

## **CHAPTER - VI**

# **Oversight role of Comptroller and Auditor General of India**



## CHAPTER-VI

### OVERSIGHT ROLE OF COMPTROLLER AND AUDITOR GENERAL OF INDIA

#### 6.1 Introduction

This Chapter covers significant comments issued as a result of supplementary audit of the financial statements of the State Public Sector Undertakings (PSUs) conducted by the Comptroller and Auditor General of India (CAG) for the year 2020-21 or earlier years finalised during the current year. This Chapter also contains the impact of comments issued by the CAG on the financial statements of the Statutory Corporations where CAG is the sole auditor.

##### 6.1.1 Audit of State Public Sector Undertakings, provisions of law, etc.

The CAG appoints the Statutory Auditors of a Government Company and Government controlled other Company under Section 139 (5) & (7) of the Companies Act, 2013. The CAG has right to conduct a supplementary audit and issue comments upon or supplement the Audit Report of the Statutory Auditor. Statutes governing some corporations require that their accounts be audited by the CAG and a report be submitted to the Legislature.

#### 6.2 Appointment of Statutory Auditors of Public Sector Undertakings by the CAG

Sections 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 180 days from the commencement of the financial year. Further, Section 139 (7) of the Companies Act, 2013 provides appointment of first Statutory Auditors by the CAG within 60 days from the date of registration of Government Company or Government controlled other Company.

#### 6.3 Submission of accounts by Public Sector Undertakings

##### 6.3.1 Need for timely submission

According to Section 394 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). As soon as may be after such preparation, the Annual Report must be laid before both the Houses of Legislature together with a copy of the Audit Report and comments of the CAG upon or as supplement to the Audit Report. Similar provisions exist in the respective Acts regulating Statutory Corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the companies from the Consolidated Fund of 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 also 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 the Companies Act, 2013.

Of the total 115 PSUs (94 Government Companies, 15 Government controlled other Companies and six Statutory Corporations), there were 71 functional PSUs (52 Government Companies, 13 Government controlled other Companies and six Statutory Corporations) and 44 non-functional PSUs (42 Government Companies and two Government controlled other Companies) under the purview of CAG audit in Uttar Pradesh as of 31 March 2021. The status of timeliness followed by the PSUs in preparation of accounts is as follows:

### **6.3.2 Timeliness in preparation of accounts by PSUs**

Accounts for the year 2020-21 were required to be submitted by all the PSUs by 30 September 2021. However, Government of India vide its circular<sup>74</sup> dated 23 September 2021 extended the date for holding AGM of companies for the financial year 2020-21 upto 30 November 2021.

- Out of 65 functional Government Companies (52 Government Companies and 13 Government controlled other Companies), only four PSUs<sup>75</sup> (three Government Companies and one Government controlled other Company) submitted their accounts upto 30 November 2021 for the year 2020-21 for audit by the CAG. Resultantly, accounts of 61 functional PSUs (49 Government Companies and 12 Government controlled other Companies) were in arrears.
- Out of six Statutory Corporations, the CAG is the sole auditor in four Statutory Corporations (Uttar Pradesh State Road Transport Corporation, Uttar Pradesh Avas Evam Vikas Parishad, Uttar Pradesh Jal Nigam and Uttar Pradesh Forest Corporation). These four Statutory Corporations had eight accounts<sup>76</sup> in arrears as of 30 November 2021. Further, none of the Statutory Corporations has submitted accounts for the year 2020-21 (upto 30 November 2021) for audit by the CAG.

Details of arrears in submission of accounts by the State PSUs as on 30 November 2021 are given in **Table 6.1**.

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<sup>74</sup> Registrar of Companies, Uttar Pradesh, Ministry of Corporate Affairs, Government of India Circular No. 09/02/Order/AGM Extn/2021/1488

<sup>75</sup> UP Metro Rail Corporation Limited, NOIDA Metro Rail Corporation Limited, Uttar Pradesh Export Promotion Council (Government Companies) and DMIC Integrated Industrial Township Greater Noida Limited (Government controlled other Company).

<sup>76</sup> Accounts of (i) Uttar Pradesh State Road Transport Corporation for the year 2019-20 & 2020-21; (ii) Uttar Pradesh Avas Evam Vikas Parishad for the year 2020-21; (iii) Uttar Pradesh Jal Nigam for the years 2017-18, 2018-19, 2019-20 & 2020-21; and (iv) Uttar Pradesh Forest Corporation for the year 2020-21.

Table 6.1: Position relating of submission of accounts by PSUs

Particulars	Position relating to submission of Accounts				
	Government Companies	Government controlled other Companies	Statutory Corporations	Total	
Total number of PSUs under the purview of CAG's audit as on 31 March 2021	94	15	06	115	
Less: New PSUs from which accounts for 2020-21 were not due	-	-	-	-	
Less: PSUs under liquidation from which accounts for 2020-21 were not due	12	01	-	13	
Number of PSUs from which accounts for 2020-21 were due	82	14	06	102	
Number of PSUs which presented the accounts of 2020-21 by 30 November 2021 for CAG's audit	05 <sup>77</sup>	01	-	06	
Number of PSUs whose accounts were in arrears <sup>78</sup>	87 <sup>79</sup>	14	06	107 <sup>80</sup>	
Number of accounts in arrears	897	57	19	973	
Break-up of Arrears	(i) Under Liquidation	112	08	-	120
	(ii) Non-functional	553	26	-	579
	(iii) First accounts not submitted	48	10	-	58
	(iv) Others	184	13	19	216
Age-wise analysis of arrears against 'Others' category	One year (2020-21)	14	07	02	23
	Two years (2019-20 and 2020-21)	14	06	02	22
	Three years and more	156	-	15	171

Government of Uttar Pradesh (GoUP) had provided ₹ 20,917.77 crore (Equity: ₹ 10,568.47 crore, Grant: ₹ 692.13 crore and Subsidy: ₹ 9,657.17 crore) to nine out of 13 power sector PSUs whose accounts were in arrears whereas no investment was made in the remaining four power sector PSUs during the period for which accounts were in arrears.

Further, the GoUP had also provided ₹ 6,441.57 crore (Equity: ₹ 290.64 crore, Loan: ₹ 2,476.54 crore, Grant: ₹ 3,394.22 crore and Subsidy: ₹ 280.17 crore) to 37 out of 94 other than power sector PSUs whose accounts were in arrears whereas no investment was made in the remaining 57 other than power sector

<sup>77</sup> It includes two non-functional PSUs (UP State Yarn Co. Ltd. & Southern UP Power Transmission Co. Ltd.).

<sup>78</sup> Including arrear accounts of PSUs under liquidation

<sup>79</sup> 94 (Total Government Companies) – 7 (5 Government Companies submitted accounts for 2020-21 and two Government Companies under liquidation whose accounts were not in arrears)

<sup>80</sup> It excludes two PSUs namely Uttar Pradesh (Poorva) Ganna Beej Evam Vikas Nigam Limited and Uttar Pradesh (Rohilkhand Tarai) Ganna Beej Evam Vikas Nigam Limited which are under liquidation for which no accounts were in arrear upto the date of going into liquidation.

PSUs during the period for which accounts were in arrears. PSU-wise details of investment made by State Government during the years for which accounts were in arrears are shown in *Appendix-6.1*.

The administrative departments have the responsibility to oversee the activities of these PSUs and to ensure that the accounts are finalised and adopted by these PSUs within the stipulated period. The concerned departments were informed regularly regarding arrears in accounts.

### **6.3.2.1 Impact of non-finalisation of accounts of State Public Sector Undertakings**

Delay in finalisation of accounts may result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 2013. In view of the above status of arrears of accounts, the actual performance including loss incurred/profit earned and contribution of these 107 PSUs<sup>81</sup> to State GDP during the period of arrear accounts could not be ascertained/reported to the State Legislature. In the absence of finalisation of accounts by these PSUs and their subsequent audit, it could not be ensured whether the investments and expenditure incurred had been properly accounted for and the funds were utilised for the purpose for which these were provided by the State Government. This issue is of greater concern in case of those Statutory Corporations where the entire responsibility for certification lies on the CAG as the sole auditor.

### **6.3.2.2 Non-functional Public Sector Undertakings**

As on 31 March 2021, 44 State PSUs (42 Government Companies and two Government controlled other Companies) having a total investment of ₹ 1,815.60 crore in the form of capital (₹ 1,084.07 crore) and long-term loans (₹ 731.53 crore) were non-functional. Of these, significant investments were in Uttar Pradesh State Textile Corporation Limited (₹ 288.88 crore), Nandganj-Sihori Sugar Company Limited (₹ 256.80 crore) and Uttar Pradesh State Handloom Corporation Limited (₹ 206.80 crore). Non-functional PSUs include 13 PSUs (12 Government Companies and one Government controlled other Company) which were under liquidation. The State Government may review the status of these non-functional PSUs.

### **6.3.2.3 Arrear accounts of non-functional PSUs**

Out of 44 non-functional PSUs (including 13 PSUs under liquidation), 699 accounts of 40 non-functional PSUs (38 Government Companies and two Government controlled other Companies) were in arrears as on 30 November 2021. The age-wise analysis of arrear of accounts of these PSUs is given in **Table 6.2**.

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<sup>81</sup> 13 power sector PSUs and 94 other than power sector PSUs.

Table 6.2: Age-wise analysis of arrear in accounts of non-functional PSUs

		Age wise analysis of arrears				Total
		1-5 years	6-10 years	11-20 years	21 years and above	
Non-functional PSUs with arrear in accounts	Under liquidation	4	1	5	1	11
	Others	5	5	5	14	29
Number of Accounts in arrear	PSUs under liquidation	9	8	74	29	120
	Other Non-functional PSUs	18	41	82	438	579

## 6.4 CAG's oversight - Audit of Accounts and Supplementary Audit

### 6.4.1 Financial reporting framework

Companies are required to prepare the financial statements in the format laid down in Schedule-III to the Companies Act, 2013 and in adherence to the mandatory Accounting Standards prescribed by the Central Government in consultation with National Advisory Committee on Accounting Standards. The Statutory Corporations are required to prepare their accounts in the format prescribed under the rules, framed in consultation with the CAG and any other specific provision relating to accounts in the Act governing such corporations.

### 6.4.2 Audit of Accounts of Public Sector Undertakings by Statutory Auditors

The Statutory Auditors appointed by the CAG under Section 139 of the Companies Act, 2013, conduct audit of accounts of the Government Companies and submit their report thereon in accordance with Section 143 of the Companies Act, 2013.

The CAG plays an oversight role by monitoring the performance of the Statutory Auditors in audit of PSUs with the overall objective that the Statutory Auditors discharge the functions assigned to them properly and effectively. This function is discharged by exercising the power to:

- issue directions to the Statutory Auditors under Section 143(5) of the Companies Act, 2013 and
- supplement or comment upon the Statutory Auditor's Report under Section 143 (6) of the Companies Act, 2013.

### 6.4.3 Supplementary Audit of Accounts of Public Sector Undertakings

The prime responsibility for preparation of financial statements in accordance with the financial reporting framework prescribed under the Companies Act, 2013 or other relevant Act is of the management of an entity.

The Statutory Auditors appointed by the CAG under Section 139 of the Companies Act, 2013 are responsible for expressing an opinion on the financial statements under section 143 of the Companies Act, 2013 based on an independent audit in accordance with the Standard Auditing Practices of Institute of Chartered Accountants of India (ICAI) and directions given by the CAG. The Statutory Auditors are required to submit the Audit Report to the CAG under Section 143 of the Companies Act, 2013.

The certified accounts of selected Government Companies along with the report of the Statutory Auditors are reviewed by the CAG by carrying out a supplementary audit. Based on such review, significant audit observations, if any, are reported under Section 143 (6) of the Companies Act, 2013 to be placed before the AGM.

## **6.5 Result of CAG's oversight role**

### **6.5.1 Audit of accounts of Public Sector Undertakings under Section 143 of the Companies Act, 2013**

Financial statements for the year upto 2020-21 were received from 46 PSUs (33 Government Companies, 10 Government controlled other Companies and three Statutory Corporations) by 30 November 2021<sup>82</sup> as detailed in *Appendix-6.2*. Accounts of 28 PSUs<sup>83</sup> (21 Government Companies, three Government controlled other Companies and four Statutory Corporations) were reviewed and commented upon during the above mentioned period in audit by the CAG, as detailed in *Appendix-6.3*. The results of the review are detailed below:

#### **6.5.2 Amendment of Financial Statements**

As a result of supplementary audit of the financial statements for the year ended upto 31 March 2021 conducted by the CAG, there were no such cases where any Government company or Government controlled other company or Statutory Corporation amended its Financial Statements before laying the same in the AGM/ before the legislature.

#### **6.5.3 Revision of Auditors' Report**

As a result of supplementary audit of the financial statements for the year ended upto 31 March 2021 conducted by the CAG, the Statutory Auditors of one Government Company (Noida International Airport Limited) has revised their Report.

#### **6.5.4 Significant comments of the CAG issued as supplement to the Statutory Auditors' reports on the accounts of Government Companies and Government controlled other Companies and as sole auditor on the accounts of Statutory Corporations**

Subsequent to the audit of the financial statements for the year upto 2020-21 by Statutory Auditors, the CAG conducted supplementary audit of the financial statements of the selected Government Companies and Government controlled other Companies. The list of PSUs in respect of whom comments were issued is given in *Appendix-6.3*. Some of the significant comments issued on financial statements of Government Companies and Government controlled other Companies, the financial impact of which on the profitability was ₹ 136.99 crore and on assets/liabilities was ₹ 800.93 crore, are following:

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<sup>82</sup> During the period from 01 January 2021 to 30 November 2021

<sup>83</sup> Out of 28 PSUs, 19 PSUs (16 Government Companies, one Government controlled other Company and two Statutory Corporations) submitted its accounts before 01 January 2021.



**(A) Government Companies****1. Comments on Profitability**

Sl. No.	Name of the Company	Year of account	Comment
1.	Kanpur Electricity Supply Company Limited	2018-19	Repair and Maintenance expenses include electricity duty of ₹ 2.78 crore on the energy internally consumed which was against the provision of Section 3(5) of UP Electricity Duty (Amendment) Act, 1970 which provides that electricity duty will not be levied on the amount of energy consumed by a licensee. This resulted in overstatement of Repair and Maintenance Expenses as well as Loss by ₹ 2.78 crore each.
2.	U.P. Power Transmission Corporation Limited	2019-20	Employee Benefit Expenses of the company includes ₹ 24.41 crore on account of 7 <sup>th</sup> Pay Commission Arrears for which liability/provision had already been created in the books of accounts in earlier years. Instead of adjusting existing provision, the Company while making payment charged the same as Employee Benefit Expenses for current year. This resulted in overstatement of Employee Benefit Expenses and Other Current Liabilities by ₹ 24.41 crore each. Consequently, Profit for the year has been understated by the same amount.
3.	Uttar Pradesh Jal Vidyut Nigam Limited	2017-18	<p>1. The Company disclosed that “Sales for Obra HEP, Khara, UGC, Belka, Babail &amp; Sheetla Small Hydro Plant (SHP) has been accounted for as per tariff (03 July 2018) decided by Hon'ble UPERC.”</p> <p>Contrary to the above disclosure, the Company has done sales adjustment for amount of ₹ 60.59 crore and ₹ 6.14 crore in 2017-18. These adjustment of sale done by the Company are not as per terms of the tariff order. As a result, Revenue from Operations, Prior Period income and Trade Receivables are understated by ₹ 6.14 crore, ₹ 60.59 crore and ₹ 66.73 crore respectively whereas loss for the year was overstated by ₹ 66.73 crore.</p> <p>2. The Company has deducted ₹ 13.09 crore and ₹ 14.99 crore from sales during the period 2016-17 and 2017-18 respectively in respect of component of interest on LIC Loan as the same was to be claimed on payment basis according to UPERC's Tariff order. The Company also made provision of ₹ 11.93 crore for 2016-17 and 2017-18 each towards interest payable on LIC Loan under Finance Cost in the Statement of Profit and Loss.</p> <p>Thus, on one hand the Company has not recognised the revenue but provided for expenses towards interest payable on LIC Loan on accrual basis. This treatment contradicts Matching Principle of Accounting which requires to charge an expense in the same period in which the related revenues are earned. As a result, ‘Revenue from</p>

Sl. No.	Name of the Company	Year of account	Comment
			Operations' and 'Trade Receivables' are understated by ₹ 14.99 crore and ₹ 28.08 crore respectively. Further, Loss for the year and Accumulated losses are overstated respectively by ₹ 14.99 crore and ₹ 28.08 crore.

## 2. Comments on Financial position

Sl. No.	Name of the Company	Year of account	Comment
1.	Kanpur Electricity Supply Company Ltd	2018-19	The current liabilities of the Company do not include an amount of ₹ 51.96 crore being the interest payable to the Government of Uttar Pradesh (GoUP) on account of delayed payment of conversion charges for conversion of nazul land to freehold land. This resulted in understatement of 'Other Financial Liabilities' as well as 'Property, Plant and Equipment' by ₹ 51.96 crore each.
2.	Pichhara Varg Vitta Evam Vikas Nigam Limited	2015-16	Long Term borrowings include loan received and interest payable on loans received from the National Backward Classes Finance and Development Corporation (NBCFDC). As per the statement provided by the NBCFDC, the loan and interest payable thereon for the year was ₹ 54.16 crore whereas the company was showing the balances as ₹ 50.16 crore. Thus, the long-term borrowing and current assets are understated to the extent of ₹ 4.00 crore.
3.	Uttar Pradesh Power Transmission Corporation	2019-20	The Company in contravention of provisions of Ind AS 23 (Borrowing Costs) booked penal interest of ₹ 4.88 crore (paid during 2016-17 due to delay in payment of principal and interest) to the lending agencies under Capital Work-in-Progress (CWIP) instead of charging to Profit and Loss account. Thus, due to capitalisation of penal interest, CWIP and Other Equity is overstated by ₹ 4.88 crore each.
4.	Uttar Pradesh Project Corporation Limited	2017-18	Other Long Term Liabilities did not include an amount of ₹ 32.33 crore on account of Labour Cess payable to the Labour Welfare Board on works executed since February 2009 to March 2017. This has resulted in understatement of Other Long-Term Liabilities and Current Assets (Trade Receivables) by ₹ 32.33 crore each.
5.	Uttar Pradesh Metro Rail Corporation Limited	2020-21	1. Property plant and equipment includes consumable spares amounting to ₹ 6.75 crore which were capitalised along with the value of rolling stock instead of accounting for same as inventory. This resulted in overstatement of 'Property, Plant and Equipment' (Rolling Stock) and understatement of 'Inventory' by ₹ 6.75 crore each.

Sl. No.	Name of the Company	Year of account	Comment
			2. Track work (P-way), Capital work in Progress represents surplus stores (sleepers, rails, clamps etc.) at Lucknow Metro Project. These items were left over items used for laying of new rail tracks and were not required at Lucknow Project as the project was already completed and commissioned. This resulted in overstatement of 'Capital work in Progress (Lucknow)' and understatement of 'Inventory' by ₹ 12.83 crore each.
6.	Uttar Pradesh Police Awas Nigam Limited	2018-19	The balance of 'Advance from Government of Uttar Pradesh' under the head Other Long Term Liabilities has been arrived at after adjusting value of work-in-progress (completed works) amounting to ₹ 688.18 crore. However, as per Schedule-III of the Companies Act, 2013, work-in-progress and finished stock (completed works) should have been shown under "Current Assets-Inventories" till their transfer to the State Government. This has resulted in understatement of Other Long Term Liabilities as well as Current Assets by ₹ 688.18 crore.

### 3. Comments on Disclosure

Sl. No.	Name of the Company	Year of Account	Comment
1.	Allahabad City Transport Services Limited	2017-18	The Company disclosed in Notes on Accounting Policies regarding "Grant-in-aid" that grant of ₹ 8.89 lakh received from Central Government is being used to set off the losses of previous years. The disclosure is wrong as the grant was received from the State Government and not from the Central Government.
2.	Chhata Sugar Company Limited	2016-17	As per Notes to accounts on Contingent liabilities and explanatory notes, loans and advances include certain expenditure which have been paid by debiting "Suspense account" as the nature of such expenditure are yet to be decided and/or payment have been disputed. Similarly, creditors include certain receipts which have been adjusted by crediting Suspense Account as the nature of such receipts are yet to be determined. Audit observed that ₹ 11.50 lakh was debited and ₹ 2.90 crore was credited under Suspense Account but the financial implication was not disclosed by the Company in aforesaid notes.
3.	Kanpur Electricity Supply Company Limited	2018-19	The Company did not disclose Contingent Liability of ₹ 36.52 lakh towards interest accrued on delayed payment of annual license fee to UPERC inspite of petition filed by UPPCL (holding company) on behalf of subsidiary company for waiver of interest.
4.	Uttar Pradesh State Tourism Development Corporation	2016-17	As per Notification No. G.S.R. 308 (E) dated 30 March 2017 issued by the Ministry of Corporate Affairs (MCA), Government of India, the Company should have disclosed the

Sl. No.	Name of the Company	Year of Account	Comment
			details of Specified Bank Notes (SBN) held and transacted during the period 08 November 2016 to 30 December 2016. The Company, in violation of the above notification, did not disclose the required information in the Notes to Accounts.
5.	Uttar Pradesh Metro Rail Corporation Limited	2019-20	<p>1. Airport Authority of India (AAI) allotted 60,000 square meter of land on lease to the Company for establishment of casting yard and demanded rent payable amounting to ₹ 24.40 crore from the Company. The Company paid an amount of ₹ 2.29 crore to AAI on 29 December 2019 as per calculation based on circle rate which was not acceptable to AAI. This fact has not been disclosed in the Notes to Accounts.</p> <p>2. The Company has utilised 4,000 square meter of land of Rajkiya Mahila Polytechnic, Lucknow and 48.03 square meter Land of Rajkiya Polytechnic, Lucknow for the construction of a receiving substation and viaduct. However, signing of lease and sub-lease agreements related to the above said land is still pending. This material fact has not been disclosed in the Notes to Account.</p>

#### 4. Comments on Statutory Auditor's Report

Sl. No.	Name of the Company	Year of account	Comment
1.	Kanpur Electricity Supply Company Limited	2018-19	The Statutory Auditors' Report states that the Company has received subsidy/grant during 2015-16 to 2018-19 towards repayment of interest and principal and the amount received towards repayment of principal should have been recognised as income instead of Capital Reserve. But the Report did not mention that portion of the subsidy received for repayment of loan and shown as Capital Reserve should have been systematically transferred to credit of the Profit and Loss Account over the useful life of the assets as per provisions of Ind AS 20.
2.	Nandganj Sihori Sugar Company Limited	2016-17	Report under Section 143(5) of the Companies Act, 2013 on the directions issued by the CAG, the action taken and its impact on the financial statements of the Company was not submitted by the Auditor.
3.	The Pradeshiya Industrial and Investment Corporation of UP Limited	2018-19	The Statutory Auditor's Report stated that the Company had a programme of verification to cover all the items of fixed assets in a phased manner which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, certain fixed assets were physically verified by the management during the year. The above comment is factually incorrect as no physical verification of fixed assets has been carried out by the Management during the financial year.

Sl. No.	Name of the Company	Year of account	Comment
4.	Uttar Pradesh State Handloom Corporation Limited	2000-01	In Statutory Auditors' Report it has been stated that staff advances also included some credit balances which should have been shown as current liabilities. However, the Statutory Auditor did not quantify the amount of ₹ 22.46 lakh, which was shown as credit balance of staff advance.
5.	Uttar Pradesh State Tourism Development Corporation	2016-17	Report under Section 143(5) of the Companies Act, 2013 on the directions issued by the CAG, the action taken and its impact on the accounts and financial statements of the Company was not submitted by the Statutory Auditor.
6.	Uttar Pradesh State Bridge Corporation Limited	2016-17	As per Notification No. G.S.R. 308(E) dated 30 March 2017 issued by the Ministry of Corporate Affairs (MCA), Government of India, the Statutory Auditor is required to disclose in their Report whether the Company had provided requisite disclosures in its financial statements as to holding as well as dealing in of Specified Bank Notes (SBN) during the period 08 November 2016 to 30 December 2016. The Company had not disclosed SBN information as per Notification of MCA and Statutory Auditors also failed to report the same in their report.

## (B) Government controlled other Companies

### 1. Comments on Profitability

Sl. No.	Name of the Company	Year of Account	Comment
1.	Aligarh Smart City Limited	2018-19	Other Expenses includes Project Management Consultancy (PMC) charges amounting to ₹ 1.00 crore relating to specific project. Instead of adjusting this expenditure against Project Grant, it has been charged to Profit and Loss account.  This resulted in overstatement of Other Expenses, Grant for Project Fund under Reserves and Surplus and loss by ₹ 1.00 crore each.
2.	Bareilly Smart City Limited	2018-19	Revenue from Operations includes interest amounting to ₹ 49.43 lakh earned during the year on unutilised grant received from GoI. The Company instead of accounting the interest earned on the unutilised amount of Government grant as Liability, booked the same as its income resulting in overstatement of Revenue from Operations and understatement of Other Current Liabilities by ₹ 49.43 lakh each. Consequently, Profit for the year was also overstated by ₹ 49.43 lakh.

## 2. Comments on Financial position

Sl. No.	Name of the Company	Year of Account	Comment
1.	Aligarh Smart City Limited	2018-19	<p>Interest on grant (under Reserves and Surplus) includes interest amounting to ₹ 1.21 crore earned on unutilised Administrative and Operating Expenses (A &amp; OE) Grant and Project Fund Grant received from Government of India and Government of Uttar Pradesh (GoUP).</p> <p>The Company in violation of requirement of General Financial Rules 2017 had booked the same as part of Reserves and Surplus instead of Current Liability in the accounts. This resulted in overstatement of Reserves and Surplus and understatement of Current Liabilities by ₹ 1.21 crore each.</p>
2.	Bareilly Smart City Limited	2018-19	<p>The company received Administrative and Office Expenses (A&amp;OE) grant of ₹ 10 crore (up to 2018-19) for meeting expenses from the stage of Smart City Proposal and its daily operations. However, ₹ 84.40 lakh being the expenditure incurred prior to incorporation of the Company has been treated as deferred expenditure instead of charging it to Profit and Loss Account. Further, the matching amount from A&amp;OE grant was not accounted as Income in Profit and Loss account. This resulted in overstatement of Current Assets and Other Current Liabilities by ₹ 84.40 lakh each.</p>
3.	Moradabad Smart City Limited	2018-19	<p>As per Smart City Mission guidelines, the structure of the Special Purpose Vehicle (SPV) will be established as a Limited Company under the Companies Act 2013 and will be promoted by the State/UT and the Urban Local Body (ULB) jointly, both having 50:50 equity shareholding. The Company was incorporated in the year 2018-19. During the financial year the Company allotted 50,000 equity shares of ₹ 100 each amounting to ₹ 50 lakh and allotted 25,000 equity shares each to ULB and the State Government. The entire amount of ₹ 50 lakh towards allotment was utilised from the Government of India (GoI) grant and the State Government has not contributed its share. However, the amount receivable from the State Government has not been shown as receivables under the head Current Assets. This has resulted in understatement of Other Non-Current Liabilities and Other Current Assets to the extent of ₹ 25 lakh each.</p>

## 3. Comments on Disclosure

Sl. No.	Name of the Company	Year of Account	Comment
1.	Aligarh Smart City Limited	2018-19	Smart City Guidelines of Ministry of Urban Development (MoUD), Government of India, provides that 'Funds provided by the

Sl. No.	Name of the Company	Year of Account	Comment
			Government of India in Smart City Mission to the SPV will be in the form of tied Grant and kept in a Separate Grant Fund'. However, the Company has kept funds received for A & OE grant and Project fund Grant in same account. Further, Accounting Standard-12 'Accounting for Government Grants' also provides for disclosure of the accounting policy adopted for government grants in the accounts including the methods of presentation in the financial statements. But no Accounting Policy for Government Grant as required by AS-12 has been framed.

### Statutory Corporations where CAG is the sole auditor

The significant comments issued by the CAG on the accounts of Statutory Corporations where the CAG is the Sole Auditor are detailed below:

#### 1. Uttar Pradesh Forest Corporation (2018-19)

- Expenditure on 'Forest Development Activities' does not include an amount of ₹ 1.75 crore payable to the Tourism Department for organising International Cycle Rally (ICR). Total budget allocation for ICR was ₹ 3.50 crore against which ₹ 1.75 crore was released to the Tourism Department by the Forest Corporation. Remaining, ₹ 1.75 crore was not released to the Tourism Department for which provision should have been made in the Accounts. This resulted in understatement of Current Liabilities & Provision and overstatement of Profit by ₹ 1.75 crore.

#### 2. Uttar Pradesh Jal Nigam (2012-13)

- Deposit received for Projects is understated by ₹ 76.17 crore being interest earned during 2008-09 to 2012-13 on investment of funds received for execution of deposit works which was treated as income of the Nigam instead of crediting it to Deposits received for Projects under Liabilities. This has also resulted in an overstatement of Surplus for the year by ₹ 76.17 crore.
- Pension and gratuity payable is understated by ₹ 67.64 crore as provision for pension and gratuity payable for the years 2008-09 to 2012-13 was not accounted for in the Accounts. Consequently, Surplus for the year is also overstated to that extent.
- The liability towards Leave Encashment/Arrear Payable is understated by ₹ 55.51 crore as provision for leave encashment/ arrear payable for the years 2008-09 to 2012-13 was not accounted for in the accounts. Consequently, Surplus for the year is overstated to that extent.
- Unsecured Loan from Government of Uttar Pradesh is understated by ₹ 147.67 crore due to exhibition of World Bank loans amounting to ₹ 42.29 crore (received through the State Government during 1990-91 to 1995-96) as Deposit from Others under the head Current Liabilities instead of Unsecured Loans and not accounting of interest amounting to ₹ 105.38 crore payable thereon up to the end of March 2013.

- Work-in-Progress of Construction and Design Services Division includes ₹ 526.28 crore being works executed out of deposits received by the Nigam which have already been completed and handed over to the clients. Not-adjusting the same has resulted in an overstatement of 'Work-in-Progress' and 'Current Liabilities' by ₹ 526.28 crore each.
- Babina (Jhansi) project was completed in 1996-97 at a cost of ₹ 48.29 crore. The same should have been included under the head 'Completed Rural Water Works Project maintained by U.P. Jal Nigam' instead of including it under 'Work-in-Progress'. This has resulted in an understatement of 'Completed Rural Water Works Project maintained by U.P. Jal Nigam' and overstatement in work in progress by ₹ 48.29 crore.
- The amount due from contractors under the head 'Debtors' were overstated by ₹ 148.46 crore due to not providing for bad and doubtful debts against water charges remaining un-recovered for the period 1997-98 to 2010-11 from Jal Sansthan, Jhansi. This has also resulted in an overstatement of Surplus for the year by ₹ 148.46 crore.
- The Balance with Banks was overstated by ₹ 19.98 crore due to not accounting the Flexi FDRs of ₹ 40.10 crore got prepared from the bank balance and also not accounting interest amounting to ₹ 20.12 crore accrued on the FDRs. This has also resulted in understatement of Current Assets: Fixed Deposits with Banks by ₹ 40.10 crore and Surplus for the year by ₹ 20.12 crore.
- The Nigam had requested the U.P. Government for reimbursement of centage on Central Government sponsored schemes under which centage was not allowed by the Central Government while approving the projects. The total centage credited in Income and Expenditure account for 2012-13 was ₹ 302.38 crore. The fact being material in nature should have been disclosed in the Notes on Accounts for the respective years.

### **3. Uttar Pradesh State Road Transport Corporation (2017-18)**

- Sundry Debtors include ₹ 9.56 crore recoverable from Noida Authority: ₹ 5.84 crore and Greater Noida Authority (GNIDA): ₹ 3.72 crore in the books of Regional Manager Noida on account of loss on operation of City Buses in Noida/Greater Noida which was recoverable from these Authorities for the period 2006-07 to 2014-15. During the year 2018-19, Noida and GNIDA Authorities reimbursed ₹ 3.48 crore and ₹ 2.43 crore respectively and refused to reimburse the remaining amount. However, no provision for doubtful debt was made against the outstanding dues. This has resulted in overstatement of Profit for the year and Sundry debtors by ₹ 3.65 crore as well as understatement of provisions for Bad & Doubtful Debts by the same amount.
- Service Tax Department assessed Service Tax of ₹ 12.73 crore on transportation of passengers by air-conditioned buses for the period of June 2016 to June 2017. However, no provision for Service Tax liability was made in the accounts resulting in understatement of Licence and Taxes expenses and Current Liabilities as well as overstatement of Profit by ₹ 12.73 crore.



- Traffic Revenue (Passengers) of the Corporation does not include ₹ 9.56 crore being the amount claimed for reimbursement of fare for special category persons from respective department of the State Government. This resulted in understatement of Traffic Revenue (Passengers) and Sundry Debtors by ₹ 9.56 crore. Consequently, Profit is also understated by ₹ 9.56 crore.
- As per Schedule I to the Balance Sheet, the ‘Issued, Subscribed and Paid up Share Capital’ of the Corporation is ₹ 814.87 crore (State Government) which is more than its ‘Authorised Capital’ of ₹ 700 crore approved by the Transport Department.

### 6.6 Non-compliance with provisions of Accounting Standards/Ind AS

In exercise of the powers conferred by Section 469 of the Companies Act, 2013, read with Section 129 (1), Section 132 and Section 133 of the Companies Act, 2013, the Central Government prescribed Accounting Standards 1 to 7 and 9 to 29. Besides these, the Central Government notified 41 Indian Accounting Standards (Ind AS) through Companies (Indian Accounting Standards) Rules, 2015 and amendments thereto from time to time.

The Statutory Auditors reported that 16 companies as detailed in **Table 6.3** did not comply with mandatory Accounting Standards/Ind AS:

**Table 6.3: Details of Non-compliance with provisions of Accounting Standards/Ind AS commented by Statutory Auditors**

Sl. No.	Name of the Company	Year of Account	AS/IndAS not followed
<b>A.</b>	<b>Government Companies:</b>		
1.	Chhata Sugar Company Limited	2016-17	AS-15 & AS-28
2.	Kanpur Electricity Supply Company Limited	2018-19	Ind AS-2, Ind AS-10, Ind AS-16, Ind AS-19, Ind AS-20, Ind AS-36 and Ind AS-115
3.	Meerut City Transport Services	2012-13	AS-22
4.	Pichhara Varg Vitta Evam Vikas Nigam Limited	2015-16	AS-10
5.	Shreetron India Limited	2018-19	AS-13 & AS-15
6.	Southern U P Power Transmission Company Limited	2019-20	AS-1
7.	Uttar Pradesh Power Transmission Company Limited	2019-20	Ind AS-1, Ind AS-16, Ind AS-19, Ind AS-36 & Ind AS-109
8.	Uttar Pradesh State Tourism Corporation Limited	2016-17	AS-9, AS-22, AS-28 & AS-29
9.	Uttar Pradesh Beej Vikas Nigam	2015-16	AS-10
10.	Uttar Pradesh State Bridge Corporation Limited	2016-17	AS-2, AS-7, AS-15 & AS-29
11.	Uttar Pradesh Jal Vidyut Nigam Limited	2017-18	AS-2 & AS-22
12.	Uttar Pradesh Metro Rail Corporation Limited	2020-21	Ind AS-21, Ind AS-23, Ind AS-109 & Ind AS-116
13.	Uttar Pradesh Police Awas Nigam Ltd	2018-19	AS-2, AS-7, AS-15 & AS-29
14.	Uttar Pradesh State Spinning Company Limited	2017-18	AS-9, AS-15 & AS-28

Sl. No.	Name of the Company	Year of Account	AS/IndAS not followed
15.	Uttar Pradesh State Textile Corporation Limited	2017-18	AS-1, AS-2, AS-3, AS-6, AS-9, AS-10, AS-12, AS-13, AS-15, AS-17, AS-18, AS-22 & AS-28
<b>B. Government controlled other Companies:</b>			
1.	Moradabad Smart City Limited	2018-19	AS-12

During the course of supplementary audit, the CAG observed that the following companies had also not complied with the Accounting Standards/Ind AS, which was not reported by their Statutory Auditors as detailed in **Table 6.4**.

**Table 6.4: Details of Non-compliance with provisions of Accounting Standards/Ind AS commented by CAG**

Accounting Standard/ Ind AS	Name of the Company	Year of Account	Deviation
AS-1	Uttar Pradesh State Construction and Infrastructure Development Corporation Ltd	2017-18	The Company has changed its accounting policy on valuation of inventory, but impact on accounts due to change in accounting policy has not been disclosed.
AS-2	Uttar Pradesh Beej Vikas Nigam	2015-16	Nigam has valued rejected (expired) seeds at the rate of certified seeds (seeds usable or not-expired) while the same were to be valued at its net realisable value.
AS-3	Shretron India Limited	2018-19	Note to Cash Flow Statement was not shown by the Company below the Cash Flow Statement indicating the method used in the preparation of Cash Flow Statement and details showing reconciliation of cash and cash equivalents as shown in the Balance Sheet of the Company.
AS-4	UP State Tourism Corporation Limited	2016-17	As per High Court order dated 08 December 2017 (prior to the approval of the Accounts by the Board), the recoverable amount of License fee / Lease rent from Shivgarh Resort (for the year 2002-03) was ₹ 8.80 lakh, but the company has shown only ₹ 4.73 lakh in the books of account.
AS-12	Aligarh Smart City Limited	2018-19	Accounting Policy for Government Grant has not been framed.
	Shretron India Limited	2018-19	Government Grants has not been disclosed in the Statement of Significant Accounting Policies.

Accounting Standard/ Ind AS		Name of the Company	Year of Account	Deviation
AS-13	Investments	Shretron India Limited	2018-19	Accounting policy for Investments has not been disclosed in the Statement of Significant Accounting Policies.
AS-15	Employees Benefits	UP Project Corporation Ltd.	2017-18	As sum of ₹ 1.60 crore (Gratuity-₹ 0.14 crore and Leave encashment- ₹ 1.46 crore) on account of actuarial valuation of defined benefit gratuity plan and leave encashment plan has not been charged to the Statement of Profit and Loss Account.
AS-20	Earnings Per Share	Uttar Pradesh State Spinning Company Limited	2017-18	The Profit and Loss Account of the Company does not present basic and diluted earnings per share on its face.
AS-26	Intangible Assets	Meerut City Transport Services Limited	2012-13	Preliminary/ pre-operative expenditure have not been written off by the Company.
AS-29	Contingent Liabilities	Chhata Sugar Company Limited	2016-17	According to notes to accounts, claims filed by various parties, employees and ex-employees not yet acknowledged as debt was ₹ 60.64 lakh. Further, an old claim of arbitration award (April 1996) in favour of M/s Alpha Engineering was ₹ 42.15 lakh. But, brief descriptions of its nature as required under AS has not been mentioned.
Ind AS-20	Accounting for Government Grant	Kanpur Electricity Supply Company Limited	2018-19	A portion of the subsidy (amount indeterminate) received for repayment of loan and shown as Capital Reserve has not been systematically transferred to income in the Profit and Loss Account over the useful life of the assets.
Ind AS-23	Borrowing Cost	Uttar Pradesh Power Transmission Company Limited	2019-20	The Company in violation of provisions of Ind AS 23 booked penal interest of ₹ 4.88 crore paid during 2016-17 due to delay in payment of principal and interest as Capital Work-in-Progress instead of charging the same to Profit and Loss Account.

### 6.7 Management Letters

One of the objectives of financial audit is to establish communication on audit matters arising from the audit of financial statements between the auditor and those charged with the responsibility of governance of the corporate entity.

The material observations on the financial statements of PSUs were reported as comments by the CAG under Section 143 (6) of the Companies Act, 2013. Besides these comments, irregularities or deficiencies observed by CAG in the financial reports or in the reporting process were also communicated to the management through a 'Management Letter' for taking corrective action. During the year, CAG issued 'Management Letters' to PSUs as detailed in **Table 6.5**.

**Table 6.5: Details of PSUs to whom Management Letters issued**

Sl. No.	Name of the Company	Year of Account
<b>A.</b>	<b><u>Government Companies:</u></b>	
1.	Chhata Sugar Company Limited	2016-17
2.	Kanpur Electricity Supply Company Limited	2018-19
3.	Meerut City Transport Services Limited	2012-13
4.	Nandganj Sihori Sugar Company Limited	2016-17
5.	The Pradeshiya Industrial and Investment Corporation of UP Limited	2018-19
6.	Shreetron India Limited	2018-19
7.	Uttar Pradesh Handloom Corporation Limited	2000-01
8.	Uttar Pradesh Power Transmission Corporation Limited	2019-20
9.	Uttar Pradesh Project Corporation Limited	2017-18
10.	Uttar Pradesh State Tourism Corporation Limited	2016-17
11.	Uttar Pradesh Beej Vikas Nigam Limited	2015-16
12.	Uttar Pradesh State Bridge Corporation Limited	2016-17
13.	Uttar Pradesh Jal Vidyut Nigam Limited	2017-18
14.	Uttar Pradesh Metro Rail Corporation Limited	2020-21
15.	Uttar Pradesh State Spinning Company Limited	2017-18
16.	Uttar Pradesh State Textile Corporation Limited	2017-18
<b>B.</b>	<b><u>Government controlled other Companies:</u></b>	
1.	Bareilly Smart City Limited	2018-19
2.	Moradabad Smart City Limited	2018-19

The deficiencies generally related to

- application and interpretation of accounting policies and practices;
- adjustments arising out of audit observations that could have minor effect on the financial statements; and
- inadequate disclosure or non-disclosure of certain information on which management of the concerned PSUs gave assurances that corrective action would be taken in the subsequent year.

## **6.8 Follow up action on State Finances Audit Report**

State Finances Audit Report is being prepared from the year 2008-09 onwards and presented to the State Legislature. The Public Accounts Committee is yet to discuss these reports.

### 6.9 Conclusion

- Out of 71 functional PSUs, only four PSUs had submitted their annual accounts for the year 2020-21 and remaining 67 PSUs had arrears of 274 accounts. Out of 44 non-functional PSUs, 40 PSUs had arrears of 699 accounts. GoUP had provided ₹ 27,359.34 crore (Equity: ₹ 10,859.11 crore, Loan: ₹ 2,476.54 crore, Grant: ₹ 4,086.35 crore and Subsidies: ₹ 9,937.34 crore) to 46 State PSUs during the period in which their accounts were in arrears.

### 6.10 Recommendation

- *The Administrative Departments should strictly monitor and issue necessary directions to liquidate the arrears in accounts of the PSUs. The Government may also look into the constraints in preparing the accounts of the PSUs and take necessary steps to liquidate the arrears.*

Lucknow

The **02 May 2022**



(TANYA SINGH)

Accountant General (Audit-II),  
Uttar Pradesh

Countersigned



New Delhi

The **05 MAY 2022**

(GIRISH CHANDRA MURMU)

Comptroller and Auditor General of India

