

# **CHAPTER-V**

## **FUNCTIONING OF STATE PUBLIC SECTOR ENTERPRISES**



## CHAPTER 5: FUNCTIONING OF STATE PUBLIC SECTOR ENTERPRISES

### SUMMARY OF FINANCIAL PERFORMANCE OF STATE PUBLIC SECTOR ENTERPRISES

#### 5.1 Introduction

This Chapter presents the financial performance of the State Public Sector Enterprises (SPSE) which consist of ‘Government Companies’, ‘Statutory Corporations’ and ‘Government Controlled Other Companies’. The term State Public Sector Enterprises (SPSEs) encompasses all the State Government owned companies set up under the Companies Act, 2013 and Statutory Corporations set up under the statutes enacted by the Parliament and State legislature.

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 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 are referred to in this Report as ‘Government Controlled Other Companies’.

#### 5.2 Mandate

Audit of ‘Government companies’ and ‘Government Controlled Other Companies’ is conducted by the CAG 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 there under. 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 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 Working and non-working SPSEs

As on 31 March 2021, the State of Meghalaya had total 18 SPSEs, which were under the audit jurisdiction of the C&AG, as shown in **Table 5.1**. The status of finalisation of the year wise accounts and summarised details on the operational performance of these 18 SPSEs have been given in *Appendix 5.1*.

**Table 5.1: Details of working and non-working SPSEs**

Type of SPSEs	Working SPSEs	Non-working SPSEs	Total
Government Companies	15	1	16
Statutory Corporations	2	-	2
<b>Total</b>	<b>17</b>	<b>1</b>	<b>18</b>

The only non-working SPSE (Meghalaya Electronics Development Corporation Limited) was under liquidation since June 2011.

**Table 5.2** below provides the comparative details of working SPSEs turnover and State GSDP for a period of three years ending 2020-21.

**Table 5.2: Contribution of SPSEs-turnover to GSDP**

Particulars	₹ in crore)		
	2018-19	2019-20	2020-21
SPSEs-Turnover <sup>25</sup>	1,121	1,204	1,386
GSDP	32,176	34,716	33,436
Percentage of Turnover to GSDP	3.48	3.47	4.15

Source: As per latest finalised accounts of SPSEs (Appendix 5.1).

As seen from the **Table** above, the contribution of SPSEs to the GSDP was 3.47 per cent in 2019-20 and it increased to 4.15 per cent in 2020-21. The major contributors to SPSEs-turnover during 2020-21 were three power sector SPSEs namely, Meghalaya Power Distribution Corporation Limited (₹ 892.97 crore), Meghalaya Power Generation Corporation Limited (₹ 287.40 crore) and Meghalaya Power Transmission Corporation Limited (₹ 109.42 crore).

## 5.4 Investment in SPSEs

### State Government's investment in SPSEs

The State's investment in the SPSEs was by way of Equity Share Capital and Long Term Loans. The Equity Capital and Loans given by the State Government to SPSEs as reflected in the records of the SPSEs should agree with the corresponding figures appearing in the Finance Accounts of the State for correct and transparent reporting. In case of differences in the figures, the SPSEs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard for last three years is given in **Table 5.3**.

<sup>25</sup> As per the latest finalised accounts of working SPSEs as on 30<sup>th</sup> September of respective years.

**Table 5.3: Equity and Loans outstanding as per the State Finance Accounts vis-à-vis records of SPSEs<sup>26</sup> for last three years**

(₹ in crore)

Year	2018-19			2019-20			2020-21		
	Amount as per			Amount as per			Amount as per		
	Finance Accounts	Records of SPSEs	Difference	Finance Accounts	Records of SPSEs	Difference	Finance Accounts	Records of SPSEs	Difference
Equity	2525.73	2532.97	7.24	2535.71	2668.60	132.89	2536.47	2699.86	163.39
Loans	652.28	203.24	449.04	665.62	205.94	459.68	722.79	326.72	396.07

Source: As per State Finance Accounts and as per records of SPSEs.

# Does not include figures of Cooperative Societies.

It can be noticed from the **Table** above that, as on 31 March 2021, as per records of SPSEs, the State Government's Investment (Equity and Loan) in SPSEs during last three years increased by 10.61 per cent (₹ 290.37 crore) from ₹ 2736.21 crore (2018-19) to ₹ 3026.58 crore (2020-21). As on 31 March 2021, however, there were differences in the figures of investment in Equity (₹ 163.39 crore) and Loan (₹ 396.07 crore) as per two sets of records. Out of 16 SPSEs<sup>27</sup> where State Government had made direct investment, the difference occurred in respect of 12 SPSEs<sup>28</sup>.

*The State Government and the SPSEs concerned should take concrete steps to reconcile the differences in a time-bound manner. The Government should correct the system of financing the SPSEs and the Finance Accounts may be updated.*

## 5.5 Budgetary assistance to SPSEs

The State Government provides financial support to SPSEs in various forms through annual budgetary allocations. The summarised details of budgetary support towards Equity, Loans and Grants/subsidies in respect of SPSEs during past three years are given in **Table 5.4**.

**Table 5.4: Details regarding annual budgetary support to SPSEs**

(₹ in crore)

Particulars	2018-19		2019-20		2020-21	
	No. of SPSEs	Amount	No. of SPSEs	Amount	No. of SPSEs	Amount
Equity capital outgo from budget	4	31.19	4	135.53	4	31.26
Loans given from budget	3	31.69	1	2.70	3	107.17
Grants/subsidy from budget	10	222.31	6	125.30	11	204.00
<b>Total Outgo</b>		<b>285.19</b>		<b>263.53</b>		<b>342.43</b>

Source: As per SPSEs records.

<sup>26</sup> Figures of 'Equity and Loans outstanding as per the records of SPSEs' are provisional and as provided by the SPSEs as none of the SPSEs had finalised their Accounts for 2020-21 as on 30 September 2021.

<sup>27</sup> Excluding two SPSEs (Meghalaya Bamboo Chips Limited and Meghalaya Electronics Development Corporation Limited) in which State Government had no direct investment in the form of Equity and Loans.

<sup>28</sup> Other than two SPSEs at serial no. A7 and B17 of **Appendix 5.1**.

It can be noticed from the **Table** above that the budgetary support provided by State Government to SPSEs during 2020-21 was at ₹ 342.43 crore, which was higher by 20 per cent (₹ 57.24 crore) as compared to ₹ 285.19 crore provided during 2018-19. The major recipient of budgetary support during 2020-21 were four<sup>29</sup> power sector PSEs, which received aggregate financial support of ₹ 233.71 crore (Equity ₹ 13.76 crore, Loan ₹ 107.17 crore and Grants/Subsidies ₹ 112.78 crore) and Meghalaya Infrastructure Development and Financial Corporation Limited, which received Grant of ₹ 55.00 crore for implementation of Meghalaya Integrated Transport Programme.

## 5.6 Returns from Government Companies and Corporations

### *Profit earned and Dividend paid by SPSEs*

The position of aggregate profit earned and dividend paid by profit earning SPSEs during the past three years as per the latest finalised accounts as on 30 September of respective year is given in **Table 5.5**.

**Table 5.5: Details of profits earned and dividend paid by working SPSEs**

Year	2018-19	2019-20	2020-21
Number of profit earning working SPSEs	4	3	4
Aggregate profit earned(₹ in crore)	9.61	2.83	2.03
Dividend paid	-	-	-

Source: As per latest finalised accounts of SPSEs. (Appendix 5.1).

As can be noticed from **Table** above, during last three years, three to four SPSEs earned profits ranging between ₹ 2.03 crore (2020-21) and ₹ 9.61 crore (2018-19). The profits earned by SPSEs had shown a declining trend over the period. However, none of the profit earning SPSEs had declared any dividend during the past three years. As such, the State Government did not get any returns on the State's investment made in these SPSEs. There was no recorded information about the existence of any specific policy of the State Government regarding payment of minimum dividend by the SPSEs.

During 2020-21, out of 17 working SPSEs, four<sup>30</sup> SPSEs earned aggregate profits of ₹ 2.03 crore as per their latest finalised accounts (detailed in **Appendix 5.1**) and all of them are non-power SPSEs.

<sup>29</sup> Meghalaya Energy Corporation Limited (Equity: ₹ 13.76 crore) , Meghalaya Power Generation Corporation Limited (Loan: ₹ 51.20 crore; Grant: ₹ 50.08 crore), Meghalaya Power Transmission Corporation Limited (Loan: ₹ 0.71 crore) and Meghalaya Power Distribution Corporation Limited (Loan: ₹ 55.26 crore; Grant/Subsidy: ₹ 62.70 crore).

<sup>30</sup> Forest Development Corporation Limited, Meghalaya Mineral Development Corporation Limited, Meghalaya Tourism Development Corporation Limited and Meghalaya State Warehousing Corporation.

## 5.7 Long Term Debt of SPSEs

The position of outstanding Long Term Debts of the SPSEs during the last three years as per their latest finalised accounts is given in **Table 5.6**.

**Table 5.6: Position of Outstanding loans of the SPSEs**

Particulars	( <b>₹ in crore</b> )		
	2018-19	2019-20	2020-21
Total Loans outstanding (State Government and Others)	1938.43	1921.98	1916.66
State Government Loans outstanding	314.42	327.40	375.40
Interest on Total Loans	166.84	251.67	236.25
Interest on State Loan <sup>31</sup>	24.59	25.94	27.99

Source: As per latest finalised accounts of SPSEs. (Appendix 5.1)

It can be noticed from the **Table** above that, the total long term borrowings of the SPSEs (Companies and Corporations) from all sources registered a decrease of ₹ 21.77 crore from ₹ 1938.43 crore (2018-19) to ₹ 1916.66 crore (2020-21) as per their latest finalised accounts as on September 2021. Reduction in the loans during 2018-19 to 2020-21 was on account of loan repayment of ₹ 113.38<sup>32</sup> crore by three power sector Companies and availing of fresh borrowings (₹ 91.61<sup>33</sup> crore) by three SPSEs during the said period.

On the other hand, the State Government Loans outstanding against SPSEs have increased by ₹ 60.98 crore (19 per cent) during last three years from ₹ 314.42 crore (2018-19) to ₹ 375.40 crore (2020-21) mainly due to increase in the State Government Loans availed by Meghalaya Power Generation Corporation Limited (₹ 33.14 crore), Meghalaya Power Distribution Corporation Limited (₹ 14.97 crore) and Mawmluh Cherra Cement Limited (₹ 11.60 crore) during the said period.

As on 31 March 2021, however, 10 out of 17 working SPSEs did not have any outstanding long-term loans.

## 5.8 Operating Efficiency of SPSEs

### Key parameters

Some of the key parameters of the operational efficiency of working SPSEs for last three years as per their latest finalised accounts as on 30 September of the respective year are given in **Table 5.7** below:

<sup>31</sup> Interest figures as available in the latest finalised accounts of respective SPSEs.

<sup>32</sup> MePGCL: ₹ 28.16 crore, MePDCL: ₹ 58.79 crore, MePTCL: ₹ 26.43 crore.

<sup>33</sup> MeECL: ₹ 79.65 crore, MCCL: ₹ 11.60 crore, MTDCL: ₹ 0.36 crore.

**Table 5.7: Key parameters of operational efficiency of working SPSEs**

(₹ in crore)						
Year	No. of working SPSEs	Paid up capital	Net overall Accumulated profits (+)/losses(-)	Net overall profits (+)/losses(-)	EBIT	Capital Employed <sup>34</sup>
2018-19	16	4425.05	(-) 2229.77	(-) 419.16	(-) 252.25	3964.00
2019-20	16	4605.73	(-) 2747.35	(-) 514.75	(-) 263.09	3780.36
2020-21	17	4861.05	(-) 3466.72	(-) 554.33	(-) 312.76	3310.99

Source: As per latest finalised accounts of SPSEs. (Appendix 5.1).

From the **Table** above, it can be seen that, over the period of last three years the position of the Net overall Accumulated losses has deteriorated mainly due to increase in the Net overall losses of SPSEs each year. Constant increase in the Accumulated losses of SPSEs as shown in the **Table** above coupled with decrease in the Long Term borrowings of SPSEs during last three years from ₹ 1938.43 crore (2018-19) to ₹ 1916.66 crore (2020-21) has contributed towards reduction in the Capital Employed of SPSEs over the years.

During 2020-21, out of 17 working SPSEs, 15 SPSEs<sup>35</sup> had net accumulated losses. The major contributors to the accumulated losses of SPSEs during 2020-21 were Meghalaya Power Distribution Corporation Limited (₹ 2396.56 crore), Meghalaya Power Generation Corporation Limited (₹ 410.50 crore), Meghalaya Energy Corporation Limited (₹ 200.27 crore) and Meghalaya Transport Corporation (₹ 106.69 crore).

## 5.9 Return on Capital Employed

Return on Capital Employed (ROCE) is a profitability metric that measures the long term profitability and efficiency of the total capital employed by a company. Companies create value when they generate returns on the capital employed in excess of the cost of capital. ROCE is an important metric for long term lenders. ROCE is calculated by dividing a company's Earnings before Interest and Taxes (EBIT) by the Capital Employed.

During 2020-21, the overall capital employed in respect of 17 working SPSEs as per their latest finalised accounts was ₹ 3310.99 crore. Further, out of 17 working SPSEs, only five SPSEs<sup>36</sup> had positive ROCE.

In comparison, however, the overall capital employed in respect of working SPSEs during the previous two years (2018-19 and 2019-20) was ₹ 3964.00 crore and ₹ 3780.36 crore respectively, showing a downward trend in each successive year.

<sup>34</sup> **Capital Employed** = Paid up share capital plus Free reserves and Surplus plus Long term loans minus Accumulated losses minus Deferred Revenue Expenditure.

<sup>35</sup> Other than two SPSEs (Forest Development Corporation Limited and Meghalaya Basin Management Agency).

<sup>36</sup> Forest Development Corporation of Meghalaya Limited (23.35 per cent), Meghalaya Power Generation Corporation Limited (5.19 per cent), Meghalaya Power Transmission Corporation Limited (1.65 per cent), Meghalaya Tourism Development Corporation Limited (17.87 per cent) and Meghalaya State Warehousing Corporation (9.12 per cent).

Further, out of 16 working SPSEs, only five<sup>37</sup> SPSEs in 2018-19 and four<sup>38</sup> SPSEs in 2019-20 had positive ROCE during the previous two years.

### 5.10 Return on Equity (ROE)

Return on equity<sup>39</sup> (ROE) is a measure of financial performance of companies calculated by dividing the 'net income earned' by the Equity. During 2020-21, four working SPSEs earned profits (₹ 2.03 crore) as per their latest finalised accounts as on 30 September 2021. However, ROE of two profit making SPSEs (Meghalaya Mineral Development Corporation Limited and Meghalaya Tourism Development Corporation Limited) were not workable as the accumulated losses (₹ 7.01 crore and ₹ 8.42 crore) of these SPSEs had completely eroded their paid-up capital (₹ 2.32 crore and ₹ 7.96 crore) respectively.

The ROE of remaining two SPSEs which earned profits was 9.12 and 71.07 per cent (*Appendix 5.1*) as detailed in **Table 5.8** below:

**Table 5.8: Return on Equity**

Sl. No.	Name of the Company	Year of Accounts	ROE (in per cent)
1.	Forest Development Corporation of Meghalaya Limited	2016-17	71.07
2.	Meghalaya State Warehousing Corporation	2018-19	9.12

### 5.11 SPSEs incurring Losses

The position of aggregate losses incurred by loss making working SPSEs during the past three years as per their latest finalised accounts is given in **Table 5.9**.

**Table 5.9: Details of loss making working SPSEs**

Year	2018-19	2019-20	2020-21
Total No. of working SPSEs	16	16	17 <sup>40</sup>
Number of loss making working SPSEs	11	12	12
Aggregate losses (₹ in crore)	428.77	517.58	556.36

The details of major contributors to losses of working SPSEs incurred during 2020-21 are given in **Table 5.10** below:

<sup>37</sup> Forest Development Corporation of Meghalaya Limited, Meghalaya Infrastructure Development and Finance Corporation Limited, Meghalaya Power Generation Corporation Limited, Meghalaya Power Transmission Corporation Limited and Meghalaya State Warehousing Corporation.

<sup>38</sup> Forest Development Corporation of Meghalaya Limited, Meghalaya Energy Corporation Limited, Meghalaya Tourism Development Corporation Limited and Meghalaya State Warehousing Corporation.

<sup>39</sup> **Return on Equity** = (Net Profit after Tax and preference Dividend ÷ Equity) x 100, where Equity = Paid up Capital plus Free Reserves/Accumulated Profits minus Accumulated Losses and Deferred Revenue Expenditure.

<sup>40</sup> One SPSE (Meghalaya Basin Management Agency) worked on 'no profit no loss' basis.

**Table 5.10: Major contributors to losses of working SPSEs during 2020-21**

(₹ in crore)			
Sl. No.	Name of the Company	Latest finalised accounts	Net Loss (₹ in crore)
1	Meghalaya Power Distribution Corporation Limited	2019-20	427.52
2.	Meghalaya Power Generation Corporation Limited	2019-20	55.87
3.	Meghalaya Energy Corporation Limited	2019-20	32.11
4.	Mawmluh Cherra Cement Limited	2018-19	25.22
<b>Total</b>			<b>540.72</b>

From the **Table** above, it can be noticed that more than 97 per cent of the losses incurred by working SPSEs during 2020-21 were contributed by above four SPSEs, which is a cause of concern and the State Government needs to either improve their working or fully review the working of these SPSEs for continuing their operations.

### 5.12 SPSEs having complete erosion of capital

The aggregate paid-up capital and accumulated losses of 17 working SPSEs as per their latest finalised accounts as on 30 September 2021 were ₹ 4861.05 crore and (-) ₹ 3466.72 crore respectively. Analysis of investment and accumulated losses of these SPSEs revealed that the accumulated losses of eight working SPSEs (₹ 2783.61 crore) had completely eroded their paid-up capital (₹ 1154.31 crore) as detailed in **Table 5.11**.

**Table 5.11: Erosion of Capital of SPSEs**

(₹ in crore)			
Name of SPSE	Latest finalised accounts	Paid up capital	Accumulated losses
Meghalaya Power Distribution Corporation Limited (MePDCL)	2019-20	850.22	2396.56
Mawmluh Cherra Cements Limited (MCCL)	2018-19	197.51	234.79
Meghalaya Transport Corporation (MTC)	2015-16	93.05	106.69
Meghalaya Government Construction Corporation Limited	2019-20	0.75	23.59
Meghalaya Tourism Development Corporation Limited	2018-19	7.96	8.42
Meghalaya Mineral Development Corporation Limited	2019-20	2.32	7.01
Meghalaya Handloom & Handicraft Development Corporation Limited	2018-19	1.50	5.06
Meghalaya Infrastructure Development and Financial Corporation Limited	2019-20	1.00	1.49
<b>Total</b>		<b>1154.31</b>	<b>2783.61</b>

Source: As per latest finalised accounts of the SPSEs.

Out of the total eroded paid-up capital of ₹ 1154.31 crore, the major portion pertained to **MePDCL** (73.66 per cent) followed by **MCCL** (17.11 per cent) and **MTC** (8.06 per cent). The reasons for under performance of these SPSEs had been highlighted in the previous audit reports as summarised below: -

**MePDCL:** The Company had huge accumulated losses because of low revenue realised against the sale of power which was not sufficient to meet even the power purchase cost

(including transmission/wheeling charges). This was mainly due to poor billing and collection efficiency and high power purchase cost<sup>41</sup>.

**MCCL:** The Company, despite major capital investment by the State Government, could achieve only 22 *per cent* capacity utilisation against the projected capacity utilisation of 60 to 75 *per cent* mainly due to excessive machine stoppages, idling of machineries/equipment and absence of skilled staff<sup>42</sup>.

**MTC:** The Corporation failed to grow as a major operator in the State public transport system and could not compete with the private players in the State on account of several reasons like, absence of a well thought State Transport Policy and long term planning for gradual and systematic increase in its share in the State Public Transport, inability to increase the fleet strength due to the financial constraints, operational inefficiencies and high cost of operations leading to continuous operational losses, *etc.*<sup>43</sup>.

Accumulation of huge losses by 8 out of 17 working SPSEs had eroded public wealth, which is a cause of concern and the State Government needs to either improve their working or fully review the working of these SPSEs for continuing their operations.

### 5.13 Performance of power sector SPSEs

The power sector SPSEs play an important role in the economy of the State. Apart from providing critical infrastructure required for development of the State's economy, the sector also adds significantly to the Gross State Domestic Product (GSDP). As mentioned earlier, SPSE-turnover to GSDP during 2020-21 stood at 4.15 *per cent*; of which, major portion to the extent of 3.86 *per cent* (₹ 1289.79 crore) was contributed by the power sector SPSEs.

#### *High losses of power sector SPSEs*

The position of aggregate losses incurred by four power sector SPSEs during the past five years as per their latest finalised accounts is given in **Table 5.12**.

<sup>41</sup> Para No. 4.2.13, 4.2.8 and 4.2.9 of the Report of the Comptroller & Auditor General of India on Social, Economic, General & Economic (PSEs) Sectors – Government of Meghalaya for the year ended 31 March 2017.

<sup>42</sup> Para 3.2 of the Report of the Comptroller & Auditor General of India on Social & Economic Sectors – Government of Meghalaya for the year ended 31 March 2019.

<sup>43</sup> Para 4.2 of the Report of the Comptroller & Auditor General of India on Social, Economic, General & Economic (PSEs) Sectors – Government of Meghalaya for the year ended 31 March 2017.

**Table 5.12: Details of aggregate losses of power sector SPSEs**

Year	2016-17	2017-18	2018-19	2019-20	2020-21
Total No. of power sector SPSEs	4	4	4	4	4
Number of loss making SPSEs	3	3	3	4	4
Number of profit earning SPSEs <sup>44</sup>	1	1	1	0	0
Net overall losses in power sector (₹ in crore)	(-) 234.92	(-) 369.72	(-) 369.19	(-) 478.54	(-) 518.58
Accumulated losses(₹ in crore)	(-) 1226.91	(-) 1812.90	(-) 1836.03	(-) 2314.57	(-) 3027.36

**Key parameters**

Some of the key parameters of the operational efficiency of four power sector SPSEs as per their latest finalised accounts as on 30 September 2021 are given in **Table 5.13** below:

**Table 5.13: Key parameters of the operations of power sector SPSEs during 2020-21**

(₹ in crore)

Sl. No.	Name of the Company	Latest finalised accounts	Paid up capital	Net Loss for the year	Accumulated losses	Net worth <sup>45</sup>
1	Meghalaya Power Distribution Corporation Limited (MePDCL)	2019-20	850.22	(-) 427.52	(-) 2396.56	(-) 1546.34
2.	Meghalaya Power Generation Corporation Limited (MePGCL)	2019-20	918.77	(-) 55.87	(-) 410.50	(+) 508.27
3	Meghalaya Energy Corporation Limited (MeECL)	2019-20	2198.48	(-) 32.11	(-) 200.27	(+) 1998.21
4	Meghalaya Power Transmission Corporation Limited (MePTCL)	2019-20	425.59	(-) 3.08	(-) 20.03	(+) 405.56
	<b>Total</b>		<b>4393.06</b>	<b>(-) 518.58</b>	<b>(-) 3027.36</b>	

It can be seen from **Tables 5.12 and 5.13** above that during last five years (2016-17 to 2020-21), the overall losses of power sector SPSEs have increased by more than two folds from ₹ 234.92 crore (2016-17) to ₹ 518.58 crore (2020-21). Further, during 2020-21, the net worth of one SPSE (MePDCL) was negative at (-) ₹ 1546.34 crore due to complete erosion of its equity capital by the accumulated losses. The net worth of MePDCL turned negative for the first time during 2016-17 when its paid up capital (₹ 801.20 crore) was completely eroded by the accumulated losses (₹ 961.42 crore) as per its latest finalised accounts (2014-15) as on 30 September 2017. During October 2017 to September 2021, MePDCL had finalised five annual accounts (2015-16 to 2019-20). However, the net worth of the Company remained negative during all these years.

This gradual process of incurring losses by the power sector SPSEs is a drain on the State's economy and resources. Analysis of records of power sector SPSEs revealed that the State Government provided budgetary support aggregating ₹ 526.49 crore to

<sup>44</sup> During 2016-17 to 2018-19, Meghalaya Power Transmission Corporation Limited was the only power sector SPSE, which registered profit of ₹ 7.17 crore (2016-17) and ₹ 8.15 crore (2017-18 & 2018-19) as per its latest finalised accounts.

<sup>45</sup> Net Worth means the sum total of the 'paid-up capital' and 'free reserves and surplus' minus 'accumulated losses' and 'deferred Revenue Expenditure'.

four power sector SPSEs during three years period (2018-21) (₹ 60.81 crore in 2018-19, ₹ 231.97 crore 2019-20 and ₹ 233.71 crore in 2020-21) by way of equity (₹ 141.37 crore), loans (₹ 141.56 crore) and grants/subsidy (₹ 243.56 crore). This included budgetary support of ₹ 180.79 crore provided to MePDCL which has negative net worth as reflected in **Table 5.13**, during 2018-19 (₹ 12.22 crore), 2019-20 (₹ 50.61 crore) and 2020-21 (₹ 117.96 crore) by way of loans (₹ 56.48 crore) and grants/subsidy (₹ 124.31 crore).

As on 31 March 2021, the Government of Meghalaya has guaranteed ₹ 1688.82 crore in respect three power sector SPSEs (other than MePTCL) against the Loans availed from various institutions (Bank, Financial Institutions and others). During 2020-21, Government of Meghalaya had issued new guarantees of ₹ 630 crore to MeECL for restructuring of high interest loans of its three subsidiaries (MePGCL, MePDCL and MePTCL).

## **OVERSIGHT ROLE OF COMPTROLLER & AUDITOR GENERAL OF INDIA**

### **5.14 Audit of State Public Sector Enterprises (SPSEs)**

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. CAG has a right to conduct a supplementary audit and supplement or comment upon 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 State Legislature.

### **5.15 Appointment of statutory auditors of SPSEs 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 18 SPSEs (excluding Meghalaya Transport Corporation, a statutory corporation for which CAG is the sole auditor) are appointed by the CAG.

### **5.16 Submission of accounts by SPSEs**

#### **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 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 Act regulating the only statutory corporation (Meghalaya Transport Corporation) in the State. This mechanism provides the necessary Legislative control over the utilisation of public funds invested in the companies from the State budget.

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.

Despite above, Annual Accounts of various SPSEs were pending finalisation as on 30 September 2021, as discussed below.

### 5.17 Timeliness in preparation of accounts by working SPSEs

The details relating to finalisation of accounts by 17 working SPSEs (15 Government Companies and two Statutory Corporations) during the last three years as of 30 September of respective year are given in **Table 5.14**.

**Table 5.14: Position relating to finalisation of Accounts of working SPSEs**

Sl. No.	Particulars	2018-19	2019-20	2020-21
1.	Number of working SPSEs	16	17	17
2.	Number of Accounts finalised during the year	16	20	16
3.	Number of Accounts in arrears	32	29	30
4.	Number of Working SPSEs with arrears in Accounts	16	17	15
5.	Extent of arrears (number in years)	1 to 5	1 to 4	1 to 5

As can be seen from **Table** above, there is no significant improvement in the arrear position of the Accounts of SPSEs during last three years and total 30 Accounts relating to 15 working SPSEs were in arrears as on 30 September 2021. The highest pendency of Accounts pertained to Meghalaya Transport Corporation (five Accounts) and Forest Development Corporation of Meghalaya Limited (four Accounts) as on 30 September 2021.

The Administrative Departments concerned have the responsibility to oversee the activities of these entities and to ensure that the accounts of SPSEs under their control are finalised and adopted by the SPSEs within the stipulated period. In view of the position of arrears of accounts indicated above, the actual contribution of PSEs to the GSDP for the year 2020-21, could not be ascertained and their contribution to State exchequer could not be reported to the State Legislature.

The Accountant General (Audit), Meghalaya had been regularly pursuing with the administrative departments concerned for liquidating the arrears of accounts of SPSEs. However, the State Government and the SPSEs concerned could not address the issue to clear pendency of accounts of the SPSEs in a time bound manner.

### 5.18 Arrears in finalisation 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 Companies Act. Failure to do so may attract penal provisions under Section 99 of the Act. Similarly, in case of Statutory Corporations, their accounts are to be finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

As on 30 September 2021, 30 accounts of 17 working PSEs were in arrears for one to five years (**Appendix 5.2**). Out of the total arrears of 30 accounts for 2020-21, Meghalaya Transport Corporation (MTC) and Forest Development Corporation of Meghalaya Ltd. has maximum accounts in arrears for five and four years respectively.

In addition to the above, there were arrears of three accounts (2018-19 to 2020-21) as on 30 September 2021 in respect of the sole non-working PSE (Meghalaya Electronics

Development Corporation Limited), which became defunct in 2006 and had been in the process of liquidation since June 2011. The State Government needs to expedite the liquidation process to wind up the above mentioned non-working PSE. The Committee of Public Undertakings (COPU) in its tenth report which was presented to the Legislature on 5 November 2020 also recommended that the process of liquidation of the non working PSE should be completed forthwith, within six months.

State Government had invested an amount aggregating ₹ 481.89 crore in 17 working PSEs {equity: ₹ 71.70 crore (five PSEs), loans: ₹ 107.17 crore (three PSEs) and grants ₹ 303.02 crore (ten PSEs)} during the years for which the accounts of these PSEs had not been finalised as detailed in **Appendix 5.3**. In the absence of finalisation 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.

Timely finalisation of accounts is important for the State Government to assess the financial health of the PSEs, avoid financial misappropriation and mismanagement, ensure safety of Government equity, *etc.* 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.

The Heads of Departments in the Government are to ensure that the departmental undertakings prepare such accounts and submit the same to the Accountant General (Audit) within a specified time frame

#### **5.19 CAG's oversight - Audit of accounts and supplementary audit**

##### **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. 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.

#### **5.20 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 the public sector enterprises 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
- to supplement or comment upon the statutory auditor's report under Section 143 (6) of the Companies Act, 2013.

### **5.21 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.

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 independent audit in accordance with the Standard Auditing Practices of Institute of Chartered Accountants of India (ICAI) 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 Annual General Meeting.

### **5.22 Result of CAG's oversight role**

#### **Audit of accounts of SPSEs**

##### *Government Companies*

During 2020-21 (1 October 2020 to 30 September 2021)<sup>46</sup>, 11 working Companies had forwarded 15 Accounts to the Accountant General (Audit), Meghalaya. All 15 accounts of 11 Companies were selected for Supplementary audit and no Non-Review Certificate (NRC) was issued during the year.

##### *Statutory Corporations*

The Meghalaya State Warehousing Corporation has submitted one year Accounts (2018-19) to the Accountant General (Audit), Meghalaya which was selected for Audit. However, no Accounts were submitted by the other Statutory Corporation (Meghalaya Transport Corporation).

The audit reports of Statutory Auditors appointed by the C&AG and the supplementary audit conducted by the C&AG indicated that the quality of maintenance of SPSEs' accounts needs to be improved substantially. The results of the C&AG's audit review are detailed below:

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<sup>46</sup> For the purpose of presenting the analysis of accounts finalised by PSEs, the cut-off date considered is 30 September each year viz. for Report year 2020-21, the cut-off date is 30 September 2021.

### Significant comments of the C&AG issued as supplement to the Statutory Auditors' reports on SPSEs

Some of the significant comments issued based on the supplementary audit of financial statements of the SPSEs are detailed **Table 5.15**.

**Table 5.15: Gist of significant comments issued by C&AG on the accounts of the SPSEs**

Sl. No.	Name of the SPSE	Comments
1.	Meghalaya Power Generation Corporation Limited  (Year of Accounts: 2018-19)	<p>The company has not accounted ₹ 0.21 crore, being the “interest accrued” during the year against Fixed Deposits kept with four banks. This has resulted in understatement of ‘Current Assets’ and ‘profit for the year’ to the same extent.</p> <p>The Company has not accounted the O&amp;M expenses of ₹ 1.35 crore incurred by its Divisional Offices during the year. This has resulted in understatement of ‘Current Liabilities’ and ‘Loss for the year’ by ₹ 1.35 crore each.</p>
2.	Meghalaya Power Generation Corporation Limited  (Year of Accounts: 2019-20)	<p>The Company accounted the Capital Expenditure of ₹ 7.70 crore incurred on Myndtu Leshka Hydro Electric Project Stage-I under ‘Capital Work in Progress’ (CWIP). Since the project has already started commercial operation (April 2013), the above Capital Expenditure should have been transferred to ‘Fixed Assets’ and ‘Depreciation’ charged accordingly. This has resulted in overstatement of Capital-work-in-progress and understatement of Fixed Assets (Gross Block) by ₹ 7.70 crore each with corresponding understatement of ‘Depreciation’ and ‘Loss for the year’ by ₹ 2.09 crore each.</p>
3.	Meghalaya Power Distribution Corporation Limited  (Year of Accounts: 2018-19)	<p>For Accounts of 2016-17, CAG commented on short-provisioning of ₹ 31.79 crore against time-barred dues (₹ 32.77 crore) relating to 4,561 consumers whose supply was disconnected for more than two years (February 2002 to March 2015). To update this, there were further unrecovered dues of ₹ 5.43 crore pertaining to 1,725 consumers whose supply was disconnected for more than two years (April 2015 to March 2017) and as such, these dues are not recoverable in terms of Section 56(2) of the Electricity Act, 2003. Instead of fully providing against the time-barred dues of ₹ 38.20 crore pending against 6,286 consumers, the Company has kept provisions to the extent of ₹ 1.14 crore only (3 per cent) resulting in overstatement of the ‘Trade Receivables’ and understatement of ‘Loss for the year’ by ₹ 37.06 crore each.</p>
4.	Meghalaya Infrastructure Development and Financial Corporation Limited  (Year of Accounts: 2019-20)	<p>The Company has not accounted the Advertisement Expenditure of ₹ 17.01 lakh incurred during the current year. This has resulted in understatement of ‘Current Liabilities’ and ‘Loss for the year’ to the same extent.</p>

**Non Compliance with provisions of Accounting Standards (AS) /Indian AS**

In exercise of the powers conferred by Section 469 of the Companies Act, 2013, read with Section 129 (1), Section 132 and Section 133 of the said Act, the Central Government prescribed Accounting Standards one to seven and nine to twenty nine. Besides these, the Central Government notified 41 Indian Accounting Standards (Ind AS) through Companies (Indian Accounting Standards) Rules, 2015 and Companies (Ind AS) (Amendment) Rules, 2016.

During the course of supplementary audit, the CAG observed that the following companies had not complied with the Accounting Standards/Ind AS as detailed below:

**Table 5.16: Companies who had not complied with the Accounting Standards/Ind AS**

Accounting Standard/Ind AS		Name of the Company	Year	Deviation
AS 10	Accounting for Property, Plant & Equipment	Meghalaya Infrastructure Development and Financial Corporation Limited	2019-20	The Company has not disclosed the 'useful lives' and 'depreciation rates' adopted for each class of 'Property, Plant & Equipment' in preparation of the Financial Statements contrary to the requirements of Ind AS.
Ind AS 37	Provisions, Contingent Liabilities and Contingent Assets	Shillong Smart City Limited	2019-20	<p>Ind AS 37 stipulates that, where an inflow of economic benefits is probable, it is termed as Contingent Asset and should be disclosed in the Accounts with disclosure of its nature and estimate of the financial effect.</p> <p>The Smart City Mission Statement &amp; Guidelines stipulated that "An amount equal to the project fund released by the Government of India (GoI), has to be contributed by the State/ULB". GoI released (29 January 2019) the part payment (₹ 50 crore) of project funds and reiterated the above statement.</p> <p>The State Government was, however, yet to contribute the matching grant of ₹ 50 crore to the Company.</p> <p>The fact regarding State Government's matching contribution (Contingent Asset) pending to be released to the Company merits for suitable disclosure under 'Notes to Accounts' as per the requirements of the Ind AS.</p>

**5.23 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 SPSEs were reported as comments by the CAG under Section 143 (6)(b) of the Companies Act, 2013. Besides these comments on accounts, irregularities or deficiencies observed by CAG in the financial reports or in the reporting process, are also communicated to the management

through a 'Management Letter' for taking corrective action. These deficiencies generally related to -

- application and interpretation of accounting policies and practices,
- adjustments arising out of audit that could have a significant effect on the financial statements and
- inadequate or non-disclosure of certain information on which management of the concerned PSE gave assurances that corrective action would be taken in the subsequent year.

As per latest finalised accounts as on 30 September 2021, 'Management Letters' were issued to two SPSEs as shown in **Table 5.17**.

**Table 5.17: List of the SPSEs where Management Letters were issued**

Sl. No.	Name of the SPSEs (Year of accounts finalised)
1.	Shillong Smart City Limited (2019-20)
2.	Meghalaya State Warehousing Corporation (2018-19)

#### **5.24 Conclusion**

As on 31 March 2021, the State of Meghalaya had 18 SPSEs, which included 16 Government companies (15 working and one non-working) and two Statutory Corporations (all working). As on 31 March 2021, there was a difference of ₹ 559.46 crore in the investment figures of the State Government (Equity: ₹ 163.39 crore; Long-term Loans: ₹ 396.07 crore) as per State Finance Accounts *vis-à-vis* records of SPSEs.

During 2020-21 the State Government has provided budgetary support of ₹ 342.43 crore to SPSEs in the form of Equity (₹ 31.26 crore), Loans (₹ 107.17 crore) and Grants/subsidy (₹ 204.00 crore). The major recipients of budgetary assistance during 2019-20 were four power sector companies, which received budgetary allocation of ₹ 233.71 crore (68.25 *per cent*) in the form of Equity (₹ 13.76 crore), Loans (₹ 107.17 crore) and Grants/subsidies (₹ 112.78 crore).

During 2020-21, out of 17 working SPSEs, 4 SPSEs earned profits (₹ 2.03 crore) as per their latest finalised accounts as on 30 September 2021. Further, the accumulated losses of eight working SPSEs (₹ 2783.61 crore) had completely eroded their paid-up capital (₹ 1154.31 crore)

The overall losses of power sector SPSEs in last five years have increased by more than two folds from ₹ 234.92 crore (2016-17) to ₹ 518.58 crore (2020-21). Further, the net worth of one SPSE (Meghalaya Power Distribution Company Limited) was negative due to complete erosion of its equity capital by the accumulated losses.

As on 30 September 2021, all 17 working SPSEs had a total arrear of 30 Accounts ranging from one to five years. The highest number of accounts pending finalisation

pertained to Meghalaya Transport Corporation (five Accounts) and Forest Development Corporation of Meghalaya Limited (four Accounts).

### 5.25 Recommendations

*The State Government and the SPSEs concerned should take concrete steps to reconcile the differences in the investment figures (Equity and Long Term Loans) of the State Government as appearing in the State Finance Accounts vis-à-vis SPSE records in a time-bound manner.*

*Accumulation of huge losses by 8 out of 17 working SPSEs had eroded public wealth, which is a cause of concern and the State Government needs to either improve their working or fully review the working of these SPSEs for continuing their operations.*

*The functioning of the Power Sector Companies needs to be reviewed so as to increase their revenue and decrease their operational costs.*

*The Administrative Departments overseeing the SPSEs having backlog of Accounts need to ensure that these SPSEs finalise and adopt their Accounts within the stipulated period, failing which financial support to them be reviewed.*

**Shillong**  
**The: 20 May 2022**

  
**(Shefali Srivastava Andaleeb)**  
**Accountant General (Audit), Meghalaya**

**Countersigned**

**New Delhi**  
**The: 26 May 2022**

  
**(Girish Chandra Murmu)**  
**Comptroller and Auditor General of India**

