

Chapter - 1

CHAPTER-1

1 Functioning of State Public Sector Undertakings

Introduction

1.1 As on 31 March 2017, there were 24 State Public Sector Undertakings (PSUs), all Government companies, in Jharkhand (*Annexure-1.1*) as depicted in table no.1.1:

Table No. 1.1: Number of PSUs as on 31 March 2017			
Type of PSUs	Working PSUs	Non-working PSUs ¹	Total
Government companies ²	21	3	24
Total	21	3	24

Of the above, only nine working PSUs and one non-working PSU had finalised their accounts for the years 2014-15 to 2016-17 as on 31 December 2017 (*Annexure 1.2*). As per the latest finalised accounts of the 10 PSUs, five PSUs earned profit of ₹ 22.98 crore and five PSUs incurred losses of ₹ 1,700.73 crore. These PSUs registered a turnover of ₹ 4,052.92 crore as per their latest finalised accounts as of 31st December 2017.

The 10 PSUs generated average negative Return on Investment (RoI) of 18.34 *per cent* on the investments (equity and loans) by the State Government during 2014-15 to 2016-17. Against this, the average cost of borrowings of the State Government was 6.87 *per cent* during 2014-15 to 2016-17. Thus, the loss to the public exchequer as a result of the investment in the 10 PSUs that had finalised their accounts in the past three years amounted to ₹ 2,092.21 crore³. The loss, if any, incurred by the remaining 14 PSUs who have not finalised their accounts could not be assessed.

As on 31 March 2017, the 21 working PSUs had 5,473 employees and three non-working PSUs had no employees⁴. The three non-working PSUs had no activity for more than three years and had an investment of ₹ 35.75 crore (equity: ₹ 0.78 crore and loans: ₹ 34.97 crore) as on 31 March 2017.

Recommendation

Since the continued existence of loss making and non-working PSUs causes a substantial drain on the public exchequer, the State Government may (i) review the functioning of all loss making PSUs; and (ii) examine the possibility of winding up non-working PSUs.

¹ PSUs which have had no operational activities for more than last three years.

² Companies referred to in Sections 2(45), 139(5) and 139(7) of the Companies Act, 2013.

³ As per records of PSUs

⁴ Employees of holding company (Jharkhand Urja Utpadan Nigam Limited) look after the work of three non-working PSUs.

Accountability framework

1.2 Section 139 and 143 of the Companies Act, 2013 (Act) applies to audit of Government companies. The Comptroller and Auditor General of India (CAG) appoints Chartered Accountants (CAs) as Statutory auditors and conducts supplementary audit of these companies.

The Reports of the CAG are submitted to the Government, who shall, in terms of the CAG's (Duties, Powers and Conditions of Service) Act, 1971, cause them to be laid before the Legislature.

1.3 The concerned administrative departments under the Government of Jharkhand exercise control over the affairs of these PSUs, whose Chief Executives and Directors to the Board are appointed by the State Government.

Stake of Government of Jharkhand

1.4 The State Government's stake in PSUs falls under three broad categories viz., share capital and loans, special budgetary support by way of grants, subsidies to consumers and guarantees of loans availed by PSUs from financial institutions.

Investment in State PSUs

1.5 As on 31 March 2017, the investment (share capital and long term loans) in 24 State PSUs by State Government, Central Government and others was ₹ 10,753.32 crore⁵ as detailed in table no. 1.2 (further details are given in *Annexure 1.1*).

Table No. 1.2: Total investment in PSUs as on 31 March 2017								(₹ in crore)
Type of PSUs	Status of accounts finalised	Equity			Long term loans			Grand total
		State Govt.	Others ⁶	Total	State Govt.	Others ⁷	Total	
Working PSUs	2014-15 to 2016-17 ⁸	100.54	6.30	106.84	9,382.30	324.43	9,706.73	9,813.57
	Prior to 2014-15	186.30	0.00	186.30	717.61	0.09	717.70	904.00
Sub total		286.84	6.30	293.14	10,099.91	324.52	10,424.43	10,717.57
Non-working PSUs	2014-15 to 2016-17	0.0	0.05	0.05	19.45	0.00	19.45	19.50
	Prior to 2014-15	0.00	0.73	0.73	15.52	0.00	15.52	16.25
Sub total		0.00	0.78	0.78	34.97	0.00	34.97	35.75
Total		286.84	7.08	293.92	10,134.88	324.52	10,459.40	10,753.32
Source: As per audited accounts/ information furnished by the PSUs								

⁵ As per records of PSUs.

⁶ Includes investment of ₹ 7.08 crore by two State Government holding companies in their six subsidiary companies.

⁷ Includes loan from Central Government and Financial Institutions.

⁸ Accounts finalised at least upto 2014-15

1.6 The sector wise summary of investments in State PSUs as on 31 March 2017 is given in table no. 1.3.

Table No. 1.3 Sector-wise investment in PSUs							
Name of the Sector	Working PSUs		Non-working PSUs		Total	Total Investment (₹ in crore)	Investment in last five years (₹ in crore)
	With three years' accounts	Without three years' accounts	With three years' accounts	Without three years' accounts			
Power	3	1	1	1	6	10,524.48	9,742.47
Service	1	5	0	0	6	82.46	22.00
Finance	0	1	0	0	1	3.34	3.34
Manufacturing	1	1	0	0	2	15.60	3.97
Others	3	4	0	0	7	127.44	56.64
Total	8	12	1	1	22	10,753.32	9,828.42

Source: As per audited accounts/ information furnished by the PSUs

The thrust of the State Government investment in PSUs was in three power sector companies⁹. Out of the State Government investment of ₹ 10,196.57 crore (₹ 113.40 crore in equity and ₹ 10,083.17 crore in loans) in the power sector¹⁰, ₹ 9,425.67 crore (₹ 8.40 crore in equity and ₹ 9,417.27 crore in loans) was invested between 2012-17.

1.7 Differences between the figures of Government equity and loans depicted in the Finance Accounts and in the records of PSUs are given in table no. 1.4.

Table No. 1.4 Equity and loans outstanding as on 31 March 2017			
(₹ in crore)			
Investment	As per Finance Accounts	As per records of PSUs ¹¹	Difference
Equity	72.80	286.84	214.04
Loans	9,476	10,134.88	658.88

Source: Information furnished by the PSUs and Finance Accounts, Government of Jharkhand (GoJ), 2016-17

Recommendation

The Finance Department, the concerned administrative departments and the PSUs may take immediate steps to reconcile the differences in figures, in a time bound manner, with the Accountant General (A & E).

1.8 The position of Government stake in PSUs is as stated in table no. 1.5.

Table No. 1.5 Position of Government stake in PSUs		
(₹ in crore)		
Particulars	Number of PSUs	Amount
Non-working PSUs where there is no expenditure at all	3 ¹²	0.00
Outstanding GoJ loans to PSUs which have not repaid loans or paid interest on loans for last three years	5 ¹³	10,033.17

Source: Information furnished by the PSUs and Finance Accounts, 2016-17

⁹ Jharkhand Bijli Vitran Nigam Limited, Jharkhand Urja Sancharan Nigam Limited, Tenughat Vidyut Nigam Limited.

¹⁰ Details of PSU wise investment are given at Sl. no. A11 to A15 and B1 to B3 of Annexure 1.1.

¹¹ As per latest finalised accounts of PSUs as of September 2017 as at the time of finalisation of Finance Accounts, Jharkhand for the year 2016-17.

¹² Sl. no B1 to B3 of Annexure 1.1

¹³ Sl. no. A11, A14, A15, B1 and B2 of Annexure 1.1

Recommendation

Since the chances of repayment of loans by the five PSUs who have not even paid interest on loans, are remote, if not non-existent, the State Government should consider converting past loans to equity, or writing them off and future payments, if any, should be by way of grants-in-aid, pending review on whether at least some of these PSUs should not be wound up.

Arrears in finalisation of Accounts

1.9 The Companies Act 2013 stipulates that the annual financial statements of Companies are to be finalised within six months from the end of the relevant financial year *i.e.*, by September end. Failure to do so may attract penal provisions, which stipulates that every officer of the concerned defaulting company shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.

As of 31st December 2017, the accounts of 19 working Companies were in arrears for periods up to eight years, as depicted in **Annexures 1.3**. Delays in finalisation of accounts often results in unavailability or loss of crucial records over a period of time, which is fraught with possibilities of misrepresentation of facts, fraud and misappropriation.

Out of 21 working PSUs, only two PSUs¹⁴ finalised their accounts for 2016-17 and the remaining 19 PSUs have arrears of 54 accounts¹⁵. Out of these 19 PSUs, accounts of seven PSUs were in arrears for one year, ten PSUs for two to five years, and two PSUs above five years, as depicted in **Annexure 1.3**.

Details of the directors of the 19 working companies whose accounts are in arrears and are liable under the above penal provisions of the Companies Act are given in **Annexure-1.4 (a) and 1.4 (b)**.

1.10 In addition to the above, as on 31 December 2017, the accounts of all three non-working PSUs were in arrears as detailed in table no. 1.6.

Year	No. of non-working PSUs	No. of accounts in arrears	Years for which accounts were in arrears	No. of years for which accounts were in arrears
2014-15	3	16	2008-09 to 2014-15	3 to 7
2015-16	3	19	2008-09 to 2015-16	4 to 8
2016-17	3	15	2009-10 to 2016-17	1 to 8

1.11 The State Government had extended Budgetary support of ₹ 2,659.56 crore in 12 working PSUs {equity: ₹ 78.25 crore (nine PSUs), loans: ₹ 1,273.80 crore (four PSUs), others (subsidy and revenue grants) ₹ 1,307.51 crore (three PSUs)} during the period for which accounts were in arrear as detailed in **Annexure 1.5**. Out of this, Budgetary support of ₹ 208.22 crore was extended to six working PSUs whose accounts were in arrears for more

¹⁴ Sl. no A6, A9 of Annexure 1.1

¹⁵ At the rate of one account per year

than three years, of which ₹ 36.00 crore was extended to two PSUs¹⁶ during 2016-17.

Further, the State Government also extended budgetary support of ₹ 15.52 crore as loan to one non-working company (Karanpura Energy Limited) during the period for which its accounts were in arrears as detailed in *Annexure 1.5*. The basis on which the State government expects the company to repay the principal of the loan and the interest thereon is not clear.

The decision of the State Government to extend budgetary support to the above PSUs whose accounts were in arrears, was financially imprudent, since the State Government had no basis to assess the financial soundness of these PSUs. This is evident from fact that five PSUs that received State Government loans did not even repay the interest thereon during the last three years.

Recommendations

- 1. The Finance Department and the concerned administrative departments should ensure that the State PSUs take immediate action to make their accounts current, so that the directors of these PSUs do not continue to fall foul of the Companies Act.**
- 2. The Finance Department and the concerned administrative departments should ensure that budgetary support is not extended to those PSUs whose accounts are not current.**

Performance of PSUs as per their latest finalised accounts

1.12 The key financial ratios used to assess the performance of the nine working PSUs¹⁷ that finalised their accounts for the period 2014-15 to 2016-17 (*Annexure 1.6*) are given in table 1.7.

Table 1.7 Key parameters of Working PSUs					
Particulars	Key parameters (in percentage)	2014-15	2015-16	2016-17	Average
Profit making PSUs	ROCE ¹⁸	46.90	10.26	22.21	26.45
	ROI ¹⁹	46.90	10.26	22.21	26.45
	ROE ²⁰	18.55	6.97	15.35	13.62
Loss making PSUs	ROCE	-69.93	-26.31	-	-48.12
	ROI	-69.93	-26.31	-	-48.12
	ROE	-8,277.70	-*	-	-4,138.85
Aggregate PSUs	ROCE	-51.74	-25.49	22.21	-18.34
	ROI	-51.74	-25.49	22.21	-18.34
	ROE	-360.36	-1,256.80	15.35	-533.94
Cost of borrowing		7.22	6.63	6.76	6.87
Source: Information as per finalised accounts of PSUs					
* ROE cannot be calculated due to minus balance of shareholders' fund.					

¹⁶ Jharkhand Tourism Development Corporation Limited and Jharkhand Urban Infrastructure Development Corporation Limited.

¹⁷ Financial ratios cannot be calculated for non-working PSUs or those PSUs whose accounts are in arrears.

¹⁸ Return on capital employed (ROCE) = (net profit/loss before dividend, interest and tax) / capital employed, where capital employed = Investment – Deferred revenue expenditure (DRE). As there was no DRE of the PSUs during 2014-17, the ROCE and ROI were the same.

¹⁹ Return on investment (ROI) = (Net profit before interest, tax and dividend) / investment.

²⁰ Return on equity (ROE) = (Net profit after tax - preference dividend) / Shareholders' Fund.

1.13 The major contributors to profit were Jharkhand State Beverages Corporation Limited (₹ 11.95 crore) and Jharkhand Police Housing Corporation Limited (₹ 6.02 crore). The ROI of these companies ranged between 21.02 to 249.47 per cent during 2014-17. The PSUs which incurred heavy losses were Jharkhand Bijli Vitran Nigam Limited (₹ 1,598.83 crore) and Jharkhand Urja Sancharan Nigam Limited (₹ 97.24 crore) as per their latest finalised Accounts.

1.14 The State Government has not formulated any dividend policy for State PSUs. Consequently, though, as per their latest finalised accounts, five PSUs²¹ with Government equity of ₹ 128.11 crore²² earned aggregate profit of ₹ 22.98 crore, none of these PSUs declared dividend.

Recommendation

The Finance Department may formulate dividend policy for payment of specified dividend on equity invested in profit making PSUs on lines of the Governments of Uttar Pradesh (five per cent of equity capital) and Madhya Pradesh (20 per cent of profit after tax).

1.15 The Companies Act 2013 stipulates that the Board of Directors of every company meet a minimum of four times a year. It was observed, however, that out of 21 working PSUs, 17 PSUs held less than four meetings during 2014-17 as detailed in table-1.8:

Table No 1.8: Shortfall in number of meetings conducted by PSUs			
Year	Shortfall in no. of meetings held	No. of Companies	Name of the Company at Sl. no. in Annexure 1.1
2014-15	4	04	A3, A5, A19, A20
	3	02	A18, A21
	2	02	A10, A16
	1	07	A1, A2, A4, A6, A7, A9, A17
2015-16	4	02	A5, A19
	3	03	A3, A4, A20
	2	05	A1, A7, A8, A11, A17
	1	05	A2, A9, A10, A16, A21
2016-17	3	07	A1, A3, A4, A5, A7, A17, A19
	2	03	A8, A16, A18
	1	05	A2, A9, A11, A20, A21

Accounts Comments

1.16 Sixteen²³ working Companies forwarded their 34 audited Accounts to the Accountant General during the year 2016-17²⁴. Of these, 27 accounts of 12

²¹ Jharkhand Police Housing Corporation Limited, Jharkhand Silk Textile and Handicraft Development Corporation Limited, Jharkhand State Beverages Corporation Limited, Greater Ranchi Development Agency Limited and Jharkhand Industrial Infrastructure Development Corporation Limited.

²² Shareholders' funds as per latest finalised accounts

²³ Sl. No. A2, A 5, A6, A 7, A 8, A 9, A 10, A 11, A 12, A 13, A 14, A 15, A 16, A 17, A 22, and B 3 of Annexure-1.1

²⁴ During the period from October 2016 to December 2017.

companies were selected for supplementary audit. The Audit Reports of Statutory auditors appointed by CAG and the supplementary audit of CAG indicated that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of Statutory auditors and CAG are given in table no. 1.9.

Table No. 1.9 Impact of audit comments on working Companies (₹ in crore)							
Sl. no.	Particulars	2014-15		2015-16		2016-17	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Increase in profit	-	-	2	0.94	2	10.41
2.	Decrease in profit	3	6.65	7	9.46	6	28.47
3.	Increase in loss	1	2.10	7	14.68	8	1,506.80
4.	Decrease in loss	7	267.99	5	452.46	7	409.04
5.	Material facts not disclosed	5	-	9	-	16	-

During the year, the Statutory auditors had qualified 21 accounts finalised by 12 working companies. Compliance to the Accounting Standards by the companies remained poor as there were 36 instances of non-compliance to Accounting Standards in 11 accounts of seven²⁵ companies.

Recommendation

The Finance Department and the concerned administrative departments should immediately review the working of the 12 companies where the Statutory auditors had given qualified comments/ opinion.

Response of the Government to Audit

Audit paragraphs

1.17 Five audit paragraphs have been issued (July 2017 to March 2018) to the managements of the companies and Principal Secretary/ Secretaries of the respective departments with request to furnish replies within four weeks. Out of the five paragraphs, replies of the departments to four paragraphs are still awaited (June 2018).

Follow up action on Audit Reports

Replies outstanding

1.18 Reports 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 without waiting for any questionnaires from the Committee on Public Sector

²⁵ Sl. No. A10 to A15 and A 17 of Annexure-1.1

Undertakings (COPU). The position of explanatory notes not received is given in the table no. 1.10.

Table No. 1.10: Explanatory notes not received (as on 30 June 2018)					
Year of the Audit Report (PSUs)	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 April 2007	1	3	-	1
2006-07	26 March 2008	1	6	1	5
2007-08	10 July 2009 ²⁶	1	8	1	6
2008-09	13 August 2010	1	4	1	2
2009-10	29 August 2011	1	6	1	1
2010-11	06 September 2012	1	3	-	-
2011-12	27 July 2013	1	5	-	3
2012-13	05 March 2014	1	5	-	2
2013-14	26 March 2015	1	6	-	3
2014-15	15 March 2016	2	5	-	1
2015-16	12 August 2017	2	6	-	5
Total		13	57	4	29

Recommendation

The concerned administrative departments should ensure compliance to the directives (November 2015) of the Finance Department, and furnish timely response to audit observations.

Discussion of Audit Reports by COPU

1.19 The status as on 30 June 2018 of Performance Audits and Paragraphs that appeared in Audit Reports (PSUs) and discussed by the COPU is as given in table no. 1.11.

Table No. 1.11: Performance Audits (PA)/Paragraphs appeared in Audit Reports <i>vis a vis</i> discussed (as on 30 June 2018)				
Period of Audit Report	Number of PAs/paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	PA	Paragraphs	PA	Paragraphs
2004-05	2	1	2	1
2005-06	1	3	1	2
2006-07	1	6	-	1
2007-08	1	8	-	2
2008-09	1	4	-	2
2009-10	1	6	-	5
2010-11	1	3	1	3
2011-12	1	5	1	2
2012-13	1	5	1	3
2013-14	1	6	1	3
2014-15	2	5	2	4
2015-16	2	6	2	1
Total	15	58	11	29

²⁶ Placed in parliament

Compliance to Reports of COPU

1.20 Action Taken Notes (ATN) to 15 paragraphs appearing in 10 Reports of COPU²⁷ presented to the State Legislature between August 2006 and January 2017 had not been received (June 2018) as indicated in table no. 1.12. These COPU Reports pertain to CAG Audit Reports for period from 2002-03 to 2005-06 and 2010-11. COPU Reports on the Audit Reports for the year 2006-07 to 2009-10 and 2011-12 onwards are not presented so far (June 2018).

Table No. 1.12: Compliance to COPU Reports			
Year of the Audit Report	Total number of COPU Report	Total no. of recommendations in COPU Report	No. of recommendations where ATNs not received
2002-03	1	1	1
2003-04	1	1	1
2004-05	4	5	2
2005-06	3	10	10
2010-11	1	1	1
Total	10	18	15

Source: Figures worked out by Audit

Recommendation

The State Government should ensure prompt compliance in the furnishing of ATNs on the reports of COPU.

Restructuring of PSUs consequent to reorganisation of the State

1.21 Consequent to the reorganisation of the erstwhile Bihar State into the States of Bihar and Jharkhand *w.e.f.* 15 November 2000, it was decided (September 2005) to divide the assets and liabilities of the then existing 12 PSUs as detailed in *Annexure 1.7*. This exercise, has, however, been completed only in respect of five PSUs²⁸ as of December 2017

Recommendation

Since almost two decades have passed since the reorganisation of the State, the State Government is required to work closely with the Government of Bihar for the expeditious division of assets and liabilities of the seven PSUs, where the Government investment as on 15 November 2000 was ₹ 132.36 crore.

Reforms in Power Sector under Ujwal Discom Assurance Yojna (UDAY)

1.22 With an objective to improving the operational and financial efficiency of the State DISCOMs, Ministry of Power, Government of India (GoI) launched (November 2015) Ujwal Discom Assurance Yojna (UDAY), a scheme for the financial turnaround of Power Distribution Companies.

²⁷ Pertaining to the Energy Department, GoJ, that appeared in the Reports of the CAG for the year 2002-03 to 2005-06 & 2010-11.

²⁸ Bihar Rajya Beej Nigam Limited, Bihar State Hydroelectric Power Corporation Limited, Bihar State Tourism Development Corporation Limited, Bihar State Warehousing Corporation and Bihar State Mineral Development Corporation Limited.

A tripartite Memorandum of Understanding (MoU) was signed (January 2016) between Ministry of Power, GoI, Government of Jharkhand and Jharkhand Bijli Vitran Nigam Limited (JBVNL) for implementation of the scheme with identified financial and operational targets.

The progress achieved so far in respect of important financial and operational targets fixed as per MoU is given in **Annexure 1.8**.

As per MoU, GoJ was required to take over debt of JBVNL by providing grant of ₹ 6,136.37 crore during 2015-16. But, GoJ provided the amount as a loan which resulted in annual interest liability of ₹ 797.73 crore²⁹ on the company in violation of MoU. Further, grant of ₹ 292 crore scheduled for 2016-17 has also not been provided by GoJ to the Company, so far (July 2018).

So far as targets for JBVNL are concerned, it could not achieve financial targets in respect of reduction of aggregate technical and commercial (AT&C) losses, billing efficiency and collection efficiency. In respect of operational targets also, the performance of JBVNL was far from satisfactory. It could not achieve the targets of distribution transformer metering (Rural), rural feeder audit, smart metering and electricity access to unconnected households.

²⁹ at the rate of 13 per cent per annum