Overview

Overview on the Functioning of State Public Sector Undertakings

Introduction

The State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. The SPSUs are engaged in activities of commercial nature that occupy an important place in the State economy. As on 31 March 2019, there were 87 SPSUs (83 Companies and four Statutory Corporations) including 16 inactive SPSUs. Of the 87 SPSUs, four SPSUs were listed on the stock exchange(s). The active SPSUs registered a turnover of ₹ 1,48,487.47 crore as per their latest finalised financial statements as on 30 September 2019. The turnover was 9.88 *per cent* of State's Gross Domestic Product (GSDP) for 2018-19. The active SPSUs earned aggregate profit of ₹ 1,002.59 crore as per their latest finalised financial statements.

Accountability framework

The process for audit of Government Companies in respect of financial years commencing on or after 1 April 2014 is governed by respective provisions of Sections 139 and 143 of the Companies Act, 2013 (Act). The financial statements of Government Companies are audited by Statutory Auditors who are appointed by the Comptroller and Auditor General of India (C&AG) as per the provisions of Section 139(5) or (7) of the Act. These financial statements are subject to supplementary audit by C&AG within 60 days from the date of receipt of the audit report under provisions of Section 143(6) of the Act. Audit of Statutory Corporations is governed by their respective legislations.

Investment in SPSUs

As on 31 March 2019, the investment in 87 SPSUs was ₹ 2,49,724.88 crore. The thrust of SPSUs investment was mainly in the Power and Infrastructure sector as the percentage share of investment in Infrastructure sector to total investment was 35.84 in 2018-19 as compared to 32.43 in 2014-15. The percentage share of investment in Power sector increased from 42.09 in 2014-15 to 42.78 in 2018-19.

Introduction

1 Overview on Functioning of Power sector Undertakings

Introduction

The SPSUs engaged in generation, transmission and distribution of electricity are classified under Power sector. Of the 87 SPSUs, 10 SPSUs are engaged in electricity related business and remaining 77 SPSUs are engaged in other activities as on 31 March 2019. The 10 SPSUs are active State Government Companies, which includes eight subsidiary/ joint venture Companies of other Government Companies. The turnover of Power sector SPSUs recorded continuous increase over previous years and was ₹ 1,09,824.46 crore as on 2017-18. The increase in GSDP of Gujarat ranged between 11.63 and 14.21 *per cent* during the period 2014-15 to 2018-19. During last five years against the Compounded Annual Growth Rate (CAGR) of 13.20 *per cent* of GSDP, the CAGR for turnover of Power sector SPSUs was 10.04 *per cent* during last five years.

Investment and budgetary support in Power sector SPSUs

As on 31 March 2019, the investment in 10 SPSUs was ₹ 1,06,844.09 crore. Government of Gujarat (GoG) periodically provides financial support to three Power sector SPSUs as budgetary assistance through annual budget in various forms that ranged between ₹ 6,144.63 crore and ₹ 10,223.10 crore during the period from 2014-15 to 2018-19 no funds were infused in the remaining seven SPSUs. During 2018-19 total budgetary assistance of ₹ 10,223.10 crore received included ₹ 2,813.37 crore and ₹ 7,409.73 crore in the form of equity and grants/ subsidy respectively.

Performance and Status of finalisation of financial statements of Power sector SPSUs

Of the 10 Power sector SPSUs, as per their latest finalised financial statements, all the 10 SPSUs earned profit of ₹ 1,084.95 crore. The financial statement of Gujarat Energy Transmission Corporation Limited, Gujarat Power Corporation Limited and the consolidated financial statement of GUVNL were in arrear for one year (2018-19).

Return on investment

GoG infused funds in the form of equity and loans in only three Power sector SPSUs. The Return on investment (RoI) from the three SPSUs based on historical cost ranged between 0.46 *per cent* and 0.87 *per cent* during the period from 2014-15 to 2018-19. Further, investment by GoG in the three SPSUs increased from ₹ 1,645.94 crore in 2004-05 to ₹ 75,021.86 crore in 2018-19. The Rate of Real Return based on Present Value (PV) of above investment being ₹ 1,23,757.93 crore as at 31 March 2019 to total earnings of three SPSUs during 2018-19 was 0.37 *per cent*. An analysis of investment and accumulated profit/ losses disclosed that the net worth of Power sector SPSUs as on 31 March 2019 was ₹ 26,333.27 crore.

Return on equity and capital employed

The Return on equity in respect of the three SPSUs as on 31 March 2019 was 1.72 *per cent*. During last five years ended March 2019, the Net Income and Shareholders' fund was positive. The Return on capital employed of Power sector SPSUs was consistent and ranged between 4.61 and 7.12 *per cent* during the period from 2014-15 to 2018-19.

Comments on financial statements

Ten SPSUs forwarded their 10 financial statements during the period from October 2018 to September 2019. Statutory Auditors had given unqualified opinion for eight financial statements and qualified opinion for two financial statements. The compliance of SPSUs with the Accounting Standards/ IND AS remained deficient, as there were six instances of non-compliance in five financial statements.

(Chapter 1)

2. Compliance audit observations relating to Power Sector Undertakings

Compliance audit observations relating to Power Sector Undertakings in this Report highlights deficiencies in the management of PSUs.

Gujarat State Electricity Corporation Limited (the Company) is responsible for generation of power. The Company has four coal based Thermal Power Stations (TPSs). The two Coal Supply Agreements (CSAs) for Ukai Coal based TPS were not simultaneously monitored. Delayed commissioning of coal handling plant and insufficient space for stacking the coal resulted in avoidable payment of demurrage charges. The Company violated the MoEF guidelines by utilising the amount recovered from sale of fly ash for other than specified purpose. The Monthly Inventory Control Register did not report the value of inventory issued to indenting departments but not consumed. The fast, slow and non-moving items report does not provide information of critical and non-critical items. Even after more than ten years no action for reconciliation of 195 items was taken and scrap remained unsold for more than five years.

(Chapter 2)

3. Overview on Functioning of State Public Sector Undertakings (*Excluding State Public Sector Undertakings of Power sector*)

Introduction

The State has 87 SPSUs as on 31 March 2019 of which 10 SPSUs are engaged in electricity related business and remaining 77 SPSUs are engaged in other activities. These 77 SPSUs include 73 State Government Companies (SGCs) and four Statutory Corporations for undertaking different activities. GoG periodically provides financial support to SPSUs

in the form of equity, loans and grants/ subsidy. Of the 77 SPSUs, GoG invested funds in 61 SPSUs and no funds were infused in remaining 16 SPSUs that were joint venture/ subsidiary of SGCs. The turnover of these SPSUs was ₹ 38,663.01 crore as on 2018-19.

Investment and budgetary support in SPSUs

As on 31 March 2019, the investment in 77 SPSUs was ₹ 1,42,880.79 crore. GoG provides financial support to SPSUs in various forms through the annual budget. The budgetary assistance received by these SPSUs ranged between ₹ 8,150.79 crore and ₹ 9,953.84 crore during the period from 2014-15 to 2018-19. The budgetary assistance of ₹ 8,327.24 crore provided during 2018-19 included loans, grants/ subsidy and equity of ₹ 1,109.70 crore, ₹ 3,204.77 crore and ₹ 4,012.77 crore respectively.

Performance and Status of finalisation of financial statements of SPSUs

During 2018-19, as per their latest finalised financial statements, out of 61 active SPSUs, 44 SPSUs earned profit of ₹ 2,487.28 crore and 15 SPSUs incurred loss of ₹ 2,569.64 crore. Of the total 61 active SPSUs, 39 SPSUs had 67 financial statements in arrears, which ranged between one and four years.

Return on Investment

Out of 77 SPSUs, GoG infused funds in the form of equity, loans and grant/subsidy in 61 SPSUs including three SPSUs listed on stock exchanges that reported positive Return on Investment. The Return on investment from 61 SPSUs on historical cost basis ranged between (-) 18.91 *per cent* and 0.72 *per cent* during the period from 2014-15 to 2018-19. Further, investment by GoG in these 60 SPSUs increased from ₹ 14,625.84 crore in 2004-05 to ₹ 1,05,960.02 crore in 2018-19. The Present Value (PV) of investment of GoG up to 31 March 2019 was ₹ 1,95,062.26 crore. An analysis of investment and accumulated profit/ losses disclosed that the net worth of 77 SPSUs as on 31 March 2019 was ₹ 65,322.85 crore.

Return on equity and capital employed

During last five years ended March 2019, the Return on Equity was 0.90 *per cent* in 2014-15 on the net income reported during financial year 2014-15. Since net loss was reported in 57 SPSUs during the four FYs ended 2018-19, therefore Return on Equity was Nil. The Return on capital employed ranged between 3.03 and 5.16 *per cent* during the period from 2014-15 to 2018-19.

Comments on financial statements

Forty-seven active SPSUs forwarded 63 audited financial statements for supplementary audit during the period from October 2018 to September 2019, Statutory Auditors had given unqualified opinion for 45 financial statements and qualified opinion for 21 financial statements. The compliance of SPSUs with the Accounting Standards/ IND AS remained deficient, as there were 35 instances of non-compliance in 19 financial statements.

Of the four active Statutory Corporations, three Corporations forwarded financial statements for audit during the period from October 2018 to September 2019. Statutory Auditor expressed qualified opinion on financial statements of Gujarat State Financial Corporation.

(Chapter 3)

4. Performance Audit relating to Public Sector Undertakings (*Excluding State Public Sector Undertakings of Power sector*)

Performance Audit on '**Mining Activities of Gujarat Mineral Development Corporation Limited** was conducted. Highlights of the performance audit are given below:

Gujarat Mineral Development Corporation Limited (the Company) was incorporated in May 1963 as a Private Limited Company to undertake mining of minerals in the State of Gujarat. It was converted into a wholly owned Government Company in July 1971.

The mining of minerals and power generation operations of the Company contributed 77 and 23 *per cent* respectively of its operational revenue during last five years. The mining activities mainly relate to Lignite, Bauxite and Fluorspar.

The Company had 24 mining leases as on 31 March 2019 out of which nine were non-operational. Of these, in five leases, the Company had neither submitted application for extension nor undertook mining operations.

Important goals of the sole business plan of the Company were not achieved. Audit observed that neither the mechanism for monitoring the achievement of business plan was in place nor business plan was prepared for subsequent periods.

Audit observed instances of non-achievement of the targets of production set in the Mine Plan (MP) which indicated need for revision of MP on more realistic basis as the mining during the remaining period will not be completed as per the approved MP.

In two cases, there was short deposit of ₹ 59.53 crore in escrow accounts for Mine Closure of Lignite projects.

Audit observed that the Company was yet to frame any policy regarding retention or sale of the acquired private freehold land after mineral reserves are exhausted.

In one case, the Company acquired land of ₹ 13.70 crore before completing the preliminary assessment of viability of a project. The project was subsequently closed and the land remained unutilised. Besides overpayment of ₹ 4.81 crore was noticed in eight land compensation cases.

The standard terms for rate fixation in turnkey Lignite mining agreements were not finalised even after more than 10 years. Audit also observed deficiencies in the system for tendering and awarding of turnkey Lignite mining agreements that had resulted in avoidable loss of ₹ 17.75 crore.

Deviation from terms of turnkey mining agreements resulted in extra expenditure of ₹ 23.38 crore in one case, undue benefit of ₹ 23.30 crore in one case and additional payment of ₹ 1.48 crore in one case.

Deficient monitoring of turnkey mining agreements system resulted in avoidable loss of ₹ 104.64 crore in 10 cases, undue benefit to contractor of ₹ 21.02 crore in two cases and arbitration claim of ₹ 107.01 crore in one case.

The Company separately collected Mine Closure Fund through invoices for Lignite sale and avoided royalty payment of ₹ 33.11 crore on it.

Audit noticed violations of the conditions of Environmental Clearances related to Corporate Social Responsibility (CSR) expenditure in two cases which had resulted in incurring ₹ 52.47 crore less for CSR expenditure.

(Chapter 4)

5. Compliance audit observations relating to Statutory Corporation

Compliance audit observations relating to Statutory Corporation in this Report highlights deficiencies in the management of the Corporation.

Gujarat State Road Transport Corporation (the Corporation) was incorporated on 1 May 1960 under the Road Transport Corporations Act, 1950. The Corporation is mandated to provide an efficient, adequate, economical, and properly co-ordinated road transport in the State. The Inventory Management System (INMANS) is implemented in Central Stores and 16 Division Stores of the Corporation. Of the 84 reports of INMANS related to the store Management three selected Divisions did not generate 17 to 24 reports. Only the parameter of six month for non-moving stock and the Minimum Stock level of one and half months was fixed. Short/excess stock levels were observed due to non-monitoring of stock levels at regular intervals that resulted in delayed fabrication of buses, docking of buses, decline in production of re-treaded tyres. Deficient maintenance of records was observed for store management. Absence of periodic system for identification of scrap items led to large quantity of unsold scrap. Mandatory physical verification of both movable and immovable assets, responses to concurrent stock verification reports, non-conducting inspection by Peripatetic Audit Parties and delayed submission of purchase indents were observed.

Chapter 5