

Introduction

**Functioning of State Public
Sector Undertakings**

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General

1. The State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. SPSUs are engaged in activities of commercial nature that occupy an important place in the State economy. As on 31 March 2018, there were 91 SPSUs including four¹ Statutory Corporations and 87 State Government Companies². Of the 91 SPSUs, four³ SPSUs were listed on the stock exchange(s). Ninety-one SPSUs include 18 inactive SPSUs. During the year 2017-18, status of four working SPSUs⁴ were classified as inactive⁵ as these SPSUs had ceased their operations. One SPSU⁶ came under the purview of the Comptroller and Auditor General of India (C&AG) as per Section 139(5) of the Companies Act, 2013 (the Act) in 2018-19. Further, the name of one⁷ SPSU was struck off from the register by the Registrar of Companies under Section 560 of the Act.

2. The financial performance of the SPSUs on the basis of latest finalised financial statements as on 30 September 2018 is discussed in this Report. The nature of SPSUs and the position of financial statements are indicated in **Table 1** below:

Table-1 Status of financial statements

(Figures in numbers)

Nature of SPSUs	Total Number	Financial year of FSs received from SPSUs during October 2017 to September 2018				SPSUs having FSs in arrears on 30 September 2018	
		2017-18	2016-17	2015-16	Total	SPSUs	FSs
Active Government Companies	69	34	25	8	67	36	54
Active Statutory corporations	4	1	0	1	2	3	6
Total Active SPSUs	73	35	25	9	69	39	60
Inactive SPSUs	18	1	2	0	3	17	187
Total	91	36	27	9	72	56	247

¹ Gujarat State Warehousing Corporation, Gujarat State Financial Corporation, Gujarat Industrial Development Corporation and Gujarat State Road Transport Corporation.

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

³ Gujarat Gas Limited, Gujarat Mineral Development Corporation Limited, Gujarat State Petronet Limited and Gujarat State Financial Corporation.

⁴ Infrastructure Finance Company Gujarat Limited, Gujarat State Rural Development Corporation Limited, Gujarat Foundation for Mental Health and Allied Sciences and BISAG Satellite Communication.

⁵ Inactive SPSUs are those which have ceased to carry on their operations.

⁶ Diamond Research and Mercantile City Limited was incorporated in July 2015 and finalised its financial statements for the year up to 2017-18, the supplementary audit of which was entrusted (October 2018) from the year 2018-19 onwards.

⁷ Gujarat State Mining and Resources Corporation Limited.

The active SPSUs registered a turnover of ₹ 1.25 lakh crore as per their latest finalised financial statements as on 30 September 2018. Out of total turnover of ₹ 1.25 lakh crore, ₹ 1.18 lakh crore pertains to 35 active SPSUs that have finalised their financial statements for the year 2017-18 and the balance turnover of ₹ 7,639.12 crore pertained to earlier year financial statements. The turnover was 9.53 per cent of State's Gross Domestic Product⁸ (GSDP) for 2017-18.

The active SPSUs incurred aggregate loss of ₹ 453.35 crore as per their latest finalised financial statements. As on 31 March 2018, the SPSUs employed 1.11 lakh employees.

As on 31 March 2018, there were 18 inactive SPSUs with an investment of ₹ 265.30 crore (Capital ₹ 129.87 crore and Long-term loans ₹ 135.43 crore). In eight SPSUs, liquidation process had been started since 1997 and in remaining ten SPSUs, the process to close down/ winding up/ liquidation was yet to start though they had ceased carrying out their operations. This is a critical area as the investments in inactive SPSUs do not contribute to the economic growth of the State. The State Government may take suitable decision at an early date as regards the remaining ten inactive SPSUs.

Accountability framework

3. The process of audit of Government Companies under the Act is governed by respective provisions of Sections 139 and 143⁹ of the Act. According to Section 2(45) of the Act, a Government Company means any Company in which not less than fifty-one per cent of the paid up share capital is held by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments and includes a Company which is a subsidiary Company of such a Government Company. Besides, any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments are referred to in this Report as Other Government Companies.

The Comptroller and Auditor General of India (C&AG) appoints the Statutory Auditors of a Government Company and Other Government Companies under Section 139 (5) and (7) of the Act. Section 139 (5) of the Act, provides that the Statutory Auditors in case of a Government Company or Other Government Companies are to be appointed by the C&AG within a period of one hundred and eighty days from the commencement of the financial year. Section 139 (7) of the Act provides that in case of Other Government Companies, the first auditor is to be appointed by the C&AG within sixty days from the date of registration of the Company and in case C&AG does not appoint such auditor

⁸ As per Statements prepared under the Gujarat Fiscal Responsibility Act, 2005, Budget Publication No. 30, the GSDP for 2017-18 as per quick estimates is ₹ 13,20,167 crore.

⁹ As amended *vide* the Companies (Removal of Difficulties) Seventh Order 2014 dated 04 September 2014.

within the said period, the Board of Directors of the Company or the members of the Company have to appoint such auditor.

Further, as per sub-Section 7 of Section 143 of the Act, the C&AG may, in case of any Company covered under sub-Section (5) or sub-Section (7) of Section 139 of the Act, if considered necessary, by an order, cause test audit to be conducted of the financial statements of such Company and the provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test Audit. Thus, a Government Company or any other Company owned or controlled directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments is subject to audit by the C&AG. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

Statutory Audit

4. The financial statements of a Government Company (as defined in Section 2(45) of the Act) are audited by Statutory Auditors, who are appointed by the C&AG as per the provisions of Section 139 (5) or (7) of the Act. The Statutory Auditors submit a copy of the Audit Report to the C&AG including, among other things, financial statements of the Company under Section 143 (5) of the Act, 2013. These financial statements are also subject to supplementary audit to be conducted by the C&AG within sixty days from the date of receipt of the Audit Report under the provisions of Section 143 (6) of the Act, 2013.

Audit of Statutory Corporations is governed by their respective legislations. Out of the four Statutory Corporations, the C&AG is the sole auditor of Gujarat Industrial Development Corporation and Gujarat State Road Transport Corporation. In respect of Gujarat State Warehousing Corporation and Gujarat State Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit is conducted by the C&AG.

Submission of financial statements by SPSUs

5. *Need for timely finalisation and submission*

According to Section 394 and 395 of the Act, Annual Report on the working and affairs of the Government Company, is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation laid before the Houses or both the Houses of State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the C&AG. Almost similar provisions exist in the respective Acts regulating Statutory Corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the Companies from the Consolidated Fund of the State.

Section 96 of the Act requires every Company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statement for the financial year has to be placed in the said AGM for consideration of the members. Section 129 (7) of the Act provided for levy of penalty like fine and imprisonment on the persons including directors of the Company responsible for non-compliance with the provisions of Section 129 of the Act.

Role of Government and Legislature

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

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

Stake of Government of Gujarat

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

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

Investment in SPSUs

8. The sector wise summary of investments by GoG, GoI and Others in the 91 SPSUs as on 31 March 2018 is given below:

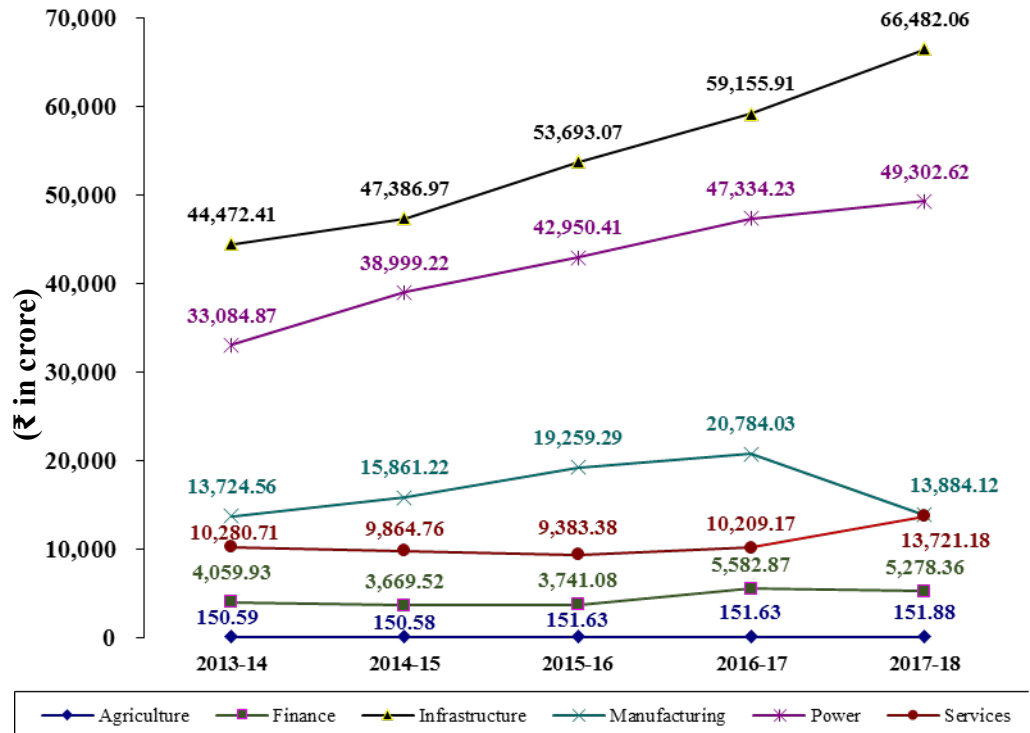
Table 2: Sector-wise investment in SPSUs

Name of the Sector	SPSUs (Figures in Number)			Investment (₹ in crore)		
	Government/ other Companies	Statutory Corporations	Total	Paid up capital	Loans	Total investment
Power	11	-	11	29,188.27	20,114.35	49,302.62
Manufacturing	15	-	15	835.44	13,048.68	13,884.12
Finance	16	1	17	1,601.82	3,676.54	5,278.36
Service	22	1	23	5,067.31	8,653.87	13,721.18
Infrastructure	17	1	18	62,453.57	4,028.49	66,482.06
Agriculture & Allied	06	1	7	38.61	113.27	151.88
Total	87	4	91	99,185.02	49,635.20	1,48,820.22

Source: Compiled based on information received from SPSUs.

The thrust of SPSUs investment was mainly in the Infrastructure Sector as the percentage share of investment in Infrastructure Sector to total investment was 44.67 in 2017-18 as compared to 42.03 in 2013-14. The percentage share of investment in Power Sector increased from 31.28 in 2013-14 to 33.13 in 2017-18.

9. The investment in significant sectors¹⁰ at the end of 31 March 2014 and 31 March 2018 are indicated in the chart below:

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

¹⁰ The investment in respect of Sardar Sarovar Narmada Nigam Limited (SSNNL), Gujarat Water Infrastructure Limited (GWIL) and Gujarat Rural Industries Marketing Corporation Limited (GRIMCO) were shown under Miscellaneous sector in the Audit Report (PSUs) for the period up to 2016-17. During the current year, SSNNL and GWIL have been reclassified under Infrastructure sector and GRIMCO under Service sector. The figures for the year 2013-14, 2014-15, 2015-16 and 2016-17 have been re-casted to make it comparable.

Considering the high level of investment in Power Sector, we are presenting the results of audit of 11 Power Sector SPSUs in Part I¹¹ of this Report and of the 80 SPSUs (other than power sector) in the Part II¹² of the Report.

¹¹ Part I includes Chapter-I (Functioning of Power Sector SPSUs).

¹² Part II includes Chapter-II (Functioning of SPSUs excluding Power Sector SPSUs) & Chapter-III (Performance Audit related to SPSUs excluding Power Sector SPSUs).