

## CHAPTER-I

### 1. Overview of State Public Sector Undertakings

#### 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 ₹ 42,987.46 crore for 2011-12 as per their latest finalised Accounts as of 30 September 2012. This turnover was equal to 6.25 *per cent* of State Gross Domestic Product (GDP) of ₹ 6,87,836.28 crore in 2011-12. Major activities of State PSUs are concentrated in Power Sector. The State working PSUs incurred a loss of ₹ 6,489.58 crore in the aggregate for 2011-12 as per their latest finalised Accounts as of 30 September 2012. They had at least 0.79 lakh\* employees as of 31 March 2012. The State PSUs do not include six Departmental Undertakings<sup>♦</sup> (DUs), which carry out commercial operations but are a part of Government departments. Audit findings of these DUs are incorporated in the Audit Report (General and Social Sector Audit) of the State.

**1.2** As on 31 March 2012, there were 128 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 <sup>∞</sup> | Total      |
|-----------------------------------|--------------|-------------------------------|------------|
| Government companies <sup>♥</sup> | 78           | 43                            | 121        |
| Statutory corporations            | 7            | Nil                           | 7          |
| <b>Total</b>                      | <b>85</b>    | <b>43</b>                     | <b>128</b> |

**1.3** During the year 2011-12, six companies named Western U.P. Power Transmission Company Limited, South East U.P. Power Transmission Company Limited, Jawaharpur Vidyut Utpadan Nigam Limited, Meerut City Transport Services Limited, Allahabad City Transport Services Limited and Agra Mathura City Transport Services Limited were incorporated under the Companies Act, 1956 and one<sup>♠</sup> company was privatised.

#### 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,

<sup>†</sup> As per the details provided by 71 PSUs. Remaining 57 PSUs did not furnish the details.

<sup>♦</sup> 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.

<sup>∞</sup> Non-working PSUs are those which have ceased to carry on their operations.

<sup>♥</sup> Includes 619-B companies.

<sup>♠</sup> Lalitpur Power Generation Company Limited.

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.

**1.6** 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.

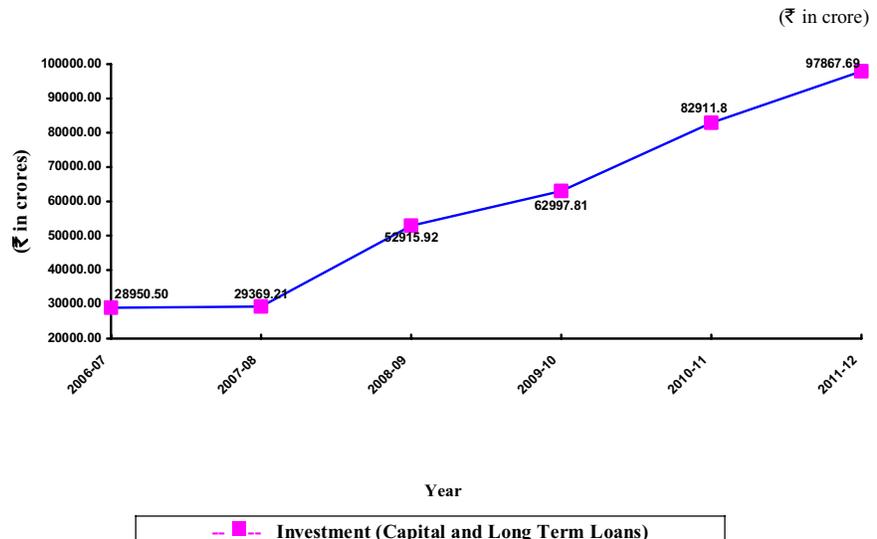
### Investment in State PSUs

**1.7** As on 31 March 2012, the Investment in 128 PSUs (including 619-B companies) was ₹ 97,867.69 crore as per details given below:

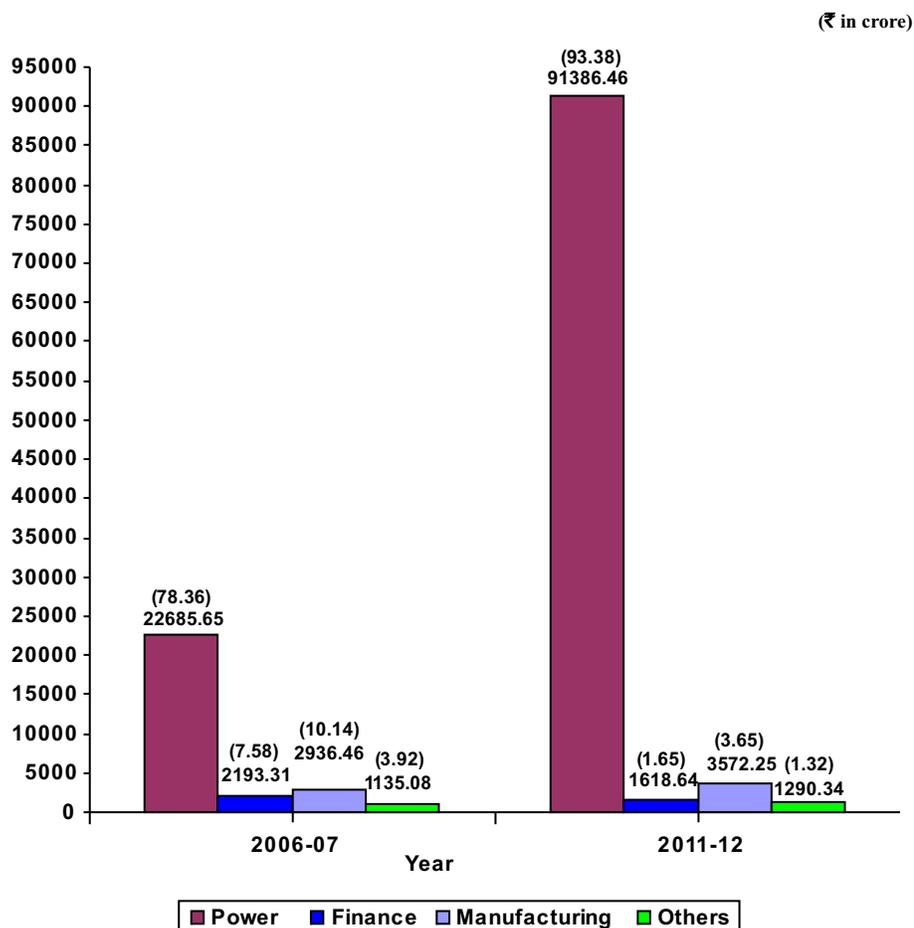
| Type of PSUs     | Government companies |                 |                 | Statutory corporations |                 |                | Grand total     |
|------------------|----------------------|-----------------|-----------------|------------------------|-----------------|----------------|-----------------|
|                  | Capital              | Long Term Loans | Total           | Capital                | Long Term Loans | Total          |                 |
| Working PSUs     | 60617.05             | 34433.96        | 95051.01        | 601.30                 | 1040.02         | 1641.32        | 96692.33        |
| Non-working PSUs | 696.56               | 478.80          | 1175.36         | -                      | -               | -              | 1175.36         |
| <b>Total</b>     | <b>61313.61</b>      | <b>34912.76</b> | <b>96226.37</b> | <b>601.30</b>          | <b>1040.02</b>  | <b>1641.32</b> | <b>97867.69</b> |

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

**1.8** As on 31 March 2012, of the total Investment in State PSUs, 98.80 per cent was in working PSUs and the remaining 1.20 per cent in non-working PSUs. This total Investment consisted of 63.26 per cent towards Capital and 36.74 per cent in Long-Term Loans. The Investment has grown by 238.05 per cent from ₹ 28,950.50 crore in 2006-07 to ₹ 97,867.69 crore in 2011-12 as shown in the following graph.



**1.9** The Investment in various important sectors and percentage thereof at the end of 31 March 2007 and 31 March 2012 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 78.36 per cent in 2006-07 to 93.38 per cent in 2011-12 while the share of manufacturing sector decreased from 10.14 per cent in 2006-07 to 3.65 per cent in 2011-12.



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

### Budgetary outgo, Grants/Subsidies, Guarantees and Loans

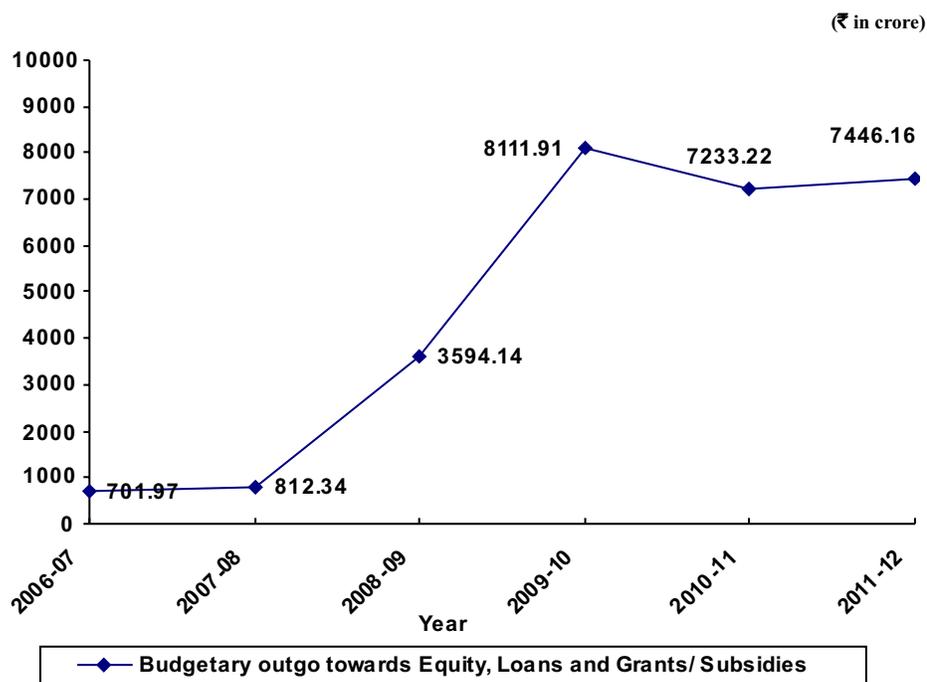
**1.10** The details regarding budgetary outgo towards Equity, Loans, Grants/Subsidies, Guarantees issued, Loans written off, Loans converted into Equity and Interest waived in respect of State PSUs are given in **Annexure-3**. The summarised details for the three years ended 2011-12 are given below.

(Amount: ₹ in crore)

| Sl. No. | Particulars                      | 2009-10     |                | 2010-11     |                | 2011-12     |                |
|---------|----------------------------------|-------------|----------------|-------------|----------------|-------------|----------------|
|         |                                  | No. of PSUs | Amount         | No. of PSUs | Amount         | No. of PSUs | Amount         |
| 1.      | Equity capital outgo from budget | 6           | 5146.82        | 6           | 3502.49        | 5           | 4325.50        |
| 2.      | Loans given from budget          | 11          | 1021.96        | 8           | 113.20         | 1           | 11.85          |
| 3.      | Grants/subsidy received          | 14          | 1943.13        | 11          | 3617.53        | 10          | 3108.81        |
| 4.      | <b>Total Outgo (1+2+3)</b>       | <b>26*</b>  | <b>8111.91</b> | <b>23*</b>  | <b>7233.22</b> | <b>15*</b>  | <b>7446.16</b> |
| 5.      | Loans converted into Equity      | 1           | 138.77         | 1           | 100.00         | -           | -              |
| 6.      | Guarantees issued                | 2           | 6245.25        | 3           | 10549.50       | 4           | 1194.65        |
| 7.      | Guarantee commitment             | 7           | 7380.11        | 8           | 17718.22       | 6           | 9578.49        |

\* 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 2006-07 to 2011-12. The budgetary outgo was ₹ 7,446.16 crore in 2011-12 mainly due to extension of financial support of ₹ 5,969.69 crore by the State Government to five Power Sector companies in the form of Equity (₹ 4,280.50 crore) and Grants/Subsidies (₹ 1,689.19 crore). The amount of guarantee outstanding increased from ₹ 7,380.11 crore in 2009-10 to ₹ 17,718.22 crore in 2010-11 and decreased to ₹ 9,578.49 crore in 2011-12. The amount of guarantee commission payable by three PSUs as on 31 March 2012 was ₹ 14.46 crore<sup>∞</sup>. During the year, two PSUs<sup>♦</sup> had paid guarantee commission of ₹ 3.92 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. We observed the differences occurred in respect of 24 PSUs as indicated in the table below:

(₹ in crore)

| Outstanding in respect of | Amount as per Finance Accounts | Amount as per records of PSUs | Difference |
|---------------------------|--------------------------------|-------------------------------|------------|
| Equity                    | 32819.23                       | 48439.44                      | 15620.21   |
| Loans                     | 1286.94                        | 1564.32                       | 277.38     |
| Guarantees                | 17691.67                       | 9578.49                       | 8113.18    |

<sup>∞</sup> Uttar Pradesh Power Corporation Limited, Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited, and Uttar Pradesh Power Transmission Corporation Limited.

<sup>♦</sup> Uttar Pradesh Power Corporation Limited and Uttar Pradesh Power Transmission Corporation Limited.

We noticed that some of the differences were pending for reconciliation since 2000-01. The Accountant General had regularly taken up the matter of reconciliation of 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.

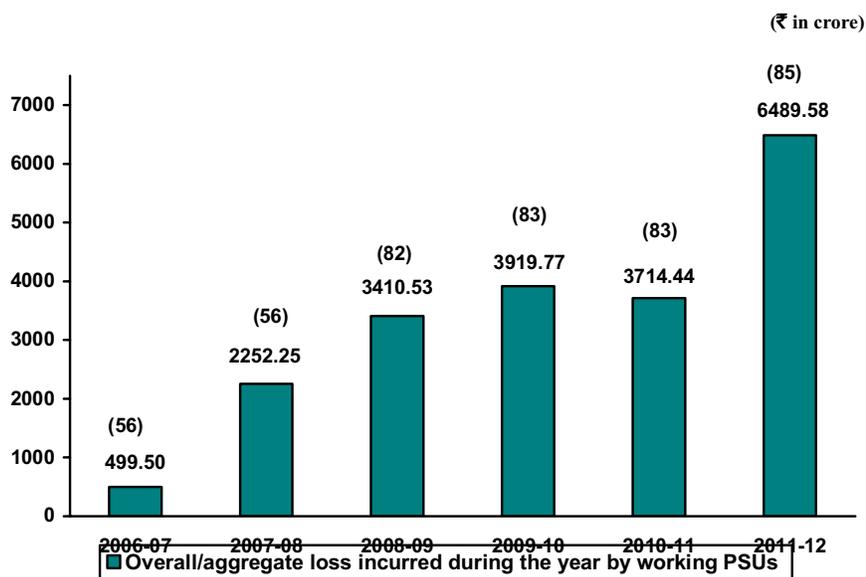
### Performance of PSUs

**1.13** The financial results of all the PSUs are given in **Annexure-2**. The financial position and working results of working Statutory corporations are indicated in **Annexures-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 2006-07 to 2011-12.

| Particulars                         | ₹ in crore) |           |           |           |           |           |
|-------------------------------------|-------------|-----------|-----------|-----------|-----------|-----------|
|                                     | 2006-07     | 2007-08   | 2008-09   | 2009-10   | 2010-11   | 2011-12   |
| Turnover*                           | 18860.47    | 27261.62  | 31480.07  | 35541.61  | 39298.30  | 42987.46  |
| State GDP                           | 309834.00   | 344346.00 | 400711.00 | 357557.00 | 588466.53 | 687836.28 |
| Percentage of Turnover to State GDP | 6.09        | 7.92      | 7.86      | 9.94      | 6.68      | 6.25      |

The percentage of turnover to State GDP which was at 6.09 during 2006-07 increased to 9.94 in 2009-10 but decreased to 6.25 during 2011-12 mainly due to increase in State GDP.

**1.14** Losses incurred by State working PSUs during 2006-07 to 2011-12 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 ₹ 499.50 crore in 2006-07 to ₹ 6,489.58 crore during 2011-12. During the year 2011-12, out of 85 working PSUs, 32 PSUs earned profit of ₹ 1,201.57 crore and 23 PSUs incurred loss of ₹ 7,691.15 crore. Five working PSUs\* had not submitted their

\* Turnover as per the latest finalised accounts as of 30 September 2012.

\* Sl. No. A-44, A-75, A-76, A-77 and A-78 in **Annexure-2**.

first Accounts whereas 25 companies remained at “no profit no loss”. The major contributors to profit were Uttar Pradesh Avas Evam Vikas Parishad (₹ 358.80 crore), Uttar Pradesh Rajkiya Nirman Nigam Limited (₹ 225.46 crore), Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (₹ 126.38 crore) and Uttar Pradesh Forest Corporation (₹ 125.17 crore). The heavy Losses were incurred by Uttar Pradesh Power Corporation (₹ 3,893.55 crore), Purvanchal Vidyut Vitran Nigam Limited (₹ 1,189.04 crore), Dakshinanchal Vidyut Vitran Nigam Limited (₹ 1,061.38 crore), and Madhyanchal Vidyut Vitran Nigam Limited (₹ 705.99 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 ₹ 16,879.05 crore<sup>♥</sup> and infructuous Investment of ₹ 132.80 crore which were controllable with better management. Year wise details from Audit Reports are stated below.

(₹ in crore)

| Particulars                                   | 2009-10 | 2010-11 | 2011-12               | Total    |
|---|---------|---------|-----------------------|----------|
| Net loss                                      | 3919.77 | 3714.44 | 6489.58               | 14123.79 |
| Controllable losses as per CAG's Audit Report | 888.01  | 1789.57 | 16879.05 <sup>♥</sup> | 19556.63 |
| Infructuous Investment                        | 2.51    | 9.22    | 132.80                | 144.53   |

**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                                    | 2006-07  | 2007-08  | 2008-09  | 2009-10  | 2010-11  | 2011-12  |
|--|----------|----------|----------|----------|----------|----------|
| Return on Capital Employed ( <i>per cent</i> ) | 2.28     | -        | -        | -        | -        | -        |
| Debt   | 9192.09  | 9538.97  | 11656.61 | 14380.07 | 25081.29 | 35952.78 |
| Turnover*                                      | 18860.47 | 27261.62 | 31480.07 | 35541.61 | 39298.30 | 42987.46 |
| Debt/ Turnover Ratio                           | 0.49:1   | 0.35:1   | 0.37:1   | 0.40:1   | 0.64:1   | 0.84:1   |
| Interest Payments                              | 1055.11  | 1212.39  | 1058.32  | 1187.42  | 1273.00  | 1639.70  |
| Accumulated losses                             | 12305.62 | 14129.45 | 15520.04 | 19024.03 | 22598.81 | 29380.10 |

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

The Debt to Turnover ratio has deteriorated from 0.49:1 in 2006-07 to 0.84:1 in 2011-12. The amount of Accumulated losses increased from ₹ 12,305.62 crore (2006-07) to ₹ 29,380.10 crore (2011-12). 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

♥ ₹ 1,446.11 crore was incurred up to March 2012 and ₹ 15,432.94 crore will be incurred as per pre-existing rates during the next 25 and 18 years as referred in detail in paragraphs 3.4 and 3.6.

♦ Turnover of working PSUs as per the latest finalised Accounts as of 30 September 2012.

return of five *per cent* on the paid up Share Capital contributed by the State Government. As per their latest finalised Accounts, 32 PSUs earned an aggregate profit of ₹ 1,201.57 crore and eight PSUs\* declared a dividend of ₹ 3.28 crore. The remaining profit earning PSUs did not comply with the State Government policy regarding payment of minimum dividend.

### 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 2012.

| Sl. No. | Particulars                                     | 2007-08       | 2008-09       | 2009-10       | 2010-11       | 2011-12       |
|---------|---|---------------|---------------|---------------|---------------|---------------|
| 1.      | Number of Working PSUs                          | 56            | 60            | 83            | 83            | 85            |
| 2.      | Number of Accounts finalised during the year    | 64            | 46            | 98            | 59            | 66            |
| 3.      | Number of Accounts in arrears                   | 180           | 197           | 182           | 206           | 234           |
| 4.      | Average arrears per PSUs (3/1)                  | 3.21          | 3.28          | 2.19          | 2.48          | 2.75          |
| 5.      | Number of Working PSUs with arrears in Accounts | 49            | 54            | 52            | 69            | 81            |
| 6.      | Extent of arrears                               | 1 to 14 years | 1 to 14 years | 1 to 15 years | 1 to 15 years | 1 to 16 years |

**1.20** The average number of Accounts in arrears per working PSUs ranged between 2.19 to 3.28 during 2007-08 to 2011-12. Out of the 85 working PSUs, only four PSUs finalised their Accounts for the year 2011-12 while 81 PSUs had arrear of 234 Accounts as of September 2012 with extent of arrear ranging from one to 16 years. 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 the accumulation of arrears.

**1.21** In addition to above, there were also arrears in finalisation of Accounts by non-working PSUs. Out of 43 non-working PSUs, 12\*\* had gone into liquidation process. The remaining 31 non-working PSUs had arrears of Accounts for one to 37 years.

**1.22** The State Government had invested ₹ 7,445.69 crore (Equity: ₹ 4,325.50 crore, Loans: ₹ 11.85 crore, Grants: ₹ 558.50 crore and Subsidies: ₹ 2,549.84 crore) in 12 working PSUs during the years for which Accounts have not been finalised as detailed in **Annexure-4**. In the absence of Accounts

\* Uttar Pradesh Police Avas Nigam Limited,, Uttar Pradesh Development Systems Corporation Limited, Uttar Pradesh Purva Sainik Kalyan Nigam Limited, Uttar Pradesh Samaj Kalyan Nigam Limited, Uttar Pradesh State Bridge Corporation Limited, Uttar Pradesh Electronics Corporation Limited, Uttar Pradesh State Industrial Development Corporation Limited and Uttar Pradesh Rajkiya Nirman Nigam Limited.

\*\* Serial no. C-2, 3, 11, 13, 15, 18, 22, 23, 24, 26, 29 and 34 of **Annexure-2**.

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 at the end of every quarter. 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 the need to finalise the Accounts with special emphasis or to expedite clearance of the backlog of arrears in Accounts in a time bound manner.

### **Status of placement of Annual Report**

**1.24** As per Section 619 A(3) of the Companies Act, 1956 where State Government is a member of a company, the State Government shall cause an Annual Report on the working and affairs of the Company alongwith the Audit Report and comments or supplement of the Comptroller and Auditor General of India to be placed before the State Legislature within three months from the date of Annual General Meeting (AGM) of the Company in which the accounts have been adopted. The placing of the Annual Report before the State Legislature gives it an opportunity to have important information regarding the performance of a Government company, in which the State Government is the major shareholder.

We observed that in 22 Companies the Annual Report alongwith Audit Report and Comments of Comptroller and Auditor General have not been placed in the State Legislature.

### **Winding up of non-working PSUs**

**1.25** There were 43 non-working PSUs (40 Government companies and three deemed Government companies) as on 31 March 2012. 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             | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|-------------------------|---------|---------|---------|---------|---------|
| No. of non-working PSUs | 43      | 43      | 43      | 40      | 43      |

The non-working PSUs are required to be closed down as their existence is not going to serve any purpose. During 2011-12, five<sup>▼</sup> non-working PSUs incurred an expenditure of ₹ 4.58 crore towards establishment expenditure.

<sup>▼</sup> Out of 43 non-working PSUs only five PSUs (Uttar Pradesh Pashudhan Udhog Nigam Limited - ₹ 8.45 lakh, Uttar Pradesh Chalchitra Nigam Limited - ₹ 8.50 lakh, Uttar Pradesh Bundelkhand Vikas Nigam Limited- ₹ 20.41 lakh, Ghatampur Sugar Company Limited - ₹ 394.30 lakh and Varansi Mandal Vikas Nigam Limited - ₹ 26.00 lakh) furnished the information.

**1.26** 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 by the State Government but liquidation process not yet started. | 31        |

**1.27** During the year 2011-12, no company was finally wound up. The companies which have taken the route of winding up by Court order are under liquidation for a period ranging from eight years to 35 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

**1.28** Fifty working companies forwarded their 60 Accounts to the Accountant General during the year 2011-12<sup>∞</sup>. Of these, 35 Accounts\* of 31 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                      | 2009-10         |               | 2010-11         |               | 2011-12         |                |
|---------|----------------------------------|-----------------|---------------|-----------------|---------------|-----------------|----------------|
|         |                                  | No. of Accounts | Amount        | No. of Accounts | Amount        | No. of Accounts | Amount         |
| 1.      | Decrease in Profit               | 15              | 352.49        | 14              | 160.90        | 15              | 107.12         |
| 2.      | Increase in Loss                 | 4               | 2.05          | 11              | 543.59        | 5               | 2165.60        |
| 3.      | Non-disclosure of material facts | 2               | 2.04          | -               | -             | 3               | 12.92          |
| 4.      | Errors of classification         | 2               | 32.46         | 4               | 40.28         | 5               | 7.42           |
|         | <b>Total</b>                     |                 | <b>389.04</b> |                 | <b>744.77</b> |                 | <b>2293.06</b> |

The aggregate money value of total comments increased from ₹ 744.77 crore in 2010-11 to ₹ 2,293.06 crore in 2011-12 indicating deterioration in the quality of Accounts of the PSUs.

**1.29** During the year, the Statutory Auditors had given unqualified certificates for nine Accounts, qualified certificates for 47 Accounts, adverse certificates (which means that Accounts do not reflect a true and fair position) for three Accounts of one Company♦ and disclaimers (meaning the Auditors are unable to form an opinion on Accounts) for one Accounts in respect of latest Accounts finalised by 50 companies. The compliance to the Accounting Standards (AS) issued by the Institute of Chartered Accountants of India remained poor as there were 109 instances of non-compliance with the AS in 26 Accounts during the year.

<sup>∞</sup> October 2011 to September 2012.

♦ Twenty five accounts of 22 companies were not selected for supplementary audit.

• Uttar Pradesh Pichhra Varg Vitta Evam Vikas Nigam Limited.

**1.30** Some of the important comments in respect of Accounts of the companies finalised during the year 2011-12 are stated below:

***Uttar Pradesh Jal Vidyut Nigam Limited (2009-10, Revised Accounts)***

- Accounting Policy {No.1 (A)(f)} in Schedule XII to the Accounts stating that “50 per cent of unrealised sales beyond last five years including current year (excluding of the years for which provision has been made, 50 per cent of which has been written off in previous years) is written off every year as these dues are not realisable.” was not correct as writing off the debts on percentage basis and without any proper analysis and recovery action was not in the financial interest of the Company.

Therefore, writing off ₹ 132.44 crore on account of dues against Uttar Pradesh Power Corporation Limited resulted in understatement of Sundry Debtors by ₹132.44 crore and overstatement of Accumulated Loss by ₹ 124.36 crore and also Loss for the year (before Prior Period Adjustment) by ₹ 8.08 crore.

***Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (2010-11)***

- The State Government directed (14 November 2011) to adjust loan of ₹ 154.71 crore payable by State Government to the Company from the loan of ₹ 219.09 crore payable to State Government by the Company and to convert balance amount of ₹ 64.38 crore into Share Capital. The Company neither passed necessary adjustments accordingly in the books of Accounts nor disclosed the fact in the Notes to the Accounts.
- The State Government decided (November 2011) to waive off up to date interest of ₹ 77.81 crore on above loans. The Company did not write back interest in its books nor the fact disclosed in the Notes to the Accounts.

***Paschimanchal Vidyut Vitran Nigam Limited (2008-09, Revised)***

- Current Assets included an amount of ₹ 25.32 crore representing theft of assets pending investigation. A provision of ₹ 2.52 crore, equivalent to 10 per cent of theft assets was made by the Company. Since most of the stolen assets were old ones and the chances of recovery were very remote, 100 per cent provision for the stolen Assets should have been made in the Accounts. Short provision to that extent resulted in overstatement of Current Assets and understatement of Loss for the year by ₹ 22.80 crore.

***Impact of Audit Comments on the Revised Accounts***

- The original Accounts of the Company for the year ended 31 March, 2009 were received on 10 January 2012 and draft comment issued to the Statutory Auditors and Management. The Company carried out necessary corrections/amendments and submitted the revised Accounts on 17 August 2012. Based on our draft comments on the original Accounts, there was understatement of Loss by ₹ 22.34 crore, Assets by ₹ 0.32 crore and Liabilities by ₹ 22.66 crore.

***Dakshinanchal Vidyut Vitran Nigam Limited (2008-09, Revised)***

- Accounting Policy no. 3(b) regarding charging of Depreciation by the Company is in contravention of Schedule VI to the Companies Act 1956.

Therefore, non-charging of depreciation on additions to assets as per requirement of Schedule VI to the Companies Act, 1956 resulted into understatement of depreciation and overstatement of Fixed Assets by ₹ 27.60 crore (calculated on the basis of six months average).

**Uttar Pradesh Power Corporation Limited (2007-08)**

- In view of the Accumulated Losses of DISCOMs (Power Distribution Companies), a provision of ₹ 2,740.73 crore against the corresponding diminution in the value of investments of Company was made. While making the provision for diminution in the value of investments, the Company did not take into account the whole amount of share application money deposited with DISCOMs as on 31 March 2008, (except Madhyanchal Vidyut Vitran Nigam Limited) as the Accounts of the DISCOMs were certified up to 2007-08. Thus, taking into account the amount of share application money, the total diminution in the investment worked out to ₹ 5,283.34 crore against which provision of only ₹ 3,108.96 crore existed as on 31 March 2008 resulting in understatement of provision for Diminution in Investment for ₹ 2,174.38 crore with corresponding understatement of Loss for the year to the same extent.

**Uttar Pradesh State Bridge Corporation Limited (2009-10)**

- As per the Accounting Policy of the Company, the Gratuity liability in respect of Company's employees was covered through a policy taken from Life Insurance Corporation. The premium there against was charged to the Profit and Loss Account. In view of the enhancement of ceiling limit to ₹ 10 lakh, LIC of India demanded a premium of ₹ 15.63 crore for the years up to 2009-10. However, the Company charged an amount of ₹ 5.54 crore only in the Profit and Loss Account. This resulted in understatement of Provisions and overstatement of Profit for the year by ₹ 10.09 crore.

**1.31** Similarly, six working Statutory corporations forwarded their six Accounts to the Accountant General during the year 2011-12\*. Of these, four Accounts of four Statutory corporations pertained to sole audit by CAG of which audit of only two Accounts was completed and the audit of other two Accounts was in progress (September 2012). The remaining two Accounts of two Statutory corporations were selected for supplementary audit of which one Accounts was completed and the audit of other one Accounts was in progress (September 2012). 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.

(Amount: ₹ in crore)

| Sl. No. | Particulars        | 2009-10         |        | 2010-11         |        | 2011-12         |        |
|---------|--------------------|-----------------|--------|-----------------|--------|-----------------|--------|
|         |                    | No. of Accounts | Amount | No. of Accounts | Amount | No. of Accounts | Amount |
| 1.      | Decrease in Profit | 1               | 0.68   | 1               | 3.90   | 2               | 13.98  |
| 2.      | Increase in Loss   | -               | -      | 2               | 59.37  | 1               | 87.84  |

\* October 2011 to September 2012.

During the year, out of six Accounts received, audit of three Accounts was completed and qualified certificates were issued in two Accounts and adverse certificate was issued in one Accounts. The remaining three Accounts were under finalisation (September 2012). During the year, Statutory Auditors had given qualified certificates for two Accounts.

**1.32** Important comment in respect of Accounts of the one Statutory corporation finalised during the year 2011-12 are stated below:

***Uttar Pradesh Forest Corporation (2010-11)***

- As per policy of the Corporation, premium payable to LIC under Group Gratuity Cash Accumulation Scheme is accounted for on accrual basis. The Annual Renewal date of premium is 1 March of every year. Taking into account the annual demand of premium by the LIC the total expenses for 2010-11 towards premium worked out to ₹ 9.63 crore against which the Corporation provided for only ₹ 5.37 crore. This resulted in understatement of Staff Gratuity and overstatement of Profit for the year by ₹ 4.26 crore.

**1.33** 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 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   | 4   |
| 1.      | Non-fixation of minimum/ maximum limits of store and spares  | 16  | A-5, 13, 14, 15, 17, 24, 25, 29, 35, 40, 41, 68, 70 and C-14, 17,19                               |
| 2.      | Absence of internal audit system commensurate with the nature and size of business of the company  | 25  | A-2, 5, 8, 10, 12, 14, 17, 25, 35, 41, 46, 47, 49, 51, 53, 60, 61, 63, 65, 67,68,70 and C-8,19,41 |
| 3.      | Non-maintenance of cost record   | 09  | A-5,10,14,17,29,35,40,41 and C-17   |
| 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. | 15  | A-5, 12, 17, 23, 25, 29, 35, 40, 41, 70 and C-10,14,17,19,41                                      |

**Recoveries at the instance of audit**

**1.34** During the course of propriety audit, recoveries of ₹ 288.17 crore were pointed out to the Management of various PSUs, of which, recoveries of ₹ 128.16 crore were admitted and ₹ 15.42 crore\* was recovered by PSUs during the year 2011-12.

**Status of placement of Separate Audit Reports**

**1.35** 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.

\* PuVVNL ₹ 1.09 crore, DVVNL: ₹ 39.99 lakh. and UPPCL ₹ 13.93 crore.

| 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 | 2009-10                                    | 2010-11   | 11 July 2012   | Reasons not furnished by the Corporation |
| 2.     | Uttar Pradesh Financial Corporation            | 2007-08                                    | 2008-09<br>2009-10<br>2010-11   | 20 May 2011<br>13 April 2012<br>27 August 2012   | Reasons not furnished by the Corporation |
| 3.     | Uttar Pradesh Forest Corporation <sup>▼</sup>  | --   | 2008-09<br>2009-10<br>2010-11   | 9 March 2011<br>16 November 2011<br>21 September 2012  | Reasons not furnished by the Corporation |
| 4.     | Uttar Pradesh Avas Evam Vikas Parishad         | 2002-03                                    | 2003-04<br>2004-05<br>2005-06<br>2006-07<br>2007-08<br>2008-09<br>2009-10 | 8 February 2008<br>13 July 2010<br>8 February 2011<br>25 April 2011<br>1 July 2011<br>28 December 2011<br>18 July 2012 | Reasons not furnished by the Corporation |
| 5.     | Uttar Pradesh Jal Nigam                        | 2006-07                                    | 2007-08<br>2008-09  | 11 October 2010<br>3 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

**1.36** 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 ₹ 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.

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

<sup>▼</sup> Uttar Pradesh Forest Corporation submitted its Account for the year 2008-09 after doing necessary amendment in UP Forest Corporation Act, 1974.

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 Uttar Pradesh State Sugar Corporation Limited (UPSSCL) including all its subsidiaries and directed UPSSCL to submit a proposal for privatisation /sale of sugar mills.

The sale of 10 Mills of UPSSCL and 11 mills of Uttar Pradesh Rajya Chinni Evam Ganna Vikas Nigam Limited was finalised in July 2010 - October 2010 and January 2011 – March 2011 respectively. The audit findings on the sale of these Sugar Mills featured in the stand-alone Report of the Comptroller and Auditor General of India for the year ended 31 March 2011.