

Chapter - I

CHAPTER – I

1. Functioning of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) are State Government companies or Statutory Corporations established to carry out activities of commercial nature while keeping in view welfare of people and occupy an important place in the State economy. As on 31 March 2016, in the State of Jharkhand, there were 19 unlisted Government companies¹ (all working) and no statutory corporation. During the year 2015-16, one PSU (Jharkhand Medical and Health Infrastructure Development and Procurement Corporation Ltd.) was entrusted to audit whereas none was closed down.

The State PSUs registered a turnover of ₹ 1865.69 crore and incurred a loss of ₹ 164.92 crore as per their latest finalised accounts of September 2016. They had 5544 employees as at the end of March 2016.

Accountability framework

1.2 The process of audit of Government companies is governed by respective provisions of Section 139 and 143 of the Companies Act, 2013 (Act). According to Section 2 (45) of the Act, Government company means any company in which not less than 51 *per cent* of the paid up share capital is held by Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments and also includes a company which is a subsidiary company of such a Government company.

Further, as per sub-Section 7 of Section 143 of the Act, the CAG may, in case of any company covered under sub-Section (5) or sub-Section (7) of Section 139, if he considers necessary, by an order, cause test audit to be conducted of the accounts of such company and the provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test audit. An audit of the financial statements in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

Statutory Audit

1.3 The financial statements of the Government companies (as defined in Section 2 (45) of the Companies Act, 2013) are audited by Statutory Auditors,

¹ (i) Jharkhand State Forest Development Corporation Limited (JSFDC) (ii) Jharkhand Hill Area Lift Irrigation Corporation Limited (JHALCO) (iii) Jharkhand Industrial Infrastructure Development Corporation Limited (JIIDCO) (iv) Jharkhand Police Housing Corporation Limited (JPHCL) (v) Greater Ranchi Development Agency Limited (GRDA) (vi) Jharkhand Silk Textile and Handicraft Development Corporation Limited (JHARCRAFT) (vii) Jharkhand State Mineral Development Corporation Limited (JSMDC) (viii) Tenughat Vidyut Nigam Limited (TVNL) (ix) Karanpura Energy Limited (KEL) (x) Jharkhand Tourism Development Corporation Limited (JTDC) (xi) Jharkhand State Beverages Corporation Limited (JSBCL) (xii) Jharkhand State Food & Civil Supplies Corporation Limited (JSFCSCL) (xiii) Jharkhand State Minorities Finance Development Corporation (JSMFDC) (xiv) Jharkhand Urja Vikas Nigam Limited (JUVNL) (xv) Jharkhand Urja Utpadan Nigam Limited (JUUNL) (xvi) Jharkhand Urja Sancharan Nigam Limited (JUSNL) and (xvii) Jharkhand Bijli Vitran Nigam Limited (JBVNL) (xviii) Jharkhand Urban Infrastructure Development Company Ltd (JUIDCO) (xix) Jharkhand Medical and Health Infrastructure Development and Procurement Corporation Limited (JM&HID&PCL).

who are appointed by CAG as per the provisions of Section 139 (5) or (7) of the Act. They shall, under Section 143 (5) of the Act submit a copy of the Audit Report to the CAG which, among other things, includes financial statements of the Company. These financial statements are also subject to supplementary audit conducted by CAG under the provisions of Sections 143 (6) of the Act.

Role of Government and Legislature

1.4 The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors of the Board are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, on the accounts of State Government Companies are placed before the State Legislature under Section 394 of the Act. The Audit Reports of CAG are submitted to the Government under Section 19A of the CAG's (Duties, Power and Conditions of Service) Act, 1971.

Stake of Government of Jharkhand

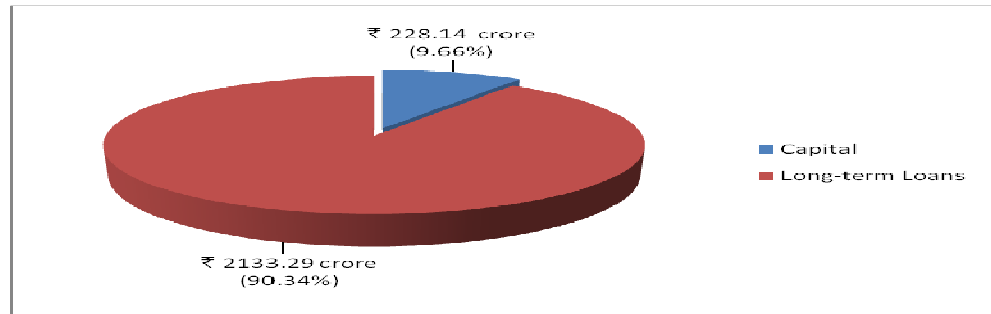
1.5 The State Government has financial stake in its PSUs of mainly three types:

- **Share Capital and Loans-** In addition to the share capital contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees-** State Government also guarantees the repayment of loans with interest availed by the PSUs from financial institutions.

Investment in State PSUs

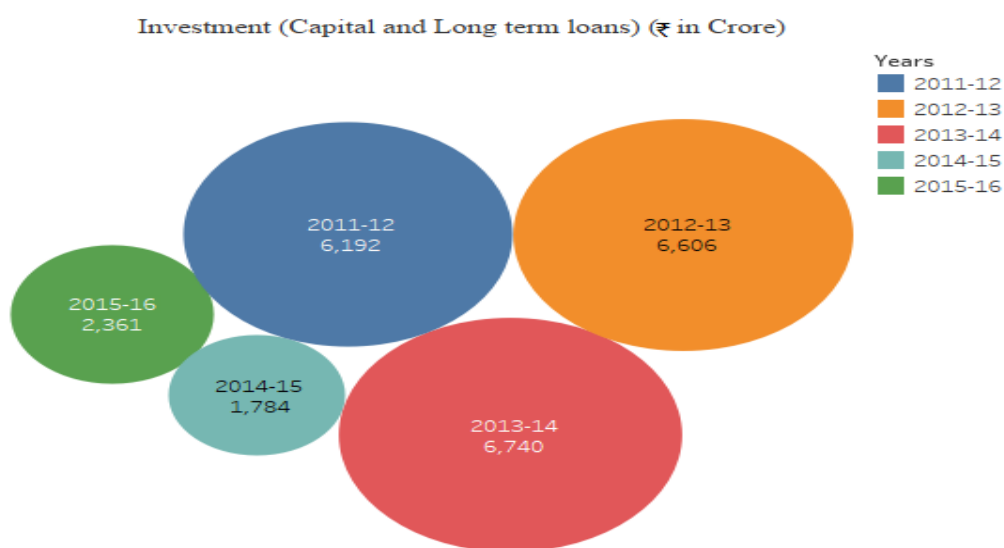
1.6 As on 31 March 2016, the investment in 19 State PSUs was ₹ 2361.43 crore comprising of capital and long-term loans as depicted in **Chart 1.1**.

Chart 1.1: Investment in State PSUs



(Source: Data compiled from the information furnished by the PSUs.)

The total investment consisted of 9.66 *per cent* towards capital and 90.34 *per cent* in long term loans. The investment has decreased by 61.87 *per cent* from ₹ 6192.40 crore in 2011-12 to ₹ 2361.43 crore in 2015-16 (as shown in graph below) mainly due to decrease in investment in power sector as discussed in paragraph 1.7.

Chart 1.2: Total investment in PSUs during 2011-12 to 2015-16

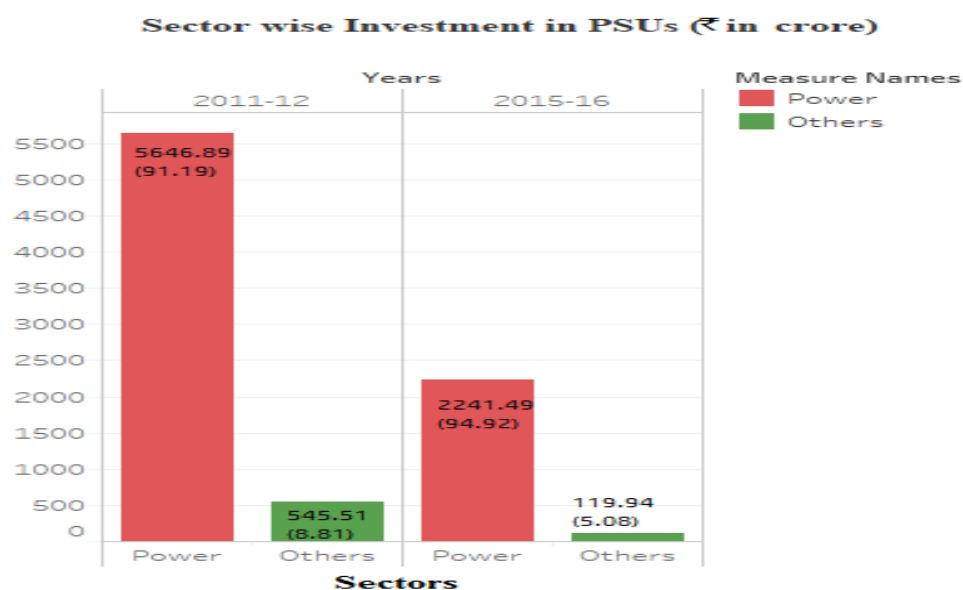
1.7 The sector wise summary of investment in the State PSUs as on 31 March 2016 is given in **Table 1.1**.

Table 1.1: Sector-wise investment in PSUs

Name of Sector	Working Government companies	Government companies not working	Total Investment (₹ in crore)
Power	2241.49	-	2241.49
Manufacturing	12.00	-	12.00
Agriculture & Allied	10.30	-	10.30
Service	23.50	-	23.50
Infrastructure	74.14	-	74.14
Finance	0	-	0
Total	2361.43	-	2361.43

(Source: Data compiled from the information furnished by the PSUs.)

The investment in significant sectors and percentage thereof as of 31 March 2012 and 31 March 2016 are indicated below in the **Chart 1.3**.

Chart 1.3: Sector wise investment in PSUs


The thrust of PSU investment was mainly in the power sector which was 94.92 per cent of total investment as of 31 March 2016. The investment in power sector was ₹ 5646.89 crore in 2011-12 which decreased to ₹ 2241.49 crore in 2015-16 due to the reason that investment in erstwhile JSEB had not been transferred to its successor companies after its unbundling into four companies viz. JUVNL, JBVNL, JUSNL and JUUNL in the year 2013-14.

Special support and returns during the year

1.8 The State Government provides financial support to PSUs in various forms through its annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies in respect of State PSUs for three years ended 2015-16 are given in **Table 1.2**.

Table 1.2: Details regarding budgetary support to PSUs

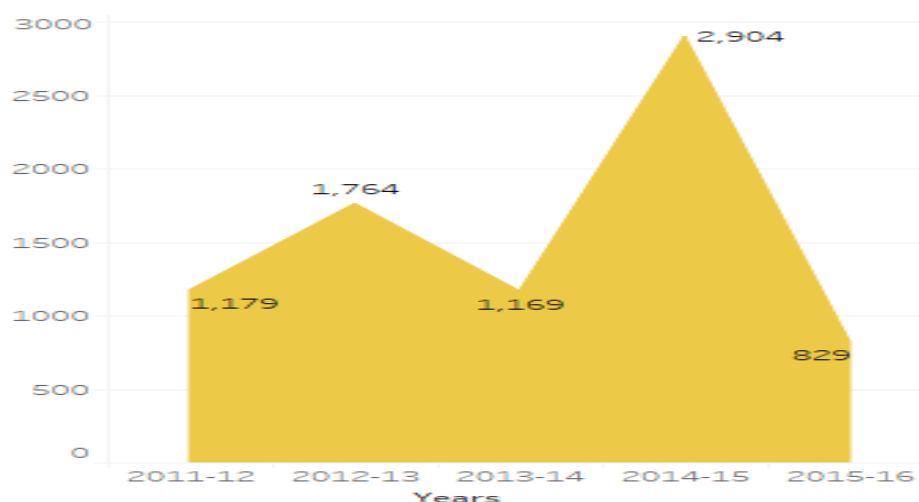
(₹ in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of PSUs	Amount	No. of PSUs ¹	Amount	No. of PSUs ²	Amount
1.	Equity Capital outgo from budget	4	20.65	5	9.25	2	18.14
2.	Loans given from budget	1	175.34	3	782.54	3	802.72
3.	Grants/Subsidy received	2	972.80	2	2112.00	1	8.14
Total outgo			1168.79		2903.79		829.00

(Source: Data compiled from the information furnished by the PSUs.)

The budgetary outgo towards equity, loans and grants/ subsidies to State PSUs for past five years is indicated in **Chart 1.4**

² Total outgo for six PSUs (JHALCO, GRDA, JUUNL, JUSNL, JBVNL and JTDC).

Chart 1.4: Budgetary outgo towards Equity, Loans and Grants/Subsidies**Budgetary outgo towards Equity, Loans and Grants/Subsidies (₹ in crore)**

The budgetary outgo decreased from ₹ 2903.79 crore in 2014-15 to ₹ 829.00 crore in 2015-16. This was because during 2014-15 Government had given grants to JBVNL amounting to ₹ 2106.63 crore, but no grants were given to the Company during 2015-16.

Reconciliation with Finance Accounts

1.9 The figures in respect of equity and loans outstanding as per records of State PSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2016 is stated in **Table 1.3**.

Table 1.3: Equity and loans outstanding as per Finance Accounts vis-a-vis records of PSUs

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	(₹ in crore)
			Difference
Equity	63.30	228.14	164.84
Loans	6818.30	2133.29	4685.01

(Source: State Finance Accounts for the year 2015-16 and information furnished by the PSUs.)

Audit observed that the differences occurred in respect of sixteen³ PSUs and the differences were pending reconciliation since 2001-02. The Principal Accountant General had taken up (the latest being in December 2016) the issue with the Chief Secretary, Government of Jharkhand and Additional Chief Secretary, Planning cum Finance Department, Government of Jharkhand and the PSUs to reconcile the differences but no measures were initiated for reconciliation by the Government. The Government and the PSUs should take concrete steps to reconcile these differences in a time-bound manner.

³ GRDA, JBVNL, JIIDCO, JSMFDC, JUSNL, JSBCL, JTDC, JHALCO, JUUNL, JUVNL, JM & HIDPCL, KEL, JUIDCO, JHARCRAFT, JSFCS and TVNL.

Arrears in finalisation of accounts

1.10 The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year *i.e.* by September end in accordance with the provisions of Section 96 (1) read with Section 129 (2) of the Companies Act, 2013 (Act). Failure to do so may attract penal provisions under Section 99 of the Act which provides that every officer of the company who is in default shall be punishable with fine which may extend to one lakh rupees and in case of continuing default, with a further fine which may extend to five thousand rupees every day during the period of such default.

Table 1.4 below provides the details of progress made by working PSUs in finalisation of accounts as of 30 September 2016.

Table 1.4: Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Number of Working PSUs	13	14	18	18	19
2.	Number of accounts finalised during the year	8	20	14	10	17
3.	Number of accounts in arrears	52	45	45	57	66 ⁴
4.	Number of Working PSUs with arrears in accounts	13	14	14	18	19
5.	Extent of arrears (numbers in years)	1 to 16	1 to 13	1 to 9	1 to 9	1 to 10

(Source: Data compiled from the information furnished by the PSUs.)

It can be observed that the number of accounts in arrears of the PSUs had increased over the years from 52 accounts in respect of 13 PSUs in 2011-12 to 66 accounts in respect of 19 PSUs in 2015-16. Out of 57 accounts in arrears as of 30 September 2015, only 17 accounts were finalised during the current year. Out of the 19 PSUs, no PSU had finalised their accounts for the year 2015-16 and the extent of arrears was ranging from one to 10 years.

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 stipulated period. The concerned administrative departments were informed regularly about the need to finalise the accounts during 2011-12 to 2015-16. In addition, attention of the Chief Secretary, Government of Jharkhand and Principal Secretary, Finance Department was also invited (September 2016) by the Principal Accountant General for liquidating the arrears in accounts. However, no improvement was noticed.

1.11 The State Government had invested ₹ 3779.85 crore (equity: ₹ 33.69 crore, loans: ₹ 1526.31 crore, grants: ₹ 2219.85 crore) in 19 PSUs during the years for which accounts have not been finalised as detailed in *Annexure 1.1*. In the absence of finalisation of accounts and their subsequent audit, it could not be ascertained whether the investments and expenditure incurred were properly accounted for or that the purpose for which the amount was invested was achieved. Thus, Government's investment in such PSUs remained outside the control of State legislature.

⁴ Including arrears of accounts (2013-14) of four power companies *viz.* JUVNL, JUUNL, JUSNL and JBVNL incorporated on 16 September 2013 and (JM&HID&PCL) incorporated on 24 May 2013.

Impact of accounts not finalised

1.12 As pointed out above (paragraph 1.10 to 1.11), the delay in finalisation of accounts may result in the risk of not detecting frauds and leakages of public money as well as violations of the provisions of the relevant statutes. In view of the arrears of accounts as stated above the actual contribution of PSUs to the State GDP for the year 2015-16 could not be ascertained, and it was also not reported to the State legislature.

It is, therefore, recommended that:

- The Government may set up a cell to oversee the clearance of arrears and set targets for individual companies which should 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.

Performance of PSUs as per their latest finalised accounts

1.13 The financial position and working results of PSUs are detailed in **Annexure 1.2**. A ratio of PSUs turnover to State GSDP shows the extent of PSU activities in the State economy. **Table 1.5** below provides the details of working PSUs turnover and State GSDP for a period of five years ending 2015-16.

Table 1.5: Details of PSUs turnover vis-à-vis State GSDP

Particulars	₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Turnover ⁵	2139.72	2563.86	3065.85	3205.87	1865.69
State GSDP ⁶	150918	174724	188567	217107	241955
Percentage of Turnover to State GSDP	1.42	1.47	1.63	1.48	0.77

(Source: Website of Ministry of Statistics and Programme Implementation, Government of India and information furnished by the PSUs)

The percentage of turnover of the PSUs to the State GSDP decreased from 1.48 in 2014-15 to 0.77 in 2015-16. The turnover of ₹ 1865.69 crore in 2015-16 does not include turnover of five State PSUs (KEL, JUVNL, JUUNL, JSFCSCCL and JM&HID&PCL) in the absence of finalisation of their first accounts.

1.14 Overall losses⁷ incurred by the State PSUs during 2011-12 to 2015-16 as per their latest finalised accounts as of 30 September 2016 are depicted in **Chart 1.5**.

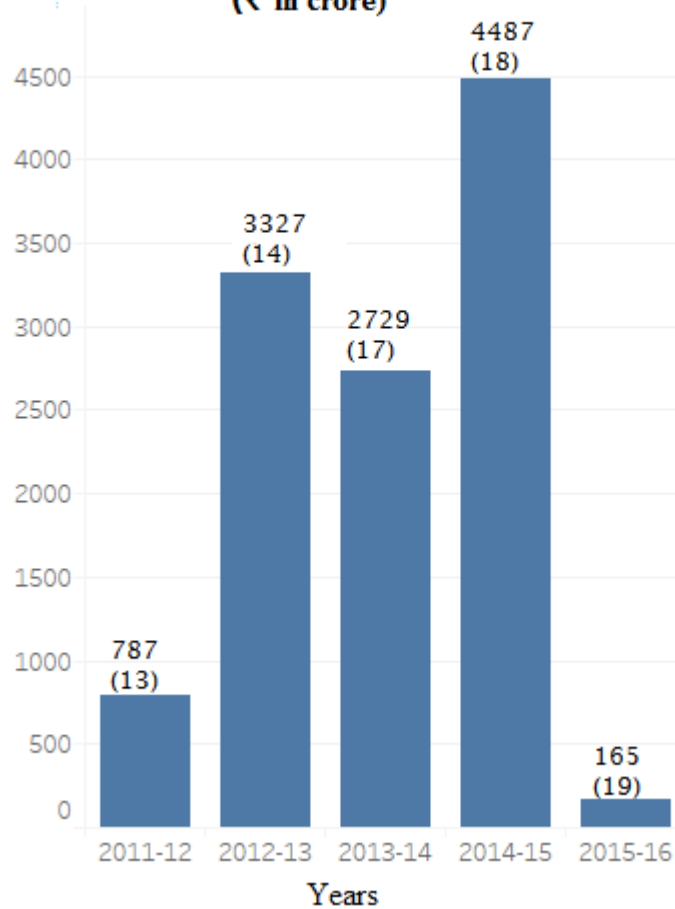
⁵ Turnover as per latest finalised accounts as on 30 September 2016.

⁶ The figures of State GSDP were taken at the current prices as of June 2016.

⁷ As per the latest finalised accounts as on 30 September 2016.

Chart 1.5: Loss of State PSUs

**Overall losses incurred during the years by working PSUs
(₹ in crore)**



(Figures in brackets show the number of Working PSUs in respective years)

The above chart depicts that losses incurred by working PSUs have decreased from ₹ 786.68 crore in 2011-12 to ₹ 164.92 crore in 2015-16. The reason for decrease in losses is because the losses of JSEB which was unbundled in the year 2013-14, were not factored in while calculating the overall losses.

Six PSUs earned profit of ₹ 37.69 crore and eight PSUs incurred loss of ₹ 202.61 crore as per their latest finalised accounts. Remaining five⁸ PSUs did not finalise their first accounts. The main contributors to profit were Jharkhand State Mineral Development Corporation (₹ 13.09 crore), Jharkhand State Forest Development Corporation (₹ 10.43 crore), Jharkhand Police Housing Corporation Limited (₹ 5.95 crore) and Greater Ranchi Development Agency (₹ 4.33 crore). Heavy loss was incurred by Tenughat Vidyut Nigam Limited (₹ 110.22 crore) and Jharkhand Bijli Vitran Nigam Limited (₹ 70.98 crore).

⁸ KEL, JUVNL, JUUNL, JSFCSCCL and JM&HID&PCL.

1.15 Some other key parameters of PSUs are given in Table 1.6.

Table 1.6: Key Parameters of State PSUs

Particulars	(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Return on Capital Employed (per cent)	-	-	-	-	-
Debt	6022.30	6435.29	6540.97	7736.75	2508.21
Turnover	2139.72	2563.86	3065.85	3205.87	1865.69
Debt/Turnover Ratio	2.81:1	2.51:1	2.13:1	2.41:1	1.51:1
Interest payment	477.72	600.02	875.62	812.61	921.10
Accumulated losses	(-)6385.11	(-) 9437.93	(-) 12298.80	(-) 16755.73	(-)1221.64

(Source: Data compiled from the information furnished by the PSUs.)

During 2011-12 to 2015-16, there was no return on capital employed as the PSUs suffered losses. Further, the debt has decreased from ₹ 6022.30 crore in 2011-12 to ₹ 2508.21 crore in 2015-16 and accumulated loss decreased from ₹ 6385.11 crore in 2011-12 to ₹ 1221.64 crore in 2015-16 as losses of JSEB which was unbundled in the year 2013-14 were not factored in while calculating overall losses.

1.16 The State Government had not formulated any dividend policy under which PSUs are required to pay a minimum return on the paid up share capital contributed by the State Government. As per their latest finalised accounts, six PSUs earned an aggregate profit of ₹ 37.69 crore but did not declare any dividend.

Accounts Comments

1.17 Nine Government companies forwarded their thirteen audited accounts to Principal Accountant General during 01 October 2015 to 30 September 2016. Of these, eleven accounts of eight 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 need to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and CAG are given in Table 1.7.

Table 1.7: Impact of audit comments on working Companies

Sl. No	Particulars	(₹ in crore)					
		2013-14		2014-15		2015-16	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Increase in profit	-	-	-	-	2	0.94
2.	Decrease in profit	3	0.63	3	6.65	7	9.46
3.	Increase in loss	2	33.72	1	2.10	7	14.68
4.	Decrease in loss	1	1.49	7	267.99	5	452.46
5.	Material facts not disclosed	-	-	5	-	9	-

(Source: figures worked out by Audit)

During the year, the Statutory Auditors had given unqualified certificates for four accounts and qualified certificates for nine accounts. The compliance of Government Companies with the Accounting Standards was poor as there were thirty one instances where compliance with Accounting Standards was not made in nine accounts during the year.

Response of the Government to Audit

Performance Audits and Paragraphs

1.18 For the Report of the CAG of India for the year ended 31 March 2016, one performance audit *viz.* Working of Tenughat Vidhyut Nigam Limited, one audit on Billing and Revenue collection in respect of High Tension Services Consumers and six audit paragraphs involving three departments were issued to the Principal Secretaries/Secretaries of the respective Departments with requests to furnish replies within six weeks. However, replies in respect of one performance audit and seven audit paragraphs were awaited from the State Government (November 2016).

Follow up action on Audit Reports

Replies outstanding

1.19 The Report of the Comptroller and Auditor General (CAG) of India represents the culmination of the process of audit scrutiny. It is therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Jharkhand issued (November 2015) instructions to all Administrative Departments to submit replies/ explanatory notes to paragraphs/reviews included in the Audit Reports of the CAG of India within a period of three months of their presentation to the Legislature in the prescribed format without waiting for any questionnaires from the Committee on Public Sector Undertakings (COPU). The replies/explanatory notes awaited as on 30 September 2016 are given in **Table 1.8**.

Table 1.8: Explanatory notes not received as on 30 September 2016

Year of the Audit Report (Commercial/PSU)	Date of placement of Audit Report in the State Legislature	Number of performance audits (PAs) and Paragraphs in the Audit Report		Total PAs/paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2005-06	04.04.2007	1	3	-	1
2006-07	26.03.2008	1	6	1	5
2007-08	10.07.2009*	1	8	1	7
2008-09	13.08.2010	1	4	1	4
2009-10	29.08.2011	1	6	1	6
2010-11	06.09.2012	1	3	-	1
2011-12	27.07.2013	1	5	1	4
2012-13	05.03.2014	1	5	-	5
2013-14	26.03.2015	1	6	-	4
2014-15	15.03.2016	2	5	1	1
Total		11	51	6	38

(Source: figures worked out by Audit) * placed in parliament.

From the above, it could be seen that out of 62 paragraphs/performance audits, replies/explanatory notes to 44 paragraphs/performance audits in respect of seven departments, which were commented upon, were awaited (September 2016).

Discussion of Audit Reports by COPU

1.20 The status as on 30 September 2016 of Performance Audits and paragraphs that appeared in Audit Reports (PSUs) and discussed by the Committee on Public Undertakings (COPU) is as given in **Table 1.9**.

Table 1.9: Performance Audits/Paragraphs appeared in Audit Reports viz-a-viz discussed as on 30 September 2016

Period of Audit Report	Number of PAs/paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	Performance Audit	Paragraphs	Performance Audit	Paragraphs
2004-05	2	1	2	1
2005-06	1	3	1	2
2006-07	1	6	-	1
2007-08	1	8	-	1
2008-09	1	4	-	-
2009-10	1	6	-	-
2010-11	1	3	1	2
2011-12	1	5	-	1
2012-13	1	5	1	-
2013-14	1	6	1	2
2014-15	2	5	1	4
Total	13	52	7	14

(Source: figures worked out by Audit)

Compliance to Reports of Committee on Public Undertakings (COPU)

1.21 Action Taken Notes (ATN) to 17 paragraphs/sub-paragraphs pertaining to nine Reports of the COPU presented to the State Legislature between August 2006 and August 2014 had not been received (November 2016) as indicated in **Table 1.10**.

Table 1.10: Compliance to COPU Reports

Year of COPU Report	Total number of COPU Report	Total no. of recommendations in COPU Report	No. of recommendations where ATNs not received
2007-08	2	2	2
2008-09	1	1	1
2012-13	3	7	7
2013-14	3	7	7
Total	9	17	17

(Source: figures worked out by Audit)

These Reports of COPU contained recommendations in respect of paragraphs pertaining to one department, which appeared in the Reports of the CAG of India for the years 2002-03 to 2005-06.

It is recommended that the Government may ensure:

- (a) Sending of replies to inspection reports/explanatory notes/draft paragraphs/performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule;
- (b) Recovery of loss/ outstanding advances/ overpayments within the prescribed period; and
- (c) Revamping of the system of responding to audit observations.