Overview

Audit examination of nine PSUs disinvested between1999-2000 and 2002-03 revealed that while the broad procedure for disinvestment had been defined, no clear accountability regime had been in place for the disinvestment process. Responsibility for various aspects of valuation and post disinvestment issues were sought to be shifted among the PSUs, the administrative Ministry and the Department of Disinvestment. There was hardly any critical assessment of the work done by the Global Advisors; in fact in most cases the Global Advisors were unable to generate adequate competition in the bidding process. Government also contributed to this scenario by delaying decisions on crucial questions affecting the financial health of the PSUs, including restructuring of capital which, if addressed promptly, were likely to generate more interest and keenness among prospective bidders.

Government had no mechanism in place to verify and ensure that post disinvestment, the strategic partners had in fact brought in the technology and finance for turning around and improving the performance of the disinvested PSUs. In fact three PSUs (**MFIL, HTL** and **PPL**) had been referred to **BIFR** after disinvestment. Government has also been saddled with litigation and uncertainties after disinvestment. In the case of **HTL** and **PPL**, the strategic partners have made claims on Government of the same order of magnitude as the sale values. In the case of **IPCL**, there is a substantial claim on Government from the strategic partner on grounds of non-disclosure in financial statements. In the case of **VSNL**, Government has not been able to derive any benefit from the surplus land in the possession of the company.

The exercise of asset valuation did not appear to have been undertaken with due seriousness in as much as the valuers were generally not given adequate time and the core and non-core assets had not been segregated before valuation. Altogether, the results of asset valuation did not reflect properly the replacement cost or the liquidation value of the assets.

Government did not operate any separate Fund to accommodate the proceeds of disinvestment of PSUs, as intended. As a result, the use of these funds could not be linked to expenditure on social sector or restructuring of PSUs or retiring of public debt, which were the purposes for which the disinvestment proceeds were meant to be utilized.