

CHAPTER 1

1 Overview of Government companies and Statutory corporations

Introduction

1.1 As on 31 March 2004, there were 18 Government companies (14 working companies and four non-working companies[#]) and three working Statutory corporations as against same number of companies/corporations as on 31 March 2003 under the control of the State Government. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per provision of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956. The audit arrangements of the Statutory corporations are as shown below:

Name of the Corporation	Authority for audit by the CAG	Audit arrangement
Himachal Pradesh State Electricity Board (HPSEB)	Under Rule 14 of the Electricity (Supply) (Annual accounts) Rules 1985 read with Section 185 (2) (d) of the Electricity Act, 2003*	Sole audit by the CAG
Himachal Road Transport Corporation (HRTC)	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by the CAG
Himachal Pradesh Financial Corporation (HPFC)	Section 37(6) of the State Financial Corporations Act, 1951	Audit by the Chartered Accountants and supplementary audit by the CAG

[#] *Non-working companies are those which are under the process of liquidation/closure/merger, etc.*

^{*} *The earlier provision of Section 69 (2) of the Electricity (Supply) Act, 1948 was repealed by the Electricity Act, 2003*

The State Government had formed (December 2000) Himachal Pradesh Electricity Regulatory Commission and audit is entrusted to the CAG under Section 104 (2) of the Electricity Act, 2003**.

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

1.2 As on 31 March 2004, the total investment in 17 working Public Sector Undertakings (14 Government companies and three Statutory corporations) was Rs. 3,683.54 crore[#] (equity: Rs. 677.33 crore, long-term loans*: Rs. 3,006.19 crore and share application money: Rs. 0.02 crore) as against 17 working PSUs (14 Government companies and three Statutory corporations) with a total investment of Rs. 3,449.49 crore (equity: Rs. 644.73 crore, long-term loans: Rs. 2,804.74 crore and share application money: Rs. 0.02 crore) as on 31 March 2003.

The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2004 and 31 March 2003 are indicated below in the pie charts:

** Earlier Section 34 (4) of the Electricity Regulatory Commissions Act, 1998 repealed by the Electricity Act, 2003

State Government's investment in working PSUs was Rs. 702.10 crore (others: Rs. 2,981.44 crore). Figure as per Finance Accounts, 2003-04 is Rs. 687.34 crore. The difference is under reconciliation.

* Long-term loans mentioned in paragraphs 1.2, 1.3, 1.4 and 1.16 are excluding interest accrued and due on such loans

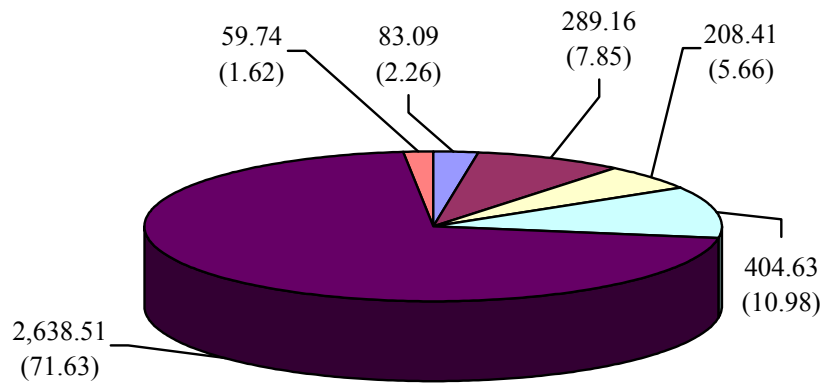
Sector-wise investment in working Governemnt companies and corporations

(Rupees in crore)

(Figures in brackets are percentage)

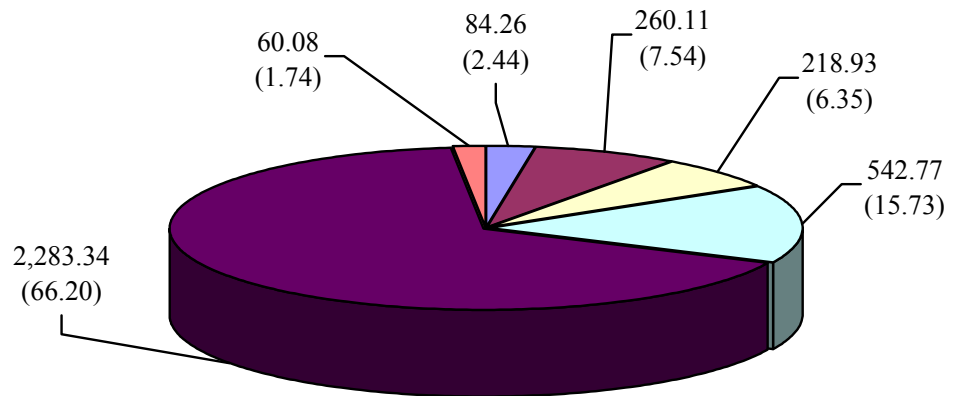
As on 31 March 2004

Total Investment-3,683.54



As on 31 March 2003

Total investment-3,449.49



■ Agriculture ■ Transport ■ Financing ■ Forest ■ Power ■ Miscellaneous

Audit Report (Commercial) for the year ended 31 March 2004

The analysis of investment in working PSUs is given in the following paragraphs.

Working Government companies

1.3 Total investment in working Government companies at the end of March 2003 and March 2004 was as follows:

(Rupees in crore)

Year	Number of companies	Equity	Share application money	Loans	Total
2002-03	14	127.05	0.02	615.17	742.24
2003-04	14	128.95	0.02	464.78	593.75

The decrease in investment was due to decrease in long-term loans mainly in three companies (serial number 8,12 & 14 of **Annexure-1**).

The summarised statement of Government investment in working Government companies in the form of equity and loans is detailed in **Annexure-1**.

As on 31 March 2004, the total investment in working Government companies comprised 21.72 per cent of equity capital and 78.28 per cent of loans as compared to 17.12 and 82.88 per cent, respectively, as on 31 March 2003.

Due to significant decrease in long-term loans in the Himachal Pradesh State Forest Corporation Limited (Rs. 138.14 crore), Himachal Pradesh State Civil Supplies Corporation Limited (Rs. 82.59 lakh) and Himachal Pradesh State Industrial Development Corporation Limited (Rs. 8.84 crore), the debt equity ratio of working Government companies as a whole decreased from 4.84:1 in 2002-03 to 3.60:1 in 2003-04.

Working Statutory corporations

1.4 The total investment in three working Statutory corporations at the end of March 2003 and March 2004 was as follows:

(Rupees in crore)

Name of corporation	2002-03		2003-04	
	Capital	Loan	Capital	Loan
Himachal Pradesh State Electricity Board (HPSEB)	276.00	2,007.34	280.00	2,358.51
Himachal Road Transport Corporation (HRTC)	213.51	46.60	240.21	48.95
Himachal Pradesh Financial Corporation (HPFC)	28.17	135.63	28.17	133.95
Total	517.68	2,189.57	548.38	2,541.41

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The increase in investment was mainly due to increase in capital and long-term loans in two Statutory corporations (serial number 15 and 16 of **Annexure-1**).

The summarised statement of Government investment in working Statutory corporations in the form of equity and loans is detailed in **Annexure-1**.

As on 31 March 2004, the total investment in working Statutory corporations comprised 17.75 per cent equity capital and 82.25 per cent loans as compared to 19.12 and 80.88 per cent, respectively, as on 31 March 2003.

Due to significant increase in long-term loan in the Himachal Pradesh State Electricity Board (Rs. 351.17 crore), the debt equity ratio of working Statutory corporation as a whole increased from 4.23:1 in 2002-03 to 4.63:1 in 2003-04.

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

1.5 The details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by 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 and loans) and grants/subsidies from the State Government to working Government companies and Statutory corporations for the three years up to 2003-04 in the form of equity capital, loans, grants and subsidy is given below:

(Amount: Rupees in crore)

	2001-02				2002-03				2003-04			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital	4	1.01	1	12.00	3	1.42	1	11.00	3	1.90	2	30.70
Loans	2	0.56	-	-	-	-	-	-	-	-	-	-
Grants	2	1.92	-	-	2	1.07	-	-	1	1.07	-	-
Subsidy	3	3.42	2	51.39	4	11.61	3	57.34	2	2.39	3	94.09
Total outgo	9*	6.91	2*	63.39	9*	14.10	3*	68.34	6*	5.36	3*	124.79

* *These are actual number of companies/corporations which received budgetary support in the form of equity, loans, grants and subsidy from the State Government during respective year*

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During 2003-04, the Government guaranteed loans aggregating Rs. 320.97 crore obtained by three Government companies (Rs. 19.10 crore) and two Statutory corporations (Rs. 301.87 crore). At the end of the year guarantees amounting to Rs. 2,784.76 crore against seven Government companies (Rs. 412.12 crore) and three Statutory corporations (Rs. 2,372.64 crore) were outstanding. There was no case of default in repayment of guaranteed loans during the year. The Government had not forgone any amount by way of loans written off or interest waived or given moratorium on loan repayment during the year. The guarantee commission payable to Government by one Statutory corporation (HPSEB) during 2003-04 was Rs. 13.59 crore.

Finalisation of accounts by PSUs

1.6 The accounts of companies for every financial year are required to be finalised within six months from the end of 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, Power and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of financial year. Similarly, in case of Statutory corporations their accounts are finalised, audited and presented to the Legislature as per the provisions of the respective Acts.

However, as could be noticed from **Annexure-2**, out of 14 working Government companies and three working Statutory corporations, seven companies and all the three corporations have finalised their accounts for 2003-04 as on 30 September 2004. During October 2003 to September 2004, seven Government companies finalised eight accounts for previous years. The accounts of seven Government companies were in arrears for periods ranging from one to five years as on 30 September 2004, as detailed below:

Sr. No.	No. of working companies	Year from which accounts are in arrears	Number of years for which accounts are in arrears	Reference to serial number of Annexure-2
	Government companies			
1	1	1999-2000 to 2003-04	5	8
2	6	2003-04	1	1, 2, 9, 10, 11 and 13

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were apprised quarterly by Audit regarding arrears in finalisation of accounts, no effective measure had been taken by the Government and as a result, 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 (Government companies and Statutory corporations) as per latest finalised accounts are given in **Annexure-2**. Besides, statement showing financial position and working results of individual working Statutory corporations for the latest three years for which accounts are finalised are given in **Annexures-4 and 5** respectively.

According to the latest finalised accounts, eight companies and all the three corporations had incurred an aggregate loss of Rs. 7.74 crore and Rs. 76.13 crore respectively and six companies earned an aggregate profit of Rs. 6.94 crore.

Working Government companies

Profit earning working companies and dividend

1.8 Out of seven working Government companies which finalised their accounts for 2003-04 by September 2004, four* companies earned an aggregate profit of Rs. 5.72 crore and only one company (serial number 12 of **Annexure-2**) declared dividend aggregating Rs. 24.61 lakh. The dividend as percentage of share capital (Rs. 40.67 crore) in above four profit making companies worked out to 0.61. The remaining three profit making companies did not declare any dividend. The total return by way of dividend of Rs. 24.61 lakh worked out to 0.21 *per cent* in 2003-04 on total equity investment of Rs. 118.22 crore by the State Government in all Government companies as against 0.15 *per cent* in the previous year. The State Government has formulated (August 1982) a dividend policy for payment of minimum dividend of three *per cent*. However, these guidelines were complied by only one company.

* *Serial number 4, 5, 12 and 14 of Annexure-2*

Similarly, out of seven working companies which finalised their accounts for previous years by September 2004, two companies earned an aggregate profit of Rs. 1.22 crore and only one company earned profit for two or more successive years.

Loss incurring working companies

1.9 Of the eight loss incurring working Government companies, three companies (serial number 3, 6 and 7 of **Annexure-2**) had accumulated losses aggregating Rs. 57.42 crore which exceeded their aggregate paid-up capital of Rs. 25.58 crore. Further, one company (serial number 2 of **Annexure-2**) earned profit as per latest available accounts, but its accumulated losses of Rs. 27.44 crore exceeded its paid up capital of Rs. 17.81 crore.

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies in the form of subsidy, etc. According to available information, the total financial support provided by the State Government by way of subsidy during 2003-04 to two companies (serial number 3 and 7 of **Annexure-2**), out of these four companies amounted to Rs. 2.39 crore.

Working Statutory corporations

Loss incurring Statutory corporations

1.10 All the three working Statutory corporations incurred losses aggregating Rs. 76.13 crore as per their latest annual accounts. Himachal Road Transport Corporation and Himachal Pradesh Financial Corporation had accumulated losses aggregating Rs. 415.49 crore which exceeded their aggregate paid up capital of Rs. 268.38 crore. Despite their poor performance, State Government assisted Himachal Road Transport Corporation and Himachal Pradesh Financial Corporation through equity and subsidy of Rs. 53.79 crore during 2003-04.

Operational performance of working Statutory corporations

1.11 The operational performance of the Statutory corporations is given in **Annexure-6**.

Himachal Road Transport Corporation

1.12 The actual occupancy ratio was 48, 50 and 50 *per cent* against the breakeven occupancy ratio of 54, 56 and 56 *per cent* during 2001-02, 2002-03 and 2003-04 respectively.

Return on Capital Employed

1.13 As per the latest finalised accounts (up to September 2004), the capital employed* worked out to Rs. 558.42 crore in 14 working companies and total return+ thereon amounted to Rs. 13.22 crore, which is 2.37 *per cent* as compared to total return of Rs. 19.45 crore (3.35 *per cent*) in the previous year (accounts finalised up to September 2003). Similarly, during 2003-04, the capital employed in case of three working Statutory corporations as per their latest finalised accounts (up to September 2004) worked out to Rs. 2,968.37 crore and total return on capital employed was Rs. 41.56 crore in 2003-04, which is 1.40 *per cent*. The return on capital employed was Rs. 34.98 crore (1.34 *per cent*) in 2002-03. The details of capital employed and total return on capital employed in case of Government companies and Statutory corporations are given in **Annexure-2**.

Reforms in power sector

Status of implementation of Memorandum of Understanding between the State Government and the Central Government

1.14 In pursuance to Chief Ministers' conference on Power Sector Reforms, held in March 2001, a Memorandum of Understanding (MOU) was signed on 31 March 2001 between the Ministry of Power, Government of India (GOI) and the Department of Power, Government of Himachal Pradesh as a joint commitment for implementation of reforms programme in power sector with identified milestones.

* *Capital employed represents net fixed assets (including capital works-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 and borrowings (including refinance)*

+ *For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account*

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Status of implementation of reform programme against each commitment made in the MOU is detailed below:

	Commitment as per MOU	Targeted completion schedule	Status (As on 31 March 2004)
	Commitments made by the State Government		
1	Reduction in transmission and distribution losses	1 <i>per cent</i> during 2002-03 and 5 <i>per cent</i> by 2006-07	0.82 <i>per cent</i> reduction during 2003-04. Total reduction of 2.63 <i>per cent</i> in two years
2	100 <i>per cent</i> electrification of all villages	March 2000	99.97 <i>per cent</i>
3	100 <i>per cent</i> metering of all distribution feeders	June 2002	100 <i>per cent</i>
4	100 <i>per cent</i> metering of all consumers	No un-metered supply. Hence, no target is required.	-
5	Securitized outstanding due of CPSUs	Outstanding dues not to cross the limit of 2 months billing	No outstanding dues
6	State Electricity Regulatory Commission (SERC)		
	(i) Establishment of SERC	-	Established on 30.12.2000
	(ii) Implementation of tariff orders issued by SERC during the year		No order issued during the year
	General		
7	Monitoring of MOU	Quarterly	Being done

State Electricity Regulatory Commission

1.15 Government of Himachal Pradesh constituted (30 December 2000) Himachal Pradesh Electricity Regulatory Commission (HPERC), with one member under Section 17 (1) of the Electricity Regulatory Commissions Act, 1998*. HPERC had not finalised any accounts so far (September 2004).

Non-working PSUs

Investment in non-working PSUs

1.16 As on 31 March 2004, the total investment in four non-working Government companies was Rs. 1,419.96 crore (equity: Rs. 34.79 crore and long-term loans: Rs. 1,385.17 crore). It was the same as on 31 March 2003.

The classification of the non-working Government companies was as under:

Sr. No.	Status of non-working PSUs	Number of non-working companies	Investment	
			Equity	Long-term loans
(i)	Under liquidation	1 ^A	0.92 (0.92)	-
(ii)	Under closure	3 ^B	33.87 (33.87)	1,385.17 (1,385.17)
	Total	4	34.79 (34.79)	1,385.17 (1,385.17)

(Figures in brackets are for previous years)

In respect of one non-working Government company viz. Himachal Worsteds Mills Limited, an official liquidator has been appointed and process of liquidation is in progress (September 2004). Three other non-working Government companies were under closure under Section 560 of the Companies Act, 1956 for two to 15 years with substantial investment of Rs. 1,419.04 crore. Effective steps need to be taken for their expeditious closure.

* Since replaced with Section 82 (1) of the Electricity Act, 2003

^A Serial number 18 of *Annexure-1*

^B Serial number 19, 20 and 21 of *Annexure-1*

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

1.17 During the year, the State Government had not provided any budgetary support in the form of equity, loan, subsidy, grants, etc. to these non-working companies.

At the end of 2003-04, guarantees amounting to Rs. 1,385.17 crore against two non-working Government companies were outstanding as against the same amount against these companies during 2002-03.

Finalisation of accounts by non-working PSUs

1.18 The accounts of none of the non-working companies were in arrears as on 30 September 2004 as could be noticed from **Annexure-2**.

Financial position and working results of non-working PSUs

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

Out of these four non-working Government companies, excess of expenditure over income in respect of two non-working companies (serial number 20 and 21 of **Annexure-2**), is reimbursed by the State Government.

The year wise details of paid-up capital, net worth, cash loss/cash profit and accumulated loss/profit of non-working PSUs as per their latest finalised accounts are given below:

(Rupees in crore)

Year	Paid-up capital	Net worth	Cash loss (-)/cash profit (+)	Accumulated loss (-)/accumulated profit (+)
2000-01	0.92	(-)8.95	(-)0.47	(-)5.44
2003-04	33.87	29.55	(+)0.03	(-)4.32

Status of placement of Separate Audit Reports of Statutory corporations in Legislature

1.20 Separate Audit Reports (SARs) on the accounts of all the three Statutory corporations for the period up to 2002-03 have been placed in the State Legislature by the Government.

Disinvestment, Privatisation and Restructuring of Public Sector Undertakings

1.21 During the year 2003-04, there was no case of disinvestment and privatisation of Government companies and Statutory corporations. The Government decided (July 2002) to close two Government companies (serial number 20 and 21 of **Annexure-1**) and transfer w.e.f. April 2002, their assets and liabilities to newly created Himachal Pradesh Infrastructure Development Board. However, the winding up process of these two companies under the Companies Act, 1956 has not been initiated (September 2004).

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

1.22 During October 2003 to September 2004, the accounts of 12 companies were selected for review. The net impact of important audit observations as a result of review of the PSUs was as follows:

Details		No of accounts		Rupees in lakh	
		Government companies	Statutory corporations	Government companies	Statutory corporations
		Working	Working	Working	Working
(i)	Decrease in profit	1 (Serial number 14 Annexure-2)	-	45.30	-
(ii)	Decrease in losses	1 (Serial number 8 of Annexure-2)	-	76.65	-
(iii)	Increase in losses	1 (Serial number 7 of Annexure-2)	2 (Serial number 15 and 16 of Annexure-2)	2.12	807.16

Some of the major errors and omissions noticed in the course of review of annual accounts of some of the above companies and corporations are mentioned in the succeeding paragraph.

**Error and omissions noticed in case of
Government companies**

1.23 Himachal Pradesh State Forest Corporation Limited (1998-99)

- The work-in-progress included Rs. 17.86 lakh, being the value of rotten trees, having no value. This resulted in overstatement of 'work-in-progress' by Rs. 17.86 lakh.
- The loans and advances did not include Rs. 56.03 lakh, being the amount of interest allowed by Income Tax Department on advance income tax deposit and treated as adjustment against the advance income tax for the assessment years 1987-88, 1997-98 and 2001-02. This resulted in understatement of 'Advance Income Tax' and overstatement of 'Loss' for the year by the same amount.
- Current liabilities and provisions included an amount of Rs. 20.62 lakh on account of royalty, which was not payable. This resulted in overstatement of 'Other liabilities' as well as 'Loss' for the year by the same amount.

**Error and omissions noticed in case of Statutory
corporations**

1.24 Himachal Pradesh State Electricity Board (2003-04)

Deficit of Rs. 38.53 crore (before prior period adjustments) was understated by Rs. 7.82 crore (net) due to following:

	(Rupees in crore)
Deficit understated	
Adjustment of State Government's royalty/ share as income of the Board	0.03
Claims of employees which pertained to previous years but paid during the year. Charged to prior periods instead of in the current year	6.51
Non-charging of depreciation on capital works which were completed and put to use but not transferred to fixed assets	0.44
Excess capitalisation of interest during construction	0.69

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Non-provision of liability on account of interest payable on security deposits of consumers	4.26	
Non-provision of ADA and other staff related claims	2.18	
Non-provision of liability on account of RM and U of Right Bank of Bhakra Power House, Ganguwal, Kotla phase-I and phase-II	1.07	
Non-provision of liability for wheeling charges in respect of Dhalipur and Dhakrani	0.30	
Short provision on account of free power royalty payable in respect of HEPs	<u>8.38</u>	23.86
Deficit overstated		
Non-affording of credits received against excess payments made earlier to PGCIL	5.36	
Non-provision for un-billed revenue on account of sale of power to HVPNL	0.50	
Understatement of revenue	<u>10.18</u>	16.04
Net understatement		7.82

1.25 Himachal Road Transport Corporation (2003-04)

Loss for the year was understated by Rs. 25.16 lakh due to following:

	(Rupees in lakh)
Overstatement of passenger income	1.95
Excess accountal of profit on sale /transfer of assets	6.62
Non -provision for arrears of pay & allowances payable to employees of the Corporation	2.75
Non-provision of liability for stores and accessories	0.91
Non-provision of liability for gratuity	0.35
Non-provision of miscellaneous liabilities	0.66
Less charging of depreciation	4.92
Non-provision of “No Fault Liability” in accidental cases	7.00
Total understatement of loss	25.16

1.26 Himachal Pradesh Financial Corporation (2003-04)

The net loss (Rs. 2.36 crore) for the year was understated by Rs. 78.87 lakh due to inclusion of interest not actually realised, in the income of the Corporation.

Audit assessment of the working results of State Electricity Board

1.27 Based on the audit assessment of the working results of the Board for three years up to 2003-04 and taking into consideration the major irregularities and omissions pointed out in the Separate Audit Reports (SARs) on the annual accounts of the Board and not taking into account the subsidy/subventions receivable from the State Government, the net surplus/deficit and the percentage of return on capital employed of the Board is as given below:

(Rupees in crore)

Sr. No.	Particulars	2001-02	2002-03	2003-04
1	Net surplus/(-) deficit as per books of accounts	(-)106.56	(-)52.24	(-)46.22
2	Subsidy from the State Government	Nil	Nil	Nil
3	Net surplus/(-) deficit before subsidy from the State Government (1-2)	(-)106.56	(-)52.24	(-)46.22
4	Net increase/decrease in net surplus/(-) deficit on account of audit comments on the annual accounts of the Board	(-)0.82	(-)31.82	(-)7.82
5	Net surplus/(-) deficit after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-)107.38	(-)84.06	(-)54.04
6	Total return on capital employed*	(-)29.00	(+)11.68	(+)36.87
7	Percentage of total return on capital employed	-	0.47	1.30

* Total return on capital employed represents net surplus (+)/deficit (-) (after taking into account impact of comments) plus total interest charged to profit and loss account (less interest capitalised)

Persistent irregularities and system deficiencies in financial matters of PSUs

1.28 The following persistent irregularities and system deficiencies in Himachal Pradesh State Electricity Board had been pointed out during the course of audit of its accounts but no corrective action had been taken so far:

- Register of fixed assets had not been completed by various units of the Board.
- Function-wise break up of assets had not been prepared since 1985-86.
- Physical verification of assets had not been carried out.
- Consolidated statement showing year wise break-up of sundry debtors and further segregating them into good, bad and doubtful debts was not prepared.
- An amount of Rs. 5.57 lakh in respect of Electrical Maintenance Division, Bhabanagar was recoverable from various firms since 1989-90.

Recoveries at the instance of Audit

1.29 Test check of records of Himachal Pradesh State Electricity Board/other PSUs conducted during 2003-04 disclosed wrong fixation of tariff/non-levy/short levy of tariff/short realisation of revenue, etc. aggregating Rs.12.69 crore in 439 cases. A sum of Rs. 5.17 crore (including amount pertaining to 2002-03 and earlier years) relating to 475 cases was recovered at the instance of audit.

Internal Audit/Internal Control

1.30 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 Comptroller and Auditor General of India to them under Section

619 (3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. Directions/sub-directions under the Act, *ibid*, were issued to the Statutory Auditors in respect of 16 Government companies involving 16 accounts received between October 2003 to September 2004. In pursuance of directions so issued, reports of Statutory Auditors involving 18 accounts of 17 Government companies were received (September 2004).

An illustrative resume of major recommendations/comments made by Statutory Auditors on possible improvement in the internal audit/internal control system in respect of State Government companies is indicated in **Annexure-7**. It is noticed from the annexure that major comments were of following nature:

- Internal audit system was not commensurate with the size and nature of business.
- Internal audit coverage was inadequate and internal audit was conducted after close of the financial year.
- Six companies have not formed Audit Committees of the Board of Directors.
- Four companies have not fixed maximum and minimum limit and economic order quantity for procurement of stocks and stores.
- Some companies have not maintained fixed assets register.

Recommendations for closure of PSUs

1.31 Two Government companies viz. Agro Industrial Packaging India Limited (AIPIL) and Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited (HPMC) had incurred losses for the last four and three years respectively out of five years and had a negative net worth. The turnover of one Government company, Himachal Pradesh State Electronics Development Corporation Limited has been less than Rs. 5 crore in each of the preceding five years ended 31 March 2004. In view of the continuous losses and poor turnover, Government may either improve performance of these companies or consider their closure.

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

1.32 The position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings as on 30 September 2004 was as under:

Period of Audit Report	Number of Reviews and Paragraphs			
	Appeared in the Audit Report		Pending for discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1998-99	5	18	2	11
1999-2000	3	17	2	15
2000-01	2	15	1	13
2001-02	3	13	3	12
2002-03	2	10	2	10
Total	15	73	10	61

During 2003-04, the COPU met nine times and discussed two reviews and 12 paragraphs. Audit Report (Commercial) for the year ended 31 March 2003 was placed before the State Legislature on 27 February 2004.

619-B Companies

1.33 There were two companies coming under the purview of Section 619-B of the Companies Act, 1956. **Annexure-8** indicates the details of paid-up capital, investment by way of equity, loans and grants and

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summarised working results of the one company based on its latest available accounts. Himachal Pradesh Electronic Systems Corporation Limited was incorporated in January 1987 for manufacturing electronics equipment. The Company had not commenced commercial production till September 2004 and is presently engaged in trading activities.

Himachal Pradesh Jal Vidyut Vikas Nigam Limited was incorporated on 25 March 2003. The Company has not undertaken any activity during 2003-04.