

# Chapter - I

## CHAPTER – I

### 1. Overview of Government companies and Statutory corporation

#### Introduction

**1.1** The State Public Sector Undertakings (PSUs) consist of State Government companies and Statutory corporation. The State PSUs are established to carry out activities of a commercial nature while keeping in view the public welfare.

**1.2** In Jharkhand, as on 31 March 2013, there were 13<sup>1</sup> Government companies and one Statutory corporation<sup>2</sup> (all working). None of these companies was listed in any of the stock exchanges. These PSUs registered a turnover of ₹ 2,563.86 crore as per their latest audited accounts as of September 2013. The State PSUs incurred an aggregate loss of ₹ 3,326.60 crore as per their latest audited accounts. They had employed 7,773 employees as of 31 March 2013.

**1.3** State PSUs do not include nine Departmental Undertakings (DUs) which carry out commercial operations but are part of Government departments and the Jharkhand State Electricity Regulatory Commission (JSERC) an autonomous body of which the Comptroller and Auditor General of India (CAG) is the sole auditor.

**1.4** During the year 2012-13, one PSU<sup>3</sup> was established and no PSU closed down.

#### Audit Mandate

**1.5** 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.

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<sup>1</sup> Jharkhand State Forest Development Corporation Limited (JSFDC), Jharkhand Hill Area Lift Irrigation Corporation Limited (JHALCO), Jharkhand Industrial Infrastructure Development Corporation Limited (JIIDCO), Jharkhand Police Housing Corporation Limited (JPHCL), Greater Ranchi Development Agency Limited (GRDA), Jharkhand Silk Textile & Handicraft Development Corporation Limited (JHARCRAFT), Jharkhand State Mineral Development Corporation Limited (JSMD), Tenughat Vidyut Nigam Limited (TVNL), Karanpura Energy Limited (KEL), Jharkhand Tourism Development Corporation Limited (JTDC), Jharkhand State Beverages Corporation Limited (JSBCL), Jharkhand State Food & Civil Supplies Corporation Limited (JSFCSC) and Jharkhand State Minorities Finance Development Corporation (JSMFDC)

<sup>2</sup> Jharkhand State Electricity Board (JSEB)

<sup>3</sup> Jharkhand State Minorities Finance Development Corporation (JSMFDC)

**1.6** 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 the 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 (4) of the Companies Act, 1956.

**1.7** The audit of the Statutory corporation (JSEB) is governed by the Electricity Act, 2003 and CAG is the sole auditor.

### Investment in State PSUs

**1.8** As on 31 March 2013, the investment in 14 PSUs was ₹ 6,606.39 crore as detailed in *Table – 1.1*.

**Table - 1.1**

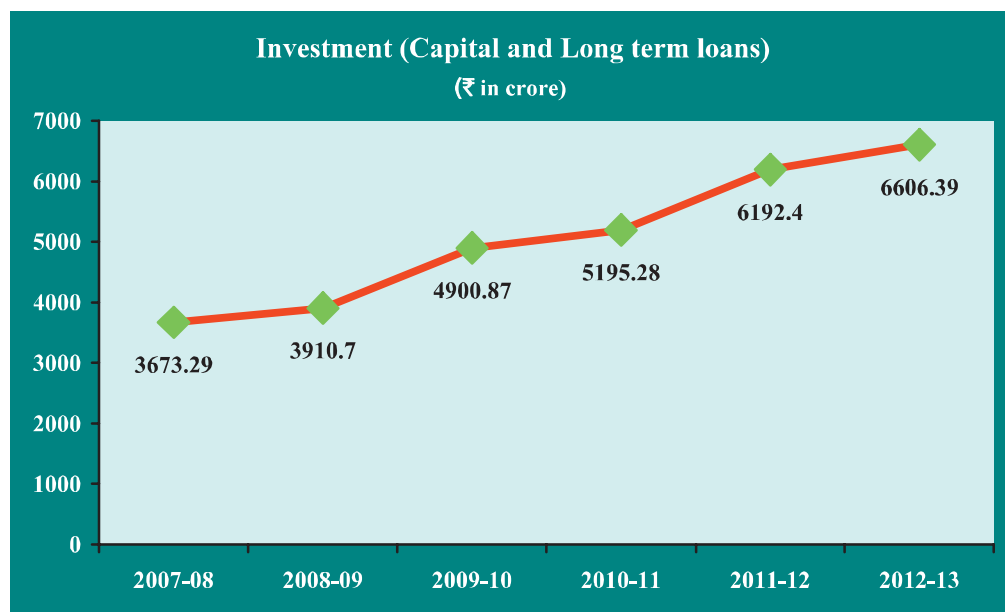
Government companies			Statutory corporation			Grand Total
Capital	Long term Loans	Total	Capital	Long term Loans	Total	
171.10	734.57	905.67	-	5700.72	5700.72	6606.39

(₹ in crore)

A summarised position of Government investment in State PSUs is detailed in *Annexure-1.1*

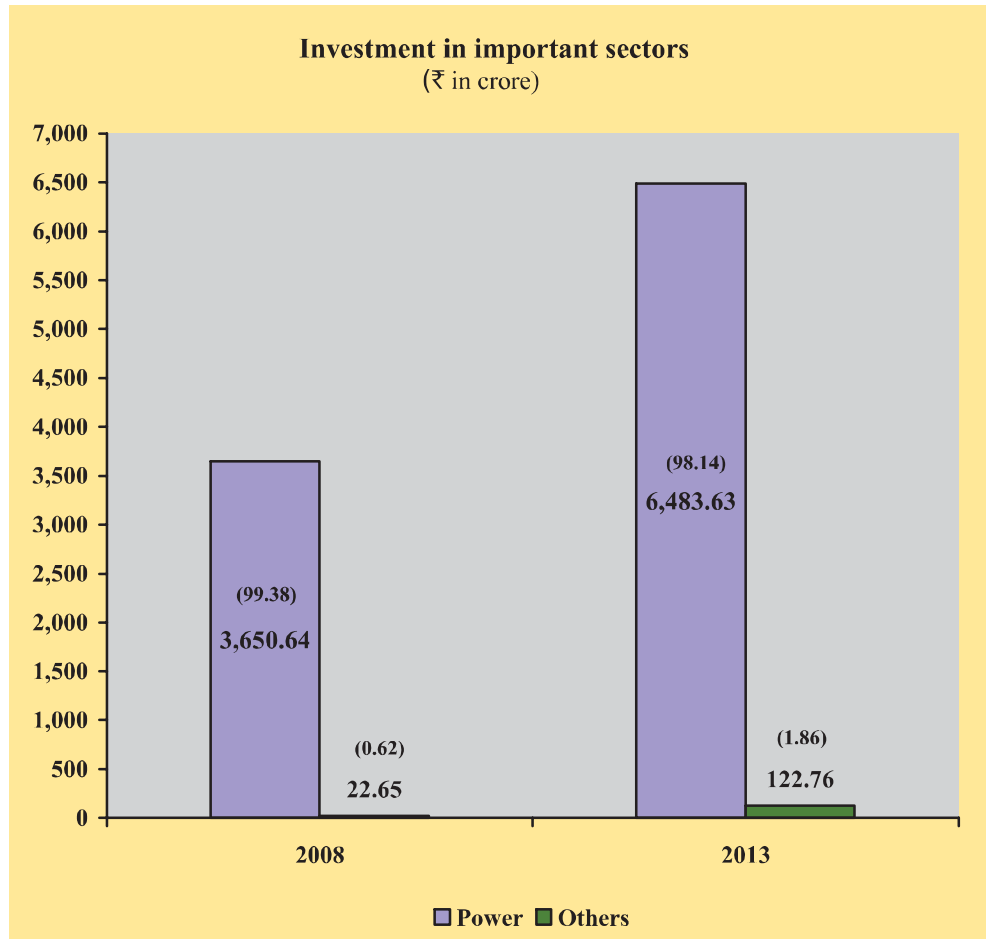
**1.9** As on 31 March 2013, of the total investment in PSUs, 2.59 per cent was towards Capital and 97.41 per cent towards Long-term loans. The investment in the PSUs has grown by 79.85 per cent from ₹ 3,673.29 crore in 2007-08 to ₹ 6,606.39 crore in 2012-13 as shown in *Chart – 1.1*.

**Chart – 1.1**



**1.10** The investment in various important sectors and the percentage thereof at the end of 31 March 2008 and 31 March 2013 are indicated in the *Chart- 1.2*.

**Chart - 1.2**



(Figures in brackets show percentage of total investment)

The thrust of investment in the PSUs was mainly in the power sector. During the past six years the investment in this sector is showing an increasing trend. It grew by 77.60 per cent from ₹ 3,650.64 crore in 2007-08 to ₹ 6,483.63 crore in 2012-13 mainly due to the loans given by the Government and other bodies to JSEB and TVNL.

### **Budgetary outgo towards Equity, Grants/Subsidies, Guarantees and Loans**

**1.11** The details regarding budgetary outgo towards equity, loans and grants / subsidies in respect of State PSUs at the end of March 2013 are given in *Annexure-1.2*

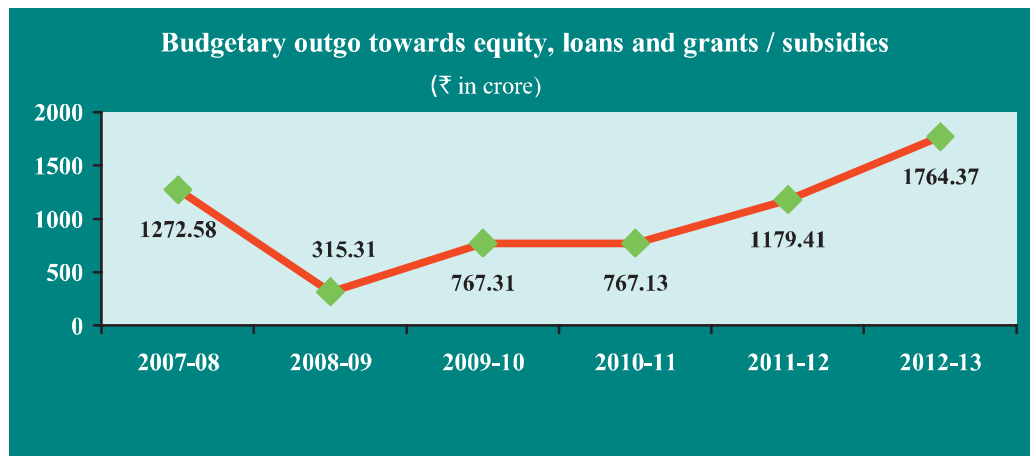
The summarised details of budgetary outgo towards equity, loans and grants/subsidies for the three years ended 2012-13 are given in the **Table – 1.2**.

**Table – 1.2**

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount (₹ in crore)	No. of PSUs <sup>4</sup>	Amount (₹ in crore)
1.	Equity capital outgo from budget	3	3.00	4	20.50	3	15.00
2.	Loans given from budget	1	313.55	2	408.91	2	561.70
3.	Grants/Subsidy received	3	450.58	1	750.00	3	1187.67
<b>4.</b>	<b>Total outgo</b>		<b>767.13</b>		<b>1179.41</b>		<b>1764.37</b>

**1.12** The details regarding budgetary outgo towards equity, loans and grants/subsidies for the past six years are given in the **Chart – 1.3**.

**Chart - 1.3**



The budgetary outgo increased from ₹ 1,179.41 crore in 2011-12 to ₹ 1,764.37 crore in 2012-13 mainly because of budgetary support in respect of loans (₹ 541.70 crore) and grants (₹ 1,107.25 crore) given to Jharkhand State Electricity Board and grants (₹ 75.00 crore) made to Jharkhand State Food & Civil Supplies Corporation Limited.

#### Reconciliation with Finance Accounts

**1.13** The figures in respect of equity, loans and guarantees outstanding as per records of the 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 are required to conduct reconciliation of the

<sup>4</sup> Total outgo for seven PSUs (GRDA, JHARCRAFT, JTDC, JSBCL, JSFCSCL, JHALCO and JSEB).

differences. The position in this regard as at 31 March 2013 is stated in the **Table – 1.3**.

**Table – 1.3**

(₹ in crore)			
Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	23.30	171.05	147.75
Loans	7121.41	6198.17	923.24

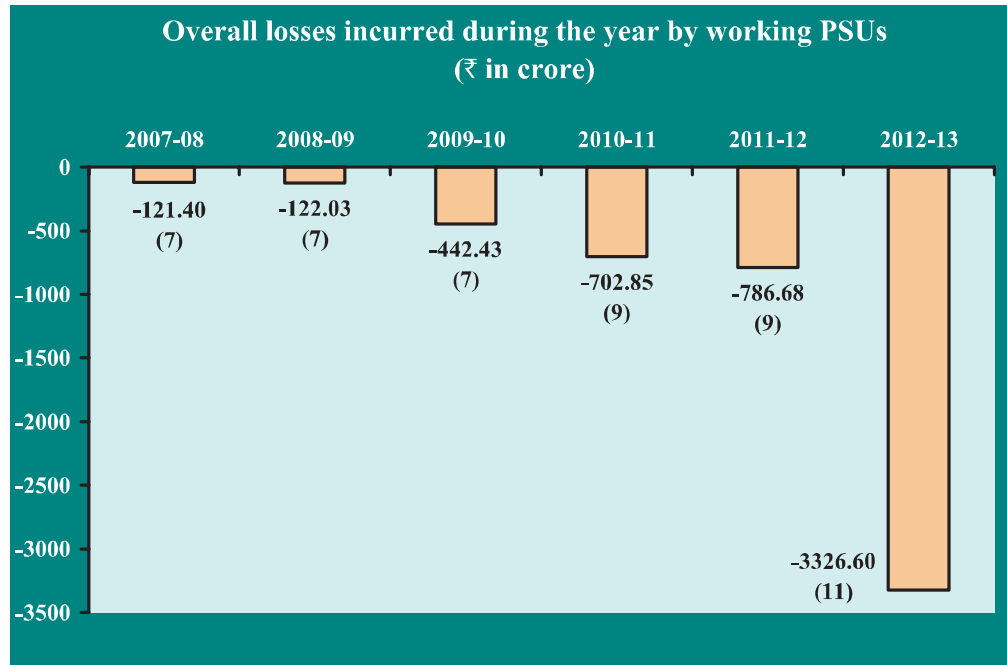
**1.14** We observed that the differences occurred in respect of ten<sup>5</sup> PSUs and these differences were pending reconciliation since 2001-02. Though the difference between the amounts reflected in the Finance Accounts and as per the records of the PSUs were reported in the Audit Reports of earlier years, no corrective action was taken by the State Government.

### Performance of PSUs

**1.15** The financial results of PSUs and financial position and working results of the Statutory corporation are detailed in *Annexures -1.3, 1.4 and 1.5* respectively.

**1.16** The aggregate losses (net) incurred by State PSUs increased from ₹ 121.40 crore to ₹ 3,326.60 crore during 2007-08 to 2012-13 as per latest audited accounts in the respective year are as given in the *Chart – 1.4*.

**Chart – 1.4**



(Figures in brackets shows the number of working PSUs in the respective year based on latest audited accounts)

<sup>5</sup> TVNL, JIIDCO, JTDC, JHARCRAFT, GRDA, JSFCSCL, JHALCO, JSBCL, JSMFDC and JSEB.

As per the latest audited accounts, out of 14 PSUs, seven<sup>6</sup> PSUs earned aggregate profit of ₹ 26.35 crore while four<sup>7</sup> PSUs incurred aggregate loss of ₹ 3,352.95 crore. The remaining three<sup>8</sup> PSUs did not submit any accounts till September 2013. Heavy losses were incurred by JSEB (₹ 3,211.03 crore) and TVNL (₹ 140.51 crore) as per their latest audited accounts for the years 2011-12 and 1999-2000 respectively.

The net losses increased from ₹ 786.68 crore in 2011-12 to ₹ 3,326.60 crore in 2012-13 mainly due to increase in loss of JSEB from ₹ 722.82 crore in 2010-11 to ₹ 3,211.03 crore in 2011-12.

**1.17** A review of the latest three years Audit Reports of CAG shows that the state PSUs incurred controllable losses to the tune of ₹ 3,257.35 crore and infructuous investment of ₹ 67.81 crore which were controllable with the better management as given in the *Table – 1.4*.

**Table – 1.4**

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	Total
Net losses	702.85	786.68	3326.60	4816.13
Controllable losses as per CAG's Audit Report	2650.89	487.27	119.19	3257.35
Infructuous Investment	46.17	10.61	11.03	67.81

**1.18** The State Government had not formulated any dividend policy under which the PSUs are required to pay a minimum return on the paid up share capital contributed by the State Government. As per their latest audited accounts, seven<sup>9</sup> PSUs earned an aggregate profit of ₹ 26.35 crore but did not declare any dividend.

### Arrears in finalisation of accounts

**1.19** 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 the Statutory corporation, the accounts are to be finalised, audited and presented to the Legislature as per the provisions of the Electricity Act, 2003. The *Table - 1.5* provides the details of working PSUs and the status of finalisation of their accounts (September 2013).

<sup>6</sup> JSFDC, JPHCL, JHARCRAFT, JSMDC, JIIDCO, GRDA and JTDC.

<sup>7</sup> JHALCO, JSBCL, TVNL and JSEB.

<sup>8</sup> JSMFDC, KEL and JSFCSC.

<sup>9</sup> JSFDC, JPHCL, JHARCRAFT, JSMDC, JIIDCO, GRDA and JTDC.

Table – 1.5

Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1.	Number of working PSUs	10	11	12	13	14
2.	Number of accounts finalised during the year	7	14	12	8	20
3.	Number of accounts in arrears	48	46	46	52	45*
4.	Average arrears per PSU (3/1)	4.80	4.18	3.83	4.00	3.21
5.	Number of working PSUs with arrears in accounts	10	11	12	13	14
6.	Extent of arrears (years)	1 to 15	1 to 16	1 to 17	1 to 16	1 to 13

**1.20** The number of accounts in arrears of the PSUs had decreased over the years from 48 accounts in respect of ten PSUs in 2008-09 to 45 in 2012-13 in respect of 14 PSUs.

**1.21** The State Government had invested ₹ 2,171.33 crore (equity: ₹ 27.00 crore, loans: ₹ 662.66 crore, grants: ₹ 1,481.67 crore) in eight PSUs including one Statutory corporation during the years for which the accounts have not been finalised as detailed in *Annexure-1.6*. In the absence of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred had been properly accounted for and the purpose for which the amount was invested had been achieved. Thus, the Government's investment in such PSUs remained 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.

**1.22** 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 attention of the concerned administrative departments and officials of the Government on the issue of arrears in finalisation of accounts was drawn, no significant remedial measures were taken. As a result the Net Worth of these PSUs could not be assessed in audit. Attention of the Chief Secretary / Principal Secretary, Finance Department was also invited by the PAG in September 2013 to arrears in finalisation of annual accounts and the need to expedite the clearance of the backlog in accounts in a time bound manner was highlighted.

**1.23** In view of the above state of arrears, it is recommended that the Government should monitor and ensure timely finalisation of accounts in conformity with the provisions of the Companies Act, 1956.

\* JSBCL prepared one accounts for the period 26.11.2010 to 31.03.2012 on which non-review certificate was issued, hence accounts for 2010-11 gets reduced from total arrears.



## Comments on Accounts

**1.24** As of 30 September 2013, nine Government companies forwarded nineteen accounts (including arrears accounts) to the PAG during the year 2012-13. Of these, sixteen accounts of six companies<sup>10</sup> were selected for supplementary audit. The Statutory Auditors had given unqualified certificates for five accounts and qualified certificates for fourteen accounts. The audit reports of Statutory Auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts is required to be improved substantially. The details of aggregate money value of comments of the CAG are given in the **Table – 1.6**.

**Table – 1.6**

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of accounts	Amount (₹ in crore)	No. of accounts	Amount (₹ in crore)	No. of accounts	Amount (₹ in crore)
1.	Increase in profit	-	-	1	0.23	1	0.01
2.	Decrease in profit	2	7.70	3	3.52	3	5.29
3.	Increase in loss	-	-	-	-	1	0.08
4.	Decrease in loss	-	-	-	-	1	0.36
5.	Non-disclosure of material facts	-	-	-	-	3	-

**1.25** Some of the important comments of CAG in respect of accounts of companies are stated below:

### **Jharkhand Silk, Textile & Handicraft Development Corporation Limited** *Accounts for the year 2011-12*

Profit for the year was overstated by ₹ 15.17 lakh due to -

- non-accountal of supervision charges of ₹ 13.10 lakh in proportion to the expenditure incurred on implementation of scheme;
- non-provision for electricity bills of ₹ 1.13 lakh for the month of March 2012; and
- non-provision for arrear salary of ₹ 0.94 lakh.

### **Jharkhand State Mineral Development Corporation Limited**

#### *Accounts for the year 2006-07*

Profit for the year was overstated by ₹ 2.48 crore due to non-provision of cost of mines closure of Sikni Coal Mine.

<sup>10</sup> JHARCRAFT, JSMD-2, JIIDCO-2, TVNL-4, GRDA-6 and JHALCO.

***Accounts for the year 2007-08***

Profit for the year was overstated by ₹ 2.65 crore due to -

- non-provision for ₹ 2.61 crore towards the cost of mines closure of Sikni Coal Mine;
- non-provision for ₹ 14.68 lakh towards explosives consumed in Sikni Coal Mine; and
- non-provision for ₹ 10.27 lakh recoverable from the contractor of the Sikni Coal Mine against cost of explosives for March 2008.

**Jharkhand Hill Area Lift Irrigation Corporation Limited**

***Accounts for the year 2009-10***

Loss for the year was overstated by ₹ 36.28 lakh due to -

- non-accountal of accrued interest of ₹ 38.68 lakh as on 31.03.2010 on fixed deposits; and
- non-provision for interest of ₹ 2.40 lakh on the amount of contribution made by the employees and the Company in the Contributory Provident Fund during 2009-10.

***Annual accounts of Jharkhand State Electricity Board (JSEB)***

**1.26** Annual Accounts for the year 2011-12 had been received during the year from JSEB for which the CAG is the sole auditor on which Separate Audit Report (SAR) was issued. The Audit Reports of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. Some of the important comments in respect of accounts of JSEB are stated below.

Deficit for the year was understated by ₹ 26.22 crore due to: -

- Short provision of interest of ₹ 18.55 crore on General Provident Fund (GPF) balance;
- Accountal of supervision charges of ₹ 1.76 crore received in advance for Deposit Works during 2011-12 as income for the year although works against this were not completed as on 31.03.2012;
- Non-accountal of accrued interest of ₹ 5.23 crore against investment on fixed/flexi deposits in banks up to 31.03.2012;
- Short accountal of cost of coal consumed by ₹ 3.89 crore and understatement of closing stock by ₹ 0.28 crore;
- Accountal of tariff petition fee of ₹ 35.00 lakh related to the year 2012-13 in 2011-12;

- Charging of lower rate of depreciation on Lines and cable network by ₹ 1.70 crore; and
- Understatement of Interest and Finance Charges on bank overdrafts by ₹ 6.18 crore.

**1.27** The details of aggregate money value of comments of CAG on the accounts of JSEB are given in the **Table – 1.7**.

**Table – 1.7**

Sl. No.	Particulars	2012-13	
		No. of accounts	Amount (₹ in crore)
1.	Decrease in Deficit	1	5.58
2.	Increase in Deficit	1	31.80
Total		1	

**Comments on Internal Control**

**1.28** 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 eight<sup>11</sup> companies on the accounts finalised during the year 2012-13 are given in the **Table – 1.8**.

**Table – 1.8**

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 1.3
1.	Non-fixing of minimum/maximum limits of store and spares.	3	A-08, A-06, A-07
2.	Absence of internal audit system commensurate with the nature and size of business of the Company.	3	A-03, A-05, A-11
3.	Non-maintenance of fixed assets register showing full particulars including quantitative details and location of fixed assets.	3	A-02, A-04, A-08

<sup>11</sup> JHALCO, JIIDCO, JPHCL, GRDA, JHARCRAFT, JSMD, TVNL and JSBCL.

### Recoveries at the instance of audit

1.29 During the course of audit in 2012-13, recoverable amounts of ₹ 71.06 lakh were pointed out to the Management of JSEB of which ₹ 4.05 lakh was admitted by JSEB. Recovery of the same was however not effected by JSEB so far (October 2013).

### Status of placement of Separate Audit Reports (SARs)

1.30 The *Table – 1.9* shows the status of placement of SARs issued by CAG on the accounts of the JSEB in the Legislature by the Government.

**Table – 1.9**

Sl. No.	Statutory Corporation	Year up to which SARs placed in Legislature	Year upto which SARs not placed in Legislature		
			Year of SAR	Date of issue to Government	Reason for Delay
1.	Jharkhand State Electricity Board	--	2001-02	20.08.2010	Reason for non placement of the SARs was not furnished by the Government.
			2002-03	07.02.2011	
			2003-04	07.03.2011	
			2004-05	07.06.2011	
			2005-06	09.11.2011	
			2006-07	15.12.2011	
			2007-08	31.01.2012	
			2008-09	30.03.2012	
			2009-10	30.03.2012	
			2010-11	26.04.2012	
			2011-12	22.05.2013	

Delay in placement of SARs weakens the legislative control over the Statutory corporation and dilutes the latter's financial accountability. The Government should ensure prompt placement of the SARs in the Legislature. The issue was brought to the attention of the Chief Secretary and Departmental Secretaries of Energy and Finance, Government of Jharkhand (September/November 2013). No response was however received.

### Reforms in Power Sector

1.31 The State has formed Jharkhand State Electricity Regulatory Commission (JSERC) in April 2003 under Section 82 of the Electricity Act, 2003 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 2012-13, JSERC issued seven orders on annual revenue requirements and 16 other orders.

**1.32** A Memorandum of Understanding (MoU) was signed in April 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 in the *Table – 1.10*.

**Table – 1.10**

Sl. No.	Milestone		Achievement
1.	To reduce system losses at the level of 18 <i>per cent</i> of the energy available for sale		Transmission & Distribution Loss was 33.46 <i>per cent</i> in 2012-13 which was much above the target of 18 <i>per cent</i>
2.	100 <i>per cent</i> metering of all consumers	Single Phase (Urban)	100.00 <i>per cent</i>
		Single Phase (Rural)	79.02 <i>per cent</i>
		Low Tension (LT)	99.86 <i>per cent</i>
		High Tension (HT)	100.00 <i>per cent</i>