

## Chapter I

### 1. Overview of State Public Sector Undertakings

#### Introduction

**1.1** The State Public Sector Undertakings (PSUs) consist of State Government companies and Statutory corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Gujarat, the State PSUs occupy an important place in the State economy. The State working PSUs registered a turnover of Rs. 50,289.48 crore for 2008-09 as *per* their latest finalised accounts as of September 2009. This turnover was equal to 13.90 *per cent* of State Gross Domestic Product (GDP) for 2008-09. Major activities of Gujarat State PSUs are concentrated in power and finance sectors. The State PSUs earned a profit of Rs. 2,366.10 crore in the aggregate for 2008-09 as *per* their latest finalised accounts. They had employed 1.16 lakh<sup>♦</sup> employees as of 31 March 2009. The State PSUs do not have prominent Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments.

**1.2** As on 31 March 2009, there were 70 PSUs as *per* the details given below. Of these, four companies<sup>§</sup> were listed on the stock exchange(s).

Type of PSUs	Working PSUs	Non-working PSUs <sup>¶</sup>	Total
Government Companies <sup>♦</sup>	53	13	66
Statutory Corporations	4	-	4
<b>Total</b>	<b>57</b>	<b>13</b>	<b>70</b>

**1.3** During the year 2008-09, one PSU (Gujarat Industrial Corridor Corporation Limited) was established on 30 March 2009 and one PSU (The Film Development Corporation of Gujarat Limited) was closed down.

#### Audit Mandate

**1.4** Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as *per* Section 619-B of the Companies Act, 1956.

<sup>♦</sup> As per the details provided by 60 PSUs. (Remaining 10 PSUs did not furnish the details).

<sup>§</sup> Gujarat Mineral Development Corporation Limited, Gujarat State Financial Corporation, Gujarat State Fertilizers and Chemicals Limited and Gujarat State Petronet Limited.

<sup>¶</sup> Non-working PSUs are those which have ceased to carry on their operations.

<sup>♦</sup> Includes 619-B Companies.

**1.5** The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG as *per* the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as *per* the provisions of Section 619 of the Companies Act, 1956.

**1.6** Audit of Statutory corporations is governed by their respective legislations. Out of four Statutory corporations, CAG is the sole auditor for Gujarat Industrial Development Corporation and Gujarat State Road Transport Corporation. In respect of Gujarat State Warehousing Corporation and Gujarat State Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

### Investment in State PSUs

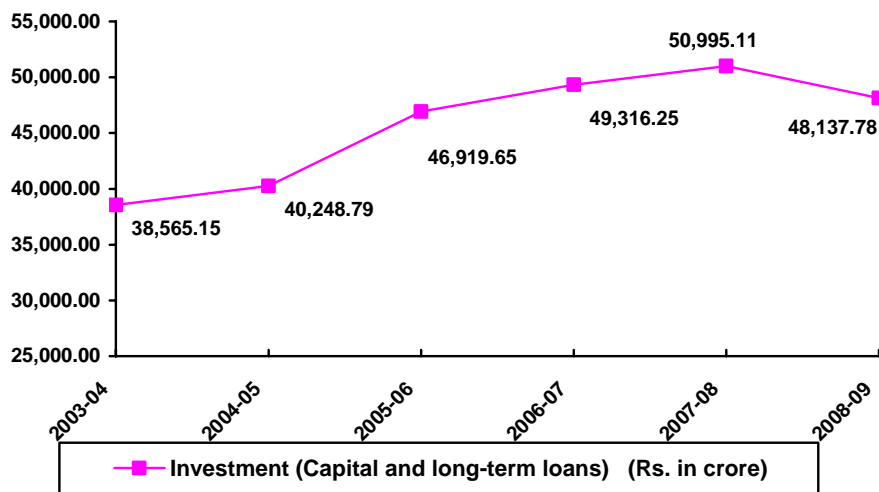
**1.7** As on 31 March 2009, the investment (capital and long-term loans) in 70 PSUs (including 619-B companies) was Rs. 48,137.78 crore as per details given below.

*(Rupees in crore)*

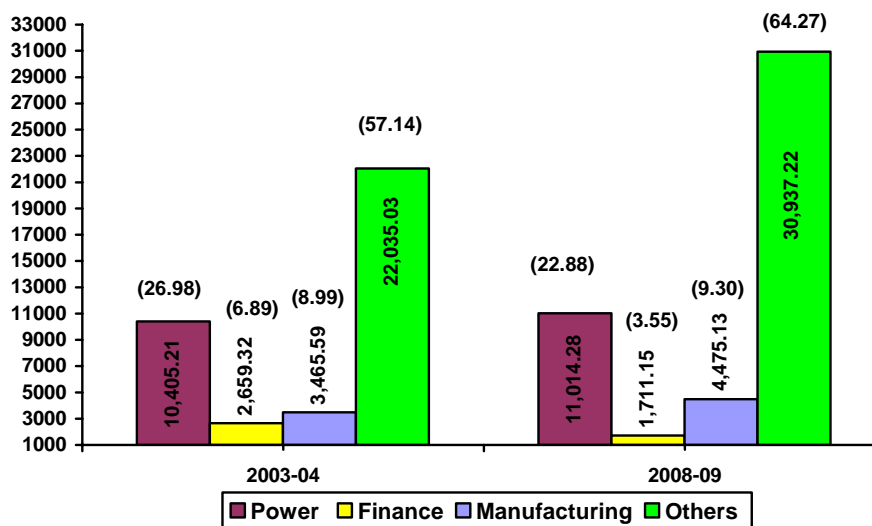
Type of PSUs	Government companies			Statutory corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	34,208.37	10,780.40	44,988.77	782.45	1,556.37	2,338.82	47,327.59
Non-working PSUs	98.63	711.56	810.19	-	-	-	810.19
<b>Total</b>	<b>34,307.00</b>	<b>11,491.96</b>	<b>45,798.96</b>	<b>782.45</b>	<b>1,556.37</b>	<b>2,338.82</b>	<b>48,137.78</b>

A summarised position of government investment in State PSUs is detailed in *Annexure 1*.

**1.8** As on 31 March 2009, of the total investment in State PSUs, 98.32 *per cent* was in working PSUs and the remaining 1.68 *per cent* in non-working PSUs. This total investment consisted of 72.89 *per cent* towards capital and 27.11 *per cent* in long-term loans. The investment has grown by 24.82 *per cent* from Rs. 38,565.15 crore in 2003-04 to Rs. 48,137.78 crore in 2008-09 as shown in the graph below.



1.9 The investment in various important sectors and percentage thereof at the end of 31 March 2004 and 31 March 2009 are indicated below in the bar chart:



(Figures in brackets show the percentage of total investment)

It can be observed from the above chart that the thrust of PSUs investment during the five years was mainly in other sectors which increased their percentage share from 57.14 to 64.27 *per cent*. The investment in finance sector had declined from Rs. 2,659.32 crore to Rs. 1,711.15 crore. Among others, investment in Sardar Sarovar Narmada Nigam Limited has risen from Rs. 20,438.17 crore to Rs. 26,749.67 crore. Similarly, investment in Gujarat State Petroleum Corporation Limited which falls under manufacturing sector increased from Rs. 114.11 crore to Rs. 3,054.10 crore.

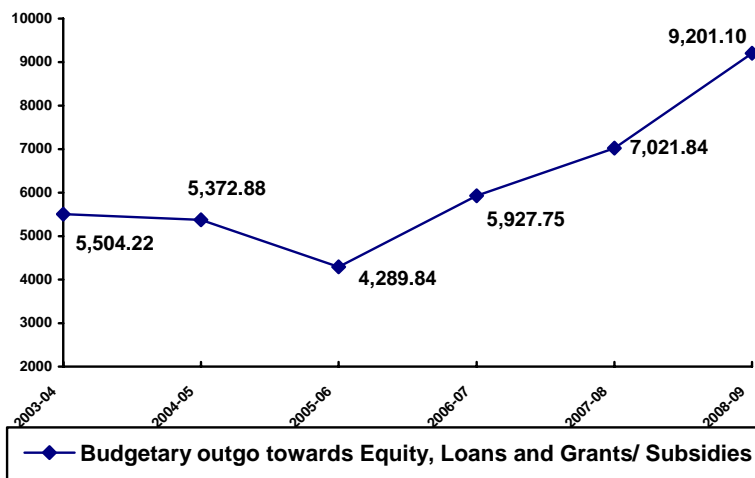
**Budgetary outgo, grants/subsidies, guarantees and loans**

**1.10** The details regarding budgetary outgo towards equity, loans, grants/ subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in *Annexure 3*. The summarised details are given below for three years ended 2008-09.

(Amount Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	10	2,697.93	12	3,249.73	11	3,378.02
2.	Loans given from budget	8	263.53	9	369.51	9	867.72
3.	Grants/Subsidy received	28	2,966.29	26	3402.60	28	4,955.36
<b>4.</b>	<b>Total Outgo (1+2+3)</b>		<b>5,927.75</b>		<b>7,021.84</b>		<b>9,201.10</b>
5.	Loans converted into equity	1	623.06	-	-	-	-
6.	Loans written off	-	-	-	-	-	-
7.	Interest/Penal interest written off	-	-	-	-	1	13.70
<b>8.</b>	<b>Total Waiver (6+7)</b>		<b>-</b>		<b>-</b>		<b>13.70</b>
9.	Guarantees issued	1	597.00	5	80.71	1	150.00
10.	Guarantee Commitment	16	9,688.83	14	8,487.96	9	6,694.00

**1.11** The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past five years are given in a graph below.



It can be observed that during 2004-09 budgetary outgo increased from Rs. 5,504.22 crore to Rs. 9,201.10 crore. In addition Rs. 13.70 crore was also waived by the State Government in respect of a PSU during 2008-09.

**1.12** In order to enable PSUs to obtain financial assistance from Banks and Financial Institutions, State Government gives guarantee under Gujarat State Guarantees Act, 1963 subject to the limits prescribed by the Constitution of India, for which the guarantee fee is being charged. This fee may vary between 0.5 and 2 *per cent* as decided by the State Government depending upon the loanees. The guarantee commitment decreased to Rs. 6,694.00 crore during 2008-09 from Rs. 9,688.83 crore during 2006-07. The State Government had issued guarantees to one PSU amounting to Rs. 150 crore during 2008-09. Further, three PSUs paid guarantee fee to the extent of Rs. 85.78 crore and one PSU had not paid guarantee fee of Rs. 0.80 crore for the year 2008-09 to the State Government.

### Reconciliation with Finance Accounts

**1.13** The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2009 is stated below.

(Rs. in crore)			
Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	26,304.66	29,337.09	3,032.43
Loans	2,159.47	2,976.20	816.73
Guarantees	8,692.85	6,694.00	1,998.85

**1.14** Audit observed that the differences occurred in respect of 46 PSUs and some of the differences were pending reconciliation since November 1994 after being pointed out by Audit. The matter was brought (December 2008) to the notice of the Finance Department, concerned administrative Department and the respective PSUs about the differences appeared in the Audit Report (Commercial) and Finance Accounts for the year 2007-08. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

### Performance of PSUs

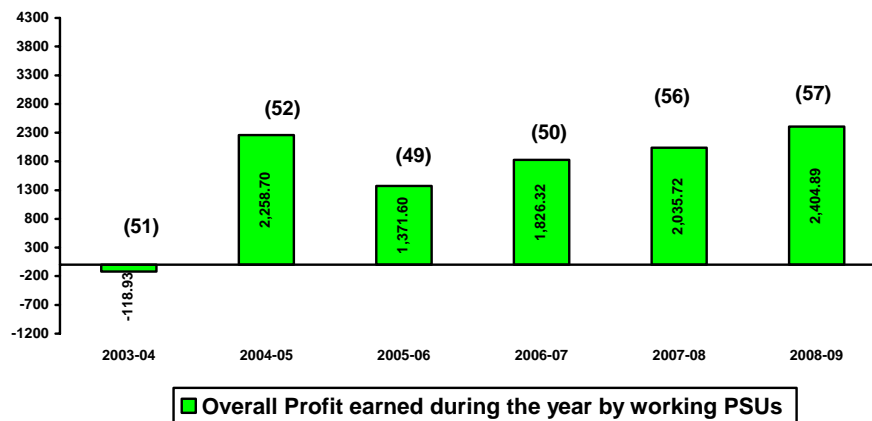
**1.15** The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in *Annexure 2, 5 and 6* respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for the period 2003-04 to 2008-09.

(Rs. in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover <sup>∞</sup>	14,015.20	16,756.24	8,557.28	37,238.90	40,632.57	50,289.48
State GDP	1,68,080.00	1,89,118.00	2,19,780.00 <sup>#</sup>	2,54,533.00 <sup>¥</sup>	2,80,086.00	3,61,846.00 <sup>‡</sup>
Percentage of Turnover to State GDP	8.34	8.86	3.89	14.63	14.51	13.90

It can be seen from the above that the percentage of turnover to State GDP decline from 14.63 in 2006-07 to 13.90 in 2008-09. Further, the turnover during 2005-06 reduced due to non-finalisation of accounts in time (30 September 2006) by the seven companies\* formed after bifurcation of erstwhile Gujarat Electricity Board. The sharp increase in turnover from the year 2006-07 to 2008-09 was due to multiple accounting of sale of same energy by holding company, generating company and four distribution companies.

**1.16** Profit (losses) earned (incurred) by State working PSUs during 2003-04 to 2008-09 are given below in a bar chart.



(Figures in brackets show the number of working PSUs in respective years)

It can be observed from the above chart that the working of PSUs has improved over the period. During the year 2008-09, out of 57 working PSUs, 40 PSUs earned profit of Rs. 2,586.06 crore and seven PSUs incurred loss of Rs. 181.17 crore. One<sup>§</sup> working PSU had capitalised excess of expenditure over income, one<sup>\*\*</sup> PSU had transferred excess of expenditure to non-plan grant, one<sup>††</sup> PSU is newly formed and seven<sup>‡‡</sup> are under construction. Major

<sup>∞</sup> Turnover as per the latest finalised accounts as of 30 September.

<sup>#</sup> Provisional.

<sup>¥</sup> Quick estimates

<sup>‡</sup> As per Statements prepared under the Gujarat Fiscal Responsibility Act, 2005, June-2009 Budget Publication No. 28(1).

\* Gujarat Urja Vikas Nigam Limited (Holding company), Gujarat State Electricity Corporation (Generating company), Gujarat Energy Transmission Corporation Limited (Transmission company), Dakshin Gujarat Vij Company Limited, Madhya Gujarat Vij Company Limited, Uttar Gujarat Vij Company Limited and Paschim Gujarat Vij Company Limited (Four Distribution companies).

<sup>§</sup> Gujarat State Police Housing Corporation Limited

<sup>\*\*</sup> Gujarat Women Economic Development Corporation Limited

<sup>††</sup> Gujarat Industrial Corridor Corporation Limited

<sup>‡‡</sup> GSPC (JPDA) Limited, GSPC LNG Limited, Sardar Sarovar Narmada Nigam Limited, GSPC Pipavav Power Company Limited, Gujarat Foundation for Mental Health and Allied Sciences, Bhavnagar Energy Company Limited and Dahej SEZ Limited.

contributors to the profit were Gujarat State Fertilizers and Chemicals Limited (Rs. 739.18 crore), Gujarat State Petroleum Corporation Limited (Rs. 628 crore) and Gujarat Mineral Development Corporation Limited (Rs. 369.90 crore). The heavy losses were incurred by Gujarat State Financial Corporation (Rs. 109.13 crore) and Gujarat State Road Transport Corporation (Rs. 66.10 crore).

**1.17** Though the PSUs were earning profits, there were instances of deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the State PSUs incurred losses to the tune of Rs. 1,723.63 crore and infructuous investment of Rs. 204.91 crore which were controllable with better management. Year wise details from Audit Reports are stated below.

**(Rs. in crore)**

Particulars	2006-07	2007-08	2008-09	Total
Net Profit (loss)	1,826.32	2,035.72	2,404.89	6,266.93
Controllable losses as per CAG's Audit Report	270.15	394.62	1,058.86	1,723.63
Infructuous Investment	39.87	19.78	145.26	204.91

**1.18** The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the profits can be enhanced substantially. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

**1.19** Some other key parameters pertaining to State PSUs are given below.

**(Rs. in crore)**

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed ( <i>per cent</i> )	1.74	0.91	4.40	6.34	5.43	3.95
Debt	24,484.62	25,609.32	23,239.60	22,376.93	20,564.74	13,048.33
Turnover <sup>Y</sup>	14,015.20	16,756.24	8,557.28	37,238.90	40,632.57	50,289.48
Debt/ Turnover Ratio	1.75	1.53	2.72	0.60	0.51	0.26
Interest Payments	1,224.97	1,839.08	491.42	1,552.64	1,702.33	2,021.74
Accumulated Profits (losses)	(7,004.32)	(8,670.18)	(1,860.01)	(1,164.22)	(524.66)	1,844.36

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

**1.20** The debt/turnover ratio has been decreasing since 2005-06 and decreased from 2.72 in 2005-06 to 0.26 in 2008-09. Moreover, in 2008-09 the aggregate accumulated losses of all PSUs has turned into aggregate accumulated profit.

<sup>Y</sup> Turnover of working PSUs as *per* the latest finalised accounts as of 30 September.

**1.21** The State Government had not formulated a dividend policy under which all PSUs are required to pay a minimum return on the paid-up capital contributed by the State Government. As per their latest finalised accounts, 40 PSUs earned an aggregate profit of Rs. 2,586.06 crore and only three PSUs declared a dividend of Rs. 81.59 crore.

***Performance of major PSUs***

**1.22** The investment in working PSUs and their turnover together aggregated to Rs. 97,617.07 crore during 2008-09. Out of 57 working PSUs, the following six PSUs accounted for individual investment *plus* turnover of more than five *per cent* of aggregate investment *plus* turnover. These six PSUs together accounted for 71.97 *per cent* of aggregate investment *plus* turnover.

(Rs. in crore)				
PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to Aggregate Investment plus Turnover
(1)	(2)	(3)	(4)	(5)
Sardar Sarovar Narmada Nigam Limited	26,749.67	-	26,749.67	27.40
Gujarat Urja Vikas Nigam Limited (GUVN Limited)	3,896.87	14,013.92	17,910.79	18.35
Gujarat State Electricity Corporation Limited (Subsidiary of GUVN Limited)	1,212.54	6204.74	7,417.28	7.60
Gujarat State Petroleum Corporation Limited (GSPC Limited)	3,054.10	4,117.49	7,171.59	7.35
Gujarat State Fertilizers and Chemicals Limited	79.70	6,019.19	6,098.89	6.25
Paschim Gujarat Vij Company Limited (Subsidiary of GUVN Limited)	1,124.39	3,782.25	4,906.64	5.02
<b>Total</b>	<b>36,117.27</b>	<b>34,137.59</b>	<b>70,254.86</b>	<b>71.97</b>

Some of the major audit findings of past five years for above PSUs are stated in the succeeding paragraphs.

***Sardar Sarovar Narmada Nigam Limited***

**1.23** The PSU had finalised the accounts for the year 2008-09. The PSU is under construction stage and hence no profit and loss account had been prepared.



#### **1.24 Deficiencies in planning**

- Due to imprudent deferment of construction work of Tail Race Channel for its river bed power house, the Company incurred an avoidable expenditure of Rs. 14.68 crore. (Paragraph 4.5 of Audit Report 2004-05).
- Premature investment of Rs. 16.78 crore on construction of concrete lining of branch canal led to loss of interest of Rs. 1.92 crore. (Paragraph 3.6 of Audit Report 2006-07).

#### **1.25 Deficiencies in implementation**

- In the management of contracts related to civil and electrical works for the construction/commissioning of power houses, extra expenditure of Rs. 58.70 crore due to incorrect fixation/revision of rates in the contracts was noticed. (Paragraphs 2.2.13, 2.2.14 and 2.2.15 of Audit Report 2007-08).
- Expenditure of Rs. 9.92 crore incurred on availing consultancy services remained unfruitful due to deferment in implementation of a project. (Paragraph 3.6 of Audit Report 2007-08).

#### **1.26 Deficiencies in monitoring**

- The Company paid excess idle charges of Rs. 10.68 crore to a contractor for machinery and manpower utilised on another work. (Paragraph 4.6 of Audit Report 2004-05).

#### **1.27 Deficiencies in financial management**

- Imprudent decision in purchase of cement resulted in loss of Rs. 1.34 crore. (Paragraph 4.3 of Audit Report 2003-04).
- The Company accorded undue benefit to contractor by not recovering prescribed security deposit of Rs. 3.22 crore and exposed itself against underperformance/ defective work. (Paragraph 3.7 of Audit Report 2006-07).

#### ***Gujarat Urja Vikas Nigam Limited (erstwhile Gujarat Electricity Board)***

**1.28** The PSU had arrears of accounts for one year as of September 2009. The loss of Rs. 0.05 crore in 2005-06 turned into profit of Rs. 5.39 crore in 2008-09. The turnover too has risen from Rs. 15,018.19 crore in 2006-07 to Rs. 17,910.79 crore in 2008-09. The return on capital employed, however, has declined from 7.02 *per cent* in 2006-07 to 2.13 *per cent* in 2008-09.

#### **1.29 Deficiencies in planning**

- There were instances of idle investment of Rs. 175.39 crore resulting in loss of interest of Rs. 25.62 crore due to mismatch of completion schedules. (Paragraphs 3.13, 3.14 and 3.15 of Audit Report 2004-05).

- The erstwhile Gujarat Electricity Board incurred an avoidable expenditure of Rs. 1.26 crore in purchase of stores by not following the laid down purchase policy. (Paragraph 4.12 of Audit Report 2004-05).

### **1.30 Deficiencies in implementation**

- Infertuous expenditure of Rs. 40.29 crore was incurred due to undertaking repairs and maintenance activities which were not needed in the Power Stations. (Paragraphs 2.4.12 and 2.4.18 of Audit Report 2006-07).

### **1.31 Deficiencies in financial management**

- The erstwhile Gujarat Electricity Board did not insert put/ call option clause in the bonds issued. This will result in avoidable loss of Rs. 105.84 crore by way of excess payment of interest on redemption of the bonds on their maturity. (Paragraph 4.9 of Audit Report 2004-05).
- The erstwhile Gujarat Electricity Board sustained revenue loss of Rs. 351.15 crore due to non-implementation of tariff award in agricultural sector. (Paragraph 2.2.11 of Audit Report 2005-06).

### ***Gujarat State Electricity Corporation Limited (unbundled from erstwhile Gujarat Electricity Board)***

**1.32** The PSU had arrears of accounts for one year as of September 2009. The profit of the company had decreased from Rs. 78.41 crore in 2005-06 to Rs. 5.78 crore in 2008-09. The turnover has risen from Rs. 561 crore in 2005-06 to Rs. 6,204.74 crore in 2008-09. The return on capital employed has decreased from 9.06 to 5.78 per cent.

### **1.33 Deficiencies in planning**

- The erstwhile Gujarat Electricity Board suffered a revenue loss of Rs. 373.89 crore due to delay in commissioning of new cooling tower at Dhuvaran thermal power station. (Paragraph 4.11 of Audit Report 2003-04).
- The erstwhile Gujarat Electricity Board suffered a loss of Rs. 14.26 crore due to belated exploration of alternative washeries. (Paragraph 4.10 of Audit Report 2004-05).

### **1.34 Deficiencies in implementation**

- The Company incurred avoidable extra expenditure of Rs. 10.99 crore on account of price escalation, service tax, belated signing of

agreement and incorrect estimation of requirement of water. (Paragraphs 2.3.11, 2.3.12 and 2.3.33 of Audit Report 2007-08).

**1.35 Deficiencies in monitoring**

- Failure of the Company to file an appeal in time resulted in loss of rebate of Rupees one crore as also avoidable payment of interest of Rs. 1.25 crore. (Paragraph 3.11 of Audit Report 2006-07).
- Undue benefit of Rs. 37.27 crore was extended to the loading supervision contractors due to improper fixation of monthly average quantity coal per wagon. (Paragraph 3.8 of Audit Report 2007-08).

**1.36 Deficiencies in financial management**

- The erstwhile Gujarat Electricity Board suffered a loss of Rs. 37.30 crore due to deficiency in the freight prepayment contract. (Paragraph 4.12 of Audit Report 2003-04).
- The erstwhile Gujarat Electricity Board made an avoidable payment of transportation charges of Rs. 4.92 crore due to defective agreement with Gas Authority of India Limited for purchase of gas. (Paragraph 4.14 of Audit Report 2003-04).

***Gujarat State Petroleum Corporation Limited***

**1.37** The PSU had arrears of accounts for one year as of September 2009. The profit of the company has risen continuously in past three years from Rs. 305.17 crore in 2005-06 to Rs. 628 crore in 2008-09. Similarly, the turnover too has risen from Rs. 1,286.76 crore to Rs. 4,117.49 crore during this period. However, the return on capital employed has decreased from 38.34 *per cent* to 19.67 *per cent*.

**1.38 Deficiencies in implementation**

- Company incurred extra expenditure of Rs. 3.37 crore due to its failure to conduct Performance Acceptance tests properly. (Paragraph 3.5 of Audit Report 2007-08).

**1.39 Deficiencies in financial management**

- The Company included a foreign firm into joint venture without any financial or technical contribution, giving it the benefit of future gains of Rs. 11.43 crore without having to share any venture risk. (Paragraph 3.5 of Audit Report 2006-07).
- The Company gave irregular benefit to the contractor and suffered loss of Rs. 106.71 crore by short recovering liquidated damages. It also gave the contractor additional undue benefit by accepting lower Performance Bank Guarantee. (Paragraph 3.3 of Audit Report 2007-08).

**Gujarat State Fertilizers and Chemicals Limited**

**1.40** The PSU had finalised the accounts for the year 2008-09. The profit of the company has risen continuously in past three years from Rs. 436.93 crore in 2005-06 to Rs. 739.18 crore in 2008-09. Similarly, the turnover too has risen from Rs. 3,004.35 crore to Rs. 6,019.19 crore during this period. The return on capital employed has increased from 18.02 to 42.74 per cent.

**1.41 Deficiencies in implementation**

- Installation of Chemicals Storage Tanks without obtaining environmental clearance resulted in loss of Rs. 5.48 crore. (Paragraph 3.2 of Audit Report 2005-06).

**1.42 Deficiencies in financial management**

- The Company, at the instance of preference shareholders made undue payment of premium of Rs. 8.25 crore and also suffered interest loss of Rs. 18.41 lakh. (Paragraph 4.8 of Audit Report 2003-04).
- The Company overpaid Rs. 2.14 crore to transport contractors outside the agreed terms of contract. (Paragraph 3.1 of Audit Report 2007-08).

**Paschim Gujarat Vij Company Limited (unbundled from erstwhile Gujarat Electricity Board)**

**1.43** The PSU had arrears of accounts for one year as of September 2009. The profit of the company had declined in past two years from Rs. 7.65 crore in 2006-07 to Rs. 2.16 crore in 2008-09. The turnover has risen from Rs. 2,523.82 crore to Rs. 4,906.64 crore in 2008-09. The return on capital employed has decreased from 7.02 per cent to 4.20 per cent.

**1.44 Deficiencies in monitoring**

- Persistent high distribution losses in the power feeders resulted in loss of revenue of Rs. 39.67 crore to the PSU and Rs. 5.71 crore to the State exchequer. (Paragraph 4.13 of Audit Report 2003-04).

**Conclusion**

**1.45** The above details indicate that the State PSUs are not functioning efficiently and there is tremendous scope for improvement in their overall performance. They need to imbibe greater degree of professionalism to ensure delivery of their products and services efficiently and profitably. The State Government should introduce a performance based system of accountability for PSUs.

**Arrears in finalisation of accounts**

**1.46** The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year

under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as *per* the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2009.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Number of Working PSUs	52	49	50	56	57
2.	Number of accounts finalised during the year	57	38	50	43	62 <sup>§§</sup>
3.	Number of accounts in arrears	37	35	32	53	52
4.	Average arrears <i>per</i> PSU (3/1)	0.71	0.71	0.64	0.95	0.91
5.	Number of Working PSUs with arrears in accounts	25	31	25	38	34
6.	Extent of arrears	1 to 7 years	1 to 2 years	1 to 3 years	1 to 5 years	1 to 6 years

**1.47** It can be observed that the number of PSUs increased from 52 in 2004-05 to 57 in 2008-09 with consequential increase in the average arrear per PSU from 0.71 in 2004-05 to 0.91 in 2008-09. However, the extent of arrears declined from seven years to six years. The accumulation of arrears was the result of high employee turnover in the PSUs.

**1.48** In addition to above, there was also the arrears in finalisation of accounts by non-working PSUs. Out of 13 non-working PSUs, six had gone into liquidation process, one\* Company had decided for winding up the Company after clearing the arrears of Accounts and one<sup>#</sup> Company has gone for voluntary winding up. Of the remaining five non-working PSUs, three PSUs had arrears of accounts for two years.

**1.49** The State Government had invested Rs. 4,198.59 crore (26 PSUs) (Equity: Rs. 165.60 crore (6 PSUs), loans: Rs. 535.39 crore (7 PSUs) and grants: Rs. 3,497.60 crore (20 PSUs) in 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.

**1.50** 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 every quarter by the Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this the net worth of these PSUs

<sup>§§</sup> Gujarat Industrial Investment Corporation Limited submitted revised accounts for the year 2006-07.

\* Gujarat National Highways Limited.

# Gujarat Small Industries Corporation Limited

could not be assessed in audit. The matter of arrears in accounts was also taken up with the Chief Secretary/ Finance Secretary to expedite the backlog of arrears in accounts in a time bound manner.

**1.51 In view of above state of arrears, it is recommended that:**

- **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**

**Winding up of non-working PSUs**

**1.52** There were 13 non-working Companies as on 31 March 2009. Of these, six PSUs have commenced liquidation process. The numbers of non-working companies at the end of each year during past five years are given below.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
No. of non-working companies	12	15	14	14	13

The non-working PSUs are required to be closed down as their existence is not going to serve any purpose. During 2008-09, three non-working PSUs incurred an expenditure of Rs. 0.35 crore towards establishment expenditure. This expenditure was financed by the State Government (Rs. 0.01 crore) own fund (Rs. 0.30 crore) and sale of assets (Rs. 0.04 crore).

**1.53** The stages of closure in respect of non-working PSUs are given below.

Sl. No.	Particulars	No. of Companies
1.	Total No. of non-working PSUs	13
2.	Of (1) above, the No. under	
(a)	liquidation by Court (liquidator appointed)	6
(b)	Voluntary winding up (liquidator appointed)	1
(c)	Winding up after clearance of arrear in accounts.	1
(d)	Closure, <i>i.e.</i> closing orders/ instructions not issued.	5

**1.54** During the year 2008-09 one<sup>#</sup> PSU was finally wound up. The process of voluntary winding up under the Companies Act, 1956 is much faster and needs to be adopted/ pursued vigorously. The Government may make a decision regarding winding up of five non-working PSUs where no decision about their continuation or otherwise has been taken after they became non-working. The Government may consider setting up a cell to expedite closing down its non-working companies.

<sup>#</sup> The Film Development Corporation of Gujarat Limited.

<b>Accounts Comments and Internal Audit</b>
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**1.55** Forty-seven working companies forwarded 55 accounts to PAG during the year 2008-09 which were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	8	89.72	5	75.12	6	72.85
2.	Increase in loss	2	6.81	1	16.17	-	-
3.	Non-disclosure of material facts	8	1,148.33	5	286.21	12	457.52
4.	Errors of classification	12	1,011.92	13	3,451.79	16	4,567.03

It can be observed from the above that money value objections for decrease in profit and error of classification increased from Rs. 89.72 crore and Rs. 1,011.92 crore in 2006-07 to Rs. 72.85 crore and Rs. 4,567.03 crore in 2008-09 respectively. Further, non-disclosure of material facts had reduced from Rs. 1,148.33 crore in 2006-07 to Rs. 457.52 crore in 2008-09.

**1.56** During the year, the statutory auditors had given unqualified certificates for 17 accounts, qualified certificates for 38 accounts. The compliance of companies with the Accounting Standards (AS) remained poor as there were 74 instances of non-compliance with AS in 28 accounts during the year.

*Some of the important comments in respect of accounts of companies are stated below*

**1.57 Gujarat Water Resources Development Corporation Limited (2006-07)**

- The Company had not provided for interest of Rs. 36.14 crore on Government loans due to adjustment of such loans against subsidy receivable from Government. Consequently accumulated losses are understated by Rs. 36.14 crore.

**1.58 Gujarat Urja Vikas Nigam Limited (2007-08)**

- The PSU erroneously accounted the rebate for prompt payment of power purchase bills received in April 2008 during the year leading to overstatement of profit by Rs. 22.64 crore.

**1.59 Gujarat State Electricity Corporation Limited (2007-08)**

- The PSU did not value its retired assets of Uran Power Plant at its available realisable value on the date of finalisation of accounts as required by AS-10 leading to overstatement of profit by Rs. 23.56 crore.

**1.60 Gujarat State Land Development Corporation Limited (2006-07)**

- The PSU continued to depict Rs. 2.14 crore towards losses of Boring and Blasting Scheme as a grant receivable since 1983 without any firm commitment from the Government.

**1.61 Sardar Sarovar Narmada Nigam Limited (2007-08)**

- The PSU continued to show commissioned power houses of Rs. 4,197.03 crore under works-in-progress instead of transferring the same to fixed assets.
- Inclusion of operation and maintenance expenses of Rs. 12.03 crore incurred on behalf of other States under incidental expenditure pending capitalisation resulted in understatement of sundry debtors and overstatement of incidental expenditure by the same amount.
- Inclusion of income recovered on behalf of State Government Rs. 142.95 crore as a deduction from Incidental Expenditure has resulted in understatement of Incidental Expenditure and understatement of sundry creditors by the same amount.

**1.62** Similarly, three working Statutory corporations forwarded their four accounts for the year 2006-07 and 2007-08 to PAG during the year 2008-09. Of these, one account of Statutory corporation pertained to sole audit by CAG which was completed. Of the remaining two accounts, both the accounts were selected for supplementary audit. The audit reports of statutory auditors and the sole/ supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	51.02	-	-	1	11.11
2.	Increase in loss	1	24.42	1	14.06	3	21.76
3.	Non-disclosure of material facts	2	580.39	2	378.71	1	15.53
4.	Errors of classification	2	822.04	1	73.18	3	276.23

It can be observed from the above that money value objection in all the four categories had decreased during last three years.



**1.63** During the year, out of four accounts, only one accounts received unqualified certificate, three accounts received qualified certificates.

*Some of the important comments in respect of accounts of Statutory corporations are stated below.*

**1.64 Gujarat State Financial Corporation (2006-07)**

- Loans and advances are overstated by Rs. 13.08 crore due to non provision for ascertained bad debts and consequently loss is understated to the same extent.

**Gujarat State Financial Corporation (2007-08)**

- The PSU exhibited bonds overdue for repayment of Rs. 44.42 crore under long term borrowing instead of current liabilities.

**1.65 Gujarat Industrial Development Corporation (2006-07)**

- Non provision of additional claim for private land acquired has resulted in under statement of capital expenditure and current liabilities by Rs 15.53 crore.

**1.66** The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/ internal control system in respect of six companies<sup>£</sup> for the year 2007-08 and six companies for the year 2008-09 are given below.

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Annexure 2
1.	Non-fixation of minimum/ maximum limits of store and spares	6	A-2, A-26, A-34, A-35, A-40, A-45,
2.	Absence of internal audit system commensurate with the nature and size of business of the company	6	A-2, A-20, A-25, A-33, A-35 and A-40
3.	Non maintenance of cost record	1	A-17
4.	Non maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations	4	A-20, A-35, A-40, A-52
5.	Lack of internal control over sale of power	1	A-20

<sup>£</sup> Sr. No. A-2, A-6, A-24, A-25, A32 and A-40 in Annexure 2.

### Recoveries at the instance of audit

**1.67** During the course of propriety audit in 2008-09, recoveries of Rs. 173.57 crore were pointed out to the Management of various PSUs, of which, recoveries of Rs. 5.01 crore were admitted by PSUs. An amount of Rs. 4.71 crore was recovered during the year 2008-09.

### Status of placement of Separate Audit Reports

**1.68** The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory corporations in the Legislature by the Government.

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1.	Gujarat State Financial Corporation	2006-07	2007-08	26.08.2009	Assembly session not held after issue of SAR.
2.	Gujarat State Warehousing Corporation	2006-07	2007-08	12.05.2009	Assembly session not held after issue of SAR.
3.	Gujarat Industrial Development Corporation	2006-07	2007-08	SAR under finalisation	-

Delay in placement of SARs weakens the legislative control over Statutory corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the legislature(s).

### Disinvestment, Privatisation and Restructuring of PSUs

**1.69** During the year 2008-09, the State Government had neither disinvested nor privatised any of its PSUs.

### Reforms in Power Sector

**1.70** The State has Gujarat Electricity Regulatory Commission (GERC) formed in November 1998 under the Section 17 of the Electricity Regulatory Commission Act, 1998 with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences. During 2008-09, (GERC) issued 27 orders (8 on annual revenue requirements and 19 on others).

**1.71** Memorandum of Understanding (MoU) was signed in (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 progress achieved so far in respect of important milestones is stated below:

Sl. No.	Milestone	Achievement as at March 2009
1	Reduction in Transmission and Distribution losses (No target fixed)	Losses reduced to 21.14 <i>per cent</i> .
2	100 <i>per cent</i> electrification of all villages	100 <i>per cent</i> villages electrified.
3	100 <i>per cent</i> metering of all distribution feeder.	100 <i>per cent</i> metered of distribution feeder.
4	100 <i>per cent</i> metering of agriculture consumers	Only 37.82 <i>per cent</i> metering of agriculture consumers was done.
5	Securitized outstanding dues of Central Public Sector Undertakings (CPSUs).	The dues of CPSUs were reconciled and bond of Rs. 1,628.71 crore were issued by State Government against the dues.

It was observed from the above that the progress towards metering of agriculture consumers was too slow.