

Chapter 1

Functioning of State Public Sector Undertakings

1.1 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.

As on 31 March 2019, there were 71 State PSUs¹ in Madhya Pradesh (68 Government Companies and three Statutory Corporations²) under the audit jurisdiction of the Comptroller and Auditor General of India (CAG). None of these PSUs was listed on the stock exchange (s). The details of PSUs are given below in **Table 1.1**:

Table 1.1: Details of PSUs as of 31 March 2019

	Nature of PSUs	Total no. of PSUs
	Total No. of PSUs	71
A	No. of Government Companies	36
B	No. of Statutory Corporations	2
C	Total no. of Working PSUs (A+B)	38
D	No. of PSUs under liquidation	5
E	No. of defunct PSUs	12
F	No. of PSUs that had not commenced operations	7
G	Total no. of inactive PSUs (D+E+F)	24
H	No. of working PSUs with accounts in arrears*	09
I	Total number of PSUs not covered in this Report (G+H)	33

* Pending for three years to 30 years

(Source: Accounts/ information furnished by PSUs)

Out of 71 PSUs, 55 PSUs (11 Power Sector PSUs and 44 Non-Power Sector PSUs) had submitted at least one account for the period 2016-17, 2017-18 and 2018-19 by 31 December 2019.

Out of these 55 PSUs, this Report covers only 38 PSUs (seven Power Sector PSUs and 31 Non-Power Sector PSUs) as detailed in **Annexure 1.1 (A)**, and the remaining 17 PSUs (four Power Sector PSUs and 13 Non-Power Sector PSUs) were inactive, as detailed in **Annexure 1.1 (B)**.

Thus, this Report does not include 33 PSUs (17 PSUs whose latest accounts were available but were inactive, and 16 PSUs which have been inactive for over two years and up to 30 years and also those working PSUs that have not submitted their accounts at least upto 2016-17, as detailed in **Annexure 1.1 (B)**).

During 2018-19, the working PSUs, as per their latest finalised accounts, registered a turnover of ₹ 92,696.40 crore, which constituted 11.45 per cent of the GSDP (₹ 8,09,327 crore) of Madhya Pradesh. As of March 2019, the working PSUs had a work force of around 0.60 lakh employees.

¹ During 2018-19, incorporation of five Government Companies was intimated to Audit. B-Nest Foundation, Satna Smart City Development Corporation Ltd., Sagar Smart City Development Corporation Ltd., Burhanpur City Transport Service Ltd. & Raflam Bus Service Ltd.

² Madhya Pradesh State Warehousing and Logistic Corporation (MPSW&LC), Madhya Pradesh Financial Corporation (MPFC) and Madhya Pradesh State Road Transport Corporation (MPSRTC).

1.2 Investment in PSUs

1.2.1 Stake of Government of Madhya Pradesh

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:** The State Government provides budgetary support by way of grants and subsidies to the PSUs, as required.
- (iii) **Guarantees:** The State Government also guarantees the repayment of loans with interest, availed by the PSUs from Financial Institutions.

The sector-wise summary of investment (equity and long-term loans) in 71 PSUs as on 31 March 2019, is detailed in **Table 1.2:**

Table 1.2: Sector-wise investment in PSUs

(₹ in crore)

Name of the Sector	Government Companies		Statutory Corporations		Total PSUs	Investment		
	Working	Inactive	Working	Inactive		Equity*	Long Term Loans*	Total
Power	11	00	00	00	11	27,465.31	50,136.35	77,601.66
Agriculture & Allied	02	00	01	00	03	50.67	0.00	50.67
Service	15	00	00	00	15	553.00	3,280.77	3,833.77
Infrastructure	13	01	00	01	15	1,220.16	1,412.10	2,632.26
Manufacturing	06	12	00	00	18	150.91	137.80	288.71
Finance	06	02	01	00	09	536.13	744.41	1,280.54
Total	53	15	02	01	71	29,976.18	55,711.43	85,687.61

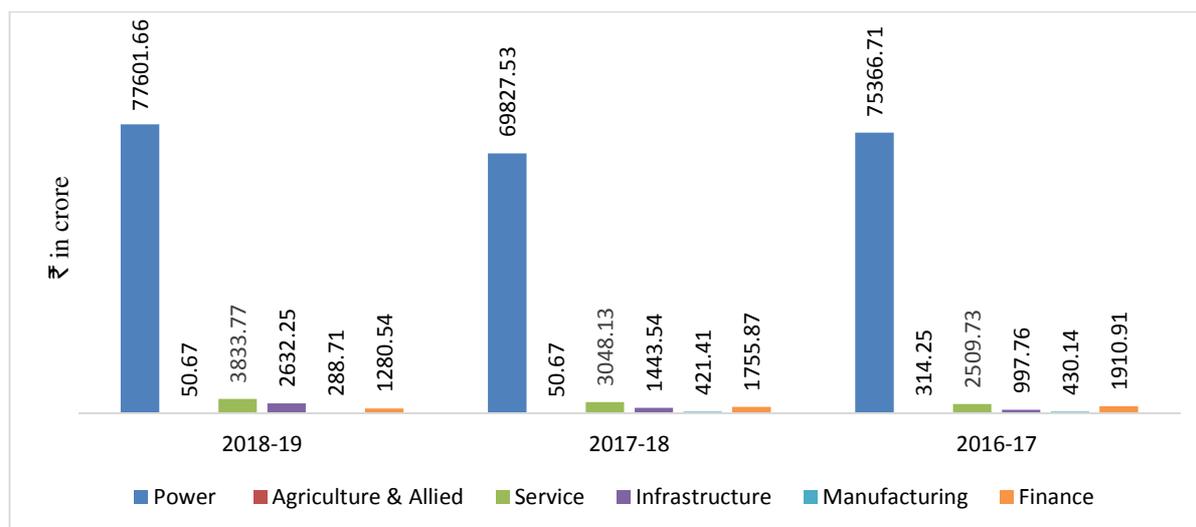
*Equity includes share application money and long-term loans include loans from Central and State Governments, Public Financial Institutions and Commercial Banks

(Source: Accounts/ information furnished by PSUs)

As on 31 March 2019, the total investment in PSUs comprised 34.98 per cent of equity capital and 65.02 per cent of long-term loans. The long-term loans in 55 PSUs whose latest accounts are available, consisted of ₹ 30,289.86 crore provided by the Central and State Governments and ₹ 24,730.59 crore raised from other sources. The thrust of State Government's investment in PSUs was mainly in power sector during the last three years. Out of the total equity investment of ₹ 5,176.66 crore during the period from 2016-17 to 2018-19, the share of Power Sector was 62.19 per cent (₹ 3,219.33 crore).

The pattern of State Government investment (equity and long-term loans) in various important sectors as at the end of the year from 2016-17 to 2018-19 is indicated in **Chart 1:**

Chart 1: Sector-wise investment in PSUs



(Source: Accounts/ information furnished by PSUs)

1.3 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 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 Sections 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 directions 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. Of the three Statutory Corporations (MPSRTC, MPSW&LC and MPFC), the CAG is the sole auditor in respect of MPSRTC. The audit of MPSW&LC and MPFC is conducted by Chartered Accountants, followed by Supplementary audit by the CAG.

1.4 Submission of Accounts by PSUs

1.4.1 Status of finalisation and submission of accounts by PSUs

According to Sections 394 and 395 of the Companies Act, 2013, Annual Report on the working and affairs of the 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 State Legislature together with a copy of the Audit Report and any comments

upon or supplement to the Audit Report, 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 PSUs from the Consolidated Fund of the State. The status of submission of accounts by PSUs as of 31 December 2019 is given in **Table 1.3:**

Table 1.3: Status of submission of accounts by PSUs

	PSUs	Total no. of PSUs	No. of PSUs whose Accounts were received as of 31 December 2019				No. of PSUs with accounts in arrears*
			Up to 2018-19	Up to 2017-18	Up to 2016-17	Total	
A	No. of Government Companies	36	16	16	04	36	0
B	No. of Statutory Corporations	02	02	00	00	02	0
C	Total Working PSUs	38	18	16	04	38	0
D	No. of defunct PSUs	12	09	0	0	09	03
E	No. of PSUs that had not commenced operations	07	06	0	01	07	0
F	No. of PSUs under liquidation	05	0	0	01	01	04
G	Total No. of inactive PSUs	24	15	00	02	17	07
H	No. of working PSUs with accounts in arrears*	09	0	0	0	0	09 ³
I	Total no. of PSUs not covered in this Report	33	15	0	02	17	16
J	Total	71	33	16	06	55	16

*Pending for three years to 30 years

(Source: Annual accounts submitted by PSUs)

Section 96 of the Companies Act, 2013 requires every Company to hold an AGM of the shareholders once in every calendar year. It also specifies that not more than 15 months shall elapse between the date of one AGM and that of the next AGM. 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. 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. There is no Audit Report on PSUs pending for placement in the State Legislature.

1.4.2 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 of the Board are appointed by the Government.

State Legislature also monitors the accounting and utilization of Government investment in the PSUs. Towards this end, the Annual Reports of State Government Companies, together with the Statutory Auditors' Reports and comments of the CAG are to be placed before the Legislature under Section 394 of the Companies Act. 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.

³ This includes five PSUs whose first accounts were not received.

1.5 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 (May 2016) by the Finance Department of the Government of Madhya Pradesh, all Administrative Departments are required to submit replies/ Explanatory Notes to paragraphs/ Performance Reviews included in the Audit Reports of the CAG within a period of three months of their presentation in the Legislature in the prescribed format, without waiting for any questionnaires from the Committee on Public Undertakings (COPU).

As on 31 March 2020, replies/ Explanatory Notes to two out of six paragraphs of Audit Report 2016-17 were yet to be received from the Department of Industrial Policy and Investment Promotion and Public Works Department.

1.6 Discussion of Audit Reports by the Committee on Public Undertakings (COPU)

The status of discussions of Performance Audits and Compliance Audit paragraphs relating to both Power Sector PSUs and Non-Power Sector PSUs that featured in Audit Reports (PSUs) as on 31 March 2020 by the COPU is given in **Table 1.4**:

Table 1.4: PAs/Paragraphs discussed vis-a-vis featured in Audit Reports

Year of the Audit Report (Commercial/PSU)	Number of Performance Audits/ Compliance Audit Paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	Performance Audits (PAs)	Compliance Audit Paragraphs	Performance Audit (PAs)	Compliance Audit Paragraphs
Power Sector PSUs				
2015-16	01	06	01	06
2016-17	02	06	02	06
Total	03	12	03	12
Non-Power Sector PSUs				
2015-16	02	09	02	09
2016-17	-	06	-	04
Total	02	15	02	13

(Source: Compiled by O/o the Accountant General (Audit-II) Madhya Pradesh)

Therefore, there was no pendency in discussion of any PA or Compliance Audit Paragraphs by the COPU.

1.7 Compliance to Reports of COPU

All the concerned Departments are required to furnish Action Taken Notes (ATNs) on the recommendations made by the COPU, within three months of publication of the recommendations. ATNs on 38 Paragraphs pertaining to COPU Recommendation Reports presented in the State Legislature had not been received (March 2020), as detailed in **Table 1.5**:

Table 1.5: Compliance to COPU Reports

Year of the COPU Report	Total number of Reports of COPU	Total number of recommendations in COPU Reports	Number of recommendations where ATNs were not received
2000-01	01	29	01
2001-02	01	41	10
2009-10	03	03	03
2010-11	03	59	23
2011-12	01	01	01
Total	09	133	38

(Source: Compiled by O/o the Accountant General (Audit-II), Madhya Pradesh)

Similarly, ATNs on 202 recommendations pertaining to 34 Reports of the COPU presented in the State Legislature in respect of Non-Power Sector PSUs had not been received (March 2020). Further, the COPU recommendations pertaining to PAs/ Compliance Audit Paragraphs which appeared in AR 2012-13 and onwards are yet to be received.

Although the PAs/ Compliance Audit Paragraphs are adequately discussed and there is no pendency for the years 2015-16 and 2016-17, the COPU recommendations pertaining to PAs/ Compliance Audit Paragraphs which appeared in AR 2012-13 and onwards are yet to be received.