



CHAPTER-V
Functioning of State Public
Sector Enterprises

Chapter V: Functioning of State Public Sector Enterprises

SUMMARY OF FINANCIAL PERFORMANCE OF STATE PUBLIC ENTERPRISES

5.1 Introduction

This Chapter presents the financial performance of the ‘Government Companies’, ‘Statutory Corporations’ and ‘Government Controlled Other Companies’. The term State Public Sector Enterprises (SPSEs) encompasses the State Government owned companies set up under the Companies Act, 2013 and Statutory Corporations setup 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 Comptroller and Auditor General of India (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 the financial audit of Companies and gives directions on the manner in which the accounts are to be audited. In addition, the CAG has right to conduct a supplementary audit. The statutes governing some Statutory Corporations require their accounts to be audited only by the CAG.

5.3 Working and Non-working SPSEs

As on 31 March 2021, there were seven SPSEs (all Government Companies including six¹⁹ working and one²⁰ non-working) under the audit jurisdiction of the CAG in Arunachal Pradesh as detailed in **Table 5.1**.

¹⁹ (i) Arunachal Pradesh Industrial Development and Financial Corporation Limited, (ii) Arunachal Pradesh Mineral Development and Trading Corporation Limited (iii) Arunachal Pradesh Forest Corporation Limited (iv) Arunachal Police Housing and Welfare Corporation Limited (v) Hydro Power Development Corporation of Arunachal Pradesh Limited (vi) Arunachal Pradesh Donyi Polo Hotel Corporation Limited

²⁰ Parasuram Cement Limited

Table 5.1: Details of working and non-working SPSEs

Type of SPSEs	Working SPSEs	Non-working SPSEs ²¹	Total
Government Companies	6	1	7

Source: As per SPSEs Records

Table 5.2 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

(₹ in crore)

Particulars	2017-18	2018-19	2019-20	2020-21
SPSEs-Turnover ²²	10.45	10.68	11.82	11.67
GSDP	2,2503.33	24,510.84	2,7377.06	28,721.36
Percentage of Turnover to GSDP	0.05	0.04	0.04	0.04

Source: As per latest finalised accounts of SPSEs, GSDP-Directorate of Economics and Statistics, GoAP

As could be noticed from the **Table** above, the contribution of SPSEs to the GSDP of the State was negligible during the last four years (2017-18 to 2020-21). The contribution of SPSEs-turnover to GSDP decreased by 0.01 *per cent* from 0.05 *per cent* (2017-18) to 0.04 *per cent* (2018-19) and thereafter it has remained at 0.04 *per cent* for the last three years upto 2020-21. The major contributors to SPSEs-turnover during 2020-21 were Arunachal Pradesh Industrial Development and Financial Corporation Limited (₹6.54 crore), Arunachal Pradesh Police Housing and Welfare Corporation Limited (₹2.93 crore) and Arunachal Pradesh Donyi Polo Hotel Corporation Limited (₹1.47 crore) (**Appendix 5.1**).

5.4 Investment in SPSEs

State Government's investment in SPSEs

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

Table 5.3: Equity and Loans outstanding²³ as per the State Finance Accounts vis-à-vis records of SPSEs for last three years

(₹ in crore)

Year	Amount as per Finance Accounts			Amount as per records of SPSEs			Difference		
	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21
Equity	9.00	9.00	9.00	19.49	19.49	19.49	10.49	10.49	10.49
Loans	36.25	36.25 ²⁴	36.25	8.38	8.38	8.38	27.87	27.87	27.87

Source: As per Finance Accounts of the respective years and as per records of SPSEs

²¹ Non-working SPSEs are those which have ceased to carry on their operations

²² As per the latest finalised accounts of working SPSEs as on 30 September of respective year

²³ Figures as per SPSEs' records are provisional and as provided by the SPSEs as none of the SPSEs had finalised their current accounts (2020-21)

²⁴ Represents Loan provided to 'public sector and other undertakings' in four sectors namely, Agriculture and Allied (₹20.00 crore); Power (₹10.00 crore); Non-ferrous Mining (₹0.15 crore) and Industrial Financing (₹6.10 crore). SPSE-wise details of Loans not available in the State Finance Accounts

It can be noticed from the **Table** above that, as on 31 March 2021, as per Finance Accounts and the records of SPSEs, there was no change in Equity investment and Loan given by GoAP during 2018- 19 to 2020-21. However, there were differences in the figures of Equity (₹10.49 crore) and Loan (₹27.87 crore) as per the two sets of records, which were pending reconciliation for more than 10 years.

Though the Principal Secretary, Finance Department, GoAP as well as the Management of the SPSEs concerned were appraised regularly about the differences impressing upon the need for early reconciliation, no significant progress has been noticed in this regard.

Hence, 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 SPSEs in addition to updating the Finance Accounts.

5.5 Budgetary Assistance to SPSEs

The State Government provides financial support to SPSEs in various forms through the annual budgetary allocations. The summarised details of budgetary support towards Equity, Loans and Grants/ Subsidies in respect of SPSEs during the 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 to end of the year	-	Nil	-	Nil	-	Nil
Loans given to end of the year	-	Nil	-	Nil	-	Nil
Grants/ subsidy from budget	3	9.88	2	4.79	2	4.79
Total Outgo		9.88		4.79		4.79

Source: As per SPSEs records

It can be noticed from the **Table** above that the budgetary support provided by the State Government to SPSEs during 2018-19 was the highest in last three years. During the three years from 2018-19 to 2020-21, the State Government had not provided any budgetary support to SPSEs in the form of Equity or Loans. During 2020-21, the recipients of budgetary assistance in the form of Grants/ Subsidy were Arunachal Police Housing and Welfare Corporation Limited (₹2.06 crore) and Hydro Power Development Corporation of Arunachal Pradesh Limited (₹2.73 crore).

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 the 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	4	3
Aggregate profit earned (₹ in crore)	8.18	6.07 ²⁵	7.68
Dividend paid	-	-	-

Source: As per latest finalised accounts of SPSEs

As can be noticed from the **Table** above, during the last three years, three to four working SPSEs earned profits ranging from ₹8.18 crore (2018-19) to ₹7.68 crore (2020-21). However, none of these SPSEs had declared any dividend during the past three years. There was no recorded information about the existence of any specific policy of the State Government regarding the payment of minimum dividend by the SPSEs.

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	(₹ in crore)		
	2018-19	2019-20	2020-21
Total Loans outstanding (State Government and Others)	31.50	31.50	31.68
Turnover	10.68	11.82	11.67
Interest on Total Loans ²⁶	0.76	0.76	0.98

Source: As per latest finalised accounts of SPSEs and Finances Accounts of respective years

It can be noticed from the **Table** above that the total borrowings of the SPSEs remained almost static during the last three years with negligible increase of ₹0.18 crore during 2020-21. Analysis revealed that more than 80 per cent (₹25.41 crore) of SPSE borrowings (₹31.68 crore) as on 31 March 2021 pertained to one SPSE (Arunachal Pradesh Industrial Development and Financial Corporation Limited), significant portion (₹24.83 crore) of which was payable against the Loans availed by this SPSE from the State Government. However, three²⁷ out of the six SPSEs (all working) did not have any outstanding long term loans as on 31 March 2021.

5.8 Operating Efficiency of SPSEs

Key parameters

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

²⁵ Including negligible profits of ₹12,371.00 earned by Arunachal Pradesh Industrial Development and Financial Corporation Limited

²⁶ Interest figures as available in the latest finalized accounts of respective SPSEs

²⁷ Serial no. 4, 5 and 6 of **Appendix 5.1**

Table 5.7: Key parameters of operational efficiency of working SPSEs

(₹ in crore)

Year	No. of working SPSEs	Paid up capital	Overall accumulated profits (+)/ losses(-)	Overall net profits/ losses(-)	EBIT
2018-19	6	16.79	(+) 7.60	6.56	7.32
2019-20	6	16.79	(+) 7.51	3.58	4.34
2020-21	6	16.85	(-) 0.37	5.75	6.73

Source: As per SPSEs records

From the **Table** above, it can be seen that over the last three years, the accumulated profits of SPSEs during 2018-19 (₹7.60 crore) have been completely wiped off and turned into losses of ₹0.37 crore during 2020-21. Further, during the last three years (2018-19 to 2020- 21), there was an overall reduction of ₹0.81 crore and ₹0.59 crore in the net profits and Earning Before Interest and Tax (EBIT) of SPSEs respectively. This indicated an overall deterioration in the operational efficiency of the working SPSEs.

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 the capital employed. ROCE is an important metric for long term lenders and it is calculated by dividing a company's EBIT by the Capital Employed.

During 2020-21, the overall capital employed in respect of the six working SPSEs as per their latest finalised accounts was ₹46.70 crore. Further, only four²⁸ SPSEs, out of six working SPSEs, had positive ROCE (**Appendix 5.1**).

In comparison, however, the overall capital employed in respect of working SPSEs during the previous two years (2018-19 and 2019-20) was ₹54.43 crore and ₹54.34 crore respectively.

5.10 Return on Equity (ROE)

Return on Equity²⁹ (ROE) is a measure of financial performance of companies calculated by dividing the 'net income earned' (Returns) by the Equity (net worth). During 2020-21, three out of six working SPSEs earned profits (₹7.68 crore) while remaining three SPSEs incurred losses (₹1.93 crore) as per their latest finalised accounts as on 30 September 2021 as detailed in **Appendix 5.1**. Out of six SPSEs, ROE of two SPSEs was 11.61 *per cent* while the ROE of one SPSE was negative. ROE in respect of remaining three SPSEs was not workable due to a negative net worth. The details of ROE in respect of the working SPSEs as per their latest finalised accounts as on 30 September 2021 are shown in **Table 5.8**.

²⁸ Serial no. A1, A3, A4 and A5 of **Appendix 5.1**

²⁹ **Return on Equity** = (Net Profit after Tax and preference Dividend ÷ Equity) x 100; where **Equity** = Paid up Capital *plus* Free Reserves and Accumulated profits *minus* Accumulated Losses and Deferred Revenue Expenditure

Table 5.8: Details of ROE of working SPSEs during 2020-21

(₹ in crore)				
SPSE	Year of Accounts	Net worth	Returns	ROE (In per cent)
Positive ROE				
Arunachal Police Housing and Welfare Corporation Limited	2018-19	29.13	3.71	12.74
Hydro Power Development Corporation of Arunachal Pradesh Limited	2012-13	6.50	0.43	6.62
Overall		35.63	4.14	11.61
Negative ROE				
Arunachal Pradesh Mineral Development and Trading Corporation Limited	1999-2000	0.32	0.28	(-)87.50

Source: As per latest finalised accounts of SPSEs

5.11 SPSEs Incurring Losses

The position of aggregate losses incurred by the 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 losses of working SPSEs

Year	2018-19	2019-20	2020-21
Total No. of working SPSEs	6	6	6
Number of loss making working SPSEs	2	2	3
Aggregate losses (₹ in crore)	(-)1.62	(-)2.49	(-)1.93

The details of the losses of working SPSEs incurred during 2020-21 are given in **Table 5.10**.

Table 5.10: Details of loss making working SPSEs during 2020-21

(₹ in crore)			
Sl. No.	Name of the Company	Latest finalised accounts	Net Loss
1.	Arunachal Pradesh Donyi Polo Hotel Corporation Limited	2019-20	1.04
2.	Arunachal Pradesh Industrial Development and Financial Corporation Limited	2018-19	0.61
3.	Arunachal Pradesh Mineral Development and Trading Corporation Limited	1999-2000	0.28
Total			1.93

Source: As per latest finalised accounts of SPSEs

5.12 SPSEs having Complete Erosion of Capital

The aggregate paid-up capital and overall accumulated losses of six working SPSEs as per their latest finalised accounts as on 30 September 2021 were ₹16.85 crore and ₹0.37 crore respectively. Analysis of accumulated losses of these SPSEs revealed that the accumulated losses of three working SPSEs (₹29.17 crore) had completely eroded their paid up capital (₹9.70 crore) as detailed in **Table 5.11**.

Table 5.11: Erosion of Capital of working SPSEs

(₹ in crore)				
Sl. No.	Company/ Corporation	Latest finalised Accounts	Paid up capital	Accumulated losses
1.	Arunachal Pradesh Industrial Development and Financial Corporation Limited	2018-19	4.20	21.13
2.	Arunachal Pradesh Forest Corporation Limited	2005-06	4.50	4.58
3.	Arunachal Pradesh Donyi Polo Hotel Corporation Limited	2019-20	1.00	3.46
Total			9.70	29.17

Source: As per latest finalised accounts of SPSEs

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

OVERSIGHT ROLE OF COMPTROLLER & AUDITOR GENERAL OF INDIA

5.13 Audit of State Public Sector Enterprises (SPSEs)

Comptroller and 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. Further, the CAG also has a right to conduct supplementary audit and supplement or comment upon the Audit Report of the statutory auditor.

5.14 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 these SPSEs are appointed by the CAG.

5.15 Submission of Accounts by SPSEs

Need for timely submission

Section 96 (1) of the Companies Act, 2013 provides that the financial statement of the companies is to be finalised within six months after the end of the financial year *i.e.* by 30 September of the next financial year.

Further, under Section 394 of the Act, 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. 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 provisions, there was pendency in submitting the annual accounts by the SPSEs as on 30 September 2021, as discussed below.

5.16 Timeliness in Preparation of Accounts by SPSEs

The details relating to finalisation of accounts by six working SPSEs during the last three years as of 30 September of respective year are given in **Table-5.12**.

Table 5.12: - Position relating to finalisation of accounts of working SPSEs

Sl. No.	Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
1.	Number of Working SPSEs/ other companies	5	5	6	6	6
2.	Number of accounts finalised during the year	3	2	2	2	3
3.	Number of accounts in arrears	35	38	42	46	49
4.	Number of working SPSEs with arrears in accounts	5	5	6	6	6
5.	Extent of arrears (numbers in years)	1 to 17	1 to 18	1 to 19	1 to 20	1 to 21

Source: As per latest finalised accounts of SPSEs

As can be observed from the above **Table**, the number of accounts in arrears has shown an increasing trend during the last five-year period from 2016-17 to 2020-21. Out of the total 49 accounts in arrears as on 31 March 2021, 36 Accounts pertained to two SPSEs viz., Arunachal Pradesh Mineral Development and Trading Corporation Limited (21 Accounts) and Arunachal Pradesh Forest Corporation Limited (15 Accounts). The earliest Accounts in arrears was since 2000-01, which related to Arunachal Pradesh Mineral Development and Trading Corporation Limited.

The Administrative Departments, which have the responsibility to oversee the activities of the SPSEs, have to ensure that the SPSEs finalise and adopt their accounts within the stipulated period. In view of the position of arrears of accounts indicated above, the actual contribution of SPSEs 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 Principal Accountant General, Arunachal Pradesh has been regularly pursuing this issue with the Chief Secretary, GoAP and the Administrative Departments concerned for liquidating the arrears in accounts of SPSEs.

To expedite the finalisation of the annual accounts in arrears, the Hon'ble Chairman, Committee on Public Undertakings (CoPU) on the request of Principal Accountant General, Arunachal Pradesh convened a meeting on 02 December 2021 with the heads of all SPSEs and Finance Department. All the six working SPSEs assured that they would make efforts to clear the arrears in accounts. In pursuance of the above commitment, Arunachal Police Housing & Welfare Corporation Limited and Arunachal Pradesh Industrial Development & Financial Corporation Limited submitted the annual accounts for the year ended 31 March 2020 on 19 January 2022 and 25 February 2022 respectively.

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.

5.17 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 the accounts of the Government Companies and submit their reports thereon in accordance with the Section 143 of the Companies Act 2013.

The CAG plays an oversight role by monitoring the performance of 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.

5.18 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 an 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 the CAG by carrying out a supplementary audit. Based on such review, significant audit observations, if any, are reported under Section 143 (6) of the Companies Act 2013 to be placed before the AGM.

5.19 Result of CAG's Oversight Role

During the year 2020-21, three working companies had forwarded three audited accounts to the Principal Accountant General, Arunachal Pradesh. None of the three audited accounts were selected for supplementary audit during the year and Non-Review Certificates (NRC) were issued against these accounts.

5.20 Conclusion


- As on 31 March 2021, the State of Arunachal Pradesh had total seven SPSEs (all Government companies), which included one non-working SPSE. As on 31 March 2021, there were differences in the figures of State's investment in Equity (₹10.49 crore) and Loan (₹27.87 crore) of SPSEs as per State Finance Accounts *vis-à-vis* records of SPSEs.
- During 2020-21 the State Government has provided budgetary support of ₹4.79 crore to two SPSEs in the form of Grants/ Subsidy. The recipients of the budgetary assistance were Arunachal Police Housing and Welfare Corporation Limited (₹2.06 crore) and Hydro Power Development Corporation of Arunachal Pradesh Limited (₹2.73 crore). The State Government did not provide equity or loan assistance to any SPSE during 2018-20.
- During 2020-21, out of six working SPSEs, three SPSEs earned profits (₹7.68 crore) as per their latest finalised accounts. Further, the accumulated losses (₹29.17 crore) of three working SPSEs had completely eroded their paid-up capital (₹9.70 crore).
- As on 30 September 2021, all six working SPSEs had total arrears of 49 Accounts ranging from 1 to 21 Accounts. The highest pendency of accounts pertained to Arunachal Pradesh Mineral Development and Trading Corporation Limited (21 Accounts) and Arunachal Pradesh Forest Corporation Limited (15 Accounts).

5.21 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 three out of six working SPSEs had eroded public wealth, which is a cause of concern and the State Government needs to review the working of these SPSEs to either improve their profitability or close their operations.*


- *The Administrative Departments, which have the responsibility to oversee the activities of the SPSEs, have to ensure that the SPSEs finalise and adopt their accounts within the stipulated period. In view of the position of arrears of accounts indicated above, the actual contribution of SPSEs 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.*

Itanagar
The 25 April 2022


(CHERRING ANGRUP BODH)
Principal Accountant General,
Arunachal Pradesh

Countersigned

New Delhi
The 26 April 2022


(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

