

# Overview



## Overview

This Report deals with the financial performance of Government Companies and Statutory Corporations of the Government of Punjab for the period ended March 2023. This Report also contains one Subject Specific Compliance Audit paragraph *viz.* ‘Integrated Power Development Scheme in Punjab State Power Corporation Limited’ and eight Audit paragraphs arising out of compliance audit of State Public Sector Enterprises (SPSEs) involving financial implications of ₹ 250.32 crore.

### Chapter-I: Introduction

This chapter contains the authority for audit, accountability framework, role of the Government and the Legislature, investment by the State Government in SPSEs, submission of accounts by SPSEs, response of Auditee/Government to draft audit observations and follow-up action on Audit Reports.

*(Paragraphs 1.2 to 1.8)*

### Chapter-II: Summary of Financial Performance of State Public Sector Enterprises

The State of Punjab had 49 SPSEs (including five Power Sector SPSEs) as on 31 March 2023. These SPSEs, incorporated during the period from 1952-53 to 2021-22, included 42 Government Companies, three Government Controlled Other Companies (GCOCs) and four Statutory Corporations. The Government Companies included 16 inactive Companies and 12 subsidiaries of Government Companies.

*(Paragraph 2.1)*

The SPSEs registered an annual turnover of ₹ 73,542.33 crore, which was 10.92 *per cent* of Gross State Domestic Product (GSDP) of Punjab for the year 2022-23. Against the compounded annual growth of 7.05 *per cent* of the GSDP, the turnover of the SPSEs recorded compounded annual growth of 0.21 *per cent* during the last five years. There is decrease in share of turnover of the SPSEs to the GSDP, in percentage terms, from 14.23 *per cent* in 2018-19 to 10.92 *per cent* in 2022-23. During the last five years (2018-23), percentage of turnover of power sector SPSEs to GSDP of Punjab reduced from 6.25 *per cent* to 5.81 *per cent*. During the same period in respect of Agriculture & Allied Sector SPSEs, percentage of turnover to GSDP reduced from 7.75 *per cent* to 4.94 *per cent*.

*(Paragraph 2.1)*

As on 31 March 2023, the total investment (equity and long-term loans) in 33 working SPSEs was ₹ 68,938.97 crore. The investment consisted of 34.04 *per cent* towards equity and 65.96 *per cent* in long-term loans. During the year 2022-23, there was increase in equity of Punjab Scheduled Castes Land Development and Finance Corporation by ₹ 2.05 crore and ₹ 0.01 crore in one newly formed SPSE (Punjab Rural Water Utility) due to infusion of equity by the State Government.

*(Paragraph 2.2.1)*

Number of SPSEs which earned profit during 2020-21 was 13 which reduced to 12 in 2021-22 and to 11 in 2022-23. The profit earned by these SPSEs was reduced to ₹ 319.97 crore in 2022-23 as against profit of ₹ 1,710.77 crore in 2021-22. The overall profits of ₹ 1,269.90 crore earned by the working SPSEs in 2021-22 has turned into losses of ₹ 4,809.76 crore in 2022-23. This was primarily due to one SPSE *i.e.* Punjab State Power Corporation Limited that incurred loss of ₹ 4,775.93 crore in 2022-23 as compared to profit of ₹ 1,069.21 crore in 2021-22 on account of substantial increase in power purchase costs, cost of fuel consumption and employees benefit expense. Eighteen SPSEs incurred losses (₹ 5,129.73 crore) during the year 2022-23 as compared to 17 SPSEs (₹ 440.87 crore) in 2021-22.

*(Paragraphs 2.3.1 and 2.5)*

Of 11 SPSEs which earned profit during 2022-23, only three SPSEs paid dividend of ₹ 3.88 crore.

*(Paragraph 2.3.2)*

### **Chapter-III: Oversight Role of CAG**

Financial Statements of five working SPSEs for the financial year 2022-23 were received on or before 30 September 2023. Out of these, Non-Review Certificate was issued to three SPSEs and audit of two SPSEs was conducted.

*(Paragraph 3.5.1)*

Subsequent to the audit of the financial statements for the year 2022-23 by Statutory Auditors, the CAG conducted supplementary audits of the financial statements of the State Government Companies. Significant comments were issued on financial statements of State Government Companies, the financial impact of which on the profitability was ₹ 17.13 crore.

*(Paragraph 3.5.2)*

During the course of supplementary audit, the CAG also observed that seven financial statements of six SPSEs had not complied with the Accounting Standards/Ind AS, which were not reported by their Statutory Auditors.

*(Paragraph 3.6)*

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 21 SPSEs through ‘Management Letter’ for taking corrective action.

*(Paragraph 3.7)*

#### **Chapter-IV: Corporate Governance**

The review of Corporate Governance covered 29 working Government Companies under the administrative control of various Departments of State Government.

Audit found that:

Four SPSEs did not have Independent Directors on their Board and there was shortfall in requisite number of Independent Directors in two SPSEs. Even in four SPSEs where Independent Directors were appointed, formal letter of appointment was sent only in three SPSEs.

*(Paragraphs 4.2.1 and 4.3.1)*

Section 173(1) of the Companies Act, 2013 stipulates that the Board shall meet at least four times in a year with a maximum time gap of 120 days between two consecutive meetings. Out of 29 selected SPSEs, 15 did not conduct the mandatory four Board meetings in a year.

*(Paragraph 4.4)*

In terms of statutory stipulations, eight SPSEs were required to constitute Audit Committees. Seven SPSEs have constituted the Audit Committee and in case of one SPSE, the Audit Committee was dissolved with effect from 30 June 2022 due to resignation of Independent Directors. In five SPSEs, the Audit Committee did not review internal control systems of the Company, performance of internal auditors and adequacy of internal audit functions.

*(Paragraph 4.6.1)*

#### **Chapter-V: Subject Specific Compliance Audit on Integrated Power Development Scheme in Punjab State Power Corporation Limited**

The Ministry of Power, Government of India introduced the 'Integrated Power Development Scheme' (Scheme) in December 2014, to provide financial assistance for capital expenditure, aimed at addressing gaps in sub-transmission and distribution networks, as well as metering in urban areas. The Scheme aimed to supplement the resources of Distribution Companies (Discoms)/Power Departments. The Subject Specific Compliance Audit of the Scheme in **Punjab State Power Corporation Limited** was conducted to assess whether the planning and implementation of the Scheme/works was done in an efficient

manner; financial management and utilisation of funds was done efficiently and in adherence to the guidelines of the Scheme; an effective control mechanism was put in place for implementation of the projects; and overall objectives of the Scheme were achieved.

Audit found that:

- The Scheme guidelines mandated installation of meters on distribution transformers (DTs) to ensure seamless accounting and auditing of energy in the distribution system. However, due to delay of two years in the award of work of installation and commissioning of metering cubicles (MC) on DTs, coupled with slow execution, only 6,496 MCs could be installed as of February 2022 against the allotted quantity of 11,193 MCs. This shortfall resulted in non-achievement of energy accounting of all the DTs approved under the Scheme.
- The Company awarded work valuing ₹ 10.61 crore for supply and installation of computer hardware and peripherals to operationalise 318 sites. Though the work was executed at only 127 sites, yet the Company claimed grant for all 318 sites, resulting in an irregular claim of grant amounting to ₹ 3.82 crore.
- The Company claimed irregular grant of ₹ 1.64 crore on Software Assurance fees which constituted a revenue expenditure, and was required to be borne by the Company as per the provisions of the Scheme.
- Under the Scheme, ERP project covering Human Resource Management, Finance & Accounts and Material Management was sanctioned in January 2018. However, the work order was placed (August 2019) with a delay of more than one year for ₹ 42.48 crore, to be completed within 16 months. As the project remained incomplete as of May 2024, the Company was unable to avail grant of ₹ 4.37 crore.
- The project for implementing Real Time Data Acquisition System was sanctioned in December 2018 at a cost of ₹ 7.90 crore. The contract was to be awarded within six months and was to be completed within 30 months (June 2021) from the date of sanction. However, due to the Company's inability to timely initiate and finalise the tendering process, the work could not be awarded. Resultantly, grant amounting to ₹ 4.74 crore could not be availed, and real time data to measure the reliability of power distribution network was not made available.
- According to the Scheme, an additional grant of 15 *per cent* of the project cost was receivable, subject to achievement of prescribed

milestones, such as timely completion of scheme, reduction of AT&C losses and upfront release of admissible revenue subsidy by the State Government. Against this, the Company could not complete the works as per the timelines prescribed in the sanction letters for each component of the Scheme. As regards to AT&C losses, MoP finalised target for AT&C losses in the range of 14.50 *per cent* to 14.00 *per cent* for 2017-18 to 2021-22, which could not be achieved by the Company during three years (2017-18, 2019-20 and 2020-21). Audit analysis of losses of 97 towns covered in the Scheme revealed that during 2021-22, the Company could achieve the target only in four towns whereas in remaining 93 towns, the losses ranged between 14.08 and 82.53 *per cent*. Further analysis revealed that AT&C losses were very high (more than 30 *per cent*) during 2021-22 in 67 towns, which include 12 towns of more than 60 *per cent* (Ajnala, Bagha Purana, Handiaya, Kartarpur, Longowal, Makhu, Mallanwala, Moonak, Rajkot, Rajasansi, Samrala and Sangat). Further getting of upfront release of admissible revenue subsidy from the State Government was also not achieved. Due to non-achievement of the prescribed milestones, the Company could not avail of grant amounting to ₹ 61.08 crore (15 *per cent* of ₹ 407.21 crore *i.e.*, total expenditure incurred on the Scheme).

*(Chapter-V)*

## Chapter-VI: Compliance Audit Observations

### Punjab State Power Corporation Limited

- Prescribed time limits for metering of new connections/replacement of defective/burnt meters were not being adhered to in violation of statutory provisions, resulting in revenue loss of ₹ 1.03 crore. The energy consumption valuing ₹ 64.37 crore in respect of Agricultural Pumpset (AP) consumers fed from urban feeders was not considered for calculating AP consumption by Punjab State Electricity Regulatory Commission due to unmetered connections/incomplete and invalid meter readings. The Company was unable to compute distribution losses of AP feeders despite incurring an expenditure of ₹ 2.88 crore. Replacement of electro-mechanical meters with non-smart electronic meters resulted in injudicious expenditure of ₹ 13.75 crore. The Company incurred avoidable expenditure of ₹ 22.44 crore on procurement of conventional meters, despite mandatory requirement of smart meters.

*(Paragraph 6.1)*

- Delayed deployment of the adequate and trained manpower to take over outsourced work of Facility Management Services of SAP system from the Firm and consequent extensions of the work order resulted into an avoidable expenditure of ₹ 3.23 crore.

*(Paragraph 6.2)*

- Non-levy of fixed energy charges in energy bills of a co-generation power plant during the period January 2018 to March 2023 resulted in under billing of ₹ 1.68 crore and interest loss of ₹ 0.57 crore.

*(Paragraph 6.3)*

- Withholding of principal amount of deferred tax materialisation payments in violation of tariff regulations and without any objections there against resulted in avoidable interest loss of ₹ 6.81 crore.

*(Paragraph 6.4)*

### **Punjab State Industrial Development Corporation Limited**

- Non-initiation of action for sale of shares in the market and settling the outstanding dues of the collaborator under One Time Settlement Scheme resulted into loss of ₹ 4.21 crore.

*(Paragraph 6.5)*

### **Punjab State Grains Procurement Corporation Limited**

- The Company could not prepare annual accounts for the years 2018-19 to 2022-23 and submit the same along with the supporting documents for claiming the provisional subsidy from the Government of India (GoI). This resulted in avoidable deduction of ₹ 94.79 crore from the provisional subsidy claims by the GoI and consequential interest loss of ₹ 8.05 crore to the Company.

*(Paragraph 6.7)*