

**CHAPTER-I**  
**General Purpose Financial**  
**Report**



# CHAPTER-I

## General Purpose Financial Report

### Summary of Financial Performance of State Public Sector Enterprises

#### 1.1 Introduction

##### 1.1.1 Purpose of Report

This Chapter presents the summary of financial performance of Government Companies, Statutory Corporations and Government Controlled Other Companies. The term State Public Sector Enterprises (SPSEs) encompasses those Government Companies in which the direct holding of the State Government is 51 *per cent* or more and the subsidiaries of such Government Companies. The Statutory Corporations set up under Statutes enacted by the Legislature and other companies owned or controlled, directly or indirectly by the State Government have also been categorised as SPSEs. The financial performance of SPSEs depicted in the Report has been taken from their financial statements as well as from the information received from the SPSEs. Impact of revision of accounts as well as significant comments issued as a result of sole audit/supplementary audit conducted by the Comptroller and Auditor General of India (CAG) on the financial statements of the SPSEs for the year 2022-23 (or of earlier years which were finalised during the current year) have also been covered in this Report. Moreover, this chapter also contains the status of the compliance with provisions of the Companies Act, 2013 on Corporate Governance and Corporate Social Responsibility.

##### 1.1.2 Definition of Government Companies/Corporations

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 the 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 company of such 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 (GCOC).

##### 1.1.3 Mandate of Audit

Audit of Government Companies and Government Controlled Other Companies is conducted by the 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 thereunder. Under the Companies Act, 2013 the CAG appoints the Chartered Accountants as Statutory Auditors for companies and gives directions on the manner in which the accounts are to be audited. In addition,

CAG has the right to conduct a supplementary audit. The statutes governing some of the Statutory Corporations require their accounts to be audited only by the CAG.

#### 1.1.4 Name of SPSEs and their introduction to their activities including contribution of turnover of the SPSEs to the GSDP of the State

##### 1.1.4.1 Number of SPSEs

As on 31 March 2023, there were 76 SPSEs<sup>1</sup> under the audit jurisdiction of the CAG as detailed in *Appendix 1*. These include 58 Government Companies, 03 Statutory Corporations and 15 Government Controlled Other Companies. Out of 58 Government Companies, 07 were power sector companies and 51 were non-power sector companies. Out of 51 non-power sector companies, 25 were inactive. Of these, summary of financial performance of 42 SPSEs is covered in this report and the nature of these SPSEs is indicated in the table below:

**Table 1.1: Coverage and nature of SPSEs covered in this report**

Nature of the SPSE	Total number of SPSEs	Number of SPSEs covered in the Report				Number of SPSEs whose accounts were in arrear for three years or more hence not covered in Report
		Accounts up to				
		2022-23	2021-22	2020-21	Total	
Government Companies (i)	58	10	13	4	27	31
Statutory Corporations (ii)	3	0	1	1	2	1
Total Companies/ Corporations (iii)=(i+ii)	61	10	14	5	29	32
Government Controlled Other Companies (iv)	15	5	6	2	13	2
<b>Total (v) = (iii+iv)</b>	<b>76</b>	<b>15</b>	<b>20</b>	<b>7</b>	<b>42</b>	<b>34</b>

(Source: Compiled based on the accounts received from SPSEs during the respective years)

<sup>1</sup> (i) Four working Government Companies viz., Industrial Development Corporation of Odisha Limited, IDCOL Kalinga Iron Works Limited, IDCOL Ferro Chrome and Alloys Limited and Odisha Mineral Exploration Corporation Limited went outside the purview of CAG's audit during 2022-23 due to merger with Odisha Mining Corporation Limited. (ii) Two inactive Government Companies viz., Orissa Electricals Manufacturing Company Limited and Hira Steels and Alloys Limited went outside the purview of CAG's audit during 2022-23 due to liquidation and dissolution, respectively as informed by Office of the Registrar of Companies-cum-Official Liquidator, Odisha. (iii) Another company, IDCOL Software Limited is currently under liquidation. Accordingly, its financial statement is prepared on liquidation basis. Hence, the company has been included under inactive Government Companies.

This Chapter does not include 34 SPSEs (including 02 Government Controlled Other Companies and 01 Statutory Corporation) whose accounts were in arrears for three years or more, those whose first-year account is not due or not yet received or those that are defunct/under liquidation as indicated in *Appendix 2* and *Appendix 3*.

#### 1.1.4.2 Contribution to the GSDP of the State

The names of SPSEs and their related activities, including contribution of turnover to the GSDP of the State is given in *Appendix-4*. A ratio of turnover of the Government Companies and Corporations to the Gross State Domestic Product (GSDP) shows the extent of their activities in the State's economy. Following table provides the total turnover of 29 Government SPSEs and 13 Government Controlled Other SPSEs and GSDP of Odisha for a period of three years ending March 2023.

**Table 1.2: Details of turnover of State PSEs vis-a-vis GSDP of Odisha**

Particulars	(₹ in crore)		
	2020-21	2021-22	2022-23
Turnover	23,876.47	38,504.42	47,902.01
Percentage change of Turnover over Previous Year	12.89	61.27	24.41
GSDP of Odisha at current price	5,42,889	6,38,342	7,74,869
Percentage change of GSDP of Odisha	-0.64	17.58	21.39
Percentage of Turnover to GSDP of Odisha	4.40	6.03	6.18

*(Source: Turnover reported in the latest finalised accounts of Government Companies and Corporations till 30 September 2023 and GSDP figures as per the Financial Attest Wing)*

In 2022-23, the turnover of the SPSEs relative to GSDP was 6.18 per cent that had increased from 6.03 per cent in the previous year. The growth rate of GSDP increased to 21.39 per cent during 2022-23 as compared to 2021-22 and the growth rate of turnover of Government Companies and Corporations had also increased to 24.41 per cent during the same period. The Compounded Annual Growth Rate (CAGR<sup>2</sup>) is a useful method to measure growth rate over multiple time periods. The CAGR of GSDP was 12.36 per cent during last three years, while during the same period the CAGR of Turnover was 31.33 per cent. This resulted in increase in the share of turnover of these State PSEs to the GSDP from 4.40 per cent in 2020-21 to 6.18 per cent in 2022-23. The department-wise position has been given in *Appendix 5*. The turnover of Power Public Sector Enterprises and Non-Power Public Sector Enterprises recorded CAGR of 25.07 per cent and 36.50 per cent respectively during the same period.

<sup>2</sup> Rate of Compounded Annual Growth rate  $\left[ \left\{ \left( \frac{\text{Value of 2022-23}}{\text{Value of 2019-20}} \right)^{\frac{1}{3}} - 1 \right\} * 100 \right]$  where turnover and GSDP for the year 2019-20 were ₹21,149.69 crore and ₹5,46,413.00 crore respectively

## 1.2 Investment in Government Companies and Corporations and Budgetary support

The amount of equity and loans in 29<sup>3</sup> Government Companies and Corporations as of 31 March 2023 is given in the **Table 1.3**:

**Table 1.3: Equity and loans in Government Companies and Corporations**

(₹ in crore)

Sources of investment	As on 31.03.2022			As on 31.03.2023		
	Equity	Long term loans	Total	Equity	Long term loans	Total
1. State Government	7,629.47	1,495.68	9,125.15	8,916.60	1,861.27	10,777.87
2. State Government Companies/ Corporations/Autonomous Bodies	1,549.14	722.83	2,271.97	277.23	516.20	793.43
3. Central Governments/ Central Government Companies/Corporations	44.95	6,760.81	6,805.76	44.95	5,500.47	5,545.42
4. Financial Institutions and Others	77.28	6,924.06	7,001.34	77.75	5,885.63	5,963.38
<b>Total</b>	<b>9,300.84</b>	<b>15,903.38</b>	<b>25,204.22</b>	<b>9,316.53</b>	<b>13,763.57</b>	<b>23,080.10</b>
Percentage of investment of State Government to total investment	82.03	9.40	36.20	95.71	13.52	46.70

(Source: Compiled on the basis of latest finalised accounts of SPSEs)

The amount of equity and loans in 13 Government Controlled Other Companies as of 31 March 2023 is given in the table as follows:

**Table 1.4: Equity and loans in Government Controlled Other Companies**

(₹ in crore)

Sources of investment	As on 31.03.2022			As on 31.03.2023		
	Equity	Long term loans	Total	Equity	Long term loans	Total
State Government	235.01	0	235.01	235.01	0	235.01

(Source: Compiled on the basis of latest finalised accounts of SPSEs)

### Investment in inactive SPSEs

In 15 out of 25 inactive SPSEs, there was Government investment of ₹62.36 crore as per available records. The Principal Secretary, Department of Finance, Government of Odisha (GoO) has been requested to furnish the corresponding figures for all the 25 inactive SPSEs. The reply is awaited

<sup>3</sup> Out of 61 Government Companies and Corporations, accounts of 29 were considered. Accounts of 32 SPSEs which were in arrears for three years or more/were defunct/under liquidation were not included

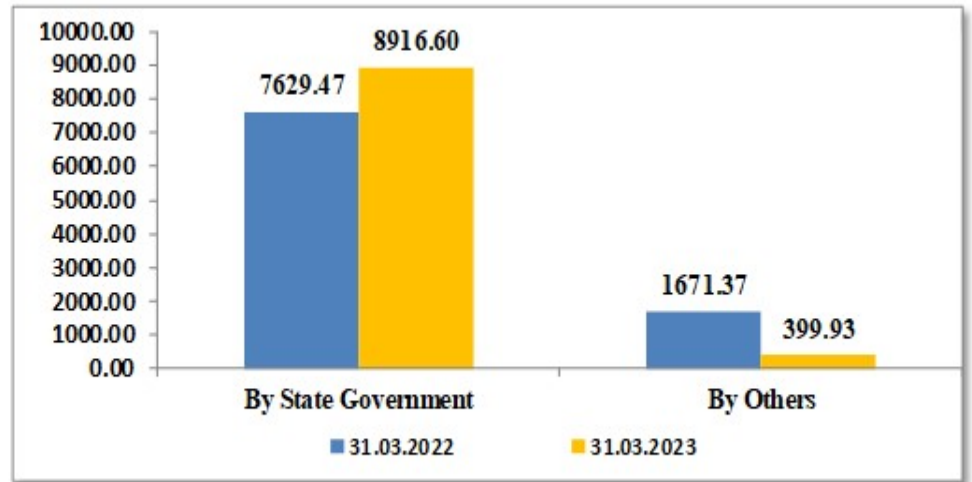
(March 2025). It is recommended that the process of voluntary winding up of inactive companies under the Companies Act needs to be pursued vigorously.

### 1.2.1 Equity holding in SPSEs

During 2022-23, the total equity holding at face value in the 29 SPSEs covered in this Report registered a net increase of ₹15.69 crore.

Holding in equity by the State Government and others<sup>4</sup> during 2022-23 in Government Companies and Corporations is depicted in the following chart:

**Chart-1.1: Holding in equity in Government Companies and Corporations**



(Source: Compiled on the basis of latest finalised accounts of SPSEs)

Details of significant holdings (holdings of more than ₹200 crore) of the State Government during 2022-23 in the paid-up capital of SPSEs are given in the table as follows:

**Table 1.5: Significant holdings of the State Government**

(₹ in crore)

Name of the SPSE	Name of the Department	Amount of State Government holdings	Percentage of State Government holding with reference to holdings of the State Government in all Government Companies and Corporation under consideration
<b>Statutory Corporation</b>			
Odisha State Financial Corporation	Micro, Small and Medium Enterprise	342.72	3.84
Odisha State Road Transport Corporation	Commerce and Transport	328.54	3.68
<b>Government Companies</b>			
Odisha Power Generation Corporation Limited	Energy	2,067.50	23.19

<sup>4</sup> Others include Central Government, Central Government Companies/Corporations, State Government Companies/Corporation, Financial Institutions etc.

Name of the SPSE	Name of the Department	Amount of State Government holdings	Percentage of State Government holding with reference to holdings of the State Government in all Government Companies and Corporation under consideration
Odisha Power Transmission Corporation Limited	Energy	1,886.71	21.16
Odisha Hydro Power Corporation Limited	Energy	833.19	9.34
GRIDCO Limited	Energy	3,002.04	33.67
Odisha Coal and Power Limited	Energy	208.72	2.34

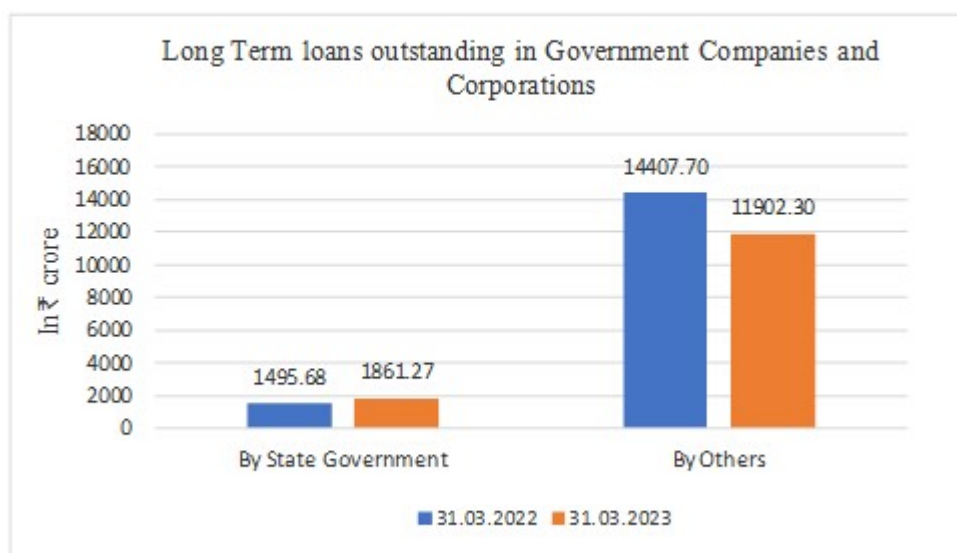
(Source: Compiled on the basis of latest finalised accounts of SPSEs)

### 1.2.2 Loans given to SPSEs

Out of the 29 Government Companies and Corporations covered in this report, 09 SPSEs had outstanding long-term loans amounting to ₹13,763.57 crore from all sources as on 31 March 2023. During 2022-23, the long-term loans of Government Companies and Corporations registered a decrease of ₹2,139.81 crore in mainly three SPSEs viz., GRIDCO Limited, Odisha Power Generation Corporation Limited and Odisha Coal and Power Limited.

Year wise details of outstanding long-term loans of Government Companies and Corporations are depicted in the chart as follows:

**Chart 1.2: Long term loans outstanding in Government Companies and Corporations**  
(₹ in crore)



(Source: Compiled on the basis of latest finalised accounts of SPSEs)

### 1.2.3 Adequacy of Assets (Asset Coverage Ratio)

Ratio of total debt to total assets is one of the methods used to determine whether a company can stay solvent. To be considered solvent, the value of an entity's assets must be greater than the sum of its loans/debts. The coverage of

long-term loans by value of total assets in 09 Government SPSEs which had outstanding loans as on 31 March 2023 is given in the table as follows:

**Table 1.6: Coverage of long-term loans with total assets**

	Positive Coverage				Negative Coverage			
	No. of SPSEs	Long term loans	Assets	Percentage of assets to loans	No. of SPSEs	Long term loans	Assets	Percentage of assets to loans
		(₹ in crore)				(₹ in crore)		
Statutory Corporations	2	107.33	1,135.59	1,058.04	-	-	-	-
Government Companies	7	13,656.24	35,450.14	259.59	-	-	-	-
<b>Total</b>	<b>9</b>	<b>13,763.57</b>	<b>36,585.73</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(Source: Compiled on the basis of latest finalised accounts of SPSEs)

From the above table, it is revealed that all the 09 Government Companies and Corporations have positive coverage ratio, which indicates that all the Companies and Corporations possess adequate assets to meet their loan liabilities.

#### 1.2.4 Information on Loan, Subsidy/Grants by Central/State Government

The GoO provides financial support to SPSEs in various forms through the annual budget. During 2022-23, there was budgetary outgo towards equity, loans, grants/subsidies, loans written off and loans converted into equity by GoO in respect of 14 Government SPSEs out of 36 active Government SPSEs (33 Government Companies and 03 Statutory Corporations) and 01 Government controlled other SPSE out of 15 Government controlled other SPSEs. The summarised details for the last three years ending March 2023 are as follows:

**Table 1.7: Details regarding budgetary support to SPSEs**

Particulars <sup>5</sup>	2020-21		2021-22		2022-23	
	Number of SPSEs	Amount	Number of SPSEs	Amount	Number of SPSEs	Amount
Equity Capital outgo (i)	2	32.54	4	572.80	4	604.11
Loans given (ii)	0	0	2	118.40	3	710.51
Grants/Subsidy provided (iii)	9	758.19	16	1,436.14	10	3,559.37
Total Outgo (i+ii+iii)	9*	790.73	19 <sup>S</sup>	2,127.34	15 <sup>#</sup>	4,873.99
Loan repayment written off	0	0	0	0	0	0
Loans converted into equity	0	0	2	2,439.69	0	0
Guarantees issued	1 <sup>@</sup>	2,000.00	1 <sup>@</sup>	600.00	0	0
Guarantee <sup>6</sup> Commitment	1 <sup>@</sup>	6,233.90	1 <sup>@</sup>	8,277.50	1 <sup>@</sup>	7,256.72

(Source: Compiled based on information received from SPSEs)

<sup>5</sup> Amount represents outgo from State Budget only

<sup>6</sup> Closing balance of Government guarantee in respect of SPSEs at the end of a particular year

- \* *One Government SPSE i.e., Odisha Hydro Power Corporation Limited received equity and grants in 2020-21.*
- \$ *One Government SPSE i.e., Industrial Development Corporation of Odisha Limited received equity and grants in 2021-22, One Government SPSE i.e., Odisha Power Transmission Corporation Limited received both equity and loan in 2021-22 and One Government SPSE i.e., Odisha Pisciculture Development Corporation Limited received both loans and grants in 2021-22.*
- # *One Government SPSE i.e., Odisha Power Transmission Corporation Limited received equity and loans in 2022-23 and One Government SPSE i.e., Odisha State Road Transport Corporation received both equity and grants/subsidy in 2022-23.*
- @ *GRIDCO Limited.*

The budgetary assistance of ₹4,873.99 crore given during the year 2022-23 was in the form of equity, loan and grants/subsidy. During the year 2022-23, maximum grants/subsidy were provided to Odisha State Civil Supplies Corporation Limited (OSCSC) (₹1,169.27 crore) and Odisha Lift Irrigation Corporation Limited (OLIC) (₹1,176.09 crore). OSCSC has not furnished annual accounts for the financial years 2021-22 and 2022-23 and OLIC has not furnished annual accounts for the financial years 2019-20 to 2022-23 as on 30 September 2023.

GoO provides guarantee in accordance with the criteria and guidelines issued (November 2002) by the Government subject to the limits prescribed by the Constitution of India. A guarantee commission is charged at the rate of 0.50 *per cent* on the maximum of the guarantee sanctioned. Outstanding guarantee commitments of GoO decreased during the financial year by 12.33 *per cent* from ₹8,277.55 crore in 2021-22 to ₹7,256.72 crore in 2022-23. GRIDCO Limited paid guarantee commission of ₹40.09 crore during 2022-23.

### **1.2.5 Disinvestment, Restructuring and Privatisation**

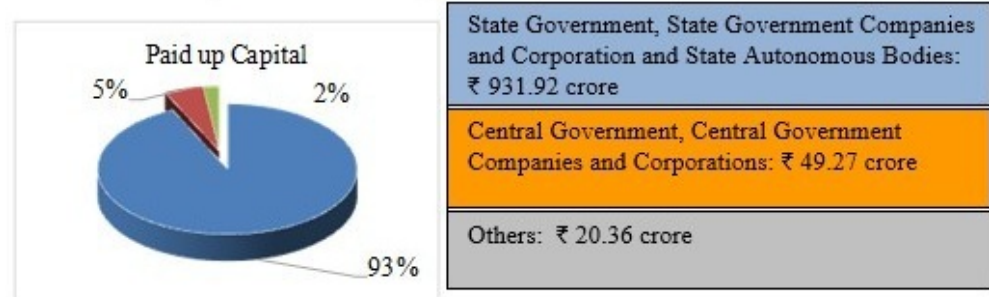
During the year 2022-23, there was neither disinvestment of any SPSE nor was any SPSE privatised. Due to merger of four working Government Companies *viz.*, Industrial Development Corporation of Odisha Limited, IDCOL Kalinga Iron Works Limited, IDCOL Ferro Chrome and Alloys Limited and Odisha Mineral Exploration Corporation Limited with Odisha Mining Corporation Limited during 2022-23, number of companies under CAG audit was reduced.

### **1.2.6 Investment in Government Controlled Other Companies**

The capital invested by the State Government, Central Government and by Companies and Corporations controlled by them in 13 Government Controlled Other Companies<sup>7</sup> during the year 2022-23 is depicted in the following chart:

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<sup>7</sup> 15 minus 02 Government Controlled Other Companies whose accounts were in arrears for three years or more or were defunct/under liquidation

**Chart 1.3: Composition of share capital in Government Controlled Other Companies**

(Source: Compiled on the basis of latest finalised accounts of SPSEs)

As on 31 March 2023, equity in these 13 Government Controlled Other Companies was ₹1,001.55 crore.

### 1.3 Returns from the Government Companies and Corporations

#### 1.3.1 Profit earned by SPSEs

Out of the 29 Government Companies and Corporations covered in this report, profit earned by SPSEs increased to ₹7,073.21 crore in case of 18 profit earned SPSEs in 2022-23 from ₹3,289.86 crore in case of 21 profit earned SPSEs in 2021-22. Top five profits earning SPSEs were Odisha Mining Corporation Limited (OMC), Odisha Coal and Power Limited (OCPL), Odisha Hydro Power Corporation Limited (OHPC), Odisha State Police Housing and Welfare Corporation Limited (OSPHWC) and Odisha Forest Development Corporation Limited (OFDCL). The Return on Equity (ROE) of the 18 SPSEs was 31.19 *per cent* in 2022-23 as compared to 22.37 *per cent* in 21 SPSEs in 2021-22. Number of SPSEs that earned profit during the period from 2020-21 to 2022-23 is depicted in the chart as follows:

**Chart 1.4: Number of Profit Earning SPSEs**

(Source: Compiled on the basis of latest finalised accounts of SPSEs)

The details of top three departments, SPSEs of which contributed the maximum profit during 2022-23 are summarised in the table below:

**Table 1.8: Top three departments whose SPSEs contributed maximum profit during the year 2022-23**

Name of the Department	No. of profit earning SPSEs (Government Companies)	Net profit earned (₹ in crore)	Net profit earned by 29 SPSEs (18 profit making and 07 loss making) (₹ in crore)	Percentage of profit to total SPSE profit
Steels and Mines	1	4,734.04	6,278.23	75.40
Energy	5	1,032.69		16.45
Industries	1	433.44		6.90

(Source: Compiled on the basis of latest finalised accounts of SPSEs)

The list of Government Companies that earned profit of more than ₹50 crore during the year 2022-23, is given in the table as follows:

**Table 1.9: List of SPSEs which earned profit of more than ₹50 crore**

(₹ in crore)

Sl. No.	Name of the SPSE	Net Profit
1	Odisha Mining Corporation Limited	4,734.04
2	Odisha Power Generation Corporation Limited	839.99
3	Odisha Coal and Power Limited	807.47
4	The Industrial Promotion and Investment Corporation of Odisha Limited	434.77
5	Odisha Hydro Power Corporation Limited	88.86
6	Odisha Power Transmission Corporation Limited	61.97
<b>Total</b>		<b>6,967.10</b>

(Source: Compiled on the basis of latest finalised accounts of SPSEs)

It can be seen that these six SPSEs contributed 98.50 per cent of the total profit earned by 18 SPSEs during 2022-23.

Of the 13 Government Controlled Other Companies, seven companies earned profit of ₹4.08 crore during the year ended 31 March 2023.

### 1.3.2 Dividend paid by SPSEs

The State Government had formulated (December 2011) a dividend policy under which all profit-making SPSEs are required to pay annual dividend of 20 per cent of the State government's equity or 20 per cent of the profit after tax, whichever is higher. The minimum dividend pay-out in respect of SPSEs in power generation sector should be 30 per cent of profit after tax. Subsequently, GoO issued revised (February 2016) guidelines for payment of dividend at the rate of 30 per cent for all SPSEs. However, seven SPSEs had not declared dividend prescribed by the Government as given in **Appendix 6**. The total shortfall on this account was ₹1,419.30 crore in 2022-23.

The details of profit earned and dividend declared/paid by Government Companies and Corporations is given in the table as follows:

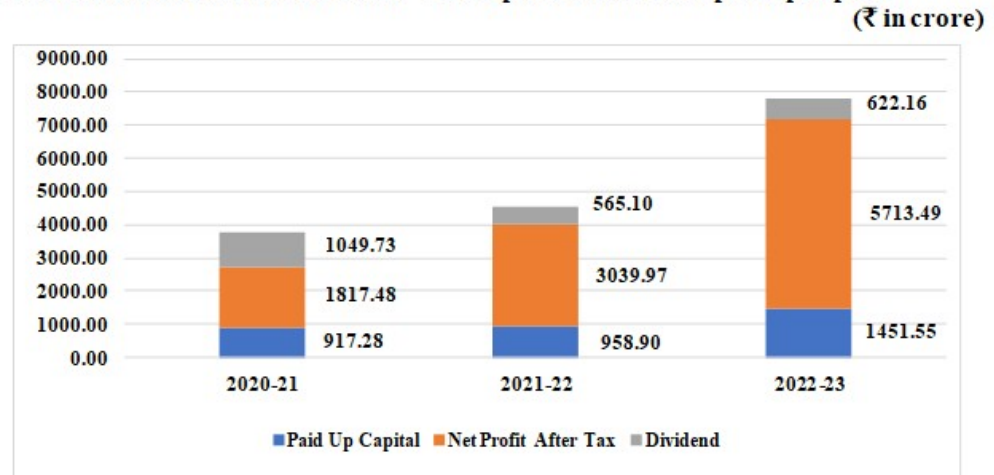
Table 1.10: Profit earned and dividend declared/paid

Category	No. of SPSEs	Total Paid up capital (₹ in crore)	Net profit (₹ in crore)	Dividend declared (₹ in crore)
Government Company/ Corporation	10	1,451.55	5,713.49	622.16

(Source: Compiled on the basis of latest finalised accounts of SPSEs)

Out of the 29 Government Companies and Corporations, 10 SPSEs declared dividend in 2022-23. The dividend declared as a percentage of net profit decreased to 10.89 *per cent* in 2022-23 from 18.59 *per cent* in 2021-22. In absolute terms, the dividend declared by the SPSEs in 2022-23 increased by ₹57.06 crore compared to the previous year. **Chart 1.5** depicts the dividend declared *vis-a-vis* net profit earned and paid-up capital of SPSEs which declared dividend during the last three years.

Chart 1.5: Dividend declared vis-a-vis net profit earned and paid up capital



(Source: Compiled on the basis of latest finalised accounts of SPSEs)

Out of total dividend of ₹622.16 crore declared by 10 SPSEs for the year 2022-23, dividend received/ receivable by the State Government was ₹517.10 crore (83.11 *per cent* of total dividend declared) in all the 10 SPSEs having total equity investment of ₹1,746.59 crore (State Government equity investment ₹1,451.55 crore).

Of the 13 Government Controlled Other Companies, seven companies earned profit of ₹4.08 crore during the year ended 31 March 2023. However, none of these companies declared dividend during 2022-23.

## 1.4 Debt Servicing and legal compliances

### 1.4.1 Interest Coverage Ratio

Interest coverage ratio (ICR) is used to determine the ability of a company to pay interest on outstanding debt and is calculated by dividing a company's earnings before interest and taxes (EBIT) by interest expenses of the same period. The lower the ratio, the lesser is the ability of the company to pay interest on debt. An ICR below one indicated that the company was not

generating sufficient revenues to meet its expenses on interest. The details of positive and negative interest coverage ratio of SPSEs, which had outstanding loans during the period from 2020-21 to 2022-23 are given in the table below:

**Table 1.11: Interest Coverage Ratio**

Year	Interest (₹ in crore)	Earnings before interest and tax (EBIT) (₹ in crore)	No. of SPSEs	No. of SPSEs having positive ICR	No. of SPSEs having negative ICR
<b>Statutory Corporations</b>					
2020-21	0.47	-1.59	1	-	1
2021-22	0.47	-0.45	1	-	1
2022-23	0.47	8.77	1	1	-
<b>Government Companies</b>					
2020-21	1,640.31	70.61	7	5	2
2021-22	1,760.18	1,675.28	9	8	1
2022-23	1,356.66	3,041.89	6	5	1

(Source: Compiled on the basis of latest finalised accounts of SPSEs)

It was observed that the number of SPSEs with positive ICR has decreased in case of Government Companies and increased in case of Statutory Corporations during 2022-23 as compared to the previous years.

#### 1.4.2 Age-wise analysis of interest outstanding on State Government loans

As on 31 March 2023, interest amounting to ₹947.20 crore was outstanding against long term loans provided by State Government to four SPSEs. The age wise analysis of interest outstanding against State Government loans in SPSEs is depicted in the table as follows:

**Table 1.12: Interest outstanding on State Government loans**

(₹ in crore)

Sl. No.	Name of the SPSE	Outstanding interest on State Government loans	Interest on State Government loans outstanding for less than 1 year	Interest on State Government loans outstanding for 1 - 3 years	Interest on State Government loans outstanding for more than 3 years
1	GRIDCO Limited	5.38	5.38	0.00	0.00
2	Odisha Hydro Power Corporation Limited	907.09	64.82	136.00	706.27
3	Odisha Power Transmission Corporation Limited	34.73	0.00	0.00	34.73
<b>Total</b>		<b>947.20</b>	<b>70.20</b>	<b>136.00</b>	<b>741.00</b>

(Source: Compiled on the basis of information received from SPSEs)

It is seen from the above table that the companies did not pay off interest liabilities on time, resulting in accumulation of interest against State Government loans year after year.

## 1.5 Operating efficiency of Government Companies

### 1.5.1 Sales and Marketing

During 2022-23, the total sales of 15 out of 29 Government Companies was ₹47,853.47 crore as compared to ₹39,963.81 crore in 2021-22. Out of 15 SPSEs, seven SPSEs sold goods/rendered services worth ₹5,889.61 crore to the Government sector in 2022-23. The overall percentage of sales of these seven SPSEs to the Government sector with reference to total sales worked out to 12.31 per cent. No SPSEs exported or imported goods/services during the period.

The details of total sales, sales to Government sector and others thereon in respect of 15 SPSEs for three years are given in the table as follows:

Table 1.13: Sales details of 15 SPSEs

Year	Total Sales	Sales to Government sector	Sales to others
2020-21	23,253.96	3,765.63	19,488.33
2021-22	39,963.81	4,138.75	35,825.06
2022-23	47,853.47	5,889.61	41,963.86

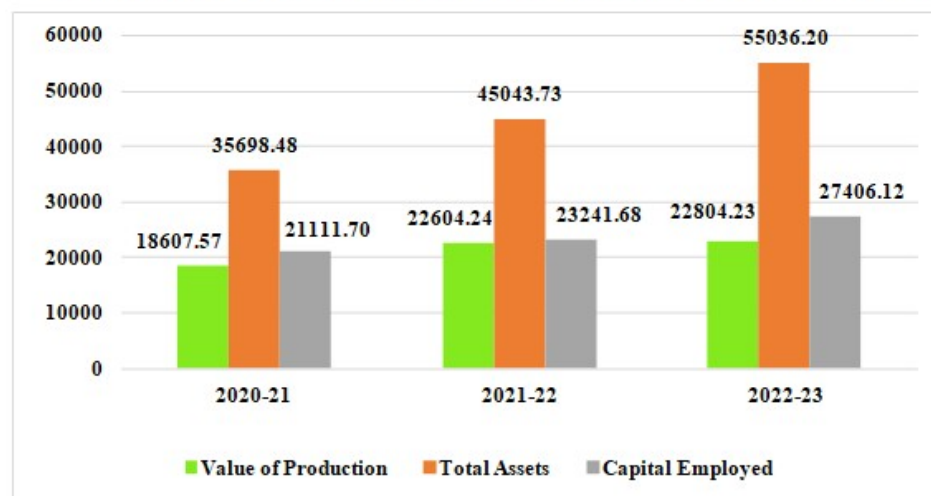
(₹ in crore)

(Source: Compiled on the basis of information furnished by SPSEs)

### 1.5.2 Value of production

The summary indicating value of production, total assets and capital employed in Government Companies and Corporations related to 10 SPSEs over a period of three years is depicted in the chart as follows:

Chart 1.6: Value of Production, Assets and Capital Employed (₹ in crore)



(Source: Compiled on the basis of latest finalised accounts of SPSEs)

There was an increase in the value of production, total assets and capital employed in the year 2022-23 compared to the previous year. The SPSE wise details of value of production, total assets and capital employed is given in *Appendix 7*.

### 1.5.3 Return on Capital Employed (ROCE)

ROCE is a ratio that measures a company's profitability and the efficiency with which its capital is employed. ROCE is calculated by dividing a company's earnings before interest and taxes (EBIT) by the capital employed<sup>8</sup>. The SPSE wise details of ROCE are given in *Appendix 8*. The consolidated ROCE of 29 Government Companies and Corporations during the period from 2020-21 to 2022-23 is given in table as follows:

**Table 1.14: Return on Capital Employed**

Year	EBIT (₹ in crore)	Capital employed (₹ in crore)	ROCE (in percentage)
2020-21	828.40	22,549.71	3.67
2021-22	3,867.34	28,132.38	13.75
2022-23	9,796.69	31,075.22	31.53

(Source: Compiled on the basis of latest finalised accounts of SPSEs)

It was observed that ROCE of 29 Government Companies and Corporations was higher during the year 2022-23 in comparison to that for the year 2021-22.

### 1.5.4 Rate of Real Return on Government Investment (RORR)

RORR measures the profitability and efficiency with which equity and similar non-interest bearing capitals have been employed, after adjusting them for their time value, and assume significance when compared with the conventional Rate of Return (ROR) which is calculated by dividing the Profit After Tax (PAT) by the sum of all such investments counted on historical cost basis.

Out of 42 SPSEs covered in this Report, State Government had direct investment in the form of equity, interest free loans and grants/subsidies in 29 SPSEs.

The RORR of the State Government investment in these 29 SPSEs was computed on the basis of following assumptions:

- In addition to actual infusion of investment by the State Government in the SPSEs in the form of equity, interest free loans and grants/subsidy for operational and administrative expenses given by the State Government to the SPSEs have been considered as investment infusion by the State Government.

<sup>8</sup> Capital Employed = Paid up Share capital + Free Reserves and surplus + Long term loans – Accumulated losses – Deferred Revenue Expenditure

- In cases where interest free loans given to the SPSEs were later converted into equity, the amount of loan converted into equity has been deducted from the amount of interest free loans and added to the equity of that year.
- The weighted average interest rate on State Government securities for the concerned financial year<sup>9</sup> was adopted as compounded rate for arriving at Present Value (PV) since they represent the cost incurred by the government towards investment of funds for the year and therefore is considered as the minimum expected rate of return on investments made by the government.
- For the purpose of RORR calculation of State Government investment, the period beginning 2003-04 till 2022-23 has been taken, considering the investment of State Government in these 29 SPSEs as on 31 March 2003 as PV of State Government investment in the beginning of 2003-04.
- Calculation of RORR has been done in respect of 29 SPSEs which is detailed in *Appendix 9*.

As may be observed from the analysis made vide *Appendix 9*, RORR has shown a fluctuating trend during 2003-04 to 2022-23 which ranged between 5.53 per cent and 15.06 per cent.

**Table 1.15: Consolidated RORR on State Government investment for the year 2022-23**

Total Earnings/Loss in 2022-23 (₹ in crore)	Investment by the State Government since inception till 2022-23 (₹ in crore)	Return on State Government investment on the basis of historical value (in percentage)	Present value of State Government investment at the end of 2022-23 (₹ in crore)	RORR on State Government investment considering the present value of investments (in percentage)
A	B	C	D	E
Value of column M of <b>Appendix 9</b>	Total of the column H of <b>Appendix 9</b> + Govt. investment in the beginning of 2003-04	A*100/B	Value of column K of <b>Appendix 9</b>	A*100/D
6,246.80	19,530.81 (11,577.28 + 7,953.53)	31.98	49,507.22	12.62

(Source: Compiled on the basis of latest finalised accounts of SPSEs)

<sup>9</sup> The weighted average interest rate on Government borrowings was adopted from the Reports of the C&AG of India on State Finances (Government of Odisha) for the concerned year wherein the average rate of interest paid = Interest payment/ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities) / 2] \* 100

### 1.5.5 Return on Equity (ROE) of SPSEs

ROE<sup>10</sup> is a measure of financial performance of companies calculated by dividing net income by shareholders' equity. The SPSE wise detail of ROE is given in **Appendix 10**. The consolidated ROE of 29 Government Companies and Corporations during the period from 2020-21 to 2022-23 is given in the table as follows:

**Table 1.16: Return on Equity**

Year	Net Profit after Tax and Preference Dividend (₹ in crore)	Equity (₹ in crore)	ROE (in percentage)
2020-21	-1,675.60	6,796.39	-24.65
2021-22	853.17	12,493.79	6.83
2022-23	6,278.23	17,311.65	36.27

(Source: Compiled on the basis of latest finalised accounts of SPSEs)

It was observed that ROE of 29 Government Companies and Corporations had increased during the year 2022-23 in comparison to ROE for the year 2021-22. Sector wise ROE of Government Companies and Corporations where total equity invested in the sector is more than ₹50 crore during 2020-21 to 2022-23 is depicted in the following table:

**Table 1.17: ROE of sectors with total equity of ₹50 crore and more**

(₹ in crore)

Sl. No.	Name of the Sector	2020-21	2021-22	2022-23
1	Industries	-9.58	0.77	71.09
2	Commerce and Transport	2.57	-6.26	-6.26
3	Energy	-194.59	-4.77	28.23
4	Steel and Mines	-3.57	10.20	38.91
5	Home	14.57	13.75	13.74
6	Excise	9.37	6.07	7.57
7	Health & Family Welfare	15.59	2.97	4.66
8	Agriculture & Farmers' Empowerment	18.67	6.43	5.12

(Source: Compiled on the basis of latest finalised accounts of SPSEs)

From the above table, it can be seen that the ROE has increased mainly in Industries Energy and Steel and Mines sectors during the year 2022-23.

## 1.6 SPSEs incurring losses

### 1.6.1 Losses incurred by Government Companies and Corporations

There were seven Government Companies that incurred losses during the year 2022-23. In these SPSEs loss had increased to ₹794.98 crore in 2022-23 as compared to loss of ₹453.11 crore incurred by these SPSEs during 2021-22 as

<sup>10</sup> Return on Equity = (Net Profit after Tax and preference Dividend/Equity) \*100 where Equity = Paid up Capital + Free Reserves & Surplus – Accumulated Loss – Deferred Revenue Expenditure

given in *Appendix 11*. The details of SPSEs that incurred losses from 2020-21 to 2022-23 are given in the table as follows:

**Table 1.18: Number of SPSEs that incurred losses during 2020-21 to 2022-23**

Year	No of SPSEs incurred loss	Net loss for the year (₹ in crore)	Accumulated loss (₹ in crore)	Net worth <sup>11</sup> (₹ in crore)
<b>Government Companies and Corporations</b>				
2020-21	10	3,568.19	7,453.93	-2,936.07
2021-22	11	2,423.12	8,035.66	-2,106.83
2022-23	07	794.98	8,806.52	-5,379.69

(Source: Compiled on the basis of latest finalised accounts of SPSEs)

Out of total loss of ₹794.98 crore incurred by 07 Government SPSEs and Corporation, loss of ₹788.73 crore was mainly contributed by two SPSEs (GRIDCO Limited and Odisha State Road Transport Corporation) which function in Energy and Commerce and Transport Departments respectively. Two SPSEs which incurred major loss during 2022-23, are as follows:

- i) **GRIDCO Limited:** Loss of ₹778.18 crore during 2022-23 was mainly due to the high cost of purchase of Power.
- ii) **Odisha State Road Transport Corporation (OSRTC):** The loss of ₹10.55 crore during 2020-21 was mainly due to decrease in Revenue from Operation.

## 1.6.2 Erosion of capital in Government Companies and Corporations

As on 31 March 2023, there were 08 out of 29 Government Companies and Corporations with accumulated losses of ₹9,449.38 crore. Of the 08 SPSEs, four SPSEs incurred losses in the year 2022-23, amounting to ₹788.91 crore, four SPSEs had not incurred loss in the year 2022-23, even though they had accumulated losses of ₹597.89 crore.

Net worth of four out of 08 SPSEs had been completely eroded by accumulated loss and was negative. The net worth of these four SPSEs was ₹(-)5,735.80 crore against total equity investment of ₹3,428.80 crore in these SPSEs as on 31 March 2023. Out of four SPSEs, whose capital had been eroded (negative net worth), two SPSEs had earned profit of ₹27.73 crore during 2022-23 (*Appendix 12*).

Net worth was less than half of its paid up capital in respect of one<sup>12</sup> out of 21 SPSEs whose net worth was positive at the end of 31 March 2023, indicating its potential financial sickness. Overall, net worth of all the 29 Government Companies and Corporations was ₹17,311.65 crore against their total paid up capital of ₹9,316.53 crore.

<sup>11</sup> Net worth means the sum total of the paid-up share capital and free reserves and surplus less accumulated loss and deferred revenue expenditure. Free reserves mean all reserves created out of profits and share premium account but do not include reserves created out of revaluation of assets and write back of depreciation provision.

<sup>12</sup> Odisha State Road Transport Corporation

## **Oversight Role of CAG**

### **1.7 Audit of State Public Sector Enterprises (SPSEs)**

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. The CAG has a right to conduct a supplementary audit and issue comments upon or supplement the Audit Report of the statutory auditor. Statutes governing the three<sup>13</sup> Statutory Corporations require that their accounts be audited by the CAG and a report be submitted to the State Legislature.

### **1.8 Appointment of Statutory Auditors of State Public Sector Enterprises by CAG**

Section 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 Government Companies/Government Controlled Other Companies for the year 2022-23, were appointed by the CAG during August 2022 to September 2022.

### **1.9 Submission of Accounts by State Public Sector Enterprises**

#### **1.9.1 Need for timely submission**

According to Section 394 of the Companies Act, 2013 Annual Report on the working and affairs of a Government Company is to be prepared within three months of its Annual General Meeting (AGM). As soon as may be after such preparation, the Annual Report shall be laid before the State Legislature, together with a copy of the Audit Report and comments of the CAG upon or as supplement to the Audit Report. Almost similar provisions exist in the respective Acts regulating Statutory Corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the companies from the Consolidated Fund of State.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It also states 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 a company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

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<sup>13</sup> Odisha State Financial Corporation (OSFC), Odisha State Warehousing Corporation (OSWC) and Odisha State Road Transport Corporation (OSRTC)

Despite above, annual accounts of various SPSEs were pending as on 30 September 2023, as detailed in the following paragraph.

### 1.9.2 Timeliness in preparation of accounts by SPSEs

As of 31 March 2023, there were 61 Government SPSEs and 15 Government Controlled Other SPSEs under purview of CAG's audit as indicated in *Appendix-1*. Out of these 61 Government SPSEs, three are Statutory Corporations.

Accounts for the year 2022-23 were due from all 61 Government SPSEs and 15 Government Controlled Other SPSEs. The details of accounts which are in arrears are indicated in *Appendix-2* and *Appendix-3* for Government Companies and Government Controlled Other Companies separately. The number of accounts in arrears for the aforesaid two groups is given as follows:

**Table 1.19: Details of submission of accounts of Government Companies**

Particulars		Government SPSEs/Government Controlled Other SPSEs		
		Government SPSEs	Government Controlled Other SPSEs	Total
<b>Total number of SPSEs under the purview of CAG's audit as on 31.03.2023</b>		<b>61</b>	<b>15</b>	<b>76</b>
Unlisted		61	15	76
Less: New SPSEs from which accounts for 2022-23 were not due		-	-	-
Number of SPSEs from which accounts for 2022-23 were due		61	15	76
Number of SPSEs which presented the accounts for CAG's audit by 30 September 2023 for FY 2022-23		11	05	16
<b>Number of SPSEs whose accounts are in arrears</b>		<b>50</b>	<b>10</b>	<b>60</b>
Break- up of SPSEs whose accounts are in Arrears	(i) Under Liquidation	14	0	14
	(ii) Defunct	10	0	10
	(iii) First Accounts not submitted	0	0	0
	(iv) Others	26	10	36
<b>Number of accounts in arrears</b>		<b>893</b>	<b>19</b>	<b>912</b>
Age-wise analysis of arrears	One year (2022-23)	14*	06	20
	Two years (2021-22 and 2022-23)	10**	04	14
	Three years and more	869***	09	878

\* Includes one Statutory Corporations viz., Odisha State Financial Corporation

\*\* Includes one Statutory Corporations viz., Odisha State Road Transport Corporation

\*\*\* Includes one Statutory Corporation viz., Odisha State Warehousing Corporation

Delay in finalisation of accounts carries the risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view

of the above state of arrears of accounts, the actual contribution of SPSEs to the State exchequer was not reported to the State Legislature. Hence, the Administrative Departments should strictly monitor and issue necessary directions to clear the arrears in accounts. The Government may also look into the constraints in preparing the accounts of the SPSEs and take necessary steps to clear the arrears in accounts.

## **1.10 CAG's oversight - Audit of accounts and supplementary audit**

### **1.10.1 Financial reporting framework**

Companies are required to prepare their 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 Financial Reporting Authority (NFRA). The Statutory Corporations are required to prepare their accounts in the format prescribed under their rules, framed in consultation with the CAG and any other specific provision relating to accounts in the Act, governing such Corporations.

### **1.10.2 Audit of accounts of SPSEs by Statutory Auditors**

The statutory auditors appointed by the CAG under Section 139 of the Companies Act, 2013 conduct audit of accounts of the Government Companies and submit their reports thereon in accordance with Section 143 of the Companies Act, 2013.

The CAG plays an oversight role by monitoring the performance of the statutory auditors in audit of public sector undertakings 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.

### **1.10.3 Supplementary Audit of accounts of SPSEs**

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 the 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 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 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 Annual General Meeting.

## 1.11 Result of CAG’s oversight role

### 1.11.1 Audit of accounts of SPSEs under Section 143 of the Companies Act, 2013 (description of financial statements received and selected/not selected for review)

Financial statements for the year 2022-23 were received from 10 Government Companies and 05 Government Controlled Other Companies by 30 September 2023. Of these, financial statements of 08 Government Companies and 04 Government Controlled Other Companies were reviewed in audit by the CAG.

### 1.11.2 Number of cases and substantive content of revision of Auditors Report

As a result of supplementary audit of the financial statements for the year ended 31 March 2023 conducted by the CAG, the statutory auditor’s report of Odisha Coal and Power Limited (OCPL) for the year 2022-23 was revised before laying of the financial statements of the Company in its Annual General Meeting. There was no financial impact on the financial statements due to revision of statutory auditor’s report.

### 1.11.3 Significant comments of the CAG issued as supplement to the statutory auditors’ reports on SPSEs

Subsequent to the audit of the financial statements by statutory auditors which were received during the period from 01 October 2022 to 30 September 2023, the CAG conducted supplementary audit of the financial statements of the selected Government Companies and Government Controlled Other Companies. Impact of significant comments of the CAG issued as supplement to the statutory auditors’ reports on SPSEs was ₹166.61 crore on profitability and ₹480.08 crore on assets and liabilities. The list of SPSEs, in respect of which comments were issued, is given in *Appendix 13*. Some of the significant comments issued on financial statements of Government Companies and Government Controlled Other Companies are detailed in tables as follows:

**Table 1.20: Significant comments on profitability of SPSEs**

Sl. No.	Name of the Company / Financial Year	Comments
1	Bhubaneswar Smart City Limited (BSCL)/  2021-22	Revenue from operation is overstated by ₹56.61 lakh due to accounting of revenue received for subsequent period as revenue for current year towards leasing of dark fibre network in contradiction with Ind AS 18 (Para 13). This has also resulted in understatement of other current liabilities by ₹56.61 lakh as well as Loss for the period to the same extent.

Sl. No.	Name of the Company / Financial Year	Comments
2	GRIDCO Limited/ <b>2022-23</b>	Cost of Power is understated by ₹42.24 crore due to non-accounting of the claims of NTPC, Farakka and Talcher towards wage revision bills for the period 2016-19 amounting to ₹2.77 crore; differential fixed charge of those power stations for the period 2014-23 as per orders of CERC amounting to ₹38.40 crore and Ground Rent and Cess payable to OPGC as per orders of OERC for the month of March 2023 amounting to ₹1.07 crore. This has also resulted in understatement of Cost of Power by ₹42.24 crore with corresponding understatement of Loss and Current Liabilities to the same extent.
3	Odisha Power Generation Corporation Limited (OPGC)/ <b>2021-22</b>	Revenue from Operations [Energy Sales (including Electricity Duty)] is overstated by ₹47.55 crore due to booking of Fuel Price Adjustment (FPA) Bill as Revenue from Operations which was disputed by GRIDCO Limited before OERC. The Company has appealed against the ruling of OERC in the Appellate Tribunal for Electricity (APTEL). As the matter is sub-judice, booking of the same as Revenue from Operations is not in accordance with the provisions of Ind AS-115. This has resulted in overstatement of Revenue from Operations by ₹47.55 crore with corresponding understatement of loss for the year by an equal amount. Further, as the matter is sub-judice, booking of FPA bill of ₹235.73 crore from the year 2016-17 to 2021-22 as Trade Receivables is not prudent and has resulted in overstatement of Trade Receivables as well as Other Equity by ₹235.73 crore.
4	Odisha State Civil Supplies Corporation Limited (OSCSCL)/ <b>2020-21</b>	Procurement Expenses - Commission to PACS is understated by ₹3.12 crore due to short provision of commission payable to Primary Agricultural Co-operative Society (PACS) for procuring paddy during the year. This has also resulted in understatement of Current Liabilities and Loss before Subsidy by ₹3.12 crore each.
5	Odisha Coal and Power Limited (OCPL)/ <b>2022-23</b>	Depreciation and amortization expenses does not include ₹16.94 crore being the amount of amortization on ₹187.92 crore payable to Tahasildar, Hemgir towards land premium, capitalised value and incidental charges for acquisition of non-forest land of 761.98 acre for dip side Manoharpur Coal Block under the Coal Bearing Areas (Acquisition and Development) Act, 1957. This has resulted in understatement of depreciation and amortization expenses by ₹16.94 crore with overstatement of profit for the year by the same amount. This has also resulted in understatement of Current Liabilities (Other Current Liabilities - Note 28) by ₹187.92 crore and Non-Current Assets (Right-of-Use Assets - Note-6) by ₹170.98 crore (₹187.92 crore - ₹16.94 crore).

Table 1.21: Significant comments on Financial Position of SPSEs

Sl. No.	Name of the Company / Financial Year	Comments
1	Odisha Hydro Power Corporation Limited (OHPC)/  <b>2021-22</b>	Current Assets (Inventories) is overstated by ₹3.31 crore due to inclusion of store materials which are unserviceable/ obsolete/ damaged lying in stores of Upper Indravati Hydro Electric Project (UIHEP), Khatiguda and Hirakud Hydro Electric Projects (HHEP), Burla. As these store materials are very old and in unserviceable condition, necessary provision should have been made in the accounts. Hence, non-provision towards these stores has resulted in overstatement of inventories (Note-9) by ₹3.31 crore as well as profit to the same extent.
2	Odisha Power Generation Corporation Limited (OPGC)/  <b>2021-22</b>	Capital Work-in-Progress is overstated by ₹22.86 crore due to non-capitalisation of mandatory spares of Boiler Turbine and Generator (BTG) units. As the BTG units had been capitalised in 2019-20 and the Goods Received Note (GRN) of mandatory spares were issued in March 2021, the same should have been capitalised during the year 2021-22. Non-capitalisation of the mandatory spares has resulted in overstatement of CWIP by ₹22.86 crore and understatement of Property, Plant and Equipment (PPE) by the same amount. This has also resulted in understatement of depreciation as well as loss for the year by ₹0.72 crore.
3	Odisha State Civil Supplies Corporation Limited (OSCSCL)/  <b>2020-21</b>	Other Long-Term Liabilities - Subsistence Relief-Covid-19 (NFSA/ SFSS) is overstated by ₹21.10 crore due to wrong accounting of Subsistence Relief-Covid-19 (NFSA/ SFSS) fund. The company has received fund of ₹955.17 crore for distribution of ₹1,000 in cash to each eligible ration card holders under subsistence Relief-Covid-19 covered under National Food Security Act (NFSA) and State Food Security Scheme (SFSS). After distribution an amount of ₹14.18 crore was lying unutilised with the company which is wrongly accounted for ₹35.28 crore. This has also resulted in overstatement of Other Current Assets by ₹21.10 crore.
4	Odisha Coal and Power Limited (OCPL)  <b>2022-23</b>	Property, Plant and Equipment is understated by ₹82.29 crore due to non-capitalisation of water pipeline constructed from IB Thermal Power Station (ITPS) to Manoharpur mine for consumption of water at the Coal Handling Plant (CHP) of OCPL and mines. This has also resulted in overstatement of Capital Work-in-Progress by ₹82.29 crore and understatement of depreciation as well as overstatement of profit for the year ₹1.14 crore each.

Table 1.22: Significant comments on Disclosure

Sl. No.	Name of the Company / Financial Year	Comments
1	Nuagaon Coal Company Limited (NCCL)/  <b>2016-17</b>	Ministry of Coal, Govt. of India had allotted Nuagaon-Telisahi Block in favour of Odisha Mining Corporation (OMC) and Andhra Pradesh Mineral Development Corporation (APMDC) on a 50:50 sharing basis in 2006 and subsequently, Nuagaon Coal Company Limited (NCCL) was formed (11.05.2011) as a joint venture of OMC and

Sl. No.	Name of the Company / Financial Year	Comments
		APMDC (Promoters) for development of coal block. However, the allotment of Nuagaon-Telisahi Coal Block was cancelled by Hon'ble Supreme Court of India vide their order dated 24.09.2014. In line with section 16 of Coal Mines (Special Provision) Ordinance, 2014 relating to payment of compensation for land and mine infrastructure, the company provided all details of Nuagaon-Telisahi Coal Block to the Ministry of Coal and claimed an amount of ₹19.27 crore as compensation in lieu of the cancelled coal block. The said claim amount included ₹15.39 crore spent by the promoters and ₹3.89 crore by the company for development of coal block, which is yet to be received from Ministry of Coal, GoI. However, the company has not disclosed this fact in the Notes to Accounts. Hence, Notes to Accounts are deficient to that extent.
2	Odisha Power Generation Corporation Limited (OPGC)/  2022-23	As per physical stock verification report, the value of stores and spares as on 30.03.2023 is ₹132.71 crore, whereas in final accounts, it was shown as ₹137.87 crore as on 31.03.2023. As the date of the physical stock verification report is different to the Balance Sheet date, such fact of difference in inventory valuation should have been disclosed in the books of accounts with proper justification.

#### 1.11.4 Statutory Corporations where CAG is the sole auditor

The significant comments issued by the CAG on the accounts of Statutory Corporation where CAG is the sole auditor are detailed below:

##### Odisha State Financial Corporation (OSFC) - (2020-21)

- (i) Administrative expenses includes ₹7.36 lakh being the expenditure incurred in 2020-21 for procurement of computer software for facilitating online services on loan information system. The system was put to operation from 09 September 2020. The amount was to be booked under Intangible Assets, and as per AS-26, the intangible asset was required to be amortized within a period of 03 to 05 years. On the other hand, the entire amount was booked to the profit and loss account in the year 2020-21. This has resulted in understatement of amortization cost by ₹1.31 lakh, understatement of intangible assets by ₹6.05 lakh and consequential overstatement of loss by ₹6.05 lakh.
- (ii) Borrowings does not include ₹0.54 crore, being the interest due on the loan availed from Small Industries Development Bank of India (SIDBI) for the year 2020-21. In August 2012, SIDBI had offered to the Corporation to settle the outstanding balance of refinance/ line of credit of ₹125.61 crore in the form of One Time Settlement (OTS) by envisaging payment of ₹42 crore, which was accepted by the Corporation in August 2012. However, the Corporation could pay only ₹27 crore and defaulted in paying the outstanding amount of ₹15 crore since October 2016. As a result, SIDBI claimed ₹3.32 crore as delayed payment interest (10 April 2018) on the outstanding amount. On the

other hand, the Corporation, while making provision for remaining loan amount of ₹15 crore, did not make any provision in the books of account for the delayed payment interest claimed by SIDBI upto March 2017 and further interest due from 2018-19 to 2020-21. Non-provision of interest in the books of account resulted in understatement of Financial Expenses for the year by ₹0.54 crore, Prior period expenses by ₹4.40 crore and Borrowings by ₹4.94 crore. Consequently, Net Loss was understated by ₹4.94 crore.

- (iii) Small Industries Development Bank of India (SIDBI), while enforcing clause 11 and 12 of terms and conditions of general agreement executed on 10 May 2010 with the Corporation, froze various accounts of OSFC having bank balance and fixed deposits of ₹12.59 crore vide notification dated 11 March 2022. This fact should have been disclosed suitably in the Notes on Accounts.

### 1.12 Non-compliance with provisions of Accounting Standards/ Ind AS

In exercise of the powers conferred by Section 469 of the Companies Act, 2013 read with Section 129 (1), Section 132 and Section 133 of the said Act, the Central Government prescribed Accounting Standards 1 to 7 and 9 to 29 to ensure that the financial statements give a true and fair view of the state of affairs of the company. Besides these, the Central Government notified 41 Indian Accounting Standards (Ind AS) through Companies (Indian Accounting Standards) Rules, 2015 and Companies (Indian Accounting Standards) (Amendment) Rules, 2016.

The statutory auditors reported that five companies as detailed in *Appendix 14* did not comply with the mandatory Accounting Standards/Ind AS.

During the course of supplementary audit of the companies' accounts for the financial years noted there against, the CAG observed that the following companies had not complied with the Accounting Standards/Ind AS which was also not reported by their statutory auditors:

**Table 1.23: Non-compliance to Accounting Standards/ Ind AS observed during supplementary audit**

Accounting Standard / Ind AS		Name of the Company (Financial year)	Deviation
Ind AS-18	Revenue	Bhubaneswar Smart City Limited (2021-22)	Accounting of revenue received for subsequent period as revenue for current year in contradiction with Ind AS 18 (Para 13).
AS-10	Property, Plant and Equipment	Odisha Rail Infrastructure Development Limited (2021-22)	Non-disclosure of fact of non-accounting of capital expenditure under CWIP against which no future economic benefit were anticipated to the company from the cost.

Accounting Standard / Ind AS		Name of the Company (Financial year)	Deviation
Ind AS-33	Earnings per Share	Mandakini B Coal Corporation Limited (2016-17)	Non-disclosure of basic and diluted earnings per share as per Ind AS-33
Ind AS-16	Property, Plant and Equipment	Mandakini B Coal Corporation Limited (2016-17)	Non-disclosure of depreciation method used for each class of property, plant and equipment.
Ind AS-115	Revenue from Contracts with Customers	Odisha Power Generation Corporation Limited (2021-22)	Booking of revenue from operation against sub-judice matter in contradiction with provisions of Ind AS-115.
AS-26	Intangible Assets	Odisha State Financial Corporation (2020-21)	Non-recognition of expenditure for procurement of computer software under intangible assets as per AS-26.
AS-4	Contingencies and Events Occurring After the Balance Sheet Date	Odisha Small Industries Corporation Limited (2018-19)	The Company made provision for dividend declared after balance sheet date but before the approval of accounts instead of disclosure of the facts under notes to accounts as per AS-4.
AS-12	Government Grants	Odisha Tourism Development Corporation Limited (2021-22)	Non-disclosure of accounting policy adopted for Government Grants in accordance with the provisions of AS-12

### 1.13 Management Letters

One of the objectives of financial audit is to establish communication on audit matters arising from the audit of financial statements between the auditor and those charged with the responsibility of governance of the corporate entity.

The material observations on the financial statements of SPSEs were reported as comments by the CAG under Section 143(5) of the Companies Act, 2013. Besides these comments, irregularities or deficiencies observed by CAG in the financial reports or in the reporting process were also communicated to the management through a 'Management Letter' for taking corrective action. These deficiencies generally related to:

- application and interpretation of accounting policies and practices;
- adjustments arising out of audit that could have a significant effect on the financial statements; and
- inadequate or non-disclosure of certain information on which management of the concerned SPSE gave assurances that corrective action would be taken in the subsequent year.

During the year, CAG issued 'Management Letters' to 21 SPSEs, as listed in *Appendix 15*.

## Corporate Governance

### 1.14 An introduction to Corporate Governance

Corporate governance is the system by which companies are directed and managed. It elucidates the processes for setting up and achieving the objectives of the organization, maximizing performance and minimizing risk. Good corporate governance practices enable organizations to create value, improve accountability and develop internal controls to safeguard the integrity of their business processes.

Given the special role of the SPSEs in achieving the developmental and infrastructure goals, proper systems of governance assume importance. The need to improve accountability in the SPSEs, while ensuring that they meet the stated objectives, has given impetus to the adoption of good governance practices.

### 1.15 Provisions as contained in the Companies Act, 2013

The Companies Act, 2013 was enacted on 29 August 2013 replacing the Companies Act, 1956. In addition, the Ministry of Corporate Affairs has also notified (31 March 2014) Companies Rules, 2014 on Management and Administration, Appointment and Qualification of Directors, Meetings of Board of Directors and its powers. The Companies Act, 2013 together with the Companies Rules provide the framework for Corporate Governance. The requirements, inter-alia, provide for:

- Appointment of independent directors in Public Companies and mandatory establishment of certain committees like Audit Committee by the companies having paid-up share capital of ₹10 crore or more, turnover of ₹100 crore or more, or outstanding loans, debentures and deposits, exceeding ₹50 crore. {Rule 4 of Companies (Appointment and Qualification of Directors) Rules, 2014 and Section 177(1) of the Companies Act, 2013}.
- Qualifications for independent directors along with the duties and guidelines for professional conduct {Section 149(6) read with Rule 5 of the Companies (Appointment and Qualification of Directors) Rules, 2014}.
- Mandatory appointment of one woman director on the board in Public Companies having paid-up share capital of ₹100 crore or more or turnover of ₹300 crore or more {Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014}.
- Holding of a minimum of four meetings of Board of Directors every year in such a manner that not more than 120 days shall intervene between two consecutive meetings of the Board {Section 173(1)}.

## 1.16 Review of Compliance by selected SPSEs of the Corporate Governance provisions

As on 31 March 2023, there were 76 SPSEs in Odisha under the audit jurisdiction of the CAG. Department of Public Enterprises, GoO oversees the functions of the SPSEs and advises on their efficient management and control in the functional areas. Corporate Governance Manual (CGM) of GoO (November 2009) required preparation of a corporate plan by SPSEs. This manual has been modified in 2022 and is now applicable to all SPSEs registered under the Companies Act, 1956 or Companies Act, 2013 along with all Statutory Corporations incorporated under the specific Acts of Government of Odisha.

## 1.17 Composition of Board of Directors

### 1.17.1 Independent directors

According to Section 149 (6) of the Companies Act, 2013 an independent director means a director other than a managing director or a whole-time director or a nominee director, who is a person of integrity and possesses relevant expertise and experience. Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014 provides that every public company with paid-up share capital of ₹10 crore or more or turnover of ₹100 crore or more or with aggregated outstanding loans, debentures and deposits exceeding ₹50 crore shall have at least two independent directors on their Board. List of 35 SPSEs meeting these criteria is given in *Appendix 16*. Of these 35 SPSEs, eight SPSEs<sup>14</sup> were not required to follow the criteria of having independent director under a specific notification dated 05 July 2017. Of the remaining 27 SPSEs, five SPSEs as mentioned in the following table did not have at least two independent directors on their Boards during the financial year 2022-23.

**Table 1.24: SPSEs that met the criteria but did not have at least two numbers of independent directors on their Board**

Sl. No.	Name of the SPSE
1	Odisha Rural Housing and Development Corporation Limited
2	Odisha State Seeds Corporation Limited
3	Odisha Power Generation Corporation Limited
4	Odisha Rail Infrastructure Development Limited
5	Odisha Mining Corporation Limited

*(Source: Information furnished by the respective SPSEs)*

### 1.17.2 Woman Director in the Board

Section 149 (1) of the Companies Act, 2013 read with Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014 provides that every public company having paid-up share capital of ₹100 crore or more or turnover of ₹300 crore or more shall have at least one woman Director in its Board. There were 21 such SPSEs meeting this criterion as

<sup>14</sup> Green Energy Development Corporation Limited - wholly owned subsidiary; Bramhani Railway Limited, Baitarani West Coal Company Limited, Paradeep Plastic Park Limited, Angul Aluminum Park Limited, Odisha Thermal Power Corporation Limited, GEDCOL-SAIL Power Corporation Limited and Odisha Coal and Power Limited - Unlisted Joint Venture Companies

listed in *Appendix 17*. Of 21 SPSEs, nine SPSEs as detailed in table below did not have women directors on their Board.

**Table 1.25: List of SPSEs that did not have Women Directors on their Board**

Sl. No.	Name of the SPSE
1	Odisha State Beverages Corporation Limited
2	Odisha State Civil Supplies Corporation Limited
3	Industrial Promotion and Investment Corporation of Odisha Limited
4	Odisha Construction Corporation Limited
5	Odisha Bridge and Construction Corporation Limited
6	Odisha Power Generation Corporation Limited
7	Odisha Coal and Power Limited
8	Odisha State Police Housing and Welfare Corporation Limited
9	Odisha Lift Irrigation Corporation Limited

*(Source: Information furnished by the respective SPSEs)*

### 1.17.3 Non-Executive Directors in the Board

The Board is the most significant instrument of corporate governance. Clause 49 (I) (A) (1) of Listing Agreement and Regulation 17 (1) (a) of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 stipulates that the Board of Directors of the company shall have an optimum combination of executive and non-executive directors with not less than 50 *per cent* of the Board of Directors comprising non-executive directors. GRIDCO Limited is only one listed SPSE in Odisha and it had more than 50 *per cent* non-executive Directors on the Board.

## 1.18 Appointment and functioning of independent directors

### 1.18.1 Manner of appointment

Sub-clause (2) of clause IV-Manner of appointment of Schedule IV provides that the appointment of independent director(s) of the company should be approved at the meeting of the shareholders. It was noticed that independent directors had been appointed by the State Government; however, their appointment had not been approved at the meeting of shareholders.

**Table 1.26: List of SPSEs where appointment of independent directors had not been approved in the meeting of shareholders**

Sl. No.	Name of the SPSE
1	Odisha State Medical Corporation Limited
2	Odisha Forest Development Corporation Limited
3	Bhubaneswar Smart City Limited
4	Odisha Agro Industries Corporation Limited
5	Odisha State Police Housing and Welfare Corporation Limited
6	Industrial Promotion and Investment Corporation of Odisha Limited
7	Green Energy Development Corporation of Odisha Limited
8	Odisha Lift Irrigation Corporation Limited
9	Odisha State Beverages Corporation Limited
10	Odisha Construction Corporation Limited

*(Source: Information furnished by the respective SPSEs)*

### 1.18.2 Training of independent directors

Schedule IV to the Companies Act, 2013 stipulates that the independent directors shall undertake appropriate induction and regularly update and refresh their skills, knowledge and familiarity with the Company. However, it was observed from the information furnished by the SPSEs that no such training was conducted for independent directors who were on the Board during the year 2022-23 by any SPSEs, except Odisha Bridge and Construction Corporation Limited.

### 1.18.3 Attending Board meetings, meetings of Board Committees and General Meetings of the company

Para III (3) of Schedule IV of the Companies Act, 2013 states that independent directors should strive to attend all the meetings of Board of Directors and Board Committees of which he/she was a member. Audit observed that in 12 SPSEs, the independent directors did not attend 31 Board Meetings and 53 other Board committee meetings 39 and 81 times respectively during 2022-23.

Para III (5) of Schedule IV of the Companies Act, 2013 states that independent directors shall strive to attend all the general meetings of the Company. The following table indicates SPSEs where independent directors did not attend the General meetings of the Company during the year 2022-23.

**Table 1.27: List of Companies where independent directors did not attend General Meeting**

Sl. No.	Name of the SPSE	No. of independent directors who did not attend General Meetings
1	Odisha Lift Irrigation Corporation Limited	2
2	Odisha Mining Corporation Limited	1
3	Odisha State Medical Corporation Limited	2
4	Odisha Agro Industries Corporation Limited	3
5	Water Corporation of Odisha Limited	1
6	Rourkela Smart City Limited	5
7	Odisha State Civil Supplies Corporation Limited	3
8	Industrial Promotion and Investment Corporation of Odisha Limited	4
9	Green Energy Development Corporation Limited	4
10	Odisha Bridge and Construction Corporation Limited	2
11	Odisha Hydro Power Corporation Limited	4
12	Odisha Construction Corporation Limited	3

*(Source: Information furnished by the respective SPSEs)*

### 1.19 Filling-up the posts of Directors-Functional, Non-Functional, Independent

Timely filling up of vacancies in the posts of key managerial personnel's, Directors *etc.*, ensures the availability of required skill and expertise in the management of the company. Any delay in filling of vacancies may hamper

the effectiveness of the decision making process. Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014 stipulates that vacancy arising out of resignation or removal of an independent director should be filled up at the earliest but not later than the immediate next Board meeting or three months from the date of such vacancy, whichever is later. However, it was observed that the SPSEs detailed in table below did not comply with the above provision during 2022-23 and the posts of independent directors remained vacant for a considerable period of time.

**Table 1.28: SPSEs where vacancies of independent directors not filled in time**

Sl. No.	Name of the SPSE	Number of independent directors required	No. of Post Vacant	Total number of months for which posts remained vacant (During 2022-23)
1	Odisha Rural Housing and Development Corporation Limited	2	2	12 months
2	Odisha State Seeds Corporation Limited	2	2	12 months
3	Odisha Power Generation Corporation Limited	2	2	12 months
4	Odisha Rail Infrastructure Development Limited	2	2	12 months
5	Odisha Mining Corporation Limited	2	1	12 months

*(Source: Information furnished by the respective SPSEs)*

### 1.20 Meeting of Board of Directors and Board Committees (legal provisions for issue of notice, convening the meetings etc.)

Section 173(1) of Companies Act, 2013 stipulates that every company shall hold a minimum number of four meetings of its Board of Directors every year in such a manner that not more than 120 days shall intervene between two consecutive meetings of the Board. The following table below shows the Companies where the requirement of number of meetings to be held in a year was not complied with during 2022-23.

**Table 1.29: SPSEs where requirement of four meetings of BoDs was not met**

Sl. No.	Name of the SPSE	No. of meetings held
1	Odisha State Medical Corporation Limited	2
2	Odisha Pisciculture Development Corporation	2
3	Odisha Rural Housing and Development Corporation Limited	1
4	Bhubaneswar Smart City Limited	3
5	Odisha State Police Housing and Welfare Corporation Limited	2
6	Rourkela Smart City Limited	3
7	Odisha Thermal Power Corporation Limited	3
8	Samuka Tourism Development Corporation Limited	3
9	Odisha State Warehousing Corporation	2
10	Kalinga Studio Limited	2
11	Odisha Sport Development and Promotion Corporation Limited	3
12	Start up Odisha	3
13	Green Energy Development Corporation Limited	3

Sl. No.	Name of the SPSE	No. of meetings held
14	GEDCOL-SAIL Power Corporation Limited	3
15	Odisha Mineral Bearing Areas Development Corporation Limited	2
16	Odisha Film Development Corporation Limited	2
17	Lanjigarh Project Area Development Foundation	2
18	Brahmani Railways Limited	3
19	Paradeep Plastic Park Limited	3
20	IDCO SEZ Development Limited	3

(Source: Information furnished by the respective SPSEs)

## 1.21 Audit Committee and Other Committees of the Board

### 1.21.1 Composition of Audit Committee

Section 177 (1) and (2) of the Companies Act, 2013 stipulate that there shall be an Audit Committee with a minimum of three directors with independent directors forming majority. Further, Rule 6 of Companies (Meetings of Board and its Powers) Rules, 2014 provides that every public company with a paid-up capital of ₹10 crore or more or turnover of ₹100 crore or more or outstanding loans or borrowings or debentures or deposits exceeding ₹50 crore or more shall constitute an Audit Committee.

In terms of above stipulations, 35 companies listed in *Appendix 16* were required to constitute Audit Committee. However, three SPSEs (Odisha Tourism Development Corporation Limited, Odisha Rural Housing and Development Corporation and Odisha Sports Development and Promotion Company) did not constitute the Audit Committee. Further, majority of the members of the Audit Committee were not independent directors in respect of the SPSEs detailed in table as follows:

Table 1.30: SPSEs where Audit Committee not having majority of independent directors

Sl. No.	Name of the SPSE
1	Odisha Forest Development Corporation Limited
2	Odisha Agro Industries Corporation Limited
3	Odisha Power Generation Corporation Limited
4	Odisha Mining Corporation Limited
5	Odisha Power Transmission Corporation Limited

(Source: Information furnished by the respective SPSEs)

### 1.21.2 Evaluation of Internal Control System

Section 177 (4) (vii) of the Companies Act, 2013 stipulate that Audit Committee should evaluate internal financial control and risk management systems. In respect of SPSEs given in table below, the Audit Committee has not evaluated the internal financial control and risk management systems.

**Table 1.31: SPSEs where Audit Committee did not evaluate internal financial control and risk management system**

Sl. No.	Name of the SPSE
1	Odisha Thermal Power Corporation Limited
2	Odisha State Seeds Corporation Limited
3	Odisha Small Industries Corporation Limited

(Source: Information furnished by the respective SPSEs)

### 1.21.3 Review of performance of Statutory Auditors

Further section 177 (4) (ii) of the Companies Act, 2013 stipulate that Audit Committee should review and monitor the auditors' independence and performance and effectiveness of audit process. As per information furnished by the SPSEs, in case of Odisha State Seeds Corporation Limited, such performance evaluation was not done.

### 1.21.4 Nomination and functioning of Nominations and Remuneration Committee

As per Rule 6 of Companies (Meetings of Board and its Powers) Rules, 2014, other than listed companies, all public companies having paid up capital of ₹10 crore or more; turnover ₹100 crore or more; and outstanding loans or borrowings or debentures or deposits exceeding ₹50 crore or more as per last audited Financial Statements are required to constitute a Nomination and Remuneration (N&R) Committee. The purpose of the N&R Committee is to identify persons who are qualified to become directors, formulate criteria for determining qualification of a director, recommend a policy relating to remuneration *etc.* List of 35 SPSEs meeting these criteria is given in *Appendix 16*. Of these 35 SPSEs, eight SPSEs were not required to follow the criteria of having N&R Committee.

Out of 27 SPSEs covered under the above criteria, 13 companies did not constitute the Committee during 2022-23, as shown in table as follows:

**Table 1.32: SPSEs not having Nomination and Remuneration Committee**

Sl. No.	Name of the SPSE
1	Odisha Rural Housing and Development Corporation Limited
2	Bhubaneswar Smart City Limited
3	Water Corporation of Odisha Limited
4	Odisha Tourism Development Corporation Limited
5	Agricultural Promotion and Investment Corporation of Odisha Limited
6	Odisha State Seeds Corporation Limited
7	Odisha State Civil Supplies Corporation Limited
8	Odisha Power Generation Corporation Limited
9	Green Energy Development Corporation of Odisha Limited
10	Odisha Lift Irrigation Corporation Limited
11	Odisha State Beverages Corporation Limited
12	Odisha Construction Corporation Limited
13	Odisha Mining Corporation Limited

(Source: Information furnished by the respective SPSEs)

## 1.22 Internal Audit Framework

### 1.22.1 Legal Framework

#### The Companies Act as well as directions issued by the State Government

Section 138 (1) of the Companies Act, 2013 read with Rule 13 of the Companies (Accounts), Rules 2014 provides that, every listed company; or every unlisted public company having paid up share capital of ₹50 crore or more; or turnover of ₹200 crore or more; or outstanding loans or borrowings from banks or public financial institutions exceeding ₹100 crore or more; or outstanding deposits of ₹25 crore or more at any point of time during the preceding financial year shall be required to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

Para 11.3.3 of the Corporate Governance Manual for the SPSEs provides that internal audit shall conduct periodic testing of the effectiveness of internal controls and report its findings directly to the Audit Committee. Further, para 11.3.8 provides that in case the SPSE does not have sufficient resources to conduct the internal audit, it can appoint external experts to undertake this function.

However, as per the information furnished by the SPSEs, it is observed that no internal auditor was appointed for the year 2022-23 in case of six SPSEs listed in the table as follows:

**Table 1.33: SPSEs where Internal Auditor was not appointed during the financial year 2022-23**

Sl. No.	Name of the SPSE
1	Odisha Rural Housing and Development Corporation Limited
2	Odisha State Seeds Corporation Limited
3	Odisha Agro Industries Corporation Limited
4	Odisha State Civil Supplies Corporation Limited
5	Odisha State Road Transport Corporation
6	Odisha Lift Irrigation Corporation Limited

*(Source: Information furnished by the respective SPSEs)*

### 1.22.2 Audit Findings

#### 1.22.2.1 Frequency of the Internal Audit

Section 138 (2) of the Companies Act, 2013 read with Rule 13 (2) of the Companies (Accounts), Rules 2014 provides that Audit Committee of the Company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit. The internal auditors, appointed by the SPSEs for the year 2022-23, conducted internal audit at regular intervals *i.e.*, quarterly/half-yearly. However, one SPSE *viz.*, Odisha State Medical Corporation Limited

did not conduct internal audit at regular intervals despite appointment of internal auditor.

#### **1.22.2.2 Reporting of Internal Audit observation**

Internal Auditor required to submit their report to the Board through Audit Committee as per the provisions of section 177 (5) of the Companies Act, 2013. However, in case of two SPSEs *viz.*, Odisha State Medical Corporation Limited and Odisha Thermal Power Corporation Limited, there was no existing procedure on reporting of internal audit observations.

#### **1.22.2.3 Monitoring of Internal Audit observations**

Section 177 (5) of the Companies Act, 2013 stipulates that Audit Committee shall review the internal control system including audit observations before their submission to the Board. Internal Audit observations are placed before board for their review and appropriate action. As per the information received from the SPSEs, internal audit observations had been reviewed by the Audit Committee during the year 2022-23.

#### **1.22.2.4 Role of the Audit Committee in Internal Audit**

Section 177 (4) of the Companies Act, 2013 read with Rule 13 (2) of the Companies (Accounts), Rules 2014 provides that, the Audit Committee shall review performance of the internal auditors. As per information provided by the SPSEs, which were having Audit Committee, the performance of internal auditors was not reviewed by the Audit Committee in case of one SPSE *viz.*, Odisha State Seeds Corporation Limited.

Further, Section 177 (5) of the Companies Act, 2013 read with Rule 13 (2) of the Companies (Accounts), Rules 2014 provides that the Audit Committee may call for the comments of the auditors about internal control system, the scope of audit, including the observations of the auditors and review of financial statements before their submission to the Board and may also discuss any related issue with the internal auditors. As per information provided by the SPSEs, the Audit Committee did not discuss with the internal auditors the audit findings in case of two SPSEs *viz.*, Odisha Rail Infrastructure Development Limited and Odisha State Seeds Corporation Limited.

## **Corporate Social Responsibility**

### **1.23 Definition and Legal Framework of Corporate Social Responsibility**

Corporate Social Responsibility (CSR) is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the local community at large. Broadly, the CSR mandate is aligned with the national priorities such as public health, education, livelihood, water conservation, natural resource management *etc.*

The concept of CSR provides a robust framework for companies to collaborate in contributing to the country's development challenges through its managerial skills, technology and innovation.

Section 135 of the Companies Act, 2013 (hereafter referred to as the Act), deals with the subject of CSR and lays down the qualifying criteria based on net worth, turnover and net profit during immediately preceding financial year<sup>15</sup> for companies which are required to undertake CSR activities. The activities which may be included by the companies in their CSR policies are listed in Schedule VII of the Act. The provisions of Section 135 of the Act and Schedule VII of the Act are applicable to all companies including SPSEs.

#### 1.24 Applicable regulations on CSR

The Act makes it mandatory for any company to spend annually at least two *per cent* of average net profit (calculated as per section 198 of the Act) of three immediate preceding financial years towards CSR activities. In February 2014, Ministry of Corporate Affairs (MCA) issued Companies (Corporate Social Responsibility Policy) Rules, 2014. The CSR Rules were made applicable to all companies including State PSEs *w.e.f.* 01 April 2014. Accordingly, the compliance of the provisions of CSR under the Act *i.e.*, constitution of CSR Committee, formulation of CSR Policy and spending of prescribed amount on CSR activities came into force from April 2014. The Companies (CSR Policy) amendment rules were issued by Ministry of Corporate Affairs in 2021 and 2022. The Ministry of Corporate Affairs issued General Circular No. 14/2021 (August 2021) for better understanding and facilitating effective implementation of CSR.

#### 1.25 Constitution of CSR Committee

As per section 135 (1) of the Act, every company having a net worth of ₹500 crore or more; or turnover of ₹1,000 crore or more; or a net profit of ₹5 crore or more during immediately preceding financial year shall constitute a CSR committee of the Board consisting of three or more Directors. The 16 SPSEs required to constitute CSR committees as detailed in *Appendix 18*. All the 16 SPSEs had constituted CSR Committee and were having minimum of three Directors in the Committee in accordance with section 135 (1) of the Act.

Out of 16 SPSEs, qualified for constituting CSR committee, the average net profit of one SPSE (GRIDCO) was negative at ₹ (-) 778.18 crore. GRIDCO Limited had been incurring loss continuously during last three preceding financial years and its net worth is negative (₹ (-)5,662.32 crore) as of March 2023.

#### 1.26 Framing of CSR Policy

Section 135 (3) of the Act requires that the CSR Committee shall formulate and recommend a CSR Policy to the Board. It was noticed that out of 16

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<sup>15</sup> As per Amendment 37 of Companies Act, 2017, to resolve the ambiguity on any financial year, the words 'any financial year' has been replaced with the words immediately preceding financial year. This notification is effective from 19 September 2018

SPSEs, three SPSEs *i.e.*, Odisha Bridge and Construction Corporation Limited, Odisha State Civil Supplies Corporation Limited and Odisha Power Transmission Corporation Limited did not have CSR policy in place.

### 1.27 Annual CSR plan and budget

Role of the CSR Committee is to recommend to the Board, the CSR activities and the amount to be spent in the financial year. The Board has to ensure implementation of the CSR activities. Out of 16 SPSEs, one SPSE *i.e.*, GRIDCO Limited did not formulate CSR plan and budget for the financial year 2022-23 due to incurrence of continued loss in the preceding financial years. Of remaining 15 SPSEs, six SPSEs<sup>16</sup> did not formulate CSR plan and five SPSEs<sup>17</sup> did not prepare CSR budget for the year 2022-23.

### 1.28 Range of CSR spend

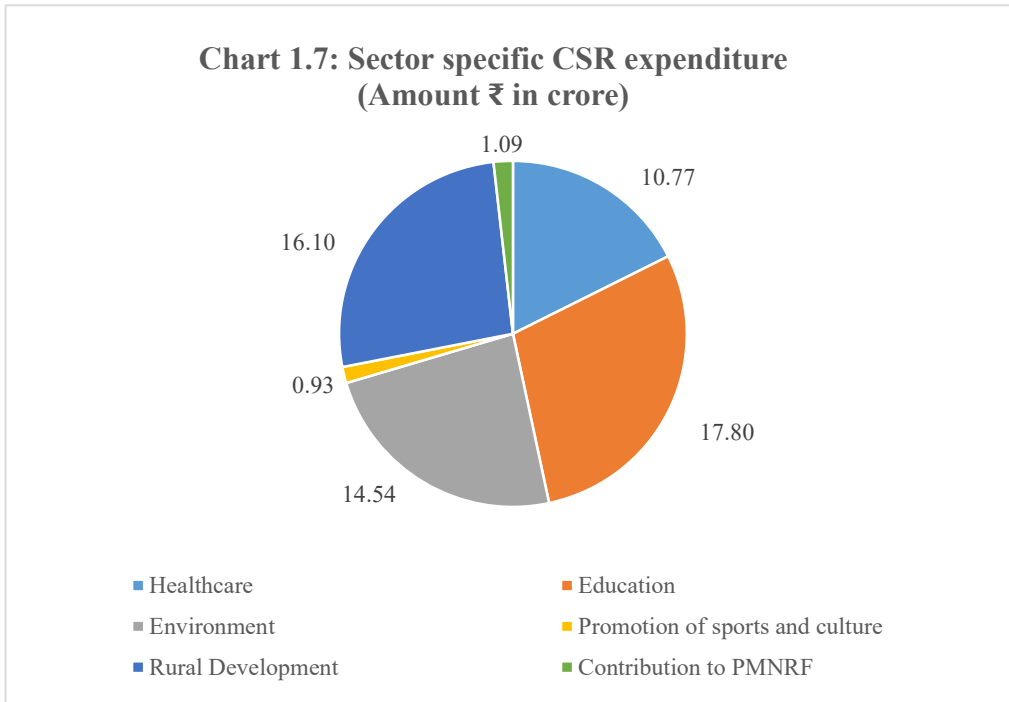
Out of 12 SPSEs which spent CSR funds during 2022-23, six SPSEs had spent more than one crore rupees and six SPSEs spent less than one crore rupees as detailed in *Appendix 19*.

### 1.29 Sector-wise CSR spend

Section 135 (3) of the Act requires that the CSR committee shall formulate and recommend to the Board, a CSR Policy which shall indicate the activities to be undertaken by the company in areas or subject, specified in Schedule VII. Out of 16 SPSEs which constituted CSR committee, GRIDCO Limited had not incurred any CSR expenditure during 2022-23 due to non-availability of allocable surplus. Of remaining 15 SPSEs, three SPSEs *i.e.*, Odisha Lift Irrigation Corporation Limited, Odisha Bridge and Construction Corporation Limited and Odisha State Civil Supplies Corporation Limited did not spend any amount towards CSR during the financial year 2022-23. Sector specific expenditure of 12 SPSEs, which incurred CSR expenditure during the financial year 2022-23, has been given in *Appendix 19* and is also depicted in the chart as follows:

<sup>16</sup> Odisha Lift Irrigation Corporation Limited, Odisha Construction Corporation Limited, Odisha Bridge and Construction Corporation Limited, Odisha State Civil Supplies Corporation Limited, Odisha Hydro Power Corporation Limited and Odisha Power Transmission Corporation Limited

<sup>17</sup> Odisha Agro Industries Corporation Limited, Odisha Lift Irrigation Corporation Limited, Odisha Bridge and Construction Corporation Limited, Odisha State Civil Supplies Corporation Limited and Odisha Power Transmission Corporation Limited



The top spender was Odisha Mining Corporation Limited at ₹52.48 crore (85.48 per cent of total CSR spend) followed by Odisha State Beverages Corporation Limited at ₹1.48 crore (2.42 per cent), Odisha Power Generation Corporation Limited ₹1.21 crore (1.98 per cent), Odisha Hydro Power Corporation Limited ₹1.19 crore (1.94 per cent) and Odisha Coal and Power Limited ₹1.12 crore (1.83 per cent).

### 1.30 Financial Component

#### 1.30.1 Allocation of funds

As per section 135 (5) of the Act, it is mandatory for any company to spend annually at least two per cent of average net profit of three immediately preceding financial years in pursuance of its CSR Policy. Accordingly, two per cent of average net profit calculated as per Section 198 of the Act for 12 SPSEs was ₹55.49 crore and their carry over amount from previous years was ₹3.18 crore. However, the 12 SPSEs incurred expenditure of ₹61.24 crore i.e., net excess of ₹2.57 crore as detailed in *Appendix 20*.

#### 1.30.2 Utilisation of Funds

Section 135 (5) of the Act states that Board shall ensure that the company spends two per cent of average net profit of preceding three years.

It was observed that against the required spending of ₹58.67 crore towards CSR activities by 12 SPSEs, the actual spending was ₹61.24 crore. However, it was also observed that out of 12 SPSEs, five SPSEs, which required spending of ₹9.50 crore towards CSR activities, had actually spent ₹2.97 crore leaving unspent amount of ₹6.53 crore (*Appendix 20*).

### 1.30.3 Quarter wise spend

Total spend against CSR during 2022-23 by 12 SPSEs was ₹61.24 crore. There was rush in CSR spend in last quarter (*Appendix 21*). Odisha Mining Corporation Limited (OMC), the top spender (₹52.48 crore), had not provided quarter-wise expenditure break-up. OSBC, OHPC and OCPL had spent major portion of their CSR funds (₹1.48 crore, ₹1.09 crore and ₹0.86 crore respectively) in the fourth quarter.

## 1.31 Project Implementation

### 1.31.1 Manner of implementation of CSR activities (In-house/external agencies)

Rule 4 of Companies (CSR) Rules, 2014 exclusively deals with the manner in which the CSR activity is to be undertaken under section 135(1) of the Act. The Board may decide to undertake CSR activities as approved by CSR Committee through a registered trust/society or a company established by the company or its holding, subsidiary or associate company under Section 8 of the Act or otherwise.

The SPSEs spent the CSR funds directly or through Government departments, NGOs/trusts and handed over the funds to identified agencies for implementation of the CSR activities.

### 1.31.2 Spent in Local Area

Section 135 (5) of the Act provides that the Company shall give preference to the local area and areas where it operates for spending the amount earmarked for CSR activities. Out of 12 SPSEs, three SPSEs<sup>18</sup> did not spend on CSR, in local area.

## 1.32 Monitoring Framework

As per Rule 5(2) of CSR Rules, 2014, the CSR Committee shall institute a transparent monitoring mechanism for implementation of CSR projects/programs/activities undertaken by the Company. During the financial year 2022-23, 12 SPSEs incurred CSR expenditure. However, only five SPSEs<sup>19</sup> conducted review meetings during 2022-23.

## Recommendations

Government of Odisha in the Department of Public Enterprises may:

- issue directions to the SPSEs with arrear accounts to clear their arrear accounts on priority basis;

<sup>18</sup> Odisha Agro Industries Corporation Limited, Industrial Promotion and Investment Corporation of Odisha Limited and Odisha Construction Corporation Limited

<sup>19</sup> Odisha State Police Housing and Welfare Corporation Limited, Odisha Power Generation Corporation Limited, Odisha State Beverages Corporation Limited, Odisha Coal and Power Limited and Odisha Mining Corporation Limited

- issue directions to all SPSEs to conduct at least four Board Meetings in a financial year as per the requirement of the Companies Act, 2013 and Corporate Governance Manual of Government of Odisha;
- issue directions to every eligible public company to form Audit Committee with a minimum of three directors with independent directors forming majority;
- issue directions to profit making SPSEs to prepare annual plan and make provision of budget for CSR, so that funds allotted towards CSR could be effectively utilized during the financial year;
- issue directions to all SPSEs to make efforts to spend two *per cent* of average net profits of preceding three years towards admissible CSR activities; and
- issue directions for early action on disinvestment in inactive/defunct SPSEs.