

INTRODUCTION

FUNCTIONING OF

STATE PUBLIC SECTOR ENTERPRISES

Introduction

Functioning of State Public Sector Enterprises

1 General

State Public Sector Enterprises (SPSEs) consist of State Government Companies and Statutory Corporations. SPSEs are established to carry out activities of commercial nature keeping in view the welfare of people and occupy an important place in the State economy. As on 31 March 2020, there were 29 SPSEs under the audit jurisdiction of the CAG. These include 25 SPSEs (Other than Power Sector) and four Power Sector SPSEs. Out of 25 SPSEs (Other than Power Sector), there are 19 Government Companies, two¹ Statutory Corporations and four² Government Controlled Other Companies. Two Companies³ out of 19 Government Companies and one Company⁴ out of four Government Controlled other Companies are inactive. Out of four SPSEs (Power Sector), there are three⁵ Government Companies and the remaining one⁶ is a Government Controlled Other Company. During the year 2019-20, two new SPSEs⁷ (Other than Power Sector) were incorporated. The working results of all the SPSEs are given in **Appendix-I**.

The financial performance of the SPSEs on the basis of latest finalised accounts as on 31 December 2020 is covered in this Report. The nature of SPSEs and the position of accounts are indicated in the table below:

Table-1: Nature of SPSEs covered in the Report

Nature of SPSEs	Total Number of SPSEs	Number of accounts received during the reporting period from October 2019 to December 2020						Number of SPSEs of which accounts are in arrears (total accounts in arrears) as on 31 December 2020
		Accounts for 2019-20	Accounts for 2018-19	Accounts for 2017-18	Accounts for 2016-17	Accounts for 2015-16	Total	
Government Companies	22	-	7	2	1	1	11	22(52)
Statutory Corporations	2	-	1	-	-	-	1	2(3)
Government controlled other Companies	4	-	2	1	-	-	3	4(7)
Total working SPSEs	28	-	10	3	1	1	15	28 (62)

Source: Compiled from annual financial statements received in the Office of the Principal Accountant General (Audit), Himachal Pradesh. Himachal Worsteds Mills Limited not considered as it is under liquidation.

¹ Himachal Pradesh Financial Corporation and Himachal Road Transport Corporation.

² Dharamshala Smart City Limited, Himachal Consultancy Organisation Limited, Shimla Jal Prabandhan Nigam Limited and Himachal Worsteds Mills Limited (Inactive Company).

³ Agro Industrial Packaging India Limited and Himachal Pradesh Beverages Limited.

⁴ Himachal Worsteds Mills Limited.

⁵ Himachal Pradesh State Electricity Board Limited, Beas Valley Power Corporation Limited and Himachal Pradesh Power Transmission Corporation Limited.

⁶ Himachal Pradesh Power Corporation Limited.

⁷ Sri Naina Devi Ji and Sri Anandpur Sahib Ji Ropeway Company Limited and Ropeway and Rapid Transport System Development Corporation HP Limited.

All the SPSEs (29) incurred consolidated loss of ₹270.79 crore as detailed in **Appendix-I**. However, 13 SPSEs earned profit of ₹45.73 crore and nine SPSEs incurred losses of ₹316.52 crore as per their latest finalised accounts as of 31 December 2020. Of the remaining seven SPSEs, three⁸ did not prepare their first accounts, Beas Valley Power Corporation Limited did not start commercial operations and for three⁹ the excess of expenditure over income was reimbursable by the State Government.

2 Accountability framework

The procedures for audit of Government companies are laid down in Section 139 and 143 of the Companies Act, 2013 (Act 2013). According to Section 2 (45) of the Act 2013, a Government Company means any 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. The Comptroller and Auditor General of India (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. 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 one hundred and eighty days from the commencement of the financial year. Section 139(7) of the Companies Act, 2013 provides that in case of a Government Company or Government Controlled Other Company, the first auditor is to be appointed by the CAG within sixty days from the date of registration of the company and in case the CAG does not appoint such auditor within the said period, the Board of Directors of the Company or the members of the Company have to appoint such auditor.

Further, as per sub-section 7 of Section 143 of the Act 2013, the CAG may, in case of any company covered under sub-section (5) or sub-section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted of the accounts of such Company and the provisions of Section 19A of the Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971 shall apply to the report of such test Audit. Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG.

3 Statutory audit

The financial statements of the Government Companies (as defined in Section 2 (45) of the Act 2013) are audited by Statutory Auditors, who are appointed by the CAG as per the provisions of Section 139 (5) or (7) of the Act 2013. The Statutory Auditors submit a copy of the Audit Report to the CAG including, among other things, financial

⁸ *Sri Naina Devi Ji and Sri Anandpur Sahib Ji Ropeway Company Limited, Ropeway and Rapid Transport System Development Corporation HP Limited and Shimla Smart City Limited.*

⁹ *Shimla Jal Prabandhan Nigam Limited, Himachal Pradesh Road and Other Infrastructure Development Corporation Limited and Dharmshala Smart City Limited.*

statements of the Company under Section 143(5) of the Act 2013. These financial statements are also subject to supplementary audit by the CAG within sixty days from the date of receipt of the audit report under the provisions of Section 143 (6) of the Act 2013. Audit of Statutory Corporations is governed by their respective legislations. Out of two Statutory Corporations¹⁰ the Comptroller and Auditor General of India is the sole auditor for the Himachal Road Transport Corporation (HRTC) and in respect of Himachal Pradesh Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit is conducted by the Comptroller and Auditor General of India.

4 Submission of accounts by SPSEs

4 (i) Need for timely finalisation and submission of accounts

According to Section 394 and 395 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) and as soon as may be after such preparation laid before the House or both the Houses of State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. 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 the State. Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year and that AGM is held within 15 months of the previous/ last AGM.

Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statement for the concerned financial year has to be placed in the said AGM for their consideration. Section 129 (7) of the Companies Act, 2013 provides for levy of penalty like fine and imprisonment on the persons including Directors of the company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

4 (ii) Role of Government and Legislature

The State Government exercises control over the affairs of these SPSEs through its administrative departments. The Chairman and Directors to the Board are appointed by the State Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the SPSEs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of State Government Companies and Separate Audit Reports in case of Statutory Corporations are to be placed before the State Legislature under Section 394 of the Act 2013 or as stipulated in the respective Acts. The Audit Reports of the CAG are submitted to the Government

¹⁰ *Himachal Road Transport Corporation and Himachal Pradesh Financial Corporation.*

for placing before the State Legislature under the provisions of Section 19A of the CAG's (Duties, Power and Conditions of Service) Act, 1971.

5 Investment by Government of Himachal Pradesh in SPSEs

The Government of Himachal Pradesh (GoHP) has significant financial stake in the SPSEs. These are mainly of three types:

- **Share capital and loans** – In addition to the share capital contribution, GoHP also provides financial assistance by way of loans to the SPSEs from time to time.
- **Special financial support** – GoHP provides budgetary support by way of grants and subsidies to the SPSEs as and when required.
- **Guarantees** – GoHP also guarantees the repayment of loans with interest availed by the SPSEs from Financial Institutions.

The names of all Government companies/ Government controlled Other Companies and Statutory Corporations under the purview of CAG's audit along with month and year of incorporation, their administrative department and brief description of activities being carried out by them are detailed in **Appendix-II**.

The SPSE wise summary of Government of Himachal Pradesh investment in the SPSEs is detailed in **Appendix-III** and Sector wise summary of Government of Himachal Pradesh investment as on 31 March 2020 is given in **Table-2** below:

Table-2: Sector-wise GoHP investment in SPSEs

(₹ in crore)

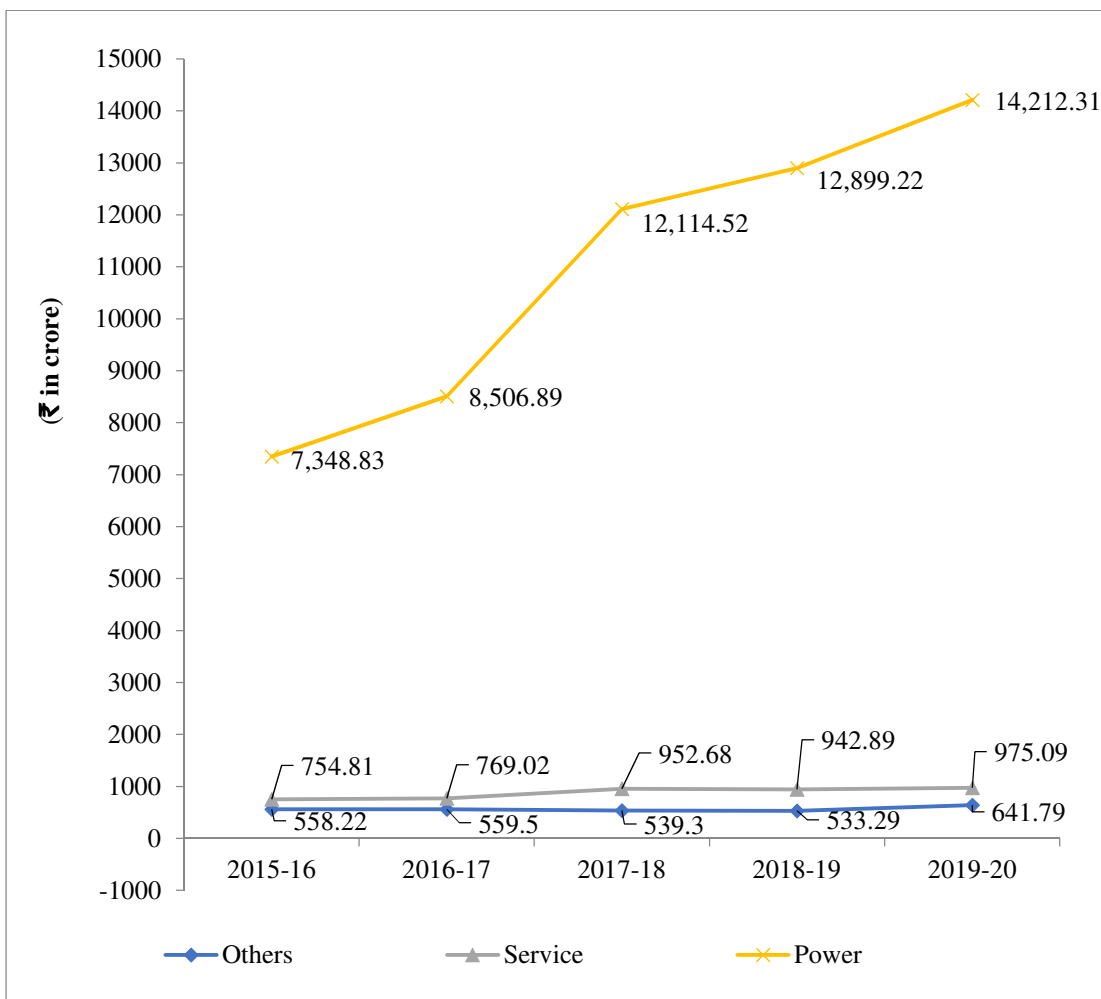
Name of sector	Government Companies	Statutory Corporations	Total	Investment		
				Equity	Long term loans	Total
Power	4	0	4	1,890.59	6,961.18	8,851.77
Finance	3	1	4	134.05	81.78	215.83
Service	10	1	11	872.42	0.30	872.72
Infrastructure	4	0	4	55.83	0.00	55.83
Others	6	0	6	83.59	138.25	221.84
Total	27	2	29	3,036.48	7,181.51	10,217.99

Source: Compilation based on information received from SPSEs.

The thrust of SPSEs investment by the Government was mainly on power sector as on 31 March 2020. The power sector received government investments of ₹8,851.77 crore (86.63 per cent) out of total investment of ₹10,217.99 crore as given in **Appendix-III**.

However, the total investment including investment from other than GoHP resources in various sectors during the period from 2015-16 to 2019-20 is shown in **Chart-I** below:

Chart-1: Sector-wise investment in SPSEs for the last five years ending 31 March 2020



Keeping in view the high level of investment in Power Sector, we are presenting the pen picture of functioning of four Power Sector SPSEs in Chapter-I.

This Report contains six Chapters as under:

- Chapter-I: Financial Performance of State Public Sector Enterprises (Power Sector)
- Chapter-II: Financial Performance of State Public Sector Enterprises (Other than Power Sector)
- Chapter-III: Oversight Role of CAG
- Chapter-IV: Corporate Governance
- Chapter-V: Corporate Social Responsibility
- Chapter-VI: Impact of implementation of Indian Accounting Standards (under Phase I & II) in State Public Sector Enterprises.

