

## Introduction

### Functioning of State Public Sector Undertakings

#### General

1. State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. State PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and occupy an important place in the State economy. As on 31 March 2019, there were 114 PSUs in Uttar Pradesh, including six Statutory Corporations<sup>1</sup> and 108 Government Companies (including 46 non-functional government companies) under the audit jurisdiction of the Comptroller and Auditor General of India. Seven Companies were added during the year 2018-19. None of these Government Companies were listed on the stock exchange. During the year, none of the PSUs was closed or amalgamated with other PSUs.

2. The nature of PSUs in Uttar Pradesh and the position of their accounts are indicated in **Table 1**.

**Table 1: Nature of PSUs in Uttar Pradesh**

Nature of PSUs	Total Number	Number of PSUs of which accounts received during the reporting period				Number of PSUs of which accounts were in arrear (total accounts in arrear) as on 31 December 2019
		Accounts upto 2018-19 <sup>2</sup>	Accounts upto 2017-18	Accounts upto 2016-17	Total	
Functional Government Companies <sup>3</sup>	62	15	15	25	55	47 (204)
Statutory Corporations	6	1	3	6	10	5 (12)
<b>Total working PSUs</b>	<b>68</b>	<b>16</b>	<b>18</b>	<b>31</b>	<b>65</b>	<b>52 (216)</b>
Non-functional Government Companies	46	3	4	6	13	41 <sup>4</sup> (654)
<b>Total</b>	<b>114</b>	<b>19</b>	<b>22</b>	<b>37</b>	<b>78</b>	<b>93 (870)</b>

The financial performance of 35 PSUs on the basis of latest finalised accounts upto 31 December 2019 is covered in this Report. This Chapter does not include 79 PSUs (including seven Government controlled companies) whose accounts are in arrears for three years or more or were defunct/under liquidation or first accounts were not received as detailed in *Appendix-3.2 and Table-1.2 (Chapter I)* of the Report. The PSUs covered in this Report

<sup>1</sup> Uttar Pradesh Avas Evam Vikas Parishad, Uttar Pradesh Jal Nigam, Uttar Pradesh Financial Corporation, Uttar Pradesh State Road Transport Corporation, Uttar Pradesh State Warehousing Corporation and Uttar Pradesh Forest Corporation.

<sup>2</sup> From 1 October 2018 to 31 December 2019.

<sup>3</sup> Government PSUs include Government controlled other companies referred to in Section 139(5) and 139(7) of the Companies Act, 2013.

<sup>4</sup> Two PSUs are under liquidation for which no accounts are in arrear upto the date of going into liquidation.

registered an annual turnover of ₹ 71,473 crore as per their latest finalised accounts as on 31 December 2019. This turnover was equal to 4.63 *per cent* of Gross State Domestic Product (GSDP) for the year 2018-19 (₹ 15,42,432 crore). The PSUs covered in this Report suffered a loss of ₹ 14,441.44 crore as per their latest finalised accounts. As of March 2019, these PSUs had employed around 76,500 employees.

As on 31 March 2019, 46 State PSUs (three power sector PSUs and 43 other than power sector PSUs) were non-functional having a total investment of ₹ 1,774.04 crore towards capital (₹ 1,051.52 crore) and long-term loans (₹ 722.52 crore). The non-functional PSUs included two power sector PSUs which have been subsequently wound up (April 2019) and 12 other than power sector PSUs which were under liquidation.

**The Government may take appropriate decision regarding winding up of the remaining 32 non-functional PSUs.**

### **Accountability framework**

3. The procedure for audit of Government companies are laid down in Sections 139 and 143 of the Companies Act, 2013 (Act 2013). According to Section 2 (45) of the Act 2013, a Government Company means any company in which not less than 51 *per cent* of the paid-up share capital is held by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government Company. Besides, any other company<sup>5</sup> owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments is referred to in this Report as Government Controlled other Company.

Comptroller and Auditor General of India (CAG) appoints the Statutory Auditors of a Government Company and Government Controlled other Company under Section 139 (5) and (7) of the Companies Act, 2013. Section 139 (5) of the Companies Act, 2013 provides that the Statutory Auditors in case of a Government Company or Government controlled other company are to be appointed by the CAG within a period of one hundred and eighty days from the commencement of the financial year. Section 139 (7) of the Companies Act, 2013 provides that in case of a Government Company or Government controlled other company, the first auditor is to be appointed by the CAG within sixty days from the date of registration of the company and in case CAG does not appoint such auditor within the said period, the Board of Directors of the Company or the members of the Company have to appoint such auditor.

Further, as per sub-Section 7 of Section 143 of the Act 2013, the CAG may, in case of any company covered under Section 139 (5) or (7), if considered necessary, by an order, cause test audit to be conducted of the accounts of such company and the provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to

<sup>5</sup> The Companies (Removal of Difficulties) Seventh Order 2014 dated 4 September 2014 issued by Ministry of Corporate Affairs, Government of India.

the report of such test Audit. Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

#### ***Statutory Audit***

4. The financial statements of the Government Companies (as defined in Section 2 (45) of the Act 2013) are audited by Statutory Auditors who are appointed by the CAG as per the provisions of Section 139 (5) or (7) of the Act 2013. The Statutory Auditors submit a copy of the Audit Report to the CAG including, among other things, financial statements of the Company under Section 143(5) of the Act 2013. These financial statements are also subject to supplementary audit by the CAG within sixty days from the date of receipt of the audit report under the provisions of Section 143 (6) of the Act 2013.

Audit of Statutory Corporations is governed by their respective legislations. Out of six Statutory Corporations, the CAG is the sole auditor for four Statutory Corporations namely Uttar Pradesh Avas Evam Vikas Parishad, Uttar Pradesh Jal Nigam, Uttar Pradesh State Road Transport Corporation and Uttar Pradesh Forest Corporation. In respect of Uttar Pradesh State Warehousing Corporation and Uttar Pradesh Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit is conducted by the CAG.

#### **Submission of accounts by PSUs**

##### ***Need for timely finalisation and submission***

5. According to Sections 394 and 395 of the Companies Act, 2013, Annual Report on the working and affairs of a Government Company, is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation laid before the Houses or both the Houses of State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. Almost similar provisions exist in the respective Acts regulating the Statutory Corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the Government companies and Statutory Corporations from the Consolidated Fund of the State.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited financial statements for the financial year has to be placed in the said AGM for their consideration. Section 129 (7) of the Companies Act, 2013 provides for levy of penalty like fine and imprisonment on the persons including directors of the company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

### **Role of Government and Legislature**

6. The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the State Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of State Government Companies and Separate Audit Reports in respect of Statutory Corporations are to be placed before the State Legislature under Section 394 of the Companies Act, 2013 or as stipulated in the respective Acts of the Statutory Corporations. The Audit Reports of the CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

### **Investment by Government of Uttar Pradesh in State PSUs**

7. The Government of Uttar Pradesh (GoUP) has high financial stakes in the PSUs. This is of mainly three types:

- **Share capital and loans** – In addition to the share capital contribution, GoUP also provides financial assistance by way of loans to the PSUs from time to time.
- **Special financial support** – GoUP provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees** – GoUP also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

8. The total sector-wise summary of investment in the PSUs as on 31 March 2019 is given in **Table 2**.

**Table 2: Sector-wise total investment in PSUs**

(₹ in crore)

Name of sector	Government Companies		Statutory Corporations		Total	Total Investment in the form of-	
	Covered in this Report	Not covered in this Report	Covered in this Report	Not covered in this Report		Equity	Long term loans
Power	1,97,352.73	2.27	-	-	1,97,355.00	1,17,914.35	79,440.65
Other than Power	11,608.62	8,549.16	1,518.94	872.34	22,549.06	8,614.00	13,935.06
<b>Total</b>	<b>2,08,961.35</b>	<b>8,551.43</b>	<b>1,518.94</b>	<b>872.34</b>	<b>2,19,904.06</b>	<b>1,26,528.35</b>	<b>93,375.71</b>

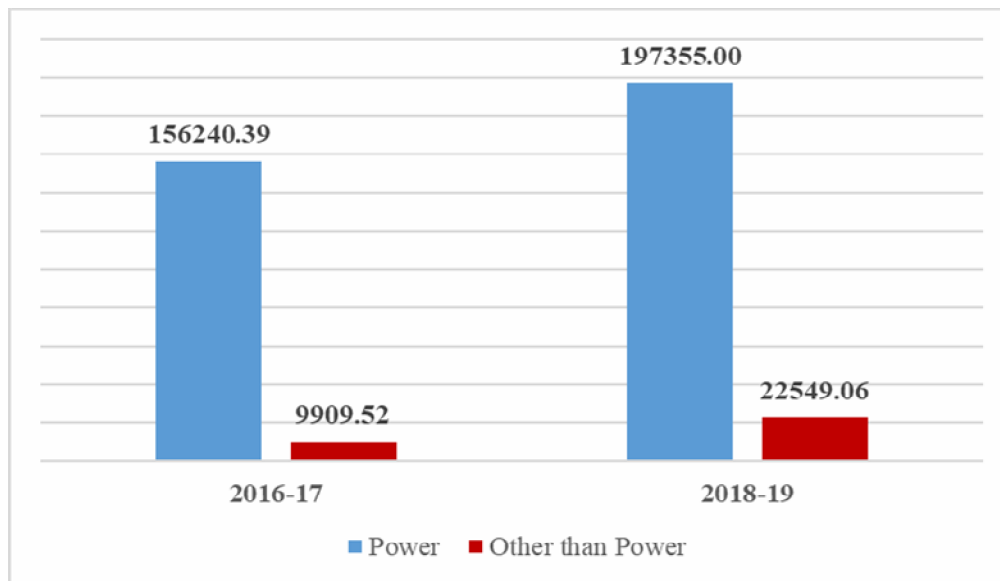
*Source: Compiled based on annual accounts of PSUs, sanction/release orders for equity and loans and information provided by PSUs.*

The thrust of PSU investment was mainly in power sector during the last three years. The power sector received investments of ₹ 41,114.61 crore (76.49 per cent) out of total investment of ₹ 53,754.15 crore made during the period from 2016-17 to 2018-19.

9. The investment in power and other than power sector at the end of 31 March 2017 and 31 March 2019 is indicated in **Chart 1**.

Chart 1: Sector-wise investment in PSUs

(Figures ₹ in crore)



Keeping in view the huge investment in the power sector, the results of audit of 15 power sector PSUs have been presented separately in Part-I<sup>6</sup> and of 99 PSUs (other than power sector) in Part-II<sup>7</sup> of Part-A of the Report.

6 Part-I includes Chapter-I (Functioning of Power Sector Undertakings) and Chapter-II (Compliance Audit Observations relating to Power Sector Undertakings).

7 Part-II includes Chapter-III (Functioning of PSUs other than Power Sector) and Chapter-IV (Compliance Audit Observations relating to PSUs other than Power Sector).