

Chapter-I

1. Overview of Government companies and Statutory corporations

Introduction

1.1 As on 31 March 2007, there were 26 Government companies (19 working companies and seven non-working* companies) and two statutory corporations (both working) as against the same number of companies and corporations as on 31 March 2006 under the control of the State Government. In addition, the State had formed (August 1998) Haryana Electricity Regulatory Commission whose audit is also being conducted by the Comptroller and Auditor General of India (CAG). The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per the provisions of Section 619 of the Companies Act, 1956. The audit arrangements of the statutory corporations are as shown below:

| Sl. No. | Name of the corporation | Authority for the audit by the CAG | Audit arrangement |
|---------|---------------------------------|--|---|
| 1. | Haryana Financial Corporation | Section 37(6) of the State Financial Corporations Act, 1951. | audit by Chartered Accountants and supplementary audit by CAG |
| 2. | Haryana Warehousing Corporation | Section 31(8) of the State Warehousing Corporations Act, 1962. | audit by Chartered Accountants and supplementary audit by CAG |

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

1.2 As on 31 March 2007, the total investment in 21 working PSUs (19 Government companies and two statutory corporations) was Rs. 12,172.08 crore (equity: Rs. 2,388.01 crore; long-term# loans: Rs.8,334.48 crore and share application money: Rs.1,449.59 crore) as against total investment of Rs. 10,700.55 crore (equity: Rs. 2,205.41crore, long-term loans: Rs. 7,655.51 crore and share application money: Rs. 839.63 crore) as on

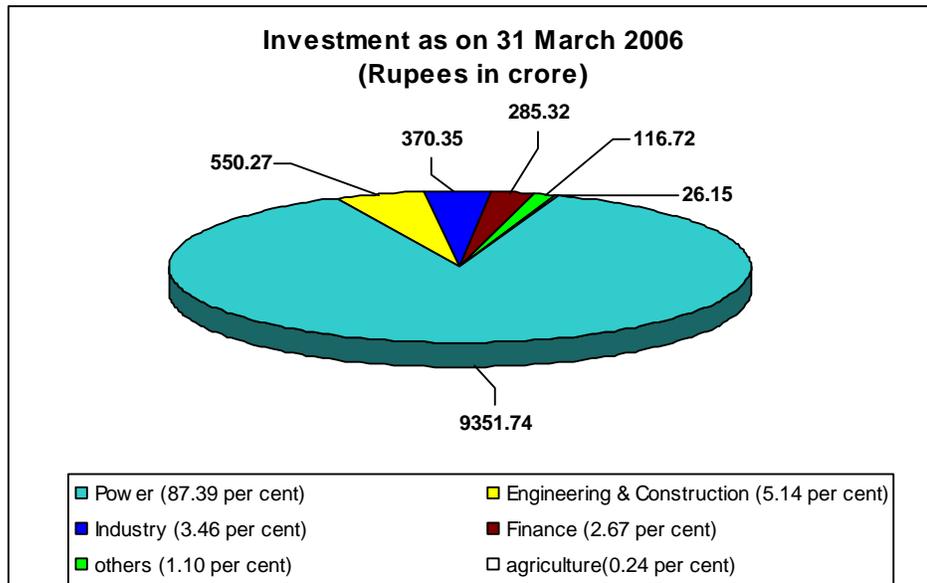
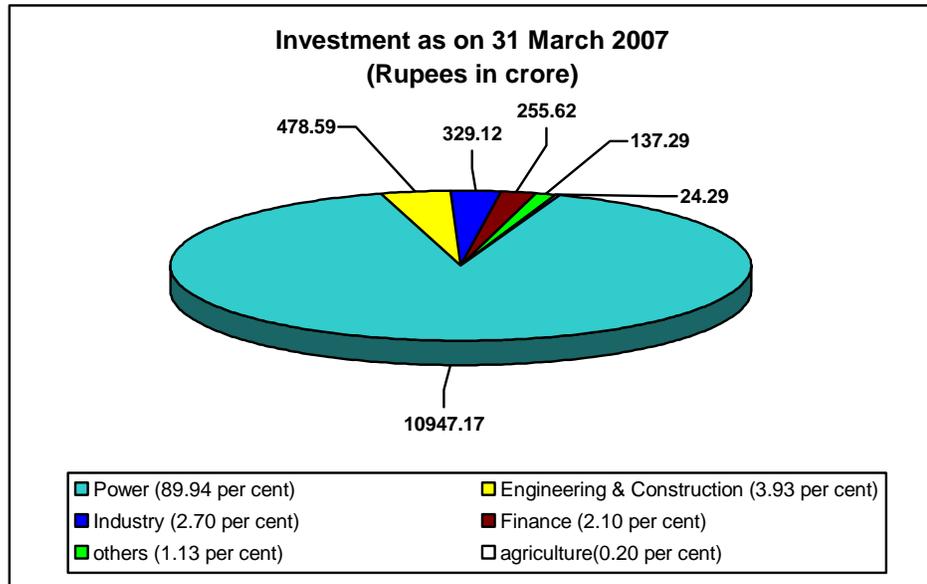
* Non-working companies are those which are under process of liquidation/closure/merger etc.

Long-term loans mentioned in para 1.2, 1.3 and 1.4 are excluding interest accrued and due on such loans.

31 March 2006. Analysis of investment in working PSUs is given in the following paragraphs.

Sector wise investment in working Government companies and Statutory corporations

The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2007 and 31 March 2006 are indicated below in the pie charts:



Working Government companies

1.3 The total investment in working Government companies at the end of March 2006 and March 2007 was as follows:

(Amount: Rupees in crore)

| Year | Number of working Government companies | Equity | Share application money | Long-term loans | Total |
|---------|--|----------|-------------------------|-----------------|-----------|
| 2005-06 | 19 | 2,165.64 | 839.63 | 7,396.36 | 10,401.63 |
| 2006-07 | 19 | 2,348.25 | 1,444.59 | 8,111.20 | 11,904.04 |

As on 31 March 2007, the total investment in working Government companies comprised 31.86 per cent equity capital and 68.14 per cent loans compared to 28.89 and 71.11 per cent of equity capital and loans respectively as on 31 March 2006.

A summarised position of Government investment in working Government companies in the form of equity and loans is detailed in **Annexure 1**.

Due to increase in paid up capital of power sector and decrease in loan in construction sector, the debt equity ratio of working Government companies as a whole decreased from 2.46:1 in 2005-06 to 2.14:1 in 2006-07.

Working Statutory corporations

1.4 The total investment in two working Statutory corporations at the end of March 2006 and March 2007 was as follows:

(Amount: Rupees in crore)

| Name of the corporation | 2005-06 | | 2006-07 | |
|---------------------------------|--------------|-----------------|--------------|-----------------|
| | Capital | Long-term loans | Capital | Long-term loans |
| Haryana Financial Corporation | 33.93 | 251.39 | 38.92 | 216.69 |
| Haryana Warehousing Corporation | 5.84 | 7.76 | 5.84 | 6.59 |
| Total | 39.77 | 259.15 | 44.76 | 223.28 |

A summarised position of Government investment in working Statutory corporations in the form of equity and loans is detailed in **Annexure 1**.

Due to decrease in long-term loans of both the corporations, the debt equity ratio as a whole decreased from 6.52:1 in 2005-06 to 4.99:1 in 2006-07.

Budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity

1.5 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to working Government companies and working Statutory corporations are given in **Annexures 1 and 3**.

The budgetary outgo* in the form of equity capital, loans and grants/subsidies from the State Government to working Government companies and working Statutory corporation during 2004-05 to 2006-07 are given below:

(Amount: Rupees in crore)

| Particulars | 2004-05 | | | | 2005-06 | | | | 2006-07 | | | |
|-----------------------------------|-----------|----------------|-------------|--------------|-----------|-----------------|-------------|-------------|-----------|----------------|-------------|-------------|
| | Companies | | Corporation | | Companies | | Corporation | | Companies | | Corporation | |
| | No. | Amt. | No. | Amt. | No. | Amt. | No. | Amt. | No. | Amt. | No. | Amt. |
| Equity capital outgo from budget | 7 | 166.98 | 1 | 0.002 | 12 | 348.47 | 1 | 3.00 | 9 | 784.96 | 1 | 5.00 |
| Loans given from budget | 3 | 21.96 | - | - | 2 | 5.09 | - | - | 2 | 202.68 | - | - |
| Grant/subsidy towards | | | | | | | | | | | | |
| (1) Projects/ programmes/ schemes | 5 | 16.10 | - | - | 8 | 1306.73 | - | - | 9 | 1,565.61 | - | - |
| (2) Other subsidy | 5 | 1,170.74 | - | - | 3 | 9.37 | - | - | 6 | 2,215.70 | - | - |
| Total grants/ subsidy | | 1,186.84 | - | - | | 1,316.10 | - | - | | 3,781.31 | - | - |
| Total outgo | | 1375.78 | | 0.002 | | 1,669.66 | | 3.00 | | 2597.43 | | 5.00 |

During the year 2006-07, the Government had guaranteed loans aggregating Rs. 342.04 crore obtained by four working Government companies (Rs. 164.29 crore) and two working Statutory corporations (Rs. 177.75 crore). At the end of the year, guarantees amounting to Rs. 3,396.66 crore against 11 working Government companies (Rs. 3,323.24 crore) and one working Statutory corporation (Rs.73.42 crore) were outstanding. The guarantee commission paid/payable to the Government by four Government companies and one Statutory corporation during the year was Rs. 78.47 lakh and Rs. 14.37 lakh respectively.

Finalisation of accounts by working PSUs

1.6 The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. These are also to be laid before the Legislature within nine months from the end of relevant financial year. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. Out of 21 working PSUs (19 Government companies and two Statutory corporations), only five companies and one corporation had finalised their accounts for the year 2006-07 by 30 September 2007. During the period from October 2006 to September 2007, 13 working Government companies finalised 16 accounts for previous years.

* Reconciliation of figures with Finance Accounts is pending for the year 2006-07.

The accounts of 14 working Government companies and one Statutory corporation involving 30 accounts were in arrears for periods ranging from one to six years as on 30 September 2007 as detailed below:

| Sl. No. | No. of working companies/corporations | | Period for which accounts were in arrears | Number of years for which accounts were in arrears | Reference to Serial No. of Annexure 2 | |
|---------|---------------------------------------|------------------------|---|--|---------------------------------------|------------------------|
| | Government companies | Statutory corporations | | | Government companies | Statutory corporations |
| 1. | 1 | - | 2001-02 to 2006-07 | 6 | A8 | - |
| 2. | 1 | - | 2003-04 to 2006-07 | 4 | A13 | - |
| 3. | 2 | | 2004-05 to 2006-07 | 3 | A12 and A15 | |
| 4. | 3 | - | 2005-06 to 2006-07 | 2 | A5, A6 and A16 | - |
| 5. | 7 | 1 | 2006-07 | 1 | A3, A7, A10, A11, A14, A18 and A19 | B2 |

The administrative departments need to oversee and ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed every quarter by the Audit, of the arrears in finalisation of accounts, no remedial measures had been taken. As a result of which the net worth of these PSUs could not be assessed in audit.

Financial position and working results of working PSUs

1.7 The summarised financial results of working PSUs as per their latest finalised accounts are given in **Annexure 2**. Besides, statements showing financial position and working results of individual working Statutory corporations for the latest three years are given in **Annexure 4** and **5**, respectively.

According to the latest finalised accounts of 19 working Government companies and two working Statutory corporations, seven companies had incurred an aggregate loss of Rs. 365.60 crore. Eleven companies and two corporations earned an aggregate profit of Rs.58.51 crore and Rs.46.14 crore, respectively. One company[¶] did not prepare profit and loss account as it capitalised excess of expenditure over income.

Working Government companies

Profit earning working Government companies and dividend

1.8 Three Government Companies[&] finalised their accounts for the year 2006-07 up to 30 September 2007 and earned profit of Rs. 34.57 crore. Out of the 13 Government companies, which finalised their accounts for previous years by 30 September 2007, six companies[§] earned an aggregate profit of

* Haryana Police Housing Corporation Limited.

& Haryana Agro Industries Corporation Limited, Haryana Land Reclamation and Development Corporation Limited and Haryana State Industrial and Infrastructure Development Corporation Limited.

§ Haryana Roadways Engineering Corporation Limited, Haryana Forest Development Corporation Limited, Haryana Backward Classes and Economically Weaker Section Kalyan Nigam Limited, Haryana Women Development Corporation Limited, Haryana Tourism Development Corporation Limited and Dakshin Haryana Bijli Vitran Nigam Limited.

Rs. 23.09 crore. Out of these nine profit earning companies, five companies were earning profit for two or more successive years. The State Government had formulated (October 2003) a dividend policy under which all PSUs are required to pay a minimum return of four *per cent* on the paid up share capital contributed by the State Government. Only one company[&] had declared dividend of rupees two crore during the year 2006-07 which worked out to 0.07 *per cent* of total equity investment of Rs. 2,786.08 crore by the State Government in working Government companies.

Loss incurring working Government companies

1.9 Of the seven loss incurring working Government companies, two[#] companies had accumulated losses of Rs. 768.43 crore as per the latest finalised accounts, against the aggregate paid up capital of Rs. 708.33 crore.

Working Statutory corporations

Profit earning Statutory corporation

1.10 One Statutory corporation^Δ finalised its accounts for the year 2006-07 up to September 2007 and booked profit of Rs. 6.37 crore. The Corporation, however, had accumulated loss of Rs. 147.80 crore, which was, more than three times of its paid-up capital of Rs. 38.92 crore (**Annexure-2**).

Operational performance of working Statutory corporations

1.11 The operational performance of the working Statutory corporations is given in **Annexure 6**. In Haryana Financial Corporation, the overdue amount of loans had increased from Rs. 1,582.34 crore in 2005-06 to Rs. 1,703.78 crore in 2006-07. The percentage of overdue loans to total outstanding loans, however, decreased from 67.72 to 60.65 during this period.

Return on capital employed

1.12 As per the latest finalised accounts (up to September 2007), the capital employed* worked out to Rs. 9,287.24 crore in 19 working Government companies and total return[@] thereon amounted to Rs. 208.94 crore (2.25 *per cent*) as compared to total return of Rs. 53.53 crore (0.68 *per cent*) on capital employed of Rs. 7,910.70 crore in previous year (accounts finalised up to 30 September 2006). Similarly, the capital employed and total return thereon in case of two working Statutory corporations as per their latest finalised accounts (up to September 2007) worked out to Rs. 597.42 crore and Rs. 67.63 crore (11.32 *per cent*), respectively as against capital employed of Rs. 629.83 crore and the total return of Rs. 83.13 crore (13.20 *per cent*) thereon for the previous

[&] Haryana State Industrial and Infrastructure Development Corporation Limited.

[#] Haryana Minerals Limited and Uttar Haryana Bijli Vitran Nigam Limited.

^Δ Haryana Financial Corporation.

^{*} Capital employed represents net fixed assets (including capital work-in-progress) plus working capital except in finance companies and corporations where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).

[@] For calculating total return on capital employed, interest on borrowed funds has been added to net profit/subtracted from the loss as disclosed in the profit and loss account.

year (accounts finalised up to 30 September 2006). The details of capital employed and total return on capital employed in case of working Government companies and Statutory corporations are given in **Annexure 2**.

State Electricity Regulatory Commission

1.13 Haryana Electricity Regulatory Commission (HERC) was formed (17 August 1998) under the Haryana Electricity Reforms Act, 1997 (Act) with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licenses. HERC is a body corporate and comprises three members including a Chairman, who are appointed by the State Government. As per Section 8(3) of the Act, all expenditure of HERC is to be charged to the Consolidated Fund of the State. The audit of accounts of HERC is conducted by the CAG under Section 104(2) of the Electricity Act, 2003. Under Section 103 of the Act, *ibid*, the State Government was to constitute a State Electricity Regulatory Commission Fund for crediting its receipts by way of grants /loans, fees etc. to meet out expenses of the commission. The fund is yet to be constituted (August 2007). HERC had finalised its accounts up to 2006-07. During 2006-07, HERC issued 18 orders (nine on annual revenue requirements and nine on others) against 22 orders issued (eight on annual revenue requirements and 14 on others) during 2005-06.

Non-working Public Sector Undertakings

Investment in non-working PSUs

1.14 As on 31 March 2007 and 31 March 2006, the total investment in seven non-working PSUs (all Government companies) was Rs. 139.32 crore (equity: Rs. 23.96 crore and long-term loans: Rs. 115.36 crore). The summarised position of Government investment in non-working Government companies in the form of equity and loans is detailed in **Annexure 1**

The classification of the non-working PSUs was as under:

(Amount: Rupees in crore)

| Sl. No. | Status of non-working PSUs | Number of companies | Investment | |
|---------|---|---------------------|--------------|-----------------|
| | | | Equity | Long-term loans |
| 1. | Under liquidation/Winding up [#] | 2 | 6.86 | 3.69 |
| 2. | Others (non-working) [§] | 5 | 17.10 | 111.67 |
| | Total | 7 | 23.96 | 115.36 |

[#] Haryana Concast Limited and Haryana State Housing Finance Corporation Limited.

[§] Haryana State Minor Irrigation and Tubewells Corporation Limited, Haryana Tanneries Limited, Punjab State Irons Limited, Haryana State Small Industries and Export Corporation Limited and Haryana State Handloom and Handicrafts Corporation Limited.

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

1.15 The State Government did not release any funds to non-working companies during the year 2006-07. There was no guarantee outstanding as on 31 March 2007.

Total establishment expenditure of non-working PSUs

1.16 The year-wise details of total expenditure of non-working Government companies and the sources of financing that during last three years up to 2006-07 are given below:

(Amount: Rupees in lakh)

| Year | Number of Government companies | Total establishment expenditure | Financed by | |
|---------|--------------------------------|---------------------------------|-------------------------------|--------|
| | | | Disposal of investment/assets | Others |
| 2004-05 | 4 ^Δ | 65.00 | 41.72 | 23.28 |
| 2005-06 | 3 [@] | 28.55 | 8.32 | 20.23 |
| 2006-07 | 4 ^Δ | 42.28 | - | 42.28 |

Finalisation of accounts by non-working PSUs

1.17 Out of seven non-working Government companies one non-working company finalised its accounts for the year 2006-07 during October 2006 to September 2007. The accounts of four non-working companies were in arrears for one to four years as on 30 September 2007 and two* companies were under liquidation/winding up as shown in **Annexure 2**.

Financial position and working results of non-working PSUs

1.18 The summarised financial results of non-working Government companies as per their latest finalised accounts are given in **Annexure 2**.

The net worth of seven non-working companies against their paid-up capital of Rs. 24.04 crore was (-) Rs. 238.22 crore. These companies suffered cash loss of Rs. 79.58 crore and their aggregate accumulated loss worked out to Rs. 262.26 crore.

[@] Haryana Tanneries Limited, Haryana State Small Industries and Export Corporation Limited and Haryana State Handloom and Handicrafts Corporation Limited.

^Δ Haryana State Minor Irrigation and Tubewells Corporation Limited, Haryana Tanneries Limited, Haryana State Small Industries and Export Corporation Limited and Haryana State Handloom and Handicrafts Corporation Limited.

* Haryana Concast Limited and Haryana State Housing Finance Corporation Limited.

Status of placement of Separate Audit Reports of Statutory corporations and Haryana Electricity Regulatory Commission in the Legislature

1.19 The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory corporations and Haryana Electricity Regulatory Commission (HERC), in the Legislature by the Government:

| Sl. No. | Name of Statutory corporation/Regulatory Commission | Year up to which SARs placed in Legislature | Year for which SARs not placed in Legislature | | |
|---------|---|---|---|---------------------------------|--|
| | | | Year of SAR | Date of issue to the Government | Reasons for delay in placement in Legislature |
| 1 | Haryana Financial Corporation | 2004-05 | 2005-06 | 29 December 2006 | Pending with Vidhan Sabha since 13 September 2007 for placement. |
| 2 | Haryana Warehousing Corporation | 2005-06 | - | - | - |
| 3 | Haryana Electricity Regulatory Commission | 2004-05 | 2005-06 | 27 September 2006 | Annual report is under preparation. |

Disinvestment, Privatisation and Restructuring of Public Sector Undertakings

1.20 The State Government did not undertake the exercise of disinvestment, privatisation and restructuring of any of its PSUs during 2006-07.

Results of audit of accounts of PSUs by the Comptroller and Auditor General of India

1.21 During the period from October 2006 to September 2007 the accounts of 18 Government companies (16 working and two non-working) and one Statutory corporation were selected for review. The net impact of important audit observations as a result of review of the accounts of these PSUs was as follows:

| Sl No. | Details | Number of accounts | | Amount (Rupees in crore) | |
|--------|----------------------------------|----------------------|------------------------|--------------------------|------------------------|
| | | Government companies | Statutory corporations | Government companies | Statutory corporations |
| 1. | Decrease in profit | 2 | 1 | 4.61 | 4.96 |
| 2. | Increase in loss | 4 | - | 35.13 | - |
| 3. | Non disclosure of material facts | 5 | - | 34.70 | - |
| 4. | Errors of classification | 1 | - | 0.73 | - |

Some of the major errors and omissions noticed during October 2006 to September 2007 in the course of review of annual accounts of these PSUs are mentioned below:

Errors and omissions in case of Government companies

Haryana State Roads and Bridges Development Corporation Limited (2005-06)

1.22 Non-provision of depreciation on completed projects resulted in understatement of loss by Rs. 14.61 crore.

Haryana State Industrial and Infrastructure Development Corporation Limited (2006-07)

1.23 Non-provision for doubtful investments resulted in overstatement of investment and profit by Rs 2.96 crore.

Haryana Power Generation Corporation Limited (2004-05)

1.24 The loss for the year was understated by Rs. 7.05 crore due to capitalisation of revenue expenditure, non provision for bad and doubtful advances and liability for expenses.

Dakshin Haryana Bijli Vitran Nigam Limited (2005-06)

1.25 The profit and other current assets were overstated by Rs. 1.65 crore due to non provision of thefts/embezzlements/loss.

Errors and omissions in case of Statutory corporation

Haryana Financial Corporation (2005-06)

1.26 Non provision for leave encashment resulted in overstatement of profit by Rs. 3.23 crore.

1.27 Short provision of Rs. 1.73 crore against loss assets and doubtful assets resulted in overstatement of loans and advances and profit to that extent.

Recoveries at the instance of audit

1.28 On the basis of deficiencies pointed out in audit, the power utilities had recovered Rs.18.99 lakh on account of meter charges (Rs.17.28 lakh), electricity duty (Rs. 0.27 lakh), incorrect tariff (Rs. 0.80 lakh), wrong rebate for power factor (Rs. 0.34 lakh) and under recovery (Rs. 0.30 lakh).

Internal audit/internal control

1.29 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal control/internal audit systems in the companies audited in accordance with the directions issued by

the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/internal control system in respect of one company[®] for the year 2003-04, one company[△] for the year 2004-05, three companies[@] for the year 2005-06 and two companies^ψ for the year 2006-07 are given below:

| Sl. No. | Nature of comment made by Statutory Auditors | Number of the companies where recommendations were made | Reference to serial number of the companies as per Annexure 2 |
|---------|---|---|---|
| 1. | Non-fixation of minimum/maximum limits of store and spares | 2 | A1 and A19 |
| 2. | Absence of internal audit system commensurate with the nature and size of business of the company | 3 | A12, A16 and A18 |
| 3 | Non-maintenance of cost record | 1 | A19 |
| 4 | Non maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations | 2 | A12 and A16 |
| 5 | Procedure for determination of unserviceable or damaged stores and raw material | 1 | A18 |
| 6 | Lack of internal control over sale of power | 1 | A19 |
| 7. | Non Computerisation of inventory records | 2 | A1 and A17 |

Recommendations for closure of PSUs

1.30 Even after completion of 12 to 42 years of their existence, the individual turnover of six Government companies (four[^] working and two[#] non-working) had been less than rupees five crore in each of the preceding five years as per their latest finalised accounts. Two[§] non working Government companies had been incurring losses for five consecutive years, as per their latest finalised accounts, leading to negative net worth.

In view of poor turnover and continuous losses, the Government may either improve the performance of these eight Government companies or consider their closure.

[®] Haryana Scheduled Castes Finance and Development Corporation Limited

[△] Haryana Power Generation Corporation Limited.

[@] Haryana Vidyut Prasaran Nigam Limited, Uttar Haryana Bijli Vitran Nigam Limited and Dakshin Haryana Bijli Vitran Nigam Limited.

^ψ Haryana Agro Industries Corporation Limited and Haryana Vidyut Prasaran Nigam Limited

[^] Hartron Informatics Limited, Haryana Scheduled Castes Finance and Development Corporation Limited, Haryana Backward Classes and Economically Weaker Section Kalyan Nigam Limited and Haryana Women Development Corporation Limited.

[#] Haryana Tanneries Limited and Punjab State Irons Limited.

[§] Haryana State Minor Irrigation and Tubewells Corporation Limited and Haryana State Handloom and Handicrafts Corporation Limited.

Position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings (COPU)

1.31 The status (as on 30 September 2007) of reviews and paragraphs that appeared in Audit Reports (Commercial) and were discussed by COPU is as under:

| Period of Audit Report | Number of reviews/paragraphs | | | |
|------------------------|------------------------------|------------|-----------------|------------|
| | Appeared in Audit Report | | Paras discussed | |
| | Reviews | Paragraphs | Reviews | Paragraphs |
| 2003-04 | 2 | 22 | 2 | 17 |
| 2004-05 | 2 | 20 | 1 | 6 |
| 2005-06 | 2 | 22 | - | - |
| Total | 6 | 64 | 3 | 23 |

Audit Report (Commercial) for the year 2005-06 was placed before the State Legislature on 9 March 2007.

619-B Companies

1.32 There was no company under Section 619-B of the Companies Act, 1956 in the State.