

CHAPTER-IV: FUNCTIONING OF STATE PUBLIC SECTOR UNDERTAKINGS

4.1 Introduction

Public Sector Undertakings (PSUs) are established by Governments to carry out activities of a commercial nature for the development of the State as well as to cater to the welfare of its people.

Chhattisgarh State was formed on 1 November 2000, following the bifurcation of the erstwhile State of Madhya Pradesh (MP) into Chhattisgarh and the residual State of MP, as per the MP Reorganisation Act, 2000. As on 31 March 2019, there were 31 State PSUs in Chhattisgarh State (including 30 Government companies and one¹ Statutory Corporation) under the audit jurisdiction of the Comptroller & Auditor General of India (CAG). None of the PSUs was listed on the stock exchange (s).

The status of submission of financial statements by the PSUs as on 31 December 2019 is presented in **Table 4.1**.

Table 4.1: Status of submission of financial statements by PSUs

Type of PSUs	Total Number of PSUs	Status of finalisation of Accounts by PSUs as of 31 December 2019				Number of PSUs whose accounts were in arrears (No. of Accounts in arrears)
		Accounts for 2018-19 ²	Accounts for 2017-18	Accounts up to 2016-17	Total	
Government Companies	27	9	13	1	23	18 (25)
Statutory Corporation	1	1	-	-	1	-
Total Working PSUs	28	10	13	1	24	18 (25)
Inactive PSUs	3	1	1	1	3	2(3)
Total	31	11	14	2	27	20 (28)

(Source: Annual accounts submitted by Chhattisgarh State PSUs)

Out of the 31 State PSUs, 28 were working PSUs (27 Companies and one Statutory Corporation) and three PSUs were inactive. Out of the 28 working PSUs, only 20 PSUs (19 Companies and one Statutory Corporation), whose accounts were in arrears for two or less years as on 31 December 2019 have been considered for detailed analysis of financial performances in this Report.

As per their latest finalised accounts, 31 State PSUs registered a turnover of ₹ 36,922.95 crore, which constituted 11.85 *per cent* of the Gross State Domestic Product (GSDP) of ₹ 3,11,660 crore of Chhattisgarh State during the year 2018-19. During 2018-19, the 20 working State PSUs covered in this Report, as per their latest finalised accounts, registered a turnover of ₹ 36,850.93 crore, which constituted 11.82 *per cent* of the GSDP.

¹ Chhattisgarh State Warehousing Corporation (CSWC).

² From 1 January 2019 to 31 December 2019.

The State and Central Governments and Others had invested an amount of ₹ 1,494.85 crore in the form of capital (₹ 364.65 crore) and long term loans (₹ 1,130.20 crore) in 11 PSUs, which have not been considered for detailed analysis in this Report (**Appendix 5.1 and Appendix 6.2**).

4.2 Investment in State PSUs

4.2.1 Stake of Government of Chhattisgarh

The State Government has a significant financial stake in these PSUs in the form of the following:

- (i) **Share capital and loans:** In addition to the share capital contribution, the State Government also provides financial assistance by way of loans to the PSUs from time to time.
- (ii) **Special financial support:** State Government provides budgetary support by way of grants and subsidies to the PSUs, as required.
- (iii) **Guarantees:** State Government also guarantees the repayment of loans with interest availed of by the PSUs from Financial Institutions.

The sector-wise summary of investment (equity and long term loans) in 31 PSUs as on 31 March 2019 is detailed in **Table 4.2**.

Table 4.2: Sector-wise investment in PSUs

Name of sector	Government Companies		Statutory Corporation		Total	Investment (₹ in crore)		
	Working	Non-functional	Working	Non-functional		Equity*	Long term loans*	Total
Power	5	1	-	-	6	6,791.89	11,333.08	18,124.97
Agriculture & Allied	2	-	-	-	2	27.15	25.91	53.06
Services	5	3	1	-	9	68.07	798.56	866.63
Infrastructure	4	4	-	-	8	11.15	896.22	907.37
Finance	1	-	-	-	1	5.00	56.82	61.82
Others	2	3	-	-	5	110.60	497.43	608.03
Total	19	11	1	0	31	7,013.86	13,608.02	20,621.88

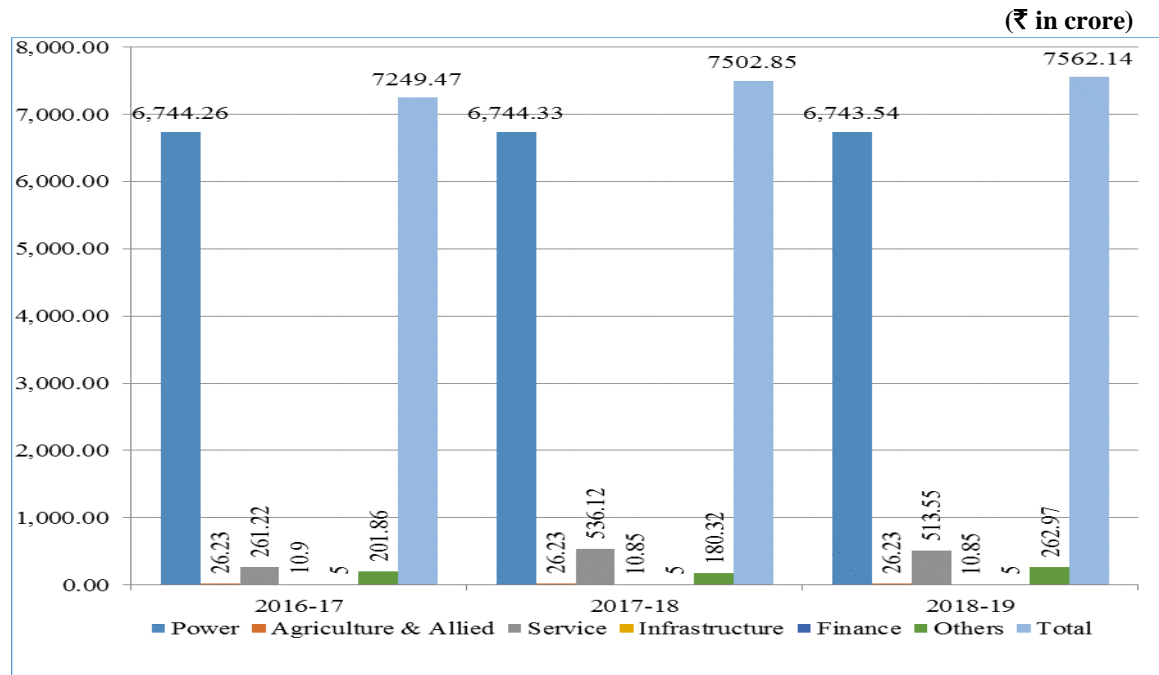
(Source: Annual accounts of PSUs and sanction/release orders for equity and loans)

*Equity includes share application money and long-term loans includes loans from Central and State Governments, Public Financial Institutions and Commercial Banks.

As on 31 March 2019, the total investment in 31 State PSUs comprised 34.01 per cent of equity capital and 65.99 per cent of long term loans. The long term loans in 31 State PSUs consisted of ₹ 889.62 crore advanced by the Central and State Governments and ₹ 12,718.40 crore raised from other sources. The thrust of the State Government's investment in PSUs was mainly in power sector during the last three years. Out of the total investment (equity, loans and subsidies/grants) of ₹ 3,207.10 crore during the period from 2016-17 to 2018-19, the share of power sector was 74.12 per cent (₹ 2,376.99 crore).

The pattern of State Government investment (equity and long term loans) in various important sectors at the end of the year from 2016-17 to 2018-19 is indicated in **Chart 4.1. 7562.14**

Chart 4.1: Sector-wise investment in PSUs



(Source: Accounts / information as furnished by PSUs)

4.3 Accountability framework

A Government Company or any other Company owned or controlled, directly or indirectly by the Central Government, or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments is subject to audit by the CAG. Audit of Government Companies is governed by respective provisions of Section 139 and 143 of the Companies Act, 2013. Section 2 (45) defines a ‘Government Company’ as one in which not less than 51 *per cent* of the paid-up share capital is held by the Government(s). A Government Company includes a subsidiary of a Government Company.

Statutory auditors of the Government Companies are appointed by the CAG under Section 139 of the Companies Act, 2013 for conducting audit of accounts of PSUs in accordance with Section 143 (5) of the Companies Act, 2013. The accounts of PSUs are subject to supplementary audit by the CAG under Section 143 (6) of the Companies Act, 2013. The CAG plays an oversight role by monitoring the performance of the Statutory Auditors. This role is discharged by means of the following:

- (i) Issuing direction to the Statutory Auditors under Section 143(5) of the Companies Act, 2013, and
- (ii) Supplementing or commenting upon the Statutory Auditor’s report under Section 143(6) of the Companies Act, 2013.

Audit of Statutory Corporations is governed by their respective legislations. The audit of Chhattisgarh State Warehousing Corporation (CSWC) is conducted by the Chartered Accountants and Supplementary Audit is conducted by the CAG.

4.4 Submission of Accounts by PSUs

4.4.1 Need for timely finalisation and submission

According to Sections 394 and 395 of the Companies Act, 2013, Annual Report on the working and affairs of a Government Company is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation, laid before the State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. Almost similar provisions exist in the respective Acts regulating Statutory Corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the companies from the Consolidated Fund of the State.

Section 96 of the Companies Act, 2013 requires every Company to hold an AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statements for the financial year have to be placed in the said AGM for their consideration. Section 129 (7) of the Companies Act, 2013 provides for levy of penalties like fine and imprisonment of the persons including directors of the Company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

4.4.2 Role of Government and Legislature

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 State Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. Towards this end, the Annual Reports of the State Government Companies, together with the Statutory Auditors' Reports and comments of the CAG, are to be placed before the State Legislature under Section 394 of the Companies Act, 2013. Separate Audit Reports are also required to be placed before the Legislature in case of Statutory Corporations as stipulated in the respective Acts.

Audit Reports of the CAG are submitted to the Government for placing before the Legislature under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

4.5 Follow-up action on Audit Reports

The Reports of the CAG are products of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. As per the instructions issued (April 2017) by the Finance Department of Government of Chhattisgarh, all Administrative Departments are required to submit replies/explanatory notes to

Performance Audits (PA) / Paragraphs 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 Undertakings (COPU).

As on 31 December 2019, no Explanatory Notes (ENs) of 26 PAs/Paragraphs relating to Reports of Power Sector PSUs were awaited. However, out of 61 PAs/Paragraphs relating to Reports of Non-Power Sector PSUs, Explanatory Notes (ENs) to two Paragraphs were awaited as of this date. Details are given in **Table 4.3**.

Table 4.3: Status of receipt of Explanatory Notes

Year of Audit Report	Date of placement of Audit Report in the State Legislature	Total PAs and Paragraphs in the Audit Report		Number of PAs/Paragraphs for which ENs were not received	
		PAs	Paragraphs	PAs	Paragraphs
Power Sector PSUs					
2008-09	26.03.2010	-	2	-	-
2009-10	28.03.2011	1	-	-	-
2010-11	03.04.2012	1	1	-	-
2011-12	22.03.2013	1	5	-	-
2012-13	25.02.2014	-	3	-	-
2013-14	26.03.2015	-	4	-	-
2014-15	31.03.2016	-	6	-	-
2015-16	30.03.2017	1	1	-	-
2016-17	10.01.2019	-	-	-	-
Total		4	22	-	-
Non-Power Sector PSUs					
2008-09	26.03.2010	1	3	-	2
2009-10	28.03.2011	-	8	-	-
2010-11	03.04.2012	-	7	-	-
2011-12	22.03.2013	-	5	-	-
2012-13	25.02.2014	1	6	-	-
2013-14	26.03.2015	1	7	-	-
2014-15	31.03.2016	1	7	-	-
2015-16	30.03.2017	-	9	-	-
2016-17	10.01.2019	1	4	-	-
Total		5	56	-	2

(Source: Compiled by office of the Principal Accountant General (Audit) Chhattisgarh)

4.6 Discussion of Audit Reports by COPU

The status of PAs and Paragraphs relating to both Power and Non-Power Sector PSUs that featured in Audit Reports (PSUs) as on 31 December 2019 and discussed by COPU is given in **Table 4.4**.

Table 4.4: PAs/Paragraphs discussed vis-à-vis featured in Audit Reports

Year of Audit Report (Commercial/PSUs)	Number of PAs/Paragraphs			
	Appeared in Audit Report		Discussed	
	PAs	Paragraphs	PAs	Paragraphs
Power Sector PSUs				
2008-09	-	2	-	2 (4.3.1, 4.3.2)
2009-10	1(CSPGCL)	-	1	-
2010-11	1(CSPDCL)	1	1	1(4.3.8)
2011-12	1(CSPTCL)	5	1	5 (3.6 to 3.10)

Year of Audit Report (Commercial/PSUs)	Number of PAs/Paragraphs			
	Appeared in Audit Report		Discussed	
	PAs	Paragraphs	PAs	Paragraphs
2012-13	-	3	-	3 (3.7 to 3.9)
2013-14	-	4	-	-
2014-15	-	6	-	-
2015-16	1(RAPDRP)	1	-	-
2016-17	-	-	-	-
Total	4	22	3	11
Non-Power Sector PSUs				
2008-09	1	3	1	1
2009-10	-	8	-	8
2010-11	-	7	-	5
2011-12	-	5	-	5
2012-13	1	6	1	6
2013-14	1	7	1	7
2014-15	1	7	-	5
2015-16	-	9	-	6
2016-17	1	4	-	-
Total	5	56	3	43

(Source: Compiled by office of the Principal Accountant General (Audit) Chhattisgarh)

Out of four PAs and 22 Paragraphs relating to Power Sector PSUs, three PAs and 11 Paragraphs were discussed by COPU as of 31 December 2019. Similarly, out of five PAs and 56 Paragraphs relating to non-power Sector PSUs, three PAs and 43 Paragraphs were discussed by COPU as of this date. During 2018-19, COPU discussed eight Paragraphs in the Audit Reports relating to PSUs.

4.7 Compliance to Reports of COPU

Action Taken Notes (ATNs) on four Paragraphs pertaining to COPU Reports presented in the State Legislature in respect of Power Sector PSUs had not been received (31 December 2019), as detailed in **Table 4.5**.

Table 4.5: Compliance to COPU Reports

Year of the COPU Report	Total number of COPU Reports	Total number of recommendations in COPU Report	ATNs not received
Power Sector PSUs			
2008-09	5	6	1
2010-11	1	1	0
2011-12	3	1	0
2018-19	3	3	3
Total	12	11	4
Non-Power Sector PSUs			
2008-09	5	1	0
2009-10	2	1	1
2010-11	1	1	0
2011-12	3	1	0
2017-18	1	1	0
2018-19	3	2	2
Total	15	7	3

(Source: Compiled by office of the Principal Accountant General (Audit) Chhattisgarh)

Similarly, ATNs on three recommendations pertaining to three Reports of COPU presented in the state legislature in respect of Non-Power Sector PSUs had not been received (December 2019).

Lack of action on PAs/Paragraphs that featured in CAG Reports and lack of discussion by COPU on these Reports coupled with absence of follow up action on the COPU's Reports are fraught with the risk of perpetuating serious financial irregularities pointed out in these Reports. It may also result in dilution of internal controls in the governance process, inefficient and ineffective delivery of public goods/services, fraud, corruption and loss to public exchequer.