

Strengthening Accounting & Auditing of State Public Sector Entities & Autonomous Bodies

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Objective

- Understand Current State of State Public Sector Units (SPSUs).
- Discuss Problems faced by SPSUs.
- Explore Reforms
- Way Forward with Actionable Strategies

Definition of State PSU

Autonomous Bodies

- Organizations established by the State Government to carry out specific functions outside the regular departmental structure, Example: state universities or specialized boards

Government Company

- Any company in which the government (Central and/or State) holds at least 51% of the paid-up share capital Example: Maharashtra State Electricity Distribution Co. Ltd. is a government company fully owned by Maharashtra Govt. with paid up capital of about INR 48,273 Cr. **(Source: State Audit Finance Report CAG FY 22-23)**

Statutory Corporation

- An autonomous entity created by a special Act of Parliament or a state legislature, fully owned and funded by the government, with its powers and duties defined by that law Example: The Maharashtra State Road Transport Corporation (MSRTC) was established under the Road Transport Corporations Act, MIDC, MSFC, MSWC, Irrigation Corp.

Few State PSUs & Autonomous Bodies at a Glance



Industries:
MIDC,
MSSIDC,
Haffkine
Biopharmaceu
tical
Corporation



**Urban/
Housing
Development:**
MHADA,
CIDCO,
MMRDA



**Infra &
Transport:**
MSRTC,
Maharashtra
Airport
Development
Corporation
(MADC)



Energy:
MSEDCL
, MEDA,
MNGL



**Finance
Sector:**
MSFC,
MAVIM



Universities:
Mahatma
Phule
Agricultural
University



**Autonomou
s Bodies:**
Tribal
Development
Corporation
& other

NOTE: Number of State PSUs increase yearly. In the year 2022-23 there were 110 PSUs and as of year 2023-24 there were 132 PSUs

Sector-wise Turnover of State PSUs

(Data: MH state as of FY23)

(Source: State Finances Audit Report CAG for year 2023)

Sector	No. of PSUs	Turnover (INR Cr.)
Power	4	1,12,847.35
Service	2	2,628.20
Infrastructure	11	2,415.73
Miscellaneous	3	1,939.37
Agriculture & Allied	12	1,727.81
Manufacturing	4	455.49
Finance	16	140.75
Total	52	1,22,154.70

NOTE:

40 other PSUs had NIL Turnover.

FAAs of the rest were awaited.

GCC, GCOC and Statutory Corp.

(Data: MH state as of FY23)

Particulars	GCC	Statutory Corporations	Total	GCOC	Grand Total
1	2	3	4 = 2 + 3	5	6 = 4 + 5
Active	68	10	78	13	91
Inactive	19	0	19	0	19
Total	87	10	97	13	110

GCC: Government Controlled Company
GCOC: Government Controlled Other Companies

Source: State Fin. Audit report CAG for FY 22-23

Status of Financial Statements (FS)

(Data: MH state as of FY23)

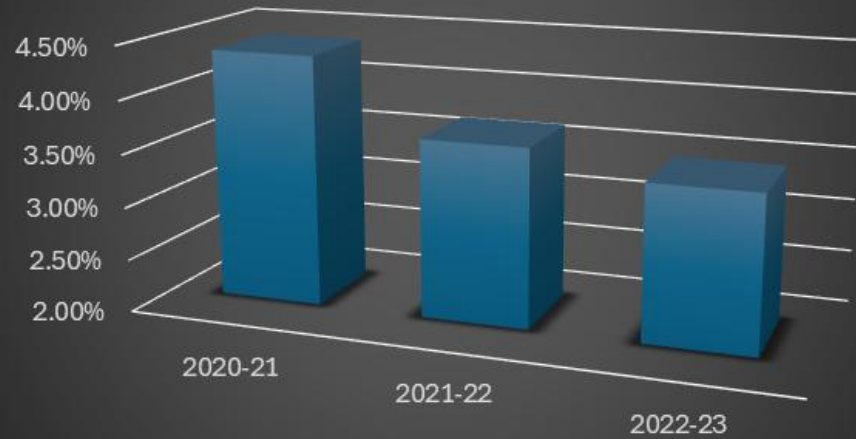
		Number of SPSUs whose FSs were received as of 30 September 2023				
Nature of SPSUs	Total No. of SPSUs	FSs for the period 2022-23	FSs for the period 2021-22	FSs for the period 2020-21 and Earlier	Total	No. of SPSUs of which FSs are in arrears as on 30 September 2023
GCC	68	7	26	10	43	25
GCOC	13	3	2	-	5	8
SC	10	0	4	-	4	6
Total	91	10	32	10	52	39

Source: State Fin. Audit report CAG for FY 22-23



Current Status of SPSUs

SPSU Contribution to SGDP

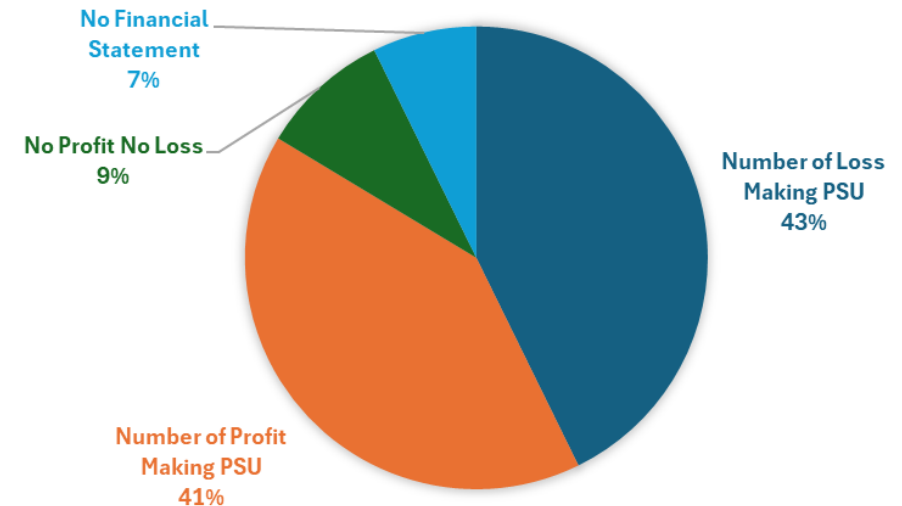


Current State of PSUs: Financial

Dividend payout ratio (%)



SPSU FINANCIALS AS OF 2023



Current Audit Status of Few Major State PSUs & Autonomous Bodies

Sr No	Name of Organization	F.Y 2024-25		F.Y 2025-26 Estimated Budget		Completed internal Audit	Current Status of Statutory Audit	Current status of CAG Audit	Annual report submission to concerned Authority.
		Income / receipt (Rs. in crore)	Exp (Rs. in crore)	Income / receipt (Rs. in crore)	Exp (Rs. in crore)				
1	Maharashtra State Power Generation Company Ltd (MAHAGENCO)	38,868	38,839	38,838	38,104	2024-25	2023-24	2023-24	2023-24
2	Mumbai Metropolitan region Development Authority (MMRDA)	19229	15727	36939	40187	2024-25	2023-24	2023-24	2023-24
3	Maharashtra State Road Transport Corporation (MSRTC)	10943	11895	13033	14052	2023-24	--	2022-23	2021-22

Source: As Reported by Individual Organizations

Continued..

Current Audit Status of Few Major State PSUs

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		Income / receipt (Rs. in crore)	Exp (Rs. in crore)	Income / receipt (Rs. in crore)	Exp (Rs. in crore)				
4	Maharashtra Industrial Development Corporation (MIDC)	5329	7201	6571	13573	2023-24	2023-24	2023-24	2019-20
5	Maharashtra Krishna Valley Development Corporation Pune (MKVDC)	3617	3464	Budget 3473 Grant Received- 1133	801	2024-25	2023-2024	2023-2024	2023-24
6	Tapi Irrigation Development Corporation Jalgaon`	2397	2276	628	418	2023-24	2023-24	2022-2023	2021-22
7	Mahatma Phule Krishi Vidyapeeth, Rahuri (MPKV)	640	640	273	269	No internal audit mechanism.	2020-21	2023-24	2020-21

Source: As Reported by Individual Organizations



Challenges & Problems

Challenges: Accounting Perspective

Non Uniform Accounting Framework

Delayed submission of Annual Account

Weak Internal Auditing mechanism

Capacity Constraints: Lack of Skilled Personnel

Weak oversight by Boards & Departments

Limited Use of IT systems

Non-Compliance to Audit Observation

Lack of Accountability & Penalties on the part of Executives

Problems in preparing timely Accounts

Challenge Area	Details
Absence of Fundamental Elements	Books itself are NOT maintained in certain cases, Negligence on part of executives.
Delayed approval and authentication of accounts	Boards of Governors (BoG) often delay approval, leading to cascading delays in audit and reporting .
Delay in submission/finalisation of accounts	Accounts are not prepared within the stipulated timeline, forcing departments and CAG to intervene demi-officially.
Arrears in accounts	Many bodies fail to submit accounts for several years, reflecting weak financial reporting systems and poor internal controls . This increases the risk of fraud and mismanagement . (Ideally FS is required to be finalized within 6month from the of end of Financial Year)
Delay in presentation of accounts before Legislature/Parliament	Audited accounts of autonomous bodies must be presented within 9 months (by 31 December), but many are not placed on time.
Delay in submission of Utilisation Certificates (UCs)	As per General Financial Rules (GFR), UCs must be submitted within 12 months for grants received. Delays hinder transparency and accountability of fund usage.
Delay in replies to audit observations	Management of these bodies often fails to submit timely replies to Draft Separate Audit Reports (SARs) , further slowing down corrective action.



Addressing the Issues

Strengthening Accounting Practices



Timely Preparation of Accounts: Enforce strict deadlines for preparation and submission of accounts, with penalties for delays.



Automation & IT Systems: Implement **ERP systems (SAP, Oracle, IFMS 3.0)** for real-time accounting and monitoring.



Capacity Building: Regular training for finance & accounts staff in Ind AS, GFR, and government accounting standards.



Clear Treatment of Subsidies & Grants: Standardize accounting for subsidies, viability gap funding, and regulatory assets to reduce ambiguity.



Accrual-based Accounting: Gradual shift from cash-based to accrual accounting in statutory bodies for better transparency of liabilities.



Standard operating Guidelines A National PSU Accounts Manual should be developed on the lines of National Municipal Accounting Manual of 2004 for the Municipal bodies

Improving Audit Effectiveness

Integrated Audit Framework:

Better coordination between Statutory Auditors, CAG supplementary audits, and internal audit.

Digital Audit Trails:

Mandate IT-enabled systems that generate automatic audit logs to reduce manual manipulation.

Strengthening Internal Audit:

Establish independent internal audit cells within PSUs, reporting directly to Audit Committees.

Capacity for Risk-Based Audit:

Move from transaction-checking to **risk-based auditing (Standardized Risk Assessment Model)**, focusing on high-value and high-risk areas.

Time-bound SAR Replies: Fix strict timelines for management responses to Draft Separate Audit Reports (SARs).

Responsibilities to be fixed for delay in submitting Accounts & Pendency of Audit.

Non-responsive SPSUs should be brought to notice of Legislative Committees.

Governance & Oversight Reforms



Key Managerial Persons (KMPs):

Absence of KMP delays timely finalization of accounts; non-compliance should trigger disciplinary action.



Audit Committees:

Strengthen Audit Committees in PSUs with independent members and financial experts.



Legislative Oversight:

COPU oversight in MH has become active ensuring Accountability of such bodies, which was not possible due to COVID & transitional phase of Govt.



Departmental Accountability:

Departmental oversight will also aid PSUs in maintaining Accounts & Internal Audit

Structural Reforms



Liquidation:

Absence of overarching mechanism of Closure of ailing PSUs.



Flexible Audit Mechanism:

Flexible Audit norms for less active/minor PSUs.

Provision for Remote Auditing.



Institutional Reforms:

State governments can constitute an oversight body/watchdog for SPSUs



Departmental Accountability:

Departmental oversight will also aid PSUs in maintaining Accounts & Internal Audit

Transparency & Public Disclosure

01

Mandatory Public Disclosure:

Annual accounts, CAG reports, utilisation certificates, and audit qualifications should be published.

02

Dashboard Monitoring:

State Finance/PSU Department to run dashboards tracking PSU accounts status, arrears, and audit pendency.

03

Related Party Transaction:

Usually observed “Information NOT available” is Marked.

04

Public Issue:

This will ensure public transparency & financial reforms such as: Quarterly Auditing, Adopting FS etc.

Capacity & Cultural Change

Incentives for Compliance:

Recognize and reward PSUs that maintain timely and clean accounts.

Deterrence:

Penalize persistent offenders through funding cuts or leadership changes.

Change in Culture:

Move from “formality of compliance” to **using audit insights for governance improvement.**





Case Study

Case Study: Best Practices

Maha State Power Generation Co. Ltd.(MSPGCL)

1. Financial Reporting

- Use of SAP/ERP systems for accounts.
- Timely preparation, CAG review, AGM approval, and submission to State Assembly.

2. Internal Controls

- **Preventive** (Segregation of duties, SoPs, Authorization & Approval processes, IT controls, Physical & Access Controls, Employee Screening & Training).
- **Detective** (Audits, Reconciliations, Budget monitoring, Risk Assessment & Log monitoring).
- **Corrective** (Implementing Corrective Actions, Process improvements, Audit committee actions, Disciplinary actions, Policy update).

3. Grants & Subsidies

- Recognized only with assurance of receipt, disclosed transparently.

4. Procurement & Contracts

- Governed by Delegation of Powers for transparency and cost control.

Case Study: Best Practices

Maha State Power Generation Co. Ltd.(MSPGCL)

5. Revenue, Assets & Borrowings

- Revenue recognized on accrual basis.
- Regular asset verification and loan approvals only with authority.

6. CSR & Risk Management

- CSR policy aligned with Companies Act.
- Contingent liabilities disclosed in financial statements.

7. Audit & Oversight

- CAG audits annually.
- Internal audit + professional reviews for accuracy & compliance

8. Compliance & Governance

- Regular Board meetings, audit committees, and CSR committees.
- Timely filing of statutory returns and records.

Case Study - MSRTC

MSRTC is a statutory Corporation established under section 3 of the Road Transport Act 1950

MSRTC has an Internal Audit wing in place. Currently many post in the wing are vacant. These vacancies are being filled on priority basis to strengthen the Internal Audit wing.

Simultaneously reviewed major areas of losses leading to take corrective measures which reduced expenses and augmented revenues.

MSRTC is consistently recording losses over the period of last 10 year. But the losses are in downtrend.

MSRTC:

Financial Performance for 5 years

SN	Particulars	2020-21	2021-22	2022-23	2023-24	2024-25
A	Total Revenue	4223.50	3903.95	8951.13	10127.28	10943.41
B	Total Expenditure	5994.90	5042.53	10036.02	11118.34	11875.86
C	Net Loss (B–A)	1771.40	1138.58	1084.89	991.06	932.45

NOTE: Losses have gone down as a result of operational efficiency & upholding the standards of Internal Accounting & Auditing systems

Case Study: Maulana Azad Minorities Financial Development Corporation

Corporation registered under the Companies Act, for providing loans under various schemes at a lower rate to minorities. Authorized capital: INR 700 Cr.; Paid up capital: INR 671 Cr.

Present Status:

- Sanctioned posts 157; filled 46
 - Accounts not maintained since 2013-14; Consequently, absence of Audit
 - Loan disbursed between FY 11-12 to FY 21-22: INR 343 Cr.
-

Primary Causes of not maintaining Accounts:

- Absence of full time Internal Accounting skilled man-power
 - Absence of basic tools of Loan & Accounts Management
-

Consequences:

- No track of loan recovery
- Lack of Qualitative/Quantitative understanding as to the size & type of loan accounts turning NPAs
- Vulnerable to Financial Failure as there is limited visibility over Finances



Inference & Discussion

Policy Prescription

Observed: Contrasting Case Studies.

Type I- Institutions observing Standard Practices of Accounting & Auditing.

Type II- Institution not upkeeping Basic Practices of Accounting & Auditing.

Observed: For Type II- true, fair & factual picture of the institution is not reflected, making it susceptible to Financial Failure as compared to Type I.

Inferred: Accounting & Auditing system serves as a **Beacon** of financial health of an institution.

Policy Prescription: ?



Thank you