

Chapter-I

1. Overview of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Maharashtra, the State PSUs occupy an important place in the State economy. The State working PSUs registered a turnover of Rs 35,495.23 crore in 2008-09 as per their latest finalised accounts as of September 2009. This turnover was equal to 5.09 *per cent* of State Gross Domestic Product (GDP) for 2008-09. Major activities of Maharashtra State PSUs are concentrated in power and infrastructure sectors. The State working PSUs earned an overall profit of Rs 545.55 crore in the aggregate for 2008-09 as per their latest finalised accounts. They had employed 2.02 lakh* employees as of 31 March 2009. The State PSUs do not include 49 prominent Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments. Audit findings of these DUs are incorporated in the Civil Audit Report for the State.

1.2 As on 31 March 2009, there were 85 PSUs as *per* the details given below. Of these, none of the companies were listed on the stock exchange(s).

Type of PSUs	Working PSUs	Non-working PSUs ^ψ	Total
Government Companies [♦]	57	24	81
Statutory Corporations	4	~	4
Total	61	24	85

1.3 During the year 2008-09, two PSUs[€] were established whereas one non-working PSU^Δ was privatised. Further, two non-working Companies^{ΔΔ} have been transferred under working PSUs based on the information provided by them.

*As per the details provided by 46 working PSUs. Remaining PSUs did not furnish the details.

^ψNon-working PSUs are those which have ceased to carry on their operations.

[♦] Includes 619-B companies at Sl. No. A-5,17,28 and 47 of **Annexure-1**.

[~] No non-working Statutory corporation.

[€] Aurangabad Power Company Limited and Dhule Thermal Power Company Limited.

^Δ Chitali Distillery Limited.

^{ΔΔ} Maharashtra Urban Infrastructure Development Company Limited and Maharashtra Urban Infrastructure Fund Trustee Company Limited.

Audit Mandate

1.4 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as *per* Section 619-B of the Companies Act.

1.5 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by Comptroller and Auditor General of India (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.

1.6 Audit of Statutory corporations is governed by their respective legislations. Out of four Statutory corporations, CAG is the sole auditor for Maharashtra State Road Transport Corporation and Maharashtra Industrial Development Corporation. In respect of Maharashtra State Warehousing Corporation and Maharashtra State Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

Investment in State PSUs

1.7 As on 31 March 2009, the investment (capital and long-term loans) in 85 PSUs (including four 619-B Companies) was Rs 47,268.03 crore as per details given below.

(Rupees in crore)

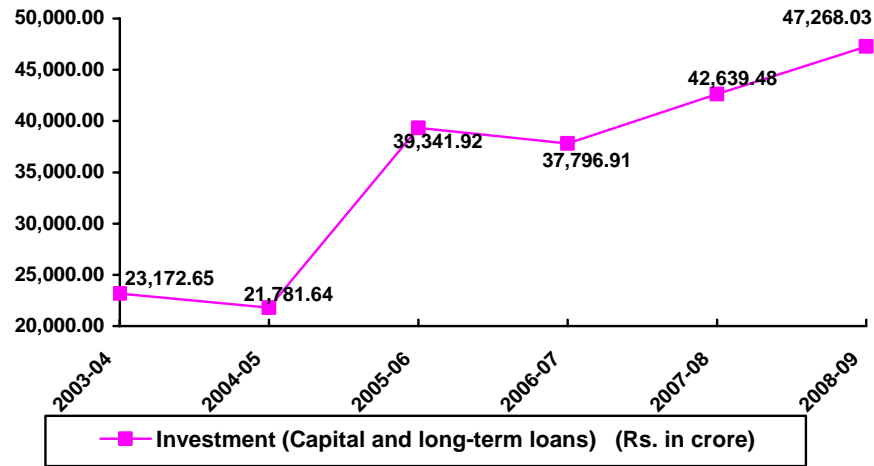
Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	19,632.19	24,925.52	44,557.71	1,474.72	505.46	1,980.18	46,537.89
Non-working PSUs	326.87	403.27	730.14	- [#]	- [#]	- [#]	730.14
Total	19,959.06	25,328.79	45,287.85	1,474.72	505.46	1,980.18	47,268.03

A summarised position of government investment in State PSUs is detailed in **Annexure 1**.

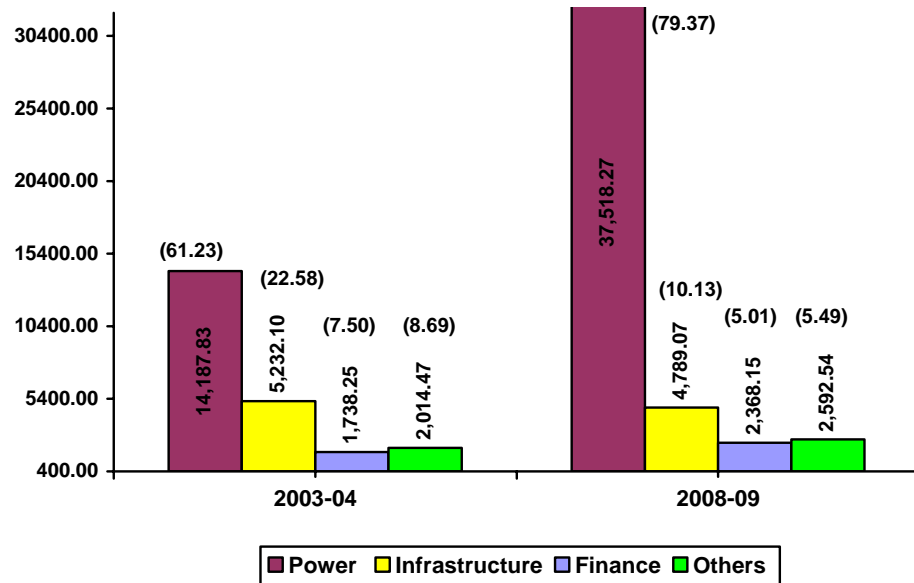
1.8 As on 31 March 2009, of the total investment in State PSUs, 98.46 *per cent* was in working PSUs and the remaining 1.54 *per cent* in non-working PSUs. This total investment consisted of 45.35 *per cent* towards capital and 54.65 *per cent* in long-term loans. The investment has grown by

[#] No Non-working Statutory corporation.

103.98 per cent from Rs 23,172.65 crore in 2003-04 to Rs 47,268.03 crore in 2008-09 as shown in the graph below. There was an increase of Rs 17,560.28 crore in the investments during 2005-06 mainly because of increase in the investments by Rs 16,603.45 crore to power sector companies by way of Equity (Rs 12,939.52 crore) and Loans (Rs 3,663.93 crore).



1.9 The investment in various important sectors and percentage thereof at the end of 31 March 2004 and 31 March 2009 are indicated below in the bar chart. The thrust of PSU investment was mainly in Power sector during the six years period which has seen its percentage share rising from 61.23 to 79.37 per cent.



(Figures in brackets show the percentage of total investment)

Budgetary outgo, grants/subsidies, guarantees and loans

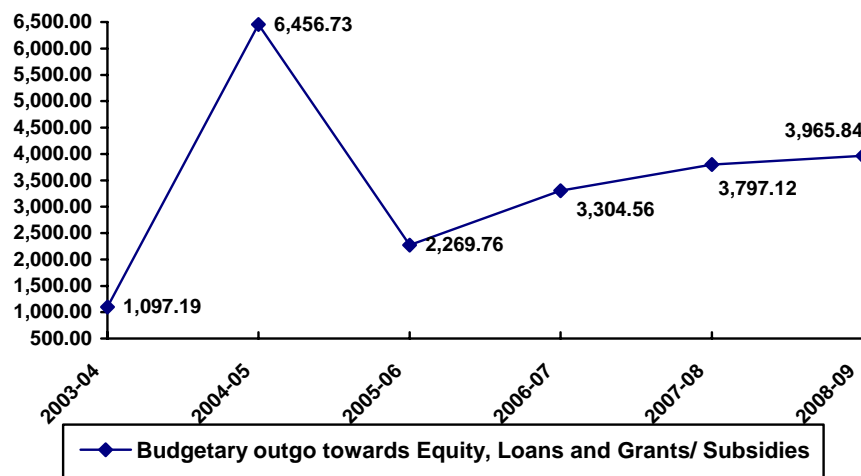
1.10 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Annexure 3**.

The summarised details are given below for three years ended 2008-09.

(Amount Rupees in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	8	578.65	9	327.75	9	862.42
2.	Loans given from budget	3	94.87	2	86.59	4	113.78
3.	Grants/Subsidy received	11	2,631.04	13	3,382.78	17	2,989.64
4.	Total Outgo (1+2+3)	18 [∇]	3,304.56	18 [∇]	3,797.12	22 [∇]	3,965.84
5.	Guarantees issued	1	3.50	3	106.72	3	557.50
6.	Guarantee Commitment	11	6,358.33	11	8,774.53	14	4,042.99

1.11 The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in a graph below.



[∇]Actual number of PSUs which received budgetary support in the form of equity, loans, grants and subsidy from State Government.

The budgetary outgo in the form of equity, loans, grants/subsidies, etc. during 2004-05 was at an all time high of Rs 6,456.73 crore in the six years ended 2008-09. After decline in the budgetary outgo to Rs 2,269.76 crore during 2005-06, it increased gradually and stood at Rs 3,965.84 crore during 2008-09.

1.12 The amount of Guarantee commitment as on 31 March 2008 was at Rs 8,774.53 crore (11 PSUs) which decreased significantly to Rs 4,042.99 crore (14 PSUs) during 2008-09. The Government charges fees for guarantees given at the rate of two *per cent* per annum. During the year 2008-09, nine PSUs paid guarantee fees of Rs 26.62 crore out of Rs 45.53 crore payable leaving an unpaid balance of Rs 18.91 crore. Besides, Rs 27.61 crore pertaining to the period upto 2007-08 were not paid. Thus, total guarantee fees recoverable from these PSUs as on 31 March 2009 was Rs 46.52 crore.

Reconciliation with Finance Accounts

1.13 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2009 is stated below.

(Rupees in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	7,125.62	15,273.97	8,148.35
Loans	6,157.12	4,431.09	1,726.03
Guarantees	4,022.41	4,042.99	20.58

1.14 Audit observed that the differences occurred in respect of 47 PSUs and some of the differences were pending reconciliation for more than three years. The matter was brought to the notice of the Principal Secretary (Finance) demi-officially in May and September 2009 by the Accountant General. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of PSUs

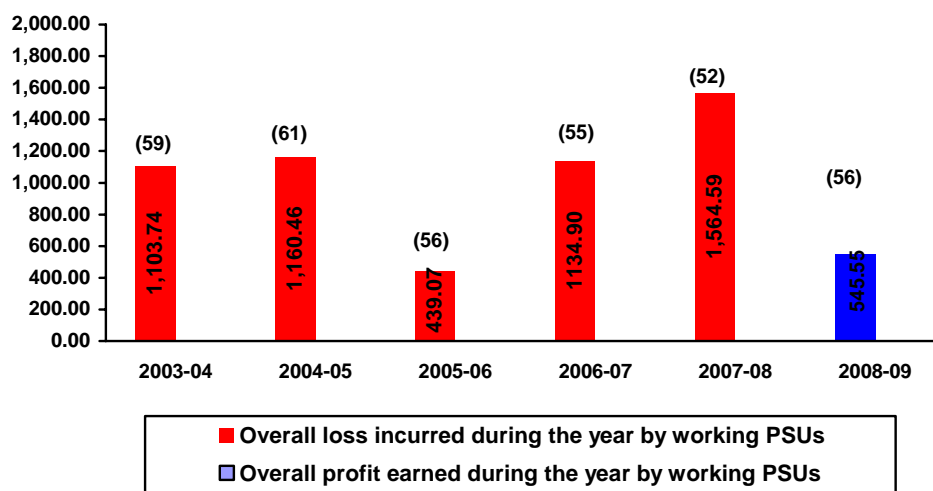
1.15 The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in **Annexures 2, 5 and 6** respectively. A *ratio* of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working

PSU turnover and State GDP for the period 2003-04 to 2008-09.

<i>(Rupees in crore)</i>						
Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover [∞]	17,878.11	19,520.04	19,468.21	26,397.23	34,684.97	35,495.23
State GDP	3,33,145.00	3,71,878.00	4,32,413.00	5,09,356.00	5,90,995.00	6,97,683.00 [♦]
Percentage of Turnover to State GDP	5.37	5.25	4.50	5.18	5.87	5.09

The percentage of turnover to State GDP declined from 5.37 in 2003-04 to 5.09 in 2008-09 as the turnover of PSUs did not increase in proportion to the corresponding increase in GDP.

1.16 Profit (losses) earned (incurred) by State working PSUs during 2003-04 to 2008-09 are given below in a bar chart.



(Figures in brackets show the number of working PSUs excluding PSUs working on no profit no loss basis and/or that have not started commercial activities in respective years)

As against loss of Rs 1,103.74 crore incurred during 2003-04, the working PSUs earned an overall profit of Rs 545.55 crore in 2008-09. During the year 2008-09, out of 61 working PSUs, 34 PSUs earned profit of Rs 1,274.91 crore and 22 PSUs incurred loss of Rs 729.36 crore. Four working PSUs^Δ prepared their accounts on 'no profit no loss basis' and one PSU^{**} was under construction and had not prepared profit and loss account. The major contributors to profit were Maharashtra State Power Generation Company Limited (Rs 479.08 crore), Maharashtra State Electricity Transmission Company Limited (Rs 356.11 crore), Maharashtra State Road Transport Corporation (Rs 159.23 crore), Maharashtra State Electricity Distribution

[∞] Turnover as per the latest finalised accounts as of 30 September 2009.

[♦] Advance estimates as furnished by Directorate of Economics and Statistics, Government of Maharashtra.

^Δ Sl. No. A-12,17,29 and 54 of Annexure-2.

^{**} Sl. No.A-45 of Annexure-2.

Company Limited (Rs 121.22 crore). The heavy losses were incurred by MSEB Holding Company Limited (Rs 339.88 crore) and Maharashtra State Road Development Corporation Limited (Rs 337.59 crore).

1.17 The losses of working PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of the latest Audit Reports of CAG shows that the State working PSUs incurred losses to the tune of Rs 3,396.06 crore and infructuous investment of Rs 125.25 crore, which were controllable with better management. Year wise details from Audit Reports are stated below.

(Rupees in crore)

Particulars	2006-07	2007-08	2008-09	Total
Net Profit (loss)	(1,134.90)	(1,564.59)	545.55	(2,153.94)
Controllable losses as per CAG's Audit Report	1,216.32	699.99	1,479.75	3,396.06
Infructuous Investment	94.26	14.69	16.30	125.25

1.18 The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the losses can be minimised (or eliminated or the profits can be enhanced substantially). The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

1.19 Some other key parameters pertaining to State PSUs are given below.

(Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed (Per cent)	2.83	2.55	1.93	-- [≈]	0.89	7.52 [*]
Debt	18,079.48	16,421.43	20,812.25	18,827.73	27,035.20	25,834.25
Turnover [†]	17,878.11	19,520.04	19,468.21	26,397.23	34,684.91	35,495.23
Debt/ Turnover Ratio	1.01:1	0.84:1	1.07:1	0.71:1	0.78:1	0.73:1
Interest Payments	1,792.17	1,737.91	626.74	1,182.61	2,355.14	2,197.56
Accumulated Profits (losses)	(3,622.10)	(4,577.82)	(3,907.81)	(4,739.23)	(6,639.08)	(7,006.90)

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

[≈]Return on Capital Employed was Negative during the year.

^{*}Return on capital for the year has been computed by considering profit before tax after prior period adjustment.

[†]Turnover of working PSUs as per the latest finalised accounts as of 30 September 2009.

1.20 The percentage of consolidated return on all PSUs varied from 2.83 in 2003-04 to 0.89 in 2007-08 and 7.52 during 2008-09. It was negative during the year 2006-07. The accumulated losses of the PSUs have increased from Rs 3,622.10 crore in 2003-04 to Rs 7,006.90 crore in 2008-09 indicating an increase of 93.45 *per cent* over these six years.

The debt turnover *ratio*, which was at 1.01:1 during 2003-04, deteriorated to 1.07:1 in 2005-06. During 2008-09 it improved and stood at 0.73:1.

1.21 The State Government had not formulated any policy for payment of minimum dividend by the PSUs till 2007-08. The updated position in this regard was awaited from the State Government. As per their latest finalised accounts, 34 working PSUs earned an aggregate profit of Rs 1,274.91 crore and only one PSU (Maharashtra State Warehousing Corporation) declared a dividend of Rs 2 crore at the rate of 22.96 *per cent*.

Performance of major PSUs

1.22 The investment in working PSUs and their turnover together aggregated to Rs 82,033.12 crore during 2008-09. Out of 61 working PSUs, each of the following six PSUs accounted for individual investment *plus* turnover of more than five *per cent* of aggregate investment *plus* turnover. These six PSUs together accounted for 92.67 *per cent* of aggregate investment *plus* turnover.

(Rupees in crore)

PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to Aggregate Investment plus Turnover
(1)	(2)	(3)	(4)	(5)
Maharashtra State Electricity Distribution Company Limited	7,441.98	20,158.61	27,600.59	33.65
Maharashtra State Power Generation Company Limited	11,798.53	8,081.97	19,880.50	24.23
MSEB Holding Company Limited	11,852.60	-- [~]	11,852.60	14.45
Maharashtra State Electricity Transmission Company Limited	5,505.58	1,571.06	7,076.64	8.63
Maharashtra State Road Transport Corporation	1,412.12	3,740.89	5,153.01	6.28
Maharashtra State Road Development Corporation Limited	4,179.02	277.32	4,456.34	5.43
Total	42,189.83	33,829.85	76,019.68	92.67

Some of the major audit findings of past five years for above PSUs are stated in the succeeding paragraphs.

[~]The Company has been vested with the Assets and Liabilities of all its subsidiaries on unbundling of MSEB in 2005-06 and does not have any turnover of its own.

Maharashtra State Electricity Distribution Company Limited

1.23 The Company earned a profit of Rs 121.22 crore in 2007-08 as against loss of Rs 303.41 crore in 2005-06. The turnover had risen from Rs 14,251.35 crore in 2005-06 to Rs 20,158.61 crore in 2007-08. The return on capital employed had increased from 0.53 *per cent* in 2005-06 to 6.25 *per cent* in 2007-08.

1.24 Deficiencies in planning

- The Company did not avail the allocation of power from cheaper Central sources to the full extent during 2005-06 to 2007-08 and had to incur additional expenditure of Rs 374.79 crore on purchase of power from outside agencies at higher rates. (**Paragraph 2.3.12** of the Audit Report-(Commercial)-2007-08).
- The Company did not initially prioritise the projects under Accelerated Power Development Reforms Programme based on higher Transmission and Distribution losses defeating the purpose of the programme. (**Paragraph 2.2.15** of the Audit Report (Commercial)-2006-07).

1.25 Deficiencies in implementation

- The average cost of energy sold during 2003-08 was abnormally high due to purchase of power from costly sources and higher (T&D) losses. Resultantly, the Company could not recover the high average cost of energy causing loss of Rs 5,783.26 crore during the period (**Paragraph 2.3.15** of the Audit Report (Commercial)-2007-08).
- Non implementation of load regulation as directed by Maharashtra Electricity Regulatory Commission (MERC) resulted in loss of Rs 96 crore to the Company (**Paragraph 2.3.18** of the Audit Report (Commercial)-2007-08).
- In the absence of penal clause for breach of commitment in the contract for power purchase, the Company had to purchase power from costly sources resulting in financial outgo of Rs 31.38 crore (**Paragraph 2.3.13** of the Audit Report (Commercial)-2007-08).

1.26 Deficiencies in monitoring

- Out of 89,056 Distribution Transformers in operation in 12 Circles, 74,279 Distribution Transformers were not metered and the reports showing high losses in 1,702 Distribution Transformers were not acted upon (**Paragraph 2.1.12** of the Audit Report (Commercial)-2005-06).

1.27 Non achievement of objectives

- The Company did not achieve the norms fixed by MERC for Transmission and Distribution (T&D) losses resulting in excess T&D loss of

Rs 1,407.89 crore during 2006-08 (**Paragraph 2.3.16** of the Audit Report (Commercial)-2007-08).

- In 20 projects taken up for execution, the metering work was completed to the extent of 50 *per cent* only resulting in non achievement of the intended benefits of the programme of reduction of T&D and Aggregate Technical and Commercial (AT&C) losses (**Paragraph 2.2.21** of the Audit Report (Commercial)-2006-07).

1.28 Deficiencies in financial management

- Extra payment of Rs 61.22 crore was made to private parties in procurement of wind energy. (**Paragraph 4.2** of the Audit Report (Commercial)-2005-06).
- Failure to take criminal action under the Negotiable Instruments Act, 1948 for bounced cheques resulted in accumulation of arrears of Rs 2.62 crore. (**Paragraph 4.5** of the Audit Report (Commercial)-2005-06).
- The Company did not avail the benefit of rebate of Rs 55.34 lakh in purchase of power by availing short term borrowing for payment. (**Paragraph 2.3.21** of the Audit Report (Commercial)-2007-08).

Maharashtra State Power Generation Company Limited

1.29 The profit of the Company had risen continuously in past three years from Rs 112.94 crore in 2005-06 to Rs 479.08 crore in 2007-08. Similarly, the turnover too had risen from Rs 5,468.64 crore to Rs 8,081.97 crore during this period. The return on capital had increased from 4.08 to 9.47 *per cent*.

1.30 Deficiencies in planning

- Hasty decision of the Company to install Coal Mill Reject Handling System in all power stations simultaneously resulted in idle investment of Rs 12.06 crore, besides non-achievement of intended benefits of lesser maintenance cost and pollution free environment. (**Paragraph 3.7** of the Audit Report (Commercial)-2007-08).
- The Parli Thermal Power Station did not plan in advance the purchase of fire protection equipments and purchased locally the equipment on urgent basis resulting in extra expenditure of Rs 41.61 lakh (**Paragraph 3.9** of the Audit Report (Commercial)-2007-08).

1.31 Deficiencies in implementation

- The Company did not pay for water charges based on actual quantity lifted by installing electronic measuring devices as per terms of the Agreement, resulting in avoidable payment of excess water charges of Rs 10.52 crore. (**Paragraph 4.10** of the Audit Report (Commercial)-2006-07).

- The eligibility criteria for participating in the tenders for works contracts were restrictive leading to creation of monopoly of two contractors at five thermal power stations in the State. There was no uniformity in penalty clauses resulting in non/short recovery of penalty of Rs 6.63 crore. (**Paragraph 3.8** of the Audit Report (Commercial)-2007-08).

Maharashtra State Road Transport Corporation.

1.32 The Corporation earned a profit of Rs 159.23 crore in 2007-08 as against loss of Rs 39.94 crore in 2005-06. The turnover increased from Rs 3,295.31 crore in 2005-06 to Rs 3,740.89 crore in 2008-09. The return on capital employed had increased from 10.38 to 22.53 per cent.

1.33 Deficiencies in planning

- The Corporation incurred loss of Rs 13.79 crore due to operation of mini buses, which was not viable due to non availability of engines/spares parts etc. (**Paragraph 3.1.12** of the Audit Report (Commercial)-2006-07).

1.34 Deficiencies in implementation

- Profitable trips of the Corporation were cancelled on account of controllable reasons like late receipt of vehicles from line, late dispatch of vehicles from depot etc. resulting in avoidable loss of revenue of Rs 104.28 crore. (**Paragraph 3.1.15** of the Audit Report (Commercial)-2006-07).
- The Corporation could not achieve the targets for consumption of High Speed Diesel resulting in extra expenditure of Rs 83.21 crore during the period 2003-07. (**Paragraph 3.1.18** of the Audit Report (Commercial)-2006-07).

1.35 Deficiencies in monitoring

- The inspection parties formed by the Corporation to carry out inspection of private bus operators was ineffective due to omission to include a vital check in its inspection programme thereby the illicit traffic operations continued to thrive causing loss to the tune of Rs 500 crore per annum. (**Paragraph 4.17** of the Audit Report (Commercial)-2004-05).

1.36 Deficiencies in financial management

- The Corporation remitted excess Motor vehicles tax of Rs 283.63 crore to the Government than that collected from the passengers (**Paragraph 4.16** of the Audit Report (Commercial)-2005-06).
- The Corporation paid excess fuel charges of Rs 2.07 crore due to non-verification of bills raised by Indian Oil Corporation Limited (**Paragraph 4.25** of the Audit Report (Commercial)-2006-07).

- The Corporation rejected price increase claims of the supplier and resorted to local purchase thereby incurred avoidable expenditure of Rs 1.27 crore (**Paragraph 3.18** of the Audit Report (Commercial)-2007-08).

Maharashtra State Road Development Corporation Limited.

1.37 The Company had arrears of accounts for two years as of September 2009. The loss of the company had increased from Rs 335.31 crore in 2005-06 to Rs 337.59 crore in 2006-07. The turnover had decreased from Rs 293.97 crore to Rs 277.32 crore during the period. The return on capital had increased from 0.06 to 1.50 *per cent*.

1.38 *Deficiencies in planning*

- Company's acceptance of the redesigning of the project at the behest of the Consultant put an additional cost of Rs 55.23 crore on the project (**Paragraph 2.1.17** of the Audit Report (Commercial)-2006-07).
- Company's failure to assess the technical issues related to environment resulted in extra expenditure of Rs 11.75 crore and wasteful expenditure of Rs 1.56 crore apart from delay in the construction of ramps at Mahim inter change (**Paragraph 2.1.18** of the Audit Report (Commercial)-2006-07).
- Belated changes in the design of Worli-Bandra Sea Link Project resulted in infructuous expenditure of Rs 7.97 crore (**Paragraph 4.6** of the Audit Report (Commercial)-2003-04).

1.39 *Deficiencies in implementation*

- The Company incurred extra expenditure of Rs 54.06 crore due to irregular award of construction works and irregular allotment of consultancy contracts for the Mumbai-Pune Expressway (**Paragraph 2.10 to 2.11** of the Audit Report (Commercial)-2004-05).
- The Company suffered a loss of Rs 21.31 crore due to adoption of lower traffic growth rate contrary to Government notification, incorrect rates of toll and incorrect working of net present value of the upfront toll price (**Paragraph 3.10** of the Audit Report (Commercial)-2007-08).
- The Company failed to lease out telecom ducts for more than four years resulting in loss of potential revenue amounting to Rs 14.68 crore (**Paragraph 4.12** of the Audit Report (Commercial)-2006-07).

1.40 *Deficiencies in monitoring*

- A benefit of Rs 4.06 crore was passed on to the contractor executing the Mumbai-Pune Expressway due to not restricting payment to executed quantities. The Company also made payment of Rs 12.57 crore towards inadmissible claims (**Paragraph 2.17** of the Audit Report (Commercial)-2004-05).

1.41 Deficiencies in financial management

- The Company suffered a loss of revenue of Rs 23.50 crore due to extension of contract for toll collection at the five entry points of Mumbai City without calling for tenders (**Paragraph 4.14** of the Audit Report (Commercial)-2006-07).
- The Company made inadmissible payment of Rs 7.49 crore to a contractor in respect of Bandra-Worli Sea Link Project in violation of the contractual provisions (**Paragraph 4.9** of the Audit Report (Commercial)-2005-06).
- The Company awarded the toll collection contract on Thane-Ghodbunder Road by fixing lower reserve price and thereby suffered loss of Rs 5.93 crore (**Paragraph 4.11** of the Audit Report (Commercial)-2006-07).

Conclusion

1.42 The above details indicate that the State PSUs are not functioning efficiently and there is tremendous scope for improvement in their overall performance. They need to imbibe greater degree of professionalism to ensure delivery of their products and services efficiently and profitably. The State Government should introduce a performance based system of accountability for PSUs.

Arrears in finalisation of accounts

1.43 The accounts of the Companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as *per* the provisions of their respective Acts.

The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2009.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Number of Working PSUs	65	60	59	57	61
2.	Number of accounts finalised during the year	51	37	51	42	57
3.	Number of accounts in arrears	174	183	177	175	185*
4.	Average arrears <i>per</i> PSU (3/1)	2.68	3.05	3.00	3.07	3.03
5.	Number of Working PSUs with arrears in accounts	55	53	50	52	55
6.	Extent of arrears	1 to 14 years	1 to 15 years	1 to 15 years	1 to 13 years	1 to 13 years.

* Includes 24 accounts of 24 working PSUs which were in arrears for one year *i.e.* 2008-09 of which six accounts have been received during October and November 2009.

1.44 The average arrears per PSU had increased from 2.68 in 2004-05 to 3.03 in 2008-09. The PSUs having arrears of accounts need to take effective measures for early clearance of backlog and make the accounts up to date. The PSUs should ensure that at least one year's accounts are finalised each year so as to restrict further accumulation of arrears.

1.45 In addition to above, there were also arrears in finalisation of accounts by non-working PSUs. Out of 24 non-working PSUs, three♦ had gone into liquidation process. Of the remaining 21 non-working PSUs, 16 PSUs had arrears of accounts for one to 23 years.

1.46 The State Government had invested Rs 4,628.57 crore (Equity: Rs 1,077.64 crore, Loans: Rs 294.77 crore, Grants: Rs 3,256.16 crore) in 29 PSUs during the years for which accounts have not been finalised as detailed in **Annexure 4**. In the absence of accounts and their subsequent audit, it can not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

1.47 The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though, the concerned administrative departments and officials of the Government were informed every quarter by Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this, the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was taken up with the Chief Secretary in January and April 2009. The matter was also taken up with the Principal Secretary (Finance) through meetings held in December 2008 and September 2009 as also through letters issued in January, May, June and September 2009 to expedite the backlog of arrears in accounts in a time bound manner.

1.48 In view of above state of arrears it is recommended that:

- **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**

♦Sahyadri Glass Works Limited, The Overseas Employment and Export Promotion Corporation of Maharashtra Limited and Irrigation Development Corporation of Maharashtra Limited .

Winding up of non-working PSUs

1.49 There were 24 non-working PSUs (all Companies) as on 31 March 2009. Of these, three PSUs have commenced liquidation process. The numbers of non-working Companies at the end of each year during past five years are given below.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
No. of non-working Companies	21	20	22	27	24

The non-working PSUs are required to be closed down as their existence is not going to serve any purpose. During 2008-09, five non-working PSUs incurred an expenditure of Rs 0.15 crore towards salary and establishment expenditure *etc.* This expenditure was financed through lease of property, miscellaneous income *etc.* of these PSUs.

1.50 The stages of closure in respect of non-working PSUs (all Companies) are given below.

Sl. No.	Particulars	Companies
1.	Total No. of non-working PSUs	24
2.	Of (1) above, the No. under liquidation	3*
3.	Closure, <i>i.e.</i> closing orders/instructions issued but liquidation process not yet started	10

1.51 During the year 2008-09, none of the Companies/Corporations were finally wound up, though the liquidation process was on for periods ranging from 16 to 23 years. The Government may make a decision regarding winding up of 11 non-working PSUs where no decision about their continuation or otherwise has been taken after they became non-working. The Government may consider setting up a cell to expedite closing down its non-working Companies.

Accounts Comments and Internal Audit

1.52 Forty two working companies forwarded their audited 53 accounts to Accountant General during the year 2008-09. Of these, 34 accounts of 30 Companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved

* The nature of winding up not known. Information has been sought from Finance and Administrative Departments.

substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount Rupees in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	5	152.13	11	234.05	6	87.32
2.	Increase in loss	5	67.39	4	21.53	8	52.49
3.	Non-disclosure of material facts	5	63.21	4	19.97	8	683.55
4.	Errors of classification	~	~	~	~	3	44.00
	Total		282.73		275.55		867.36

As seen from the above table the money value of comments of Statutory Auditors and CAG has increased from Rs 282.73 crore in 2006-07 to Rs 867.36 crore in 2008-09.

1.53 During the year, the statutory auditors had given unqualified certificates for 18 accounts and qualified certificates for 35 accounts. Additionally, CAG gave adverse certificate on one account during the supplementary audit. The compliance of Companies with the Accounting Standards remained poor as there were 72 instances of non-compliance in 17 accounts during the year.

1.54 Some of the important comments in respect of accounts of Companies are stated below.

Maharashtra State Electricity Distribution Company Limited (2007-08)

- Revenue from sale of power was overstated by Rs 10.31 crore due to non-accountal of load factor incentive/other credits payable to consumers and wrong booking of revenue correspondingly resulting in overstatement of surplus by Rs 10.31 crore.
- Non-provision for power purchase bills resulted in overstatement of surplus and understatement of current liabilities by Rs 5.46 crore.
- Non-provision of Rs 4.79 crore towards transmission charges to be passed on to Maharashtra State Electricity Transmission Company Limited (MSETCL) resulted in overstatement of surplus to the same extent.
- Credit received from Power Grid Corporation towards transmission charges was not shown as payable to MSETCL resulting in overstatement of

~ Indicates 'nil' errors of classification were noticed during 2006-07 and 2007-08.

transmission charges by Rs 6.67 crore with consequent overstatement of surplus.

- Capitalisation of cost of meters, head office supervision and general establishment charges pertaining to repairs and maintenance works resulted in overstatement of capital expenditure in progress and surplus by Rs 3.22 crore.

Maharashtra State Electricity Power Generation Company Limited (2007-08)

- Recognition of doubtful revenues from disputed bills resulted in understatement of provisions and overstatement of sundry debtors and profit by Rs 21.04 crore.
- Wrong capitalisation of expenses of revenue nature resulted in overstatement of fixed assets net block and profit by Rs 7.19 crore.
- Profit was overstated by Rs 1.25 crore due to accounting of disputed bill as revenue from sale of power.
- Profit was overstated by Rs 10.60 crore due to non-passing of revenue to Maharashtra State Electricity Distribution Company Limited (MSEDCL) for power supplied by MSEDCL to Company's colony at Chandrapur Super Thermal Power Station.
- Fixed assets and profit were overstated by Rs 17.05 crore due to errors in calculation of depreciation.

MSEB Holding Company Limited (2005-06)

- Provision of interest on Government loans for which provision was already made in the books of erstwhile Maharashtra State Electricity Board resulted in overstatement of current liabilities and loss by Rs 59.50 crore.

Maharashtra State Electricity Transmission Company Limited (2007-08)

- The Company had not provided for depreciation on fixed assets acquired during the year which resulted in overstatement of surplus by Rs 24.04 crore.

Maharashtra State Handlooms Corporation Limited (2007-08)

- Provision towards doubtful debts was short by Rs 1.49 crore resulting in understatement of loss to the same extent.

Maharashtra Agro Industries Development Corporation Limited (2007-08)

- Gratuity provision was made for Rs 3.54 crore as against Rs 4.61 crore required resulting in overstatement of profit by Rs 1.07 crore.

1.55 Similarly, four working Statutory corporations forwarded their four accounts to the Accountant General during the year 2008-09. Of these, two accounts of two Statutory corporations were audited by CAG. The remaining two accounts were selected for supplementary audit. The audit reports of statutory auditors and the sole/supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and CAG are given below.

(Amount Rupees in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	2	1.23	2	6.08	3	22.35
2.	Increase in loss	-- [≈]	-- [≈]	1	171.35	1	217.35
3.	Non-disclosure of material facts	-- [≈]	-- [≈]	2	88.70	3	1,141.89
4.	Errors of classification	-- [≈]	-- [≈]	-- [≈]	0.08	-- [≈]	-- [≈]
	Total		1.23		266.21		1,381.59

As seen from the above table, the net impact per account on the working results of PSUs as a result of the audit observations has increased from Rs 0.62 crore (2006-07) to Rs 59.93 crore (2008-09).

1.56 During the year, out of four accounts of four Statutory corporations, three accounts of three Corporations received qualified certificates. The remaining one account received adverse certificate.

1.57 Some of the important comments in respect of accounts of Statutory corporations are stated below.

Maharashtra State Financial Corporation (2007-08)

- Non-provision for interest payable on subvention of loans and bonds resulted in understatement of interest liability and losses by Rs 13.81 crore.
- Non-provision for guarantee fee payable to Government of Maharashtra resulted in understatement of loss and current liabilities by Rs 3.73 crore.
- Non-provision/short provision for interest on loans, bonds, borrowings, dues of loanee concerns etc. resulted in understatement of loss by Rs 200.19 crore.

[≈] This indicates 'nil' accounts and money value.

Maharashtra State Road Transport Corporation (2007-08)

- Profit was overstated by Rs 5.03 crore due to non provision for debts recoverable from licencees of commercial establishments which were outstanding from the year 1969-70.
- Non provision for payment to the Contributory Provident Fund (CPF) Trust towards deficiency in realisation of interest from investment by the CPF Trust resulted in overstatement of profit and understatement of liability by Rs 1.82 crore.

Maharashtra Industrial Development Corporation (2007-08)

- Water supply receipts included Rs 12.01 crore recoverable from Maharashtra Jeevan Pradhikaran as against actual receivable of Rs 8.83 crore and non withdrawal of disputed water supply arrears amounting to Rs 3.66 crore. This resulted in overstatement of surplus by Rs 6.84 crore.

Maharashtra State Warehousing Corporation (2007-08)

- Subsidy of Rs 66.03 lakh received during the year was not reduced from the cost of fixed assets resulting in overstatement of fixed assets.

1.58 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/internal control system in respect of 20 Companies[‡] for the year

[‡] Sl. No.3,4,5,6,7,11,13,15,16,17,25,28,37,38,39,41,43,53,54 and 56 in **Annexure-2**.

2007-08 and 20 Companies^u for the year 2008-09 are given below.

Sl. No.	Nature of comments made by Statutory Auditors	Number of 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	12	A-3,6,11,16,25,38,39, 43,48, 49,50 and 53
2.	Absence of internal audit system commensurate with the nature and size of business of the Company	22	A-3,4,5,6,7,10,11,16, 17,25,28,38,41,43,48, 49,50,52,53, 54,56 and 57
3.	Non maintenance of cost record	6	A-5,6,10,16,25 and 53
4.	Non maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations	14	A-6,7,9,13,16,25,39, 48,49, 50,52,53,54 and 56
5.	Non-formation of Audit committee	13	A-5,6,7,10,13,15,17,23, 52,53,54,56 and 57
6.	Delegation of powers and duties and responsibilities not adequately defined	10	A-3,7,11,13,23,38,39, 41,49 and 52
7.	System of accounts and financial control	15	A-6,7,11,13,16,23,25, 38,39, 41,49,52,53,54 and 56
8.	System of monitoring timely recovery of outstanding dues.	15	A-3,6,7,9,10,11,16,25, 37,38, 39,43,52,53 and 56
9.	Existence of investment policy	22	A-1,3,4,5,6,7,9,10,11, 15,16,25,28,30,37,43, 48,49,50,52 54 and 56

Recoveries at the instance of audit

1.59 During the course of propriety audit in 2008-09, recoveries of Rs 12.90 crore were pointed out to the Management of various PSUs, of which, recoveries of Rs 2.09 crore were admitted by PSUs. An amount of Rs 1.15 crore was recovered during the year 2008-09.

^u Sl. No. 1,3,4,5,6,9,10,11,16,23,28,30,41,48,49,50,52,53,54 and 57 in Annexure-2.

Status of placement of Separate Audit Reports

1.60 The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory corporations in the Legislature by the Government.

Sl. No.	Name of Statutory corporation	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.	Maharashtra Industrial Development Corporation	2006-07	2007-08	4 September 2009	•

Delay in placement of SARs weakens the legislative control over Statutory Corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the legislature.

Reforms in Power Sector

1.61 The State has formed Maharashtra Electricity Regulatory Commission (MERC) in August 1999 under the Electricity Regulatory Commission Act, 1998* 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. During 2008-09, MERC issued three orders on annual revenue requirements and 22 on others.

1.62 Memorandum of Understanding (MoU) was signed in March 2001 between the Union Ministry of Power and the State Government as a joint commitment for implementation of reforms programme in the power sector with identified milestones. The progress achieved so far in respect of important milestones is stated below.

Sl. No.	Milestone	Achievement as at March 2009
Generation		
1.	Government of Maharashtra will take action to improve availability of Thermal Generating plants from 80 to 85 per cent by 2005	Availability of thermal generating plant during the year 2008-09 was 86.69 per cent.
Transmission and Distribution		
1.	Reduction in transmission and distribution losses to 18 per cent by March 2003	Distribution loss was 21.98 ^Δ per cent and Transmission loss was 4.8 ^Δ per cent.

• Due for placement in ensuing session of the State Legislature.

* Since replaced by Electricity Act, 2003.

^ΔAs the activities of transmission and distribution of electricity are undertaken by two separate Companies, the percentage of losses there against is depicted separately.

Sl. No.	Milestone	Achievement as at March 2009
2.	100 per cent electrification of all villages	4,409 villages remained to be electrified
3.	100 per cent metering of all distribution feeders by December 2001	100 per cent metering of distribution feeders completed
4.	100 per cent metering of all consumers by September 2002	All consumers are metered except 14.41 lakh agricultural consumers
5.	Securitise outstanding dues of Central Public Sector Undertakings	Since done
6.	State Electricity Regulatory Commission (SERC) Establishment of SERC Implementation of tariff orders issued by SERC during the year.	SERC was established on 5 August 1999 Latest tariff orders issued in May 2008 are implemented

Discussion of Audit Reports by COPU

1.63 The status as on 30 September 2009 of reviews and paragraphs that appeared in Audit Reports (Commercial) and discussed by the Committee on Public Undertakings (COPU) is as under.

Period of Audit Report	Number of reviews/paragraphs			
	Appeared in Audit Report		Paras discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
2005-06	3	17	- [≈]	1
2006-07	6	28	- [≈]	- [≈]
2007-08	3	21	- [≈]	- [≈]
Total	12	66	- [≈]	1

[≈] This indicates 'nil'.