rs. 7910.70 crore in 19 working Government companies and total return[@] thereon amounted to Rs. 53.53 crore (0.68 *per cent*) as compared to total return of Rs 726.94 crore (9.76 *per cent*) on capital employed of Rs. 7,446.50 crore in previous year (accounts finalised by September 2005). Similarly, the capital employed and the total return thereon in case of two working Statutory corporations as per their latest finalised accounts (up to 30 September 2006) worked out to Rs. 629.83 crore and Rs 83.13 crore (13.20 *per cent*) respectively as against capital employed of Rs. 820.40 crore and total return of Rs 57.77 crore (7.04 *per cent*) thereon for the previous year (accounts finalised up to September 2005). The details of capital employed and total return on capital employed in case of working Government companies and Statutory corporations are given in **Annexure 2**.

Reforms in the power sector

Status of implementation of Memorandum of Understanding between the State Government and the Central Government

1.13 A Memorandum of Understanding (MOU) was signed on 13 February 2001 between the Ministry of Power, Government of India (GOI) and the Department of Power, Government of Haryana (State Government) as a joint commitment for implementation of a reforms programme in the power sector with identified milestones. Status of implementation of the reforms

* Capital employed represents net fixed assets (including capital work-in-progress) plus working capital except in finance companies and corporations where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).

[@] For calculating total return on capital employed, interest on borrowed funds has been added to net profit/subtracted from the loss as disclosed in the profit and loss account.

programme against each commitment made in the MOU is detailed below:

Sl No.	Commitment as per the MOU	Targeted completion schedule	Status (As on 31 March 2006)
Commitments made by the State Government			
1.	Reduction in transmission and distribution (T&D) losses	T&D losses set at 40.76 per cent by HERC during 2000-01 were proposed to be brought down by 5 per cent each year (15.76 per cent by 2005-06)	34.36 per cent
2.	100 per cent metering of all distribution feeders	31 March 2001	Completed in March 2001
3.	100 per cent metering of all consumers	31 December 2001	Metering of all consumers except agricultural consumer (2.70 lakh) has been completed.
4.	Securitize outstanding dues of Central Public Sector Undertakings	Outstanding dues were to be securitised and current dues were not to exceed two months billing.	Regular payments were being made since October 2001 after securitisation of old dues.
5.	Haryana Electricity Regulatory Commission (HERC)		
(a)	Establishment of HERC	-	Already established in August 1998
(b)	Implementation of tariff orders issued by HERC during 2005-06	-	Implemented
Commitments made by the GOI			
6.	Supply of additional power	Not fixed	During 2005-06 additional power ranging between 14 and 24 per cent out of unallocated quota was given.
General			
7.	Monitoring of MOU	Quarterly	Being monitored regularly.

State Electricity Regulatory Commission

1.14 Haryana Electricity Regulatory Commission (Commission) was formed on 17 August 1998 under the Haryana Electricity Reforms Act, 1997 (Act) with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licenses. The Commission is a body corporate and comprises three members including a Chairman, who are appointed by the State Government. As per Section 8(3) of the Act, all expenditure of the Commission is to be charged to the Consolidated Fund of the State. The audit of accounts of the Commission has been entrusted to CAG under Section 104(2) of the Electricity Act, 2003. Under Section 103 of the Act, *ibid*, the State Government was to constitute a State Electricity Regulatory Commission Fund for crediting its receipts by way of grants/loans, fees etc. to meet out expenses of the commission. The fund is yet to be constituted (May 2006). The Commission had finalised its accounts up to 2005-06. During 2005-06, the Commission issued 22 orders (eight on aggregate revenue requirements and 14 on others) against nine orders issued (one on aggregate revenue requirements and eight on others) during 2004-05.

Non-working Public Sector Undertakings

Investment in non-working PSUs

1.15 As on 31 March 2006, the total investment in seven non-working PSUs (all Government companies) was Rs. 139.32 crore (equity: Rs. 23.96 crore; long-term loans: Rs. 115.36 crore) as against total investment of Rs. 140.68 crore (equity: Rs. 23.97 crore; long-term loans: Rs. 116.64 crore and share application money: Rs. 7.05 lakh) in eight non-working PSUs as on 31 March 2005. The summarised position of Government investment in non-working Government companies in the form of equity and loans is detailed in **Annexure 1**

The classification of the non-working PSUs was as under:

(Amount: Rupees in crore)

Sl. No.	Status of non-working PSUs	Number of companies	Investment	
			Equity	Long-term loans
1.	Under liquidation/ Winding up [#]	2	6.86	3.69
2.	Others (non-working) [§]	5	17.10	111.67
	Total	7	23.96	115.36

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

1.16 The State Government did not release any funds to non-working companies during the year 2005-06. At the end of the year, no guarantee was outstanding as against Rs. 30 lakh outstanding as on 31 March 2005.

Total establishment expenditure of non-working PSUs

1.17 The year-wise details of total expenditure of non-working Government companies and the sources of financing them during the last three years up to 2005-06 are given below:

(Amount: Rupees in lakh)

Year	Number of Government companies	Total establishment expenditure	Financed by		
			Disposal of investment/assets	Government Loans	Others
2003-04	4 [*]	31.73	29.36	0.12	2.25
2004-05	4 [*]	65.00	41.72	-	23.28
2005-06	3 [@]	28.55	8.32	-	20.23

Finalisation of accounts by non-working PSUs

1.18 Out of the seven non working Government companies one company (Sl. No. C-2) finalised its accounts for the year 2005-06 during October 2005 to September 2006. The accounts of four non working companies were in arrears for one to four years as on 30 September 2006 and two [^] companies were under liquidation/winding up as can be seen from **Annexure 2**.

[#] Sl. No. C-4 and 6 of **Annexure 2**.

[§] Sl. No. C-1, 2, 3, 5 and 7 of **Annexure 2**.

^{*} Sl.No. C-1, 2, 5 and 7 of **Annexure 2**.

[@] Sl. No. C-2, 5 and 7 of **Annexure 2**.

[^] Sl.No. C-4 and 6 of **Annexure 2**.

Financial position and working results of non-working PSUs

1.19 The summarised financial results of non-working Government companies as per their latest finalised accounts are given in **Annexure 2**.

As per their latest finalised accounts the net worth of seven non-working companies against their paid-up capital of Rs. 24.04 crore was (-) Rs. 164.04 crore. These companies suffered cash loss of Rs. 18.24 crore and their aggregate accumulated loss worked out to Rs. 188.08 crore.

Status of placement of Separate Audit Reports of Statutory corporations and Haryana Electricity Regulatory Commission in the Legislature

1.20 The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory corporations and Haryana Electricity Regulatory Commission (HERC), in the Legislature by the Government:

Sl. No.	Name of Statutory corporation/ Regulatory Commission	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1	Haryana Financial Corporation	2003-04	2004-05	15 June 2006	Under Print
2	Haryana Warehousing Corporation	2003-04	2004-05	13 March 2006	Under print
3	Haryana Electricity Regulatory Commission	2003-04	2004-05 2005-06	12 December 2005 27 September 2006	Under print -

Disinvestment, Privatisation and Restructuring of Public Sector Undertakings

1.21 The State Government did not undertake any disinvestment, privatisation and restructuring of any of its PSUs during 2005-06.

Results of audit of accounts of PSUs by the Comptroller and Auditor General of India

1.22 During the period from October 2005 to 30 September 2006 the accounts of 23 Government companies (19 working and four non-working) and two Statutory corporations were selected for review.

The net impact of important audit observations as a result of review of the accounts of these PSUs was as follows:

Sl No.	Details	Number of Accounts		Amount (Rupees in crore)	
		Government companies	Statutory corporations	Government companies	Statutory corporations
1.	Decrease in profit	3	1	10.24	1.23
2.	Increase in loss	2	2	4.59	7.42
3.	Understatement of accumulated loss	1	-	0.74	-
4.	Non disclosure of material facts	4	1	97.56	1.15
5.	Errors of classification	2	-	11.29	-

Some of the major errors and omissions noticed in the course of review of annual accounts of these PSUs are mentioned below:

Errors and omissions in case of Government companies

Haryana Backward Classes and Economically Weaker Section Kalyan Nigam Limited (2000-01)

1.23 The accumulated loss was understated by Rs. 66.12 lakh due to non provision of doubtful loans and advances.

Haryana Power Generation Corporation Limited (2002-03)

1.24 The accumulated loss was understated by Rs. 1.25 crore due to excess capitalisation of interest.

Haryana Power Generation Corporation Limited (2003-04)

1.25 The profit for the year was overstated by Rs. 8.70 crore due to capitalisation of revenue, non provision for bad and doubtful advances and liability for expenses.

Haryana Police Housing Corporation Limited (2003-04)

1.26 Non-inclusion of work-in-progress measured and certified for Rs. 77.31 lakh resulted in understatement of work-in-progress and current liabilities to that extent.

Haryana State Industrial and Infrastructure Development Corporation Limited (2004-05)

1.27 Under-provision of doubtful recovery of loans and advances in default resulted in overstatement of profit by Rs. 1.06 crore.

Dakshin Haryana Bijli Vitran Nigam Limited (2004-05)

1.28 The loss was understated by Rs. 3.34 crore and other current assets were overstated by the same amount due to non provision of thefts/misappropriation/embezzlements.

Errors and omissions in case of Statutory corporations

Haryana Financial Corporation (2003-04)

1.29 Non provision of leave encashment liability resulted in understatement of other liabilities and loss by Rs. 2.66 crore.

1.30 Inclusion of rejected claims in the claims recoverable resulted in overstatement of assets and understatement of loss by Rs. 56.24 lakh.

Haryana Financial Corporation (2004-05)

1.31 Non provision of leave encashment resulted in understatement of loss by Rs. 3.18 crore.

1.32 Short provision of Rs. 51.28 lakh against doubtful assets resulted in overstatement of loans and advances and understatement of accumulated loss to that extent.

Haryana Warehousing Corporation (2004-05)

1.33 In violation of Accounting Standard-2 of the Institute of Chartered Accountants of India inclusion of storage charges and interest of Rs. 5.58 lakh and Rs. 75.88 lakh, respectively as income on undelivered stock had resulted in overstatement of profit by Rs. 81.46 lakh.

Recoveries at the instance of audit

1.34 On the basis of deficiencies pointed out in audit, the Power Utilities had recovered Rs. 82.92 lakh in seven cases during this year. The deficiencies relate to non-recovery of liquidated damages (Rs. 66.11 lakh) stage wise penalty from a supplier (Rs. 9.33 lakh), short supply of transformer oil (Rs. 3.27 lakh), early payment rebate (Rs. 0.90 lakh), non-recovery of reconnection charges (Rs. 1.14 lakh), rent of poles from cable operators (Rs. 1.95 lakh) and penalty for slow energy meter (Rs. 0.22 lakh).

Internal audit/internal control

1.35 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal control/internal audit systems in the companies audited in accordance with the directions issued by the Comptroller and Auditor General of India to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which need improvement. An illustrative resume of major recommendations/ comments made by the Statutory Auditors on possible improvement in the internal audit/internal control system in respect of two companies for the year 2004-05 and one (Sl. No A-1 of **Annexure 2**) company for the year 2005-06 is given below:

Sl. No.	Nature of comment made by Statutory Auditors	Number of the companies where recommendations were made	Reference to serial number of the companies as per Annexure 2
1.	Non-fixation of minimum/maximum limits of store and spares	2	A-1 & A-19
2.	Absence of internal audit system commensurate with the nature and size of business of the company	1	A-19
3	Non computerisation of operations	1	A-19
4.	Non computerisation of inventory management	2	A-1 & A-17
5.	Non adoption of ABC analysis for inventory	1	A-19

Recommendations for closure of PSUs

1.36 Even after completion of 11 to 41 years of their existence, the individual turnover of six Government companies (four* working and two# non-working) had been less than rupees five crore in each of the preceding five years as per their latest finalised accounts. Two\$ non working Government companies had been incurring losses for five consecutive years, as per their latest finalised accounts, leading to negative net worth.

In view of poor turnover and continuous losses, the Government may either improve the performance of these eight Government companies or consider their closure.

Position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings (COPU)

1.37 The status (as on 30 September 2006) of reviews and paragraphs that appeared in Audit Reports (Commercial) and were discussed by COPU is as under:

Period of Audit Report	Number of reviews/paragraphs			
	Appeared in Audit Report		Paras discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
2000-01	4	16	4	-
2001-02	2	14	2	11
2002-03	3	19	2	18
2003-04	2	22	1	-
2004-05	2	20	-	-
Total	13	91	9	29

Audit Report (Commercial) for the year 2004-05 was placed before the State Legislature on 19 December 2005.

619-B Companies

1.38 There was no company under Section 619-B of the Companies Act, 1956 in the State.

* Sl. No. A-7, 12, 13 and 14 of Annexure 2.

Sl. No. C-2 and 3 of Annexure 2.

\$ Sl. No. C-1 and 7 of Annexure 2.