

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 2022, there were seven (*Appendix-6.1*) 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 2022

Type of SPSUs	Working SPSUs	Non-working SPSUs	Total
Government Companies ¹¹⁴	6	1	7

Source: Records of PAG, Arunachal Pradesh

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 years 2020-21 and 2021-22, no other SPSU was added to the audit jurisdiction of Principal Accountant General, Arunachal Pradesh. No existing SPSU was closed down during this period.

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.

During the last six years from 2016-17 to 2021-22, the investment of the State Government (capital and long-term loans) in seven SPSUs remained constant at ₹27.87 crore¹¹⁵ as per details given in **Table 6.2**.

**Table 6.2: Comparative figures of State's investment in SPSUs during
2016-17 and 2021-22**

Form of investment	(₹ in crore)	
	2016-17	2021-22
Equity Capital	19.49	19.49
Long term Loans	8.38	8.38
Total	27.87	27.87

Source: Investment figures as provided by the SPSUs

The State Government investment as on 31 March 2022 consisted of 69.93 *per cent* towards capital and 30.07 *per cent* in long-term loans.

During the year 2021-22, out of six working SPSUs, three SPSUs incurred losses (₹ 3.42 crore) while other three SPSUs earned profits (₹ 5.83 crore) as per their latest finalised accounts as on 30 September 2022 (*Appendix-6.1*). However, none of the three

¹¹⁴ Government Companies include other companies referred to in Section 139(5) and 139(7) of the Companies Act, 2013

¹¹⁵ Investment figures are provisional and as per the information provided by the SPSUs as none of the seven SPSUs had finalised their accounts for 2021-22 as of 30 September 2022

profit making SPSUs had declared any dividend. There was no recorded information about the existence of any 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 2021-22 worked out to 3.76 per cent (*Appendix-6.2*). The losses of three working SPSUs (₹ 34.53 crore) had completely eroded the State's investment in their paid-up capital (₹ 9.70 crore), as per their latest finalised accounts (September 2022) (*Appendix-6.1*).

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 2017 and 31 March 2022 has been shown in **Table 6.3**.

Table 6.3: Sector-wise investment in SPSUs as on 31 March 2022

Name of Sector	Government Companies	
	2016-17	2021-22
Finance	12.65	12.65
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	33.48

(₹ in crore)

(Source: Information received from SPSUs)

As 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. During this period, the thrust of investment was in Finance and Power sectors, which constituted around 38 per cent (Finance sector) and 37 per cent (Power sector¹¹⁶) of the total investment during 2016-17 to 2021-22.

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 2022 is shown in **Table 6.4**.

¹¹⁶ Power sector consists of only one PSU (Hydro Power Development Corporation of Arunachal Pradesh Limited)

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	36.25 ¹¹⁷	8.38	27.87
Guarantee	2.00	2.00 ¹¹⁸	-

(Source: As per the State Finance Accounts, 2021-22 and information furnished by SPSUs)

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 were pending reconciliation 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 of these differences, no significant progress was noticed in this regard.

Recommendation: *The Government/administrative departments 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 last four years ended 2021-22 have been summarised in **Table 6.5**.

Table 6.5: Details of budgetary support to SPSUs

(₹ in crore)

Sl. No.	Particulars	2018-19		2019-20		2020-21		2021-22	
		No.	Amount	No.	Amount	No.	Amount	No.	Amount
1.	Equity Capital Outgo from budget	-	-	-	-	-	-	-	-
2.	Loans given from budget	-	-	-	-	-	-	-	-
3.	Grants/subsidy* from budget	3	9.88	2	4.79	3	7.33	3	11.32
Total Outgo		3	9.88	2	4.79	3	7.33	3	11.32
4.	Guarantees issued	-	-	-	-	-	-	-	-
5.	Guarantee Commitment (Cumulative)	1	2.00	1	2.00	1	2.00	1	2.00

(Source: Information furnished by the SPSUs)

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

It can be noticed from the **Table 6.5** above, the State Government had not provided any equity capital or loans from the State budget to the SPSUs during the last four years.

¹¹⁷ 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, 2021-22.

¹¹⁸ pertained to Arunachal Pradesh Industrial Development and Financial Corporation Limited

Two SPSU¹¹⁹ had received grants continuously during the last four years while one SPSU¹²⁰ had received grants during the last two year. No guarantee was issued to any of the SPSUs during last four years (2018-2022). However, the guarantee commitment of State Government remained outstanding at ₹ 2.00 crore against one SPSU (Arunachal Pradesh Industrial Development and Financial Corporation Limited) during the last four years.

6.1.5 Accountability framework

The audit of the financial statements of a company in respect of financial years commencing on or after 01 April 2014 is governed by the Companies Act, 2013 (Act) while that in respect of financial years commenced earlier than 01 April 2014 continued to be governed by the Companies Act, 1956. The new Act 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 Comptroller & Auditor General of India (CAG), conduct the audit of the financial statements of a Government Company. In addition, CAG 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 (Section 99), the defaulting company and every officer of such company who is at default shall be punishable with fine which may extend up to ₹ 1.00 lakh and in the case

¹¹⁹ Arunachal Pradesh Forest Corporation Limited (2018-19: ₹ 2.51 crore, 2019-20: ₹ 2.61 crore, 2020-21: ₹ 2.66 crore and 2021-22: ₹ 2.78 crore) and Hydro Power Development Corporation of Arunachal Pradesh Limited (2018-19: ₹ 5.37 crore, 2019-20: ₹ 2.18 crore, 2020-21: ₹ 2.73 crore and 2021-22: ₹ 6.48 crore)

¹²⁰ Arunachal Police Housing & Welfare Corporation Limited (2018-19 & 2019-20: Nil, 2020-21: ₹ 1.94 crore and 2021-22: ₹ 2.06 crore)

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 avoid possibilities of any 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 2022.

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

Sl. No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
1.	Number of Working SPSUs	5	6	6	6	6
2.	Number of accounts finalised during the year	2	2	2	3	5
3.	Number of accounts in arrears	38	42	46	49	50
4.	Number of Working SPSUs with arrears in accounts	5	6	6	6	6
5.	Extent of arrears (numbers in years)	1 to 18	1 to 19	1 to 20	1 to 21	1 to 22

(Source: Information received from SPSUs)

As can be observed from the above **Table 6.6** above, the number of accounts in arrears have shown an increasing trend during the five-year period 2017-18 to 2021-22. Out of the total 50 accounts in arrears as on 30 September 2022, 38 Accounts (76 per cent) pertained to two SPSUs viz., Arunachal Pradesh Mineral Development and Trading Corporation Limited (22 Accounts) and Arunachal Pradesh Forest Corporation Limited (16 Accounts). The earliest Accounts pending finalisation since 2000-01 belong to Arunachal Pradesh Mineral Development and Trading Corporation Limited.

The Principal Accountant General, Arunachal Pradesh (PAG) has been regularly pursuing the issue with the Chief Secretary, Government of Arunachal Pradesh and the Administrative Departments concerned for liquidating the arrears of the 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/provided budgetary support aggregating to ₹ 31.32 crore by way of grants to three SPSUs 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 as on 30 September 2022

(₹ 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	Grants
1.	Arunachal Pradesh Forest Corporation Limited	2005-06	2006-07 to 2021-22	-	-	10.56
2.	Hydro Power Development Corporation of Arunachal Pradesh Limited	2013-14	2014-15 to 2021-22	-	-	16.76
3.	Arunachal Police Housing & Welfare Corporation Limited	2019-20	2020-21 & 2021-22	-	-	4.00
Total				-	-	31.32

(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 2021-22.

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

(₹ in crore)

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
Turnover ¹²¹	10.45	10.68	11.82	11.67	10.42
State GDP	22,474.77	25330.83	27884.65	29694.61	33,459.15
Percentage of Turnover to State GDP	0.05	0.04	0.04	0.04	0.03

(Source: Turnover- latest finalised accounts of SPSUs as of September of respective year; GSDP- Data furnished by Economic advisor)

As could be noticed from the **Table 6.8** above, the contribution of SPSEs to the GSDP of the State was negligible during the last five years (2017-18 to 2021-22). Further, the contribution of SPSEs-turnover to GSDP during 2017-22 decreased by 0.02 per cent from 0.05 per cent (2017-18) to 0.03 per cent mainly due to decreasing trend of SPSU-turnover after 2019-20 contrary to constant growth in State GDP during all the five years under reference.

¹²¹ Turnover of working SPSUs as per the latest finalised accounts as on 30 September of respective years

The major contributors to SPSEs-turnover during 2021-22 were Arunachal Pradesh Industrial Development and Financial Corporation Limited (₹ 6.30 crore), Arunachal Pradesh Police Housing and Welfare Corporation Limited (₹ 2.48 crore) (*Appendix-6.1*).

6.1.8.1 Key parameters

Some other key parameters of the performance of working SPSUs during last four years (2018-19 to 2021-22) as per their latest finalised accounts as on 30 September of the respective year are shown in **Table 6.9**.

Table 6.9: Key Parameters of working SPSUs

Particulars	2018-19	2019-20	2020-21	2021-22
Debt	30.04	30.04	30.22	30.56
Turnover ¹²²	10.68	11.82	11.67	10.42
Debt/ Turnover Ratio (DTR)	2.81:1	2.54:1	2.59:1	2.93:1
Interest Payments	0.76	0.76	0.98	0.98
Accumulated losses	(+)7.60	(+)7.51	(-) 0.37	(-)3.42

Debt-Turnover Ratio

A low 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.

As could be noticed from **Table 6.9** above, the DTR of working SPSUs during 2021-22 was at highest level (2.93:1) in last four years. This indicated difficult conditions faced by the SPSUs to manage the debts servicing and repayments.

SPSU Debt

It can be noticed from the **Table 6.9** above that the total borrowings of the working SPSUs have recorded a marginal increase of ₹ 0.52 crore during the last three year (upto 2021-22) from ₹ 30.04 crore (2019-20) to ₹ 30.56 crore (2021-22). Analysis revealed that more than 84.26 *per cent* (₹ 25.75 crore) of working SPSU-borrowings (₹ 30.56 crore) as on 31 March 2022 pertained to one SPSU (Arunachal Pradesh Industrial Development and Financial Corporation Limited), significant portion (₹ 25.17 crore) of which was payable against the Loans availed by this SPSU from the State Government. However, three out of six working SPSUs did not have any outstanding long term loans as on 31 March 2022. The only non-working SPSU (Parasuram Cement Limited) in the State had outstanding long term debts of ₹ 1.46 crore as per its latest finalised Accounts (2008-09).

6.1.8.2 Erosion of capital due to losses

The paid-up capital and accumulated loss of six working SPSUs as per their latest finalised accounts as on 30 September 2022 were ₹ 24.30 crore and ₹ 3.42 crore respectively (*Appendix-6.1*).

¹²² Turnover of working SPSUs as per the latest finalised accounts as on 30 September of the respective year

The Return on Equity¹²³ (RoE) in respect of two¹²⁴ out of six working SPSUs was 5.05 per cent while one SPSU¹²⁵ had negative RoE as per their latest finalised accounts. The accumulated losses (₹ 34.53 crore) of remaining three¹²⁶ working SPSUs had completely eroded their capital (₹ 9.70 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 said three SPSUs are shown in **Table 6.10**.

Table 6.10: SPSUs with primary erosion of paid-up capital as on 30 September 2022
(₹ in crore)

Name of SPSU	Latest finalised accounts	Paid-up capital	Accumulated losses
Arunachal Pradesh Industrial Development and Financial Corporation Limited	2020-21	4.20	25.39
Arunachal Pradesh Forest Corporation Limited	2005-06	4.50	4.58
Arunachal Pradesh Donyi Polo Hotel Corporation Limited	2020-21	1.00	4.56
Total:		9.70	34.53

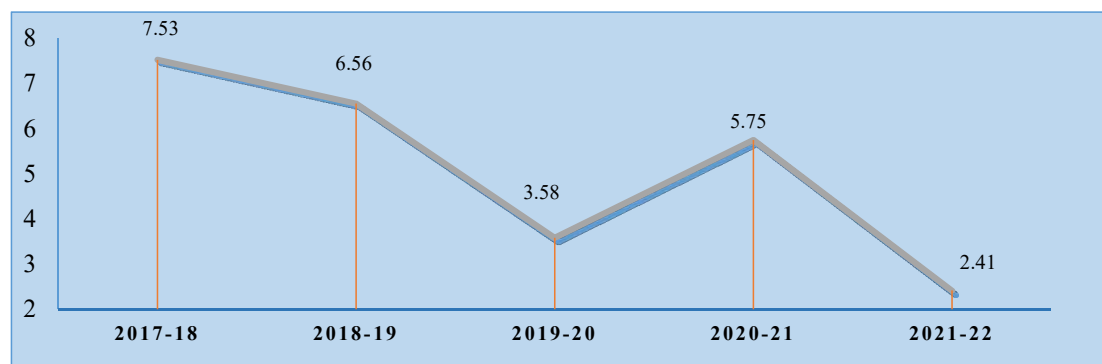
(Source: Latest finalised accounts of the SPSUs)

Accumulation of huge losses of these SPSUs had eroded public wealth, which is a cause of serious concern and the State Government needs to review the working of these SPSUs to either improve their profitability or close their operations.

The overall position of the net profits earned by working SPSUs during 2017-18 to 2021-22 as per their latest finalised accounts is depicted in **Chart 6.1**.

Chart 6.1: Profit of working SPSUs

(₹ in crore)



(Source: Compiled based on latest finalised accounts of SPSUs)

During 2021-22, there was a decrease of around 58 per cent (₹3.34 crore) in the overall profits of the working SPSUs as compared to the previous year (2020-21).

¹²³ ROE = (Net Profit after taxes *minus* preference dividend) ÷ Shareholders' Fund; where, Shareholders' Fund = Paid up Share Capital *plus* Free Reserves and Surplus *minus* Accumulated Loss *minus* Deferred Revenue Expenditure

¹²⁴ Serial number A4 and A5 of **Appendix 6.1**.

¹²⁵ Serial number A2 of **Appendix 6.1**.

¹²⁶ Sl. No. 1, 3 and 6 of **Appendix 6.1**

During the year 2021-22, out of six working SPSUs, three SPSUs earned an aggregate profit of ₹ 5.83 crore, while the remaining three SPSUs¹²⁷ incurred an overall loss of ₹ 3.42 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 Pradesh Forest Corporation Limited	2005-06	(+) 3.54
Arunachal Police Housing and Welfare Corporation Limited	2019-20	(+) 2.27
Arunachal Pradesh Industrial Development and Financial Corporation Limited	2020-21	(-) 2.05

(Source: Latest finalised Accounts of working SPSUs)

The State Government has not formulated 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 three working SPSUs, which earned profit (₹ 5.83 crore) during 2021-22, 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 2021-22, out of six working SPSUs, three SPSUs earned profit (₹ 5.83 crore), while the remaining three SPSUs incurred loss (₹ 3.42 crore) as per their latest finalised accounts (**Appendix-6.1**). Based on the historical value of investment, the Return for 2021-22 on State Government investment worked out to 3.76 *per cent* as against the RORR of 1.31 *per cent* on the investment at present value as shown in **Appendix-6.2**. The difference in the 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 2021 to September 2022, four working companies¹²⁸ had forwarded five audited accounts to the Principal Accountant General (PAG), Arunachal Pradesh. Non-Review Certificates (NRCs) were issued in respect of all five accounts of four companies. The audit reports of statutory auditors appointed by C&AG indicate that the quality of maintenance of accounts needed to be improved substantially.

¹²⁷ Sl. No. A1, A2 and A6 of **Appendix 6.1**

¹²⁸ Arunachal Pradesh Industrial Development and Financial Corporation Limited (two Accounts); Arunachal Police Housing and Welfare Corporation Limited (one Account), Hydro Power Development Corporation of Arunachal Pradesh Limited (one Account) and Donyi Polo Hotel Corporation Limited (one Account)

The 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	2019-20		2020-21		2021-22	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	4.66	1	3.71	-	-
2.	Increase in loss	-	-	1	0.61	-	-

(Source: As per latest finalised annual accounts of SPSUs)

During the 2021-22 year, the statutory auditors had given qualified certificates for all the five Accounts of four companies which commonly highlight instances of non-compliance to Accounting Standards, improper maintenance of records and accounting errors, *etc.* No adverse certificates or disclaimers were issued by the CAG or statutory auditors on any of the accounts during the year.

Compliance Audit Paragraph

Arunachal Police Housing and Welfare Corporation Ltd (APH&WCL)

6.2: Non-Compliance with CSR related statutory provisions

APH&WCL failed to scrupulously comply with the statutory provisions on Corporate Social Responsibility activities as specified in Schedule VII of the Companies Act, 2013 despite a lapse of over six years.

Corporate Social Responsibility (CSR) is a Company's commitment to operate in an economically, socially and environmentally sustainable manner. CSR is governed by provisions of the Companies Act, 2013 (Act) and Companies (Corporate Social Responsibility Policy) Rules, 2014 (Rules).

According to Section 135 of the Act, companies with annual turnover of ₹ 1,000.00 crore or more OR net worth of ₹ 500.00 crore or more OR profit (before tax) of ₹ 5.00 crore or more during any financial year shall constitute a CSR Committee of the Board of Directors (Board) consisting of three or more Directors. The Board is to ensure that the company spends in every financial year at least two *per cent* of the average net profits made during the three immediately preceding financial years, in pursuance of its CSR Policy. If the company fails to spend the minimum prescribed amount, the Board shall, in its Report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the such amount.

APH&WCL had finalised its Annual Accounts upto 2018-19 as on 30 September 2022 and had been a profit earning entity during last five years (2014-15 to 2018-19). Scrutiny of records of APH&WCL revealed that the net profits of APH&WCL earned during the years 2014-15 and 2015-16 exceeded ₹ 5.00 crore as detailed in the **Table 6.13**.

Table 6.13: Details of profits and CSR spending of APH&WCL during five years

(₹ in crore)						
FY	Net Worth	Turnover	Net Profit	Average net profit ¹²⁹	Two per cent on average net profit	Amount spent on CSR activities
2014-15	22.03	6.54	5.26	4.00	0.08	0
2015-16	28.62	7.80	6.31	4.79	0.10	0
2016-17	33.08	6.08	4.21	-	-	0
2017-18	35.13	3.82	2.10	-	-	0
2018-19	29.14	5.75	3.71	-	-	0.10
Total				8.79	0.18	0.10

(Source: Departmental records)

Audit observed the following inadequacies in implementation of the CSR activities:

- (i) As per Rule 6 of the Companies (CSR Policy) Rules, 2014, the CSR Policy of a company covered under the Rules must *inter-alia* include a list of CSR

¹²⁹ Average of three preceding years

projects/programs the company plans to undertake duly specifying the modalities of execution of such projects or programs, implementation schedules and monitoring process for the same. Rule 8 (1) *ibid* further provides that the Board's Report of such company for all the financial years shall include an Annual Report on CSR detailing all the particulars specified under the Rules. Rule 9 *ibid* further provide that the Board, after taking into account the recommendations of CSR Committee, shall approve CSR Policy of the company and disclose the contents of such policy in its Report and also display the same on company's website.

In was, however, noticed that APH&WCL had neither formulated any CSR Policy for execution and monitoring of CSR activities nor prepared any Annual Report on CSR despite spending (2018-19) ₹ 0.10 crore on CSR activities. Further, APH&WCL did not make any such disclosures on company's website, as required under the Rules *ibid*.

- (ii) As can be noticed from the **Table 6.13**, the net profits of APH&WCL during 2014-15 (₹ 5.26 crore) and 2015-16 (₹ 6.31 crore) exceeded the criteria (₹ 5.00 crore) prescribed for CSR related activities. Accordingly, APH&WCL was required to spend minimum amount of ₹ 0.18 crore on CSR activities during the years 2014-15 and 2015-16. However, the Board of APH&WCL in its Report for 2014-15 and 2015-16 had made incorrect disclosure regarding non-applicability of CSR related provisions on the Company during these years. Further, as against the minimum amount (₹ 0.18 crore) required to be spent on CSR for the years 2014-15 and 2015-16, APH&WCL spent ₹ 0.10 crore on CSR related activities during 2018-19 leaving a shortfall of ₹ 0.08 crore in prescribed CSR spending. Also, the particulars of the CSR spending (₹ 0.10 crore) were not included in its Annual Report.

In response, APH&WCL stated (October 2021) that they had handed over ₹ 0.10 crore to 'Arunachal Police Personnel Welfare CSR fund' for construction of Walking Trail at 1st AAP Bn Complex, Chimpu out of the profits accumulated during 2014-15 and 2015-16 as per recommendation of CSR Committee.

The reply did not address the shortfall of ₹ 0.08 crore (44 *per cent*) in its CSR spending for the years 2014-15 and 2015-16 as well as non-compliance to the statutory provisions of the Act and Rules on CSR related issues as discussed above.

Recommendations: *The State Government suitably instruct APH&WCL to strictly comply with the statutory provisions on CSR related issues as per the Companies Act, 2013 and the Companies (Corporate Social Responsibility Policy) Rules, 2014.*