

## **Introduction**

# **Functioning of State Public Sector Undertakings**

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#### General

1. The State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. SPSUs are engaged in activities of commercial nature for the welfare of the people and occupy an important place in the State economy. As on 31 March 2019, there were 87 SPSUs including four Statutory Corporations<sup>1</sup> and 83 State Government Companies<sup>2</sup>. Of the 87 SPSUs, four SPSUs<sup>3</sup> were listed on the stock exchange(s). 87 SPSUs include 16 inactive SPSUs. During the year 2018-19 two active SPSUs<sup>4</sup> were classified as inactive SPSUs as they had ceased their operations. Four SPSUs<sup>5</sup> ceased to exist on dissolution vide orders passed by Gujarat High Court therefore they were removed from the list of SPSUs. GoG merged (August 2018) Bhavnagar Energy Company Limited (BECL) with Gujarat State Electricity Corporation Limited (GSECL) with effect from 01 April 2018. One SPSU<sup>6</sup> came under the purview of the Comptroller and Auditor General of India (C&AG) under Section 139(5) of the Companies Act, 2013.

2. The financial performance of the SPSUs on the basis of latest financial statements as on 30 September 2019 is discussed in this Report. The nature of SPSUs and the position of financial statements are indicated in **Table 1** below:

**Table 1: Status of financial Statements as on 30 September 2019**

*(Figures in numbers)*

Nature of SPSUs	Total Number	Financial year of FSS received from SPSUs during						SPSUs having	
		October 2018 to September 2019						FSS in arrears	
		2018-19	2017-18	2016-17	2015-16	2014-15	Total	SPSUs	FSS
Active Government Companies	67	33	29	6	4	1	73	36	60
Active Statutory corporations	4	1	1	1	0	0	3	3	7
<b>Total Active SPSUs</b>	<b>71</b>						<b>76</b>	<b>39</b>	<b>67</b>
Inactive SPSUs	16	1	3	0	1	0	5	15	126
<b>Total</b>	<b>87</b>	<b>35</b>	<b>33</b>	<b>7</b>	<b>5</b>	<b>1</b>	<b>81</b>	<b>54</b>	<b>193</b>

FSS- Financial Statements.

**Source:** Compiled based of financial statements of active SPSUs received during the period from October 2018 to September 2019.

The active SPSUs registered a turnover of ₹ 1,48,487.47 crore as per their latest finalised financial statements as on 30 September 2019. Out of total turnover

<sup>1</sup> Gujarat State Warehousing Corporation, Gujarat State Financial Corporation, Gujarat Industrial Development Corporation and Gujarat State Road Transport Corporation.

<sup>2</sup> Includes other Companies referred in Section 139(5) and 139(7) of the Companies Act, 2013.

<sup>3</sup> Gujarat Gas Limited, Gujarat Mineral Development Corporation Limited, Gujarat State Petronet Limited and Gujarat State Financial Corporation.

<sup>4</sup> Alcock Ashdown (Gujarat) Limited and Gujarat Industrial Corridor Corporation Limited.

<sup>5</sup> Gujarat Fintex Limited, Gujarat Siltex Limited, Gujarat Texfab Limited and GSFS Capital and Securities Limited.

<sup>6</sup> Bahucharaji Rail Corporation Limited was incorporated in December 2018 and finalised its financial statements for the year up to 2018-19, the supplementary audit of which was entrusted (October 2019) from the year 2018-19.

of ₹ 1,48,487.47 crore, ₹ 1,36,719.36 crore pertains to 30 active SPSUs that have finalised their financial statements for the year 2018-19 and the balance turnover of ₹ 11,768.11 crore pertained to earlier year financial statements. The turnover was 9.88 per cent of State's Gross Domestic Product<sup>7</sup> (GSDP) for 2018-19.

The active SPSUs incurred aggregate profit of ₹ 1,002.59 crore as per their latest finalised financial statements. As on 31 March 2019, the SPSUs employed 1.11 lakh employees.

As on 31 March 2019, there were 16 inactive SPSUs with an investment of ₹ 510.39 crore (Capital ₹ 185.87 crore and Long-term loans ₹ 324.52 crore). Of the 16 inactive SPSUs four were under liquidation, one of them<sup>8</sup> is under liquidation since 1997 and liquidation process commenced in remaining three SPSUs<sup>9</sup> between 2002-03 and 2014-15. In remaining 12 SPSUs, the process to close down/ winding up/ liquidation was yet to start though they had ceased carrying out their operations. This is a critical area as the investments in inactive SPSUs do not contribute to the economic growth of the State. The State Government may take suitable decision at an early date as regards the remaining 12 inactive SPSUs.

### **Accountability framework**

3. The process of audit of Government Companies under the Act is governed by respective provisions of Sections 139 and 143<sup>10</sup> of the Act. According to Section 2(45) of the Act, a Government Company means any Company in which not less than fifty-one 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. Besides, any other Company owned or controlled, directly or indirectly, 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 are referred to in this Report as Other Government Companies.

The Comptroller and Auditor General of India (C&AG) appoints the Statutory Auditors of a Government Company and Other Government Companies under Section 139 (5) and (7) of the Act. Section 139 (5) of the Act, provides that the Statutory Auditors in case of a Government Company or Other Government Companies are to be appointed by the C&AG within a period of one hundred and eighty days from the commencement of the financial year. Section 139 (7) of the Act provides that in case of Other Government Companies, the first auditor is to be appointed by the C&AG within sixty days from the date of

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<sup>7</sup> As per Statements prepared under the Gujarat Fiscal Responsibility Act, 2005, Budget Publication No. 30, the GSDP for 2019-20 as per Advance estimates is ₹ 15,01,496 crore.

<sup>8</sup> Gujarat State Textile Corporation Limited.

<sup>9</sup> Gujarat Leather Industries Limited, Gujarat Communications and Electronics Limited and Gujarat Small Industries Corporation Limited.

<sup>10</sup> As amended *vide* the Companies (Removal of Difficulties) Seventh Order 2014 dated 04 September 2014.

registration of the Company and in case C&AG 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, the C&AG may, in case of any Company covered under sub-Section (5) or sub-Section (7) of Section 139 of the Act, if considered necessary, by an order, cause test audit to be conducted of the financial statements of such Company and the provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers 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 the Central Government and partly by one or more State Governments is subject to audit by the C&AG. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

### ***Statutory Audit***

4. The financial statements of a Government Company (as defined in Section 2(45) of the Act) are audited by Statutory Auditors, who are appointed by the C&AG as per the provisions of Section 139 (5) or (7) of the Act. The Statutory Auditors submit a copy of the Audit Report to the C&AG including, among other things, financial statements of the Company under Section 143 (5) of the Act, 2013. These financial statements are also subject to supplementary audit to be conducted by the C&AG 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 the four Statutory Corporations, the C&AG is the sole auditor of Gujarat Industrial Development Corporation and Gujarat State Road Transport Corporation. In respect of Gujarat State Warehousing Corporation and Gujarat State Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit is conducted by the C&AG.

## **Submission of financial statements by SPSUs**

### ***5. Need for timely finalisation and submission***

According to Section 394 and 395 of the Act, Annual Report on the working and affairs of the 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 Houses 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 C&AG. 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 Act requires every Company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statement for the financial year has to be placed in the said AGM for consideration of the members. Section 129 (7) of the Act provided 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 Act.

### ***Role of Government and Legislature***

6. GoG exercises control over the affairs of the SPSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the GoG.

The State Legislature also monitors the accounting and utilisation of Government investment in the SPSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the C&AG, in respect of GoG Companies and Separate Audit Reports (SARs) in case of Statutory Corporations are to be placed before the Legislature under Section 395 of the Act or as stipulated in the respective Acts. The Audit Reports of the C&AG are submitted to the GoG under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

### **Stake of Government of Gujarat**

7. The State Government has a substantial financial stake in the SPSUs. This is of mainly three types:

- **Share Capital and Loans-** In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the SPSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the SPSUs as and when considered necessary.
- **Guarantees-** State Government also guarantees the repayment of loans with interest, availed by the SPSUs from Financial Institutions.

### **Investment in SPSUs**

8. The sector wise summary of investments by GoG, GoI and Others in the 87 SPSUs as on 31 March 2019 is given below:

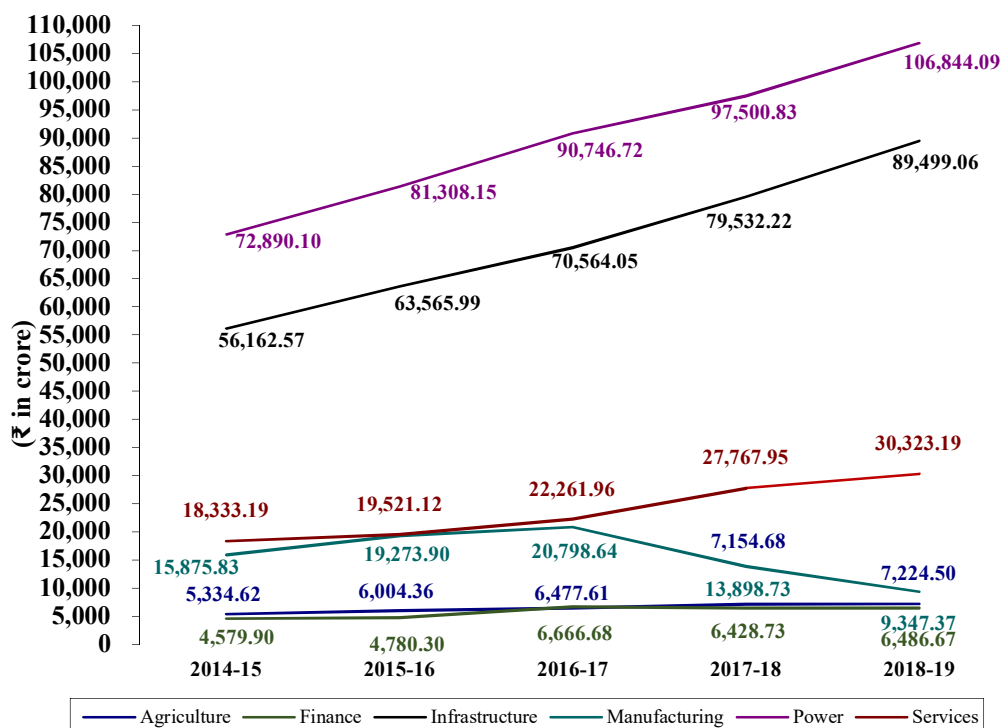
**Table 2: Sector-wise investment in SPSUs**

Name of the Sector	SPSUs (Figures in Number)			Investment (₹ in crore)			
	Government/ other Companies	Statutory Corporations	Total	Paid up capital	Loans	Grant	Total Investment
Power	10	-	10	32,652.17	18,378.21	55,813.71	1,06,844.09
Manufacturing	12	-	12	1,014.42	8,318.34	14.61	9,347.37
Finance	15	1	16	1,632.54	3,641.94	1,212.19	6,486.67
Service	22	1	23	5,356.95	9,061.65	15,904.59	30,323.19
Infrastructure	18	1	19	66,804.52	8,067.06	14,627.48	89,499.06
Agriculture & Allied	06	1	7	38.60	93.27	7,092.63	7,224.50
<b>Total</b>	<b>83</b>	<b>4</b>	<b>87</b>	<b>1,07,499.20</b>	<b>47,560.47</b>	<b>94,665.21</b>	<b>2,49,724.88</b>

**Source:** Compiled based on information received from SPSUs.

The thrust of SPSUs investment was mainly in the Power and Infrastructure Sector. The percentage share of investment in Infrastructure Sector to total investment was 35.84 in 2018-19 as compared to 32.43 in 2014-15. The percentage share of investment in Power Sector to total investment increased from 42.09 in 2014-15 to 42.78 in 2018-19.

9. The investment in significant sectors at the end of 31 March 2015 and 31 March 2019 are indicated in the chart below:

**Chart 1.1: Sector wise investment in SPSUs (₹ in crore)**

Considering the high level of investment in Power Sector, we are presenting the results of audit of 10 Power Sector SPSUs<sup>11</sup> in Part I of this Report and of the 77 SPSUs<sup>12</sup> (other than power sector) in the Part II of the Report.

<sup>11</sup> Part I includes Chapter-I (Functioning of Power Sector SPSUs).

<sup>12</sup> Part II includes Chapter-III (Functioning of SPSUs (excluding Power Sector SPSUs)).

