

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 ₹ 39,298.30 crore for 2010-11 as per their latest finalised Accounts as of 30 September 2011. This turnover was equal to 6.68 *per cent* of State Gross Domestic Product (GDP) of ₹ 5,88,466.53 crore in 2010-11. Major activities of State PSUs are concentrated in Power Sector. The State working PSUs incurred a loss of ₹ 3,714.44 crore in the aggregate for 2010-11 as per their latest finalised Accounts as of 30 September 2011. They had at least 0.74 lakh¹ employees as of 31 March 2011. The State PSUs do not include six Departmental Undertakings² (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.

1.2 As on 31 March 2011, there were 123 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 ³	Total
Government Companies ⁴	76	40	116
Statutory Corporations	7	Nil	7
Total	83	40	123

1.3 During the year 2010-11, two companies named as Lucknow City Transport Services Limited and Lalitpur Power Generation Company Limited were incorporated under the Companies Act, 1956, two⁵ companies were privatised (July 2009) and three⁶ companies were finally wound up.

Audit mandate

1.4 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, 1956.

1.5 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

¹ As per the details provided by 52 PSUs. Remaining 71 PSUs did not furnish the details.

² Commissioner, Food and Civil Supplies, Government Press, State Pharmacy of Ayurvedic and Unani Medicines, Dy. Director-Animal Husbandry, Irrigation Workshops and Criminal Tribes Settlement Tailoring Factory, Kanpur.

³ Non-working PSUs are those which have ceased to carry on their operations.

⁴ Includes 619-B companies.

⁵ Prayag Raj Power Generation Company Limited and Sangam Power Generation Company Limited were privatised on July 2009.

⁶ Three companies named as Handloom Intensive Corporation (Gorakhpur & Basti), Handloom Intensive Development Project (Bijnore) and Uttar Pradesh Textile Printing Corporation Limited.

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.

1.6 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 the Chartered Accountants and supplementary audit by the CAG.

The audit of Uttar Pradesh Electricity Regulatory Commission is entrusted to the CAG under Section 104 (2) of the Electricity Act, 2003.

Investment in State PSUs

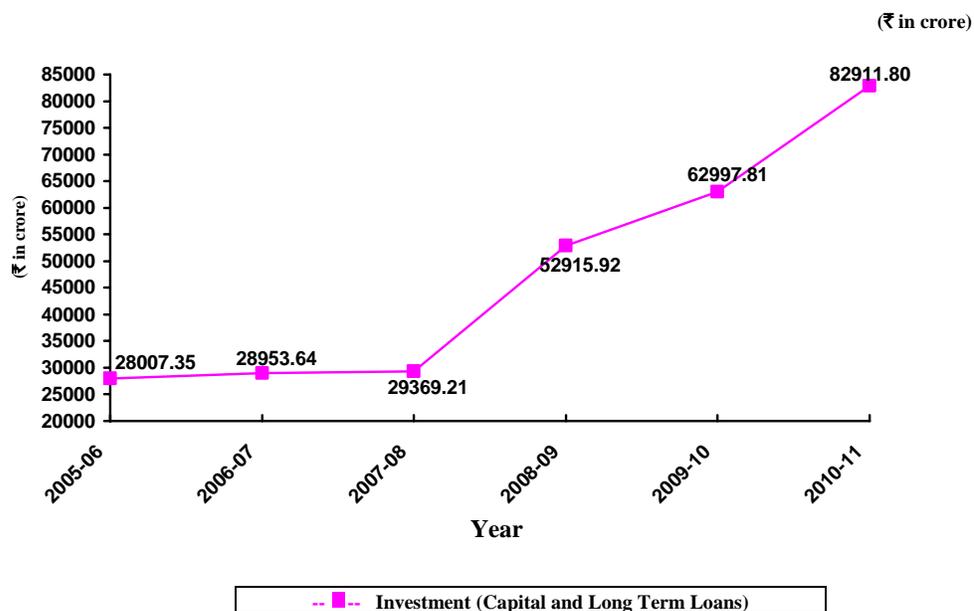
1.7 As on 31 March 2011, the Investment in 123 PSUs (including 619-B companies) was ₹ 82,911.80 crore as per details given below:

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	56835.31	23794.54	80629.85	561.78	846.21	1407.99	82037.84
Non-working PSUs	433.42	440.54	873.96	-	-	-	873.96
Total	57268.73	24235.08	81503.81	561.78	846.21	1407.99	82911.80

(₹ in crore)

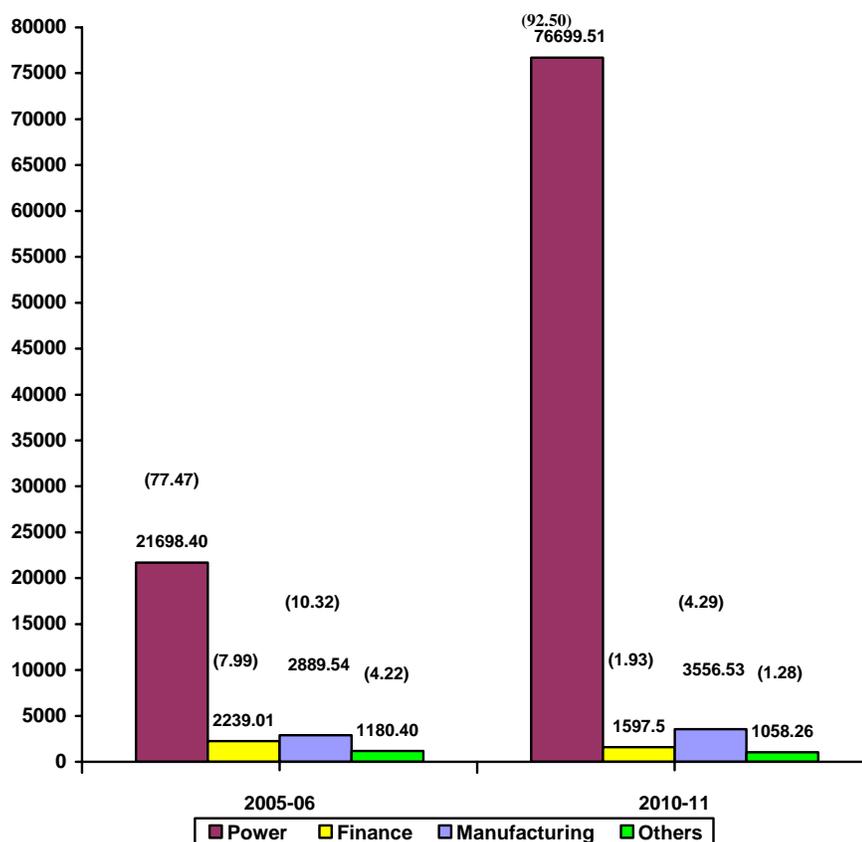
A summarised position of Government Investment in State PSUs is given in *Annexure-1*.

1.8 As on 31 March 2011, of the total Investment in State PSUs, 98.95 per cent was in working PSUs and the remaining 1.05 per cent in non-working PSUs. This total Investment consisted of 69.75 per cent towards Capital and 30.25 per cent in Long-Term Loans. The Investment has grown by 196.04 per cent from ₹ 28,007.35 crore in 2005-06 to ₹ 82,911.80 crore in 2010-11 as shown in the following graph.



1.9 The Investment in various important sectors and percentage thereof at the end of 31 March 2006 and 31 March 2011 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 77.47 per cent in 2005-06 to 92.51 per cent in 2010-11 while the share of manufacturing sector decreased from 10.32 per cent in 2005-06 to 4.29 per cent in 2010-11.

(₹ in crore)



(Figures in brackets indicate the Sector percentage to total Investment)

Budgetary outgo, Grants/Subsidies, Guarantees and Loans

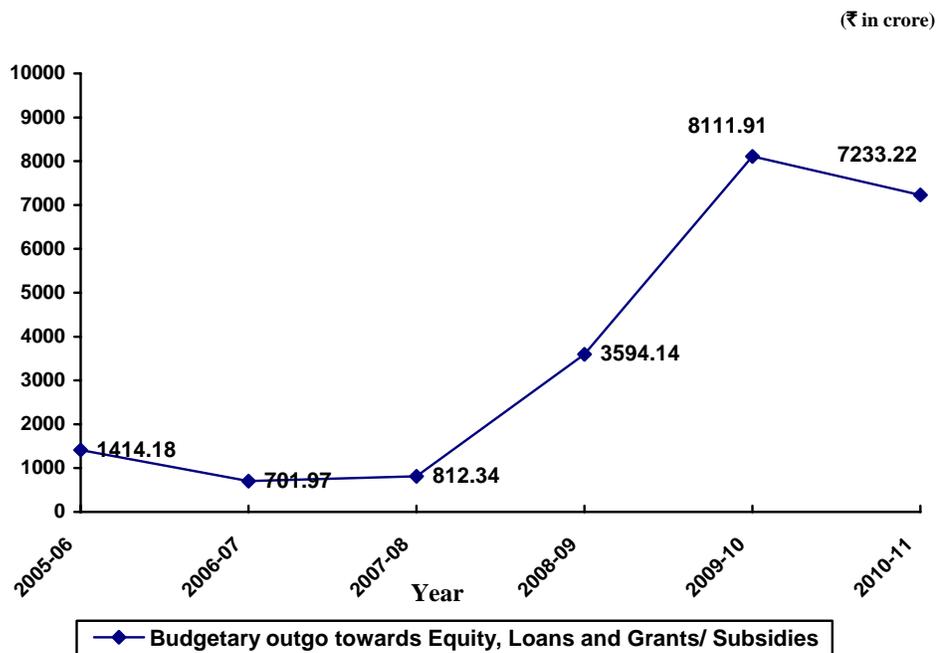
1.10 The details regarding budgetary outgo towards Equity, Loans, Grants/ Subsidies, Guarantees issued, Loans written off, Loans converted into Equity and Interest waived in respect of State PSUs are given in *Annexure-3*. The summarised details for the three years ended 2010-11 are given below.

(Amount ₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity capital outgo from budget	5	2405.08	6	5146.82	6	3502.49
2.	Loans given from budget	4	90.53	11	1021.96	8	113.20
3.	Grants/subsidy received	9	1098.53	14	1943.13	11	3617.53
4.	Total Outgo (1+2+3)	14*	3594.14	26*	8111.91	23*	7233.22
5.	Loans converted into Equity	2	209.30	1	138.77	1	100.00
6.	Guarantees issued	2	20735.82	2	6245.25	3	10549.50
7.	Guarantee commitment	7	10525.81	7	7380.11	8	17718.22

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

1.11 The details regarding budgetary outgo towards Equity, Loans and Grants/Subsidies for past six years are given in the graph.



It can be seen that the budgetary outgo in the form of Equity, Loans and Grants/Subsidies to State PSUs was all time low in 2006-07 during the period from 2005-06 to 2010-11. The budgetary outgo was ₹ 7,233.22 crore in 2010-11 mainly due to extension of financial support of ₹ 5,124.54 crore by the State Government to seven Power Sector companies in the form of Equity (₹ 3,496.99 crore) and Grants/Subsidies (₹ 1,627.55 crore). The amount of guarantee outstanding decreased from ₹ 10,525.81 crore in 2008-09 to ₹ 7,380.11 crore in 2009-10 and increased to ₹ 17,718.22 crore in 2010-11. The amount of guarantee commission payable by five PSUs as on 31 March 2011 was ₹ 7.12 crore⁷. During the year, four PSUs⁸ had paid guarantee commission of ₹ 7.65 crore.

Reconciliation with Finance Accounts

1.12 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 2011 is stated below.

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	27284.59	44122.97	16838.38
Loans	1240.90	1875.97	635.06
Guarantees	17220.32	17718.22	497.90

We have observed that the differences occurred in respect of 22 PSUs and some of the differences were pending for reconciliation since 2000-01. The Accountant General had regularly taken up the matter of reconciliation of

⁷ The Pradeshiya Industrial and Investment Corporation of U.P. Limited, Uttar Pradesh Power Corporation Limited, Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited, Uttar Pradesh Government Employees Welfare Corporation and Uttar Pradesh Power Transmission Corporation Limited.

⁸ The Pradeshiya Industrial and Investment Corporation of U.P. Limited, Uttar Pradesh Power Corporation Limited, Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited and Uttar Pradesh Power Transmission Corporation Limited.

figures between Finance Accounts and Audit Report (Commercial) with the PSUs requesting them to expedite the reconciliation. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

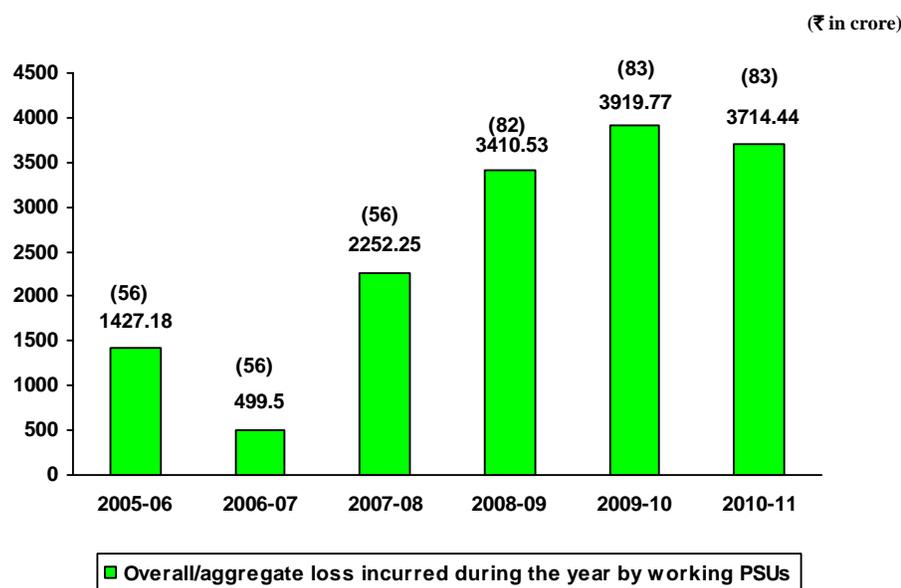
Performance of PSUs

1.13 The financial results of PSUs, financial position and working results of working Statutory corporations are indicated in *Annexures-2, 5 and 6* respectively. A ratio of PSUs turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSUs turnover and State GDP for the period 2005-06 to 2010-11.

(₹ in crore)						
Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Turnover ⁹	18750.76	18860.47	27261.62	31480.07	35541.61	39298.30
State GDP	276969.00	309834.00	344346.00	400711.00	357557.00	588466.53
Percentage of Turnover to State GDP	6.77	6.09	7.92	7.86	9.94	6.68

The percentage of turnover to State GDP which was at 6.77 during 2005-06 increased to 9.94 in 2009-10 but decreased to 6.68 during 2010-11 mainly due to increase in State GDP.

1.14 Losses incurred by State working PSUs during 2005-06 to 2010-11 are given in bar chart below:



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

The amount of loss incurred by working PSUs increased from ₹ 1,427.18 crore in 2005-06 to ₹ 3,714.44 crore during 2010-11. During the year 2010-11, out of 83 working PSUs, 31 PSUs earned profit of ₹ 1,003.75 crore and 24 PSUs incurred loss of ₹ 4,718.19 crore. Two working PSUs* had not submitted their first Accounts whereas 26 companies remained at “no profit no loss”. The major contributors to profit were Uttar Pradesh Avas Evam Vikas Parishad (₹ 338.46 crore), Uttar Pradesh Rajkiya Nirman Nigam Limited (₹ 195.64 crore), Uttar Pradesh State Industrial Development Corporation Limited (₹ 97.01 crore) and Uttar Pradesh Forest Corporation (₹ 115.67 crore). The

⁹ Turnover as per the latest finalised accounts as of 30 September 2011.

* Sl. No. A-44 and 76 in Annexure-2.

heavy Losses were incurred by Dakshinanchal Vidyut Vitran Nigam Limited (₹ 1,149.75 crore), Purvanchal Vidyut Vitran Nigam Limited (₹ 1,102.00 crore) and Madhyanchal Vidyut Vitran Nigam Limited (₹ 773.83 crore).

1.15 The losses of PSUs were mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of the latest Audit Reports of CAG shows that the State working PSUs incurred losses to the tune of ₹ 2763.95 crore and infructuous Investment of ₹ 39.33 crore which were controllable with better management. Year wise details from Audit Reports are stated below.

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	Total
Net loss	3410.53	3919.77	3714.44	11044.74
Controllable losses as per CAG's Audit Report	86.37	888.01	1789.57	2763.95
Infructuous Investment	27.60	2.51	9.22	39.33

1.16 The above Losses pointed out in 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.

1.17 Some other key parameters pertaining to State PSUs are given below:

(₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Return on Capital Employed (<i>per cent</i>)	-	2.28	-	-	-	-
Debt	8680.00	9192.09	9538.97	11656.61	14380.07	25081.29
Turnover ¹⁰	18750.76	18860.47	27261.62	31480.07	35541.61	39298.30
Debt/ Turnover Ratio	0.46:1	0.49:1	0.35:1	0.37:1	0.40:1	0.64:1
Interest Payments	1166.79	1055.11	1212.39	1058.32	1187.42	1273.00
Accumulated losses	11141.45	12305.62	14129.45	15520.04	19024.03	22598.81

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

During the period 2005-06 to 2009-10 the Debt to Turnover ratio has deteriorated from 0.46:1 in 2005-06 to 0.64:1 in 2010-11 which indicates that there is a pressure on profit margin. The amount of Accumulated losses increased from ₹ 11,141.45 crore (2005-06) to ₹ 22,598.81 crore (2010-11). The Return on Capital Employed was also negative in all the six years except during 2006-07.

1.18 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, 31 PSUs earned an aggregate profit of ₹ 1,003.75 crore and five PSUs¹¹ declared a dividend of ₹ 2.53 crore. Thus, the remaining profit earning PSUs did not comply with the State Government policy regarding payment of minimum dividend.

¹⁰ Turnover of working PSUs as per the latest finalised accounts as of 30 September 2011.

¹¹ Uttar Pradesh Project Corporation Limited, Uttar Pradesh Police Avas Nigam Limited, Uttar Pradesh State Warehousing Corporation, Uttar Pradesh Development Systems Corporation Limited and Uttar Pradesh Purva Sainik Kalyan Nigam Limited.

Arrears in finalisation of Accounts

1.19 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 30 September 2011.

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Number of Working PSUs	56	56	60	83	83
2.	Number of Accounts finalised during the year	42	64	46	98	59
3.	Number of Accounts in arrears	195	180	197	182	206
4.	Average arrears per PSUs (3/1)	3.48	3.21	3.28	2.19	2.48
5.	Number of Working PSUs with arrears in Accounts	50	49	54	52	69
6.	Extent of arrears	1 to 15 years	1 to 14 years	1 to 14 years	1 to 15 years	1 to 15 years

1.20 The average number of Accounts in arrears per working PSUs ranged between 3.48 and 2.19 during 2010-11. The PSUs having arrears of Accounts need to take effective measures for early clearance of back log and make the Accounts up to date. The PSUs should also ensure that at least one year's Accounts are finalised each year so as to restrict for the accumulation of arrears.

1.21 In addition to above, there were also arrears in finalisation of Accounts by non-working PSUs. Out of 40 non-working PSUs, 12¹² had gone into liquidation process. The remaining 28 non-working PSUs, had arrears of Accounts for one to 36 years.

1.22 The State Government had invested ₹ 7,205.25 crore (Equity: ₹ 3,502.49 crore, Loans: ₹ 85.43 crore, Grants: ₹ 1,989.78 crore and Subsidies: ₹ 1,627.55 crore) in 19 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 accounted for and the purposes for which the amount was invested have been achieved or not. Thus outcome of the Investment of the Government in such PSUs remained outside the scrutiny of the State Legislature. This delay in finalisation of Accounts apart from being a violation of the provisions of the Companies Act, 1956, may also result in risk of fraud and leakage of public money

1.23 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. The Accountant General brought the position of arrears of Accounts to the notice of the Administrative Departments concerned. No remedial measures were, however, 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 brought to the attention of the Chief Secretary/Finance Secretary from time to time highlighting to need to finalise

¹² Serial no. C-2, 3, 11, 13, 14, 16,19, 20, 21, 23, 26 and 31 of Annexure-2.

the Accounts with special emphasis or to expedite clearance of the backlog of arrears in Accounts in a time bound manner.

Winding up of non-working PSUs

1.24 There were 40 non-working PSUs (37 Government companies and three deemed Government companies) as on 31 March 2011. Of these, 12 PSUs had gone into liquidation process. The numbers of non-working PSUs at the end of each year during past five years are given below.

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
No. of non-working PSUs	43	43	43	43	40

The non-working PSUs are required to be closed down as their existence is not going to serve any purpose. During 2010-11, four¹³ non-working PSUs incurred an expenditure of ₹ 0.39 crore towards establishment expenditure.

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

Sl. No.	Particulars	Companies
1.	Total no. of non-working PSUs	40
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.	28

1.26 During the year 2010-11, three Companies were finally wound up. The Companies which have taken the route of winding up by Court order are under liquidation for a period ranging from six 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 28 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

1.27 Forty two working companies forwarded their 51 Audited Accounts to the Accountant General during the year 2010-11¹⁴. Of these, 35 Accounts¹⁵ of 28 Companies were selected for supplementary audit. The Audit Reports of Statutory Auditors appointed by CAG and the supplementary audit by us indicate that the quality of maintenance of Accounts needs to be improved substantially. The details of aggregate money value of our comments and those of Statutory Auditors are given below:

(Amount ₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in Profit	10	53.60	15	352.49	14	160.90
2.	Increase in Loss	8	843.84	4	2.05	11	543.59
3.	Non-disclosure of material facts	-	-	2	2.04	-	-
4.	Errors of classification	4	225.44	2	32.46	4	40.28
	Total:		1122.88		389.04		744.77

¹³ Out of 40 non working PSUs only four PSUs (Uttar Pradesh Pashudhan Udhog Nigam Limited - ₹ 9.46 lakh, Uttar Pradesh Chalchitra Nigam Limited - ₹ 7.80 lakh, Uttar Pradesh Poultry and Livestock Specialities Limited- ₹ 1.37 lakh and Uttar Pradesh Bundelkhand Vikas Nigam Limited- ₹ 20.64 lakh) furnished the information.

¹⁴ October 2010 to September 2011.

¹⁵ Sixteen accounts of 16 companies were issued Non-Review Certificates.

The aggregate money value of total comments increased from ₹ 389.04 crore in 2009-10 to ₹ 744.77 crore in 2010-11 indicating deterioration in the quality of Accounts of the PSUs.

1.28 During the year, the Statutory Auditors had given unqualified certificates for eight Accounts, qualified certificates for 39 Accounts, adverse certificates (which means that Accounts do not reflect a true and fair position) for two Accounts and disclaimers (meaning the auditors are unable to form an opinion on Accounts) for two Accounts of one Company¹⁶ in respect of latest Accounts finalised by 42 companies. The compliance to the Accounting Standards (AS) by the Companies remained poor as there were 46 instances of non-compliance with the AS in 27 Accounts during the year.

1.29 Some of the important comments in respect of Accounts of the companies finalized during the year 2010-11 are stated below:

Madhyachal Vidyut Vitran Nigam Limited (2007-08)

- The Current Liabilities and Provisions were understated by ₹ 99.30 crore due to non-provision of liability towards arrears of pay and allowances of Sixth Pay Commission from January 2006 to March 2008. This resulted in understatement of Current Liabilities as well as losses for the year by ₹ 99.30 crore.

Paschimanchal Vidyut Vitran Nigam Limited (2007-08)

- The Prior period income included an adjusted (Cr.) amount of ₹ 267.14 crore which was generated due to switching over from the rates prescribed by the Electricity (Supply) Act, 1948 to the rates prescribed by the Companies Act, 1956, though the method of depreciation, i.e. straight line method remained the same. As per AS-6, the depreciation was not required to be recalculated with retrospective effect if there was no change in the method of depreciation.

The recalculation of depreciation with retrospective effect had resulted in overstatement of Fixed Assets and understatement of loss by ₹ 267.14 crore.

Dakshinanchal Vidyut Vitran Nigam Limited (2007-08)

- The Employees Cost was understated by ₹ 45.03 crore due to non-provision of liability towards arrear of Sixth Pay Commission from 1 January 2006 to 31 March 2008. This had resulted in understatement of losses as well as current liabilities to the extent of ₹ 45.03 crore.

1.30 Similarly, six working Statutory corporations forwarded their eight Accounts to the Accountant General during the year 2010-11¹⁷. Of these, three Accounts of three Statutory corporations pertained to sole audit by CAG of which audit of only one Account was completed and the audit of other two Accounts was in progress (September 2011). The remaining five Accounts of three Statutory corporations were selected for supplementary audit of which two Accounts were completed. The Audit Reports of Statutory Auditors and our sole/supplementary audit indicate that the quality of maintenance of Accounts needs to be improved substantially. The details of aggregate money value of our comments and those of Statutory Auditors are given below.

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in Profit	2	3.89	1	0.68	1	3.90
2.	Increase in Loss	1	0.68	-	-	2	59.37

¹⁶ Uttar Pradesh Pichhra Varg Vitta Evam Vikas Nigam Limited.

¹⁷ October 2010 to September 2011.

During the year, out of eight Accounts received, audit of three Accounts was completed and qualified certificates were issued and remaining five were under finalisation (September 2011). During the year, Statutory Auditors had given qualified certificate for three Accounts.

1.31 Some of the important comments in respect of Accounts of the Statutory corporations finalised during the year 2010-11 are stated below:

Uttar Pradesh Financial Corporation (2008-09)

- The fund under Special Schemes of the State Government was understated by ₹ 57.20 lakh, being excess disbursement of fund by the Corporation on five schemes which were closed since 1984. As the chances of recovery of excess disbursement were remote, the Corporation should have made provisions for the same instead of deducting it from the available fund of other Government Schemes which resulted in understatement of liability and overstatement of profit of the year by ₹ 57.20 lakh.

Uttar Pradesh State Road Transport Corporation (2008-09)

- The Corporation had created 'Passenger Amenity Fund' and the direct administrative expenses relating to passengers amenities were to be met from these Fund. However, the Government banned (14 July 2006) to meet any administrative overheads from the funds.

During 2009-10, the Corporation had utilised an amount of ₹ 52.53 crore from the funds to meet administrative overheads including salaries of bus station staff. In view of the decision of the Government, the above adjustment had resulted in understatement of General Administrative Expenses as well as losses for the year by ₹ 52.53 crore on one hand and understatement of Passenger Amenity Fund by the corresponding amount.

Uttar Pradesh State Warehousing Corporation (2009-10)

- The tax payment includes an amount of ₹ 1.52 crore, being the interest on income tax for the year 2009-10 under Section 234 of Income Tax, 1961. This should have been disclosed separately.

1.32 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 31 Companies¹⁸ for the year 2009-10 and 14¹⁹ Companies for the year 2010-11 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	17	A3,5,7,18,19,20,27,33,35,36,37, 45,69,70,71, and C-4,25,
2.	Absence of internal audit system commensurate with the nature and size of business of the company	14	A5,7,10,11,35,38,69,70,71,73. C-4,5,25,38,
3.	Non-maintenance of cost record	11	A5,7,15,17,19,25,37,42,71,C-4,25
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.	22	A3,5,7,10,11,18,19,20,26,36,37, 38,42,45,69,70,71,74. C-4,5,25,38.

¹⁸ 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.

¹⁹ Sl. No. A5,7, 10,11,35,38,69,70,71,73,C-4,5,25 and 38 of Annexure-2.

Recoveries at the instance of audit

1.33 During the course of propriety audit in 2010-11, recoveries of ₹ 182.83 crore were pointed out to the Management of various PSUs, of which, recoveries of ₹ 137.44 crore were admitted and ₹ 0.66 crore²⁰ was recovered by PSUs during the year 2010-11.

Status of placement of Separate Audit Reports

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

Sl No.	Name of Statutory corporation	Year up to which SAR placed in Legislature	Years for which SAR not placed in Legislature		Reasons for non-placement of SAR
			Year of SAR	Date of issue to the Government	
1	2	3	4	5	6
1.	Uttar Pradesh State Road Transport Corporation	2007-08	2008-09 2009-10	22 July 2010 20 June 2011	Reasons not furnished by the Corporation
2.	Uttar Pradesh Financial Corporation	2007-08	2008-09	20 May 2011	Reasons not furnished by the Corporation
3.	Uttar Pradesh State Warehousing Corporation	2006-07	2007-08 2008-09 2009-10	24 March 2009 20 August 2010 07 September 2011	Reasons not furnished by the Corporation
4.	Uttar Pradesh Forest Corporation ²¹	--	1997-98 1998-99 2008-09	17 August 2000 23 May 2002 09 March 2011	Reasons not furnished by the Corporation
5.	Uttar Pradesh Avas Evam Vikas Parishad	2002-03	2003-04 2004-05 2005-06 2006-07 2007-08	08 February 2008 13 July 2010 08 February 2011 25 April 2011 01 July 2011	Reasons not furnished by the Corporation
6.	Uttar Pradesh Jal Nigam	2006-07	2007-08 2008-09	11 October 2010 03 August 2011	Reasons not furnished by the Corporation

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

Disinvestment, Privatisation and Restructuring of PSUs

1.35 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 (DC) and a Central Committee (CC) were 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.

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

²⁰ MVVNL: ₹ 30.57 lakh and DVVNL: ₹ 35.47 lakh.

²¹ Audit entrusted from 1997-98.

The Government of Uttar Pradesh issued (June 2007) Guidelines for selection of consultants/advisors, developers for Public Private Partnership (PPP) projects and private partners for disinvestment in Uttar Pradesh. The guidelines provide for formation of various committees, process to be followed for disinvestment, appointment and functions of Lead Advisor, Legal Advisor, Accounting Advisors, Asset Valuers, procedure to be followed for bidding and methodologies of valuation of enterprise.

In June 2007, the Government decided to privatise/sell the sugar mills of UPSSCL including all its subsidiaries and directed UPSSCL to submit a proposal for privatization /sale of sugar mills.

The sale of 10 Mills of UPSSCL and 11 mills of UPRCGVNL was finalised in July 2010 - October 2010 and January 2011 – March 2011 respectively.