

Chapter I

1. Overview of Government companies and Statutory corporations

Introduction

1.1 As on 31 March 2008, there were 56 Government companies (44 working and 12 non-working companies*) and four Statutory corporations as against 53 Government companies (41 working and 12 non-working companies) and four Statutory corporations (all working) as on 31 March 2007 under the control of the State Government. During the year three new companies[∅] came within the audit purview of the Comptroller and Auditor General of India (CAG). 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 CAG as per the provision of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit 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 Statutory corporation	Authority for audit by the CAG	Audit arrangement
1.	Gujarat State Road Transport Corporation	Section 33(2) of the Road Transport Corporations Act, 1950	sole audit by CAG
2.	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 2011-12
3.	Gujarat State Financial Corporation	Section 37(6) of the State Financial Corporations Act, 1951	audit by Chartered Accountants and supplementary audit by CAG
4.	Gujarat State Warehousing Corporation	Section 31(8) of the State Warehousing Corporations Act, 1962	audit by Chartered Accountants and supplementary audit by CAG

The State had formed (July 1999) the Gujarat Electricity Regulatory Commission and its audit is entrusted to the CAG under Section 104(2) of the Electricity Act, 2003.

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

[∅] GSPC Gas Company Limited, GSPC LNG Limited and Gujarat Foundation for Mental Health and Allied Sciences.

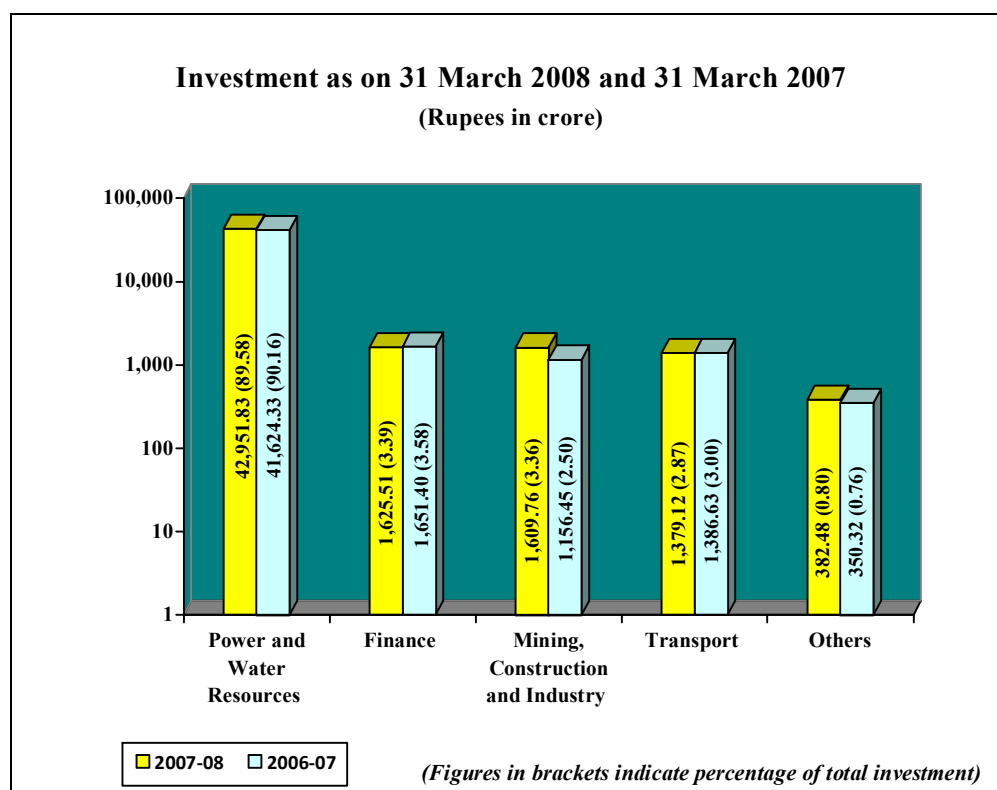
Working Public Sector Undertakings (PSUs)

Investment in working PSUs

1.2 As on 31 March 2008, the total investment* in 48 working PSUs (44 Government companies and four Statutory corporations) was Rs. 47,948.70 crore^v (equity: Rs. 22,443.23 crore, share application money: Rs. 7,038.34 crore and long-term loans[•]: Rs. 18,467.13 crore) as against Rs. 46,169.13 crore (equity: Rs. 17,441.11 crore, share application money: Rs. 8,592.70 crore and long-term loans: Rs. 20,135.32 crore) in 45 working PSUs (41 Government companies and four Statutory corporations) as on 31 March 2007. An 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 2008 and March 2007 are indicated below in the bar chart:



* Source: Information provided by the PSUs.

^v State Government investments in the working State PSUs was Rs. 26,231.55 crore (others: Rs. 21,717.15 crore) and figure as per Finance Accounts 2007-08 is Rs. 22,733.25 crore. The difference is under reconciliation.

[•] Long-term loans mentioned in paragraphs 1.2, 1.3, 1.4 and 1.17 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 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	41	16,688.65	8,592.70	18,603.01	43,884.36
2007-08	44	21,675.77	7,038.34	16,980.78	45,694.89

(Source: Information provided by the companies)

As on 31 March 2008 the total investment in working Government companies comprised 62.84 per cent of equity capital and 37.16 per cent of loans as compared to 57.61 and 42.39 per cent respectively as on 31 March 2007.

The increase in the investment of working Government companies during 2007-08 was mainly due to infusion of capital by the State Government in power and water resources sector companies.

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 capital of Government companies in power and water resources sector, the debt-equity ratio of working Government companies in this sector decreased from 0.72:1 in 2006-07 to 0.56:1 in 2007-08.

Working Statutory corporations

1.4 The total investment by way of equity and loans in the working Statutory corporations at the end of March 2007 and March 2008 was as follows:

(Amount: Rupees in crore)

Name of Corporation	2006-07 [∨]		2007-08 [§]	
	Capital	Loans	Capital	Loans
Gujarat State Road Transport Corporation	659.34	727.29	674.34	704.78
Gujarat State Financial Corporation	89.12	802.48	89.12	776.71
Gujarat State Warehousing Corporation	4.00	--	4.00	--
Gujarat Industrial Development Corporation	--	2.54	--	4.86
Total	752.46	1,532.31	767.46	1,486.35

(Source: Information provided by the corporations)

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

[∨] Figures for 2006-07 in respect of Gujarat State Road Transport Corporation, Gujarat State Financial Corporation and Gujarat State Warehousing Corporation are provisional and as furnished by the respective Corporations.

[§] Figures for 2007-08 are provisional and as furnished by the respective Corporations.

Due to repayment of loans by the Gujarat State Road Transport Corporation and Gujarat State Financial Corporation, the debt-equity ratio as a whole decreased from 2.04:1 in 2006-07 to 1.94:1 in 2007-08.

Budgetary outgo, grants/ subsidies, guarantees issued, 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 2005-08 is 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.	Amt.	No.	Amt.	No.	Amt.
Equity capital outgo from budget	8	1,478.15	--	--	9	2,664.93	1	33.00	11	3,234.73	1	15.00
Loans given from budget	3	77.75	2	293.87	5	38.96	2	224.17	7	14.51	2	355.00
Grant/ subsidy towards												
(1) Projects/ programmes/schemes	18	1,321.33	1	57.86	20	1,002.03	2	43.42	20	1,146.02	1	7.59
(2) Other subsidy	9	697.16	1	356.00	12	1,564.84	1	356.00	9	1,887.37	1	361.62
Total grants/subsidy	21*	2,018.49	2*	413.86	25*	2,566.87	3*	399.42	24*	3,033.39	2*	369.21
Total outgo	26*	3,574.39	3*	707.73	28*	5,270.76	3*	656.59	30*	6,282.63	3*	739.21

(Source: Information provided by the PSUs)

During the year 2007-08, the Government had guaranteed loans aggregating Rs. 80.71 crore obtained by five Government companies[±]. At the end of the year, guarantees amounting to Rs. 8,447.96 crore obtained by eight working Government companies (Rs. 8,110.97 crore) and two working Statutory corporations (Rs. 336.99 crore) were outstanding. The guarantee commission paid/ payable to the State Government by five Government companies and three Statutory corporations during 2007-08 was Rs. 94.15 crore and Rs. 44.43 crore, respectively.

Finalisation of accounts by working PSUs

1.6 The accounts of the Government companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 210, 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,

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

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

[±] Gujarat Minorities Finance and Development Corporation Limited, Gujarat Gopalak Development Corporation Limited, Gujarat Thakor and Koli Vikas Nigam, Sardar Sarovar Narmada Nigam Limited, Gujarat Industrial Investment Corporation Limited.

audited and presented to the Legislature as per the provisions of their respective Statutes.

Out of 44 working Government companies and four Statutory corporations, only 13 companies had finalised their accounts for the year 2007-08 up to 30 September 2008. During the period from October 2007 to September 2008, 20 working Government companies finalised 22 accounts for previous years. Similarly, two[#] working Statutory Corporations finalised three accounts for the previous years.

The accounts of 31 working Government companies and four working 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 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	--	2003-04 to 2007-08	5	A-44	--
2	1	--	2005-06 to 2007-08	3	A-19	--
3	6	1	2006-07 to 2007-08	2	A-2, 4, 9, 15, 17 and 40	B-2
4	23	3	2007-08	1	A-1, 3, 5, 8, 12, 13, 16, 18, 20, 22, 23, 24, 27, 28, 29, 30, 31, 32, 33, 34, 36, 41 and 43	B-1, 3 and 4
	31	4				

(Source: Information compiled from annual accounts of the PSUs)

Investment made by State Government in PSUs whose accounts are in arrears

1.6.1 The State Government had invested Rs. 5,987.79 crore (equity: Rs. 842.02 crore, loan: Rs. 1,240.41, grants: Rs. 3,905.36 crore) in 31 PSUs during the years for which accounts have not been finalised as detailed in **Annexure 4**. In the absence 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 these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed time to time by the Audit, of the arrears in finalisation of accounts, no remedial measures had been taken. As a result of which the net worth of these PSUs could not be assessed in audit.

[#] Gujarat State Road Transport Corporation and Gujarat State Warehousing Corporation.

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 5** and **6** respectively.

According to the latest finalised accounts of 44 working Government companies and four working Statutory corporations, six companies and two corporations had incurred an aggregate loss of Rs. 37.12 crore and Rs. 78.15 crore respectively. Thirty one companies and two corporations had earned an aggregate profit of Rs. 1,540.91 crore and Rs. 81.10 crore, respectively. One* Company had capitalised excess of expenditure over income; one# Company had transferred excess of expenditure to non-plan grant and five[∇] companies are under construction.

Working Government companies

Profit earning working Government companies and dividend

1.8 Out of 13 working companies which finalised their accounts for 2007-08 up to 30 September 2008, 10 companies earned profit aggregating Rs. 565.31 crore. Of these, only four companies[∇] declared dividend of Rs. 38.45 crore of which the State Government's share was Rs. 26.82 crore. The remaining six profit earning Company did not declare any dividend. The total return by way of the above dividend of Rs. 26.82 crore worked out to 0.12 *per cent* on the total equity investment of Rs. 23,107.24 crore in 2007-08 by the State Government in working Government companies as against 0.21 *per cent* in the previous year. The State Government had not formulated any dividend policy for payment of minimum dividend by the PSUs.

Fifteen profit earning working companies, which finalised their accounts for previous years during October 2007 to September 2008, earned profit aggregating Rs. 354.13 crore and only three companies[⊕] declared dividend of Rs. 21.91 crore of which State Government's share was Rs. 20.86 crore. Out of the 31 profit earning companies as per their latest finalised accounts, 22 companies were earning profit for the last two or more successive years.

* Gujarat State Police Housing Corporation Limited.

Gujarat Women Economic Development Corporation Limited.

∇ GSPC (JPDA) Limited, GSPC LNG Limited, Sardar Sarovar Narmada Nigam Limited, GSPC Pipavav Power Company Limited and Gujarat Foundation for Mental Health and Allied Sciences.

∇ Gujarat Mineral Development Corporation Limited, Gujarat State Financial Services Limited, GSPC Gas Company Limited and GSFS Capital and Securities Limited.

⊕ Gujarat State Seeds Corporation Limited, Gujarat State Petroleum Corporation Limited, and Gujarat State Civil Supplies Corporation Limited.

Loss incurring working Government companies

1.9 Of the six loss incurring working Government companies, three[^] companies had accumulated loss aggregating Rs. 149.89 crore which was more than seven times of their aggregate paid-up capital of Rs. 19.48 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 and subsidy, *etc.* According to the available information, the total financial support so provided by the State Government was Rs. 254.67 crore by way of equity (Rs. 3.20 crore), loan (Rs. 1.45 crore) and subsidy (Rs. 250.02 crore) during 2007-08 to these three companies.

Working Statutory corporations

Profit earning Statutory corporations and dividend

1.10 Of the four Statutory corporations, none of the Corporations has finalised its accounts for 2007-08. One Statutory Corporation[†] which finalised its accounts for earlier year earned profit of Rs. 1.72 crore and did not declare any dividend.

Loss incurring Statutory corporations

1.11 The two loss incurring Statutory corporations[∅] had accumulated losses aggregating Rs. 2,305.01 crore which were more than three times of their aggregate paid-up capital of Rs. 748.46 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 equity, loans and grant, *etc.* According to the available information, the total financial support provided during 2007-08 by the State Government was Rs. 731.62 crore in the form of equity (Rs. 15 crore), loans (Rs. 355 crore) and subsidy (Rs. 361.62 crore) to these two Statutory corporations (*Annexures 1 and 3*).

Operational performance of working Statutory corporations

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

[^] Gujarat State Land Development Corporation Limited, Gujarat State Handloom and Handicrafts Development Corporation Limited and Gujarat Minorities Finance and Development Corporation Limited.

[†] Gujarat State Warehousing Corporation.

[∅] Gujarat State Road Transport Corporation and Gujarat State Financial Corporation.

Return on capital employed

1.13 As per the latest finalised accounts of 44 Government companies (accounts finalised up to 30 September 2008), the capital employed^s worked out to Rs. 55,423.35 crore and the total return[#] thereon amounted to Rs. 2,988.38 crore (5.39 *per cent*) as compared to total return of Rs. 2,642.68 crore (6.35 *per cent*) on capital employed of Rs. 41,599.12 crore in the previous year (as per accounts finalised up to 30 September 2007). Similarly, the capital employed in working Statutory corporations as per the latest finalised accounts (up to 30 September 2008) worked out to Rs. 3,247.39 crore and the total return on capital employed was Rs. 164.46 crore (5.06 *per cent*), respectively as against the capital employed of Rs. 3,318.99 crore and the total return of Rs. 94.95 crore (2.86 *per cent*) thereon in the previous year (as per accounts finalised up to 30 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 A Memorandum of Understanding (MoU) was signed on 19 January 2001 between the Union Ministry of Power and the State Government as a joint commitment for implementation of reforms programme in power sector with identified milestones. The MoU *inter alia* included reduction in transmission and distribution (T&D) losses for which no targets were fixed and 100 *per cent* metering of all agriculture consumers by 9 October 2003. Against this, T&D losses and metering of agriculture consumers achieved were 21.71 *per cent* and 33.71 *per cent* respectively (March 2008).

Gujarat Electricity Regulatory Commission

1.15 The Gujarat Electricity Regulatory Commission (GERC) was formed (12 November 1998) under Section 17 of the Electricity Regulatory Commissions Act, 1998^v with the main objective of determining electricity tariff, advising the State Government in matters relating to generation, transmission and distribution of electricity, *etc.* in the State. The audit of accounts of GERC is conducted by the CAG under Section 104(2) of the Electricity Act, 2003. The Commission had finalised its accounts up to 2007-08. During 2007-08, GERC issued 30 orders (15 on annual revenue requirements and 15 on others) against 58 orders issued (12 on annual revenue requirements and 46 on others) during 2006-07.

^s 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.

^v Since replaced by the Electricity Act, 2003.

Non-working Government companies**Investment in non-working Government companies**

1.16 As on 31 March 2008, the total investment in 12 non-working Government companies was Rs. 803.05 crore (equity: Rs. 54.06 crore, share application money: Rs. 42.54 crore and long-term loans: Rs. 706.45 crore), as against the total investment of Rs. 838.71 crore (equity: Rs. 54.06 crore, share application money: Rs. 42.54 crore and long-term loans: Rs. 742.11 crore) in 12 non-working Government companies as on 31 March 2007.

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

Sl. No.	Status of non-working Government companies	Number of companies	Investment (Rupees in crore)	
			Equity	Long-term loans
1.	Under liquidation	5	58.91 [*]	598.17
2.	Under closure	5	21.69	108.28
3.	Others [#]	2	16.00	--
	Total	12	96.60	706.45

(Source: Information provided by the companies)

Of the above 12 non-working Government companies, four[^] Government companies are under liquidation under Section 560 of the Companies Act, 1956 for nine years and in respect of one Company[‡] the Gujarat High Court had passed order for liquidation on 7 April 2003. Substantial investment of Rs. 657.08 crore is involved in these five companies. Further, one Company[⊗] has been declared (14 January 2003) as a sick unit under the Sick Industrial Companies Act, 1985 and a package for revival of the Company has been approved by the Board for Industrial and Financial Reconstruction. Further developments were awaited. Effective steps need to be taken for their expeditious liquidation.

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

1.17 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 Government companies are given in **Annexures 1 and 3**.

At the end March 2008, guarantees aggregating Rs. 40 crore obtained by one non-working company[∇] were outstanding.

* This includes share application money of Rs. 42.54 crore.

The Film Development Corporation of Gujarat Limited had applied for striking-off its name under Simplified Exit Scheme-2005. Hence, no figures are shown against it. The Board of Directors of Gujarat National Highways Limited had decided for winding up the Company after clearing the arrears of Accounts (**Annexure 1**).

[^] Gujarat State Textile Corporation Limited, Gujarat Fintex Limited, Gujarat Siltex Limited and Gujarat Texfab Limited.

[‡] Gujarat Communications and Electronics Limited.

[⊗] Gujarat Dairy Development Corporation Limited.

[∇] Gujarat Communications and Electronics Limited.

Total establishment expenditure of non-working Government companies

1.18 The year wise details of establishment expenditure incurred by non-working Government companies and sources of financing them during the last three years up to 2007-08 are given below:

(Amount: Rupees in crore)

Year	Number of Government companies	Total establishment expenditure	Financed by		
			Disposal of investment/assets	Government Loans	Others
2005-06	13	1.64 [^]	0.38	0.90	0.36
2006-07	12	0.67 [*]	0.49	--	0.18
2007-08	12	0.43 [§]	--	0.01	0.42
Total		2.74	0.87	0.91	0.96

(Source: Information provided by the companies)

An amount of Rs. 2.74 crore has been spent towards establishment expenditure by the above mentioned non-working Government companies during 2005-08. 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 Government companies

1.19 Out of 12 non-working Government companies, one Company had finalised its accounts for 2007-08 and the accounts of five companies were in arrears for periods ranging from one to nine years. Five[•] companies were under liquidation (**Annexure 2**) and one[§] Company had applied (July 2005) to the Registrar of companies (ROC) for striking off its name under Simplified Exit Scheme-2005.

[^] This relates to four non-working Government companies viz., Gujarat Fisheries Development Corporation Limited, Gujarat Dairy Development Corporation Limited, Gujarat Small Industries Corporation Limited and Gujarat State Construction Corporation Limited and information was not furnished by two companies viz., Gujarat Trans-Receiver Limited and Gujarat National Highways Limited. Five non-working Government companies viz., Gujarat Communications and Electronics Limited, Gujarat State Textile Corporation Limited, Gujarat Fintex Limited, Gujarat Siltex Limited and Gujarat Texfab Limited were under liquidation and two non-working Government companies viz., Gujarat Scheduled Castes Economic Development Corporation Limited and The Film Development Corporation of Gujarat Limited had applied for striking off their name under Simplified Exit Scheme-2005

^{*} This relates to three non-working Government companies viz., Gujarat Dairy Development Corporation Limited, Gujarat Small Industries Corporation Limited and Gujarat State Construction Corporation Limited and information was not furnished by three companies viz., Gujarat Fisheries Development Corporation Limited, Gujarat Trans-Receiver Limited and Gujarat National Highways Limited. Five non-working Government companies viz., Gujarat Communications and Electronics Limited, Gujarat State Textile Corporation, Gujarat Fintex Limited, Gujarat Siltex Limited and Gujarat Texfab Limited were under liquidation, and the Film Development Corporation of Gujarat Limited had applied for striking off its name under Simplified Exit Scheme-2005.

[§] This relates to four non-working government companies viz., Gujarat Dairy Development Corporation Limited, Gujarat Small Industries Corporation Limited, Gujarat Trans-receivers Limited and Gujarat State Construction Corporation Limited and information was not furnished by two companies viz., Gujarat Fisheries Development Corporation Limited and Gujarat National Highways Limited. Five non-working Government companies viz., Gujarat Communications and Electronics Limited, Gujarat State Textile Corporation, Gujarat Fintex Limited, Gujarat Siltex Limited and Gujarat Texfab Limited were under liquidation and the Film Development Corporation of Gujarat Limited had applied for striking off its name under Simplified Exit Scheme-2005.

[•] Gujarat Communications and Electronics Limited, Gujarat State Textile Corporation Limited, Gujarat Fintex Limited, Gujarat Siltex Limited and Gujarat Texfab Limited.

[§] The Film Development Corporation of Gujarat Limited.

Financial position and working results of non-working Government companies

1.20 The summarised financial results of non-working Government companies as per their latest finalised accounts are given in **Annexure 2**. The net worth of 11[#] non-working Government companies against their paid-up capital of Rs. 96.60 crore was Rs. (-)1,145.61 crore. These companies had suffered cash loss of Rs. 335.09 crore and their accumulated loss amounted to Rs. 1,247.89 crore.

Status of placement of Separate Audit Reports of Statutory corporations in the State 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 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 State Road Transport Corporation	2004-05	2005-06	22 February 2008.
2.	Gujarat State Financial Corporation	2004-05	2005-06	7 July 2008.
3.	Gujarat State Warehousing Corporation	2005-06	2006-07	29 April 2008.
4.	Gujarat Industrial Development Corporation	2004-05		

Disinvestment, Privatisation and Restructuring* of Public Sector Undertakings

1.22 During the year 2007-08, the State Government had neither disinvested nor privatised any of its PSUs. In October 1992, the Government of Gujarat had constituted State Finance Commission to examine the potential for privatisation and disinvestment of the 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 the Report of the Comptroller and Auditor General of India for the year ended 31 March 1998 (Commercial)-Government of Gujarat. The follow-up action taken on the decisions of the Cabinet Sub-Committee up to March 2008 was as under:

[#] The Film Development Corporation of Gujarat Limited had applied to the Registrar of Companies for striking off its name under Simplified Exit Scheme-2005.

* Restructuring includes merger and closure of PSUs.

Disinvestment

1.23 The Cabinet Sub-Committee decided (July 1996) to reduce the stake of the State Government in Gujarat Industrial Investment Corporation Limited to 49 *per cent* of its 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. However, the shares were not transferred (March 2008).

1.24 In case of Gujarat Mineral Development Corporation Limited, the Cabinet Sub-Committee decided (July 1996) to disinvest 49 *per cent* equity shares and 26 *per cent* of the equity shares had already been disinvested. The balance 23 *per cent* of the equity shares are still to be disinvested.

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

1.25 During October 2007 to September 2008, 40 accounts of 34 Government companies (30 working and four non-working) and two Statutory corporations (all working) were selected for audit. As a result of the observations made by CAG, GSPC (JPDA) Limited and Infrastructure Finance Company of Gujarat Limited revised its accounts for the year 2006-07 and 2005-06 respectively. The net impact of the major audit observations on the profitability of these companies 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	3	--	16.17	--
2.	Decrease in profit	4	--	66.98	--
3.	Increase in loss	1	1	0.32	14.06

Some of the major errors and omissions noticed in the course of audit of annual accounts of these PSUs are as under:

Errors and omissions noticed in case of Government Companies

1.26 Comments by the statutory auditor

Tourism Corporation of Gujarat Limited (2006-07)

- The Company has not provided the fringe benefit tax of Rs. 69.86 lakh related to expenditure incurred from grants.
- The Company has not provided against debts amounting to Rs. 5.32 crore outstanding for more than five years with no certainty of realisations. In addition to above no provision was made against debts under litigation though required as per guidance note of Institute of Chartered Accountants of India (ICAI).

Paschim Gujarat Vij Company Limited (2006-07)

The Company has not followed the Accounting Standard (AS)-6, AS-10 and AS-12 as issued by the ICAI as under:

- AS- 6: Depreciation has been provided on additions to Fixed Assets made during the year. However, in absence of adequate information regarding dates on which the assets were put-to-use, the amount of depreciation undercharged on this account cannot be determined.
- AS-10: Consumers' contributions of Rs. 97.78 crore (Previous year Rs. 74.09 crore) recovered have not been deducted from the costs of the relevant fixed assets. Addition of employees cost and head office supervision charges to the fixed assets are on an *ad hoc* basis.
- AS-12: The amount of grant/ subsidy received of Rs. 137.64 crore (Previous year Rs. 119.80 crore) from Government of Gujarat is taken to Reserves account and not deducted from the cost of the related asset.

Gujarat Rural Industries Marketing Corporation Limited (2006-07)

- The Company has not followed the AS-2, which stipulates valuation of inventory on the basis of cost or net realisable value whichever is lower. The net effect on the profits could not be ascertained.
- In the year 1995-96, the Company had undertaken an activity for manufacturing of uniforms & distribution to various government agencies. Uniforms (Finished Stock) amounting to Rs. 1.24 crore could not be disposed and were still lying in stock. No provision for diminution in value of inventory of Rs. 59.22 lakh was made.
- The loans granted by the Company to the leather and co-operative society amounting to Rs. 1.53 crore were doubtful but not provided for in the Accounts.

Gujarat Water Resources Development Corporation Limited (2006-07)

- The Company has adopted the policy of accounting certain items of income and expenditure, on cash basis even though the Company follows mercantile system of accounting which was not in accordance with AS-1 "Disclosure of Accounting Policies" issued by the Institute of Chartered Accountants of India.

1.27 Comments during the supplementary audit

Gujarat Water Infrastructure Limited (2006-07)

- The secured loan was overstated by Rs. 43.13 crore due to inclusion of loan for which the hypothecation was already discharged in 2005-06.

- The unsecured loan was overstated by Rs. 25.91 crore due to inclusion of loan in respect of which first charge was already created in favour of lenders.
- The plant and machinery was overstated by Rs. 11.39 crore due to inclusion of Mild Steel Pipe procured on behalf of Gujarat Water Supply and Sewerage Board.

Gujarat Urja Vikas Nigam Limited (2006-07)

- Fixed Assets were overstated by Rs. 18.72 crore and that of depreciation thereon by Rs. 2.94 crore due to erroneous capitalisation of e-urja project during 2005-06 and 2006-07. Consequently, work in progress was understated by Rs. 18.72 crore and profit was understated by Rs. 2.94 crore.
- The Sundry Creditors included Rs. 198.53 crore on account of interest accrued but not due. As per the requirement of Schedule VI of the Companies Act, 1956 the interest accrued but not due should be shown separately.

Gujarat State Electricity Corporation Limited (2006-07)

- The Loan Funds were overstated by Rs. 86.01 crore due to inclusion of interest accrued but not due.
- The fuel stock was overstated by Rs. 48.77 crore due to inclusion of scrap/obsolete assets which should have been shown separately in the financial statements as required under AS-10.
- The sale of energy was overstated by Rs. 64.87 crore due to inclusion of excess recovery of fixed cost from Gujarat Urja Vikas Nigam Limited. This has resulted in overstatement of profit to that extent.
- The interest was overstated by Rs. 11.92 crore due to double accounting of interest provision. This has resulted in understatement of profit to that extent.

Gujarat Energy Transmission Corporation Limited (2006-07)

- The capital works-in-progress was overstated by Rs. 13.48 crore due to non-capitalisation of lines and sub-stations commissioned, inclusion of job works expenditure and wrong inclusion of supervision charges under this head.
- The works-in-progress was overstated by Rs. 4.99 crore due to non adjustment of value of dismantled material removed from lines being renovated.

Uttar Gujarat Vij Company Limited (2006-07)

- The Consumers' contribution toward capital assets included grants towards cost of capital assets amounting to Rs. 82.27 crore and capital grant under financial restructuring plan of Rs. 22.56 lakh. These should have shown separately as grants towards capital assets.

Sardar Sarovar Narmada Nigam Limited (2006-07)

- The capital works-in-progress was overstated by Rs. 2,534.68 crore due to inclusion of power houses already completed and generation started.
- The incidental expenditure pending capitalisation was overstated by Rs. 5.11 crore due to inclusion of expenditure incurred on behalf of beneficiary States which was recoverable from these States.
- Incidental Expenditure Pending Capitalisation was understated by Rs. 116.06 crore due to incorrect adjustment of amount received towards energy sold on behalf of Government of Gujarat from this head.

Gujarat Industrial Investment Corporation Limited (2006-07)

- During the year, the Company sold shares in market and did not reverse the provision for non performing assets (NPA) provided in earlier years. Hence, provision for NPA was overstated and profit was understated by Rs. 1.31 crore.

Errors and omissions noticed in the case of Statutory corporations

Gujarat State Financial Corporation (2006-07)

- The long term borrowing was overstated by Rs. 72.77 crore due to inclusion of amount payable to the bond holders who have not agreed to the bonds restructuring scheme.
- The interest on priority sector bonds was understated by Rs. 12.33 crore due to non provision of interest payable to bondholders who have not agreed to the bonds restructuring scheme.

Recoveries at the instance of Audit

1.28 Test check of records of PSUs conducted during April 2007 to March 2008 disclosed short levy of tariff, short realisation of revenue, price variation, excess payments, delay in settlement of dispute, non-recovery of bus body building charges, non realisation of loan, faulty price fixation, *etc* aggregating to Rs. 242.85 crore in 96 cases apart from four cases where money value of recovery was not determined at the time of audit. The PSUs accepted the observations in 21 cases pointed out by Audit and Rs. 17.88 crore relating to the above mentioned cases had been recovered.

Internal audit/ internal control

1.29 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report on the 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 on possible improvement in the internal audit/ internal control system in respect of State Government companies is given below:

Nature of comments/ recommendations made by the Statutory Auditors	Number of companies where observations were made	Reference to Sl. No. of the companies as per <i>Annexure 2</i>
Internal audit system needed to be strengthened keeping in view the size and nature of business of PSUs.	6	A-3, 5, 9, 11, 23, and 28.
The compliance on internal audit report was not adequate.	3	A- 3, 4 and 9.
Internal audit system was not adequate.	2	A-3 and 28.
Internal control system was not adequate.	2	A-28 and 30.

619–B companies

1.30 There were 10 companies falling within the purview of Section 619-B of the Companies Act, 1956 of which one Company[∇] was non-working and one Company[⊗] was under liquidation, three companies^{**} came under the purview of audit during 2007-08. *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.

[∇] Gujarat State Machine Tools Corporation Limited.

[⊗] Gujarat Leather Industries Limited.

^{**} Bhavnagar Energy Company Limited, Dahej SEZ Limited and Gujarat Info Petro Limited.