

## INTRODUCTION

### FUNCTIONING OF STATE PUBLIC SECTOR UNDERTAKINGS

#### *General*

1 State Public Sector Undertakings (PSUs) consist of State government companies and statutory corporations. State PSUs are established to carry out activities of a commercial nature and occupy an important place in the State's economy. As on 31 March 2018, there were 25 PSUs. Of these, one company<sup>1</sup> was listed (April 1995) on the Delhi Stock Exchange. During the year 2017-18, one PSU<sup>2</sup> was incorporated and no PSU was closed down. The details of State PSUs in Himachal Pradesh as on 31 March 2018 are given in Table 1 below.

**Table 1: Total number of PSUs as on 31 March 2018**

Type of PSUs	Working PSUs	Inactive PSUs <sup>3</sup>	Total
Government Companies <sup>4</sup>	21	2	23
Statutory Corporations	2 <sup>5</sup>	-	2
<b>Total</b>	<b>23</b>	<b>2</b>	<b>25</b>

The working PSUs registered a turnover of ₹ 8,814.81 crore (*Appendix 1*) as per their latest finalised accounts as of September 2018. This turnover was equal to 6.49 *per cent* of the State Gross Domestic Product (GDP) for 2017-18. The working PSUs incurred aggregate loss of ₹ 109.50 crore (*Appendix 1*) as per their latest finalised accounts as of September 2018. They had employed 36,907 employees as at the end of March 2018.

As on 31 March 2018, there were two<sup>6</sup> inactive companies with capital employed of ₹ 78.79 crore.

#### *Accountability framework*

2 The procedure for audit of Government companies are laid down in Sections 139 and 143 of the Companies Act, 2013 (Act 2013). According to Section 2 (45) of the Act 2013, a Government Company means any company in which not less than 51 *per cent* of the paid-up share capital is held 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, and includes a company which is a subsidiary company of such a Government

<sup>1</sup> Himachal Pradesh General Industries Corporation Limited.

<sup>2</sup> Dharamshala Smart City Limited.

<sup>3</sup> Inactive PSUs are those which have ceased to carry on their operations.

<sup>4</sup> Government PSUs include other Companies referred to in Section 139(5) and 139(7) of the Companies Act, 2013.

<sup>5</sup> Himachal Pradesh Financial Corporation and Himachal Road Transport Corporation.

<sup>6</sup> Agro Industrial Packaging India Limited and Himachal Worsteds Mills Limited.

Company. Besides, any other company<sup>7</sup> 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 are referred to in this Report as Government Controlled other Companies.

Comptroller & Auditor General of India (CAG) appoints the statutory auditors of a Government Company and Government Controlled Other Company under Section 139 (5) and (7) of the Companies Act, 2013. Section 139 (5) of the Companies Act, 2013 provides that the statutory auditors in case of a Government Company or Government Controlled Other Company are to be appointed by the CAG within a period of 180 days from the commencement of the financial year. Section 139 (7) of the Companies Act, 2013 provides that in case of a Government Company or Government Controlled Other Company, the first auditor are to be appointed by the CAG within 60 days from the date of registration of the company and in case CAG does not appoint such auditor within the said period, the Board of Directors of the Company or the members of the Company have to appoint such auditor.

Further, as per sub-Section 7 of Section 143 of the Act 2013, the Comptroller and Auditor General of India (CAG) may, in case of any company covered under sub-Section (5) or sub-Section (7) of Section 139, if considered 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. Thus, 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 Central government and partly by one or more State governments is subject to audit by the CAG. An audit of the financial statements of a Company 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.

### **3 Statutory Audit**

The financial statements of Government companies (as defined in Section 2 (45) of the Companies Act, 2013) are audited by statutory auditors who are appointed by CAG under Section 139(5) or (7) of the Act. The statutory auditors shall submit a copy of Audit Report to the CAG which among other things includes the directions issued by the CAG, the action taken thereon and its impact on the accounts. The financial statements are subject to supplementary audit by CAG within 60 days from the date of receipt of the Audit Report under Section 143(6) of the Act.

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<sup>7</sup> Ministry of Corporate Affairs- (Removal of Difficulties) Seventh Order 2014 dated 4 September 2014.

Audit of statutory corporations is governed by their respective legislations. Out of the two statutory corporations<sup>8</sup>, CAG is the sole auditor for the Himachal Road Transport Corporation (HRTC). In respect of Himachal Pradesh Financial Corporation (HPFC), the audit is conducted by chartered accountants and supplementary audit by CAG.

#### **4        *Role of Government and Legislature***

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

The State Legislature monitors the accounting and utilisation of Government investment in the PSUs. For this purpose, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of State government companies and Separate Audit Reports in case of statutory corporations, are to be placed before the Legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of CAG are submitted to the Government under section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

#### ***Submission of accounts by PSUs***

#### **5        *Need for timely finalisation and submission***

According to Section 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 Houses or both the Houses of 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 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 Statement for the financial year has to be placed in the said AGM for their consideration. Section 129 (7) of the Companies Act, 2013 provides for levy of penalty like fine and imprisonment on the persons including directors of the company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

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<sup>8</sup> Himachal Pradesh Financial Corporation and Himachal Road Transport Corporation.

The details of progress made by 23 working PSUs in finalisation of accounts as of 30 September 2018 are given in table 2 below.

**Table 2: Position relating to finalisation of accounts of working PSUs**

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1.	Number of working PSUs / other companies	19	19	20	21	23
2.	Number of accounts finalised during the year	16	16	19	21	14
3.	Number of accounts in arrears	23	26	27	27	36
4.	Number of PSUs with arrears in accounts	15	18	18	17	22
5.	Extent of arrears (numbers in years)	1 to 3 years	1 to 3 years	1 to 3 years	1 to 4 years	1 to 4 years

PSUs having arrears of accounts need to take effective measures for early clearance of backlog and to make the accounts up-to-date. The PSUs which have arrear of accounts should also ensure that at least two year's accounts are finalised in each year so as to liquidate the arrears.

**6** The State government had invested ₹ 4,357.79 crore in 22 PSUs for which accounts have not been finalised as detailed in **Appendix 2**. In the absence of finalisation of accounts and their audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and whether the purpose for which the amount was invested had been achieved or not. Thus, Government's investment in such PSUs has remained outside the scrutiny of the State Legislature.

### Investment by Government of Himachal Pradesh in State Public Sector Undertakings (PSUs)

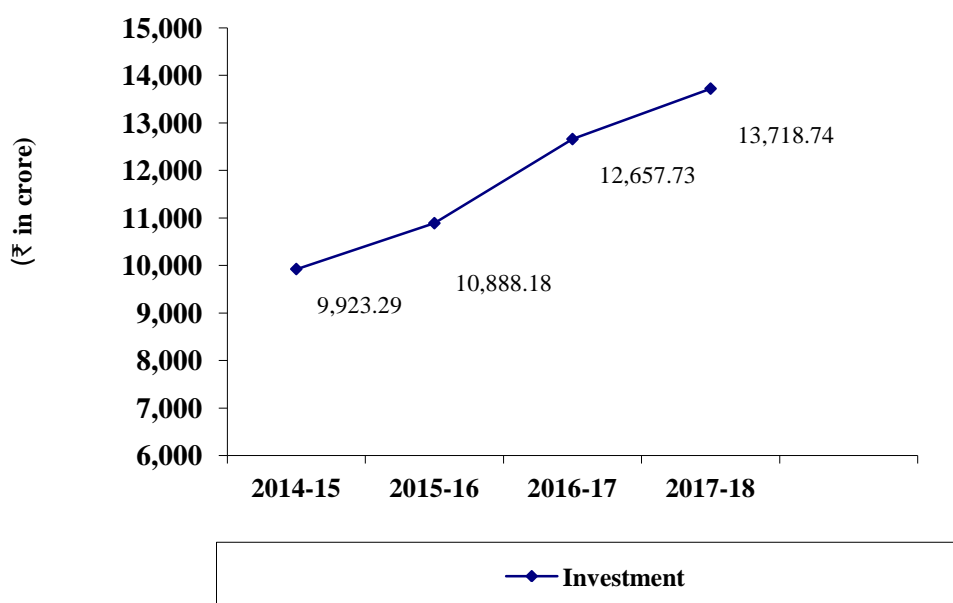
7 As on 31 March 2018, the investment (Paid up capital, Free Reserves and Long-term loans) in 25 PSUs was ₹ 13,718.74 crore as given in table 3 below.

Table 3: Total Investment in PSUs

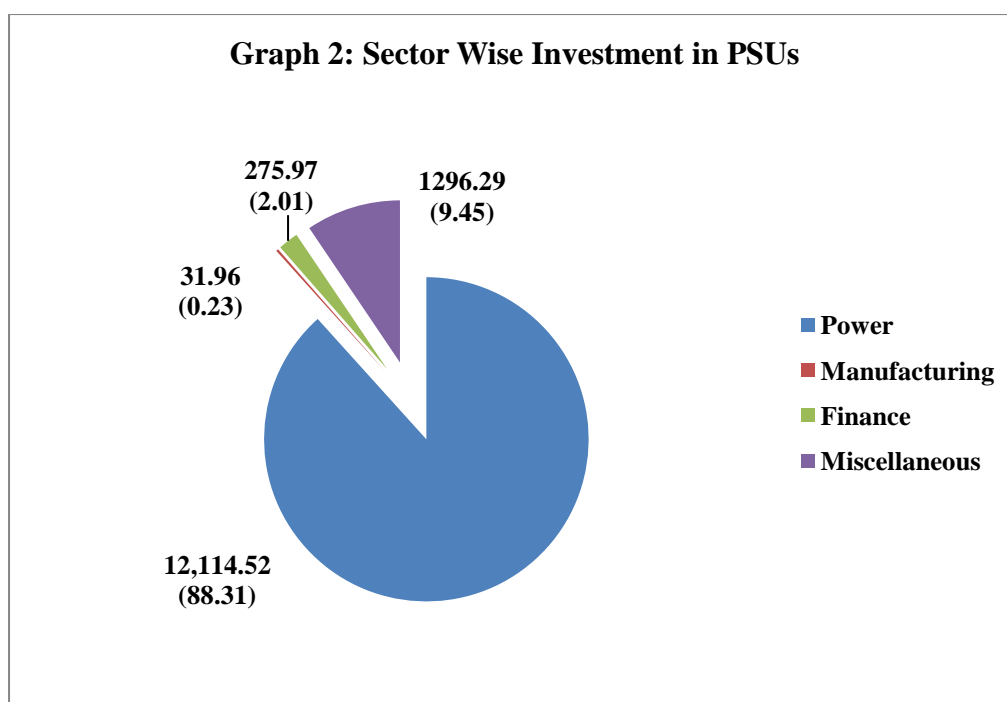
Type of PSUs	Government Companies				Statutory Corporations				Grand Total
	Paid up Capital	Long Term Loans	Free Reserves	Total	Paid up Capital	Long Term Loans	Free Reserves	Total	
Working PSUs	3309.00	9064.00	112.18	12485.18	820.06	334.71	0	1154.77	13639.95
Inactive PSUs	18.64	60.15	0	78.79	-	-	-	-	78.79
<b>Total</b>	<b>3327.64</b>	<b>9124.15</b>	<b>112.18</b>	<b>12563.97</b>	<b>820.06</b>	<b>334.71</b>	<b>0</b>	<b>1154.77</b>	<b>13718.74</b>

As on 31 March 2018, of the total investment 99.43 per cent was in working PSUs and the remaining 0.57 per cent in inactive PSUs. This total investment consisted of 30.23 per cent towards paid up capital, 0.82 per cent in Free Reserves and 68.95 per cent in long-term loans. The investment has grown from ₹ 9,923.29 crore (Paid up Capital: ₹ 3,304.06 crore, free reserves ₹ 51.12 crore and Long term loans: ₹ 6,568.11 crore) in 2014-15 to ₹ 13,718.74 crore (Paid up Capital: ₹ 4,147.70 crore, Free Reserves: ₹ 1,12.18 crore and Long term loans: ₹ 9,458.86 crore) in 2017-18 as shown in the graph 1 below.

Graph 1: Total Investment in PSUs



8 The investment in four significant sectors and percentage thereof at the end of 31 March 2018 is indicated in graph. 2 below.



(Figures in brackets show the sector-wise percentage of Investment to total Investment)

Keeping in view the high level of investment in Power Sector, we are presenting the results of four Power Sector PSUs in Part I<sup>9</sup> of this report and of the 21 PSUs (other than power sector) in Part II<sup>10</sup> of the report.

<sup>9</sup> The Part I includes Chapter-I (Functioning of State Power Sector Undertakings), Chapter-II (Performance Audit relating to Power Sector Undertakings) and Chapter-III (Compliance Audit Observations relating to Power Sector Undertakings).

<sup>10</sup> The Part II includes Chapter-IV (Functioning of State PSUs other than Power Sector) and Chapter-V (Compliance Audit Observations relating to PSUs other than Power Sector).