

CHAPTER– VI

ECONOMIC SECTOR

(STATE PUBLIC SECTOR UNDERTAKINGS)

CHAPTER-VI ECONOMIC SECTOR (PUBLIC SECTOR

6.1 Functioning of Public Sector Undertakings

6.1.1 Introduction

As of 31 March 2019, there were seven Public Sector Undertakings (PSUs) (all Government Companies) in Arunachal Pradesh as detailed below:

Table 6.1.1: Total number of PSUs as on 31 March 2019

Type of PSUs	Working PSUs	Non-working PSUs	Total
Government Companies ¹	6	1	7

None of these Companies were listed on the stock exchange which means that the shares of the PSU cannot be traded in the stock exchange. During the year 2018-19, one PSU² was added to the audit jurisdiction of Principal Accountant General, Arunachal Pradesh. No existing PSU was closed down during the year.

6.1.2 Investment in PSUs

6.1.2.1 State Government's investment in PSUs

The State's investment in its PSUs was by way of share capital/loans and special financial support by way of grants/subsidies as and when required.

As on 31 March 2019, the investment of the State Government (capital and long-term loans) in 7 PSUs was ₹ 27.87 crore³ as per details given in **Table 6.1.2** below:

Table 6.1.2: Details of State's investment in PSUs

(₹ in crore)

Year	Equity Capital	Long term Loans	Total
2018-19	19.49	8.38	27.87
2014-15	19.49	8.38	27.87

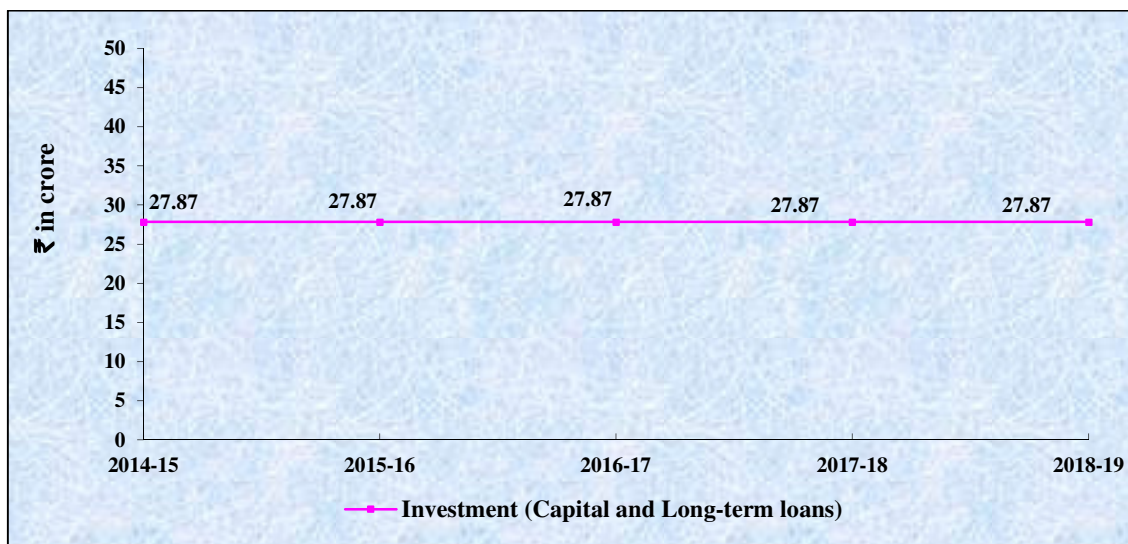
The State Government investment as on 31 March 2019 consisted of 69.93 per cent towards capital and 30.07 per cent in long-term loans, which remained constant during last five years. A graphical presentation of State Government's investment in PSUs during last five years (2014-15 to 2018-19) has been given in **Chart 6.1.1** below:

¹ Government Companies include other companies referred to in Section 139(5) and 139(7) of the Companies Act 2013.

² Arunachal Pradesh Donyi Polo Hotel Corporation Limited, incorporated on 10 August 1987, was previously audited by the Director General of Commercial Audit & Ex-Officio Member, Audit Board-I, Kolkata.

³ Investment figures are provisional and as per the information provided by the PSUs as none of the 7 PSUs has finalised accounts for 2018-19 as of September 2019.

Chart 6.1.1: State's total investment in PSUs



As can be noticed from the **Chart** above, the State Government's investment in PSUs remained constant at ₹ 27.87 crore during last five years.

During the year 2018-19, out of six working PSUs, two PSUs incurred losses (₹ 1.62 crore) and four PSUs earned profits (₹ 8.18 crore) as per their latest finalised accounts. None of the four profit making PSUs had declared any dividend. There was no recorded information about the existence of any specific policy of the State Government regarding payment of minimum dividend by the PSUs.

The return on State Government's investment (historical value) in PSUs during 2018-19 worked out to 16.20 *per cent*. The losses of two working PSUs (accumulated losses of ₹ 25.00 crore) had completely eroded the State's investment in their paid up capital (₹ 8.65 crore), as per their latest finalised accounts.

6.1.2.2 Total Sector-wise investment in PSUs

Total investment of State Government and Other Stakeholders (Central Government, Holding companies, Banks, Financial Institutions, etc.) in PSUs under various important sectors at the end of 31 March 2015 and 31 March 2019 has been given in **Table 6.1.3** below:

Table 6.1.3: Sector-wise investment in PSUs as on 31 March 2019
(₹ in crore)

Name of Sector	Government Companies	
	2014-15	2018-19
Finance	12.65	12.70
Power	12.45	12.45
Agriculture & Allied	4.50	4.50
Service	0.99	0.99
Manufacturing	0.24	0.24
Infrastructure	0.02	0.02
Miscellaneous	2.63	2.63
Total	33.48	33.53

(Source: Information received from PSUs).

It can be noticed from the **Table** above, the combined investment of State Government and Other Stakeholders remained constant in all the sectors during last five years excepting a marginal increase of ₹ 0.05 crore in Finance sector. During last five years, the thrust of investment was in Finance and Power sectors, which constituted around 38 *per cent* (Finance sector) and 37 *per cent* (Power sector) of total investment during 2014-15 and 2018-19.

6.1.3 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per the records of PSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the Finance Department and the PSUs concerned should carry out reconciliation of differences. The position in this regard as of 31 March 2019 is given in **Table 6.1.4** below:

Table 6.1.4: Variation between Finance Accounts and records of PSUs
(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	9.00	19.49	10.49
Loans	36.25 ⁴	8.38	27.87
Guarantee	2.00	2.00 ⁵	-

Source: As per the Finance Accounts and information furnished by PSUs.

As can be seen from the **Table 6.1.4** above, there were significant differences in the figure of 'equity' (₹ 10.49 crore) and 'loans' (₹ 27.87 crore), which have not been reconciled for more than ten years.

Though the Principal Secretary, Finance Department, Government of Arunachal Pradesh as well as the Management of the PSUs concerned were appraised regularly about the differences impressing upon the need for early reconciliation, no significant progress was noticed in this regard.

The Government and the PSUs concerned may take concrete steps to reconcile the differences in a time-bound manner. The Government should correct the system of financing the PSUs and the accounts be updated.

6.1.4 Special support and guarantees to PSUs during the year

State Government provides financial support to PSUs in various forms through annual budgetary allocations. The details of budgetary outgo towards equity, loans and grants/subsidies in respect PSUs for three ended 2018-19 are given in **Table 6.1.5** below:

⁴ Represents Loan provided to 'public sector and other undertakings' in four sectors namely, Agriculture & Allied (₹ 20.00 crore); Power (₹ 10.00 crore); Non-ferrous Mining (₹ 0.15 crore) and Industrial Financing (₹ 6.10 crore). PSU-wise details of loans not available in the State Finance Accounts, 2018-19.

⁵ pertained to Arunachal Pradesh Industrial Development and Financial Corporation Limited

Table 6.1.5: Details of budgetary support to PSUs

(₹ in crore)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		No.	Amount	No.	Amount	No.	Amount
1.	Equity Capital Outgo from budget	-	-	-	-	-	-
2.	Loans given from the budget	-	-	-	-	-	-
3.	Grants/Subsidy* from budget	1	1.24	2	5.55	3	9.88
	Total Outgo	1	1.24	2	5.55	3	9.88
4.	Guarantees issued during the year	-	-	-	-	-	-
5.	Guarantee Commitment (Cumulative)	1	2.00	1	2.00	1	2.00

*Represents revenue grants/subsidy; no capital grant/subsidy was provided during the three years.

During last three years under reference, the State Government had not provided any equity capital or loans from the State budget to PSUs. Two PSUs⁶ had received grants continuously for last two years. In addition, one PSU (Hydro Power Development Corporation of Arunachal Pradesh Limited) also received grant of ₹ 5.37 crore during 2018-19. Further, no guarantee was issued to any of the PSUs during last three years (2016-2019). The guarantee commitment of State Government remained constant at ₹ 2.00 crore during the last three years, which pertained Arunachal Pradesh Industrial Development and Financial Corporation Limited. The PSU had not paid any guarantee commission to the State Government.

6.1.5 Accountability framework

The audit of financial statements of a company in respect of financial years commencing on or after 1 April 2014 is governed by the provisions of the Companies Act, 2013 (Act) and audit of the financial statements in respect of financial years in respect of financial years that commenced earlier than 1 April 2014 continued to be governed by the Companies Act, 1956. The new Act has brought about increased regulatory framework, wider management responsibility and higher professional accountability.

6.1.5.1 Statutory Audit/ Supplementary Audit

Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG) audit the financial statements of a Government Company. In addition, CAG conducts the supplementary audit of these financial statements under the provisions of Section 143(6) of the Act.

6.1.5.2 Role of Government and Legislature

The State Government exercises control over the affairs of these PSUs through its administrative departments. The Government appoints the Chief Executives and Directors on the Board of these PSUs.

⁶ Arunachal Pradesh Industrial Development and Financial Corporation Limited (2017-18: ₹ 2.50 crore; 2018-19: ₹ 2.00 crore) and Arunachal Pradesh Forest Corporation Limited (2017-18: ₹ 3.05 crore; 2018-19: ₹ 2.51 crore)

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

6.1.6 Arrears in finalization of Accounts

The financial statements of the companies are required to be finalised within six months after the end of the financial year *i.e.* by September end in accordance with the provisions of Section 96(1) of the Act. Failure to do so may attract penal provisions under Section 99 of the Act.

Timely finalisation of accounts is important for the State Government to assess the financial health of the PSUs and to avoid financial misappropriation and mismanagement. Persistent delay in finalisation of accounts is fraught with the risk of fraud and leakage of public money going undetected apart from violation of the provision of the Companies Act, 2013.

Table 6.1.6 below provides the details of progress made by working PSUs in finalisation of accounts as of 30 September 2019.

Table 6.1.6: Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1	Number of Working PSUs	5	5	5	5	6
2	Number of accounts finalised during the year	5	1	3	2	2
3	Number of accounts in arrears	29	33	35	38	42
4	Number of Working PSUs with arrears in accounts	5	5	5	5	6
5	Extent of arrears (numbers in years)	1 to 15	1 to 16	1 to 17	1 to 18	1 to 19

As can be observed from the above Table, the number of accounts in arrears has shown an increasing trend during the five-year period 2014-15 to 2018-19. Out of the total 42 accounts in arrears as on 30 September 2019, 32 Accounts (76 per cent) pertained to two PSUs *viz.*, Arunachal Pradesh Mineral Development and Trading Corporation Limited (19 Accounts) and Arunachal Pradesh Forest Corporation Limited (13 Accounts). The earliest Accounts in arrears was since 2000-01, which related to Arunachal Pradesh Mineral Development and Trading Corporation Limited.

The Principal Accountant General Arunachal Pradesh (PAG) has been regularly pursuing this issue with the Chief Secretary, Government of Arunachal Pradesh and the Administrative Departments concerned for liquidating the arrears in accounts of PSUs. However, the State Government and the PSUs concerned could not address the issue to clear pendency of accounts of the PSUs in a time bound manner.

6.1.7 Investment by State Government in PSUs whose accounts are in arrears

The State Government invested ₹ 0.55 crore in two PSUs {equity: ₹ 0.40 crore (two PSUs) and long term loans: ₹ 0.15 crore (one PSUs) during the years for which the accounts of these PSUs had not been finalised as detailed in **Table 6.1.7**.

Table 6.1.7: Investment by State Government in PSUs having accounts in arrears

(₹ in crore)

Sl. No.	Name of PSU	Accounts finalised upto	Accounts pending finalisation	Investment by State Government during the period of accounts in arrears	
				Equity	Loans
1	Arunachal Pradesh Industrial Development and Financial Corporation Limited	2017-18	2018-19	0.05	-
2	Arunachal Pradesh Mineral Development and Trading Corporation Limited	1999-00	2000-01 to 2018-19	0.35	0.15
	Total:			0.40	0.15

In the absence of accounts and their subsequent audit, it cannot be verified if the investments made and the expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not.

The Government may consider setting up a special cell under the Finance Department to oversee the expeditious clearance of arrears of accounts of PSUs. Where there is lack of staff expertise, Government may consider outsourcing the work relating to preparation of accounts and take punitive action against company heads responsible for arrears of accounts. Until the accounts are made as current as possible Government may consider not giving further financial assistance to such companies.

6.1.8 Performance of PSUs as per their latest finalised accounts

The financial position and working results of working Government Companies are detailed in **Appendix 6.1. Table 6.1.8** below provides the comparative details of working PSUs turnover and State GDP for a period of five years ending 2018-19.

Table 6.1.8: Details of working PSUs turnover vis-a-vis State GDP

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Turnover ⁷	20.29	20.48	23.29	24.86	28.96
State GDP ⁸	17959.41	18509.16	19626.82	22231.30	24489.36
Percentage of Turnover to State GDP	0.11	0.11	0.12	0.11	0.12

⁷ Turnover of working PSUs as per the latest finalised accounts as on 30 September of respective years.

⁸ Source: State Finance Audit Report

From the above **Table**, it can be seen that contribution of PSUs to the State GDP has increased marginally by one *per cent* from 0.11 *per cent* (2014-15) to 0.12 *per cent* (2018-19) during the period.

The PSUs turnover have registered an overall growth of ₹ 8.67 crore (42.73 *per cent*) during the last five years from ₹ 20.29 crore (2014-15) to ₹ 28.96 crore (2018-19). There was an increase of ₹ 3.36 crore in the turnover of one company⁹ from ₹ 6.88 crore (2014-15) to ₹ 10.24 crore (2018-19).

6.1.8.1 Key parameters

Some other key parameters of PSUs performance as per their latest finalised accounts as on 30 September of the respective year are given in **Table 6.1.9** below:

Table 6.1.9: Key Parameters of PSUs

Particulars	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Debt	31.16	31.12	31.29	31.33	31.50
Turnover ¹⁰	20.29	20.48	23.29	24.86	28.96
Debt/ Turnover Ratio (DTR)	1.53:1	1.52:1	1.34:1	1.26:1	1.08:1
Interest Payments	18.09	18.09	17.85	18.95	19.12
Accumulated losses	(-)11.31	(-)12.49	(-)6.14	(-)1.40	(+)4.94

Debt-Turnover Ratio

Debt-to-turnover ratio (DTR) demonstrates a good balance between debt and income. Conversely, a high DTR can signal of having too much of debt against the income of PSUs from core activities. Thus, the PSUs having lower DTR are more likely to successfully manage their debt servicing and repayments.

PSU Debt

During the period of five years, the PSUs debt had increased marginally by ₹ 0.34 crore (1.09 *per cent*) from ₹ 31.16 crore (2014-15) to ₹ 31.50 crore (2018-19). This had confined the interest payments to almost same level during last five years.

However, as can be seen from **Table 6.1.9** above, there was overall improvement in the DTR in last five years from 1.53:1 (2014-15) to 1.08:1 (2018-19) mainly due to overall growth in PSU-turnover (42.73 *per cent*) during last five years from ₹ 20.29 crore (2014-15) to ₹ 28.96 crore (2018-19).

6.1.8.2 Erosion of capital due to losses

The paid-up capital and accumulated profits of six working PSUs as per their latest finalised accounts as on 30 September 2019 were ₹ 17.03 crore and ₹ 4.94 crore respectively (**Appendix 6.1**).

⁹ Arunachal Pradesh Industrial Development and Financial Corporation Limited.

¹⁰ Turnover of working PSUs as per the latest finalised accounts as on 30 September of the respective year.

The Return on Equity¹¹ (RoE) in respect of 4 out of 6 working PSUs was 7.41 *per cent* as per their latest finalised accounts. The accumulated losses (₹ 25.00 crore) of remaining two¹² working PSUs had completely eroded their capital (₹ 8.65 crore) as per their latest finalised accounts. RoE of these two PSUs was not workable due to complete erosion of their equity capital. The details of erosion of paid-up capital of the two PSUs is detailed in **Table 6.1.10** below:

Table 6.1.10: PSUs with primary erosion of paid-up capital

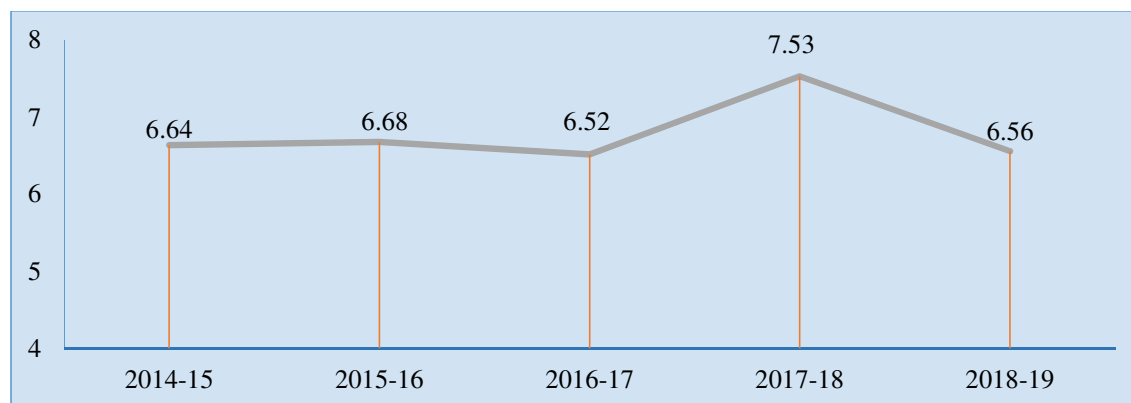
(₹ in crore)

Name of PSU	Latest finalised accounts	Paid-up capital	Accumulated losses
Arunachal Pradesh Industrial Development and Financial Corporation Limited	2017-18	4.15	20.42
Arunachal Pradesh Forest Corporation Limited	2005-06	4.50	4.58

The Accumulated losses by these PSUs had eroded public wealth, which is a cause of serious concern.

The overall position of the profits earned by working PSUs during 2014-15 to 2018-19 as per their latest finalised accounts is depicted in **Chart 6.1.1** below:

Chart: 6.1.2- Profit of working PSUs



(Source: Compiled based on latest finalised accounts of PSUs).

During 2018-19, there was a decline of around 13 *per cent* (₹ 0.97 crore) in the overall profits of the working PSUs compared to the previous year (2017-18), due to reduction (₹ 2.10 crore) in the profit of one PSU (Arunachal Police Housing and Welfare Corporation Limited) from ₹ 6.31 crore (2017-18) to ₹ 4.21 crore (2018-19).

During the year 2018-19, out of six working PSUs, four PSUs¹³ earned an aggregate net profit of ₹ 8.18 crore, while the remaining two PSUs¹⁴ incurred a loss of ₹ 1.62 crore. The

¹¹ ROE = (Net Profit after taxes *minus* preference dividend) ÷ Shareholders' Fund/Equity; Where, Shareholders' Fund/Equity=Paid up Share Capital *plus* Free Reserves and Surplus *minus* Accumulated Loss *minus* Deferred Revenue Expenditure.

¹² Sl. No. 1 and 3 of **Appendix 6.1**.

¹³ Including negligible profit (₹12,371) of one PSU at Sl. No. A1 of **Appendix 6.1**.

¹⁴ Serial no. A2 and A6 of **Appendix 6.1**.

details of major contributors to profits and losses of working PSUs are given in **Table 6.1.11** below:

Table 6.1.11: Major contributors to profits and losses of working PSUs

(₹ in crore)

Name of PSU	Latest finalised accounts	Profit (+)/ loss (-)
Arunachal Police Housing and Welfare Corporation Limited	2016-17	(+) 4.21
Arunachal Pradesh Forest Corporation Limited	2005-06	(+) 3.54
Arunachal Pradesh Donyi Polo Hotel Corporation Limited	2017-18	(-) 1.34

The State Government has not formulated (February 2020) any dividend policy to make it mandatory for PSUs to pay a minimum return on the paid-up equity share capital contributed by the State Government. None of the four working PSUs, which earned profit during 2018-19, had declared any dividend.

6.1.9 Return on Investment on the basis of Present Value of Investment

The Rate of Real Return (RORR) measures the profitability and efficiency of an entity with which equity and similar non-interest bearing capital have been deployed, after adjusting them for their time value. To determine the RORR, the investment of State Government in the form of equity, interest free loans and revenue grants/subsidies in the PSUs for operational and management expenses *less* disinvestments (if any), has been considered and indexed to their Present Value (PV) and summated. The RORR is then calculated by dividing the 'profit after tax' (PAT) earned by PSUs by the sum of the PV of the investment.

During 2018-19, out of six working PSUs, four PSUs earned profit (₹ 8.18 crore¹⁵), while the remaining two PSUs incurred loss (₹ 1.62 crore) as per their latest finalised accounts (**Appendix-6.1**). Based on the historical value of investment, the Return for 2018-19 on State Government investment worked out to 16.20 *per cent* as against the RORR of 5.27 *per cent* on the investment at present value as shown in **Appendix-6.2**. This difference in percentage of return was on account of the adjustment made in the investment amount for the time value of money.

6.1.10 Impact of Audit Comments on Annual Accounts of PSUs

During October 2018 to September 2019, two working companies had forwarded two audited accounts to the Principal Accountant General (PAG), Arunachal Pradesh. The accounts of both the 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 needed to be improved substantially. The details of aggregate money value of the comments of statutory auditors and CAG are given in **Table 5.1.12** below:

¹⁵ As per latest finalised accounts of working PSUs as on 30 September 2019 and included negligible profit (₹12,371/-) of PSU at serial number A1 of **Appendix 5.1**.

Table 5.1.12: Impact of audit comments on working Companies

(₹ in crore)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	13.87	-	-	1	4.66
2.	Increase in loss	1	96.27	-	-	-	-
3.	Non-disclosure of material facts	1	1183.21	-	-	-	-
4.	Errors of classification	-	-	-	-	-	-

Source: As per latest finalised annual accounts of PSUs.

During the year, the statutory auditors had given qualified certificates for both the companies which commonly includes non-compliance to Accounting Standards, improper maintenance of records and accounting errors. In addition, CAG had also issued qualified certificates on accounts of two companies selected for supplementary audit. No adverse certificates or disclaimers were issued by the CAG or statutory auditors on any of the accounts during the year.

6.1.10.1 Gist of some of the important comments of CAG in respect of accounts of the PSU are as under:

Arunachal Pradesh Industrial Development and Financial Corporation Limited (2017-18)

Non-provisioning against Investments doubtful of recovery

The Company had not provided for the investment of ₹ 4.40 crore (equity: ₹ 0.42 crore and loans: ₹ 3.98 crore) made in its two subsidiaries, which have already eroded their net worth and ceased their operations. This has resulted in overstatement of Assets and 'profit for the year' by ₹ 4.40 crore each.

Non-provisioning against doubtful debts and receivables

The Company had not made provisions against sundry debtors and other receivables (₹ 0.27 crore), which were pending recovery for a long period and chances of recovery of these receivables was remote. This has resulted in overstatement of 'current assets' and 'profit for the year' by ₹ 0.27 crore each.

Arunachal Police Housing and Welfare Corporation Limited (2016-17)

Non-accounting of Contingency/Corporation charges receivable on completed projects

The Company had not accounted the 'Receivables' of ₹ 0.34 crore towards contingency charges (₹ 0.08 crore) and corporation charges (₹ 26 crore) against four projects completed during 2016-17. This resulted in understatement of 'current assets' and 'profit for the year' to that extent.