

CHAPTER-I

1. Overview of Government companies and Statutory corporations

Introduction

1.1 As on 31 March 2004, there were 45 Government companies (35 working companies and 10 non-working* companies) and five working Statutory corporations as against 44 Government companies (34 working companies and 10 non-working companies) and five Statutory corporations as on 31 March 2003 under the control of the State Government. During the year 2003-04 two^φ new companies came under the audit purview of Comptroller and Auditor General of India (CAG) and one working company (Gujarat State Export Corporation Limited) was disinvested (5 March 2004). In addition, the State had formed Gujarat Electricity Regulatory Commission, whose audit is also being conducted by the CAG under Section 104(2) of the Electricity Act, 2003^ρ. 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 the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per provisions of Section 619 of the Companies Act, 1956. The audit arrangements of Statutory corporations are as shown below:

Sl. No.	Name of the corporation	Authority for audit by CAG	Audit arrangement
1.	Gujarat Electricity Board (GEB)	Under Rule 14 of the Electricity (Supply) (Annual Accounts) Rules, 1985 read with Section 185 (2) (d) of the Electricity Act, 2003 ^θ	Sole audit by CAG
2.	Gujarat State Road Transport Corporation (GSRTC)	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by CAG
3.	Gujarat Industrial Development Corporation (GIDC)	Section 19(3) of CAG's (Duties, Powers and Conditions of Service) Act, 1971	Sole audit entrusted by the State Government to CAG up to 2006-07
4.	Gujarat State Financial Corporation (GSFC)	Section 37(6) of the State Financial Corporations Act, 1951	Audit by Chartered Accountants and supplementary audit by CAG
5.	Gujarat State Warehousing Corporation (GSWC)	Section 31(8) of the State Warehousing Corporations Act, 1962	Audit by Chartered Accountants and supplementary audit by CAG

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

^φ Serial No. A-18 and 20 of *Annexure-2*.

^ρ Erstwhile Electricity Regulatory Commissions Act, 1998 replaced by the Electricity Act, 2003

^θ The earlier provision of Section 69 (2) of the Electricity (Supply) Act, 1948 was repealed by the Electricity Act, 2003.

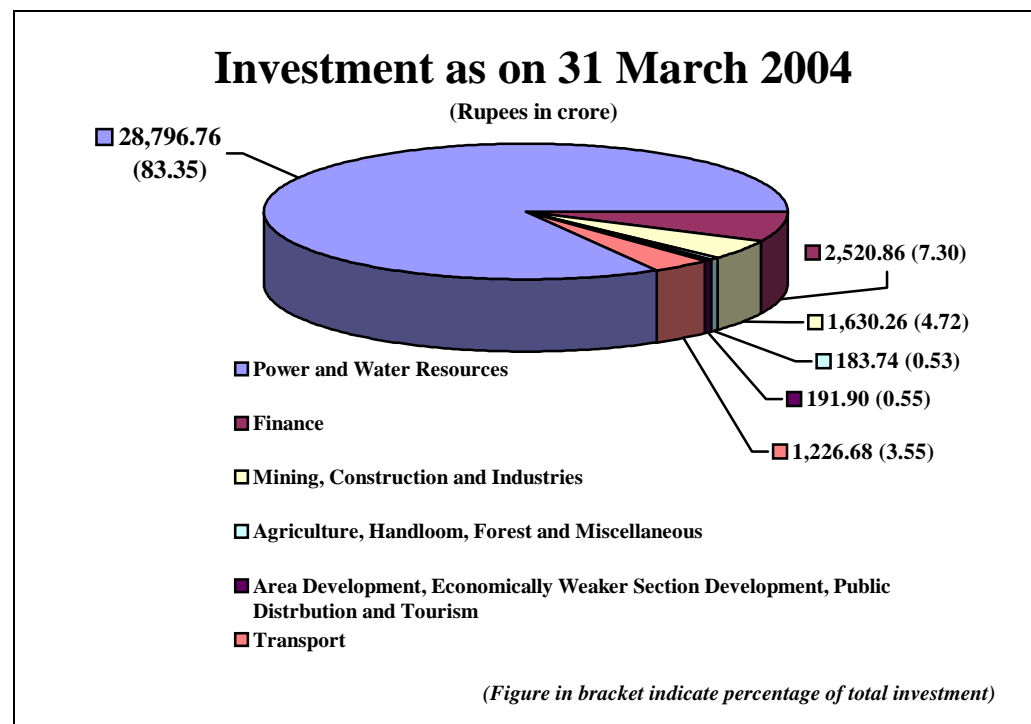
Working Public Sector Undertakings (PSUs)

Investment in working PSUs

1.2 As on 31 March 2004, the total investment in 40 working PSUs (35 Government companies and five Statutory corporations) was Rs.34,550.20 crore^o (equity: Rs.10,524.24 crore; long-term loans^{*}: Rs.21,436.93 crore and share application money: Rs.2,589.03 crore) as against 39 working PSUs (34 Government companies and five Statutory corporations) with a total investment of Rs.29,612.85 crore (equity: Rs.10,444.82 crore; long-term loans: Rs.18,336.44 crore and share application money: Rs.831.59 crore) as on 31 March 2003. The analysis of investment in working PSUs is given in the following paragraphs.

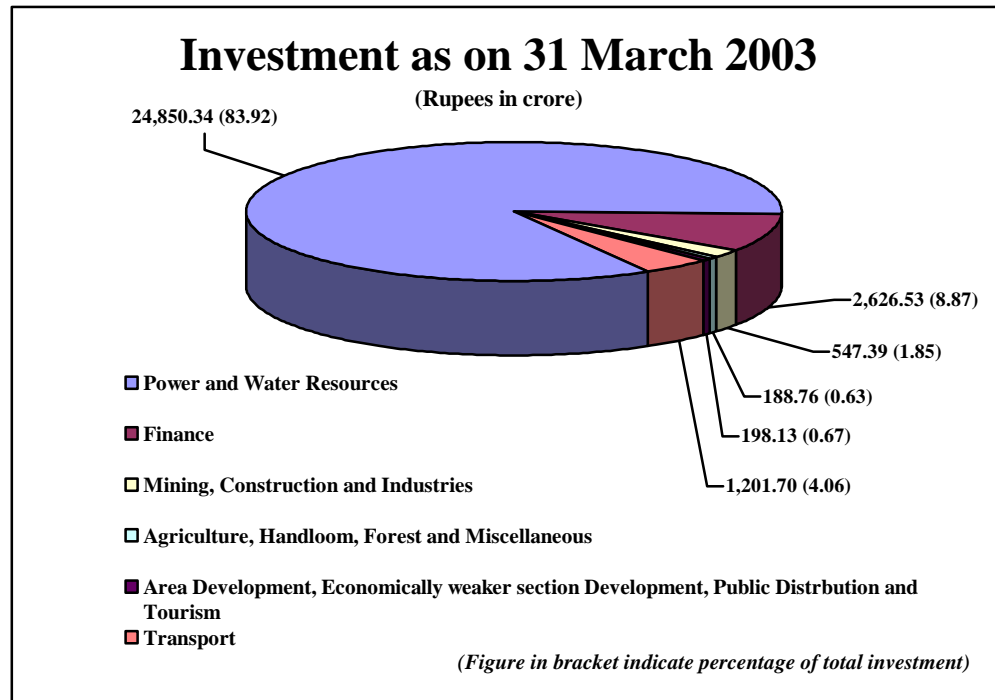
Sector wise investment in working Government companies and Statutory corporations

The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2004 and 31 March 2003 are indicated below in pie charts:



^o Reconciliation of figures with Finance Accounts is pending as Finance Accounts have not been prepared so far (August 2004).

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



Working Government companies

1.3 The total investment in working Government companies at the end of March 2003 and March 2004 was as follows:

(Amount: Rupees in crore)

Year	Number of working Government companies	Equity	Share application money	Long-term loans	Total
2002-03	34	9,780.85	831.59	9,012.25	19,624.69
2003-04	35	9,840.17	2,589.03	10,757.13	23,186.33

As on 31 March 2004, the total investment of working Government companies comprised 53.61 per cent of equity capital and 46.39 per cent of loans as compared to 54.08 and 45.92 per cent, respectively as on 31 March 2003.

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

Due to significant increase in long-term loans of mining sector, the debt equity ratio of working Government companies in this sector increased from 0.55:1 in 2002-03 to 4.26:1 in 2003-04.

Working Statutory corporations

1.4 The total investment in five working Statutory corporations at the end of March 2003 and March 2004 was as follows:

(Rupees in crore)

Name of corporation	2002-03		2003-04 [@]	
	Capital	Loans	Capital	Loans
Gujarat Electricity Board	--	7,471.01	--	8,859.96
Gujarat State Road Transport Corporation	570.85	630.85	590.96	635.72
Gujarat State Financial Corporation	89.11	1,210.57	89.11	1,172.69
Gujarat State Warehousing Corporation	4.00	--	4.00	--
Gujarat Industrial Development Corporation	--	11.77	--	11.43
Total	663.96	9,324.20	684.07	10,679.80

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

Due to increase in long-term loans of Gujarat Electricity Board, the debt-equity ratio as a whole increased from 14.04:1 in 2002-03 to 15.61:1 in 2003-04.

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

1.5 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by State Government to working Government companies and working Statutory corporations are given in *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 2001-04 are given below:

(Amount: Rupees in crore)

Particulars	2001-02				2002-03				2003-04			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Equity capital outgo from budget	5	2,226.36	1	17.85	8	767.39	1	14.05	12	1,813.38	1	20.11
Loans given from budget	4	2.67	1	1.50	4	1.37	1	390.81	4	0.66	2	2,074.18
Grant/ subsidy towards												
(1) Projects/ programmes/schemes	16	190.05	2	168.00	13	150.90	--	--	11	219.64	1	34.92
(2) Other subsidy	2	38.94	1	3,843.44	3	90.69	3	1,345.83	4	102.65	2	1,236.28
Total grants/subsidy	18	228.99	3	4,011.44	15	241.59	3	1,345.83	15	322.29	3	1,271.20
Total outgo	23*	2,458.02	3*	4,030.79	15*	1,010.35	3*	1,750.69	23*	2,136.33	4*	3,365.49

During the year 2003-04, the Government had guaranteed loans aggregating Rs.2,331 crore obtained by two working Government companies (Rs.1,625

[@] Figures for 2003-04 except Gujarat State Financial Corporation are provisional and as furnished by respective corporations.

[€] Reconciliation of figures with Finance Accounts is pending as Finance Accounts have not been prepared so far (August 2004).

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

crore) and two working Statutory corporations (Rs.706 crore). At the end of the year guarantees amounting to Rs.14,318.37 crore obtained by 11 working Government companies (Rs.6,612.48 crore) and four working Statutory corporations (Rs.7,705.89 crore) were outstanding as against outstanding guarantees of Rs.12,801.20 crore obtained by eight working Government companies (Rs.5,968.42 crore) and four working Statutory corporations (Rs.6,832.78 crore) as on 31 March 2003. The guarantee commission paid/payable to Government by three Government companies and by four Statutory corporations during 2003-04 was Rs.66.02 crore and Rs.119.77 crore, respectively.

Finalisation of accounts by working PSUs

1.6 Out of 35 working Government companies and five Statutory corporations, only 13 companies and one Statutory corporation had finalised their accounts for the year 2003-04 up to 30 September 2004. The accounts of one newly incorporated company¹ were not due as on 30 September 2004. During the period from October 2003 to September 2004, 19 working Government companies finalised 21 accounts for previous years. Similarly, three working Statutory corporations finalised three accounts for previous years during this period.

The accounts of 21 working Government companies and four working Statutory corporations were in arrears for period ranging from one to eight years as on 30 September 2004 as detailed below:

Sl. No.	Number of working PSUs whose accounts were in arrears		Period for which accounts were in arrears	Number of years for which accounts were in arrears	Reference to Sl.No. of Annexure-2	
	Government companies	Statutory corporations			Government companies	Statutory corporations
1	1	--	1996-97 to 2003-04	8	A-15	--
2	1	--	1999-2000 to 2003-04	5	A-34	--
3	1	--	2001-02 to 2003-04	3	A-6	--
4	3	--	2002-03 to 2003-04	2	A-4, 10, 18	--
5	15	4	2003-04	1	A-1, 3, 5, 7, 9, 12, 13, 19, 21, 22, 26, 27, 31, 32, 35	B-1, 2, 4, 5
	21	4				

Reasons for delay in finalisation of accounts of working companies in general and of four² working companies, where accounts were in arrears for three years or more in particular, have been discussed in detail in para 4.10 of Chapter-IV.

¹ Sl. No. A-20 of Annexure-2.

² Sl. No. A-4, 6, 15 and 34 of Annexure-2.

Financial position and working results of working PSUs

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

According to the latest finalised accounts of 34 working Government companies and five working Statutory corporations, nine companies and four corporations had incurred an aggregate loss of Rs.81.94 crore and Rs.821.68 crore respectively. Twenty-two companies and one corporation earned an aggregate profit of Rs.488.73 crore and Rs.1.01 crore, respectively. One^ξ company had not commenced commercial activities; one^α company had capitalised excess of expenditure over income and one^δ company had transferred excess of expenditure to non-plan grant. One company (Sl. No.A-20 of **Annexure-2**) had not finalised its first accounts.

Working Government companies

Profit earning working Government companies and dividend

1.8 Ten profit earning working companies, which finalised their accounts for 2003-04 up to 30 September 2004, earned profit aggregating Rs.192.42 crore. Of these, only three companies (Sl.No.A-8, 29 and 30 of **Annexure-2**) declared dividend of Rs.19.11 crore of which State Government's share was Rs.14.79 crore. The remaining seven profit earning companies did not declare dividend. The total return by way of above dividend of Rs.14.79 crore, worked out to 0.12 *per cent* in 2003-04 on total equity investment of Rs.12,101.75 crore by the State Government in working Government companies as against 0.25 *per cent* in the previous year. The State Government had not formulated any dividend policy for payment of minimum dividend.

Ten profit earning working companies, which finalised their accounts for previous years up to 30 September 2004, showed profit aggregating Rs.293.36 crore. Out of above 20 profit earning companies, 13 companies were earning profit for two or more successive years.

Loss incurring working Government companies

1.9 Of the nine loss incurring working Government companies, four^{*} companies had accumulated losses aggregating Rs.118.27 crore which exceeded their aggregate paid-up capital of Rs.33.89 crore by more than two times.

^ξ Sl.No.A-24 of **Annexure-2**.

^α Sl.No.A-10 of **Annexure-2**.

^δ Sl.No.A-16 of **Annexure-2**.

^{*} Serial No.A-4, 6, 12 and 22 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.82.42 crore by way of share capital (Rs.0.40 lakh), loans (Rs.4.00 lakh) and subsidy (Rs.82.38 crore) during 2003-04 to all the four companies.

Working Statutory corporations

Profit earning Statutory corporation and dividend

1.10 Gujarat Industrial Development Corporation had finalised its accounts for 2002-03 and earned profit of Rs.1.01 crore. It did not declare dividend.

Loss incurring Statutory corporations

1.11 Gujarat State Financial Corporation finalised its accounts for 2003-04 by September 2004 and incurred a loss of Rs.158.47 crore. The Corporation had accumulated loss of Rs.734.58 crore which exceeded its paid-up capital of Rs.89.11 crore by more than eight times. Other three[∞] working Statutory corporations finalised their accounts for 2002-03 and incurred loss aggregating Rs.663.21 crore. Gujarat State Road Transport Corporation had accumulated loss of Rs.1,002.67 crore which exceeded its paid-up capital of Rs.570.85 crore.

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.3,330.57 crore by way of share capital (Rs.20.11 crore), loans (Rs.2,074.18 crore) and subsidy (Rs.1,236.28 crore) during 2003-04 to three corporations (Sl. No.B-1, 2 and 3 of ***Annexures-1*** and ***3***).

Operational performance of working Statutory corporations

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

Gujarat Electricity Board

1.13 The percentage of transmission and distribution loss to total power available for sale had increased from 22.26 *per cent* in 2000-01 to 31.13 *per cent* in 2002-03. Though the demand during 2000-03 was 30,917 MKWH⁹, the power generation decreased from 21,106 to 20,731 MKWH during the same period resulting in increased dependence of the Board on purchase of power from private power producers/ central grid.

[∞] Sl. No. B-1, 2 and 4 of ***Annexure-2***.

⁹ Million Kilo Watt Hour.

Return on capital employed

1.14 As per the latest finalised accounts (up to September 2004), the capital employed* worked out to Rs.26,634.47 crore in 34 working Government companies and total return† thereon amounted to Rs.613.90 crore (2.30 per cent) as compared to total return of Rs.463.70 crore (2.03 per cent) on capital employed of Rs.22,822.96 crore in the previous year (accounts finalised up to 30 September 2003). Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest finalised accounts (up to 30 September 2004) worked out to Rs.7,126.08 crore and Rs.138.63 crore (1.95 per cent), respectively as against capital employed of Rs.4,079.11 crore and the total return of Rs.151.57 crore (3.72 per cent) thereon in the previous year (accounts finalised up to 30 September 2003). 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**.

Reforms in power sector

Status of implementation of Memorandum of Understanding between the State Government and the Central Government

1.15 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 is given in **Annexure-7**.

Gujarat Electricity Regulatory Commission

1.16 Gujarat Electricity Regulatory Commission (Commission) was formed on 12 November 1998 under Section 17 of Electricity Regulatory Commissions Act, 1998^λ 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 104(2) of the Electricity Act, 2003. The Commission had finalised its accounts up to 2003-04.

* 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.

^λ Since replaced by the Electricity Act, 2003.

Non-working PSUs

Investment in non-working PSUs

1.17 As on 31 March 2004, the total investment in 10 non-working PSUs (all non-working Government companies) was Rs.805.43 crore (equity: Rs.38.06 crore, long term loans: Rs.724.83 crore and share application money: Rs.42.54 crore), as against total investment of Rs.619.49 crore (equity: Rs.38.06 crore, long term loans: Rs.538.89 crore and share application money: Rs.42.54 crore) in 10 non-working Government companies as on 31 March 2003.

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
1.	Under liquidation	5	58.92*	598.17
2.	Under closure	5	21.68	126.66
	Total	10	80.60	724.83

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

Of the above non-working PSUs, four³ Government companies were under liquidation under Section 560 of the Companies Act, 1956 for seven years and in respect of one company (Sl. No. C-4 of *Annexure-1*) the Gujarat High Court passed order for liquidation on 7 April 2003. Substantial investment of Rs.657.09 crore was involved in these five companies. Effective steps need to be taken for their expeditious liquidation or revival.

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

1.18 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 provided budgetary support of Rs.2.40 crore in the form of loan to three non-working companies during 2003-04. At the end of the year, guarantees amounting to Rs.42.06 crore obtained by three non-working companies were outstanding as against the same amount of outstanding guarantees obtained by three non-working companies as on 31 March 2003.

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

³ Sl. No.C-6, 7, 8 and 9 of *Annexure-1*.

Total establishment expenditure of non-working PSUs

1.19 The year wise details of total establishment expenditure of non-working Government companies and sources of financing them during last three years up to 2003-04 are given below:

(Amount: Rupees in crore)

Year	Number of Government companies	Total establishment expenditure	Financed by		
			Disposal of investment/ assets	Government Loans	Others
2001-02	10	4.05 [@]	0.04	1.85	2.16
2002-03	10	0.62 [*]	--	--	0.62
2003-04	10	3.31 ^³	--	3.31	--
Total		7.98	0.04	5.16	2.78

An amount of Rs.7.98 crore has been incurred towards establishment expenditure of these 10 non-working Government companies during 2001-2004. Expeditious action is necessary for winding up of these companies to avoid further non-productive expenditure in this regard.

Finalisation of accounts by non-working PSUs

1.20 Out of 10 non-working Government companies, one company (Sl. No. C-2 of **Annexure-2**) had finalised its accounts for 2003-04 and the accounts of four companies were in arrears for period ranging from one to five years. Five^o companies were under liquidation as seen from **Annexure-2**.

Financial position and working results of non-working PSUs

1.21 The summarised financial results of non-working Government companies as per their latest finalised accounts are given in **Annexure-2**. The net worth of ten non-working Government companies against their paid-up capital of Rs.80.60 crore was Rs. (-)1,181.28 crore. These companies suffered cash loss of Rs.339.73 crore and their accumulated loss worked out to Rs.1,261.88 crore.

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

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

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

^o Sl. No. C-4, 6, 7, 8 and 9 of **Annexure-2**.

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

1.22 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 State Road Transport Corporation	2001-02	2002-03	SAR under process
2.	Gujarat Industrial Development Corporation	2001-02	2002-03	29.07.2004
3.	Gujarat State Financial Corporation	2001-02	2002-03 2003-04	07.07.2004 SAR under process
4.	Gujarat State Warehousing Corporation	2001-02	2002-03	19.07.2004

Note: SARs on the accounts of Gujarat Electricity Board up to 2002-03 have been placed in the Legislature.

Disinvestment, Privatisation and Restructuring* of Public Sector Undertakings

1.23 During the year 2003-04, the State Government disinvested Gujarat State Export Corporation Limited (GSECL). 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 April 2003 was as under:

Privatisation

1.24 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 (February 2002) orders for winding up of the Company and appointed liquidator for liquidation process. This order was stayed by a subsequent order

* Restructuring includes merger and closure of PSUs.

of the Court (May 2002) during pendency of reference before Board for Industrial and Financial Reconstruction (BIFR). The Government stated (April 2003) that BIFR had ordered for winding up of the Company and necessary actions for vacating the stay order were initiated. The said stay order was vacated by High Court of Gujarat on 7 April 2003 reviving the liquidation process. Further, the official liquidator had been requested to undertake the liquidation process. In case of GSECL, the Sub-Committee had decided to reduce Government stake to 11 *per cent*. The Government however, decided (22 January 2004) to disinvest entire Government holding of 8490 equity shares (56.60 *per cent* of total equity of GSECL). Accordingly, 8490 equity shares were transferred in favour of Adani Exports Limited (5 March 2004).

Restructuring

1.25 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. The Government stated (April 2003) that necessary action had been initiated and all employees of the concerned divisions/units had been offered voluntary retirement.

1.26 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. The Government stated (April 2003) that action had been initiated on the recommendations.

1.27 In case of Tourism Corporation of Gujarat Limited, it was decided to close un-economic units and to offer Voluntary Retirement Scheme (VRS) to its employees. Action was being initiated in this regard.

Disinvestment

1.28 In case of Gujarat Industrial Investment Corporation Limited, the Cabinet Sub-Committee decided to reduce the stake of Government to 49 *per cent* of equity shares. As a follow-up, 11 *per cent* equity shares were to be transferred to Gujarat Narmada Valley Fertilisers Company Limited and Gujarat State Fertilizers and Chemicals Limited. The term lending activity of the Company had been reduced. VRS had been offered to staff and the Company was refocusing on implementing infrastructure projects.

1.29 In case of Gujarat Mineral Development Corporation Limited, the Cabinet Sub-Committee decided to disinvest 49 *per cent* equity shares and 26 *per cent* of the equity shares had already been disinvested.

Merger

1.30 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 with Gujarat State Handicrafts Development Corporation Limited in June 2002.

Closure

1.31 The decision of Cabinet Sub-Committee to close Gujarat Small Industries Corporation Limited was accepted by the Government of Gujarat in January 1999. The Company had suspended all the activities and given VRS to most of the employees.

1.32 The decision of Cabinet Sub-Committee on closure of Gujarat Fisheries Development Corporation Limited (GFDCL) and Gujarat State Construction Corporation Limited (GSCC) was accepted by the Government on 4 September 1998. As a follow up, the Government reported (April 2003) that all activities of these companies have been suspended and most of the employees had been given VRS. In case of GFDCL, assets were being transferred/ sold. In case of the Film Development Corporation of Gujarat Limited and Gujarat State Rural Development Corporation Limited, the Government had decided to continue these companies, earlier identified for closure.

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

1.33 During the period from October 2003 to September 2004, the accounts of 29 Government companies (27 working and two non-working) and four Statutory corporations (all working) were selected for review. As a result of the observations made by the CAG, the net impact of the important audit observations was as follows:

Sl. No.	Details	Number of accounts		Amount (Rupees in crore)	
		Working Government companies	Working Statutory corporations	Working Government companies	Working Statutory corporations
1.	Decreases in profit	3	1	0.27	3.19
2.	Increase in loss	4	2	20.66	665.83
3.	Decrease in loss	--	1	--	156.37
4.	Non-disclosure of material facts	4	3	24.91	205.10
5.	Errors of classification	6	3	34.93	469.04

Some of the major errors and omissions noticed during October 2003 to September 2004 in the course of review of annual accounts of these PSUs are mentioned below:

Errors and omissions noticed in case of Government companies

Gujarat State Investment Limited (2002-03)

1.34 The Company received (7 March 2003) Rs.10.39 crore as interest free advance towards equity contribution in Gujarat Alkalies and Chemicals Limited (GACL) from Government. The amount of Rs.10.39 crore was paid to GACL. The Company has not accounted for these transactions in their books of accounts. This resulted in understatement of current liabilities and current assets to the extent of Rs.10.39 crore.

Gujarat State Land Development Corporation Limited (2000-01)

1.35 The Company accounted administrative charges at 33.33 *per cent* on soil conservation works of Rs.14.61 crore under farm pond and water harvesting structure schemes, for which no administrative charges were leviable. This resulted in understatement of current liabilities – unutilised grants from State Government by Rs.4.87 crore and overstatement of profit to that extent.

Gujarat Water Infrastructure Limited (2002-03)

1.36 The State Government withdrew Rs.10 crore from Personal Ledger account. The Company without the approval of the State Government had adjusted the same from grant received (Rs.7.68 crore) and share application money (Rs.2.32 crore). The fact was not disclosed in the accounts.

Errors and omissions noticed in case of Statutory corporations

Gujarat Industrial Development Corporation (2002-03)

1.37 The Corporation did not provide for arrears of depreciation of Rs.1.33 crore on shed/ quarters valued at Rs.2.41 crore transferred during the year to fixed assets from “Capital expenditure on shed/ housing quarters”. This resulted in overstatement of both fixed assets and excess of income over expenditure by Rs.1.33 crore.

Gujarat State Financial Corporation (2002-03)

1.38 The Corporation did not provide for interest of Rs.38.94 lakh for the period from 1 February 2003 to 31 March 2003 to two Priority Sector Bond holders, who exercised put option at end of fifth year for Rs.24 crore Bonds. Non provision of interest thereon resulted in understatement of current liabilities as well as loss for the year by Rs.38.94 lakh.

Audit assessment on the working results of Gujarat Electricity Board

1.39 Based on the audit assessment of the working results of GEB for three years up to 2002-03 and taking into consideration the major irregularities and omissions pointed out in the SARs on the annual accounts of GEB and not taking into account the subsidy/subventions receivable from the State Government, the net surplus/deficit of GEB will be as follows:

(Rupees in crore)

Sl. No.	Particulars	2000-01	2001-02	2002-03
1	Net surplus/(-) deficit as per books of accounts	(-)2,542.98	(-) 622.03	(-) 475.81
2	Subsidy from the State Government	2,021.26	2,578.65	1,805.14
3	Net surplus/ (-) deficit before subsidy from the State Government (1-2)	(-)4,564.24	(-) 3,200.68	(-) 2,280.95
4	Net increase/decrease in net surplus/(-) deficit on account of audit comments on the annual accounts	(-)446.11	(-) 289.07	(-) 509.07
5	Net surplus/(-) deficit after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-)5,010.35	(-) 3,489.75	(-) 2,790.02

Persistent irregularities and system deficiencies in financial matters of PSUs

1.40 The following persistent irregularities and system deficiencies in the financial matters of PSUs had been repeatedly pointed out during the course of audit of their accounts but no corrective action was taken by these PSUs so far:

Government companies

Gujarat State Forest Development Corporation Limited

1.41 The works-in-progress under plantations were understated by Rs.18.10 crore in respect of Bulsar and Panam Projects due to non inclusion of cumulative interest charges on term loans obtained from the banks for the plantation for the year ended 31 March 2003.

Statutory corporations

Gujarat State Road Transport Corporation

1.42 The balance under 'personal account with other State Transport Undertakings' included Rs.54.06 lakh being dues from other State Road Transport Undertakings viz., Madhya Pradesh (Rs.30.07 lakh), Rajasthan (Rs.16.76 lakh) and Maharashtra (Rs.7.23 lakh) which were pending for recovery/adjustment since 1985-86 onwards.

Gujarat Industrial Development Corporation

1.43 Due to inclusion of development works carried out for Gujarat Growth Centres Development Corporation Limited (Rs.21.24 crore) and deposit paid to Gujarat Electricity Board (Rs.8.66 crore), the capital expenditure incurred by the Corporation was overstated by Rs.29.90 crore.

Recoveries at the instance of audit

1.44 Test check of records of Gujarat Electricity Board /other PSUs conducted during April 2003 to March 2004 disclosed short levy of tariff,

short realisation of revenue, excess payments, credit of lapsed deposits, recovery of water charges, levy of liquidated damages and other observations, etc, aggregating Rs.13.96 crore in 57 cases apart from 11 cases where money value of recovery was not determined at the time of audit. The PSUs accepted the observations in all the 68 cases which had been pointed out by audit and a sum of Rs.11.83 crore relating to the abovementioned 57 audit observations was recovered at the instance of Audit.

Internal audit / internal control

1.45 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report on various aspects including the internal control/ internal audit system in the companies audited in accordance with the directions issued by the Comptroller and Auditor General of India to them under section 619(3)(a) of the Companies Act, 1956 and to identify the areas which needed improvement. An illustrative resume of major recommendations made/comments made by Statutory Auditors on possible improvement in the internal audit/internal control system in respect of State Government companies is indicated below:

Nature of comments/ recommendations made by Statutory Auditors	Number of companies where observations were noticed	Reference to Sl. No. of the companies as per Annexure-2
Internal audit needed to be strengthened having due regard to its size and nature of its business.	6	A-6, 8, 12, 21, 23, 30
The compliance on internal audit report is not adequate.	1	A-20
Inadequate internal audit system.	1	A-11
The scope of internal audit needs to be widened with the specific focus on account including review of compliance of statutes.	1	A-9

Recommendations for closure of PSUs

1.46 Even after completion of five years of their existence, the turnover of three* working Government companies and one** working Statutory corporation had been less than rupees five crore in each of the preceding five years as per their latest finalised accounts. Two@ Government companies (one working and one non-working) had been incurring losses for five consecutive years as per their latest finalised accounts, leading to negative net worth.

In view of poor turnover and continuous losses, the Government may either improve performance of above five Government companies and one Statutory corporation or consider their closure.

* Serial No.A-2, 12 and 32 of Annexure-2.

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

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

619-B Companies

1.47 There were 13[⊗] companies falling under Section 619-B of the Companies Act, 1956 of which one (Sl. No.3 of **Annexure-8**) company was non-working. **Annexure-8** 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.

⊗ Four new companies were incorporated by Gujarat Electricity Board for distribution of Electricity.

