

CHAPTER-I

1. Overview of Government companies and Statutory corporations

Introduction

1.1 As on 31 March 2003, there were 44 Government companies (34 working companies and 10 non-working* companies) and five Statutory corporations (all working) as against 45 Government companies (35 working companies and 10 non-working companies) and five Statutory corporations as on 31 March 2002 under the control of the State Government. During the year Gujarat State Handloom Development Corporation Limited was amalgamated with the Gujarat State Handicrafts Development Corporation Limited *vide* Government notification dated 19 June 2002. In addition, the State had formed Gujarat Electricity Regulatory Commission whose audit is also being conducted by the Comptroller and Auditor General of India (CAG). The accounts of the Government companies (as defined in Section 617 of Companies Act, 1956) are audited by Statutory Auditors who are appointed by the CAG as per provision of Section 619(2) of Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per provisions of Section 619 of the Companies Act, 1956. The audit arrangements of Statutory corporations are as shown below:

Sl. No.	Name of the corporation	Authority for audit by CAG	Audit arrangement
1.	Gujarat Electricity Board (GEB)	Section 69(2) of the Electricity (Supply) Act, 1948	Sole audit by CAG
2.	Gujarat State Road Transport Corporation (GSRTC)	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by CAG
3.	Gujarat Industrial Development Corporation (GIDC)	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 (GSFC)	Section 37(6) of the State Financial Corporations Act, 1951	Chartered Accountants and supplementary audit by CAG
5.	Gujarat State Warehousing Corporation (GSWC)	Section 31(8) of the State Warehousing Corporations Act, 1962	Chartered Accountants and supplementary audit by CAG

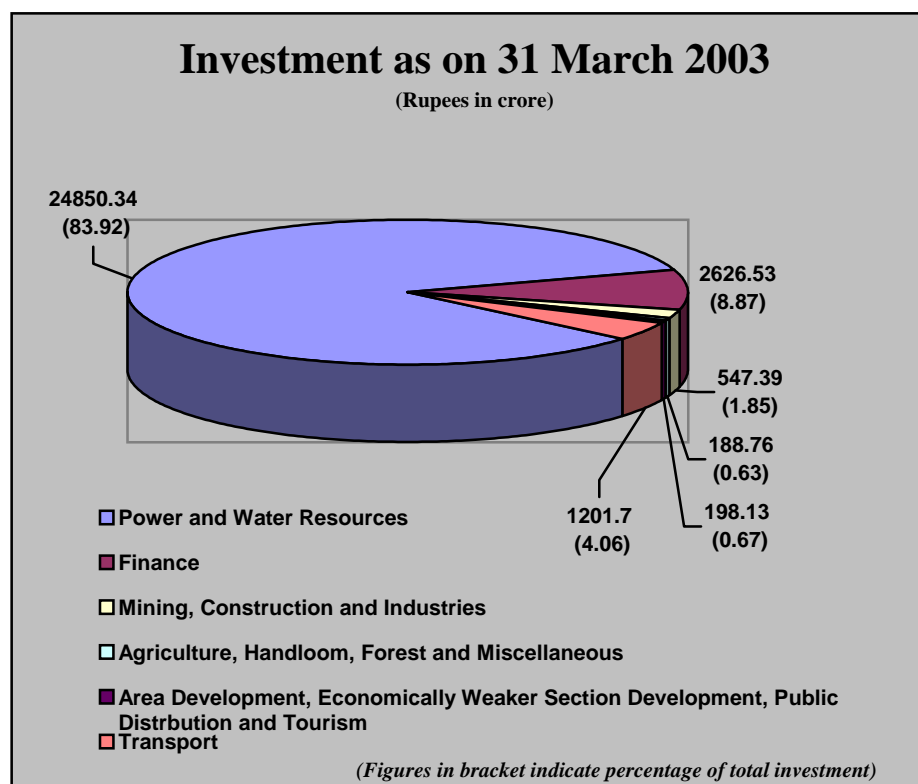
* Non-working companies/corporations are those which are under the process of liquidation/closure/merger *etc.*

Working Public Sector Undertakings (PSUs)

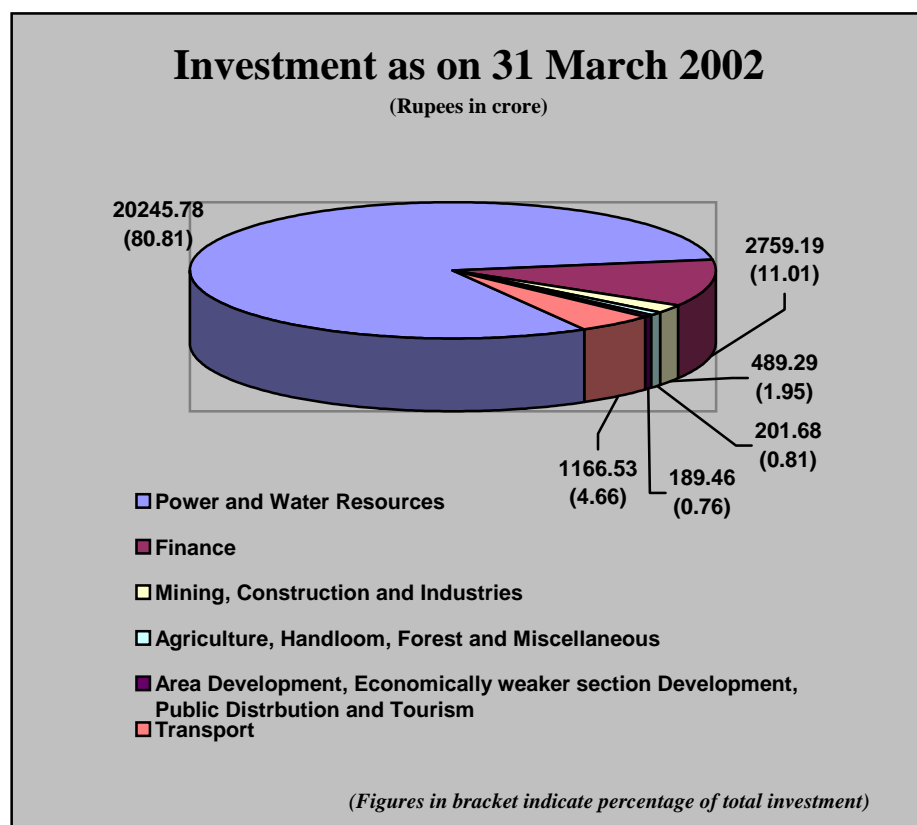
1.2 As on 31 March 2003, the total investment in 39 working PSUs (34 Government companies and five Statutory corporations) was Rs.29,612.85 crore (equity : Rs.10,444.82 crore; long-term loans* : Rs.18,336.44 crore; and share application money : Rs.831.59 crore) as against 40 working PSUs (35 Government companies and five Statutory corporations) with a total investment of Rs.25,051.95 crore (equity: Rs.10,439.02 crore; long-term loans: Rs.14,503.27 crore; and share application money: Rs.109.66 crore) as on 31 March 2002. The analysis of investment in working PSUs is given in the following paragraphs:

The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2003 and 31 March 2002 are indicated below in pie charts:

Sector wise investment in working Government companies and Statutory corporations



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



Working Government companies

1.3 The total investment in the working Government companies at the end of March 2002 and March 2003 was as follows:

(Rupees in crore)

Year	Number of working Government companies	Equity	Share application money	Long-term loans	Total
2001-02	35	9,784.21	109.66	7,041.67	16,935.54
2002-03	34	9,780.85	831.59	9,012.25	19,624.69

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

As on 31 March 2003, the total investment of working Government companies, comprised 54.08 per cent of equity capital and 45.92 per cent of loans as compared to 58.42 per cent and 41.58 per cent, respectively as on 31 March 2002.

Due to significant increase in long-term loan of Power and Water Resources sector, the debt equity ratio of working companies increased from 0.71:1 in 2001-02 to 0.85:1 in 2002-03.

Working Statutory corporations

1.4 The total investment in five working Statutory corporations at the end of March 2002 and March 2003 was as follows:

(Rupees in crore)

Name of corporation	2001-02		2002-03 [@]	
	Capital	Loan	Capital	Loan
Gujarat Electricity Board	--	5,638.76	--	7,471.01
Gujarat State Road Transport Corporation	556.80	609.73	570.85	630.85
Gujarat State Financial Corporation	94.01	1,198.77	89.11	1,210.57
Gujarat State Warehousing Corporation	4.00	--	4.00	--
Gujarat Industrial Development Corporation	--	14.34	--	11.77
Total	654.81	7,461.60	663.96	9,324.20

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

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 State Government to working Government companies and working Statutory corporations are given in **Annexes-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 2000-2003 are given below:

[@] All figures for 2002-03 other than for Gujarat State Financial Corporation are provisional and as furnished by respective Corporations.

(Rupees in crore)

Particulars	2000-01				2001-02				2002-03			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital outgo from budget	15	1,014.61	1	41.61	5	2,226.36	1	17.85	8	767.39	1	14.05
Loans given from budget	8	42.78	1	498.53	4	2.67	1	1.50	4	1.37	1	390.81
Grant/subsidy towards												
(i) Projects/programmes / schemes	15	284.38	4	2,122.61	16	190.05	2	168.00	13	150.90	--	--
(ii) Other subsidy	2	0.78	--	--	2	38.94	1	3,843.44	3	90.69	3	1,345.83
(iii) Total subsidy	16	285.16	4	2,122.61	18	228.99	3	4,011.44	15	241.59	3	1,345.83
Total outgo	24*	1,342.55	4*	2,662.75	23*	2,458.02	3*	4,030.79	15*	1010.35	3	1,750.69

During the year 2002-03, the Government had guaranteed loans aggregating Rs.2,347.45 crore obtained by two working Government companies (Rs.1,000.00 crore) and two working Statutory corporations (Rs.1,347.45 crore). At the end of the year guarantees amounting to Rs.12,801.20 crore obtained by eight working Government companies (Rs.5,968.42 crore) and four working Statutory corporations (Rs.6,832.78 crore) were outstanding as against outstanding guarantees of Rs.13,253.77 crore obtained by 11 working Government companies (Rs.5,573.77 crore) and four Statutory corporations (Rs.7,680.00 crore) as on 31 March 2002. The guarantee commission paid/payable to Government by four Government companies and by three Statutory corporations during 2002-03 was Rs.72.30 crore and Rs.115.30 crore, respectively.

Finalisation of accounts by working PSUs

1.6 The accounts of the companies for every financial year are required to be finalised within six months from the end of relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of financial year. Similarly, in case of Statutory corporations their accounts are finalised, audited and laid before the Legislature as per the provisions of their respective Acts.

However, as could be noticed from *Annexe-2*, out of 34 working Government companies, only 12 working companies and out of five working Statutory corporations, only two working corporations finalised their accounts for the year 2002-03, within the stipulated period. During October 2002 to September 2003, 19 working Government companies finalised 23 accounts for previous years. Similarly, during this period, three working Statutory corporations finalised three accounts for previous years.

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

The accounts of 22 working Government companies and three working Statutory corporations were in arrears for periods ranging from one to seven years as on 30 September 2003 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 <i>Annexe-2</i>	
	Government companies	Statutory corporations			Government companies	Statutory corporations
1	1		1996-97 to 2002-03	7	A-15	
2	1		1999-00 to 2002-03	4	A-33	
3	3		2000-01 to 2002-03	3	A-4, 6.1 & 6.2 and 10	
4	17	3	2002-03	1	A-1, 3, 5, 9, 11, 12, 13, 16, 18, 19, 20, 25, 29, 30, 31, 32 and 34	B-1, 4, 5
	22	3				

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by PSUs within prescribed period. Though the concerned administrative departments and officials of the Government were appraised quarterly by the Audit regarding arrears in finalisation of accounts, no effective measures had been taken by the Government. As a result, the net worth of these PSUs could not be assessed in audit.

Financial position and working results of working PSUs

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

According to the latest finalised accounts of 34 working Government companies and five working Statutory corporations, 12 companies and four corporations had incurred an aggregate loss of Rs.96.23 crore and Rs.1,083.27 crore, respectively. Nineteen companies and one corporation earned an aggregate profit of Rs.345.97 crore and Rs.6.33 crore, respectively. One company (Sl.No.A-22 of *Annexe-2*) had not commenced commercial activities, one company (Sl.No.A-10 of *Annexe-2*) had capitalised excess of expenditure over income and one company had transferred excess of income to non-plan grant (Sl.No.A-16 of *Annexe-2*).

Working Government companies

Profit earning working Government companies and dividend

1.8 Nine profit earning working companies, which finalised accounts for 2002-03 by September 2003, earned profit aggregating Rs.197.15 crore. Of these, only four companies (Sl.No.A-8, 26, 27 and 28 of *Annexe-2*) declared dividend of Rs.29.85 crore of which State Government's share was Rs.25.53 crore. The remaining five profit earning companies did not declare dividend. The total return by way of above dividend of Rs.25.53 crore, worked out to 0.25 *per cent* in 2002-03 on total equity investment of Rs.10,317.24 crore by the State Government in working Government companies, as against 0.13 *per cent* in the previous year. The State Government had not formulated any dividend policy for payment of minimum dividend.

Ten profit earning working companies, which finalised their accounts for previous years by 30 September 2003, earned profit aggregating Rs.148.82 crore. Out of the 19 profit earning companies 16 companies were earning profit for two or more successive years.

Loss incurring working Government companies

1.9 Of the 12 loss incurring working Government companies, five* companies had accumulated losses aggregating Rs.122.64 crore which exceeded their aggregate paid-up capital of Rs.39.27 crore by more than three times.

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, further grant of loans, conversion of loans into equity, subsidy, *etc.* According to available information, the total financial support so provided by the State Government was Rs.67.89 crore by way of share capital (Rs.0.41 crore), loans (Rs.0.06 crore) and subsidy (Rs.67.42 crore) during 2002-03 to these four companies.

Working Statutory corporations

Profit earning Statutory corporation and dividend

1.10 Gujarat Industrial Development Corporation which finalised its accounts for the year 2001-02 earned profit of Rs.6.33 crore, but did not declare dividend.

Loss incurring Statutory corporations

1.11 Gujarat State Financial Corporation and Gujarat State Road Transport Corporation finalised their accounts for 2002-03 by September 2003. These two working corporations incurred a loss aggregating Rs.461.20 crore. Other two working Statutory corporations (Gujarat Electricity Board and Gujarat

* Serial No.A-1, 4, 6.1 & 6.2, 18 and 20 of *Annexe-2*.

State Warehousing Corporation) finalised their accounts for 2001-02 and incurred loss aggregating Rs.622.07 crore. GSRTC had accumulated loss of Rs.2,160.26 crore, which exceeded its paid-up capital of Rs.570.85 crore by more than three times.

Despite poor performance, the State Government continued to provide financial support to these corporations in the form of contribution towards equity, further grant of loans, conversion of loans into equity, subsidy, *etc.* According to available information, the total financial support so provided by the State Government was Rs.1,745.86 crore by way of share capital (Rs.14.05 crore), loans (Rs.390.81 crore) and subsidy (Rs.1,341.00 crore) during 2002-03 to two corporations (Sl. No. B -1 and 2 of *Annexes-1* and *3*).

Operational performance of working Statutory corporations

1.12 The operational performance of the working Statutory corporations is given in *Annexe-6*. The following observations are made:

Gujarat Electricity Board

1.13 The percentage of transmission and distribution loss to total power available for sale had increased from 22.07 *per cent* in 1999-2000 to 22.84 *per cent* in 2001-02. Though the demand during 1999-2002 was 31,960 MKWH, the power generation decreased from 21,018 to 20,770 MKWH during the same period resulting in more dependence of GEB for purchase of power from private/central grid.

Gujarat State Road Transport Corporation

1.14 The loss per kilometre which was Rs.3.28 in 1999-2000 decreased to Rs.2.22 during 2000-01 and again increased to Rs.3.50 during 2001-02.

Return on capital employed

1.15 As per the latest finalised accounts (up to September 2003), the capital employed* worked out to Rs.22,822.96 crore in 34 working companies and total return† thereon amounted to Rs.463.70 crore which was 2.03 *per cent* as compared to total return of Rs.504.51 crore (3.33 *per cent*) in the previous year (accounts finalised up to September 2002). Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest finalised accounts (up to September 2003) worked out to Rs.4,079.11 crore and Rs.151.57 crore (3.72 *per cent*), respectively as against the total return of Rs.(-)1,538.31 crore in previous year (accounts finalised up to September 2002). The details of capital employed and total return on

* 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.

capital employed in case of working Government companies and Statutory corporations are given in **Annexe-2**.

Reforms in power sector

Status of implementation of MOU between the State Government and the Central Government

1.16 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 reforms programme against commitment made in the MOU are discussed *vide* Review on “Power sector reforms - signing of Memorandum of Understanding and implementation thereof” in Chapter-3.1 of this Report.

Gujarat Electricity Regulatory Commission

1.17 Gujarat Electricity Regulatory Commission (Commission) was formed on 12 November 1998 under Section 17 of Electricity Regulatory Commissions Act, 1998 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 has been entrusted to CAG under Section 34 of the Act *ibid*. The Commission had finalised its accounts up to 2002-03.

Non-working PSUs

Investment in non-working PSUs

1.18 As on 31 March 2003, the total investment in 10 non-working PSUs (all Government companies) was Rs.619.49 crore (equity : Rs.38.06 crore, long term loans : Rs.538.89 crore and share application money : Rs.42.54 crore), as against total investment of Rs.606.19 crore (equity : Rs.38.06 crore, long term loans :Rs.525.59 crore and share application money : Rs.42.54 crore) in 10 non-working Government companies as on 31 March 2002.

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
(i)	Under liquidation	4	46.47	340.15
(ii)	Under closure	6	34.13	198.74
	Total	10	80.60	538.89

(Note : There is no non-working Statutory corporation)

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

Of the above non-working PSUs, four Government companies were under liquidation under Section 560 of the Companies Act, 1956 since last six years and substantial investment of Rs.386.62 crore was involved in these companies. Effective steps need to be taken for their expeditious liquidation or revival.

Budgetary outgo, grant/subsidy, 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 to non-working PSUs are given in ***Annexes-1 and 3***.

The State Government had paid budgetary support of Rs.13.13 crore in the form of loan to one non-working company during 2002-03. At the end of the year, guarantees amounting to Rs.42.06 crore obtained by three non-working companies were outstanding as against outstanding guarantees of Rs.43.88 crore obtained by four non-working companies as on 31 March 2002.

Total establishment expenditure of non-working PSUs

1.20 The year wise details of total establishment expenditure of non-working Government companies and the sources of financing them during last three years up to 2002-03 are given below:

(Rupees in crore)

Year	Number of PSUs	Total establishment expenditure	Financed by		
			Disposal of investment/assets	Government by way of Loans	Others
2000-01	10	54.20 [§]	4.13	36.25	13.82
2001-02	10	4.05 [@]	0.04	1.85	2.16
2002-03	10	0.62 [*]	--	--	0.62
Total		58.87	4.17	38.10	16.60

An amount of Rs.58.87 crore has been incurred towards establishment expenditure of these 10 non-working Government companies during 2000-2003. 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 Three non-working Government companies finalised their accounts for the year 2002-03. The accounts of remaining seven non-working Government companies were in arrears for periods ranging from one to eight years as on 30 September 2003, as could be noticed from ***Annexe-2***.

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

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

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

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 *Annexe-2*. The details of paid-up capital, net worth, cash loss and accumulated loss of these non-working companies as per their latest finalised accounts are given below:

(Rupees in crore)

Non-working PSUs	Paid-up capital	Net worth [@]	Cash loss	Accumulated loss
10 (Government companies)	83.30	1,172.36	351.89	1,225.66

(Note : Net worth, cash loss and accumulated loss calculated are as per last certified accounts.)

As the accumulated loss was more than fourteen times of the paid-up capital and as further losses are being incurred every year, these non-working PSUs should be wound up expeditiously.

Status of placement of Separate Audit Reports of Statutory corporations in Legislature

1.23 The following table indicates the status of placement of various Separate Audit Reports (SARs) on the accounts of Statutory corporations issued by 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	2000-01	2001-02 2002-03	24.03.02 SAR under process
2.	Gujarat State Road Transport Corporation	2000-01	2001-02	25.09.03
3.	Gujarat Industrial Development Corporation	2001-02	----	----
4.	Gujarat State Financial Corporation	2001-02	2002-03	SAR under process
5.	Gujarat State Warehousing Corporation	2000-01	2001-02	SAR under process

Disinvestment, Privatisation and Restructuring* of Public Sector Undertakings

1.24 During the year 2002-03, the State Government did not disinvest or privatise any of its PSUs. In October 1992, the Government of Gujarat had constituted State Finance Commission to examine the potential for

[@] Net worth represents paid-up capital *plus* free reserves *less* accumulated losses.

* Restructuring includes merger and closure of PSUs.

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 decisions of 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 Gujarat State Export Corporation Limited (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 Industrial Disputes Act and all employees were given voluntary retirement/retrenchment. Gujarat High Court had passed orders (February 2002) 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 Board for Industrial and Financial Reconstruction (BIFR). It was reported by Government (April 2003) that BIFR has ordered winding up of the Company and necessary actions for vacating the stay order were initiated. Further, the official liquidator has been requested to undertake the liquidation process. In case of GSECL, the Sub-Committee had decided to reduce Government stake to 11 *per cent*. It was reported by the Government (April 2003) that the agreement of shareholders with the private sector partner was expected to be signed by June 2003.

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. It was reported by Government (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. It was reported by Government (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 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 Fertilisers 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 in June 2002 with Gujarat State Handicrafts Development Corporation Limited as per Government of India notification of 19 June 2002.

Closure

1.32 The decision of 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 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 have 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.

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

1.34 During the period from October 2002 to September 2003, the audit of accounts of 33 Government companies (working 27 and non-working six) and five working Statutory corporations were selected for review. As a result of the observations made by CAG, one company (Gujarat State Petronet Limited) revised its accounts for the year 2001-02. The net impact of the important audit observations as a result of review of the accounts of these PSUs were as follows:

Details	Number of accounts		Rupees in crore	
	Working Government companies	Working Statutory corporations	Working Government companies	Working Statutory corporations
(i) Decreases in profit	--	1	--	0.25
(ii) Increase in loss	2	1	0.36	289.07
(iv) Non-disclosure of material facts	2	2	126.21	603.37
(v) Errors of classification	2	2	50.57	2,208.14

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

Errors and omissions noticed in case of Government companies

Gujarat State Land Development Corporation Limited (1999-2000)

1.35 The Company provided for interest on Government loans at the rate of 10 *per cent* as against applicable rate of 12.5 *per cent*, resulting in under statement of unsecured loans by Rs.25.52 lakh, current liabilities by Rs.6.11 lakh and under statement of loss by Rs.31.63 lakh.

Sardar Sarovar Narmada Nigam Limited (2001-02)

1.36 The Company overstated capital works in progress by Rs.21.37 crore due to double adjustment of guarantee fees resulting in understatement of incidental expenditure pending capitalisation to that extent.

1.37 The Company did not account for the works of Rs.5.90 crore, in respect of Guest House resulting in understatement of fixed assets by Rs.5.90 crore, current liabilities by Rs.2.95 crore and overstatement of loans and advances by Rs.2.95 crore.

Errors and omissions noticed in case of Statutory corporations

Gujarat State Road Transport Corporation (2001-02)

1.38 The Corporation had not created sinking fund for timely repayment of Debenture Bond liability of Rs.3.50 crore, though required as per the condition of the Government Regulation in this regard.

Audit assessment of the working results of Gujarat Electricity Board

1.39 Based on the audit assessment of the working results of GEB for three years up to 2001-02 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 GEB will be as given below:

(Rupees in crore)

Sl. No.	Particulars	1999-00	2000-01	2001-02
1	Net surplus/(-)deficit as per books of accounts	(-)2,208.58	(-)2,542.98	(-)622.03
2	Subsidy from the State Government	1,329.87	2,021.26	2,578.65
3	Net surplus/ (-) deficit before subsidy from the State Government (1-2)	(-)3,538.45	(-)4,564.24	(-)3,200.68
4	Net increase/decrease in net surplus/ (-) deficit on account of audit comments on the annual accounts	(-)1,027.79	(-)446.11	(-)289.07
5	Net surplus/(-) deficit after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-)4,566.24	(-)5,010.35	(-)3,489.75

Persistent irregularities and system deficiencies in financial matters of PSUs

1.40 The following persistent irregularities and system deficiencies in the financial matters of 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 State Forest Development Corporation Limited

1.41 The works-in-progress under plantations were understated by Rs.17.78 crore in respect of Bulsar and Panam Projects due to non-inclusion of cumulative interest charges on term loans obtained from the banks for the plantation for the year ended 31 March 2002.

Statutory corporations

Gujarat Electricity Board

1.42 Some of the major persistent irregularities noticed are detailed below:

- The fuel related costs and losses were overstated by Rs.60.48 crore due to excess accounting of loss in respect of disallowed unilateral sampling claim of South Eastern Coal Fields Ltd., pertaining to the period up to May 1995 resulting in overstatement of deficit to the same extent.
- The material fact of claim of Rs.318.81 crore made by ONGC Limited for the period from 14 July 1988 to 15 May 1992 was not properly disclosed.

- The Board did not provide for bad and doubtful debts to the extent of Rs.46.56 crore being outstanding revenue arrears in respect of 28 permanently disconnected consumers, the chances of recovery of which are remote. This has resulted in understatement of deficit to that extent.

Gujarat State Road Transport Corporation

1.43 The balance under 'personal account with other State transport undertakings' given in the accounts of the Corporation included Rs.54.06 lakh being dues from other state road transport undertakings viz., Madhya Pradesh (Rs.30.07 lakh), Rajasthan (Rs.16.76 lakh) and Maharashtra (Rs.7.23 lakh) which were pending for recovery/adjustment since 1985-86 onwards.

Gujarat Industrial Development Corporation

1.44 Due to inclusion of development works carried out for Gujarat Growth Centres Development Corporation Limited (Rs.21.24 crore) and deposit paid to Gujarat Electricity Board (Rs.11.20 crore) the capital expenditure incurred by the Corporation was overstated by Rs.32.44 crore.

Internal audit/internal control

1.45 The statutory auditors (Chartered Accountants) are required to furnish a detailed report on various aspects including the internal audit/internal control systems in the companies audited in accordance with the directions issued by the Comptroller and Auditor General of India to them under section 619(3)(a) of the Companies Act, 1956 and to identify the areas which needed improvement. Accordingly the companies in which the statutory auditors observed deficiencies in respect of internal audit system during 1999-2003, are detailed below:

Sl. No.	Nature of observations	Number of companies in which observations were noticed	Reference to Sl.No. to companies as per Annexe-2
1	Internal audit required to be strengthened having due regard to its size and nature of its business	3	A-4, 20, C-3
2.	The compliance on internal audit report is not adequate	2	A-1, 20
3	Absence of internal audit system	1	C-5
4.	Inadequate internal audit system	1	A-30
5.	Staff of internal audit department not professionally qualified	1	A-19

Recommendations for closure of PSUs

1.46 Even after completion of five years of their existence, the turnover of three* working Government companies and one# working Statutory

* Serial No.A-2, 12 and 31 of Annexe-2.

Serial No.B-4 of Annexe-2.

corporation had been less than rupees five crore in each of the preceding five years as per their latest finalised accounts. Two[@] Government companies (one working and one non-working) 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 above five Government companies and one Statutory corporation or consider their closure.

Response to Inspection Reports, Draft Paras and Reviews

1.47 Audit observations noticed during audit and not settled on the spot are communicated to the head of PSUs and concerned departments of State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports within a period of six weeks. Inspection Reports issued up to March 2003 pertaining to 39 PSUs disclosed that 1,298 paragraphs relating to 398 Inspection Reports remained outstanding at the end of September 2003. Of these, four Inspection Reports containing 20 paragraphs had not been replied to for more than one year. Department-wise break-up of Inspection Reports and audit observations outstanding as on 30 September 2003 is given in *Annexe-7*.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that seven draft paragraphs and one draft review forwarded to various departments during February 2003 to June 2003, as detailed in *Annexe-8*, had not been replied to so far (September 2003).

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who failed to send replies to Inspection Reports/draft paragraphs/reviews as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayment is taken in a time bound schedule, and (c) system of responding to the audit observations is revamped.

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

1.48 The position of discussion of Audit Reports (Commercial) by the COPU, reviews and paragraphs pending for discussion in the COPU as on 30 September 2003 was as under:

[@] Serial No.A-4 and C-5 of *Annexe-2*.

Period of Audit Report	Number of reviews/paragraphs appeared in the Audit Report		Number of reviews/paragraphs pending discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1996-97	3	26	NIL	2
1997-98	4	26	2	3
1998-99	5	26	5	19
1999-00	3	26	3	21
2000-01	4	20	4	18
2001-02	3	22	3	22
Total	22	146	17	85

619-B Companies

1.49 There were nine companies falling under Section 619-B of the Companies Act, 1956 of which one company was non-working. *Annexe-9* indicates 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 available accounts.