

# **Executive Summary**



## 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 a performance audit relating to a State Government company. **Chapter III** of the Report includes nine audit paragraphs emerging from the Compliance Audit of SPSUs.

The draft reports of audit paragraphs and performance audit were sent to the Commissioner/Secretary of the Departments concerned with a request to furnish replies within six weeks. No replies were, however, received from the concerned departments for any of the draft reports on audit paragraphs and performance audit. A synopsis of the important findings contained in this Audit Report is presented below.

### Chapter I      Functioning of State Public Sector Undertakings

Audit of Government companies is governed by Section 143 of the Companies Act, 2013. The financial statements of Government companies are audited by Statutory Auditors appointed by CAG. These financial statements are also subject to supplementary audit conducted by officers of the CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2016, the State of Assam had 49 SPSUs (33 working and 16 non-working SPSUs), which employed 40,675 employees. The 33 working SPSUs included 30 companies and 3 Statutory corporations. The working SPSUs registered a turnover of ₹ 5,061.36 crore for 2015-16 as per their latest finalised accounts as on 30 September 2016. This turnover was equal to 2.59 *per cent* of State Gross Domestic Product. At the same time, the working SPSUs incurred an overall loss of ₹ 663.12 crore for 2015-16 as per their latest finalised accounts as on 30 September 2016.

#### *Investment in SPSUs*

As on 31 March 2016, the investment (capital and long term loans) in 49 SPSUs was ₹ 4,983.15 crore. It increased by 50.43 *per cent* from ₹ 3,312.69 crore in 2011-12. The thrust of investment in SPSUs was mainly in the Power Sector, which accounted for 73.98 *per cent* of total investment in 2015-16. During 2015-16 the State Government contributed an aggregate amount of ₹ 962.60 crore towards loans (₹ 455.35 crore), and grants/subsidies (₹ 507.25 crore) to 12 SPSUs.

#### *Reconciliation with Finance Accounts*

During 2015-16, the unreconciled 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 marginally decreased from ₹ 373.98 crore (2014-15) to

₹ 373.88 crore (2015-16) and those in loans reduced from ₹ 1,414.92 crore (2014-15) to ₹ 1,167.34 crore (2015-16). The unreconciled differences of outstanding investments, however, still remained significant.

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

As on September 2016, 26 working SPSUs had arrears of total 171 accounts, under their jurisdiction with the periods of backlog ranging up to 25 years, which was significant. As no purpose is served by keeping 16 non-working SPSUs in existence, the liquidation process to wind up these SPSUs need to be expedited.

#### ***Performance of SPSUs***

During the year 2015-16, out of 33 working SPSUs, 16 SPSUs earned aggregate profit of ₹ 97.98 crore and 17 SPSUs incurred loss of ₹ 761.10 crore. The major contributors to profit were Assam Gas Company Limited (₹ 67.32 crore), DNP Limited (₹ 9.58 crore), Assam Industrial Development Corporation Limited (₹ 5.53 crore) and Assam Mineral Development Corporation Limited (₹ 4.14 crore). The heavy losses were incurred by Assam Power Distribution Company Limited (₹ 577.50 crore) and Assam Electricity Grid Corporation Limited (₹ 80.55 crore).

#### ***Quality of accounts***

All the 74 accounts finalised by 24 working SPSUs (including 2 accounts of 2 Statutory corporations) during October 2015 to September 2016, had received qualified certificates. There were 59 instances of non-compliance with Accounting Standards in 22 accounts.

#### ***Compliance with the Reports of Committee on Public Undertakings (COPU)***

Action Taken Notes (ATN) on 31 recommendations pertaining to 10 Reports of the COPU presented to the State Legislature between April 2008 and December 2011 had not been received (November 2016).

## **Chapter II Performance Audit relating to Government Company**

### **Performance Audit on the functioning of Assam Petro-Chemicals Limited**

#### ***Introduction***

Assam Petro-Chemicals Limited (Company) was incorporated (1971) as a subsidiary of the Assam Industrial Development Corporation Limited (AIDC) with the main objective to manufacture, market and deal in petrochemicals, chemical compounds and chemical products and also to undertake all incidental and consequential activities. The present activities of the Company are, however, confined to production and marketing of Methanol and Formalin only. 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 2011-16 and also to assess the compliance of the Company against environmental issues.

### ***Financial profile***

The Reserves and Surplus of the Company reduced from ₹ 63.73 crore (2011-12) to ₹ 45.96 crore (2015-16) mainly due to losses of ₹ 6.47 crore (2014-15) and ₹ 22.19 crore (2015-16) incurred during the last two years. The broad reason for increase in losses of the Company during 2014-15 and 2015-16 were decrease in prices of Methanol and Formalin in the domestic as well as the international market.

### ***Planning***

The Company prepared isolated project specific plans for executing the capital projects. For the production planning, the Company prepared short-term production plans based on the expected plant availability during the ensuing year. Further, *ad hoc* allocations were made for marketing operations based on the requirements. Thus, a long term vision of Company's operations through a perspective/long term planning mechanism was missing.

### ***Project Management***

Delay in approval of the integrated 500 TPD Methanol Project as well as delays on part of the holding Company (AIDC) in delisting of equity shares of the Company, led to non-availability of the major portion of the project funding for execution of the project. Owing to this, the project cost had escalated from ₹ 1,028 crore to ₹ 1,990 crore and even after changing of the project components by the Company, the revised cost stood at ₹ 1,340 crore.

### ***Operational Management***

The Company was operating two manufacturing units with a production capacity of 33,000 MT per annum (Methanol plant) and 41,250 MT per annum (Formalin plant). As compared to the production capacity of the plants during the five years from 2011-12 to 2015-16, there was under achievement of 13,298 MT in case of the Methanol plant and 14,468 MT in case of the Formalin plant. The low capacity utilisation of the plants were broadly attributable to low pressure of gas, ageing of the Methanol plant, delay in charging of silver catalyst, lack of scheduled maintenance and absence of health assessment at pre-determined intervals, which led to unplanned shutdowns.

### ***Monitoring and Internal Control***

Several deficiencies were noticed in the internal control of the Company. The Internal Audit Reports of the Company for the years 2011-16 were silent on several vital issues, such as the efficacy of systems and controls, in the manufacturing units, adherence to plans, policies and procedures, operational efficiency of plants *etc.* There was absence of

control mechanism to monitor the stock holding of the Company within the reasonable limits.

### **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. Gist of some of the important audit observations is given below:**

Decision of **Assam Power Distribution Company Limited** to award the contract based on different rates for similar items in violation of the bid document led to an undue favour of ₹ 3.18 crore to the contractor.

*(Paragraph 3.1)*

Supply of electricity at lower voltage level in violation of AERC Regulations led to irrecoverable loss of ₹ 91.58 lakh to **Assam Power Distribution Company Limited**.

*(Paragraph 3.2)*

Negligence of **Assam Plains Tribes Development Corporation Limited** in taking timely action for payment of EPF dues resulted in avoidable expenditure of ₹ 2.85 crore.

*(Paragraph 3.3)*

**Assam State Textbook Production and Publication Corporation Limited** extended undue favour of ₹ 61.71 lakh to the supplier by not adjusting the price for change in specification of paper.

*(Paragraph 3.4)*