

## CHAPTER-I

### 1. Overview of Government companies and Statutory corporations

#### 1.1 Introduction

As on 31 March 2002, there were 45 Government companies (35 working companies and 10 non-working\* companies) and five working Statutory corporations as against the same number of Government companies and Statutory corporations as on 31 March 2001 under the control of the State Government. 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 the 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 the 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 State Government to the 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

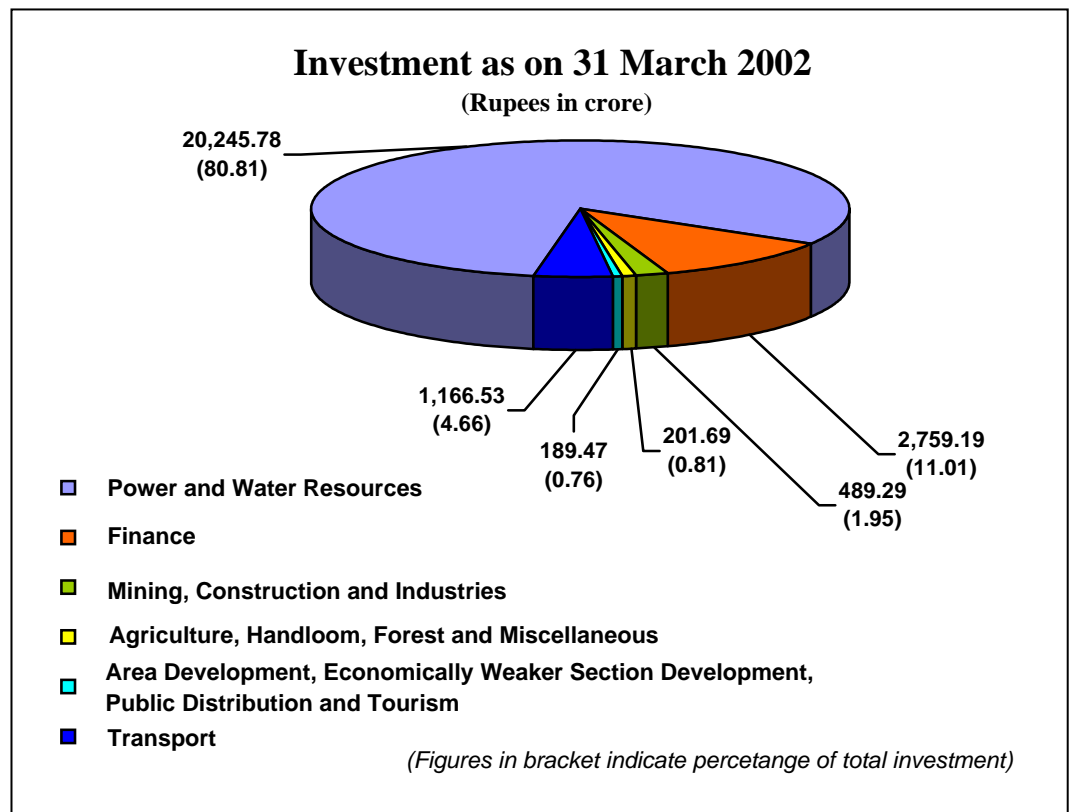
\* Non-working companies/corporations are those which are under the process of liquidation/closure/merger etc.

## 1.2 Working Public Sector Undertakings (PSUs)

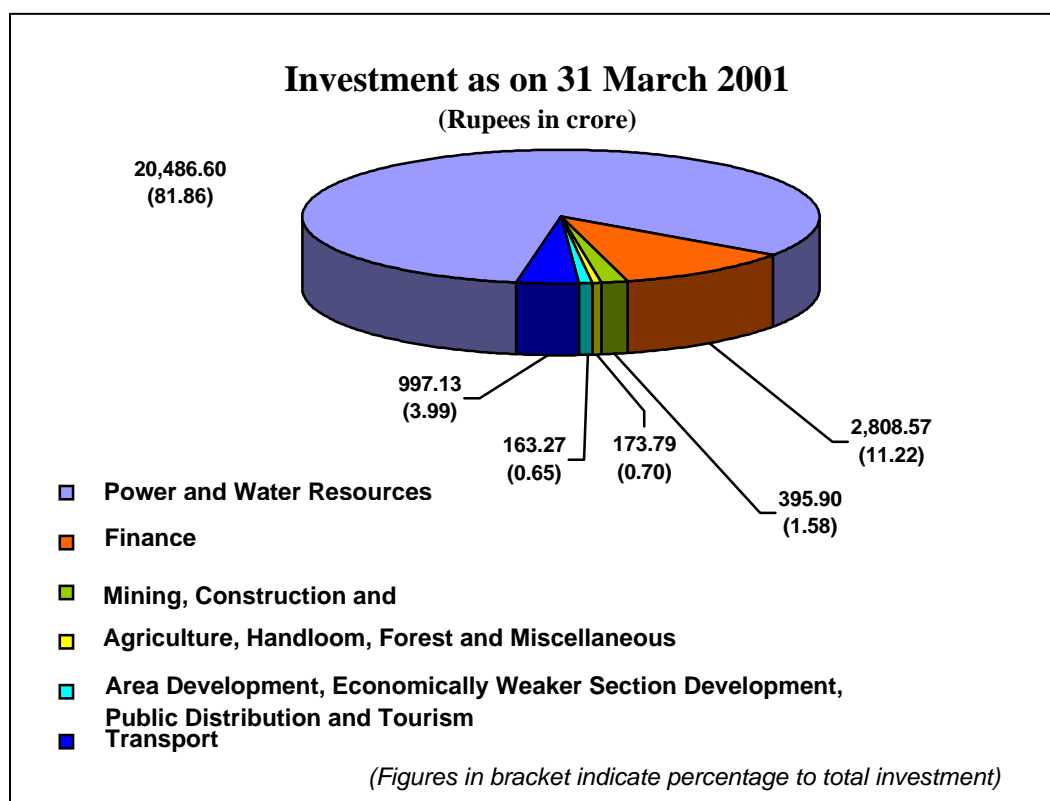
As on 31 March 2002, the total investment in 40 working PSUs (35 Government companies and five Statutory corporations) was Rs.25,051.95 crore (equity : Rs.10,439.02 crore; long-term loans\* : Rs.14,503.27 crore; and share application money : Rs.109.66 crore) as against 40 working PSUs (35 Government companies and five Statutory corporations) with a total investment of Rs.25,025.26 crore (equity: Rs.8,241.47 crore; long-term loans: Rs.14,676.85 crore; and share application money: Rs.2,106.94 crore) as on 31 March 2001. 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 2002 and 31 March 2001 are indicated below in pie charts:

### *Sector wise investment in working Government companies and Statutory corporations*



\* Long term loans mentioned in paragraphs 1.2, 1.2.1.1 and 1.2.1.2 are excluding interest accrued and due on such loans.



### 1.2.1.1 Working Government companies

The total investment in 35 working Government companies at the end of March 2001 and March 2002 was as follows:

(Rupees in crore)

Year	Number of working Government companies	Equity	Share application money	Long-term loans	Total
2000-01	35	7,604.51	2,106.94	5,968.15	15,679.60
2001-02	35	9,784.21	109.66	7,041.67	16,935.54

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

As on 31 March 2002, the total investment of working Government companies, comprised 58.42 per cent of equity capital and 41.58 per cent of loans as compared to 61.94 per cent and 38.06 per cent respectively, as on 31 March 2001.

Due to significant increase in long-term loan of Power and Water Resources sector, the debt equity ratio of working companies increased from 0.61:1 in 2000-01 to 0.71:1 in 2001-02.

### 1.2.1.2 Working Statutory corporations

The total investment in five working Statutory corporations at the end of March 2001 and March 2002 was as follows:

(Rupees in crore)

Name of corporation	2000-01		2001-02 <sup>@</sup>	
	Capital	Loan	Capital	Loan
Gujarat Electricity Board	--	7,087.54	--	5,638.76
Gujarat State Road Transport Corporation	538.95	458.18	556.80	609.73
Gujarat State Financial Corporation	94.01	1,146.86	94.01	1,198.77
Gujarat State Warehousing Corporation	4.00	--	4.00	--
Gujarat Industrial Development Corporation	--	16.12	--	14.34
<b>Total</b>	<b>636.96</b>	<b>8,708.70</b>	<b>654.81</b>	<b>7,461.60</b>

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

### 1.2.2 Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

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 *Annexures-1* and 3.

The budgetary outgo in the form of equity capital, loans and grants/subsidies from the State Government to working Government companies and working Statutory corporations during 1999-2002 are given below:

(Rupees in crore)

Particulars	1999-00				2000-01				2001-02			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Equity capital outgo from budget	18	1,503.22	1	25.00	15	1,014.61	1	41.61	5	2,226.36	1	17.85
Loans given from budget	8	70.66	2	302.34	8	42.78	1	498.53	4	2.67	1	1.50
Grant/subsidy toward												
(i) Projects/programmes / schemes /	5	76.49	3	1,582.79	15	284.38	4	2,122.61	16	190.05	2	168.00
(ii) Other subsidy	12	108.03	--	--	2	0.78	--	--	2	38.94	1	3,843.44
(iii) Total subsidy	15	184.52	3	1,582.79	16	285.16	4	2,122.61	18	228.99	3	4,011.44
<b>Total outgo</b>	<b>27</b>	<b>1,758.40</b>	<b>4</b>	<b>1,910.13</b>	<b>24</b>	<b>1,342.55</b>	<b>4</b>	<b>2,662.75</b>	<b>23</b>	<b>2,458.02</b>	<b>3</b>	<b>4,030.79</b>

<sup>@</sup> All figures for 2001-02 other than Gujarat State Financial Corporation are provisional and as furnished by respective Corporations.

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

During the year 2001-02, the Government had guaranteed loans aggregating Rs.2,107.17 crore obtained by five working Government companies (Rs.1,165.23 crore) and three working Statutory corporations (Rs.941.94 crore). At the end of the year guarantees amounting to Rs.13,253.77 crore obtained by 11 working Government companies (Rs.5,573.77 crore) and four working Statutory corporations (Rs.7,680.00 crore) were outstanding as against outstanding guarantees of Rs.10,017.82 crore obtained by 12 working Government companies (Rs.5,157.32 crore) and four Statutory corporations (Rs.4,860.50 crore) as on 31 March 2001. The guarantee commission paid/payable to Government by six Government companies and by three Statutory corporations during 2001-02 was Rs.45.79 crore and Rs.55.49 crore respectively.

### 1.2.3 Finalisation of accounts by working PSUs

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 presented to the Legislature as per the provisions of their respective Acts.

However, as could be noticed from *Annexure-2*, out of 35 working Government companies, only ten working companies and out of five working Statutory corporations, only two working Statutory corporations finalised their accounts for the year 2001-02, within stipulated period. During the period from October 2001 to September 2002, 20 working Government companies finalised 20 accounts for previous years. Similarly, during this period, three working Statutory corporations finalised three accounts for previous years.

The accounts of 25 working Government companies and three working Statutory corporations were in arrears for periods ranging from one year to six years as on 30 September 2002 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>Annexure-2</i>	
	Government companies	Statutory corporations			Government companies	Statutory corporations
1	1	--	1996-97 to 2001-02	6	A-16	--
2	3	--	1999-00 to 2001-02	3	A-4, 11, 34	--
3	3	--	2000-01 to 2001-02	2	A-6, 7, 17	--
4	18	3	2001-02	1	A-1,3,5,8,10,13, 14,19,20,21,23, 25,26,30,31,32, 33,35	B-1, 4, 5
	<b>25</b>	<b>3</b>				

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the 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 have been taken by the Government. As a result, the networth of these PSUs could not be assessed in audit.

#### ***1.2.4 Financial position and working results of working PSUs***

The summarised financial results of working PSUs (Government companies and Statutory corporations) as per the latest finalised accounts are given in *Annexure-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 *Annexure-4* and *5*, respectively.

According to the latest finalised accounts of 35 working Government companies and five working Statutory corporations, 10 companies and four corporations had incurred an aggregate loss of Rs.75.09 crore and Rs.3,042.00 crore respectively. Twenty one companies and one corporation earned an aggregate profit of Rs.402.72 crore and Rs.12.68 crore, respectively. Two companies had not commenced commercial activities and one company had capitalised excess of expenditure over income. One company had not finalised even its first accounts.

##### ***1.2.4.1 Working Government companies***

###### ***1.2.4.1.1 Profit earning working Government companies and dividend***

Nine profit earning working companies, which finalised accounts for 2001-02 by September 2002, earned profit aggregating Rs.348.14 crore. Of these, only three companies (Sl.No.A-9, 28 and 29 of *Annexure-2*) declared dividend of Rs.16.94 crore of which State Government's share was Rs.12.83 crore. The remaining six profit earning companies did not declare dividend. The total return by way of above dividend of Rs.12.83 crore, worked out to 0.13 *per cent* in 2001-02 on total equity investment of Rs.9,676.07 crore by the State Government in working Government companies, as against 0.21 *per cent* in the previous year. The State Government had not formulated any dividend policy for payment of minimum dividend.

Fourteen profit earning working companies, which finalised their accounts for previous years by 30 September 2002, earned profit aggregating Rs.54.58 crore and eight companies were earning profit for two or more successive years.

###### ***1.2.4.1.2 Loss incurring working Government companies***

Of the 10 loss incurring working Government companies, three\* companies had accumulated losses aggregating Rs.90.19 crore which exceeded their aggregate paid-up capital of Rs.13.70 crore by more than six times.

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\* Serial No.A-4, 6 and 7 of *Annexure-2*.

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.89.18 crore by way of share capital (Rs.0.74 crore), loans (Rs.2.25 crore) and subsidy (Rs.86.19 crore) during 2001-02 to these three companies.

#### **1.2.4.2 Working Statutory corporations**

##### **1.2.4.2.1 Profit earning Statutory corporation and dividend**

Gujarat Industrial Development Corporation which finalised its accounts for the year 2000-01 earned profit of Rs.12.68 crore, but did not declare dividend.

##### **1.2.4.2.2 Loss incurring Statutory corporations**

Gujarat State Financial Corporation and Gujarat State Road Transport Corporation finalised their accounts for 2001-02 by September 2002. These two working corporations incurred a loss aggregating Rs.498.52 crore. Other two working Statutory corporations (Gujarat Electricity Board and Gujarat State Warehousing Corporation) finalised their accounts for 2000-01 and incurred loss aggregating Rs.2,543.48 crore. GSRTC had accumulated loss of Rs.1,877.95 crore, which exceeded its paid-up capital of Rs.556.80 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.4,030.79 crore by way of share capital (Rs.17.85 crore), loans (Rs.1.50 crore) and subsidy (Rs.4,011.44 crore) during 2001-02 to three corporations (Sl.No.B-1, 2 and 3 of *Annexure-1* and 3).

##### **1.2.4.2.3 Operational performance of working Statutory corporations**

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

#### **Gujarat Electricity Board**

The percentage of transmission and distribution loss to total power available for sale had increased from 20.14 *per cent* in 1998-99 to 22.26 *per cent* in 2000-01. Marginal increase in power generation from 20,934 to 21,106 MKWH during 1998-2001 was insufficient to meet the demand of 31,544 MKWH during the same period resulting in dependence of GEB for purchase of power from private/central grid.

### **Gujarat State Road Transport Corporation**

The loss per kilometre was Rs.1.37 in 1998-99 and Rs.3.28 in 1999-2000.

#### **1.2.5 Return on Capital Employed**

As per the latest finalised accounts (up to September 2002), the capital employed\* worked out to Rs.15,155.16 crore in 35 working companies and total return† thereon amounted to Rs.504.51 crore which was 3.33 *per cent* as compared to total return of Rs.334.86 crore (2.42 *per cent*) in the previous year (accounts finalised up to September 2001). Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest finalised accounts (up to September 2002) worked out to Rs.5,748.03 crore and Rs.(-)1,538.31 crore, respectively, against the total return of Rs.(-)1,455.30 crore in previous year (accounts finalised up to September 2001). The details of capital employed and total return on capital employed in case of working Government companies and Statutory corporations are given in *Annexure-2*.

#### **1.2.6 Reforms in power sector**

##### **(A) Status of implementation of MOU between the State Government and the Central Government**

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

##### **(B) Gujarat Electricity Regulatory Commission**

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 2001-02.

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\* 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.



### 1.3 Non-working PSUs

#### 1.3.1 Investment in non-working PSUs

As on 31 March 2002, the total investment in 10 non-working PSUs (all non-working Government companies) was Rs.606.19 crore (equity : Rs.38.06 crore, long term loans : Rs.525.59 crore and share application money: Rs.42.54 crore), as against total investment of Rs.546.38 crore (equity: Rs.38.06 crore, long term loans :Rs.465.78 crore and share application money: Rs.42.54 crore) in 10 non-working Government companies as on 31 March 2001.

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	340.14
(ii)	Under closure	6	34.13	185.45
	<b>Total</b>	<b>10</b>	<b>80.60</b>	<b>525.59</b>

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

Of the above non-working PSUs, four Government companies were under liquidation under Section 560 of the Companies Act, 1956 for five years and substantial investment of Rs.386.61 crore was involved in these companies. Effective steps need to be taken for their expeditious liquidation or revival.

#### 1.3.2 Budgetary outgo, grant/subsidy, guarantees, waiver of dues and conversion of loans into equity

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 *Annexures-1* and *3*.

The State Government had paid budgetary support of Rs.10.97 crore in the form of loan to one non-working company during 2001-02. At the end of the year, guarantees amounting to Rs.43.88 crore obtained by four non-working companies were outstanding as against outstanding guarantees of Rs.46.28 crore obtained by four non-working companies as on 31 March 2001.

#### 1.3.3 Total establishment expenditure of non-working PSUs

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 2001-02 are given below:

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

(Rupees in crore)

Year	Number of PSUs	Total establishment expenditure	Financed by		
			Disposal of investment/ assets	Government by way of Loans	Others
1999-00	7	15.16*	0.58	9.63	4.95
2000-01	10	54.20**	4.13	36.25	13.82
2001-02	10	3.76 <sup>@</sup>	0.04	1.85	1.87
<b>Total</b>		<b>73.12</b>	<b>4.75</b>	<b>47.73</b>	<b>20.64</b>

An amount of Rs.73.12 crore has been incurred towards establishment expenditure of these 10 non-working Government companies during 1999-2002. Expeditious action is necessary for winding up of these companies to avoid further non-productive expenditure in this regard.

### 1.3.4 Finalisation of accounts by non-working PSUs

The accounts of nine out of 10 non-working Government companies were in arrears for periods ranging from one to seven years as on 30 September 2002, as could be noticed from *Annexure-2*.

### 1.3.5 Financial position and working results of non-working PSUs

The summarised financial results of non-working Government companies as per their latest finalised accounts are given in *Annexure-2*. The details of paid-up capital, net worth, cash loss/cash profits and accumulated loss/accumulated profit 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 <sup>§</sup>	Cash loss (-)/ profit	Accumulated loss(-)/ accumulated profit
10 (Government companies)	83.30	(-)1,104.84	(-)403.27	(-)1,188.14

(Note : Net worth, cash loss/cash profit and accumulated losses/profit calculated are as per last certified accounts. Nine non-working PSUs have not finalised their accounts for one to seven years as indicated in *Annexure-2*).

As the accumulated loss was 14.26 times of the paid-up capital and as further losses are being incurred every year, these non-working PSUs should be wound up expeditiously.

\* This relates to three non-working Government companies (Sl.No.C-1, 3 and 10 of *Annexure-2*. Remaining four companies (C-6, 7, 8 and 9 of *Annexure-2*) did not furnished the information.

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

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

<sup>§</sup> Net worth represents paid-up capital plus free reserves less accumulated losses.

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

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

Sl. No.	Name of the Statutory corporation	Year up to which SARs placed in Legislature	Years for which SARs not placed in Legislature	
			Year of SAR	Date of issue to the Government
1.	Gujarat Electricity Board	1998-99	1999-00	27.03.2002
			2000-01	SAR under process
2.	Gujarat State Road Transport Corporation	1999-00	2000-01	17.08.2002
			2001-02	SAR under process
3.	Gujarat Industrial Development Corporation	1998-99	1999-00	26.03.2002
			2000-01	SAR under process
4.	Gujarat State Financial Corporation	1999-00	2000-01	03.05.2002
			2001-02	SAR under process
5.	Gujarat State Warehousing Corporation	1999-00	2000-01	18.03.2002
			2001-02	Accounts not received

### 1.5 Disinvestment, Privatisation and Restructuring\* of Public Sector Undertakings

During the year 2001-02, 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 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 June 2002 was as under:

#### (i) Privatisation

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

\* Restructuring includes merger and closure of PSUs.

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). In case of GSECL, the Sub-Committee had decided to reduce Government stake to 11 *per cent*. The agreement of shareholders with the private sector partner was in progress.

**(ii) Restructuring**

- (i) 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 that necessary action had been initiated and all employees of the concerned divisions/units had been offered voluntary retirement.
- (ii) 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 (June 2002) that action had been initiated on the recommendations.
- (iii) 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.

**(iii) Disinvestment**

- (i) 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.
- (ii) 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.

**(iv) Merger**

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.

(v) **Closure**

- (i) 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.
- (ii) 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 (June 2002) 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.

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

During the period from October 2001 to September 2002, the audit of accounts of 29 Government companies (working 22 and non-working 7) and 5 working Statutory corporations were selected for review. 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			
	Government companies		Statutory corporations		Government companies		Statutory corporations	
	Working	Non-working	Working	Non-working	Working	Non-working	Working	Non-working
(i) Increases in profit	--	--	1	--	--	--	1.81	--
(ii) Increase in loss	--	1	2	--	--	3.02	1,029.93	--
(iii) Decrease in loss	2	--	2	--	7.69	--	0.39	--
(iv) Non-disclosure of material facts	3	2	3	--	14.08	4.02	885.68	--
(v) Errors of classification	8	2	5	--	69.95	129.40	201.27	--

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:

**1.6.1 Errors and omissions noticed in case of Government companies**

**(a) Gujarat Water Infrastructure Limited (2000-01)**

The Company did not account for works of Rs 5.59 crore completed during the year, resulting in understatement of capital works-in-progress as well as current liabilities.

**(b) Gujarat Industrial Investment Corporation Limited (2000-01)**

The Company did not provide for interest liability of Rs 7.52 crore on loans from State Government, resulting in understatement of current liabilities as well as loss by Rs.7.52 crore.

**(c) Sardar Sarovar Narmada Nigam Limited (2000-01)**

- (i) The Company did not account for works of Rs 42.03 crore, completed by Railways, resulting in understatement of capital works-in-progress and overstatement of advances to that extent.
- (ii) The Company did not provide for guarantee commission of Rs 2.70 crore, payable to the State Government for the guarantee given by the State Government for obtaining short-term loans. This resulted in understatement of current liabilities as well as incidental expenditure pending capitalisation by Rs.2.70 crore.

**1.6.2 Errors and omissions noticed in case of Statutory corporations**

**Gujarat State Road Transport Corporation (2000-01)**

The loss of the Corporation for the year was understated by Rs.2.14 crore on account of double provision of amount receivable on account of Narmada Celebration (Rs.0.34 crore), non-provision of passenger tax liability on contract service of Narmada Celebration (Rs.0.80 crore) and account of deposit amount as miscellaneous receipt (Rs.1.00 crore).

**1.6.2.1 Audit assessment of the working results of Gujarat Electricity Board**

Based on the audit assessment of the working results of the GEB for three years up to 2000-01 and taking into consideration the major irregularities and omissions pointed out in the SARs on the annual accounts of the GEB and not taking into account the subsidy/subventions receivable from the State Government, the net surplus/deficit of the GEB will be as given below:

(Rupees in crore)

Sl. No.	Particulars	1998-99	1999-00	2000-01
1	Net surplus/(-)deficit as per books of accounts	(-)383.47	(-)2,208.58	(-)2,542.98
2	Subsidy from the State Government	1,673.17	1,329.87	2,021.26
3	Net surplus/ (-) deficit before subsidy from the State Government (1-2)	(-)2,056.64	(-)3,538.45	(-)4,564.24
4	Net increase/decrease in net surplus/ (-) deficit on account of audit comments on the annual accounts	(-)337.61	(-)1,027.79	Under audit
5	Net surplus/(-) deficit after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-)2,394.25	(-)4,566.24	Under audit

### ***1.6.3 Persistent irregularities and system deficiencies in financial matters of PSUs***

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:

#### ***1. Government companies***

##### ***(i) Gujarat Dairy Development Corporation Limited***

Capital grant received and utilised by the Company for acquisition of fixed assets was taken to Capital Reserve. However, the depreciation charged every year on such assets was not adjusted from these reserves. Consequently, the balances shown under the Capital Reserve (Rs.13.44 crore) as well as the accumulated losses (Rs.125.36 crore) as on 31 March 2001 were unrealistic as the amount of depreciation (unascertainable) on assets created out of capital grant has not been adjusted.

##### ***(ii) Gujarat State Forest Development Corporation Limited***

The works-in-progress under plantations were understated by Rs.17.17 crore (Bulsar Project – Rs.15.34 crore and Panam Project - Rs.1.83 crore) due to non-inclusion of cumulative interest charges on term loans obtained from the banks for the plantation for the year ended 31 March 2001.

#### ***2. Statutory corporations***

##### ***(a) Gujarat Electricity Board***

- (i) Loans from others included Rs.99.33 crore being the liability on account of lease finance availed from various lessors. This liability was arrived at under different methods of accounting for different lease transactions, which was in contravention of the declared policy of the Board.
- (ii) Capital expenditure included Rs.69.05 crore being the value of meters acquired by the Board from various lessors on “sale and lease back basis” and stated to have been installed under various field offices. The

locations of such assets have not been identified and reconciled with the control ledger at Head Office.

- (iii) Fixed assets were overstated by Rs.24.74 crore due to erroneous capitalisation of interest charges by one of the unit of the Board, in contravention of the procedure prescribed under Electricity (Supply and Annual Accounts) Rules, 1985.

**(b) Gujarat State Road Transport Corporation**

The balance under 'personal account with other State Transport undertakings' given in the accounts of the Corporation included Rs.51.24 lakh being dues from other state road transport undertakings viz., Madhya Pradesh (Rs.30.06 lakh), Rajasthan (Rs.16.88 lakh) and Maharashtra (Rs.4.30 lakh) which were pending for recovery/adjustment since 1985-86 onwards.

**(c) Gujarat Industrial Development Corporation**

Due to inclusion of development works carried out for Gujarat Growth Centres Development Corporation Limited (Rs.21.14 crore) and deposit paid to Gujarat Electricity Board (Rs.10.82 crore) and also due to non-provision of additional land compensation (Rs.16.46 crore), the capital expenditure incurred by the Corporation was overstated by Rs.15.50 crore.

## **1.7 Recommendations for closure of PSUs**

Even after completion of five years of their existence, the turnover of three\* working Government companies and one\*\* working Statutory corporation have been less than Rs.5 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.

## **1.8 Response to Inspection Reports, Draft Paras and Reviews**

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 2002 pertaining to 38 PSUs disclosed that 1,784 paragraphs relating to 486 Inspection Reports remained outstanding at the end of September 2002. Of these, 34 Inspection Reports containing 197 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 2002 is given in *Annexure-8*.

\* Serial No.A-2, 13 and 32 of *Annexure-2*.

\*\* Serial No.B-4 of *Annexure-2*.

@ Serial No.A-4 and C-5 of *Annexure-2*.



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 14 draft paragraphs and two draft reviews forwarded to the various departments during February to June 2002, as detailed in *Annexure-9*, had not been replied to so far (November 2002).

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.

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

The position of discussion of Audit Reports (Commercial) by the COPU, reviews and paragraphs pending for discussion in the COPU as on 30 September 2002 were as under:

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	2	21
1997-98	4	26	4	21
1998-99	5	26	5	26
1999-00	3	26	3	26
2000-01	4	20	4	20
<b>Total</b>	<b>19</b>	<b>124</b>	<b>18</b>	<b>114</b>

The COPU made 23 recommendations *vide* Thirteenth Report of Eighth Assembly (December 1994) and First Report of Tenth Assembly (March 1999) after examination of Audit Reports from 1987-88 to 1992-93, which were pending final settlement (September 2002). In case of Audit Reports 1993-94, 1994-95 and 1995-96, the COPU had completed the discussion in February 1999, January 2000 and August 2000, respectively. The Audit Report for the year 2000-01 was placed on the table of House on 3 April 2002.

### **1.10 619-B Companies**

There were eight companies coming under Section 619-B of the Companies Act, 1956 of which one company was non-working. *Annexure-10* 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.