

## CHAPTER I

### 1. Overview of Government companies and Statutory corporations

#### Introduction

**1.1** As on 31 March 2008, there were 41 Government companies (24 working and 17 non-working companies\*) and five statutory corporations (all working) as against 41 Government companies (22 working and 19 non-working companies) and five Statutory corporations as on 31 March 2007 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 the Statutory Auditors appointed by the Comptroller & Auditor General of India (CAG) as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the 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 audit by the CAG	Audit arrangement
1.	Punjab State Electricity Board (PSEB)	Under Rule 14 of the Electricity (Supply) (Annual accounts) Rules, 1985 read with Section 172(a) and 185(2) (d) of the Electricity Act, 2003. <sup>§</sup>	Sole audit by CAG
2.	PEPSU Road Transport Corporation (PRTC)	Section 33(2) of the Road Transport Corporations Act, 1950.	Sole audit by CAG
3.	Punjab Scheduled Castes Land Development and Finance Corporation (PSCLDFC)	Section 20(1) of CAG's (DPC) Act, 1971.	Sole audit by CAG.
4.	Punjab Financial Corporation (PFC)	Section 37(6) of the State Financial Corporations Act, 1951.	Audit by Chartered Accountants and supplementary audit by CAG
5.	Punjab State Warehousing Corporation (PSWC)	Section 31(8) of the State Warehousing Corporations Act, 1962.	Audit by Chartered Accountants and supplementary audit by CAG

The State had formed (31 March 1999) Punjab State Electricity Regulatory Commission (PSERC) whose audit is also being conducted by 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 2008, the total investment in 29 working PSUs (24 Government

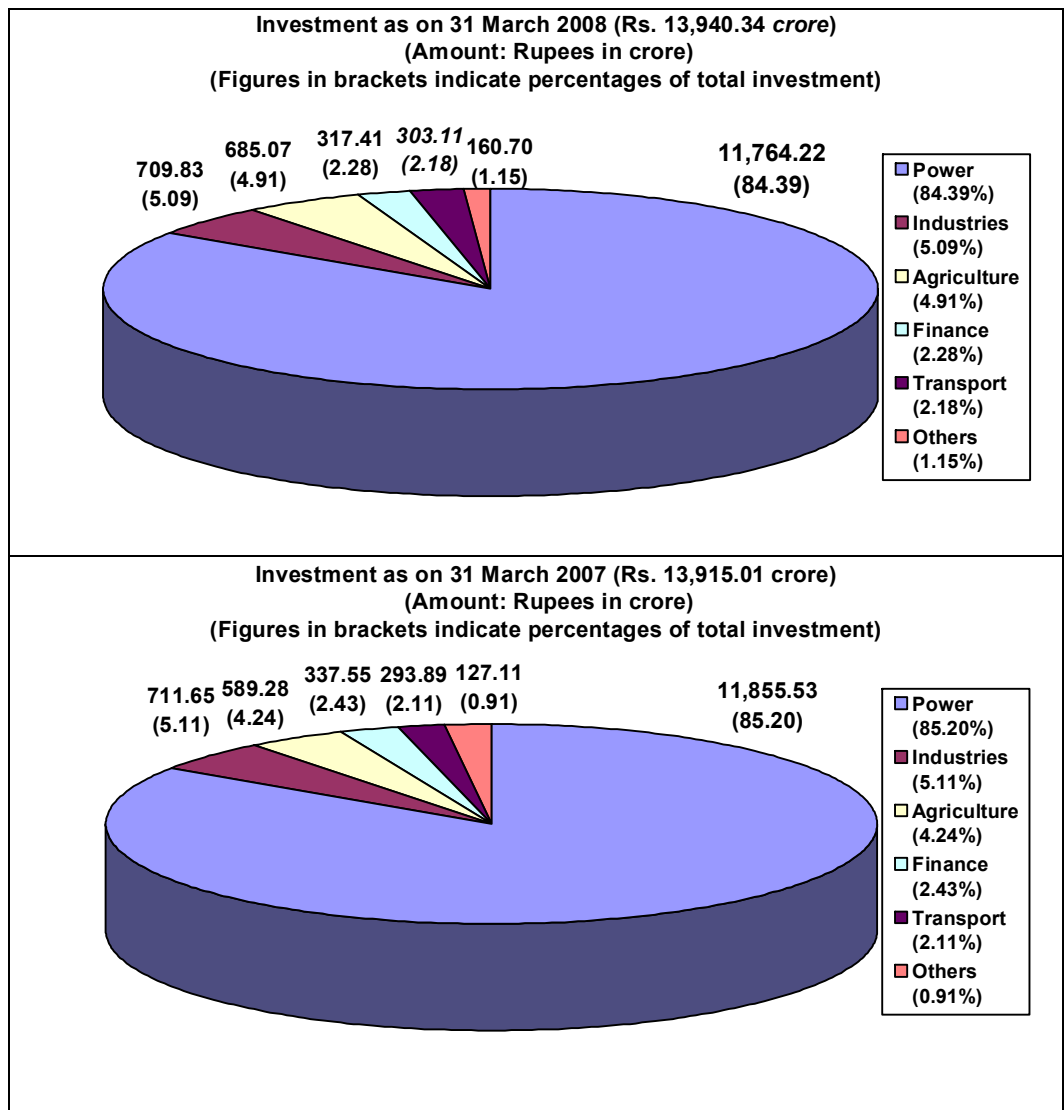
\* Non-working companies are those which are under the process of liquidation/closure/merger etc.

§ The earlier provision of Section 69(2) of the Electricity (Supply) Act, 1948 was repealed by the Electricity Act, 2003.

companies and five Statutory corporations) was Rs. 13,940.34<sup>r</sup> crore (equity: Rs. 3,669.98 crore; long-term loans<sup>5</sup>: Rs. 10,165.67 crore and share application money: Rs. 104.69 crore) against the total investment of Rs. 13,915.01 crore (equity: Rs.3,580.71crore; long-term loans:Rs.10,227.15 crore and share application money: Rs.107.15 crore) in 27 working PSUs (22 Government companies and five Statutory corporations) as on 31 March 2007. An analysis of investment in the 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 March 2008 and March 2007 are indicated below in the pie charts:



<sup>r</sup>The State Government's investment was Rs. 6,348.50 crore (Others: Rs. 7,591.84 crore). Figure as per Finance Accounts 2007-08 was Rs. 6,973.37 crore. The difference is under reconciliation.

<sup>5</sup> Long-term loans mentioned in paras 1.2, 1.3 and 1.16 are excluding interest accrued and due on such loans.

**Working Government companies**

**1.3** Total investment in working Government companies at the end of March 2007 and March 2008 was as follows:

(Amount: Rupees in crore)

Year	Number of working Government companies	Equity	Share application money	Long term loans	Total
2006-07	22	430.62	107.15	894.97	1,432.74
2007-08	24	514.03	104.69	935.61	1,554.33

Investment in the current year increased over the previous year due to increase in equity investment in Engineering, Agriculture and Allied sectors.

As on 31 March 2008, the total investment of working Government companies comprised 39.81 *per cent* equity capital and 60.19 *per cent* loans as against 37.53 *per cent* equity and 62.47 *per cent* loans respectively as on 31 March 2007.

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

**Working Statutory corporations**

**1.4** The total investment in five Statutory corporations at the end of March 2007 and March 2008 was as follows:

(Amount: Rupees in crore)

Sl. No.	Name of the Corporation	2006-07		2007-08	
		Capital	Loans	Capital	Loans
1.	Punjab State Electricity Board	2,946.11	8,909.42	2,946.11*	8,818.11*
2.	PEPSU Road Transport Corporation	111.18	66.99	111.18*	67.60*
3.	Punjab Scheduled Castes Land Development and Finance Corporation	44.42	4.36	50.28*	8.36*
4.	Punjab Financial Corporation	40.39	297.16	40.39	277.02
5.	Punjab State Warehousing Corporation*	8.00	54.25	8.00	58.97
	<b>Total</b>	<b>3,150.10</b>	<b>9,332.18</b>	<b>3,155.96</b>	<b>9,230.06</b>

The summarised position of Government investment in working Statutory corporations in the form of equity and loans is detailed in *Annexure 1*. As on 31 March 2008, the total investment in working Statutory corporations comprised 25.48 *per cent* equity capital and 74.52 *per cent* loans as against 25.24 and 74.76 *per cent*, respectively, as on 31 March 2007. Due to significant decrease in long-term loans in the Finance sector, the debt equity ratio decreased from 7.36 in 2006-07 to 6.86 in 2007-08. In the Power sector, the debt equity ratio decreased from 3.02 in 2006-07 to 2.99 in 2007-08 due to decrease in long-term loans.

\* Figures are provisional

**Budgetary outgo, grants/ subsidies, guarantees, 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 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 Statutory corporations for the three years up to 2007-08 are given below:

(Amount: Rupees in crore)

Particulars	2005-06				2006-07				2007-08			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amount	No.	Amount	No.	Amount
(1) Equity capital	2	30.12	1	140.00	1 <sup>s</sup>	19.59	1	1.00	1	27.54	1	2.50
(2) Loans	-	-	-	-	-	-	-	-	-	-	1	3.36
(3) Grants/ Subsidy towards												
- Project/ Programmes/ Schemes	2	33.40	1	1,435.92	2	74.45	1	1,423.81	3	67.90	2	2,850.59
- Other subsidy	-	-	-	-	-	-	-	-	-	-	-	-
Total subsidy	2	33.40	1	1,435.92	2	74.45	1	1,423.81	3	67.90	2	2,850.59
<b>Total outgo (1+2+3)</b>	<b>3*</b>	<b>63.52</b>	<b>1*</b>	<b>1,575.92</b>	<b>2*</b>	<b>94.04</b>	<b>2*</b>	<b>1,424.81</b>	<b>3*</b>	<b>95.44</b>	<b>3*</b>	<b>2,856.45</b>
Guarantees	5	8,209.55	3	2,712.89	7	8,790.88	4	2,084.96	3	9,400.18	2	3,318.10

During the year 2007-08, the Government had guaranteed loans aggregating Rs. 12,718.28 crore, obtained by three working Government companies (Rs.9,400.18 crore) and two working Statutory corporations (Rs. 3,318.10 crore). At the end of the year, guarantees amounting to Rs. 9,894.99 crore against seven Government companies (Rs. 5,239.94 crore) and four working Statutory corporations (Rs.4,655.05 crore) were outstanding. There was no default in repayment of guaranteed loans during the year. The guarantee commission paid and payable to the State Government by Government companies and Statutory corporations during 2007-08 was Rs. 30.51 crore and Rs. 5.86 crore, 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.

<sup>s</sup> Excluding the contribution of Rs.50 crore by the State Government towards equity capital of one Company (Punjab State Bus Stand Management Company Limited) by way of transfer of Assets.

\* Actual number of companies/corporations which received budgetary support in the form of equity, loans, grants and subsidy from the State Government

However, as could be noticed from *Annexure 2*, out of 24 working Government companies and five Statutory corporations, only two working Government companies ( Sl. Nos. A-8 & A-23) and one statutory corporation (Sl.No. B-4) had finalised their accounts for the year 2007-08, up to 30 September 2008. During the period from October 2007 to 30 September 2008, 15 working Government companies finalised 15 accounts for previous years. Similarly, during this period, three working Statutory corporations finalised four accounts for previous years.

The accounts of 22 working Government companies and four Statutory corporations were in arrears for periods ranging from one to five years as on 30 September 2008 as detailed below:

Sl. No.	Number of working companies/corporations		Period for which accounts are in arrears	Number of years for which accounts are in arrears	Reference to Serial No. of Annexure 2	
	Government companies	Statutory corporations			Government companies	Statutory corporations
1.	01	-	2003-04 to 2007-08	05	A-12	-
2.	03	-	2004-05 to 2007-08	04	A- 9, 18 and 20	-
3.	05	-	2005-06 to 2007-08	03	A-2,11,16,21and 22	-
4.	06	01	2006-07 to 2007-08	02	A-3, 5,10,15,19 and 24	B-5
5.	07	03	2007-08	01	A-1, 4,6,7,13,14and 17	B-1, 2 and 3
<b>Total</b>	<b>22</b>	<b>04</b>				

The State Government had invested Rs. 3,071.52 crore (Equity: Rs. 119.76 crore; loans : Rs. 3.36 crore and grants/subsidy : Rs. 2,948.40 crore) in five working PSUs during the years for which accounts have not been finalised as detailed in *Annexure 4*. In the absence of finalisation of accounts and their subsequent audit, it can not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments of the Government were apprised quarterly by the Principal Accountant General regarding arrears in finalisation of accounts, adequate measures had not 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 their latest finalised accounts are given in *Annexure 2*. Besides, statements showing the financial position and working results of individual working Statutory corporations for the latest three years are given in *Annexures 5* and *6* respectively.

According to the latest finalised accounts (upto September 2008) of 24 working Government companies and five working Statutory corporations, nine companies and four corporations had incurred an aggregate loss of Rs. 194.70 crore and Rs. 1,704.00 crore respectively; 11 companies and one corporation earned an aggregate profit of Rs. 38.60 crore and Rs. 0.13 crore respectively; two companies (Sl No. A-6 and 7) are under construction and two companies (Sl. Nos. A-15 and 23 of *Annexure 2*) were functioning on 'no profit no loss' basis.

#### ***Working Government companies***

##### ***Profit earning working Government companies and dividend***

**1.8** One working Government company (Sl. No. A-8) finalised its accounts for the year 2007-08 by 30 September 2008 and earned profit of Rs. 0.29 crore. Though the State Government formulated (March 1993 and July 1994) a dividend policy for the payment of minimum four per cent dividend by the PSUs, the company did not declare any dividend. Similarly, out of all the 24 working Government companies which finalised their accounts for previous years by 30 September 2008, ten companies earned an aggregate profit of Rs. 38.30 crore and only three companies (Sl. Nos. A-10,13 and 18) declared dividend of Rs. 2.02 crore while five companies (Sl. Nos. A-1, 3, 4, 5, and 14 of *Annexure 2*) earned profit for two or more successive years but did not declare any dividend.

##### ***Loss incurring working Government companies***

**1.9** Of the nine loss incurring working Government companies, seven companies<sup>♦</sup> had accumulated losses aggregating Rs. 538.42 crore which exceeded their aggregate paid-up capital of Rs. 82.97 crore.

Despite poor performance and complete erosion of paid up capital, the State Government continued to provide financial support in the form of subsidy, etc. According to available information, the total financial support so provided by the State Government by way of subsidy during 2007-08 to one company (Punjab State Industrial Development Corporation Limited), out of these seven companies amounted to Rs. 1.91 crore.

#### ***Working Statutory corporations***

##### ***Profit earning Statutory corporations and dividend***

**1.10** Only one corporation had finalised its accounts for the year 2007-08 by 30 September 2008 (Sl. No. B-4). Out of the four corporations, which had finalised their accounts for previous years by 30 September 2008, only one Corporation (Sl. No. B-3 of *Annexure 2*) earned profit of Rs. 0.13 crore but did not declare any dividend.

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<sup>♦</sup> Sl. Nos. A-9, 11,12,16,20,21 and 22 of *Annexure 2* of which two companies (Sl. Nos. A-9 and 20 of *Annexure 2*) had prepared their first accounts.

### ***Loss incurring Statutory corporations***

**1.11** The four loss incurring working Statutory corporations (Sl. Nos. B-1, 2, 4 and 5 of *Annexure 2*) had accumulated losses aggregating to Rs. 6,686.17 crore, which exceeded their aggregate paid-up capital of Rs. 3,105.68 crore.

### ***Operational performance of working Statutory corporations***

**1.12** The operational performance of the working Statutory corporations is given in *Annexure 7*.

### ***Return on capital employed***

**1.13** As per the latest finalised accounts (up to 30 September 2008), the capital employed\* worked out to Rs. 4,631.59 crore in 24 working Government companies and total return# thereon amounted to Rs. 377.85 crore, which is 8.16 per cent as compared to total return of Rs. 341.76 crore (9.30 per cent) in the previous year (accounts finalised up to September 2007). Similarly, the capital employed and total return thereon in case of five working Statutory corporations as per their latest finalised accounts (up to 30 September 2008) worked out to Rs. 13,315.82 crore and Rs. (-) 781.53 crore, respectively, as against the total return of Rs. 936.37 crore (7.62 per cent) in previous year (accounts finalised up to September 2007). 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*.

## **Power Sector Reforms**

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

**1.14** In pursuance of the decisions taken at the Chief Ministers' conference on power sector reforms held in March 2001, a Memorandum of Understanding (MOU) was signed on 30 March 2001 between the Ministry of Power, Government of India and Department of Irrigation and Power, Government of Punjab as a joint commitment for implementation of a reforms programme in the power sector with identified milestones. Status of implementation of reforms programme against each commitment made in the MOU is as follows:

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\* 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.

Sl. No.	Commitment as per MOU	Targeted completion schedule	Status (As on 31 March 2008)
	Commitments made by the State Government		
1.	Reduction in transmission and distribution losses	18 per cent by March 2003	22.53 per cent during 2007-08
2.	100 per cent metering of all 11 KV distribution feeders	September 2001	Achieved
3.	100 per cent metering of all consumers	30 June 2002	Out of 9.81 lakh agricultural consumers, 8.67 lakh consumers were unmetered.
4.	Securitize outstanding dues of Central Public Sector Undertakings	Not given	Securitized
5.	State Electricity Regulatory Commission (SERC)		
	Establishment of SERC	Not given	Constituted in March 1999
	Implementation of tariff orders issued by SERC during 2002-07.	Orders for distribution tariff were to be implemented from 1 August 2002	Since implemented
6.	Installation of energy meters on grid/generating stations	30 September 2001	Installed
7.	Replacement of electro magnetic meters with electronic meters	March 2006	33.47 lakh electronic meters have been installed against 56.60 lakh metered consumers (October 2007)
<b>General</b>			
8.	Monitoring of MOU	Monitoring was required on quarterly basis.	Steering Committee monitored the position only once in a year.

It would be seen from the table that as against the target of bringing down transmission and distribution (T&D) losses to 18 per cent by March 2003, T&D losses were 22.53 per cent during the year 2007-08. Further, against the target of 100 per cent metering of all consumers by June 2002, the Board had installed meters for 1.14 lakh (out of 9.81 lakh) agricultural consumers as on 31 March 2008. Achievements on the replacement of electromagnetic meters (Sl. No. 7) with electronic meters were only 59.13 per cent (October 2007) as against the target of 100 per cent committed to be achieved by March 2006 as per MOU.

### State Electricity Regulatory Commission

**1.15** The Punjab State Electricity Regulatory Commission (PSERC) was formed on 31 March 1999 under Section 17 of the Electricity Regulatory Commissions Act, 1998<sup>#</sup> with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issuance of licences. The PSERC is a body corporate and comprises of three members including a Chairperson who are appointed by the State Government. All expenditure of the PSERC is to be charged to the Consolidated Fund of the State. The PSERC had finalised its accounts upto 2006-07. During 2007-08 the PSERC scrutinised 65 petitions on matters relating to fixation of tariff and finally disposed off 57 petitions.

<sup>#</sup> Since replaced by the Electricity Act, 2003.

## Non-working PSUs

### *Investment in non-working PSUs*

**1.16** As on 31 March 2008, the total investment in 17 non-working Government companies was Rs. 40.49<sup>@</sup> crore, (equity: Rs. 19.72 crore; long-term loans: Rs. 19.41 crore and share application money: Rs. 1.36 crore) as against, the total investment of Rs. 93.90 crore, (equity: Rs. 69.77 crore; long-term loans: Rs. 22.77 crore and share application money: Rs. 1.36 crore) in 19 non-working Government companies as on 31 March 2007.

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

<b>(Investment: Rupees in crore)</b>				
Sl. No.	Status of non-working PSUs	Number of companies	Equity	Long- term loans
1.	Under liquidation	7 <sup>†</sup>	2.95 <sup>*</sup>	10.86 <sup>^</sup>
2.	Under closure	8 <sup>°</sup>	14.83	8.55 <sup>§</sup>
3.	Others	2	3.30	-
	<b>Total</b>	<b>17</b>	<b>21.08</b>	<b>19.41</b>

Of the above non working PSUs, 15 Government companies were under liquidation or closure under Section 560 of the Companies Act, 1956 for three to 25 years. Substantial investment of Rs. 37.19 crore was involved in these companies. Effective steps need to be taken for their expeditious liquidation.

### *Sector wise investment in non-working Government companies*

The investment (equity and long-term loans) in various sectors and percentage thereof at the end of March 2008 and March 2007 are indicated in the following pie charts:

<sup>@</sup>State Government's investment was Rs. 26.38 crore (Others : Rs. 14.11 crore). Figure as per Finance Accounts, 2007-08 was Rs.18.53 crore. The difference was under reconciliation.

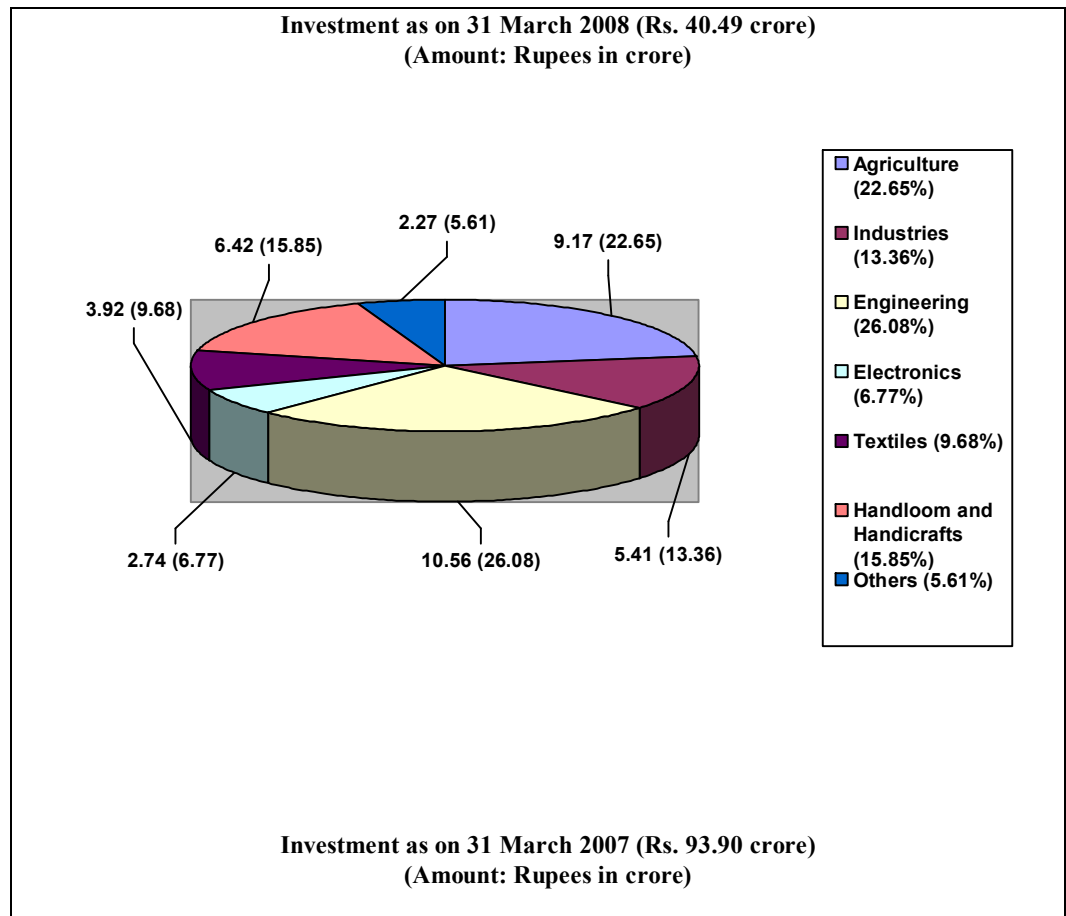
<sup>†</sup>Serial Nos. C-2,7,8,9,10,12 and 17 of *Annexure I*.

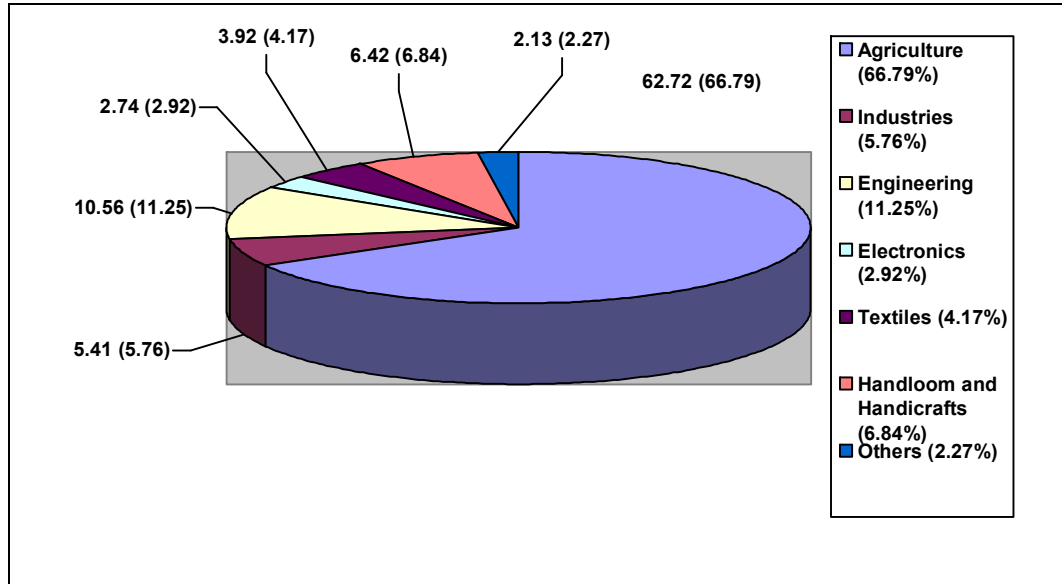
<sup>\*</sup>Includes Rs.0.13 crore equity from others.

<sup>^</sup>Includes Rs.9.33 crore loan from others.

<sup>°</sup>Serial Nos. C-1,4,5,6,13,14,15 and 16 of *Annexure I*.

<sup>§</sup>Includes Rs.0.80 crore loan from others.





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

**1.17** There was no budgetary outgo, grants/subsidies, guarantees issued, waiver of dues or conversion of loans into equity by State Government to non-working PSUs during 2007-08 (*Annexures 1 and 3*).

***Total establishment expenditure of non-working PSUs***

**1.18** The year wise details of total establishment expenditure of non-working PSUs (all Government companies) and the sources of financing them during last three years up to 2007-08 are given below:

**(Amount: Rupees in crore)**

Year	Number of non working PSUs	Total establishment expenditure	Financed by	
			Disposal of investment/ assets	Others
2005-06	30	0.60	0.17	0.43
2006-07	19	1.09	0.21	0.88
2007-08	17	0.42	0.13	0.29

***Finalisation of accounts by non-working companies***

**1.19** Seven companies out of 17 non-working Government companies were under liquidation and remaining 10 companies were defunct. The accounts of all 10 defunct companies were in arrear for periods ranging from one to 17 years as could be seen from *Annexure 2*. During the period of October 2007 to 30 September 2008, four companies (Serial Nos. C-3, 13, 15 and 16 of *Annexure 2*) finalised four accounts for previous years.

The State Government had provided financial assistance of Rs. 15.75 crore to one non- working PSU (viz Punjab Land Development and Reclamation Corporation Limited) by way of grant/subsidy during the years for which accounts have not been finalised as detailed in *Annexure 4*. In the absence of finalisation of accounts and their subsequent audit, it can not be ensured whether the funds provided and expenditure incurred have been properly accounted for and the purpose for which the amount was provided has been achieved or not and thus Government's finance in such PSU remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

**Financial position and working results of non-working PSUs**

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

The summarised details of paid-up capital, net worth,<sup>◇</sup> cash loss and accumulated loss of 17 non-working companies as per their latest finalised accounts are as follows:

(Rupees in crore)				
Particulars	Paid-up capital	Net worth	Cash loss	Accumulated loss
Non-working companies	21.04	0.54	(-)3.02	(-)58.19

**Status of placement of Separate Audit Reports on the accounts of Statutory corporations in Legislature**

**1.21** The following table gives the status of placement in the Legislature of various Separate Audit Reports (SARs) on the accounts of Statutory corporations as issued by the CAG:

Sl. No.	Name of Statutory corporation	Year up to which SAR placed in Legislature	Years for which SARs not placed in Legislature	
			Year of SAR	Date of issue to the Government
1.	Punjab State Electricity Board	2006-07	-	-
2.	PEPSU Road Transport Corporation	2005-06	2006-07	29 July 2008
3.	Punjab Financial Corporation	2006-07	-	-
4.	Punjab State Warehousing Corporation	2005-06	-	-

<sup>◇</sup> Net worth represents paid-up capital plus free reserves less intangible assets.

5.	Punjab Scheduled Castes Land Development and Finance Corporation	2004-05	2005-06	19 August 2008
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**Results of audit of accounts of PSUs by Comptroller and Auditor General of India**

**1.22** During the period from October 2007 to 30 September 2008, the accounts of 17 Government companies (15 working and two non-working) and four Statutory corporations (all working) were selected for review. The net impact of the important audit observations as a result of audit of accounts of these PSUs was as follows:

Sl. No.	Details	Number of accounts			Amount (Rupees in crore)		
		Government companies		Working Statutory corporations	Government companies		Working Statutory corporations
		Working	Non-working		Working	Non-Working	
1.	Decrease in profit	1	-	-	1.60	-	-
2.	Increase in loss	2	-	1	0.72	-	7.48
3.	Decrease in loss	-	-	2	-	-	354.39

Some of the major errors and omissions noticed in the course of audit of annual accounts of some of the above companies and corporations are mentioned below:

***Important Comments of Statutory auditors in case of working Government companies***

***Punjab State Civil Supplies Corporation Limited (2007-08)***

**1.23.1** Enhanced Incidents received/provided for during the year of Rs. 236.85 crore includes Rs. 171.73 crore pertaining to earlier years and has been taken as income of the year as per the accounting policy of the company. The policy of showing some of the enhanced incidentals as the income of the year in which it is actually received is contrary to fundamental accounting assumption viz. mercantile system of accounting of AS-1. This has resulted in overstatement of net profit to this extent.

***Punjab State Industrial Development Corporation Limited (2004-05)***

**1.23.2** Change in accounting policy regarding treatment of sale proceeds of assets sold under section 29 of the SFC Act has resulted in overstatement of profit by Rs. 7.03 crore and assets by Rs. 3.60 crore.

***Punjab Information & Communication Technology Corporation Limited (2006-07)***

**1.23.3** The Company had made an investment of Rs. 9.10 crore in the equity shares of Fujitsu India Telecom Limited, an associate Company. The Company has accorded its consent to grant no objection certificate to the collaborators who have sold their shareholdings to Orient Crafts Limited. and the name of the unit has been

changed to Orient Crafts Fashion Technologies Limited. The Company was hopeful of realising the value of investment in the unit. The valuation of investment (Rs. 9.10 crore) was not in accordance with the Accounting Standard-13 issued by Institute of Chartered Accountants of India (ICAI) resulting in understatement of loss and overstatement of value of investment.

***Important Comments arising from Supplementary audit in case of working Government Companies***

***Punjab State Seeds Corporation Limited (2005-06)***

**1.24.1** Non provisioning for interest on repayment of loan availed from Punjab Rural Development Board (PRDB) has resulted in understatement of unsecured loans and accumulated losses by Rs. 1.80 crore and overstatement of profit for the year by Rs. 60 lakh.

**1.24.2** Non provisioning for doubtful debts has resulted in overstatement of profit for the year, current assets, loans & advances and understatement of accumulated losses to the extent of Rs. 92.11 lakh.

***Punjab State Industrial Development Corporation Limited (2004-05)***

**1.24.3** Overbooking of interest on outstanding balance (Rs. 2.41 crore) recoverable from State Government has resulted in overstatement of advances recoverable and understatement of accumulated losses by Rs. 2.14 crore and current year's loss by Rs. 52 lakh.

***Important Comments of Statutory auditors in case of Statutory Corporations***

***Punjab Financial Corporation (2007-08)***

**1.25** The corporation as a matter of accounting policy prepares its financial statements on Cash receipts and disbursement basis unless otherwise stated. Thus the revenue and the related assets are recognised when received rather than when earned and expenses are recognised when paid rather than when the obligation to pay these expenses accrues. As a result of which corporation do not account for vital accrual transactions which is not in accordance with the Standard Accounting Practices issued by The Institute of Chartered Accountants of India. Therefore, the accounts do not reveal the factual and fair financial position with regard to its assets, liabilities, incomes, expenses etc.

***Important Comments arising from supplementary audit in case of Statutory Corporations***

***Punjab State Electricity Board (2006-07)***

**1.26.1** The Board has accounted for the subsidy for Agriculture Power (AP) consumers for 2006-07 amounting to Rs. 1,486.80 crore only as against Rs. 1,762.31 crore based on actual consumption. This has resulted into understatement of Tariff compensation from the State Government as well as overstatement of

deficit by  
Rs. 275.51 crore.

**1.26.2** Employees cost was understated by Rs. 16.75 crore, due to non-provision of liability in respect of six *per cent* Dearness Allowance released with effect from January 1, 2007. This has resulted in understatement of liability as well as deficit to the same extent.

**1.26.3** Other debits are understated by Rs. 6.95 crore on account of loss on the manufacture of PCC poles (difference between Board's cost at its workshops and market price). This has resulted in understatement of deficit as well as overstatement of current assets to the same extent.

***Punjab Scheduled Caste Land Development and Finance Corporation (2005-06)***

**1.26.4** The Corporation had an inter-corporate deposit of Rs. 7.48 crore in a company under liquidation and so it was doubtful of recovery. Non-provision of this amount resulted in overstatement of current assets, loans and advances and understatement of loss by Rs. 7.48 crore.

***Audit assessment of the working results of Punjab State Electricity Board***

**1.27** Based on the audit assessment of the working results of the Board for three years up to 2007-08 and taking into consideration the major irregularities and omissions pointed out in the 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 was as follows:

(Amount: Rupees in crore)				
	Particulars	2005-06	2006-07	2007-08 (Provisional)
1.	Net surplus/ deficit (-) as per books of accounts	12.89	(-) 1,626.39	(-)1,380.13
2.	Subsidy from the State Government	1,435.92	1,423.81	2,848.42
3.	Net surplus/deficit (-) before subsidy from the State Government (1-2)	(-) 1,423.03	(-) 3,050.20	(-)4,228.55
4.	Net increase/decrease in net surplus/ deficit (-) on account of audit comments on the annual accounts of the PSEB	53.56	353.79	Under Finalisation
5.	Net surplus/ deficit (-) after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-) 1,369.47	(-) 2,696.41	Under Finalisation
6.	Total return on capital employed <sup>#</sup>	969.92	(-) 737.55	Under Finalisation
7.	Percentage of total return on capital employed	8.66	-	-

**Recoveries at the instance of Audit**

**1.28** Test check of records of the Punjab State Electricity Board conducted during 2007-08 disclosed non-recovery of periodical inspection fee, re-sealing charges, theft of energy charges, excess commission/service charges and loss due to shortage of fuel

<sup>#</sup> Total return on capital employed represents net surplus/deficit plus total interest charged to profit and loss account (less interest capitalised), less subsidy and after taking into account the impact of audit comments.

oil aggregating to Rs. 30.54 lakh in five cases. The Board accepted the audit observations and a sum of Rs. 28.01 lakh relating to four audit observations was recovered.

**Internal audit/ Internal control**

**1.29** The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the Internal audit /Internal control systems in the companies audited in accordance with the directions issued by the CAG under Section 619(3) (a) of the Companies Act, 1956, and to identify areas which need improvement. An illustrative resume of the nature of major recommendations/comments made by the Statutory Auditors on possible improvements in the internal audit/internal control system in respect of State Government companies is indicated as follows:

Sl. No.	Nature of comment made by the Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Annexure 2
1.	Non preparation of financial budget	1	A-18
2.	No internal control / Inadequate internal audit system	5	A-2, 3 , 10 ,18 and 23
3.	Non/improper maintenance of fixed assets register	4	A-2, 10,13 and 18
4.	Maximum-minimum limits of stocks not prescribed	5	A-3, 10,13,18 and 23
5.	Deviation from Accounting Standard-1,3, 10 & 15	1	A-2
6.	Audit committee did not exist	2	A-10 and 23
7.	Non computerisation of operations	2	A-18 and 23
8.	Non existence of system of proper documentation of software programme / no approved IT plan	6	A-3, 5, 10,11,13 and 23
9.	No system exists for obtaining confirmation of balance from debtors	5	A-3, 5, 10,11 and 13
10.	No delineated fraud policy exist	5	A-3, 5, 10, 11 and 23
11.	No clear cut credit policy exist	3	A-3, 10 and 23
12.	Non adoption of ABC analysis for inventory control	4	A-3, 10, 13 and 23
13.	No prescribed internal audit standards / manual	4	A-3. 5. 10 and 23

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

**1.30** The status of Audit Reports (Commercial) discussed by COPU as on 30 September 2008 was as under:

Period of Audit Report	Number of reviews and paragraphs			
	Appeared in the Audit Report		Discussed	
	Reviews	Paras	Reviews	Paras
1997-98	3	23	1	21
1998-99	4	22	2	21
1999-2000	4	23	3	23
2000-01	3	18	2	16
2001-02	4	17	-	9
2002-03	3	20	-	11
2003-04	2	20	-	1
2004-05	2	21	-	3
2005-06	3	25	-	-
2006-07	4	21	-	-
<b>Total</b>	<b>32</b>	<b>210</b>	<b>8</b>	<b>105</b>

During October 2007 to 30 September 2008, COPU held 15 meetings and took up five reviews and 27 paragraphs and finalised 15 paragraphs relating to Audit Reports (Commercial) for the years 1997-98 to 2004-05.

### 619-B Companies

**1.31** There were four companies (all working) falling under the purview of Section 619-B of the Companies Act, 1956. *Annexure 8* gives the details of paid-up capital, investment by way of equity, loans and grants and summarised working results of these companies based on their latest finalised accounts.