

# Chapter-1

## Introduction

### Executive Summary

*Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2012, the State of Punjab had 31 working PSUs (27 companies and 4 Statutory corporations) and 22 non-working PSUs (all companies), which employed 0.65 lakh employees. The working PSUs registered a turnover of ₹ 29,841.98 crore for 2011-12 as per their latest finalised accounts. This turnover was equal to 12.02 per cent of the State GDP indicating an important role played by the State PSUs in the economy. However, the working PSUs incurred overall loss of ₹ 1,510.16 crore in 2011-12 and had accumulated losses of ₹ 12,180.76 crore.*

#### **Investments in PSUs**

*As on 31 March 2012, the investment (Capital and long term loans) in 53 PSUs was ₹ 16,073.75 crore. It grew by over 14.74 per cent from ₹ 14,009.01 crore in 2006-07. The thrust of investment in the State was mainly in power sector. Power Sector accounted for 83.48 per cent of the total investment in 2011-12. The Government contributed ₹ 3,311.22 crore towards equity and grants/subsidies during 2011-12.*

#### **Performance of PSUs**

*During the year 2011-12, out of 31 working PSUs, 14 PSUs earned profit of ₹ 58.67 crore and 12 PSUs incurred loss of ₹ 1,568.83 crore. Three working PSUs prepared their accounts on 'no profit no loss' basis; two working PSUs have not started commercial activities. The major contributors to profit were Punjab State Container and Warehousing Corporation Limited (₹ 11.40 crore), Punjab Genco Limited (₹ 11.15 crore) and Punjab*

*Information and Communication Technology Limited (₹ 11.06 crore). The heavy losses were incurred by Punjab State Electricity Board (₹ 1,301.52 crore), Punjab State Warehousing Corporation (₹ 122.28 crore) and Punjab State Grains Procurement Corporation Limited (₹ 85.60 crore).*

*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 three years Audit Reports (2009-10 to 2011-12) of CAG shows that the state PSUs losses of ₹ 4,923.00 crore and infructuous investments of ₹ 14.52 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.*

#### **Quality of accounts**

*The quality of accounts of PSUs needs improvement. Of the 23 accounts of working companies finalised during October 2011 to September 2012, the statutory auditors had given unqualified certificates for 13 accounts, qualified certificates for seven accounts, adverse certificates for two accounts and disclaimer certificate for one account. There were 20 instances of non-compliance with Accounting Standards. All six accounts of Statutory corporations finalised during October 2011 to September 2012 received qualified certificates. The Reports of the Statutory Auditors on internal control of the companies indicated several weak areas.*

#### **Arrears in accounts and winding up**

*Twenty four working PSUs had arrears of 41 accounts as of September 2012. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to*

*preparation of accounts. There were 22 non-working companies. As no purpose may be served by keeping these PSUs in existence,*

*Government needs to expedite closing down of the non working PSUs.*

## Overview

**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 the people. In Punjab, the State PSUs occupy an important place in the State economy. The working PSUs registered a turnover of ₹ 29,841.98 crore in 2011-12 as per their latest finalised accounts as of 30 September 2012. This turnover was equal to 12.02 *per cent* of the State Gross Domestic Product (GDP) of ₹ 2, 48,300.95 crore in 2011-12. Major activities of the Punjab State PSUs are concentrated in power, transport, procurement of foodgrains and finance sectors. The working State PSUs incurred a loss of ₹ 1,510.16 crore in the aggregate in 2011-12. They employed 0.65 lakh employees as on 31 March 2012.

**1.2** As on 31 March 2012, there were 53 PSUs as per details given below. Of these, only one Company i.e. Punjab Communications Limited was listed on the stock exchange.

Type of PSUs	Working PSUs	Non-working PSUs <sup>1</sup>	Total
Government companies <sup>2</sup>	27	22	49
Statutory corporations	4	-	4
<b>Total</b>	<b>31</b>	<b>22</b>	<b>53</b>

**1.3** During the year 2011-12, no new PSU was established and no PSU was closed down.

## 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 was a Government company (deemed Government company) as per Section 619-B of the Companies Act, 1956.

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

<sup>1</sup> Non-working PSUs are those which have ceased to carry on their operations.

<sup>2</sup> Includes three 619-B companies (deemed Government companies) namely Punjab Venture Capital Limited, Punjab Venture Investors Trust Limited and Gidderbaha Power Limited.

**1.6** Audit of Statutory corporations is governed by their respective legislations. Out of the four Statutory corporations, CAG is the sole auditor for the Punjab Scheduled Castes Land Development and Finance Corporation and PEPSU Road Transport Corporation. In respect of the Punjab State Warehousing Corporation and Punjab Financial Corporation, the audit is conducted by the Chartered Accountants and supplementary audit by CAG.

### Investment in the State PSUs

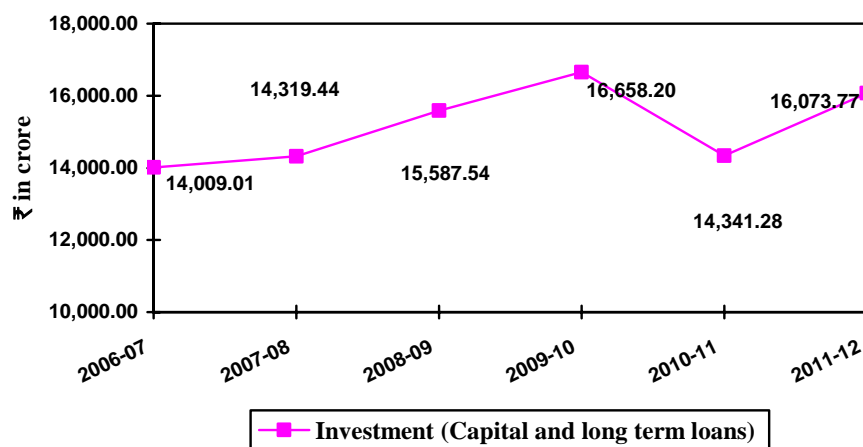
**1.7** As on 31 March 2012, the investment (capital and long-term loans) in the 53 PSUs (including 619-B companies) was ₹ 16,073.75 crore as detailed below:

(Amount: ₹ in crore)

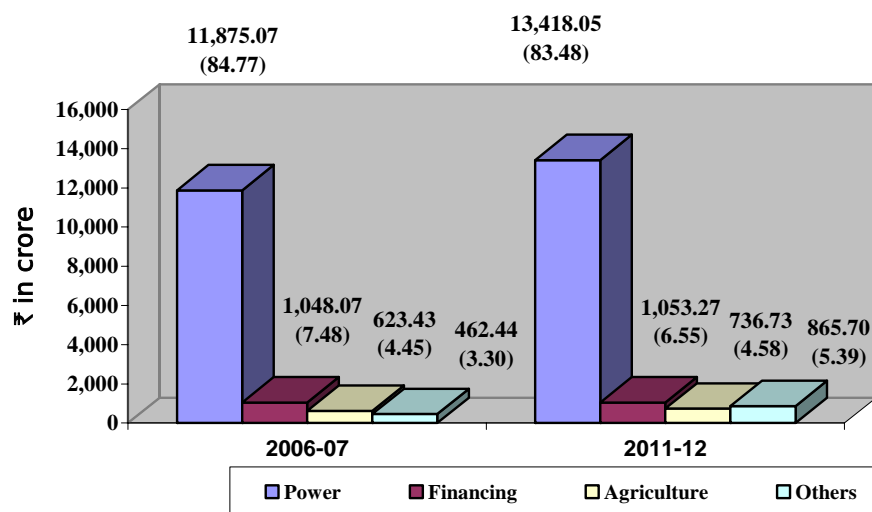
PSUs	Government companies			Statutory corporations			Grand total
	Capital	Long term loans	Total	Capital	Long term loans	Total	
Working PSUs	3,632.81	11,598.49	15,231.30	423.09	359.14	782.23	16,013.53
Non-working PSUs	25.06	35.16	60.22	-	-	-	60.22
<b>Total</b>	<b>3,657.87</b>	<b>11,633.65</b>	<b>15,291.52</b>	<b>423.09</b>	<b>359.14</b>	<b>782.23</b>	<b>16,073.75</b>

Details of Government investment in the State PSUs are given in *Annexure 1*.

**1.8** As on 31 March 2012, of the total investment in the State PSUs, 99.63 per cent was in working PSUs and the remaining 0.37 per cent in non-working PSUs. The investment consisted of 25.39 per cent as capital and 74.61 per cent as long-term loans. The investment has grown by 14.74 per cent from ₹ 14,009.01 crore in 2006-07 to ₹ 16,073.75 crore in 2011-12 as shown in the graph below:



**1.9** The investment in important sectors and percentage thereof at the end of 31 March 2007 and 31 March 2012 are indicated below in the bar chart. The thrust of PSU investment in the State was mainly in power sector. However its percentage share in overall investments decreased from 84.77 per cent in 2006-07 to 83.48 per cent in 2011-12.



(Figures in brackets show the percentage of total investment)

### Budgetary outgo, grants/subsidies, guarantees and loans

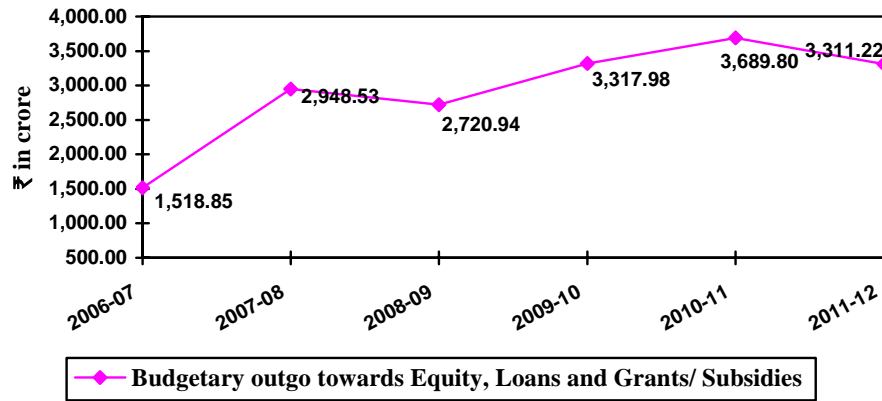
**1.10** The details regarding budgetary outgo from the State Government towards equity, loans, grants/ subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of the State PSUs are given in *Annexure 3*. The summarised position is given below for three years ended 2011-12:

(Amount: ₹ in crore)

Sl. No.	Particulars	2009-10		2010-11		2011-12	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital	2	10.50	2	33.04	1	1.67
2.	Loans given to the PSUs	-	-	-	-	-	-
3.	Grants/Subsidy to the PSUs	3	3,307.48	3	3,656.76	3	3,309.55
4.	Total Outgo (1+2+3)	4 <sup>3</sup>	3,317.98	4 <sup>3</sup>	3,689.80	4 <sup>3</sup>	3,311.22
5.	Guarantees issued	9	25,016.05	7	21,339.58	8	26,123.95
6.	Cumulative Guarantee Commitment	9	25,691.57	9	32,063.11	10	35,565.07

<sup>3</sup> Actual number of PSUs which received budgetary support.

**1.11** The details regarding budgetary outgo towards equity, loans and grants/ subsidies for the past six years are given in a graph below:



The budgetary outgo which stood at ₹ 1,518.85 crore in 2006-07 sharply increased to ₹ 2,948.53 crore in 2007-08. It stood at ₹ 3,689.80 crore in 2010-11 and decreased to ₹ 3,311.22 crore in 2011-12. Out of ₹ 3,311.22 crore, 96.64 percent was for power sector.

**1.12** The amount of guarantee commitment as on 31 March 2010 was ₹ 25,691.57 crore (9 PSUs) which increased to ₹ 32,063.11 crore (9 PSUs) as on 31 March 2011 and to ₹ 35,565.07 crore (10 PSUs) as on 31 March 2012.

The State Government charged guarantee fee at the rate of  $\frac{1}{8}$  per cent in case of PSUs engaged as procuring agencies and 0.5 to 2 per cent from the other PSUs. During the year, the PSUs paid guarantee fee of ₹ 28.93 crore (excluding ₹ 13.00 crore pertaining to previous years) out of ₹ 57.78 crore payable, leaving a balance of ₹ 28.85 crore. Besides, ₹ 27.66 crore of guarantee fee pertaining to the period from February 2001 to March 2011 was not paid as on 31 March 2012.

### Reconciliation with Finance Accounts

**1.13** The figures in respect of equity, loans and guarantees outstanding as per the 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 the differences. The position in this regard as on 31 March 2012 is given below:

Outstanding in respect of	(₹ in crore)		
	Amount as per Finance Accounts (Provisional)	Amount as per records of PSUs	Difference
Equity	3,573.35	3,950.12	376.77
Loans	1,686.21	259.14	1,427.07
Guarantees	35,565.07	35,565.07	-

**1.14** Some of the differences were pending reconciliation since 1976-77. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

### Performance of the PSUs

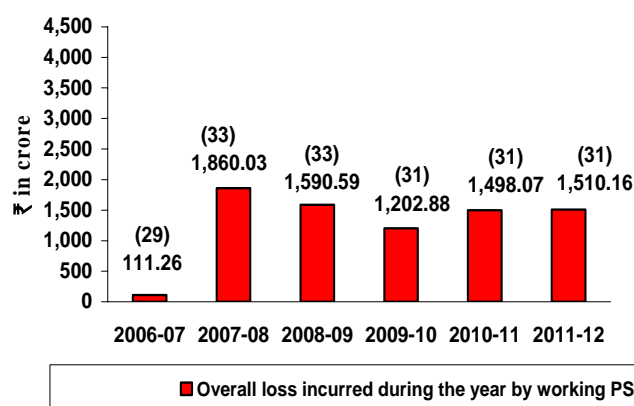
**1.15** The financial results of PSUs, financial position and the working results of the working Statutory corporations are detailed in *Annexures 2, 5 and 6* respectively. A ratio of PSU turnover to the State GDP shows the extent of PSU activities in the State economy.

The following table provides the details of working PSUs turnover and the State GDP for the period 2006-07 to 2011-12:

Particulars	₹ in crore)					
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Turnover <sup>4</sup>	17,245.64	17,552.66	19,138.60	22,399.29	24,431.81	29,841.98
State GDP <sup>5</sup>	1,27,122.91	1,52,245.32	1,74,039.13	1,98,392.56	2,24,974.82	2,48,300.95
Percentage of turnover to the State GDP	13.57	11.53	11.00	11.29	10.86	12.02

The turnover of State PSUs to the State GDP in percentage terms declined from 13.57 in 2006-07 to 10.86 in 2010-11 but increased to 12.02 in 2011-12. The turnover of PSUs did not increase in proportion to increase in State GDP.

**1.16** Losses incurred by the State working PSUs during 2006-07 to 2011-12 are given below in a bar chart.



(Figures in brackets represent the number of working PSUs in the respective years)

<sup>4</sup> Turnover as per the latest finalised accounts as of 30 September 2012.

<sup>5</sup> Figures for 2006-07 to 2008-09 are as per revised estimates, for 2009-10 are as per provisional estimates, for 2010-11 are as per quick estimate and 2011-12 are as per advance estimates.

During 2006-12, the State working PSUs incurred losses every year. The losses increased from ₹ 111.26 crore in 2006-07 to ₹ 1,510.16 crore in 2011-12. During the year 2011-12, out of 31 working PSUs, 14 PSUs earned profit of ₹ 58.67 crore and 12 PSUs incurred loss of ₹ 1,568.83 crore as per their latest finalised accounts. Three<sup>6</sup> working PSUs prepared their accounts on 'no profit no loss' basis; and two<sup>7</sup> working PSUs have not started commercial activities. The major contributors to profit were three PSUs viz. Punjab State Container and Warehousing Corporation Limited (₹ 11.40 crore), Punjab Genco Limited (₹ 11.15 crore) and Punjab Information and Communication Technology Limited (₹ 11.06 crore). The heavy losses were incurred by three PSUs viz. erstwhile Punjab State Electricity Board (₹ 1,301.52 crore), Punjab State Warehousing Corporation (₹ 122.28 crore) and Punjab State Grains Procurement Corporation Limited (₹ 85.60 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. The latest Audit Reports of CAG contained audit comments on losses to the tune of ₹ 737.93 crore and infructuous investment of ₹ 6.27 crore, which were controllable with better management. The year wise details from the Audit Reports are given below:

(₹ in crore)				
Particulars	2009-10	2010-11	2011-12	Total
Net loss	1,202.88	1,498.07	1,510.16	4,211.11
Controllable losses/ avoidable expenditure as per CAG's Audit Report	1,917.47	2,267.60	737.93	4,923.00
Infructuous Investment	1.27	6.98	6.27	14.52

**1.18** The above losses pointed out in the 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. 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 the State PSUs are given below:

<sup>6</sup> Punjab Police Hosing Corporation Ltd., Punjab Municipal Infrastructure Development Company and Punjab Police Security Corporation Limited.

<sup>7</sup> Punjab Agro Power Corporation Limited and Gidderbaha Power Corporation Limited.



(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Return on Capital Employed (in percentage)	8.00	-	0.96	4.62	4.69	5.13
Debt	10,249.92	10,523.48	11,756.98	12,814.83	10,459.81	11,992.79
Turnover <sup>8</sup>	17,245.64	17,552.66	19,138.60	22,399.29	24,431.81	29,841.98
Debt/ Turnover Ratio	0.59:1	0.60:1	0.61:1	0.57:1	0.43:1	0.40:1
Interest Payments	1,390.92	1,457.79	1,805.75	2,479.60	2,925.97	3408.29
Accumulated losses <sup>9</sup>	5,976.19	7,664.13	9,239.41	10,636.06	12,192.08	12,492.46

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

**1.20** The percentage of consolidated return on capital employed of all PSUs decreased from 8.00 in 2006-07 to 0.96 in 2008-09. It, however, increased to 4.62 in 2009-10 and further increased to 5.13 in 2011-12. It was negative in the year 2007-08. The accumulated losses increased from ₹ 5,976.19 crore in 2006-07 to ₹ 12,492.46 crore in 2011-12.

The ratio of the debts to the turnover which was 59 per cent in 2006-07 increased gradually and reached 61 per cent in 2008-09. It showed improvement after 2008-09, when it declined to 57 per cent of the turnover in 2009-10, 43 per cent in 2010-11 and to 40 per cent of the turnover in 2011-12.

**1.21** The State Government had formulated (April 1999) a policy under which all PSUs are required to pay a minimum return of four per cent on the funds invested by the State Government. As per their latest finalised accounts, 14 PSUs earned an aggregate profit of ₹ 58.67 crore of which four PSUs declared a dividend of ₹ 3.30 crore at the rate ranging from four per cent to 50 per cent. The remaining 10 PSUs did not declare dividend despite earning profits of ₹ 28.48 crore.

#### Arrears in finalisation of accounts

**1.22** 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 the case of Statutory Corporations, their accounts are to be 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 the working PSUs in finalisation of accounts by 30 September 2012:

<sup>8</sup> Turnover of State PSUs as per the latest finalised accounts as of 30 September 2012.

<sup>9</sup> This represents the losses of all the working and non working PSUs.

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1.	Number of Working PSUs	33	33	31	31	31
2.	Number of accounts finalised during the year	25	38	33	28	29 <sup>10</sup>
3.	Number of accounts in arrears	62 <sup>11</sup>	57	49 <sup>12</sup>	39 <sup>13</sup>	41
4.	Average arrears per PSU (3/1)	1.88	1.73	1.58	1.26	1.32
5.	Number of Working PSUs with arrears in accounts	29	25	23	24	24
6.	Extent of arrears (years)	1 to 5	1 to 5	1 to 6	1 to 4	1 to 5

**1.23** The average number of accounts in arrears *per* working PSU decreased from 1.88 in 2007-08 to 1.32 in 2011-12. 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 also ensure that at least one year's accounts are finalised each year so as to restrict further accumulation of arrears.

**1.24** In addition to the above, there were also arrears in finalisation of the accounts by the non-working PSUs. Out of 22 non-working PSUs, eight<sup>14</sup> had gone into liquidation process. The remaining 14 non-working PSUs had arrears of accounts ranging from one to 21 years.

**1.25** The State Government had invested ₹ 7,010.82 crore (Equity: ₹ 30.76 crore, grants/subsidy: ₹ 6,980.06 crore) in six PSUs during the years for which accounts were not finalised as detailed in **Annexure 4**. In the absence of finalisation 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. Thus, Government's investment in such PSUs remained outside the scrutiny of the State Legislature. Further, delay in finalisation of the accounts may result in risk of fraud and leakage of public money, apart from violation of the provisions of the Companies Act, 1956.

**1.26** 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

<sup>10</sup> It represents 23 accounts of working companies and six accounts of statutory corporations.

<sup>11</sup> Includes one account of a Company which became working from non-working.

<sup>12</sup> Excluding six accounts of two companies which became non-working during the year.

<sup>13</sup> Excluding 13 accounts of three companies which became non-working during the year.

<sup>14</sup> Companies at Sl. No. C-2, 7, 8, 9, 10, 12, 13 and 22 of **Annexure 2**.

bi-annual by the 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.

**1.27** In view of the above mentioned state of arrears, it is recommended that:

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

### Winding up of non-working PSUs

**1.28** There were 22 non-working PSUs (all companies) as on 31 March 2012. Of these, eight<sup>15</sup> PSUs were under liquidation/winding up process. The numbers of non-working companies at the end of each year during the past five years are given below.

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
No. of non-working companies	17	17	19	22	22

The non-working PSUs are required to be closed down as their existence is not going to serve any purpose. During 2011-12, 12 non-working PSUs incurred an expenditure of ₹ 0.65 crore towards salary/establishment expenditure etc. This expenditure was financed through other resources viz. borrowings from common pool fund of PSUs under liquidation, interest on investments, etc.

**1.29** The stages of closure in respect of the non-working PSUs are as follows:

Sl. No.	Particulars	Number
1.	Total No. of non-working PSUs	22
2.	Of (1) above, the number under	
(a)	Liquidation by Court (liquidator appointed)	3
(b)	Voluntary winding up (liquidator appointed)	5
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	7 <sup>15</sup>

**1.30** During the year 2011-12, no company was finally wound up. The companies which have taken the route of winding up by Court order are under liquidation for a period ranging from 3 to 29 years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted/pursued vigorously.

<sup>15</sup> Companies at Sl. No. C- 1, 4, 11, 14, 15, 16 & 17 of *Annexure-2*.

**The Government may make a decision regarding winding up of the remaining seven non-working PSUs where no decision about their continuation or otherwise has been taken after they became defunct. The Government (Directorate of Disinvestment)<sup>16</sup> may expedite closing down of the non-working companies.**

**Accounts comments and internal audit**

**1.31** Twenty working companies forwarded their 23 accounts to Audit during the year 2011-12. Of these, 15 accounts of 14 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 substantially. The details of aggregate money value of comments of the statutory auditors and CAG are given below:

(Amount: ₹ in crore)

Sl. No.	Particulars	2009-10		2010-11		2011-12	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in Profit	1	227.60	4	11.98	6	682.99
2.	Increase in Loss	3	21.76	5	36.73	2	0.78
3.	Decrease in Loss	3	51.56	1	0.23	1	0.74
4.	Non disclosure of material facts	2	289.96	6	147.94	3	172.73
5.	Errors of classification	1	15.62	1	0.71	2	4.83
	<b>Total</b>		<b>606.50</b>		<b>197.59</b>		<b>862.07</b>

**1.32** During the year, the statutory auditors had given unqualified certificates for thirteen accounts, qualified certificates for seven accounts, adverse certificates (which mean that accounts do not reflect a true and fair position) for two accounts and disclaimer certificate (which mean that the auditor is unable to give any opinion about true and fair view) for one account. The compliance of companies with the Accounting Standards remained poor as there were 20 instances where Accounting Standards were not complied with in 8 accounts during the year 2011-12<sup>17</sup>.

**1.33** Some of the important comments in respect of the accounts of companies finalised during the year 2011-12 are stated below:

<sup>16</sup> A cell established for disinvestment of State Government equity in State PSUs/ Subsidiaries and for restructuring/privatisation, etc. of these PSUs.

<sup>17</sup> October 2011 to September 2012.

**Punjab State Seed Corporation Limited (2008-09)**

Non provision of interest of ₹5.29 crore on loan overdue for repayment resulted in overstatement of accumulated profits (including current year's profit by ₹ 1.40 crore) and understatement of unsecured loans to the same extent.

**Punjab Agro Foodgrains Corporation Limited (2009-10)**

During the year 2004-05, the Corporation held the stock of wheat for average period of about 2.5 months from the date of procurement till 30 June and necessary claims in respect of interest and custody and maintenance charges had been booked whereas the Government of India allowed ( August 2011) interest and custody and maintenance charges for 2004-05 for 2.38 months. The overcharging of interest resulted in overstatement of Sundry Debtors and profits by ₹ 1.41 crore.

**Punjab State Civil Supplies Corporation Limited (2010-11)**

- The closing stock included paddy stock of ₹ 21.34 crore of Kharif Marketing Season (KMS) 2010-11 which was not physically available in the millers' storage premises for which FIR was lodged in August 2011. The company had not made any provision in this regard. This resulted in overstatement of closing stock of Paddy as well as understatement of loss by ₹ 21.34 crore.
- The Company had made (March 2010) the provision of pay arrears of Fifth Pay Commission of ₹17.89 crore for the period from January 2006 to July 2009 on the basis of estimated liability, however, actual liability of pay arrears was ₹ 20.45 crore and the Company paid 40 *per cent* pay arrears of ₹ 8.18 crore during 2011-12 but the company did not make provision of ₹ 2.56 crore ( actual payable ₹ 20.45 crore minus already made ₹ 17.89 crore) on the basis of actual liability. This resulted in understatement of Loss for the year by ₹ 2.56 crore and understatement of current liabilities and provisions to the same extent.

**Punjab information and Communication Technology Corporation Limited (2010-11)**

- The Company had accounted for an amount of ₹ 6.30 crore and ₹ 2.86 crore pertaining to the expenditure on development of plots/sheds and receipt from the sale of plots/sheds respectively, which should have been charged to Profit and Loss Account instead of treating the same as Capital Expenditure and Capital Receipts. This resulted in overstatement of Capital expenditure by ₹ 6.30 crore, Receipt on Capital Account by ₹ 2.86 crore and profit by ₹ 3.44 crore.
- Loan & advances included an amount of ₹ 8.25 crore being expenditure on Global Industrial and Knowledge City, Rajpura Project, which was abandoned and the same should have been charged to the profit and loss

account. This resulted in overstatement of Loan & advances and Profit by ₹ 8.25 crore.

### **Punjab Genco Limited (2010-11)**

Sundry debtors includes ₹ 6.81 crore recoverable from erstwhile Punjab State Electricity Board/Punjab State Power Corporation Limited on account of sale of power/energy bills raised (for the period from 2000-01 to 2010-11) in respect of four Mini Hydel Power Plants of Bathinda Branch Canal which had been disputed by them. The Company neither provided for nor disclosed the same in the Accounts resulting in overstatement of Sundry Debtors and Profit for the year by ₹ 6.81 crore.

### **Punjab State Industrial Development Corporation Limited (2010-11)**

- The Company allowed 5 *per cent* rebate of ₹ 0.84 crore on principal amount of loan (₹ 0.53 crore in 2009-10 and ₹ 0.31 crore in 2010-11) in case of One Time Settlement (OTS) policy for loans announced in March 2009 and remained in force up to 16 February 2011 in violation to the RBI guidelines. Less receipt of income of ₹ 0.84 crore (₹ 0.31 crore in 2010-11) resulted in overstatement of loss during the year by ₹ 0.31 crore and accumulated loss by ₹ 0.84 crore.

- The Company incurred bond issue expenses of ₹ 1.87 crore during the year which should have been charged to Profit and Loss Account over a period of ten years according to the principle of matching concept . However, the company charged the entire bond issue expenses to the Profit and Loss Account during the year. This resulted in overstatement of Loss during the year by ₹ 1.68 crores (₹ 1.87 crore - ₹ 0.19 crore) and understatement of bond issue cost (deferred assets) to the same extent.

**1.34** Similarly, four working Statutory Corporations forwarded their six accounts to Audit during the year 2011-12<sup>18</sup>. Of these, three accounts of two statutory corporations pertained to sole audit by CAG. The audit reports of statutory auditors and the sole/ supplementary audit of CAG indicate that the quality of maintenance of accounts needs improvement. The details of aggregate money value of comments of statutory auditors and CAG are given in the following table:

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<sup>18</sup> October 2011 to September 2012.

(Amount: ₹ in crore)

Sl. No.	Particulars	2009-10		2010-11		2011-12	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Increase in Loss	4	163.71	2	22.06	2	45.79
2.	Decrease in profits	1	0.52	-	-	-	-
3.	Non disclosure of material facts	4	482.48	1	0.66	2	3.20
4.	Errors of classification	-	-	-	-	-	-
	<b>Total</b>		<b>646.71</b>		<b>22.72</b>		<b>48.99</b>

**1.35** During the year, all the six accounts received qualified certificates. Some of the important comments in respect of accounts of Statutory Corporations are stated below:

#### **PEPSU Road Transport Corporation (2009-10)**

- Non creation of accrual liability of ₹ 44.00 crore pending Board's decision to implement revised pay scales resulted in understatement of current liabilities and loss by ₹ 44.00 crore.
- The Corporation created liability of ₹ 11.20 crore on account of Death cum Retirement Gratuity (DCRG) which remained unpaid for the period ranging from one month to 138 months but interest payable thereon for the delayed period as per the instructions (July 1995) of Punjab Government was not provided in the Accounts. Non-provision of liability of interest payable on the delayed/unpaid DCRG resulted in understatement of liabilities and loss by ₹ 0.84 crore.

#### **PEPSU Road Transport Corporation (2010-11)**

- Non provision of difference of House Tax and Fire Cess of bus stand and workshop building at Sangrur for the year 2008-09 to 2010-11 as demanded by Municipal Council, Sangrur resulted in understatement of other liabilities and Loss by ₹ 1.03 crore.

#### **Punjab Scheduled Castes Land Development and Finance Corporation (2009-10)**

The Corporation released (up to 1987-1988) seed money of ₹ 0.47 crore to the banks for disbursement to the beneficiaries under seed money scheme, but the Corporation had neither bank wise/beneficiary-wise details of the money released to the banks nor took up the matter with the banks to reconcile its dues. The amount booked as Seed Money recoverable was doubtful of recovery. Non creation of provision for doubtful Loans and Advances resulted in understatement of Loss for the year by ₹ 0.47 crore.

**1.36** The statutory auditors (Chartered Accountants) are required to furnish a detailed report on 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 eleven companies<sup>19</sup> for the year 2010-11 and twelve<sup>20</sup> companies for the year 2011-12 are given in the following table.

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies in respect of which 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.	5	A-7, A-14, A-15, A-17 and A-24
2.	Absence of internal audit system commensurate with the nature and size of business of the company.	5	A-6, A-7, A-14, A-24 and A-27
3.	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.	5	A-1, A-6, A-7, A-14 and A-17
4.	Non existence of system of proper documentation of software programme / no approved IT plan.	9	A-1, A-5, A-6, A-7, A-9, A-10, A-14, A-17 and A-27
5.	Non computerization of operations	4	A-5, A-6, A-14 and A-24
6.	Non existence of Audit committee.	2	A-6 and A-14
7.	No clear cut credit policy	5	A-2, A-6, A-7, A-14 and A-15

#### Recoveries at the instance of Audit

**1.37** During the course of audit in 2011-12, recoveries of ₹ 18.65 crore were pointed out to the Management of 10 PSUs out of which recoveries of ₹ 18.57 crore were admitted by PSUs. Against this, an amount of ₹ 5.66 crore was recovered during the year 2011-12.

#### Status of placement of Separate Audit Reports

**1.38** 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.

<sup>19</sup> Companies at Sl. No. A- 1,2,5, 6,8, 10,13, 14,17,22 and 26 in *Annexure 2*.

<sup>20</sup> Companies at Sl. No. A- 1, 2,5,6,7,9, 10, 14,15, 17, 24 and 27 in *Annexure 2*.



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.	Punjab Financial Corporation	2008-09	2009-10	08 August 2011	Administrative department has forwarded the same to Punjab Legislature on 26 September 2011.
			2010-11	22 March 2012	Administrative department has forwarded the same to Punjab Legislature on 27 April 2012.
2.	Punjab Scheduled Castes Land Development & Finance Corporation	2008-09	2009-10	3 February 2012	Accounts under print.
3.	PEPSU Road Transport Corporation	2008-09	2009-10	29 June 2012	-

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

### **Disinvestment, privatisation and restructuring of PSUs**

**1.39** The State Government established (July 2002) the Directorate of Disinvestment under the Department of Finance, with the function relating to disinvestment of State Government equity held in Public sector undertakings and their subsidiaries/promoted companies and restructuring/privatisation etc. of the PSUs. However, no Government Company was disinvested/privatised by the Directorate during the year.