

Executive Summary

This Audit Report has been prepared in three chapters. **Chapter I** provides an overview of State Public Sector Undertakings (SPSUs) including figures on total investments in equity/long term loans of SPSUs, data on their financial performance, status of finalisation of their accounts, etc. **Chapter II** includes one performance audit relating to one State Government company. **Chapter III** of the Report includes nine audit paragraphs emerging from the Compliance Audit of SPSUs and one General paragraph on 'Follow-up Action on Audit Reports'.

According to existing arrangements, copies of the draft audit paragraphs and draft performance audit were sent to Secretary of the Department concerned by the Accountant General (Audit) with request to furnish replies within six weeks. Excepting one draft paragraph, no replies were received (September 2014) from the concerned departments for any of the draft paragraphs and draft performance audit.

Chapter I Overview of State Public Sector Undertakings

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 2014, the State of Assam had 40 working SPSUs (37 companies and 3 Statutory corporations) which employed 37,742 employees. The working SPSUs registered a turnover of ₹ 3,910.26 crore for 2013-14 as per their latest finalised accounts as on 30 September 2014. This turnover was equal to 2.40 *per cent* of State Gross Domestic Product indicating an important role played by SPSUs in the economy. At the same time, the working SPSUs also incurred an overall loss of ₹ 269.15 crore for 2013-14 as per their latest finalised accounts as on 30 September 2014.

Investment in PSUs

As on 31 March 2014, the investment (capital and long term loans) in 50 SPSUs (including 40 working and 10 non-working SPSUs) was ₹ 3,915.33 crore. It increased by 42.49 *per cent* from ₹ 2,747.72 crore in 2009-10. Power Sector accounted for 55.65 *per cent* of total investment in 2013-14. During 2013-14 the Government contributed an aggregate amount of ₹ 1,071.11 crore towards equity (₹ 55.42 crore), loans (₹ 255.94 crore), and grants/subsidies (₹ 759.75 crore) to 19 SPSUs.

Reconciliation with Finance Accounts

During 2013-14, the differences in the figures of the State Government's investments in equity and loans outstanding as per records of SPSUs and that appearing in the Finance Accounts of the State were at ₹ 364.95 crore and ₹1,735.95 crore respectively. The un-reconciled differences in loan had increased by ₹ 37.33 crore during 2013-14, while there was a reduction of ₹ 95.70 crore in the un-reconciled differences of Equity figures. The Government and the SPSUs should take concrete steps to reconcile the differences in a time bound manner.

Performance of SPSUs

During the year 2013-14, out of 40 working SPSUs, 16 SPSUs earned profit of ₹ 215.72 crore and 21 SPSUs incurred loss of ₹ 484.87 crore as per their latest finalised accounts as on 30 September 2014. The major contributors to profits were Assam Electricity Grid Corporation Limited (₹ 119.24 crore), Assam Gas Company Limited (₹ 68.14 crore), Assam Petrochemicals Limited (₹ 9.38 crore) and DNP Limited (₹ 4.42 crore). Heavy losses were incurred by Assam Power Distribution Company Limited (₹ 418.14 crore), Assam State Transport Corporation (₹ 33.43 crore) and Assam Industrial Development Corporation Limited (₹ 7.46 crore).

The losses are attributable to various deficiencies observed in the functioning of SPSUs. A review of three years' Audit Reports of CAG shows that the SPSUs' incurred losses of ₹ 258.65 crore and made infructuous investments of ₹ 28.79 crore which were controllable with better management.

Thus, with better management, losses can be minimised/profits can be enhanced substantially. The SPSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for improving professionalism and accountability in the functioning of SPSUs.

Quality of accounts

The quality of accounts of SPSUs needs to be improved. Out of 64 accounts finalised by 24 working SPSUs (including 4 accounts of 3 Statutory corporations) during October 2013 to September 2014, 63 accounts received qualified certificates. There were 35 instances of non-compliance with Accounting Standards in 21 accounts. Reports of Statutory Auditors on internal control of the companies revealed several weak areas.

Arrears in accounts and winding up

Thirty four working SPSUs had arrears of 292 accounts as of September 2014. The arrears ranged between 1 and 26 years. Government should monitor and ensure timely finalisation of accounts in conformity with the provisions of the Companies Act, 1956. As no purpose is served by keeping 10 non-working SPSUs in existence, they need to be wound up quickly.

Chapter II Performance Audit relating to Government Company

Performance Audit relating to Assam Industrial Development Corporation Limited

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Assam Industrial Development Corporation Limited (Company) was established (1965) with the main objectives of promoting/developing small, medium and large scale industries and providing financial assistance to industrial units in the State. The present activities of the Company are, however, confined to construction/development of industrial infrastructure and operation/maintenance of the industrial infrastructure already developed. The Company has not provided any financial assistance to any industrial unit after March 1993. The present performance audit was conducted to assess the economy, efficiency and effectiveness of the Company in implementation and operation of industrial projects during the period 2009-14 and also to assess the recovery performance of the Company against the loans already disbursed and outstanding.

Financial profile

The Capital employed of the Company was completely eroded by the accumulated losses and it had been negative throughout the five years period from 2009-10 to 2013-14. The Company was able to earn overall profits during the five years from 2009-10 to 2013-14 (excepting 2012-13) mainly due to significant interest income earned against investment of project funds.

Planning

The Company does not prepare any long or short term plans of its own for implementation of industrial projects. In fact, the Company prepares *ad hoc* project proposals as per directives of Government of Assam (GOA) for incorporation in State's Five Year Plan and submits the same to GOA for approval and allocation of funds. The

proposals for centrally sponsored projects are prepared as per scheme guidelines and submitted to Government of India (GOI) for approval. Thus, even after almost 50 years of its formation, the Company acted as an implementing agency of GOI/GOA and remained solely dependent on Government funding for achievement of its objectives.

Project Management

The detailed project reports (DPRs) prepared for execution of the industrial projects were deficient leading to changes in work specifications after award of work. Other pre-work award activities *viz.* acquisition of land and issuing of work order were also delayed. The monitoring of project works executed through contractors was ineffective. As a result, all the five projects developed during 2009-14 were completed with delays ranging from 37 to 129 months causing corresponding cost overrun. Further, three out of five projects completed during 2009-14 remained non-operational on account of inadequate feasibility study on part of the Company.

Operational Management

The Company has been operating nine industrial infrastructure projects with a total area of 49.25 lakh sqm (allocable area of 34.72 lakh sqm); of which, the Company could allocate only 12.49 lakh sqm (35.97 *per cent*) to the 107 industrial units. The low occupancy of developed land was broadly attributable to absence of proper facilities for uninterrupted power supply, poor maintenance of the projects, *etc.* Instances of delays ranging from 25 to 1,514 days were also noticed on part of the Company in allotment of land to entrepreneurs. The Company also failed in taking action against the unauthorised occupants of developed land as per the terms of the lease agreements.

Status of Loan

The Company provided (upto March 1993) financial assistance to 78 numbers of entrepreneurs and no further assistance was extended thereafter. As against total 43 loan cases (₹ 24.24 crore) pending for settlement as on 1 April 2009, the Company could settle another 24 loan cases (₹ 14.69 crore) during 2009-14. Non-recovery of outstanding loans against 19 loan cases (₹ 9.55 crore) disbursed prior to March 1993 was indicative of poor performance in recovery of outstanding loans by the Company.

Chapter III Compliance Audit Observations

Compliance Audit observations included in the Report highlights deficiencies in the management of SPSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

Loss of revenue of ₹ 41.26 crore in six instances owing to non-compliance of rules, directives, procedures and terms and conditions of supply of electricity.

(Paragraphs 3.1 to 3.6)

Non recovery of advances of ₹ 0.62 crore in one case due to violation of Government Rules.

(Paragraphs 3.7)

Excess expenditure of ₹ 0.24 crore in one case due to lapses in implementation of Government Schemes.

(Paragraphs 3.8)

Undue benefit to the extent of ₹ 1.28 crore to a contractor in one case.

(Paragraphs 3.9)

Gist of some of the important audit observations is given below:

*Delay in replacement of defective meters and incorrect billing of energy consumptions by **Assam Power Distribution Company Limited** has resulted in loss of revenue of ₹ 0.47 crore to the Company.*

(Paragraph 3.4)

*Allowing of higher rates for a component of work by **Assam State Transport Corporation** without taking cognizance of the rates available in SOR 2010-11 resulted in extension of undue benefit to the contractor to the extent of ₹ 1.28 crore.*

(Paragraph 3.9)