

Chapter-I

1. Overview of Government companies and Statutory corporations

Introduction

1.1 As on 31 March 2005, there were 46 Government companies (36 working companies and 10 non working companies*) and five Statutory corporations as against 45 Government companies (35 working companies and 10 non working companies) and five working Statutory corporations as on 31 March 2004 under the control of the State Government. During the year 2004-05, one^o new Government company came under audit purview of the Comptroller and Auditor General of India (CAG). Two^s working Government companies had applied to the Registrar of Companies (ROC) for striking off their names under Simplified Exit Scheme-2005. In addition, the State had formed (July 1999) the Gujarat Electricity Regulatory Commission, whose audit is also being conducted by the CAG under Section 104(2) of the Electricity Act, 2003^p. The accounts of the Government companies (as defined in Section 617 of Companies Act, 1956) are audited by Statutory Auditors appointed by the 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:

Sl. No.	Name of the Statutory corporation	Authority for audit by the CAG	Audit arrangement
1.	Gujarat Electricity Board	Under Rule 14 of the Electricity (Supply) (Annual Accounts) Rules, 1985 read with Section 185 (2) (d) of the Electricity Act, 2003 ^o	Sole audit by CAG
2.	Gujarat State Road Transport Corporation	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by CAG
3.	Gujarat Industrial Development Corporation	Section 19(3) of CAG's (Duties, Powers and Conditions of Service) Act, 1971	Sole audit entrusted by the State Government to CAG up to 2006-07
4.	Gujarat State Financial Corporation	Section 37(6) of the State Financial Corporations Act, 1951	Audit by Chartered Accountants and supplementary audit by CAG
5.	Gujarat State Warehousing Corporation	Section 31(8) of the State Warehousing Corporations Act, 1962	Audit by Chartered Accountants and supplementary audit by CAG

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

^o Sl. No. A-27 of *Annexure-2*.

^s Sl. No. A-15 and 33 of *Annexure-2*.

^p Erstwhile Electricity Regulatory Commissions Act, 1998 replaced by the Electricity Act, 2003.

^o The earlier provision of Section 69 (2) of the Electricity (Supply) Act, 1948 was repealed by the Electricity Act, 2003.

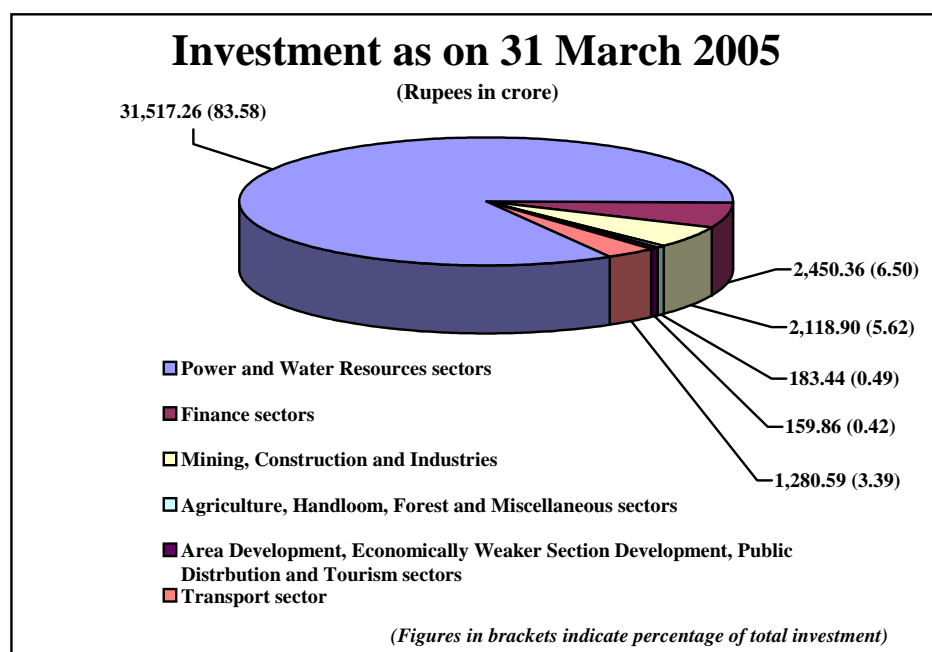
Working Public Sector Undertakings (PSUs)

Investment in working PSUs

1.2 As on 31 March 2005, the total investment in 41 working PSUs (36 Government companies and five Statutory corporations) was Rs.37,710.41 crore^σ (equity: Rs.14,359.46 crore, share application money: Rs.278.54 crore and long-term loans^{*}: Rs.23,072.41 crore) as against Rs.34,550.20 crore (equity: Rs.10,524.24 crore, share application money: Rs.2,589.03 crore and long-term loans: Rs.21,436.93 crore) in 40 working PSUs (35 Government companies and five Statutory corporations) as on 31 March 2004. The analysis of the investment in working PSUs is given in the succeeding paragraphs.

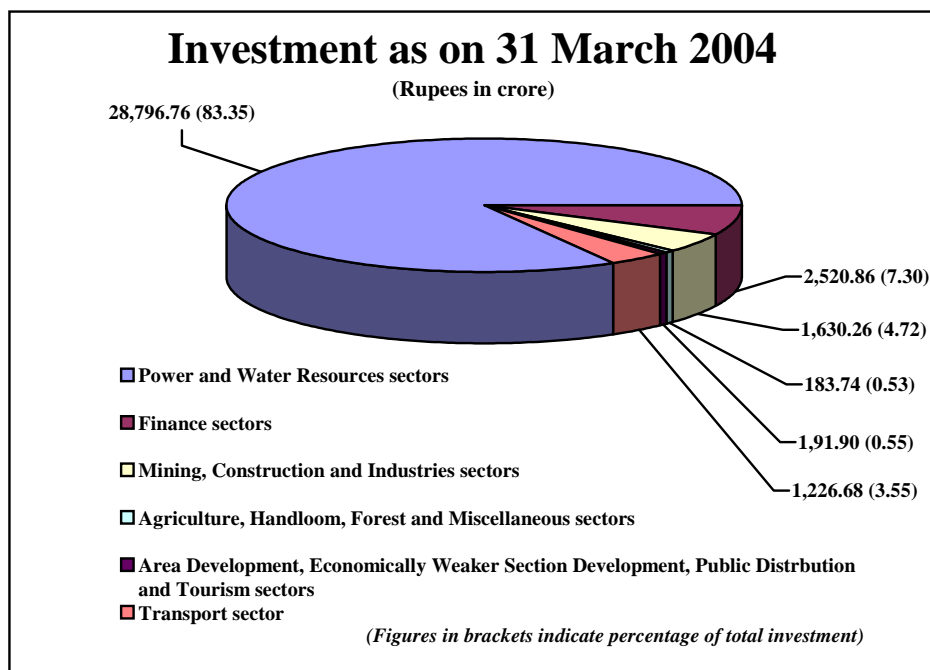
Sector wise investment in working Government companies and Statutory corporations

The investment (equity and long-term loans) in various sectors and percentage thereof at the end of March 2005 and March 2004 are indicated below in pie charts:



^σ Reconciliation of figures with the Finance Accounts is pending.

* Long-term loans mentioned in paragraphs 1.2, 1.3, 1.4 and 1.18 are excluding interest accrued and due on such loans.



Working Government companies

1.3 The total investment in working Government companies at the end of March 2004 and March 2005 was as follows:

(Amount: Rupees in crore)

Year	Number of working Government companies	Equity	Share application money	Long-term loans	Total
2003-04	35	9,840.17	2,589.03	10,757.13	23,186.33 [∞]
2004-05	36	13,657.69	278.54	11,635.20	25,571.43

As on 31 March 2005, the total investment of working Government companies comprised 54.50 *per cent* of equity capital and 45.50 *per cent* of loans as compared to 53.61 and 46.39 *per cent*, respectively as on 31 March 2004.

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

Due to significant increase in long-term loans of Development of Economically Weaker Section sector, the debt-equity ratio of working Government companies in this sector increased from 2.10:1 in 2003-04 to 2.68:1 in 2004-05.

[∞] Reconciliation of figures with the Finance Accounts is pending.

Working Statutory corporations

1.4 The total investment in the five working Statutory corporations at the end of March 2004 and March 2005 was as follows:

(Amount: Rupees in crore)

Name of corporation	2003-04		2004-05 [@]	
	Capital	Loans	Capital	Loans
Gujarat Electricity Board	--	8,859.96	--	9,622.57
Gujarat State Road Transport Corporation	590.96	635.72	608.65	671.94
Gujarat State Financial Corporation	89.11	1,172.69	89.12	1,137.81
Gujarat State Warehousing Corporation	4.00	--	4.00	--
Gujarat Industrial Development Corporation	--	11.43	--	4.89
Total	684.07	10,679.80	701.77	11,437.21

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

Due to significant increase in long-term loans of Gujarat Electricity Board, the debt-equity ratio as a whole increased from 15.61:1 in 2003-04 to 16.30:1 in 2004-05.

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 in respect of working Government companies and working Statutory corporations are given in **Annexures-1** and **3**.

The budgetary outgo[€] in the form of equity capital, loans and grants/ subsidies from the State Government to working Government companies and working Statutory corporations during 2002-05 are given below:

(Amount: Rupees in crore)

Particulars	2002-03				2003-04				2004-05			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Equity capital outgo from budget	8	767.39	1	14.05	12	1,813.38	1	20.11	9 [€]	1,408.93	1 [€]	17.69
Loans given from budget	4	1.37	1	390.81	4	0.66	2	2,074.18	4	1,116.38	3	682.61
Grant/ subsidy towards												
(1) Projects/ programmes/schemes	13	150.90	--	--	11	219.64	1	34.92	14	331.48	1	17.74
(2) Other subsidy	3	90.69	3	1,345.83	4	102.65	2	1,236.28	6	39.03	3	1,758.18
Total grants/subsidy	15*	241.59	3*	1,345.83	15*	322.29	3*	1,271.20	17*	370.51	4*	1,775.92
Total outgo	15*	1,010.35	3*	1,750.69	23*	2,136.33	4*	3,365.49	20*	2,895.82	4*	2,476.22

[@] Figures for 2004-05 (except for corporations at Sl. No. B-3, 4 and 5 of **Annexure-1**) are provisional and as furnished by respective corporations.

[€] Reconciliation of figures with Finance Accounts is pending.

[€] Of the ten PSUs (nine plus one), the figures in respect of PSUs referred at Sl. No.A-11, 17 and 22 of **Annexure-1**, the figures are not matching with finance accounts and they are under reconciliation.

* Actual number of companies/ corporations, which received budgetary support in the form of equity, loans, grants, and subsidies from Government in respective years.

During the year 2004-05, the Government had guaranteed loans aggregating Rs.1,355 crore obtained by one working Government company (Rs.800 crore) and one working Statutory corporation (Rs.555 crore). At the end of the year guarantees amounting to Rs.12,997.68 crore obtained by 11 working Government companies (Rs.6,187.08 crore) and four working Statutory corporations (Rs.6,810.60 crore) were outstanding as against outstanding guarantees of Rs.14,318.37 crore obtained by 11 working Government companies (Rs.6,612.48 crore) and four working Statutory corporations (Rs.7,705.89 crore) as on 31 March 2004. The State Government converted loan/ convertible debentures of Rs.2.90 crore into equity in respect of two⁰ working Government companies. The guarantee commission paid/ payable to Government by four Government companies and three Statutory corporations during 2004-05 was Rs.98.04 crore and Rs.126.83 crore, respectively.

Finalisation of accounts by working PSUs

1.6 Out of 36 working Government companies and five Statutory corporations, only 14 companies and three Statutory corporations had finalised their accounts for the year 2004-05 up to 30 September 2005. The accounts of one newly incorporated companyⁿ was not due as on 30 September 2005. During the period from October 2004 to September 2005, 22 working Government companies finalised 26 accounts for previous years. Similarly, four working Statutory corporations finalised four accounts for previous years during this period.

The accounts of 21 working Government companies and two working Statutory corporations were in arrears for periods ranging from one to seven years as on 30 September 2005 as detailed below:

Sl. No.	Number of working PSUs whose accounts were in arrears		Period for which accounts were in arrears	Number of years for which accounts were in arrears	Reference to Sl.No. of Annexure-2	
	Government companies	Statutory corporations			Government companies	Statutory corporations
1	1	--	1998-99 to 2004-05	7	A-15	--
2	1	--	2002-03 to 2004-05	3	A-35	--
3	4	--	2003-04 to 2004-05	2	A-4, 6, 10 and 18	--
4	15	2	2004-05	1	A-1, 3, 7, 11, 12, 13, 16, 19, 22, 23, 26,28, 29, 32 and 36	B-1 and 2
	21	2				

The administrative departments need to oversee and ensure that the accounts are finalised and adopted by PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were

⁰ Sl. No.A-22 and 34 of *Annexure-1*.

ⁿ Sl. No. A-27 of *Annexure-2*.

informed every quarter by the Audit, of the arrears in finalisation of the accounts, no remedial measures had been taken. As a result of which the net worth of these PSUs could not be assessed in audit.

Financial position and working results of working PSUs

1.7 The summarised financial results of the working PSUs (Government companies and Statutory corporations) as per their latest finalised accounts are given in ***Annexure-2***. Besides, statement showing the financial position and working results of individual working Statutory corporations for the latest three years for which accounts have been finalised are given in ***Annexures-4*** and ***5***, respectively.

According to the latest finalised accounts of 36 working Government companies and five working Statutory corporations, eight companies and three corporations had incurred an aggregate loss of Rs.75.85 crore and Rs.2,160.80 crore respectively. Twenty-two companies and two corporations earned an aggregate profit of Rs.579.41 crore and Rs.3.86 crore, respectively. One^α company had capitalised excess of expenditure over income; one^δ company had transferred excess of expenditure to non plan grant and one^ξ company had not commenced commercial activities. One^Ν company had not finalised its first accounts and two^μ companies had finalised their accounts with nil profit and loss balance for application to the ROC under Simplified Exit Scheme-2005.

Working Government companies

Profit earning working Government companies and dividend

1.8 Ten profit earning working companies, which finalised their accounts for 2004-05 up to 30 September 2005, earned profit aggregating Rs.557.42 crore. Of these, only three companies (Sl.No. A-5, 8 and 30 of ***Annexure-2***) declared dividend of Rs.42.79 crore of which the State Government's share was Rs.38.66 crore. The remaining seven profit earning companies did not declare any dividend. The total return by way of above dividend of Rs.38.66 crore, worked out to 0.28 *per cent* on the total equity investment of Rs.13,936.22 crore in 2004-05 by the State Government in working Government companies as against 0.12 *per cent* in the previous year. The State Government in 2004-05 had not formulated any dividend policy for payment of minimum dividend.

Nine profit earning working companies, which finalised their accounts for previous years during October 2004 to 30 September 2005, earned profit aggregating Rs.9.78 crore. Out of above 19 profit earning companies, 18 companies were earning profit for two or more successive years.

^α Sl.No.A-10 of ***Annexure-2***.

^δ Sl.No.A-16 of ***Annexure-2***.

^ξ Sl.No.A-24, of ***Annexure-2***.

^Ν Sl. No.A-27 of ***Annexure-2***.

^μ Sl. No. A-15 and 33 ***Annexure-2***.

Loss incurring working Government companies

1.9 Of the eight loss incurring working Government companies, four* companies had accumulated loss aggregating Rs.147.70 crore which was more than four times of their aggregate paid-up capital of Rs.35.70 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 contribution towards equity, loans, conversion of loans into equity and subsidy, *etc.* According to the available information, the total financial support so provided by the State Government was Rs.68.82 crore by way of share capital (Rs.2.80^β crore), loans (Rs.1.02 crore) and subsidy (Rs.65 crore) during 2004-05 to these four companies.

Working Statutory corporations

Profit earning Statutory corporations and dividend

1.10 Two Corporations (Sl. No. B-4 and 5 of **Annexure-2**) had finalised their accounts for 2004-05 and earned profit aggregating Rs.3.86 crore. These corporations did not declare any dividend.

Loss incurring Statutory corporations

1.11 Of the three loss incurring Statutory corporations, two Statutory corporations (Sl.No.B-2 and B-3 of **Annexure-2**) had accumulated losses aggregating Rs.1,965.93 crore which were more than two times of their aggregate paid-up capital of Rs.697.94 crore.

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these corporations in the form of contribution towards equity, loans, conversion of loans into equity and grant, *etc.* According to the available information, the total financial support provided during 2004-05 by the State Government was Rs.899.10 crore in the form of equity (Rs.17.69 crore), loans (Rs.324.56 crore) and grant (Rs.556.85 crore) to these corporations (Sl. No. B-2 and B-3 of **Annexures 1 and 3**).

Operational performance of working Statutory corporations

1.12 The operational performance of the working Statutory corporations is given in **Annexure-6**. The following points deserve mention in this connection.

Gujarat Electricity Board

1.13 The percentage of transmission and distribution loss to total power available for sale had decreased from 31.13 *per cent* in 2002-03 to 28.96 *per*

* Sl No.A-4, 6, 12 and 22 of **Annexure-2**.

^β State Government loan converted into equity.

cent in 2003-04. Though the demand during 2001-04 was 31,001 MKWH⁹, the power generation decreased from 20,770 to 19,289 MKWH during the same period resulting in increased dependence of the Board on purchase of power from private power producers/ central grid.

Return on capital employed

1.14 As per the latest finalised accounts (up to 30 September 2005), the capital employed* worked out to Rs.23,992.10 crore in 36 working Government companies and total return[†] thereon amounted to Rs.746.91 crore (3.11 per cent) as compared to total return of Rs.613.90 crore (2.30 per cent) on capital employed of Rs.26,634.47 crore in the previous year (accounts finalised up to 30 September 2004). Similarly, the capital employed of working Statutory corporations as per the latest finalised accounts (up to 30 September 2005) worked out to Rs.6,281.63 crore and the total negative return on capital employed was Rs.619.60 crore, respectively as against capital employed of Rs.7,126.08 crore and the total return of Rs.138.63 crore (1.95 per cent) thereon in the previous year (accounts finalised up to 30 September 2004). 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

1.15 A Memorandum of Understanding (MOU) was signed on 19 January 2001 between the Government of India and the Government of Gujarat as a joint commitment for implementation of reforms programme in power sector with identified milestones. Status of implementation of reform programme against commitment made in the MOU is given in ***Annexure-7***.

Unbundling of Gujarat Electricity Board

1.16 Pursuant to the Gujarat Electricity Industry (Re-organisation and Regulation) Act, 2003, the erstwhile Gujarat Electricity Board (GEB) was unbundled in a phased manner by 31 March 2005. The generation, transmission and distribution activities of the erstwhile GEB were transferred (1 April 2005) to one generation company^D, one transmission company^N and four distribution companies^B working under the strategic control of the GEB.

⁹ Million Kilo Watt Hour.

* 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, bonds, deposits 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.

^D Gujarat State Electricity Corporation Limited (619-B company).

^N Gujarat Energy Transmission Corporation Limited (619-B company).

^B Dakshin Gujarat Vij Company Limited; Madhya Gujarat Vij Company Limited; Paschim Gujarat Vij Company Limited and Uttar Gujarat Vij Company Limited (619-B company).

Another Company (Sl. No. A-27 of **Annexure-1**) was formed (December 2004) to take over the residual activities of the erstwhile GEB. The activities of GEB have been transferred (1 April 2005) to the Company.

Gujarat Electricity Regulatory Commission

1.17 The Gujarat Electricity Regulatory Commission (Commission) was formed on 12 November 1998 under Section 17 of the Electricity Regulatory Commissions Act, 1998^λ with the main objective of determining electricity tariff, advising the State Government in matters relating to electricity generation, transmission and distribution *etc.* in the State. The Commission is a body corporate and comprises three members including a Chairman, who are appointed by the State Government. The audit of accounts of the Commission is conducted by the CAG under Section 104(2) of the Electricity Act, 2003. The Commission had finalised its accounts up to 2004-05.

Non working PSUs

Investment in non working PSUs

1.18 As on 31 March 2005, the total investment in 10 non working Government companies (there was no non working Statutory corporation) was Rs.805.44 crore (equity: Rs.38.06 crore, long-term loans: Rs.724.84 crore and share application money: Rs.42.54 crore), as against total investment of Rs.805.43 crore (equity: Rs.38.06 crore, long-term loans: Rs.724.83 crore and share application money: Rs.42.54 crore) in 10 non working Government companies as on 31 March 2004.

The classification of the non working PSUs was as under:

Sl. No.	Status of non working PSUs	Number of companies	Investment (Rupees in crore)	
			Equity	Long-term loans
1.	Under liquidation	5	58.92*	598.17
2.	Under closure	5	21.68	126.67
	Total	10	80.60	724.84

Of the above non working PSUs, four³ Government companies were under liquidation under Section 560 of the Companies Act, 1956 for eight years and in respect of one company (Sl. No. C-4 of **Annexure-1**) the Gujarat High Court had passed order for liquidation on 7 April 2003. Substantial investment of Rs.657.09 crore was involved in these five companies. Further, one company (Sl. No. C-2 of **Annexure-1**) was declared (14 January 2003) sick unit along with the approval of revival package by the Board for Industrial and Financial Reconstruction (BIFR). Effective steps need to be taken for their expeditious liquidation or revival.

^λ Since replaced by the Electricity Act, 2003.

* Equity includes share application money of Rs.42.54 crore for companies under liquidation.

³ Sl. No.C-6, 7, 8 and 9 of **Annexure-1**.

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

1.19 The details regarding budgetary outgo, grants/ subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of non working PSUs are given in **Annexures-1** and **3**.

The State Government had provided budgetary support of Rs.0.85 crore in the form of loan to two non working Government companies during 2004-05. At the end of the year, guarantee amounting to Rs.40 crore obtained by one non working company was outstanding as against guarantees of Rs.42.06 crore obtained by three non working companies as on 31 March 2004.

Total establishment expenditure of non working PSUs

1.20 The year wise details of total establishment expenditure of non working Government companies and sources of financing them during the last three years up to 2004-05 are given below:

(Amount: Rupees in crore)

Year	Number of Government companies	Total establishment expenditure	Financed by		
			Disposal of investment/ assets	Government Loans	Others
2002-03	10	0.62 [*]	--	--	0.62
2003-04	10	3.31 ³	--	3.31	--
2004-05	10	1.31 ⁶	0.57	--	0.74
Total		5.24	0.57	3.31	1.36

An amount of Rs.5.24 crore has been incurred towards establishment expenditure of these 10 non working Government companies during 2002-2005. Expeditious action is necessary for winding up of these companies to avoid further non productive expenditure in this regard.

Finalisation of accounts by non working PSUs

1.21 Out of 10 non working Government companies, one company had finalised its accounts for 2004-05 and the accounts of four companies were in arrears for periods ranging from one to six years. Five⁰ companies were under liquidation as seen from **Annexure-2**.

* This relates to five non working Government companies (Sl. No.C-5, 7, 8, 9 and 10 of **Annexure-2**) remaining five companies (Sl. No. C-1, 2, 3, 4 and 6 of **Annexure-2**) did not furnish the information.

³ This relates to six non working Government companies (Sl. No.C-2, 6, 7, 8, 9 and 10 of **Annexure-2**) remaining four companies (Sl. No. C-1, 3, 4 and 5 of **Annexure-2**) did not furnish the information.

⁶ This relates to eight non working Government companies (Sl. No.C-1, 2, 3, 6, 7, 8, 9 and 10 of **Annexure-2**) remaining two companies (Sl. No. C-4 and 5 of **Annexure-2**) did not furnish the information.

⁰ Sl. No. C-4, 6, 7, 8 and 9 of **Annexure-2**.

Financial position and working results of non-working PSUs

1.22 The summarised financial results of non-working Government companies as per their latest finalised accounts are given in **Annexure-2**. The net worth of ten non working Government companies against their paid-up capital of Rs.80.60 crore was Rs.(-)1,161.49 crore. These companies suffered cash loss of Rs.311.09 crore and their accumulated loss worked out to Rs.1,242.09 crore.

Status of placement of Separate Audit Reports of Statutory corporations in the Legislative Assembly

1.23 The following table indicates the status of placement of various Separate Audit Reports (SARs) on the accounts of Statutory corporations issued by the CAG in the Legislature by the Government:

Sl. No.	Name of the Statutory corporation	Year up to which SARs placed in Legislature	Years for which SARs not placed in Legislature	
			Year of SAR	Date of issue to the Government
1.	Gujarat Electricity Board	2003-04	--	--
2.	Gujarat State Road Transport Corporation	2002-03	2003-04	SAR under process
3.	Gujarat State Financial Corporation	2003-04	2004-05	SAR under process
4.	Gujarat State Warehousing Corporation	2003-04	2004-05	Audit in progress
5.	Gujarat Industrial Development Corporation	2002-03	2003-04 2004-05	SAR under process Audit in progress

Disinvestment, Privatisation and Restructuring* of Public Sector Undertakings

1.24 During the year 2003-04, the State Government had disinvested Gujarat State Export Corporation Limited (GSECL). In October 1992, the Government of Gujarat had constituted State Finance Commission to examine the potential for privatisation and disinvestment of PSUs of the State Government. The recommendations of the Commission including setting up of a High Level Committee for formulating broad guidelines and constitution of a Cabinet Sub-Committee (constituted in March 1996) were reported *vide* paragraph 1.2.2 of Report of the Comptroller and Auditor General of India for the year ended 31 March 1998 (Commercial)-Government of Gujarat. The action taken as a follow-up to the decisions of the Cabinet Sub-Committee up to April 2003 was as under:

Privatisation

1.25 The Sub-Committee decided (July 1996) to privatise three Government companies *viz.*, Gujarat Communications and Electronics Limited (GCEL), Gujarat Tractor Corporation Limited (GTCL) and GSECL. As reported by the Government, GTCL had been fully privatised in December 1999. In case of GCEL, it announced closure of the Company under the Industrial Disputes Act

* Restructuring includes merger and closure of PSUs.

and all employees were given voluntary retirement/ retrenchment. The Gujarat High Court had passed (February 2002) orders for winding up of the Company and appointed liquidator for liquidation process. This order was stayed by a subsequent order of the Court (May 2002) during pendency of reference before BIFR. The Government stated (April 2003) that BIFR had ordered for winding up of the Company and necessary actions for vacating the stay order were initiated. The said stay order was vacated by the High Court of Gujarat on 7 April 2003 reviving the liquidation process. Further, the official liquidator had been requested to undertake the liquidation process. In case of GSECL, the Sub-Committee had decided to reduce the Government stake to 11 *per cent*. The Government, however, decided (22 January 2004) to disinvest entire Government holding of 8490 equity shares (56.60 *per cent* of total equity of GSECL). Accordingly, 8490 equity shares were transferred in favour of Adani Exports Limited (5 March 2004).

Restructuring

1.26 In case of Gujarat Agro Industries Corporation Limited, Cabinet Sub-Committee decided to sell uneconomic divisions/ units, which was agreed to by the Government of Gujarat in January 1999. The Government stated (April 2003) that necessary action had been initiated and all employees of the concerned divisions/ units had been offered voluntary retirement.

1.27 In case of Gujarat Industrial Development Corporation (GIDC), the Sub-Committee decided for unbundling of GIDC by transferring maintenance services to Industries Associations and Industrial Park to joint sector. Regulatory and planning work was to be continued by the Corporation. The Government stated (April 2003) that action had been initiated on the recommendations.

1.28 In case of Tourism Corporation of Gujarat Limited, it was decided to close un-economic units and to offer Voluntary Retirement Scheme (VRS) to its employees. Action was being initiated in this regard.

Disinvestment

1.29 In case of Gujarat Industrial Investment Corporation Limited, the Cabinet Sub-Committee decided to reduce the stake of the Government to 49 *per cent* of equity shares. As a follow-up, 11 *per cent* equity shares were to be transferred to Gujarat Narmada Valley Fertilizers Company Limited and Gujarat State Fertilizers and Chemicals Limited. The term lending activity of the Company had been reduced. VRS had been offered to staff and the Company was refocusing on implementing infrastructure projects.

1.30 In case of Gujarat Mineral Development Corporation Limited, the Cabinet Sub-Committee decided to disinvest 49 *per cent* equity shares and 26 *per cent* of the equity shares had already been disinvested.

Merger

1.31 The Cabinet Sub-Committee recommended merger of Gujarat Rural Industries Marketing Corporation Limited with Gujarat State Leather Industry Development Corporation Limited and that of Gujarat State Handloom Development Corporation Limited with Gujarat State Handicrafts Development Corporation Limited. These recommendations were accepted by the Government of Gujarat in July 1996. The draft scheme of merger was approved by the Government of India in both the cases and Gujarat Leather Industry Development Corporation Limited was merged (January 2001) with Gujarat Rural Industries Marketing Corporation Limited. Gujarat State Handloom Development Corporation Limited was merged with Gujarat State Handicrafts Development Corporation Limited in June 2002.

Closure

1.32 The decision of the Cabinet Sub-Committee to close Gujarat Small Industries Corporation Limited was accepted by the Government of Gujarat in January 1999. The Company had suspended all the activities and given VRS to most of the employees.

1.33 The decision of the Cabinet Sub-Committee on closure of Gujarat Fisheries Development Corporation Limited (GFDCL) and Gujarat State Construction Corporation Limited (GSCC) was accepted by the Government on 4 September 1998. As a follow-up, the Government reported (April 2003) that all activities of these companies had been suspended and most of the employees had been given VRS. In case of GFDCL, assets were being transferred/ sold. In case of the Film Development Corporation of Gujarat Limited and Gujarat State Rural Development Corporation Limited, the Government had decided to continue these companies, earlier identified for closure.

The latest developments on Disinvestment, Privatisation and Restructuring of Public Sector Undertakings was called for (June 2005), the response of the State Government was awaited (September 2005).

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

1.34 During the period from October 2004 to September 2005, the accounts of 24 Government companies (23 working and one non working) and five Statutory corporations (all working) were selected for review. The net impact of the important audit observations made was as follows:

Sl. No.	Details	Number of accounts		Amount (Rupees in crore)	
		Working Government companies	Working Statutory corporations	Working Government companies	Working Statutory corporations
1.	Increase in profit	1	--	1.26	--
2.	Increase in loss	1	4	0.75	537.00
3.	Non disclosure of material facts	6	3	117.26	390.49
4.	Errors of classification	4	3	273.21	442.96
5.	Non compliance to requirements of statute	4	1	--	483.86

Some of the major errors and omissions noticed during October 2004 to September 2005 in the course of review of annual accounts of these PSUs are mentioned below:

Errors and omissions noticed in case of Government companies

Sardar Sarovar Narmada Nigam Limited (2003-04)

1.35 The State Government sanctioned (4 July 2003) a capital contribution of Rs.173.65 crore being the reimbursement of expenditure incurred by Madhya Pradesh State for land acquisition and Rehabilitation and Resettlement works, which was accounted under "Capital works-in-progress" instead of "Incidental expenditure pending capitalisation". This had resulted in overstatement of capital works-in-progress and understatement of incidental expenditure pending capitalisation by Rs.173.65 crore.

Gujarat State Forest Development Corporation Limited (2003-04)

1.36 The advance Income tax was understated by Rs.6.39 crore due to adjustment of provision for tax, in contravention of the format prescribed in Part-I of Schedule VI to the Companies Act, 1956. This had resulted in understatement of Current liabilities and Provisions and Current assets, Loans and Advances by Rs.6.39 crore.

1.37 Minor forest produces (MFP) costing Rs.90.69 lakh were transferred from MFP division to Dhanvantari project division for processing before sale and was included in sales resulting in inflated sales. The Company had not disclosed the accounting policy in this regard in accordance with Accounting Standard-5 issued by the Institute of Chartered Accountants of India.

Gujarat State Police Housing Corporation Limited (2002-03)

1.38 Unpaid expenses of Rs.5.29 crore for 1999-2003 were incorrectly classified as provision instead of current liabilities. This resulted in overstatement of provisions and understatement of current liabilities by Rs.5.29 crore.

Errors and omissions noticed in case of Statutory corporations

Gujarat Electricity Board (2003-04)

1.39 The provision for power purchased in prior period towards claim for reimbursement of Naptha cost of Rs.279 crore was understated as the State Government rejected the said claim. A claim of Rs.75 crore was, however, accepted by the Government in the form of loan. This had resulted in understatement of deficit by Rs.279 crore.

Gujarat State Road Transport Corporation Limited (2002-03)

1.40 The Corporation did not provide for "No fault liability" of Rs.4.84 crore as required by Section 140 and 141 of the Motor Vehicle Act, 1988. This had resulted in understatement of loss and sundry creditors by Rs.4.84 crore.

Gujarat State Financial Corporation (2003-04)

1.41 The Corporation incorrectly exhibited the amount of Rs.11 crore payable to two bond holders who had exercised "Put option" under long-term borrowings. This had resulted in understatement of current liabilities and overstatement of long-term borrowings by Rs.11 crore.

Audit assessment on the working results of Gujarat Electricity Board

1.42 Based on the audit assessment of the working results of GEB for three years up to 2003-04 and taking into consideration the major irregularities and omissions pointed out in the SARs on the annual accounts of GEB and not taking into account the subsidy/ subventions receivable from the State Government, the net surplus/ deficit of the GEB is as follows:

(Amount: Rupees in crore)

Sl. No.	Particulars	2001-02	2002-03	2003-04
1	Net surplus/ (-) deficit as per books of accounts	(-) 622.03	(-) 475.81	(-) 1,931.80
2	Subsidy from the State Government	2,578.65	1,805.14	1,101.09
3	Net surplus/ (-) deficit before subsidy from the State Government (1-2)	(-) 3,200.68	(-) 2,280.95	(-) 3,032.89
4	Net increase/ decrease in net surplus/ (-) deficit on account of audit comments on the annual accounts	(-) 289.07	(-) 509.07	(-) 525.39
5	Net surplus/ (-) deficit after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-) 3,489.75	(-) 2,790.02	(-) 3,558.28

Persistent irregularities and system deficiencies in the financial matters of PSUs

1.43 The following persistent irregularities and system deficiencies in the financial matters of the PSUs had been repeatedly pointed out during the

course of audit of their accounts but no corrective action was taken by these PSUs so far.

Government companies

Gujarat Water Infrastructure Limited

1.44 The company did not provide for guarantee fee of Rs.75 lakh payable to the Government of Gujarat for the year 2002-03 in respect of loan obtained from Oriental Bank of Commerce. This resulted in understatement of loss by Rs.75 lakh.

Statutory corporations

Gujarat Electricity Board

1.45 The Annual inspection and installation checking fee was understated by Rs.1.08 crore due to inclusion of prior period fee of Rs.0.69 crore and non provision of inspection fee of Rs.1.77 crore for 2003-04. Consequently, deficit was understated by Rs.1.08 crore.

Gujarat State Road Transport Corporation

1.46 The balance under personal account with other State Transport Undertakings included Rs.30.58 lakh being old outstanding dues from other State Road Transport Undertakings which were pending for recovery/adjustment since 1999-2000 onwards.

Gujarat State Financial Corporation

1.47 The Corporation did not provide for interest of Rs.2.09 crore for the period from February 2003 to March 2004 to two Priority Sector Bond holders. Non-provision of interest thereon had resulted in understatement of current liabilities as well as loss for the year by Rs.2.09 crore.

1.48 The balance under Subvention received from the State Government was arrived at after adjusting Rs.16.46 crore being balance of 'Dividend Deficit Account', which should have been shown on Asset side as per form prescribed under General Regulation No. 56 of the Corporation.

Recoveries at the instance of Audit

1.49 Test check of records of Gujarat Electricity Board/ other PSUs conducted during April 2004 to March 2005 disclosed short levy of tariff, short realisation of revenue, excess payments, credit of lapsed deposits, recovery of water charges, levy of liquidated damages and other observations, etc, aggregating Rs.7.41 crore in 117 cases apart from 23 cases where money value of recovery was not determined at the time of audit. The PSUs accepted the observations in all the 140 cases pointed out by audit and a sum of Rs.9.36 crore relating to the abovementioned 140 audit observations was recovered.

Internal audit/ internal control

1.50 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report on various aspects including the internal control/ internal audit system in the companies audited in accordance with the directions issued to them by the Comptroller and Auditor General of India under section 619(3)(a) of the Companies Act, 1956 and to identify the areas, which need improvement. An illustrative resume of major recommendations made/ comments made by the Statutory Auditors on possible improvement in the internal audit/ internal control system in respect of State Government companies is indicated below:

Nature of comments/ recommendations made by Statutory Auditors	Number of companies where observations were made	Reference to Sl. No. of the companies as per Annexure-2
Internal audit needed to be strengthened having due regard to the size and nature of its business	2	A-4 and 23
The compliance on internal audit report was not adequate	2	A-1 and 20
Inadequate internal audit system	2	A-12 and 19
Absence of internal audit system	1	A-25

Recommendations for closure of PSUs

1.51 Even after completion of five years of their existence, the turnover of five* working Government companies and one** working Statutory corporation had been less than rupees five crore in each of the preceding five years as per their latest finalised accounts. Five@ PSUs (one working Statutory corporation and four non working companies) had been incurring losses for five consecutive years as per their latest finalised accounts, leading to negative net worth.

In view of poor turnover and continuous losses, the Government may either improve performance of these 11 PSUs (nine Government companies and two Statutory corporations) or consider their closure.

619-B Companies

1.52 There were 13 companies falling under Section 619-B of the Companies Act, 1956 of which one (Sl. No.3 of Annexure-8) company was non working. 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.

* Sl. No.A-2, 12, 13, 14 and 31 of Annexure-2.

** Sl. No.B-4 of Annexure-2.

@ Sl. No. B-2, C-2, 3, 5 and 10 of Annexure-2.

