

CHAPTER – VI
ECONOMIC SECTOR
(STATE PUBLIC SECTOR UNDERTAKINGS)

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6.1 Functioning of State Public Sector Undertakings

6.1.1 Introduction

As of 31 March 2020, there were seven State Public Sector Undertakings (SPSUs) (all Government Companies) in Arunachal Pradesh as detailed below:

Table 6.1: Total number of SPSUs as on 31 March 2020

Type of SPSUs	Working SPSUs	Non-working SPSUs	Total
Government Companies ¹	6	1	7

Source: Information received from SPSUs

None of these Companies were listed on the stock exchange which means that the shares of the SPSUs cannot be traded in the stock exchange. During the year 2019-20, no SPSU was added to the audit jurisdiction of Principal Accountant General, Arunachal Pradesh. No existing SPSU was closed down during the year.

6.1.2 Investment in SPSUs

6.1.2.1 State Government's investment in SPSUs

The State's investment in its SPSUs was by way of share capital/ loans and special financial support by way of grants/ subsidies as and when required.

As on 31 March 2020, the investment of the State Government (capital and long-term loans) in seven SPSUs was ₹27.87 crore² as per details shown in **Table 6.2**.

Table 6.2: Details of State's investment in SPSUs during the period 2015-16 and 2019-20
(₹ in crore)

Year	2015-16	2019-20
Equity Capital	19.49	19.49
Long term Loans	8.38	8.38
Total	27.87	27.87

Source: Finalised accounts of SPSUs

The State Government investment as on 31 March 2020 consisted of 69.93 per cent towards capital and 30.07 per cent in long-term loans, which remained constant during last five years.

During the year 2019-20, out of six working SPSUs, two SPSUs incurred losses (₹2.49 crore) and four SPSUs earned profits (₹6.07 crore) as per their latest finalised accounts (September 2020). However, none of the four profit making SPSUs had declared any dividend. There was no recorded information about the existence of any

¹ Government Companies include other companies referred to in Section 139(5) and 139(7) of the Companies Act, 2013

² Investment figures are provisional and as per the information provided by the SPSUs as none of the seven SPSUs has finalised accounts for 2019-20 as of 31 September 2020

specific policy of the State Government regarding payment of minimum dividend by the SPSUs.

The return on State Government's investment (historical value) in SPSUs during 2019-20 worked out to 8.84 *per cent*. The losses of three working SPSUs (accumulated losses of ₹27.29 crore) had completely eroded the State's investment in their paid-up capital (₹9.64 crore), as per their latest finalised accounts (September 2020).

6.1.2.2 Total Sector-wise investment in SPSUs

Total investment of State Government and Other Stakeholders (Central Government, Holding companies, Banks, Financial Institutions, *etc.*) in SPSUs under various important sectors at the end of 31 March 2016 and 31 March 2020 has been shown in **Table 6.3**.

Table 6.3: Sector-wise investment in SPSUs as on 31 March 2020

(₹ in crore)

Name of Sector	Government Companies	
	2015-16	2019-20
Finance	12.65	12.70
Power	12.45	12.45
Agriculture & Allied	4.50	4.50
Service	0.99	0.99
Manufacturing	0.24	0.24
Infrastructure	0.02	0.02
Miscellaneous	2.63	2.63
Total	33.48	33.53

Source: Information received from SPSUs

It can be noticed from the **Table 6.3**, the combined investment of State Government and Other Stakeholders remained constant in all the sectors during last five years except a marginal increase of ₹ 0.05 crore in Finance Sector. During last five years, the thrust of investment was in Finance and Power sectors, which constituted around 38 *per cent* (Finance sector) and 37 *per cent* (Power sector) of total investment during 2015-16 to 2019-20.

6.1.3 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per the records of SPSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the Finance Department and the SPSUs concerned should carry out reconciliation of differences. The position in this regard as of 31 March 2020 is shown in **Table 6.4**.

Table 6.4: Variation between Finance Accounts and records of SPSUs

(₹ in crore)

Outstanding in respect of:	Amount as per Finance Accounts	Amount as per records of SPSUs	Difference
Equity	9.00	19.49	10.49
Loans	36.25 ³	8.38	27.87
Guarantee	2.00	2.00 ⁴	-

Source: As per the Finance Accounts and information furnished by SPSUs

³ Represents Loan provided to 'public sector and other undertakings' in four sectors viz., Agriculture & Allied (₹ 20.00 crore); Power (₹ 10.00 crore); Non-ferrous Mining (₹ 0.15 crore) and Industrial Financing (₹ 6.10 crore). SPSU-wise details of loans not available in the State Finance Accounts, 2019-20

⁴ Pertained to Arunachal Pradesh Industrial Development and Financial Corporation Limited

As can be seen from the **Table 6.4** above, there were significant differences in the figure of 'equity' (₹10.49 crore) and 'loans' (₹27.87 crore), which have not been reconciled for more than ten years.

Though the Principal Secretary, Finance Department, Government of Arunachal Pradesh (GoAP) as well as the Management of the SPSUs concerned were appraised regularly about the differences impressing upon the need for early reconciliation, no significant progress was noticed in this regard.

Recommendation: *The Government and the SPSUs concerned may take concrete steps to reconcile the differences in a time-bound manner. The Government should correct the system of financing the SPSUs and the accounts be updated.*

6.1.4 Special support and guarantees to SPSUs during the year

State Government provides financial support to SPSUs in various forms through annual budgetary allocations. The details of budgetary outgo towards equity, loans and grants/subsidies in respect of SPSUs for three years ended 2019-20 are shown in **Table 6.5**.

Table 6.5: Details of budgetary support to SPSUs

Sl. No.	Particulars	2017-18		2018-19		2019-20	
		No.	Amount	No.	Amount	No.	Amount
1.	Equity Capital Outgo from budget	-	-	-	-	-	-
2.	Loans given from the budget	-	-	-	-	-	-
3.	Grants/ Subsidy* from budget	2	5.55	3	9.88	2	4.79
Total Outgo		2	5.55	3	9.88	2	4.79
4.	Guarantees issued during the year	-	-	-	-	-	-
5.	Guarantee Commitment (Cumulative)	1	2.00	1	2.00	1	2.00

Source: Information received from SPSUs

* Represents revenue grants/ subsidy; no capital grant/ subsidy was provided during the three years

During the last three years under reference, the State Government had not provided any equity capital or loans from the State budget to the SPSUs. One SPSU⁵ had received grants continuously for last three years and two SPSUs⁶ had received grants only for two years each. Further, no guarantee was issued to any of the SPSUs during last three years (2017-2020). The guarantee commitment of State Government remained constant at ₹two crore during the last three years, which pertained to Arunachal Pradesh Industrial Development and Financial Corporation Limited. The SPSU had not paid any guarantee commission to the State Government.

6.1.5 Accountability framework

The audit of financial statements of a company in respect of financial years commencing on or after 01 April 2014 is governed by the provisions of the Companies Act, 2013 (Act) and audit of the financial statements in respect of financial years that commenced earlier than 01 April 2014 continued to be governed by the Companies Act, 1956. The new Act

⁵ Arunachal Pradesh Forest Corporation Limited (2017-18: ₹3.05 crore; 2018-19: ₹2.51 crore and 2019-20: 2.61 crore)

⁶ Arunachal Pradesh Industrial Development and Financial Corporation Limited (2017-18: ₹2.50 crore and 2018-19: ₹2.00 crore) and Hydro Power Development Corporation of Arunachal Pradesh Limited (2018-19: ₹5.37 crore and 2019-20: ₹2.19 crore)

has specified increased regulatory framework, wider management responsibility and higher professional accountability.

6.1.5.1 Statutory Audit/ Supplementary Audit

Statutory Auditors appointed by the C&AG, audit the financial statements of a Government Company. In addition, C&AG conducts the supplementary audit of these financial statements under the provisions of Section 143(6) of the Act.

6.1.5.2 Role of Government and Legislature

The State Government exercises control over the affairs of these SPSUs through its administrative departments. The Government appoints Chief Executives and Directors on the Board of these SPSUs.

The State Legislature also monitors the accounting and utilization of Government investment in the SPSUs. For this purpose, the Annual Reports of the State Government Companies together with the Statutory Auditors' Report and comments of the CAG thereon are required to be placed before the Legislature under Section 394 of the Act. The Audit Reports of CAG are submitted to the State Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

6.1.6 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 30 September in accordance with the provisions of Section 96(1) read with Section 129 (2) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Act. As per the Act, the defaulting company and every officer of such company who is at default shall be punishable with fine which may extend up to ₹one lakh and in the case of a continuing default, with a further fine which may extend upto ₹5,000 for every day during which such default continues.

Moreover, timely finalisation of accounts is important for the State Government to assess the financial health of the SPSUs and to avoid financial misappropriation and mismanagement. 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.

Table 6.6 below provides the details of progress made by working SPSUs in finalisation of accounts as of 30 September 2020.

Table 6.6: Position relating to finalisation of accounts of working SPSUs

Sl. No.	Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
1.	Number of Working SPSUs	5	5	5	6	6
2.	Number of accounts finalised during the year	1	3	2	2	2
3.	Number of accounts in arrears	33	35	38	42	46
4.	Number of Working SPSUs with arrears in accounts	5	5	5	6	6
5.	Extent of arrears (numbers in years)	1 to 16	1 to 17	1 to 18	1 to 19	1 to 20

Source: Information received from SPSUs

As can be observed from the above Table, the number of accounts in arrears has shown an increasing trend during the five-year period 2015-16 to 2019-20. Out of the total 46 accounts in arrears as on 30 September 2020, 34 Accounts (74 per cent) pertained to two SPSUs viz., Arunachal Pradesh Mineral Development and Trading Corporation Limited (20 Accounts) and Arunachal Pradesh Forest Corporation Limited (14 Accounts). The earliest Accounts in arrears was since 2000-01, which related to Arunachal Pradesh Mineral Development and Trading Corporation Limited.

The Principal Accountant General Arunachal Pradesh (PAG) has been regularly pursuing this issue with the Chief Secretary, Government of Arunachal Pradesh and the Administrative Departments concerned for liquidating the arrears in accounts of SPSUs. However, the State Government and the SPSUs concerned could not address the issue to clear pendency of accounts of the SPSUs in a time bound manner.

6.1.7 Investment by State Government in SPSUs whose accounts are in arrears

The State Government invested ₹ 0.02 crore in one SPSU {equity: ₹ 0.02 crore} during the years for which the accounts of these SPSUs had not been finalised as detailed in Table 6.7.

Table 6.7: Investment by State Government in SPSUs having accounts in arrears

(₹ in crore)

Sl. No.	Name of SPSU	Accounts finalised upto	Accounts pending finalisation	Investment by State Government during the period of accounts in arrears	
				Equity	Loans
1.	Arunachal Police Housing & Welfare Corporation Limited	2017-18	2018-19	0.02	-
Total				0.02	-

Source: Information furnished by SPSU

In the absence 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.

The Government may consider setting up a special cell under the Finance Department to oversee the expeditious clearance of arrears of accounts of SPSUs. Where there is lack of staff expertise, Government may consider outsourcing the work relating to preparation of accounts and take punitive action against company heads responsible for arrears of accounts. Until the accounts are made as current as possible Government may consider not giving further financial assistance to such companies.

6.1.8 Performance of SPSUs as per their latest finalised accounts

The financial position and working results of working Government Companies are detailed in *Appendix 6.1*. Table 6.8 provides the comparative details of working SPSUs turnover and State GDP for a period of five years ending 2019-20.

Table 6.8: Details of working SPSUs turnover vis-a-vis State GDP

(₹ in crore)					
Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
Turnover ⁷	20.48	23.29	24.86	28.96	26.61
State GDP	18,509.16	19,845.44	22,432.48	24,602.88	27036.64
Percentage of Turnover to State GDP	0.11	0.11	0.11	0.12	0.10

Source: Turnover- Information furnished by SPSUs, GSDP- State Finances Audit Report

It can be seen from the **Table** above that contribution of SPSUs to the State GDP has decreased marginally by one *per cent* from 0.11 *per cent* (2015-16) to 0.10 *per cent* (2019-20) during the period.

The SPSUs turnover have registered an overall growth of ₹6.13 crore (29.93 *per cent*) during the last five years from ₹20.48 crore (2015-16) to ₹ 6.61 crore (2019-20). There was an increase of ₹3.96 crore in the turnover of one company⁸ from ₹ 6.28 crore (2015-16) to ₹10.24 crore (2019-20).

6.1.8.1 Key parameters

Some other key parameters of SPSUs performance as per their latest finalised accounts as on 30 September 2020 of the respective years are shown in **Table 6.9**.

Table 6.9: Key Parameters of SPSUs

(₹ in crore)					
Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
Debt	31.12	31.29	31.33	31.50	31.50
Turnover ⁹	20.48	23.29	24.86	28.96	26.61
Debt/ Turnover Ratio (DTR)	1.52:1	1.34:1	1.26:1	1.08:1	1.18:1
Interest Payments	18.09	17.85	18.95	19.12	19.12
Accumulated losses	(-)12.49	(-)6.14	(-)1.40	(+)4.94	(+)4.94

Source: Information furnished by SPSUs

Debt-Turnover Ratio

Debt-to-turnover ratio (DTR) demonstrates a good balance between debt and income. Conversely, a high DTR can signal having too much of debt against the income of SPSUs from core activities. Thus, the SPSUs having lower DTR are more likely to successfully manage their debt servicing and repayments.

SPSU Debt

During the period of five years, the SPSUs debt had increased marginally by ₹0.38 crore (1.22 *per cent*) from ₹31.12 crore (2015-16) to ₹31.50 crore (2019-20). This had confined the interest payments to almost same level during the last five years.

However, as can be seen from **Table 6.9** above, there was overall improvement in the DTR in last five years from 1.52:1 (2015-16) to 1.18:1 (2019-20) mainly due to an overall growth in SPSU-turnover (29.93 *per cent*) during the last five years from ₹ 20.48 crore (2015-16) to ₹ 26.61 crore (2019-20).

⁷ Turnover of working SPSUs as per the latest finalised accounts as on 31 September of respective years

⁸ Arunachal Pradesh Industrial Development and Financial Corporation Limited

⁹ Turnover of working SPSUs as per the latest finalised accounts as on 30 September of the respective year

6.1.8.2 Erosion of capital due to losses

The paid-up capital and accumulated profits of six working SPSUs as per their latest finalised accounts as on 30 September 2020 were ₹16.79 crore and ₹7.51 crore respectively (*Appendix 6.1*).

The Return on Equity¹⁰ (RoE) in respect of three out of six working SPSUs was 5.49 *per cent* as per their latest finalised accounts. The accumulated losses (₹27.29 crore) of the remaining three¹¹ working SPSUs had completely eroded their capital (₹9.64 crore) as per their latest finalised accounts. The RoE of these three SPSUs was not workable due to complete erosion of their equity capital. The details of erosion of paid-up capital of the three SPSUs are shown in **Table 6.10**.

Table 6.10: SPSUs with primary erosion of paid-up capital

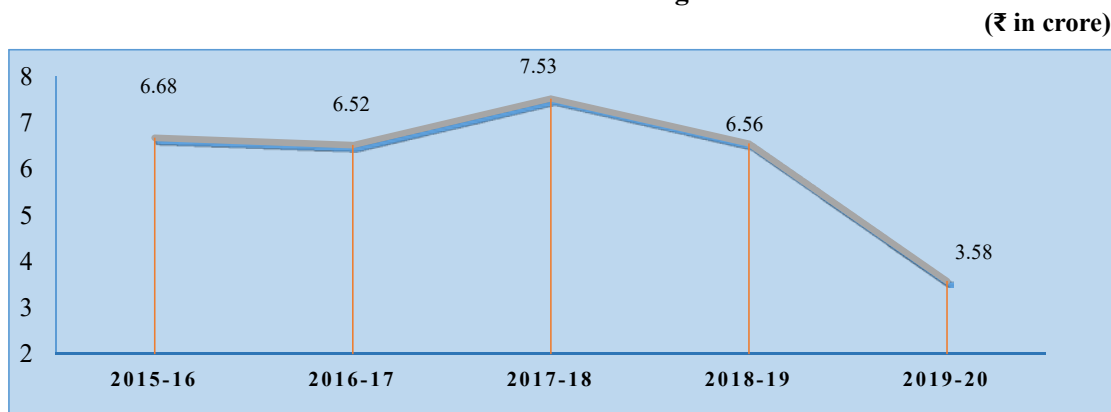
(₹ in crore)			
Name of SPSU	Latest finalised accounts	Paid-up capital	Accumulated losses
Arunachal Pradesh Industrial Development and Financial Corporation Limited	2017-18	4.15	20.42
Arunachal Pradesh Forest Corporation Limited	2005-06	4.50	4.58
Arunachal Pradesh Donyi Polo Hotel Corporation Limited	2018-19	0.99	2.29

Source: Information furnished by SPSUs

The accumulated losses of these SPSUs had eroded public wealth, which is a cause of serious concern.

The overall position of the net profits earned by working SPSUs during 2015-16 to 2019-20 as per their latest finalised accounts is depicted in **Chart 6.1**.

Chart 6.1: Profit of working SPSUs



Source: Compiled based on latest finalised accounts of SPSUs

During 2019-20, there was a decrease of around 45.43 *per cent* (₹2.98 crore) in the overall profits of the working SPSUs as compared to the previous year (2018-19).

¹⁰ ROE = (Net Profit after taxes *minus* preference dividend) ÷ Shareholders' Fund/ Equity; Where, Shareholders' Fund/ Equity = Paid up Share Capital *plus* Free Reserves and Surplus *minus* Accumulated Loss *minus* Deferred Revenue Expenditure

¹¹ Sl. No. 1, 3 and 6 of *Appendix 6.1*

During the year 2019-20, out of six working SPSUs, four SPSUs¹² earned an aggregate net profit of ₹ 6.07 crore, while the remaining two SPSUs¹³ incurred a net loss of ₹ 2.49 crore. The details of major contributors to profits and losses of working SPSUs are shown in **Table 6.11**.

Table 6.11: Major contributors to profits and losses of working SPSUs

(₹ in crore)

Name of SPSU	Latest finalised accounts	Profit (+)/ loss (-)
Arunachal Police Housing and Welfare Corporation Limited	2017-18	(+) 2.10
Arunachal Pradesh Forest Corporation Limited	2005-06	(+) 3.54
Arunachal Pradesh Donyi Polo Hotel Corporation Limited	2018-19	(-) 2.21

Source: Information furnished by SPSU

The State Government has not formulated (February 2021) any dividend policy to make it mandatory for SPSUs to pay a minimum return on the paid-up equity share capital contributed by the State Government. None of the four working SPSUs, which earned profit during 2019-20, had declared any dividend.

6.1.9 Rate of Investment on the basis of Present Value of Investment

The Rate of Real Return (RORR) measures the profitability and efficiency of an entity with which equity and similar non-interest bearing capital have been deployed, after adjusting them for their time value. To determine the RORR, the investment of State Government in the form of equity, interest free loans and revenue grants/ subsidies in the SPSUs for operational and management expenses *less* disinvestments (if any), has been considered and indexed to their Present Value (PV) and summated. The RORR is then calculated by dividing the 'Profit After Tax' (PAT) earned by SPSUs by the sum of the PV of the investment.

During 2019-20, out of six working SPSUs, four SPSUs earned profit (₹6.07 crore¹⁴), while the remaining two SPSUs incurred loss (₹2.49 crore) as per their latest finalised accounts (**Appendix-6.1**). Based on the historical value of investment, the Return for 2019-20 on State Government investment worked out to 8.84 *per cent* as against the RORR of 2.88 *per cent* on the investment at present value as shown in **Appendix-6.2**. This difference in percentage of return was on account of the adjustment made in the investment amount for the time value of money.

6.1.10 Impact of Audit Comments on Annual Accounts of SPSUs

During October 2019 to September 2020, two working companies¹⁵ had forwarded two audited accounts to the Principal Accountant General (PAG), Arunachal Pradesh. Non-Review Certificate (NRC) was issued in respect of the accounts of both the companies. The audit reports of statutory auditors appointed by C&AG indicate that the quality of maintenance of accounts needed to be improved substantially. The

¹² Including negligible profit (₹12,371) of one SPSU at Sl. No. A1 of **Appendix 6.1**

¹³ Sl. No. A2 and A6 of **Appendix 6.1**

¹⁴ As per latest finalised accounts of working SPSUs as on 30 September 2020 and included negligible profit (₹12,371) of SPSU at serial number A1 of **Appendix 6.1**

¹⁵ Arunachal Pradesh Donyi Polo Hotel Corporation, Limited, Arunachal Police Housing and Welfare Corporation Limited.

details of aggregate money value of the comments of statutory auditors and C&AG are shown in **Table 6.12**.

Table 6.12: Impact of audit comments on working Companies

(₹ in crore)

Sl. No.	Particulars	2017-18		2018-19		2019-20	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	-	-	1	4.66	-	-
2.	Increase in loss	-	-	-	-	-	-
3.	Non-disclosure of material facts	-	-	-	-	-	-
4.	Errors of classification	-	-	-	-	-	-

Source: As per latest finalised annual accounts of SPSUs

During the year, the statutory auditors had given qualified certificates for both the companies which commonly includes non-compliance to Accounting Standards, improper maintenance of records and accounting errors, *etc.* In addition, C&AG had also issued Non-Review Certificate (NRC) on accounts of two companies selected for supplementary audit. No adverse certificates or disclaimers were issued by the C&AG or statutory auditors on any of the accounts during the year.

