

Chapter-V

State Public Sector Enterprises

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This chapter discusses the financial performance of Government Companies, Statutory Corporations and Government Controlled Other Companies (GCOCs). Impact of significant comments issued as a result of supplementary audit of the Financial Statements of these State Public Sector Enterprises (SPSEs) conducted by the Comptroller and Auditor General (CAG) of India for the year 2020-21 (or of earlier years which were finalised during the current year) has also been discussed.

5.1 Definition of Government Companies

A Government Company is defined in Section 2(45) of the Companies Act, 2013 as a company in which not less than 51 *per cent* of the paid-up share capital is held by 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 of a Government Company.

Besides, any other company¹ 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.

5.2 Mandate of Audit

Audit of Government Companies and Government Controlled Other Companies is conducted by the CAG of India under the provisions of Section 143(5) to 143(7) of the Companies Act, 2013 read with Section 19 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 and the Regulations made thereunder. Under the Companies Act, 2013, the CAG appoints the Chartered Accountants as Statutory Auditors for Companies and gives directions on the manner in which the accounts are to be audited. In addition, CAG has the right to conduct a supplementary audit of the company's financial statements. The statutes governing some Statutory Corporations require their accounts to be audited only by CAG.

5.3 SPSEs and their contribution to the GSDP of the State

SPSEs consist of State Government Companies and Statutory Corporations. SPSEs are established to carry out activities of commercial nature keeping in

¹ Companies (Removal of Difficulties) Seventh Order, 2014 issued by Ministry of Corporate Affairs *vide* Gazette Notification dated 4 September 2014.

view the welfare of people and occupy an important place in the State economy. As on 31 March 2021, there were 49 SPSEs in Punjab, including four² Statutory Corporations and 42 Government Companies (including 16 inactive government companies³) and three⁴ Government Controlled Other Companies (GCOC) under the audit jurisdiction of the CAG. The names of these SPSEs are given in **Appendix 5.1**.

One SPSE (Punjab Communications Limited) was listed on the stock exchange. There are 16 inactive SPSEs (including four under liquidation) in the State and have investment of ₹ 57.52 crore towards capital ₹ 23.24 crore (State Government: ₹ 17.05 crore and Others: ₹ 6.19 crore) and long term loans ₹ 34.28 crore (State Government: ₹ 14.70 crore and Others: ₹ 19.58 crore). This is a critical area as the investments in inactive SPSEs do not contribute to the economic growth of the State.

A ratio of turnover of the SPSEs to the Gross State Domestic Product (GSDP) shows the extent of activities of the SPSEs in the State economy. The details of turnover of working SPSEs are given in **Appendix 5.2**. Turnover of working SPSEs and GSDP for a period of three years ending 31 March 2021 are given in **Table 5.1**.

Table 5.1: Details of turnover of SPSEs vis-à-vis GSDP of Punjab

Particulars	(₹ in crore)		
	2018-19	2019-20	2020-21
Turnover	72,923.70	73,290.12	71,024.64
GSDP of Punjab	5,12,511.00	5,39,687.00	5,29,703.00
Percentage of Turnover to GSDP of Punjab	14.23	13.58	13.41

Source: Compilation based on Turnover figures as per latest finalised accounts of SPSEs and GSDP figures as per Economic and Statistical Organisation, Government of Punjab

It can be seen from the table above, the contribution of SPSEs to the GSDP reduced from 14.23 per cent in 2018-19 to 13.41 per cent in 2020-21. The major contributors to SPSEs- turnover were Punjab State Power Corporation Limited (₹ 31,768.24 crore) and three State Procurement Agencies⁵ (₹ 33,417.50 crore).

² Punjab State Warehousing Corporation, Punjab Scheduled Castes Land Development and Finance Corporation, PEPSU Road Transport Corporation and Punjab Financial Corporation.

³ Inactive SPSEs are those which have ceased to carry out their operations.

⁴ Amritsar Smart City Limited, Ludhiana Smart City Limited and Jalandhar Smart City Limited.

⁵ Punjab State Grains Procurement Corporation Limited, Punjab State Civil Supplies Corporation Limited and Punjab State Warehousing Corporation.

5.4 Investment in SPSEs and Budgetary Support

5.4.1 Equity holding and Loans in SPSEs

The sector wise Total Equity, Equity Contribution by State Government and Long Term Loans including the loans given by State Government in 33 working SPSEs as on 31 March 2021 is given below in **Table 5.2**.

Table-5.2: Sector-wise investment in SPSEs

Name of Sector	Investment ⁶ (₹ in crore)				
	Total Equity	State Government Equity	Total Long Term Loans	State Government Loans	Total Equity and Long Term Loans
Power	22,338.61	22,315.61	17,654.91	14.07	39,993.52
Finance	249.75	175.61	705.70	9.84	955.45
Industries and Infrastructure	81.39	69.16	1,270.33	0.00	1,351.72
Agriculture and Allied	452.86	384.00	25,799.85	25,356.10	26,252.71
Service	394.32	369.91	89.68	23.75	484.00
Total	23,516.93	23,314.29	45,520.47	25,403.76	69,037.40

Source: Information provided by the SPSEs

The thrust of SPSEs investment was mainly on power sector. This sector had received 57.93 per cent (₹ 39,993.52 crore) of total investment of ₹ 69,037.40 crore.

5.4.2 Market Capitalisation of equity investment in SPSEs

Market Capitalisation represents market value of shares of companies which are listed. As on 31 March 2021, shares of only one SPSE (Punjab Communications Limited) were listed on the Bombay Stock Exchange (BSE) in India. This SPSE having total equity investment of ₹ 12.02 crore is a subsidiary of Punjab Information & Communication Technology Corporation Limited (₹ 8.55 crore i.e. 71.13 per cent of total equity investment of ₹ 12.02 crore) and has no investment of equity either by the State Government or the Central Government. The total market value of shares of the above listed SPSE stood at ₹ 24.17 crore⁷ as on 31 March 2021 as compared to ₹ 12.62 crore⁸ as on 31 March 2020.

5.4.3 Disinvestment, Restructuring and Privatisation

During the year 2020-21, there was no case of disinvestment, restructuring and privatisation of SPSEs.

⁶ Investment includes equity and long term loans.

⁷ 1,20,23,565 shares x ₹ 20.10 per share against face value of ₹ 10 per share.

⁸ 1,20,23,565 shares x ₹ 10.50 per share against face value of ₹ 10 per share.

5.5 Returns from SPSEs

5.5.1 Profit earned by SPSEs

The number of SPSEs⁹ that earned profit was 13¹⁰ in 2020-21 as compared to 10 in 2019-20. The profit earned increased to ₹ 1819.73 crore in 2020-21 from ₹ 288.02 crore in 2019-20.

The details of top three SPSEs which contributed maximum profit are summarised in **Table 5.3**.

Table 5.3: Top three SPSEs which contributed maximum profit

Name of SPSE	Net profit (₹ in crore)	Percentage of profit to total SPSEs profit
Punjab State Power Corporation Limited	1446.10	79.47
Punjab State Warehousing Corporation	240.51	13.22
Punjab Small Industries and Export Corporation Limited	76.15	4.18
Total	1762.76	96.87

Source: Latest Financial Statements of SPSEs

It may be seen that these three SPSEs had contributed 96.87 per cent of the total profit (₹ 1819.73 crore) earned by 12 SPSEs during 2020-21.

5.5.2 Dividend paid by SPSEs

The Thirteenth Finance Commission had recommended (December 2009) that a minimum dividend of five per cent on Government equity should be paid by all enterprises. The State Government adopted the recommendations and directed (July 2011) all its Public Sector Enterprises (PSEs) to pay a minimum return of five per cent on the funds invested by the State Government. The dividend paid by SPSEs is shown in **Table 5.4**.

Table 5.4: Dividend Payout by SPSEs

(₹ in crore)				
Year	No. of SPSEs which declared dividend	Paid Up Capital	Net Profit	Dividend Declared
1	2	3	4	5
2018-19	3	30.87	11.85	1.67
2019-20	3	48.15	20.71	3.21
2020-21	3 ¹¹	75.26	81.11	3.88

Source: Latest Financial Statement of SPSEs.

Out of 13 SPSEs which earned profits as per the latest finalised accounts, only three SPSEs declared dividend. Remaining 10 SPSEs which earned aggregate profit of ₹ 1738.62 crore had not declared/paid dividend. In case of major

⁹ Accounts received upto November 2021.

¹⁰ Including one SPSE which earned Zero profit/loss but having accumulated profits.

¹¹ Punjab State Forest Development Corporation Limited, Punjab Small Industries and Export Corporation Limited and Punjab State Container and Warehousing Corporation Limited.

profit earning two Power sector SPSEs (Punjab State Power Corporation Limited (PSPCL): ₹ 1446.10 crore and Punjab State Transmission Corporation Limited (PSTCL): ₹ 20.77 crore) during the year 2020-21, dividend worked out to ₹ 1,115.78 crore¹² was not declared/ paid by the Companies.

5.6 Debt Servicing

5.6.1 Interest Coverage Ratio

Interest coverage ratio is used to determine the ability of a company to pay interest on outstanding debt and is calculated by dividing a company's earnings before interest and taxes (EBIT) by interest expenses of the same period. The lower the ratio, the lesser is the ability of the company to pay interest on debt. An interest coverage ratio of below one indicates that the company was not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio in SPSEs which had interest burden are given below in **Table 5.5**.

Table 5.5: Interest coverage ratio of SPSEs

Year	Interest (₹ in crore)	Earnings before interest and tax (EBIT) (₹ in crore)	Number of SPSEs having liability of loans from Government, and other financial institutions	Number of companies having interest coverage ratio more than 1	Number of companies having interest coverage ratio less than 1
2018-19	3,557.21	3,657.48	10	5	5 ¹³
2019-20	3,826.38	2,739.84	10	4	6 ¹⁴
2020-21	2,396.83	3,997.59	9	5	4 ¹⁵

Source: Latest Financial Statement of SPSEs

It was observed that five SPSEs had interest coverage ratio of more than one during 2020-21. Four SPSEs had interest coverage ratio of less than one during 2020-21. Thus, the SPSEs were not generating sufficient revenues to meet their expenses on interest.

5.7 Financial performance of SPSEs

5.7.1 Return on Capital Employed

Return on Capital Employed (RoCE) is a ratio that measures a company's profitability and the efficiency with which its capital is employed. RoCE is

¹² PSPCL: ₹ 1,085.49 crore (₹ 21,709.73 crore x five per cent) and PSTCL: ₹ 30.29 crore (₹ 605.88 crore x five per cent).

¹³ Punjab Agro Foodgrains Corporation Limited, Punjab Scheduled Castes Land Development and Finance Corporation, PEPSU Road Transport Corporation, Punjab State Power Corporation Limited, Punjab State Transmission Corporation Limited.

¹⁴ Punjab Agro Foodgrains Corporation Limited, Punjab State Industrial Development Corporation Limited, Punjab Scheduled Castes Land Development and Finance Corporation, PEPSU Road Transport Corporation, Punjab State Power Corporation Limited, Punjab State Transmission Corporation Limited.

¹⁵ Punjab Agro Foodgrains Corporation Limited, Punjab Scheduled Castes Land Development and Finance Corporation, PEPSU Road Transport Corporation and Punjab Financial Corporation.

calculated by dividing a company's earnings before interest and taxes (EBIT) by the capital employed¹⁶. The details of RoCE during the period from 2018-19 to 2020-21 are given below in **Table 5.6**.

Table-5.6: Return on Capital Employed

Year	EBIT (₹ in crore)	Capital Employed (₹ in crore)	RoCE (in per cent)
2018-19	2,854.13	27,990.20	10.20
2019-20	2,449.95	42,747.85	5.73
2020-21	3,814.82	46,193.29	8.26

Source: Latest Financial Statement of working SPSEs

It was observed that RoCE was positive during 2018-19 to 2020-21 but decreased from 10.20 *per cent* in 2018-19 (due to conversion¹⁷ of UDAY loan of ₹ 15628.26 crore into equity) to 8.26 *per cent* in 2020-21 due to increase in Capital Employed.

5.7.2 Return on Equity by SPSEs

Return on Equity (RoE) is a measure of financial performance to assess how effectively a company's assets are being used to create profits. RoE is calculated by dividing net income (*i.e.* net profit after taxes) by shareholders' fund. It is expressed as a percentage and can be calculated for any company if net income and shareholders' fund are both positive numbers.

The Return on Equity¹⁸ (RoE) of the profit earning 13 working SPSEs stood at 11.71 *per cent* in 2020-21. The RoE in all the 29¹⁹ working SPSEs including 16²⁰ loss making was 15.59 *per cent* in 2020-21.

Shareholders' fund is calculated by adding paid up capital and free reserves minus net of accumulated losses and deferred revenue expenditure and reveals how much would be left for a company's stakeholders if all assets were sold and all debts paid. A positive shareholders fund reveals that the company has enough assets to cover its liabilities while negative shareholder equity means liabilities exceed assets.

The details of Shareholders' Fund and RoE relating to working SPSEs are given below in **Table 5.7**.

¹⁶ Capital Employed = Paid up Share capital + Free Reserves and surplus + Long term loans – Accumulated losses – Deferred Revenue Expenditure.

¹⁷ During 2019-20.

¹⁸ Return on equity = (Net Profit after Tax / Shareholder's Equity) X 100 where Shareholder's equity = paid up capital + free reserves - accumulated losses - deferred revenue expenditure.

¹⁹ Excluding four SPSEs working on no profit/no loss basis : Punjab Police Security Corporation Limited, Punjab Municipal Infrastructure Development Company, Punjab State Biotech Corporation (Mohali Biotechnology Park) and Punjab Police Housing Corporation Limited.

²⁰ Including one SPSE which earned Zero profit/loss and also having Zero accumulated profits/losses.

Table-5.7: Return on Equity relating to SPSEs

Year	Net Income (₹in crore)	Shareholders' Fund (₹in crore)	ROE (Percentage)
2018-19	(-)724.59	(-)6,625.77	--
2019-20	(-)1,392.11	7,374.68	--
2020-21	1,373.38	8,809.80	15.59

Source: As per latest finalised accounts of SPSEs

As the net income of SPSEs during 2018-19 and 2019-20 was negative, RoE could not be calculated. During the year 2020-21, RoE became positive to 15.59 per cent mainly due to net income earned (₹ 1,469.08 crore) by the three²¹ Power Sector SPSEs.

5.7.3 Rate of Return on the basis of Present Value of Investment

In order to bring the historical cost of investment to its present value at the end of each year upto 31 March 2021, the past investments/ year-wise funds infused by the State Government in the SPSEs have been compounded at the year-wise average rate of interest on Government borrowings which is considered as the minimum cost of funds to the Government for the concerned year. Therefore, PV of the State Government investment was computed where funds had been infused by the State Government in the shape of equity, interest free loans and grants/subsidies for operational and management expenses, if any less: disinvestments since inception of these Companies till 31 March 2021.

The PV of the State Government investment in SPSEs was computed on the basis of following assumptions:

- Interest free loans have been considered as investment infusion by the State Government as no amount of interest free loans have been repaid by SPSEs. Further, in those cases where interest free loans given to the SPSEs were later converted into equity, the amount of loan converted into equity has been deducted from the amount of interest free loans and added to the equity of that year.
- The average rate of interest on Government borrowings for the concerned financial year²² was adopted as compounded rate for arriving at PV since they represent the cost incurred by the Government towards investment of funds for the year and therefore considered as the minimum expected rate of return on investments made by the Government.

²¹ Punjab State Power Corporation Limited, Punjab State Transmission Corporation Limited and Punjab Genco Limited.

²² The average rate of interest on Government borrowings was adopted from the Reports of the CAG on State Finances (Government of Punjab) for the concerned year wherein the average rate for interest paid = Interest payment/ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/ 2] *100.

SPSE wise position of State Government investment in the 21 SPSEs (Other than GCOCs) in the form of equity and interest free loans on historical cost basis for the period from 2010-11 to 2020-21 have been given in **Appendix 5.3**. The consolidated position of the PV of the State Government investment and the total earnings relating to 22²³ SPSEs for the same period is indicated below in **Table 5.8**.

Table 5.8: Year-wise details of investment by the State Government and its present value (PV) of Government investment for the period from 2010-11 to 2020-21

(₹ in crore)

Financial year	Present value of total investment at the beginning of the year	Equity infused by the State Government during the year	Interest free loans given by the State Government during the year	Grants/subsidies given by State Government for operational and management expenses	Total investment during the year	Total investment at the end of the year	Average rate of interest on government borrowings (in per cent)	Present value of total investment at the end of the year	Minimum expected return to recover cost of funds for the year ²⁴	Total Earning for the year ²⁵
i	ii	iii	iv	v	vi= iii + iv + v	vii = ii + vi	viii	ix={vii*(1 + viii/100)}	x={vii*viii/100}	xi
Upto 2010-11	789.79 ²⁶	6,687.35 ²⁷	-	-	6,687.35	7,477.14	7.73	8,055.12	577.98	(-)1,696.24
2011-12	8,055.12	196.93	-	108.48	305.41	8,360.53	7.96	9,026.03	665.50	(-)779.63
2012-13	9,026.03	15.91	30.00	190.29	236.20	9,262.23	7.79	9,983.76	721.53	43.23
2013-14	9,983.76	22.35	-	242.25	264.60	10,248.36	8.04	11,072.33	823.97	(-)55.02
2014-15	11,072.33	72.07	-	337.75	409.82	11,482.15	8.35	12,440.91	958.76	(-)673.78
2015-16	12,440.91	32.24	-	324.21	356.45	12,797.36	8.09	13,832.67	1,035.31	(-)2,315.70
2016-17	13,832.67	10.83	-	504.28	515.11	14,347.78	7.48	15,420.99	1,073.21	(-)4,327.30
2017-18	15,420.99	-	-	168.62	168.62	15,589.61	8.12	16,855.49	1,265.88	(-)2,799.39
2018-19	16,855.49	(-) 97.97 ²⁸	-	205.76	107.79	16,963.28	8.00	18,320.34	1,357.06	(-)604.73
2019-20	18,320.34	15,629.35	-	160.28	15,789.63	34,109.97	7.93	36,814.89	2,704.92	(-)1,228.59
2020-21	36,814.89	(-)44.58	-	145.59	101.01	36,915.90	7.44	39,662.44	2,746.54	1,503.72
Total			30.00	2,387.51	24,941.99					

The balance of investment by the State Government in these SPSEs at the end of the year 2020-21 increased to ₹ 25,731.78 crore²⁹ in 2020-21 from ₹ 7,477.14 crore at the end of 2010-11. The State Government made further investments in shape of equity (₹ 15,837.13 crore) and interest free loans (₹ 30.00 crore) and grants/subsidies for operational and management expenses

²³ It includes one Other than Power SPSE (Punjab Agri Export Corporation Limited) having no State Government investment as equity but received grant for operational and management expenses during the year 2019-20 and 2020-21.

²⁴ Present value of total investment at the end of the year *less*: Total investment at the end of the year.

²⁵ Total Earnings for the year depicts total of net earnings (profit/loss) as per latest finalised Accounts relating to those 22 SPSEs (excluding GCOCs) where funds were infused by State Government.

²⁶ ₹ 789.79 crore is the investment, on historical cost basis, by Government of Punjab upto financial year 2010-11.

²⁷ No accumulated losses were transferred to Power Sector Companies at the time of unbundling as accumulated losses of erstwhile Punjab State Electricity Board of ₹ 10,180.35 crore were set off against capital reserve created on land revaluation

²⁸ While finalising the accounts for the year 2017-18, Punjab Water Resources Management & Development Corporation Limited (PWRMDC) treated the capital grant amounting to ₹ 97.97 crore received from the State Government for sinking and installation of tubewells as deferred revenue which was earlier being treated as 'Share application money pending allotment'.

²⁹ It includes total investment of ₹ 24,941.99 crore during the period 2010-11 to 2020-21 *plus* ₹ 789.79 crore as shown in column (ii) as opening balance.

(₹ 2,387.51 crore) during the period 2011-12 to 2020-21 in these SPSEs. The PV of funds infused by the State Government upto 31 March 2021 amounted to ₹ 39,662.44 crore. During 2011-12 to 2020-21, total earnings for all the year remained below the minimum expected return to recover cost of funds infused in these SPSEs.

5.8 SPSEs incurring losses

5.8.1 Losses incurred

There were 16 working SPSEs that incurred losses as per their latest finalised accounts. The losses incurred by these SPSEs decreased to ₹ 446.35 crore as per their latest finalised accounts from ₹ 1017.72 crore in 2018-19 (mainly due to two previously loss making power sector SPSEs: PSPCL and PSTCL registering profit during 2020-21) as given below in **Table 5.9**.

Table-5.9: Number of SPSEs that incurred losses during 2018-19 to 2020-21

(₹ in crore)

Year	No of loss making SPSEs	Net loss for the year	Accumulated loss	Net Worth ³⁰
Statutory Corporations				
2018-19	02	(-) 5.62	(-) 405.54	38.39
2019-20	02	(-) 8.57	(-) 408.49	35.44
2020-21	03	(-) 10.42	(-) 676.00	(-) 184.80
Government Companies				
2018-19	10	(-) 1012.10	(-) 12994.19	(-) 5898.95
2019-20	13	(-) 1671.56	(-) 15297.72	7526.27
2020-21	13	(-) 435.93	(-) 6946.02	(-) 6551.46
Total				
2018-19	12	(-) 1017.72	(-) 13399.73	(-) 5860.56
2019-20	15	(-) 1680.13	(-) 15706.21	7561.71
2020-21	16	(-) 446.35	(-) 7622.02	(-) 6736.26

Source: As per latest finalised accounts of SPSEs

In 2020-21, out of total loss of ₹446.35 crore incurred by 16 SPSEs, loss of ₹ 399.79 crore was contributed by three SPSEs (Punjab Agro Foodgrains Corporation Limited, Punjab State Grains Procurement Corporation Limited and Punjab State Civil Supplies Corporation Limited).

5.8.2 Erosion of Capital in SPSEs

As on 31 March 2021, there were 17 SPSEs with accumulated losses of ₹ 15,922.48 crore. Of these, 13 SPSEs incurred losses amounting to ₹ 444.49 crore as per latest finalised accounts as of 30 November 2021.

³⁰ Net worth means the sum total of the paid-up share capital and free reserves and surplus less accumulated loss and deferred revenue expenditure. Free reserves mean all reserves created out of profits but do not include reserves created out of revaluation of assets and write back of depreciation provision.

The net worth of 14 out of 17 SPSEs had been completely eroded by accumulated losses and their net worth was either zero or negative. The net worth of these 14 SPSEs was (-) ₹ 8,413.69 crore against equity investment of ₹ 534.97 crore as on 31 March 2021. Out of 14 SPSEs, whose capital had eroded, three³¹ had earned profit of ₹ 259.93 crore during 2020-21. Out of 14, there were seven SPSEs with outstanding Government loans of ₹ 25,167.43 crore³² as on 31 March 2021.

5.9 Audit of State Public Sector Enterprises

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. CAG has a right to conduct a supplementary audit and issue comments upon or supplement the Audit Report of the statutory auditor. Statutes governing some Corporations require that their accounts be audited by the CAG and a report be submitted to the Legislature.

5.10 Appointment of statutory auditors of State Public Sector Enterprises by CAG

Sections 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.

The statutory auditors of the above Companies for the year 2020-21 were appointed by the CAG upto September 2021.

5.11 Submission of accounts by State Public Sector Enterprises

5.11.1 Need for timely submission

According to Section 394 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 Meeting³³ (AGM). As soon as may be after such preparation, the Annual Report must be laid before Legislature, together with a copy of the Audit Report and comments of the CAG upon or as supplement to the Audit Report. 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 State.

³¹ Punjab Agri Export Corporation Limited, Punjab State Industrial Development Corporation Limited and Punjab State Warehousing Corporation.

³² Information of Government loans outstanding as on 31 March 2021 provided by the SPSEs.

³³ In case of the first AGM, it shall be held within a period of nine months from the date of closing of the first financial year of the company and in any other case within a period of six months, from the date of closing of the financial year *i.e.* 30 September.

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 Statements for the financial year have to be placed in the said AGM for their consideration.

Section 129 (7) of the Companies Act, 2013 also 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.

The annual accounts of various SPSEs were pending as on 30 November 2021, as detailed in the following paragraph.

5.11.2 Timeliness in preparation of accounts by SPSEs

As of 31 March 2021, there were 45 SPSEs³⁴ under the purview of CAG's audit. Of these, accounts for the year 2020-21 were due from 45 SPSEs including four under liquidation. However, only 11 SPSEs submitted their accounts for the year 2020-21 for audit by CAG by 30 November 2021³⁵. Accounts of 34 SPSEs were in arrears for various reasons. Details of arrears in submission of accounts of SPSEs are given in **Table 5.10**.

Table-5.10: Details of arrears in submission of accounts

Particulars		SPSEs	Number of Accounts
Total number of Companies under the purview of CAG's audit as on 31.03.2021		45	--
Less: New Companies from which accounts for 2020-21 were not due		0	0
Number of companies from which accounts for 2020-21 were due		45	45
Number of companies which presented the accounts for the year 2020-21 for CAG's audit by 30 November 2021		11	11
Number of accounts in arrears		34	183
Break- up of Arrears	(i) Under Liquidation	4	83
	(ii) Defunct	11	66
	(iii) Others	19	34
Age-wise analysis of arrears against 'Others' category	One year (2020-21)	11	11
	Two years (2019-20 and 2020-21)	4	08
	Three years and more	4	15

Source: Compiled on the basis of annual accounts received in this office

³⁴ Excluding four Statutory Corporations discussed in paragraph 5.11.3.

³⁵ Date of holding AGM of Companies for the financial year 2020-21 was extended upto 30 November 2021 by Registrar of Companies, Punjab and Chandigarh in accordance with Government of India, Ministry of Corporate Affairs order dated 23 September 2021.

5.11.3 Timeliness in preparation of accounts by Statutory Corporations

Audit of four³⁶ statutory corporations is conducted by the CAG and out of these, for two³⁷ Statutory Corporations, CAG is the sole auditor. Four Statutory Corporations did not present the accounts for the year 2020-21 for audit before 30 November 2021. As on 30 November 2021, eight accounts of four Statutory Corporations were pending.

5.12 CAG's oversight - Audit of accounts and supplementary audit

5.12.1 Financial reporting framework

Companies are required to prepare the Financial Statements in the format laid down in Schedule III to the Companies Act, 2013 and in adherence to the mandatory Accounting Standards prescribed by the Central Government, in consultation with National Advisory Committee on Accounting Standards renamed as National Financial Reporting Authority³⁸. The Statutory Corporations are required to prepare their accounts in the format prescribed under the rules framed in consultation with the CAG and any other specific provision relating to accounts in the Act governing such Corporations.

5.12.2 Audit of accounts of Government Companies by Statutory Auditors

The statutory auditors appointed by the CAG under Section 139 of the Companies Act, 2013, conduct audit of accounts of the Government Companies and submit their report thereon in accordance with Section 143 of the Companies Act, 2013.

The CAG plays an oversight role by monitoring the performance of the statutory auditors in audit of public sector undertakings with the overall objective that the statutory auditors discharge the functions assigned to them properly and effectively. This function is discharged by exercising the power to:

- issue directions to the statutory auditors under Section 143 (5) of the Companies Act, 2013; and
- supplement or comment upon the statutory auditor's report under Section 143 (6) of the Companies Act, 2013.

5.12.3 Supplementary Audit of accounts of Government Companies

The prime responsibility for preparation of Financial Statements in accordance with the financial reporting framework prescribed under the Companies Act, 2013 or other relevant Act is of the management of an entity.

³⁶ Punjab State Warehousing Corporation, PEPSU Road Transport Corporation, Punjab Financial Corporation and Punjab Scheduled Castes Land Development and Finance Corporation.

³⁷ Punjab Scheduled Castes Land Development and Finance Corporation and PEPSU Road Transport Corporation.

³⁸ Effective from 01 October 2018.

The statutory auditors appointed by the CAG under section 139 of the Companies Act, 2013 are responsible for expressing an opinion on the Financial Statements under section 143 of the Companies Act, 2013 based on an independent audit in accordance with the Standard Auditing Practices of Institute of Chartered Accountants of India and directions given by the CAG. The statutory auditors are required to submit the Audit Report to the CAG under Section 143 of the Companies Act, 2013.

The certified accounts of selected Government Companies along with the report of the statutory auditors are reviewed by CAG by carrying out a supplementary audit. Based on such review, significant audit observations, if any, are reported under Section 143 (6) of the Companies Act, 2013 to be placed before the AGM.

5.13 Result of CAG's oversight role

5.13.1 Audit of accounts of SPSEs

Thirty eight Financial Statements for the year 2020-21 and previous years were received from 27 SPSEs by 30 November 2021. Twenty two Financial Statements of 18³⁹ SPSEs were reviewed in audit by the CAG and Non Review Certificate was issued for the rest 16 (for 10 SPSEs). The results of the review are detailed below:

5.13.2 Amendment of Financial Statements

During 2020-21, there is no case of SPSEs amending their Financial Statements before laying the same in the AGM.

5.13.3 Revision of Auditors Report

During 2020-21, there is no case of revision of statutory auditors' report as a result of supplementary audit of the Financial Statements conducted by the CAG.

5.13.4 Significant comments of the CAG issued as supplement to the statutory auditors' reports on Government Companies/ Statutory Corporations

Subsequent to the audit of the Financial Statements for the year 2020-21 and previous years by statutory auditors, the CAG conducted supplementary audit of the 22 Financial Statements of 18 SPSEs. Some of the significant comments⁴⁰ issued (January 2021 to November 2021) on Financial Statements

³⁹ Includes one SPSE (Punjab State Leather Development Corporation Limited) which submitted four accounts; of which, one account was audited and NRCs issued on rest three accounts.

⁴⁰ Comments of three major SPSEs i.e. Punjab State Power Corporation Limited (2020-21), Punjab Small Industries and Export Corporation Limited (2019-20) and Punjab Financial Corporation (2019-20) are under finalisation.

of SPSEs, the financial impact of which was ₹ 623.63 crore on the profitability and ₹ 348.00 crore on assets/liabilities, have been detailed in **Table 5.11** and **Table 5.12**.

Table 5.11: Comments on Profitability

Sl. No.	Name of the Company	Comments
1.	Punjab Small Industries and Export Corporation Limited (2018-19)	<ul style="list-style-type: none"> Non-capitalisation of the project had resulted into overstatement of land by ₹ 37 crore, work-in-progress by ₹ 3.74 crore, other long term liabilities by ₹ 25.20 crore and understatement of plots by ₹ 25.20 crore, project liability by ₹ 1.60 crore and profit by ₹ 4.20 crore and inventories by ₹ 21.34 crore. The Company did not book sale for allotment of plot on receipt of payment basis in the ratio of payment received (to the extent of 50 per cent of allotment price) in the accounts as per adopted Accounting Policy of the Company. This has resulted into overstatement of land by ₹ 15.75 crore, advance receipts of plots by ₹ 21.45 crore and understatement of plots by ₹ 21.45 crore and profit for the year by ₹ 5.70 crore.
2.	Punjab Information & Communication Technology Corporation Limited (2019-20)	<ul style="list-style-type: none"> The recognition of revenue to the extent of amount actually received instead of total due against sale of plots on accrual basis resulted in understatement of revenue, trade receivables and understatement of profits by ₹ 1.55 crore. Non provision for recoverable amount of ₹ 0.23 crore from the subsidiary company which had closed its operations during 2003-04 resulted in overstatement of loans and advances and profit for the year by ₹ 0.23 crore.
3.	Punjab Financial Corporation (2018-19)	<ul style="list-style-type: none"> Non provision of outstanding interest resulted into understatement of accumulated losses and other liabilities by ₹ 51.78 crore. Non provisioning of shortfall of ₹ 0.80 crore on account of difference in actual liability of Group Gratuity Scheme of LIC and the asset value resulted into overstatement of profits by ₹ 0.80 crore. Recognition of ₹ 2.56 crore as provision against non performing assets, the loan accounts of which had already been cleared and settled under OTS policy resulted into excess provisioning for non performing assets by ₹ 2.56 crore along with understatement of profits to the same extent. Corporation has accounted for ₹ 0.79 crore upto 2018-19 as interest income on the amount of FDRs of the trust funds out of the sale proceeds of two units which were kept in accordance with the orders of the Court. This has resulted into overstatement of "Accumulated Losses" by ₹ 0.79 crore and understatement of "Other Liabilities" by ₹ 0.79 crore.
4.	Punjab State Warehousing Corporation (2017-18)	<ul style="list-style-type: none"> An amount of ₹ 194 crore was to be transferred to the Corporations Pension Corpus Fund in compliance to the order of the Court but provision for the same was not made which resulted into understatement of liabilities as well as accumulated losses by ₹ 194 crore. The Corporation had accounted for ₹ 201.74 crore as its income for the years 2009-10 to 2016-17 on account of rate revision of storage charges applicable for the next year. This

Sl. No.	Name of the Company	Comments
		<p>resulted into overstatement of current assets and understatement of accumulated losses by ₹ 201.74 crore.</p> <ul style="list-style-type: none"> The Corporation recouped the gap in cash credit limit availed from State Bank of India by Government of Punjab for KMS 2016-17 from its own resources and booked the same as recoverable from the Government of Punjab without any confirmation which was to be borne by the Corporation. This resulted into overstatement of current assets and understatement of accumulated losses by ₹ 104.24 crore. The Corporation raised (July 2018) the claim of ₹ 17.38 crore on account of difference of guarantee fee paid to the State Government and guarantee fee being reimbursed by the Government of India with the State Government but the State Government had not accepted the liability. This resulted into overstatement of current assets and understatement of accumulated losses by ₹ 17.38 crore. Assets included ₹ 3.98 crore deducted by the Food Corporation of India from the sale bills on account of audit recovery during the year 2017-18 which should have been booked as expenditure. This resulted into overstatement of assets and understatement of accumulated losses by ₹ 3.98 crore.
5.	Punjab Genco Limited (2019-20)	<ul style="list-style-type: none"> Non-charging of depreciation on full amount of project assets since capitalisation of respective projects, resulted into understatement of tangible assets by ₹ 4.23 crore and capital reserve by ₹ 20.08 crore and overstatement of accumulated profits by ₹ 15.85 crore.
6.	Punjab State Transmission Corporation Limited (2020-21)	<ul style="list-style-type: none"> The Company has availed eight loans amounting to ₹ 1815 crore during 2015-21. On this, guarantee fee of ₹ 33.20 crore was booked as expenditure in the respective year instead of amortising the same over the tenure of related loan. Which was not in compliance with Ind AS-109. This resulted into understatement of profit by ₹ 17.74 crore, current assets by ₹ 4.27 crore and non current assets by ₹ 13.47 crore. Non-writing off of damaged material resulted into overstatement of inventory and profit by ₹ 1.09 crore.

Source: Finalised comments by CAG

Table-5.12: Comments on Financial Position

Sl. No.	Name of the Company	Comments
1.	Punjab Information & Communication Technology Corporation Limited (2019-20)	<ul style="list-style-type: none"> Recognition of the revenue after deducting the total cost of the land sold and other direct expenses from the total amount received had resulted in understatement of revenue and understatement of cost of plots sold by ₹ 7.00 crore.
2.	Punjab State Biotech Corporation (2019-20)	<ul style="list-style-type: none"> Inclusion of liability of ₹ 1.00 crore against bid security Bank Guarantee of developer which was got encashed and forfeited resulted into overstatement of other current liabilities by ₹ 1.00 crore.

Sl. No.	Name of the Company	Comments
3.	Punjab Financial Corporation (2018-19)	<ul style="list-style-type: none"> Loans and Advances included ₹ 1.03 crore shown as recoverable against the property sold which was not related to financing activity. This resulted in overstatement of loans and advances and understatement of other assets by ₹ 1.03 crore.
4.	Punjab State Transmission Corporation Limited (2020-21)	<ul style="list-style-type: none"> Pursuant to the implementation of Punjab Power Sector Reforms Transfer Scheme 2010, consumer's contribution, grants and subsidies of ₹ 338.97 crore were wrongly converted into capital of the State Government in equity of the Company. This resulted into overstatement of equity share capital and understatement of other equity – general reserve by ₹ 338.97 crore.

Source: Finalised comment by CAG

5.13.5 Audit of accounts of Statutory Corporations where CAG is the sole auditor

Two financial statements of two statutory Corporations (PEPSU Road Transport Corporation and Punjab Scheduled Castes Land Development and Finance Corporation) were received for audit by CAG. The draft separate audit report on the accounts of the PEPSU Road Transport Corporation for the year 2017-18 was issued and the accounts of the said Corporation were under revision as on 30 November 2021.

5.14 Management Letters

One of the objectives of financial audit is to establish communication, on audit matters arising from the audit of Financial Statements, between the auditor and those charged with the responsibility of governance of the corporate entity.

The material observations on the Financial Statements of Public Sector Enterprises were reported as comments by the CAG under Section 143 (5) of the Companies Act, 2013. Besides these comments, irregularities or deficiencies observed by CAG in the financial reports or in the reporting process, were also communicated to the Management through 'Management Letter' for taking corrective action. During the year (January 2021 to November 2021), CAG issued Management Letters to 14 (*Appendix 5.4*) SPSEs for the deficiencies related to application and interpretation of accounting policies and practices.

5.15 Conclusions

As on 31 March 2021, there were 49 SPSEs including four Statutory Corporations. Out of 49 SPSEs, there are 16 inactive SPSEs.

Out of the total profit of ₹ 1819.73 crore earned by 13 SPSEs, 96.87 per cent was contributed by three SPSEs. Out of total loss of ₹ 446.35 crore incurred by 16 SPSEs, loss of ₹ 399.79 crore was incurred by three SPSEs (Punjab Agro Foodgrains Corporation Limited, Punjab State Grains Procurement Corporation Limited and Punjab State Civil Supplies Corporation Limited).

SPSEs did not adhere to the prescribed timeline regarding submission of their Financial Statements. There were 191 accounts of 38 SPSEs in arrears.

During 2020-21, the financial implication of CAG's comments on the Financial Statements of the SPSEs amounted to ₹ 623.63 crore on profitability and ₹ 348.00 crore on the financial position.

5.16 Recommendations


- (i) State Government may ensure timely submission of Financial Statements of SPSEs, as in the absence of finalisation of accounts, government investments in such SPSEs remain outside the oversight of the State Legislature.
- (ii) The inactive SPSEs are neither contributing to State economy nor meeting the intended objectives. The State Government needs to take a decision regarding commencement of liquidation process in respect of remaining inactive SPSEs.
- (iii) State Government may ensure for declaration/ payment of dividend (minimum return of five per cent) from the profit making SPSEs for compliance of the directives of the State Government.

Chandigarh
The 18 April 2022


(PUNAM PANDEY)
Principal Accountant General (Audit), Punjab

Countersigned

New Delhi
The 25 April 2022


(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

