

CHAPTER-I

1. Overview of Government companies and Statutory corporations

Introduction

1.1 The State Public Sector Undertakings (PSUs) consist of State Government companies and Statutory corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Uttar Pradesh, the State PSUs occupy a moderate place in the State economy. The State working PSUs registered a turnover of Rs 31480.07 crore for 2008-09 as *per* their latest finalised accounts as of September 2009. This turnover was equal to 7.86 *per cent* of State Gross Domestic Product (GDP) for 2008-09. Major activities of Uttar Pradesh State PSUs are concentrated in power sector. The State working PSUs incurred a loss of Rs 3410.53 crore in the aggregate for 2008-09 as *per* their latest finalised accounts. They had employed 1.38 lakh¹ employees as of 31 March 2009. The State PSUs do not include six prominent Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments. Audit findings of these DUs are incorporated in the Civil Audit Report for the State.

As on 31 March 2009, there were 125 PSUs as *per* the details given below. Of these, no company was listed on the stock exchange(s).

Type of PSUs	Working PSUs	Non-working PSUs ²	Total
Government Companies ³	75	43	118
Statutory Corporations	7	Nil	7
Total	82	43	125

As per information received during the year 2008-09, 26 PSUs⁴ (22 PSUs in Service sector and four⁵ PSUs in Power Sector) were established whereas no PSU was closed down.

Audit Mandate

1.2 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as *per* Section 619-B of the Companies Act.

The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG as *per* the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as *per* the provisions of Section 619 of the Companies Act, 1956.

¹ As per the details provided by 53 PSUs. Remaining 72 PSUs did not furnish the details.

² Non-working PSUs are those which have ceased to carry on their operations.

³ Includes 619-B companies.

⁴ Serial number A-38, 40, 41, 42 and 47 to 68 of Annexure-1.

⁵ Includes one PSU incorporated in 2007-08 and three PSUs incorporated in 2006-07. Of these PSUs, two PSUs, i.e. Prayag Raj Power Generation Company Limited and Sangam Power Generation Company Limited were privatised on 23-07-09.

Audit of statutory corporations is governed by their respective legislations. Out of seven statutory corporations, CAG is the sole auditor for Uttar Pradesh State Road Transport Corporation, Uttar Pradesh Avas Evam Vikas Parishad, Uttar Pradesh Forest Corporation, and Uttar Pradesh Jal Nigam. In respect of Uttar Pradesh State Warehousing Corporation, Uttar Pradesh Financial Corporation, and Uttar Pradesh Government Employees Welfare Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

Investment in State PSUs

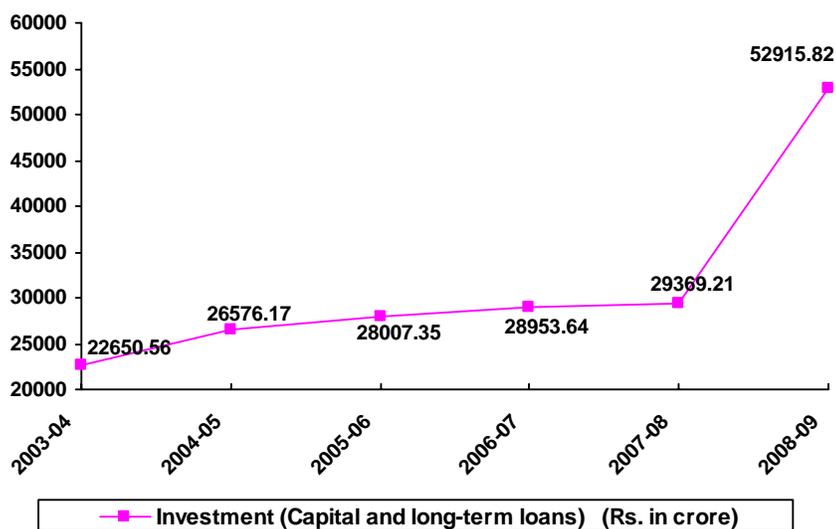
1.3 As on 31 March 2009, the investment in 125 PSUs (including 619-B companies) was Rs 52,915.82 crore as *per* details given below.

(Rs in crore)

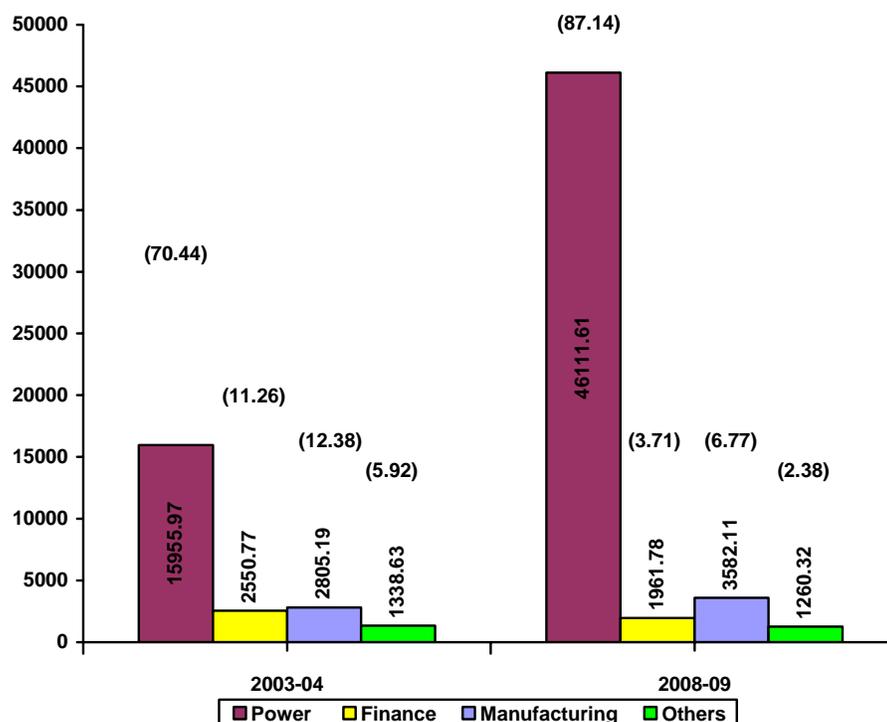
Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	40254.54	9992.39	50246.93	561.78	1223.06	1784.84	52031.77
Non-working PSUs	442.89	441.16	884.05	-	-	-	884.05
Total	40697.43	10433.55	51130.98	561.78	1223.06	1784.84	52915.82

A summarised position of government investment in State PSUs is detailed in **Annexure-1**.

As on 31 March 2009, of the total investment in State PSUs, 98.33 *per cent* was in working PSUs and the remaining 1.67 *per cent* in non-working PSUs. This total investment consisted of 77.97 *per cent* towards capital and 22.03 *per cent* in long-term loans. The investment has grown by 133.62 *per cent* from Rs 22,650.56 crore in 2003-04 to Rs 52,915.82 crore in 2008-09 as shown in the graph below.



The investment in various important sectors and percentage thereof at the end of 31 March 2004 and 31 March 2009 are indicated below in the bar chart. The thrust of PSU investment was mainly in power sector during the five years which has seen its percentage share rising from 70.44 *per cent* in 2003-04 to 87.14 *per cent* in 2008-09 while the share of manufacturing sector decreased from 12.38 *per cent* in 2003-04 to 6.77 *per cent* in 2008-09.



(Figures in brackets show the percentage of total investment)

Budgetary outgo, grants/subsidies, guarantees and loans

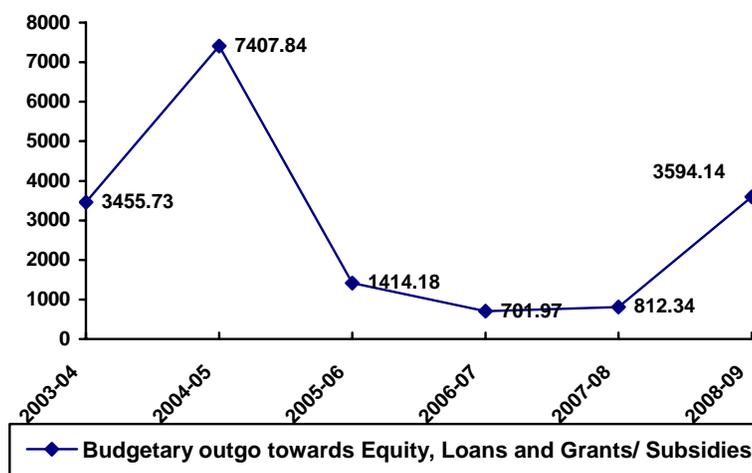
1.4 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Annexure-3**. The summarised details are given below for three years ended 2008-09.

(Amount Rs in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	5	423.31	5	20.20	5	2405.08
2.	Loans given from budget	6	126.28	6	214.14	4	90.53
3.	Grants/Subsidy received	5	152.38	6	578.00	9	1098.53
4.	Total Outgo (1+2+3)	13*	701.97	10*	812.34	14*	3594.14
5.	Loans converted into equity					2	209.30
6.	Guarantees issued	9	4362.05	6	455.30	2	20735.82
7.	Guarantee Commitment	12	7489.72	8	322.80	7	10525.81

*These represents actual number of PSUs which received budgetary support.

The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past five years are given in a graph below.



It can be seen that the budgetary outgo in the form of equity, loans, grants, subsidies, etc. to state PSUs was all time low in 2006-07 during the period from 2003-04 to 2008-09. The budgetary outgo jumped to Rs 3594.14 crore in 2008-09 mainly due to extension of financial support of Rs 2582.20 crore by the State Government to three power sector companies in the form of equity (Rs 2395.19 crore) and grants/subsidies (Rs 187.01 crore). The amount of guarantee outstanding has decreased from Rs 7489.72 crore in 2006-07 to Rs 322.80 crore in 2007-08 and increased to Rs 10523.79 crore in 2008-09. The amount of guarantee commission payable by two PSUs as on 31 March 2009 was Rs 13.28 crore⁶. During the year one PSU⁷ had paid guarantee commission of Rs 11.20 crore.

Reconciliation with Finance Accounts

1.5 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2009 is stated below.

(Rs in crore)			
Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	14386.22	31955.04	17568.82
Loans	5089.25	1218.42	3870.83
Guarantees	11727.82	10525.81	1202.01

Audit observed that the differences occurred in respect of 27 PSUs and some of the differences were pending reconciliation since 2000-01. The matter of reconciliation of figures between Finance Accounts and Audit Report (Commercial) is regularly being taken up with the PSUs requesting them to

⁶ Uttar Pradesh Power Corporation Limited (Rs 11.12 crore) and Uttar Pradesh Financial Corporation (Rs 2.16 crore)

⁷ Uttar Pradesh Power Corporation Limited.

expedite the reconciliation (September 2009). The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

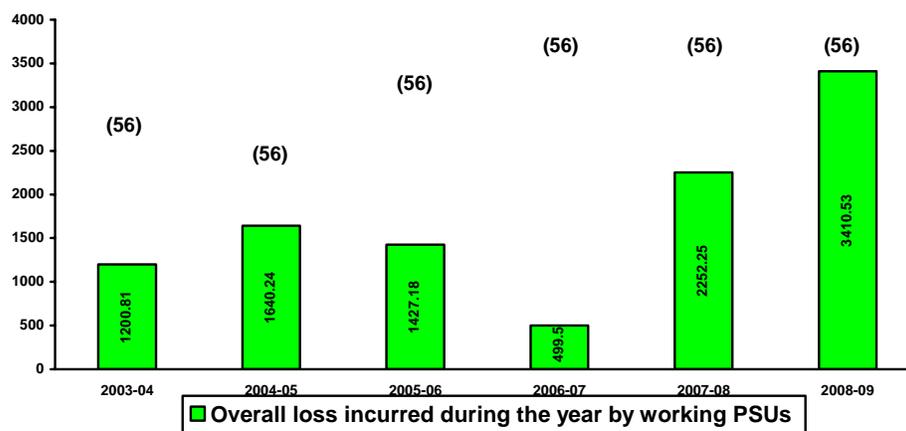
Performance of PSUs

1.6 The financial results of PSUs, financial position and working results of working statutory corporations are detailed in **Annexure-2, 5** and **6** respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for the period 2003-04 to 2008-09.

Particulars	(Rs in crore)					
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover ⁸	13442.74	13374.72	18750.76	18860.47	27261.62	31480.07
State GDP	226972.00	248851.00	276969.00	309834.00	344346.00	400711.00
Percentage of Turnover to State GDP	5.92	5.37	6.77	6.09	7.92	7.86

The percentage of turnover to state GDP was at 5.92 during 2003-04, which had grown to 7.86 per cent during 2008-09 after showing marginal fluctuations in six years period.

Losses incurred by State working PSUs during 2003-04 to 2008-09 are given below in a bar chart.



(Figures in brackets show the number of working PSUs in respective years)

The amount of loss incurred by working PSUs increased from Rs 1200.81 crore in 2003-04 to Rs 3410.53 crore during 2008-09. The position of loss incurred by state PSUs has deteriorated over the period particularly after 2006-07 when the loss incurred increased from Rs 499.50 crore (2006-07) to Rs 3410.53 crore (2008-09). During the year 2008-09, out of 82 working PSUs, 30 PSUs earned profit of Rs 538.41 crore and 26 PSUs incurred loss of Rs 3948.94 crore. Twenty six working PSUs, which were incorporated during 2006-07 (3), 2007-08 (1), and 2008-09 (22) had not submitted their first accounts. The major contributors to profit were Uttar Pradesh Avas Evam Vikas Parishad (Rs 178.58 crore), Uttar Pradesh Rajkiya Nirman Nigam Limited (Rs 80.41 crore), Uttar Pradesh State Industrial Development Corporation Limited (Rs 79.03 crore), Uttar Pradesh State Road Transport Corporation (Rs 40.71 crore) and Uttar Pradesh State Warehousing Corporation (Rs 40.15 crore). The heavy losses were incurred by

⁸ Turnover as per the latest finalised accounts as of 30 September 2009.

Dakshinanchal Vidyut Vitran Nigam Limited (Rs 892.20 crore), Paschimanchal Vidyut Vitran Nigam Limited (Rs 621.82 crore), Purvanchal Vidyut Vitran Nigam Limited (Rs 606.75 crore), Uttar Pradesh Power Corporation Limited (Rs 505.42 crore), Uttar Pradesh Financial Corporation (Rs 115.01 crore), Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (Rs 77.10 crore) and Uttar Pradesh Rajya Chini Evam Ganna Vikas Nigam Limited (Rs 57.92 crore).

The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the State working PSUs incurred losses to the tune of Rs 7931.19 crore and infructuous investment of Rs 27.60 crore which were controllable with better management. Year wise details from Audit Reports are stated below.

(Rs in crore)

Particulars	2006-07	2007-08	2008-09	Total
Net loss	499.50	2252.25	3410.53	6162.20
Controllable losses as per CAG's Audit Report	7012.18	832.64	86.37	7931.19
Infructuous Investment	-	-	27.60	27.60

The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the losses can be minimised substantially. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

Some other key parameters pertaining to State PSUs are given below.

(Rs in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed (<i>Per cent</i>)	0.05	-	-	2.28	-	-
Debt	9768.01	8133.48	8680.00	9192.09	9538.97	11656.61
Turnover ⁹	13442.74	13374.72	18750.76	18860.47	27261.62	31480.07
Debt/ Turnover Ratio	0.73:1	0.61:1	0.46:1	0.49:1	0.35:1	0.37:1
Interest Payments	1314.85	12995.58	1166.79	1055.11	1212.39	1058.32
Accumulated losses	10674.81	10590.38	11141.45	12305.62	14129.45	15520.04

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

During the period 2003-04 to 2008-09 the debt to turnover ratio has improved from 0.73:1 in 2003-04 to 0.37:1 in 2008-09 which indicates that there is less pressure on profit margin. However, the amount of accumulated losses increased from Rs 10674.81 crore to Rs 15520.04 crore. The return on capital employed was also negative in all the six years except during 2003-04 and 2006-07.

The State Government had formulated (October 2002) a dividend policy under which all profit earning PSUs are required to pay a minimum return of five *per cent* on the paid up share capital contributed by the State Government. As per their latest finalised accounts, 30 PSUs earned an aggregate profit of Rs 538.41

⁹ Turnover of working PSUs as per the latest finalised accounts as of 30 September 2009.

crore and only one PSU¹⁰ declared a dividend of Rs 1.67 crore. Thus, the remaining profit earning PSUs did not comply with the State Government policy regarding payment of minimum dividend.

Performance of major PSUs

1.7 The investment in working PSUs and their turnover together aggregated to Rs 83511.84 crore during 2008-09. Out of 56 working PSUs which finalised their accounts for previous years, the following five PSUs accounted for individual investment *plus* turnover of more than five *per cent* of aggregate investment *plus* turnover. These five PSUs together accounted for 77.10 *per cent* of aggregate investment *plus* turnover.

(Rs in crore)

PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to Aggregate Investment plus Turnover
(1)	(2)	(3)	(4)	(5)
Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited	8970.38	3835.78	12806.16	15.33
Uttar Pradesh Power Corporation Limited	25314.80	11587.25	36902.05	44.19
Dakshinanchal Vidyut Vitaran Nigam Limited	2541.75	1751.25	4293.00	5.14
Paschimanchal Vidyut Vitaran Nigam Limited	2946.97	3005.12	5952.09	7.13
Purvanchal Vidyut Vitaran Nigam Limited	3061.16	2184.91	5246.07	6.28
Total	42835.066	22364.31	65199.377	78.07

Some of the major audit findings of past five years for above PSUs related to deficiencies in planning, implementation, monitoring, non achievement of objective, and financial management are stated in the succeeding paragraphs.

Uttar Pradesh Power Corporation Limited

1.8 The Company had arrears of accounts for two year as on September 2009. The loss of the company has decreased from Rs 839.61 crore in 2002-03 to Rs 505.42 crore in 2006-07. The turnover of the company has increased from Rs 6610.20 crore in 2002-03 to Rs 11587.25 crore in 2006-07. However, the return on capital employed remained negative during these periods.

Deficiencies in planning

- Installation of 100 MVA transformer at the substation without requirement resulted in avoidable expenditure of Rs 3.61 crore. (Paragraph 2.3.13 of the Audit Report (Commercial), 2004-05).
- Company had to incur expenditure of Rs 94.70 lakh due to non seeking right of way at the time of allotment of land by Meerut Development Authority for the sub station. (Paragraph 2.3.23 of the Audit Report (Commercial), 2004-05).

Deficiencies in Monitoring

- The company failed to avail rebate of Rs 8.16 crore besides incurring liability of surcharge of Rs 124.43 crore because of delay in payment of

¹⁰ Uttar Pradesh State Warehousing Corporation.

power purchase bills. (Paragraph 2.3.10 of the Audit Report (Commercial), 2003-04).

- Due to lack of coordination with the distribution company the Company could not put the 132 KV sub station on commercial load and was deprived of the annual benefit of Rs 11.28 crore. (Paragraph 2.3.14 of the Audit Report (Commercial), 2004-05).
- Company suffered loss of Rs 346.82 crore on account of transmission loss in excess of the prescribed norms. (Paragraph 2.3.25 of the Audit Report (Commercial), 2004-05).

Deficiencies in Financial Management

- Fund lost in operation by the Company aggregated Rs 3567.16 crore during 2000-01 to 2002-03. (Paragraph 2.3.5 of the Audit Report (Commercial), 2003-04).
- The Company incurred avoidable expenditure of Rs 2.50 crore on account of interest due to its failure to draw fund according to its requirement. (Paragraph 2.3.7 of the Audit Report (Commercial), 2003-04).
- The Company incurred loss of Rs 3.16 crore due to borrowing fund at higher rate of interest and keeping amount in fixed deposit carrying lower rate of interest. (Paragraph 2.3.38 of the Audit Report (Commercial), 2003-04).

Paschimanchal Vidyut Vitran Nigam Limited

1.9 The Company was incorporated on 1 May 2003 as subsidiary of Uttar Pradesh Power Corporation Limited. The company had arrears of accounts for three years as on September 2009. The company had earned a profit of Rs 204.00 crore in 2003-04 which turned into loss of Rs 621.82 crore during 2005-06 despite increase in the turnover from Rs 1182.56 crore to Rs 3005.12 during the same period. The return on capital employed had also declined from 25.39 *per cent* to negative during the same period.

Deficiencies in Monitoring

- Despite repeated dishonor of cheques the company failed to promptly disconnect the supply resulting in loss of revenue of Rs 67.02 lakh. (Paragraph 3.19 of the Audit Report (Commercial), 2007-08).
- Failure / delay in finalisation of Permanent Disconnection cases caused non-realisation of Rs 9.43 crore. (Paragraph 2.2.30 of the Audit Report (Commercial), 2006-07).
- Absence of system alerts and prescribed action in low power factor cases resulted in energy losses of Rs 1.92 crore units valuing Rs 7.21 crore. (Paragraph 2.4.20 of the Audit Report (Commercial), 2007-08).

Non-achievement of objectives

- The Company incurred an unfruitful expenditure of Rs 94.66 lakh on GIS mapping as soft copy with supporting software was not available with any of the offices. (Paragraph 2.4.16 of the Audit Report (Commercial), 2007-08).

Dakshinanchal Vidyut Vitran Nigam Limited

1.10 The Company was incorporated on 1 May 2003 as subsidiary of Uttar Pradesh Power Corporation Limited. The company had arrears of accounts for three years as on September 2009. The loss incurred by the company increased from

Rs 113.09 crore in 2003-04 to Rs 892.20 crore during 2005-06 despite increase in turnover of the company from Rs 908.16 crore to Rs 1751.25 crore during the same period. The return on capital employed of the Company also remained negative during this period.

Deficiencies in Monitoring

- The company suffered loss of Rs 44.36 lakh due to irregular reduction of penalty for peak hour violation. (Paragraph 3.13 of the Audit Report (Commercial), 2003-04).
- The company did not bill for additional charges based on the results of check meter and as a result energy charges of Rs 1.74 crore could not be realised. (Paragraph 3.6 of the Audit Report (Commercial), 2004-05).
- The company billed the consumer at the rate applicable for supply at 132 KV instead of 11 KV resulted in short billing of Rs 1.12 crore. (Paragraph 3.7 of the Audit Report (Commercial), 2004-05).

Purvanchal Vidyut Vitran Nigam Limited

1.11 The Company was incorporated on 1 May 2003 as subsidiary of Uttar Pradesh Power Corporation Limited. The company had arrears of accounts for three years as on September 2009. The loss incurred by the Company increased from

Rs 80.92 crore in 2003-04 to Rs 606.75 crore during 2005-06 despite increase in turnover of the company from Rs 988.17 crore to Rs 2184.91 crore during the same period. The return on capital employed had also remained negative during the period.

Deficiencies in Monitoring

- Incorrect assessment of LMV-1 category consumers having defective meters resulted in short assessment of revenue amounting to Rs 7.06 crore. (Paragraph 2.4.18 of the Audit Report (Commercial), 2006-07).
- The Company suffered loss of Rs 8.22 crore due to irregular revision of penalty bills for peak hour violation. (Paragraph 3.9 of the Audit Report (Commercial), 2003-04).
- Initial security deposit of Rs 1.17 crore towards release of new connection remained unrealised by the Company from Eastern Railways. (Paragraph 3.9 of the Audit Report (Commercial), 2004-05).

Conclusion

1.12 The above details indicate that the State PSUs are not functioning efficiently and there is tremendous scope for improvement in their overall performance. They need to imbibe greater degree of professionalism to ensure delivery of their products and services efficiently and profitably. The State Government should introduce a performance based system of accountability for PSUs.

Arrears in finalisation of accounts

1.13 The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of statutory corporations, their accounts are finalised, audited and presented to the Legislature as *per* the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2009.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Number of Working PSUs	56	56	56	56	60 ¹¹
2.	Number of accounts finalised during the year	50	55	42	64	46
3.	Number of accounts in arrears	189	183	195	180	197
4.	Average arrears <i>per</i> PSU (3/1)	3.38	3.27	3.48	3.21	3.28
5.	Number of Working PSUs with arrears in accounts	50	49	50	49	54
6.	Extent of arrears	1 to 16 years	1 to 16 years	1 to 15 years	1 to 14 years	1 to 14 years

During the period 2004-05 to 2007-08 the number of working PSUs having their accounts in arrear remained between 49 and 50 and in 2008-09 it increased to 54 due to increase in the number of working PSUs. In 2008-09, despite increase in the number of working PSUs, the number of accounts finalised was lower at 46 accounts as against 64 accounts during 2007-08. Resultantly, number of accounts in arrears increased to 197 during 2008-09 as against 180 in 2007-08. Most of the working PSUs failed to finalise even one year's accounts every year causing accumulation of arrears. The main reasons responsible for arrear in accounts are delay in holding of annual general meetings, delay in approval of accounts by the Board of Directors, delay in certification of accounts by Statutory Auditor, delay in adoption of accounts in the Annual General Meetings, lack of accounts personnel, etc.

In addition to above, there were also arrears in finalisation of accounts by non-working PSUs. Out of 43 non-working PSUs, 12¹² had gone into liquidation process. Of the remaining 31 non-working PSUs, 30 PSUs had arrears of accounts for 1 to 30 years.

The State Government had invested Rs 4214.16 crore (Equity: Rs 2470.96 crore, loans: Rs 309.02 crore, grants: Rs 1028.09 crore and subsidies: Rs 406.09 crore) in 23 PSUs during the years for which accounts have not been finalised as detailed in **Annexure-4**. In the absence of accounts and their subsequent audit, it can not be ensured whether the investments and expenditure incurred have been properly

¹¹ Excluding 22 PSUs (all companies) incorporated in February 2009 (serial no. A-47 to 68 of Annexure-2) first accounts of which are not due.

¹² Serial no. C-2, 3, 11, 13, 14, 18, 21, 22, 23, 25, 29 and 34 of Annexure-2.

accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed every quarter by the Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up with the Chief Secretary/ Finance Secretary on 20 January 2009, 12 April 2009 and 15 July 2009 to expedite the backlog of arrears in accounts in a time bound manner. Further the Chief Secretary also held a meeting on 9 January 2009 with the eight PSUs having arrears in accounts to discuss the matter.

In view of above state of arrears, it is recommended that:

- **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**

Winding up of non-working PSUs

1.14 There were 43 non-working PSUs (40 Government companies and 3 deemed Government companies) as on 31 March 2009. Of these, 12 PSUs had gone into liquidation process. The numbers of non-working companies at the end of each year during past five years are given below.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
No. of non-working companies	42	42	43	43	43

The non-working PSUs are required to be closed down as their existence is not going to serve any purpose. During 2008-09, 2¹³ non-working PSUs incurred an expenditure of Rs 0.16 crore towards establishment expenditure.

The stages of closure in respect of non-working PSUs are given below.

Sl. No.	Particulars	Companies
1.	Total No. of non-working PSUs	43
2.	Of (1) above, the No. under	
(a)	liquidation by Court (liquidator appointed)	12
(b)	Voluntary winding up (liquidator appointed)	-
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	31

During the year 2008-09, no company was finally wound up. The companies which have taken the route of winding up by Court order are under liquidation for

¹³ Out of 43 non working companies only two companies furnished the information. (Uttar Pradesh Pashudhan Udhdyog Nigam Limited -Rs 8.05 lakh, and Uttar Pradesh Chalchitra Nigam Limited - Rs 7.67 lakh)

a period ranging from 6 years to 32 years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted/ pursued vigorously. The Government may take a decision regarding winding up of 31 non-working PSUs where no decision about their continuation or otherwise has been taken after they became non-working. The Government may consider setting up a cell to expedite closing down the non-working companies.

Accounts Comments and Internal Audit

1.15 Thirty eight working companies forwarded their audited 41 accounts to AG during the year 2008-09. Of these, 35 accounts of 32 companies were selected for supplementary audit. The audit reports of Statutory Auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and CAG are given below:

(Amount Rs in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	11	11.41	8	17.67	10	53.60
2.	Increase in loss	20	21.94	12	95.02	8	843.84
3.	Non-disclosure of material facts	2	3.64	-	-	-	-
4.	Errors of classification			6	13.09	4	225.44
	Total:		36.99		125.78		1122.88

The aggregate money value of total comments increased from Rs 36.99 crore in 2006-07 to Rs 1122.88 crore in 2008-09 indicating deterioration in the quality of accounts of the PSUs.

During the year, the statutory auditors had given unqualified certificates for two accounts, qualified certificates for 35 accounts, adverse certificates (which means that accounts do not reflect a true and fair position) for one accounts and disclaimers (meaning the auditors are unable to form an opinion on accounts) for three accounts. Additionally, CAG gave adverse comments on two accounts. The compliance of companies with the Accounting Standards (AS) remained poor as there were 133 instances of non-compliance with the AS in 29 accounts during the year.

1.16 Some of the important comments in respect of accounts of companies are stated below.

Uttar Pradesh Power Corporation Limited (2006-07)

- Loss for the year was understated by Rs 810.89 crore due to non-provision towards diminution in the value of Company's investment in its subsidiary Power Distribution companies.

Uttar Pradesh Jal Vidyut Nigam Limited (2006-07)

- The loss for the year is understated by Rs 6.88 crore due to charging of depreciation at the rates prescribed under Income tax rules and not as per Schedule XIV of the Companies Act, 1956.

Purvanchal Vidyut Vitran Nigam Limited (2005-06)

- The loss for the year was overstated by Rs 427.54 crore due to accounting of energy purchased (9651.033 MU) at the rate of 2.34 per unit instead of applicable rate of Rs 1.897 per unit.

Uttar Pradesh State Agro Industrial Corporation Limited (2005-06)

- The Sundry debtors were overstated by Rs 1.43 crore due to non-reversal of amount receivable booked against the excess expenditure incurred without government approval on installation of hand pumps during 1994-95 to 2004-05.
- Loans and Advances were overstated and accumulated loss understated by Rs 11.97 crore due to adoption of wrong basis of booking the incidental charges for procurement of wheat for the years 2002-03 to 2005-06.

Uttar Pradesh State Industrial Development Corporation Limited (2006-07)

- Profit for the year was overstated by Rs 4.12 crore due to non-provision of depreciation on the plant.
- Profit for the year was overstated by Rs 70 lakh due to capitalisation of revenue expenses towards the electric bills, diesel and vehicles etc. for captive power plant to Capital work in progress instead of charging to Profit & Loss Account.

The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited (2007-08)

- Profit for the year was overstated by Rs 1.27 crore due to non provision of collection charges payable to Revenue department in respect of the amount collected from borrowers on behalf of the company.
- Profit for the year was overstated by Rs 11.46 crore due to write back of provision of interest on Government loan of Rs 26.03 crore up the periods when the Government converted the loan into interest free non-refundable loan.

Uttar Pradesh Scheduled Castes Finance and Development Corporation Limited (2004-05)

- Profit for the year was overstated by Rs 15.98 crore due to non provision for doubtful debts.
- Profit for the year and current assets loans and advances have been overstated by Rs 7.02 crore due to short provision towards doubtful advances.

Similarly, five working Statutory corporations forwarded their five accounts to AG during the year 2008-09¹⁴. Of these, two accounts of two Statutory corporations pertained to sole audit by CAG of which audit of only one accounts was completed (30 September 2009). Of the remaining three accounts, two accounts were selected for supplementary audit and audit of these two accounts was completed (30 September 2009). The audit reports of Statutory Auditors and the sole/ supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and CAG are given below.

¹⁴ October 2008 to September 2009.

(Amount Rs in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	2	32.55	5	202.57	2	3.89
2.	Increase in loss	2	8.07	1	5.37	1	0.68

During the year, out of five accounts received, three accounts were audited and all these three accounts received qualified certificates.

1.17 Some of the important comments in respect of accounts of statutory corporations are stated below:

Uttar Pradesh Financial Corporation (2007-08)

- Loss for the year was understated by Rs 20.45 lakh due to non provision of interest payable on SLR Bonds.
- Loss for the year was understated by Rs 47.79 lakh due to capitalisation of restoration charges and extension fee instead of charging the same to the profit and loss Account.

Uttar Pradesh State Warehousing Corporation (2007-08)

- Profit for the year has been understated by Rs 76.99 lakh due to incorrect accounting of advance premium paid for the period 1 April 2008 to 31 July 2008 as current year expenditure and not pre paid expenditure.
- The business income did not include Rs 2.29 crore recoverable from the staff and storage/handling and transport contractors towards ‘storage and transport losses’ against the amount already deducted by the Food Corporation of India. This has correspondingly resulted in understatement of current assets–recoverable from staff and storage/handling and transport contractors’ by Rs 2.29 crore.

Uttar Pradesh State Road Transport Corporation (2007-08)

- The Corporation was exempted from payment of contribution towards employees insurance. The profit for the year was understated by Rs 1.43 crore due to non inclusion of the amount recoverable on account of contribution already paid to Employees State Insurance Corporation.
- The Government of Uttaranchal intimated an interest liability of the Corporation against State Government loan amounting to Rs 5.20 crore whereas liability for Rs 1.49 crore only was provided resulting in overstatement of Net profit for the year and understatement of current liabilities to the extent of Rs 3.71 crore each.

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control / internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/internal

control system in respect of 43 company¹⁵ for the year 2007-08 and 31 companies¹⁶ for the year 2008-09 are given below:

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Annexure -2
1		2	3
1.	Non-fixation of minimum/maximum limits of store and spares	12	A3, 20, 29, 33, 34, 35, 36, 37, 39, 44, 45 and 46
2.	Absence of internal audit system commensurate with the nature and size of business of the company	20	A3, 7, 11, 12, 14, 15, 16, 17, 22, 28, 29, 34, 35, 37, 71, 73, 74, C16, 17 and 18
3.	Non maintenance of cost record	7	A34, 35, 36, 37, 39, 44 and 46
1		2	3
4.	Non maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations.	25	A1, 2, 7, 11, 15, 17, 20, 24, 28, 29, 31, 34, 35, 36, 37, 39, 44, 46, 71, 73, 74, C16, 17, 28 and 38

Recoveries at the instance of audit

1.18 During the course of propriety audit in 2008-09, recoveries of Rs 420.98 crore were pointed out to the Management of various PSUs, of which, recoveries of Rs 383.37 crore were admitted and Rs 4.84 crore were recovered by PSUs.

Status of placement of Separate Audit Reports

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

Sl No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Years for which SARs not placed in Legislature		Reasons for non-placement of SARs
			Year of SAR	Date of issue to the Government	
1	2	3	4	5	6
1.	Uttar Pradesh State Road Transport Corporation	2005-06	2006-07 2007-08	25-06-2009 09-09-2009	Reasons not furnished by the Corporation
2.	Uttar Pradesh Financial Corporation	1992-93	1993-94 1994-95 1995-96 1996-97 1997-98 1998-99 1999-2000 2000-01 2001-02 2002-03 2003-04 2004-05 2005-06 2006-07 2007-08	07.07.1995 18.04.1996 28.08.1998 17.12.1999 27.07.2000 20.10.2001 25.07.2002 20.02.2004 28.01.2005 21.12.2005 08.09.2006 01.05.2007 12.09.2007 17.04.2008 07-08-09	Reasons not furnished by the Corporation
3.	Uttar Pradesh State Warehousing Corporation	2005-06	2006-07 2007-08	17.01.2008 24-03-09	Reasons not furnished by the Corporation
4.	Uttar Pradesh Forest Corporation ¹⁷	--	1997-98 1998-99	17.08.2000 23.05.2002	Reasons not furnished by the Corporation

¹⁵ Sl. No. A3, 5, 6, 9 to 16, 18 to 20, 24, 27 to 29, 31 to 35, 39, 44 to 46, 69 to 71, 73 to 75, C3, 5, 16, 17, 20, 27, 28, 36 and 41 of Annexure – 2.

¹⁶ Sl. No. A2, 3, 7, 11 to 15, 17, 18, 20, 22, 27 to 29, 31, 33 to 37, 39, 44 to 46, 71, 73, 74, C16, 28 and 38 of Annexure – 2.

¹⁷ Audit entrusted from 1997-98.

5.	Uttar Pradesh Avas Evam Vikas Parishad	2001-02	2002-03	10-12-08	Reasons not furnished by the Corporation
6.	Uttar Pradesh Jal Nigam	1994-95	1995-96 1996-97 1997-98 1998-99 1999-2000 2000-01 2001-02 2002-03 2003-04 2004-05 2005-06 2006-07	21.10.1997 18.02.1999 03.07.2000 19.09.2001 07.02.2002 13.02.2003 27.03.2004 30.12.2005 07.06.2006 02.02.2007 02.04.2008 21-03-09	Reasons not furnished by the Corporation

Delay in placement of SARs weakens the legislative control over Statutory corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the Legislature.

Disinvestment, Privatisation and Restructuring of PSUs

1.20 The policy of privatisation/disinvestment of PSUs formulated (June 1994) by the State Government provided for review of all enterprises (excluding those engaged in social and welfare activities and public utilities) whose annual loss was more than Rs 10 crore and which had eroded their net worth by 50 per cent or more.

An Empowered Committee (EC) was constituted (December 1995) to review and decide cases of privatisation/disinvestment/ reference to BIFR and to recommend other alternatives such as partial privatisation, management by private entrepreneurs, lease to private entrepreneurs, etc. The recommendations of the EC were not made available to Audit. On the recommendation of EC, the State Disinvestment Commission was constituted (November 1998) but it was dissolved (January 2000) and a Divestment Commission (DC) was constituted (January 2000).

For smooth functioning of process of disinvestments, a Central Committee (CC) was also constituted (January 2000). The CC was entrusted to make reference to the DC on the matters relating to reform in working, merger, reorganisation, privatisation or closure of the PSUs. It was envisaged that DC would forward its recommendations to the CC.

Twenty seven PSUs were referred to DC which made its recommendations in all these cases. The CC considered and made recommendations in respect of 25 PSUs. These recommendations were not made available to Audit.

In April 2003, a High Power Disinvestment Committee (HPDC) was constituted for disinvestment of State PSUs.

The Government intimated (September 2003) that:

- In the first stage, disinvestment process has commenced for 11 sugar mills of Uttar Pradesh State Sugar Corporation Limited, and eight sick and five closed sugar mills of Uttar Pradesh Rajya Chini Evam Ganna Vikas Nigam Limited.
- Action would be taken on the recommendations of DC on 27 PSUs, which were referred to the DC.

- Information was being collected regarding possible disinvestment from Departments/PSUs and, on the basis of information received, necessary action for disinvestment would be taken.
- The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited (PIICUP) have been selected for providing consultancy for disinvestments. The HPDC was taking consultancy from PICUP for deciding policy matters and making practical recommendations.

Further progress in the matter was not furnished by the State Government.

Reforms in Power Sector

1.21 The State has Uttar Pradesh Electricity Regulatory Commission (Commission) formed in September 1998 under Section 17 of the Electricity Regulatory Commission Act¹⁸ with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licenses. During 2008-09, (ERC) issued 46 orders (four orders on annual revenue requirements and 42 on others).

Memorandum of Understanding (MoU) was signed in (February 2000) between the Union Ministry of Power and the State Government as a joint commitment for implementation of reforms programmed in power sector with identified milestones. The progress achieved so far in respect of important milestones is stated below.

Sl. No.	Reforms programme commitment as per MOU	Targeted completion schedule	Present status
1	2	3	4
I	By the State Government:		
(i)	Installation of meters on all 11 KV feeders	30 September 2000	97 per cent meters installed on feeders of transmission network and 99.38 per cent meters installed on feeders of distribution network (March 2009).
(ii)	100 per cent metering of all consumers	31 December 2001	Only 58.70 per cent consumers could be metered (June 2007).
(iii)	Online billing at 20 selected towns	31 March 2001	Introduced in one town only i.e. Lucknow in September 2006. At present online billing is being done in 10 Divisions of Lucknow Electricity Supply Authority. Online billing in other 17 towns is under consideration.
(iv)	Upgradation of distribution system	Nil	Various works viz. rearrangement of service lines, installation of capacitor banks, construction of lines, installation of transformers and augmentation of distribution system are at various stages of completion (September 2008).
(v)	Privatisation of distribution sector, if commercial viability is not achieved	Nil	No privatisation has been done so far in existing companies (September 2009). However, two power generation companies, which were incorporated in February 2007 were privatised in July 2009.
II	By the Central Government:		
(i)	Support from the Government of India for financing	Nil	Loan of Rs 1779.50 crore has been sanctioned by the Power Finance

¹⁸ Since replaced with Section 82(1) of the Electricity Act, 2003.

Sl. No.	Reforms programme commitment as per MOU	Targeted completion schedule	Present status
1	2	3	4
	renovation and modernisation of existing thermal and hydro power stations		Corporation to Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited for renovation and modernisation of Power plants (March- 09). Besides loan of Rs 18.06 crore and subsidy of equal amount has been sanctioned by Government of India under Accelerated Power Development Reform Programme (APDRP) (March 2006).
(ii)	Support from the Government of India for undertaking construction of important transmission works	Nil	Power Finance Corporation has sanctioned a total loan of Rs 3584.32 crore for 92 schemes. Against this the loan of Rs 1340.34 core has already been received for 69 schemes. (March 2009)

Discussion of Audit Reports by COPU

1.22 The status as on 30 September 2009 of reviews and paragraphs that appeared in Audit Reports (Commercial) and discussed by the Committee on Public Undertakings (COPU) is as under:

Period of Audit Report	Reviews and Paragraphs appeared in the Audit Report		Reviews and Paragraphs discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
1	2	3	4	5
1982-83	5	50	4	49
1983-84	4	60	2	60
1984-85	2	14	1	14
1985-86	6	22	5	22
1986-87	3	28	2	25
1987-88	8	23	7	23
1988-89	5	22	4	22
1989-90 ¹⁹	-	-	-	-
1990-91	6	21	2	3
1991-92	4	38	0	6
1992-93	5	33	3	9
1993-94	5	31	2	17
1994-95	5	41	1	32
1995-96	7	39	5	20
1996-97	8	40	2	30
1997-98	5	67	3	21
1998-99	5	26	3	14
1999-2000	4	41	3	23
2000-01	5	34	4	33
2001-02	4	34	0	3
2002-03	4	38	2	6
2003-04	4	26	1	7
2004-05	4	27	1	7
2005-06	6	34	2	4
2006-07	5	32	1	12
2007-08	4	29	0	0
Total:	123	850	60	462

During the period from October 2008 to September 2009, the Committee on Public Undertakings (COPU) held 13 meetings and discussed two Reviews and 12 Paragraphs for the year from 2005-06 and 2006-07.

¹⁹ The Audit Report (Commercial), 1989-90 containing six reviews and 14 paragraphs and had been fully discussed by the COPU.

