

## Executive Summary

### About this Report

This report presents the financial position and performance of the State Public Sector Enterprises (SPSEs). Besides the financial position and performance of the SPSEs, the report also covers other significant aspects *viz.* Oversight role of CAG, Corporate Governance in SPSEs and Implementation of Indian Accounting Standards (Ind AS) in Government Companies.

### Audit coverage

Financial position and performance of all the 45 SPSEs (38 Government Companies, four Government Controlled other Companies and three Statutory Corporations) in the State of Rajasthan under the audit jurisdiction of the CAG during 2020-21 have been analysed. Further, with a view to assess the accountability, transparency in business and enhanced confidence of the stakeholders, adherence to the principles of the Corporate Governance in these SPSEs was also reviewed. Impact of adoption of Ind AS was also assessed in 10 Government Companies (including one Government Company which voluntarily adopted the Ind AS).

### What have we found and what do we recommend?

#### *Financial performance of State Public Sector Enterprises*

During the year 2020-21, the total investment (₹ 1,61,988.60 crore) in 41 SPSEs (except four Government Controlled other Companies) increased by ₹ 4,400.01 crore as compared to the year 2019-20. Major part of the total investment pertained to the Power Sector SPSEs, as 92.51 *per cent* (₹ 1,49,853.29 crore) of the total investment as on 31 March 2021 was infused in the Power Sector SPSEs.

Equity investment in these 41 SPSEs registered a net increase of ₹ 403.49 crore during 2020-21. The State Government infused entire equity in the Power Sector SPSEs through issue of shares.

Till 31 March 2021, the total capital investment in four Government Controlled other Companies was ₹ 600.01 crore which was invested equally by the State Government and by the Municipal Corporations.

Out of 41 SPSEs, two SPSEs<sup>2</sup> and four SPSEs<sup>3</sup> defaulted in servicing their debts during 2020-21 which were borrowed from banks/financial institutions and Government of Rajasthan respectively.

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2 Rajasthan Rajya Vidyut Utpadan Nigam Limited and Giral Lignite Power Limited.

3 Rajasthan Small Industries Corporation Limited, Jaipur Metro Rail Corporation Limited, Rajasthan State Handloom Development Corporation Limited and Rajasthan Tourism Development Corporation Limited.

Out of 41 SPSEs, 25 SPSEs earned profits, whereas 13 SPSEs incurred losses during the year 2020-21. Remaining three SPSEs had zero/ negligible profit/loss during the year. The profit earned (₹ 1,232.32 crore) by the profit making SPSEs in 2020-21 decreased significantly as compared to the profit earned (₹ 3,843.10 crore) in 2019-20 by the profit making SPSEs. Further, the losses incurred (₹ 4,046.23 crore) by loss making SPSEs increased significantly as compared to the losses incurred (₹ 489.54 crore) in 2019-20 by the loss making SPSEs. The reduction in profits and increase in losses was mainly due to discontinuation of subsidy to the State DISCOMs under Ujwal DISCOM Assurance Yojana (UDAY).

As per latest finalised accounts of these 41 SPSEs, heavy accumulated losses (₹ 97,441.97 crore) as against the capital investment (₹ 51,787.33 crore) of the SPSEs resulted in negative net worth (₹ 45714.26 crore<sup>4</sup>). Further, net worth of 15 SPSEs had eroded fully as the capital investment and accumulated losses of these SPSEs were ₹ 33,754.35 crore and ₹ 96,491.58 crore respectively.

The Present Value (PV) of State Government investment in 32 SPSEs<sup>5</sup> without considering subsidy and with subsidy received under UDAY worked out to ₹ 99,385.89 crore and ₹ 1,58,362.98 crore respectively whereas the negative RORR worked out to 2.52 per cent and 1.58 per cent respectively.

### ***Oversight Role of CAG***

Out of 42 Government Companies (including four Government Controlled other Companies), financial statements of 25 Government companies for the year 2020-21 were received on or before 30 November 2021 whereas financial statements of 17 Government companies were in arrear due to different reasons. Of these 25 Government Companies, supplementary audit of the financial statements of 18 Government companies was undertaken.

Besides, financial statements of one Statutory Corporation were also received and supplementary audit of the same was also undertaken.

As a result of supplementary audit, two Government Companies<sup>6</sup> (including one Government controlled other Company) amended their financial statements for the year 2019-20 before laying the same in the Annual General Meeting.

Irregularities and deficiencies in the financial reports or in the reporting process observed during supplementary audit, which were not material, were communicated to the Management of 17 SPSEs through 'Management Letter' for taking corrective action.

### ***Corporate Governance***

Corporate Governance was reviewed in all the Government Companies under administrative control of various Ministries except Rajasthan State Agro Industries Corporation Limited which is under liquidation. Provisions of the Companies Act, 2013 regarding Corporate Governance, though mandatory, were not being complied with by some of the Government Companies. During

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4 After deducting deferred revenue expenditure of ₹ 59.62 crore.

5 SPSEs in which the State Government infused funds in the form of equity, loans and grants/ subsidies.

6 Rajasthan Medical Services Corporation Limited and Kota Smart City Limited.

the year the following significant departures from the prescribed guidelines were noticed:

- Representation of Independent Directors in two Government Companies was less than the required numbers whereas 18 Government Companies did not have Independent Directors on their Board.
- One Government Company<sup>7</sup> did not have woman director throughout the year 2020-21 whereas two Government Companies<sup>8</sup> did not appoint new women directors after expiry of tenure of previous women directors.
- 100 *per cent* presence of Independent Directors was only in 63 *per cent* of the Board Meetings. Further, the Independent Directors of one Government Company did not give importance to the role assigned to them on behalf of the stakeholders by not attending the board meetings. Independent Directors of Jaipur Metro Rail Corporation Limited did not attend the general meeting. Independent Directors of five Government Companies did not conduct separate meetings during 2020-21.
- 18 Government Companies failed to conduct four BoD meetings whereas six Government Companies held only one BoD meeting during 2020. Further in 15 Government Companies, the intervening period of two consecutive BoD meetings ranged between 127 days and 385 days as against the prescribed time limit.
- Two Government Companies<sup>9</sup> did not constitute Audit Committee. Further, Independent Directors in Audit Committees of 19 Government Companies were not found in majority.

#### ***Implementation of Indian Accounting Standards in SPSEs***

Ministry of Corporate Affairs, Government of India notified (February 2015) Indian Accounting Standards (Ind AS), converging the hitherto applicable Indian Generally Accepted Accounting Principles (IGAAP) with global standards, namely, International Financial Reporting Standards (IFRS). The Ind AS are mandatorily to be adopted by prescribed class of Companies *w.e.f.* 1 April 2016 in a phased manner and as per the roadmap laid down for implementation of Ind AS.

Adoption of Ind AS resulted in changes in the financial reporting framework. Audit analysis of selected 10 Government Companies indicated that adoption of Ind AS by the Government Companies impacted Profit after Tax, revenue, total assets and net worth. The impact was noticed across the financial statements of all the selected 10 Government Companies.

Adoption of Ind AS had negative cumulative impact on profit after tax (₹ 199.62 crore), revenue (₹ 94.99 crore), total assets (₹ 569.68 crore) and net worth (₹ 434.64 crore) as disclosed in the financial statements of the Government Companies. The cumulative impact of adoption of Ind AS did not include the

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7 Rajasthan State Gas Limited.

8 Udaipur Smart City Limited and Rajasthan State Road Development & Construction Corporation Limited.

9 Rajasthan State Handloom Development Corporation Limited and Kota Smart City Limited.

impact on total assets of two Government Companies (Rajasthan State Gas Limited and Rajasthan State Ganganagar Sugar Mills Limited) as these companies did not disclose the impact in their Ind AS compliant financial statements.

Major changes carried out pertained to fair valuation of assets/liabilities as against historical cost valuation, changes in method of recognition of revenues, accounting of deferred tax, impairment of financial assets, adjustment of prior period items, amortization of intangible asset, adjustment in capital work in progress, derecognition of proposed dividend and adjustment of depreciation for spares and major inspection.

***Recommendation***

**Government of Rajasthan may ensure compliance to the provisions of Companies Act, 2013 so as to achieve the objectives of Corporate Governance in SPSEs.**