

CHAPTER–V

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This chapter examines whether the internal control mechanism of UPSIDA is commensurate with the nature and size of its activities so that it could provide reasonable assurance for efficiency of operation, reliability of financial reporting and compliance with applicable laws and regulations. Key issues highlighted include not preparing the annual accounts, not availing the income tax exemption, revising pay in violation of terms and conditions of the pay committee, grant of unsecured loans to State PSUs, investment in fixed deposits in violation of guidelines, not maintaining the fixed deposit register and not claiming refund of tax deducted at source on time.

Introduction

5.1 Internal control is a process designed for providing reasonable assurance for efficiency of operation, reliability of financial reporting and compliance with applicable laws and statutes.

Audit Findings

5.2 Audit analysis of internal control procedures/mechanisms revealed the following deficiencies:

Annual Accounts not prepared

5.2.1 As per the Uttar Pradesh State Industrial Development Corporation Limited (Transfer of Assets and Liabilities) Ordinance, 2018, assets and liabilities of UPSIDC were to be transferred to UPSIDA. Assets and liabilities of LIDA were also to be transferred to UPSIDA in view of GoUP notification (04 March 2021) rescinding the formation of LIDA and including its notified villages of district Lucknow and Unnao in UPSIDA.

Audit noticed that assets and liabilities of UPSIDC were not transferred to UPSIDA as annual accounts of UPSIDC were not prepared from 2014-15 till 26 June 2018¹ to effect such transfer. Similarly, assets and liabilities of the LIDA were not transferred to UPSIDA as annual accounts of LIDA were not finalised for the years 2019-20 to 2020-21².

Further, UPSIDA did not prepare annual accounts since inception (September 2001) till 31 March 2024 as required under Section 22 of the UPIAD Act, 1976. Annual reports were also not prepared under section 23 of the UPIAD Act, 1976 for laying before both Houses of the Legislature.

In its reply, UPSIDA stated (September 2023) that work for finalisation of annual accounts of UPSIDC till 26 June 2018 is ongoing. Ex-LIDA accounts for 2018-19 has been prepared and action for preparation of remaining accounts was being taken.

During Exit Conference (April 2024), UPSIDA stated that no action was taken on the pending accounts of ex-LIDA. GoUP stated (July 2024) that annual accounts of LIDA were prepared for 2019-20 and 2020-21 and statutory auditors have signed the same.

¹ Since UPSIDCL (Transfer of Assets and Liabilities) Ordinance, 2018 was issued on 27 June 2018.

² As LIDA ceased to exist from 04 March 2021.

Fact remained that Annual accounts of UPSIDC and UPSIDA were not prepared for years 2014-15 to 26 June 2018³ and since inception till date respectively. In case of Ex-LIDA, statutory auditor did not issue Audit Report till December 2024. As a result, transfer of assets and liabilities of UPSIDC and Ex-LIDA to UPSIDA was pending. Due to this, annual accounts of UPSIDA could not be forwarded to GoUP since inception under the provisions of section 22 of UPIAD Act, 1976.

Recommendation No. 9

GoUP should ensure that pending annual accounts of UPSIDC, Ex-LIDA and UPSIDA are finalized at the earliest to enable merger of assets and liabilities of UPSIDC and Ex-LIDA with UPSIDA. Furthermore, the GoUP should ensure that annual report of UPSIDA is laid before both Houses of the Legislature.

Exemption from Income tax not availed

5.2.2 As discussed in 231st Board meeting (December 1999) of UPSIDC, after conversion of UPSIDC into UPSIDA (an authority) from 27 June 2018, Income Tax was not payable by UPSIDA thereby enabling investment of savings in providing better infrastructural facilities in the IAs.

Audit noticed that UPSIDA (including UPSIDC) deposited income tax amounting to ₹ 184.43 crore during the period from July 2018 to March 2024 as it failed to secure⁴ tax exemption under section 10 (46) of the Income Tax Act, 1961. It is pertinent to mention that Central Government notified⁵ Greater Noida Industrial Development Authority (GNIDA) and Yamuna Expressway Industrial Development Authority (YEIDA) for the purpose of Section 10 (46) of the Income tax act.

In its reply, UPSIDA stated (December 2023) that tax advisor has been asked to ensure immediate necessary action so that exemption under Section 10 (46) of the income tax act can be availed. GoUP stated (July 2024) that advance tax was being deposited on the basis of provisional accounts. The income tax department assessed tax for the year 2021-22 on this basis only. The Income tax advisor had been directed to initiate action for obtaining the exemption from income tax and he has initiated the same.

Pay revision in violation of conditions of Pay Committee

5.2.3 Department of Public Enterprises, GoUP accorded (3 January 2017) the sanction to implement the recommendation of Pay Committee, 2016 (PC 2016) in the Public Sector Undertakings/Enterprises *w.e.f.* 1 January 2016 subject to audit of annual accounts of three years (2012-13, 2013-14 and 2014-15) by the Accountant General and its adoption in the Annual General Meetings.

IIDD issued (19 March 2018) concurrence on proposal of UPSIDC to implement the recommendations of PC 2016 *w.e.f.* 1 January 2016 subject to compliance of the conditions mentioned in the GoUP order dated 3 January 2017. UPSIDC issued (9 April 2018) office order for

³ Since UPSIDCL (Transfer of Assets and Liabilities) Ordinance, 2018 was issued on 27 June 2018.

⁴ Through application.

⁵ 23 June 2020 (GNIDA) and 24 December 2020 (YEIDA).

implementation of the recommendation of PC 2016 subject to compliance of the conditions mentioned in the GoUP order dated 3 January 2017.

Audit noticed that the annual accounts of the two years⁶ (2013-14 and 2014-15) prior to effective date (1 January 2016) were neither audited by the Statutory Auditor/Accountant General nor were adopted in the Annual General Meetings at the time of implementation (9 April 2018) of pay revision. However, UPSIDC implemented the pay revision and released monetary benefits in violation of its own order and orders of GoUP, which clearly stipulated implementation of the recommendation of Pay Committee on fulfillment of the conditions.

In its reply, UPSIDA stated (September 2023) that provisional accounts were presented before Pay Committee. Considering this, GoUP ordered to implement the pay committee recommendations in UPSIDC. UPSIDC followed GoUP orders and revised the pay of employees. GoUP reiterated (July 2024) Management's reply given in September 2023. However, UPSIDA/GoUP did not provide any document in support of the reply.

Grant of Unsecured loans to state PSUs

5.2.4 GoUP directed (August 2019) UPSIDA to grant loans amounting to ₹ 2.84 crore to U.P. State Spinning Company Limited (UPSSCL) to enable UPSSCL to repay the loan of Union Bank of India. Further, GoUP directed (February 2020) UPSIDA to grant loans amounting to ₹ 50 crore to Uttar Pradesh Financial Corporation (UPFC) to repay the upfront amount of one-time settlement of outstanding dues of SIDBI.

Audit noticed that UPSSCL was defaulter under Insolvency and Bankruptcy Code 2016 and had related restrictions on its assets. UPFC's assets were seized under orders of Debt Recovery Tribunal (DRT). UPSIDA granted unsecured loans of ₹ 52.84 crore⁷ to the two State PSUs without entering into loan agreements with the entities. GoUP specified (28 July 2020) that loan to UPFC shall be subject to interest at the rate of 8 *per cent* payable quarterly and the principal repayment shall start after two years. No such terms and conditions for loan granted to UPSSCL was specified. UPSIDA raised demand notices to UPFC but the interest and principal installments remained unpaid. No recovery was initiated from UPSSCL.

During Exit Conference (April 2024), UPSIDA stated loans were given as per directions of GoUP. Efforts were being made to recover the loan amount from both the companies. However, no amount has been recovered so far.

GoUP stated (July 2024) that UPSSCL, UPFC and UPSIDA are the State government entities. Due to which, it is necessary for UPSIDA to follow its direction and UPSIDA is doing the same.

The reply is not acceptable as loans were granted by UPSIDA without securing its financial interest. It is pertinent to mention that GoUP asked (January 2023) to extend a further loan of ₹ 30 crore to UPFC. However, in

⁶ Annual Accounts for the year 2013-14 were certified by Statutory Auditor on 28 May 2018 and Comments of CAG were issued on 30 April 2019 under Section 619(4) of the Companies Act, 1956 and annual accounts for the year 2014-15 was not certified by Statutory Auditor till 31 March 2024.

⁷ ₹ 2.84 crore to UPSSCL on 23 January 2020 and ₹ 50 crore to UPFC on 18 March 2020.

view of possibility of earlier loan of ₹ 50 crore to UPFC becoming bad debt, UPSIDA did not release a further loan of ₹ 30 crore to UPFC and requested GoUP to reconsider the matter in the interest of UPSIDA.

Increasing burden of interest on outstanding GoUP loan of ₹ 41 crore

5.2.5 In order to carry out development activities, ex-LIDA received (October 2005 to March 2008) ₹ 41 crore from GoUP as short term loan, which was repayable within five years along with interest at the rate ranging between 18 and 19 *per cent* per annum, including penal interest, if due.

Ex-LIDA requested⁸ the GoUP to convert the loan into seed capital or extend repayment period to eight years after making it interest free loan, which was rejected by the Government (July 2007). It again requested⁹ GoUP for reduction of rate of interest on the loan, either to zero *per cent* or equivalent to the rate of interest applicable to savings bank account. No decision was taken by GoUP on this.

Audit noticed that repayment of principal amount and interest has not been made by UPSIDA, resulting in outstanding liability of interest amounting to ₹ 132.49 crore on the loan amount of ₹ 41 crore as on 31 March 2024.

The above matter was already commented in the CAG's Audit Report No.6 (Economic Sector-Non PSUs) for the year ended 31 March 2015. However, no action has been taken in this regard.

In its reply, UPSIDA accepted (September 2023) the Audit observation and stated that a proposal is being submitted for repayment of the loan. After decision at a higher level, loan would be repaid and State Government would be requested to waive off the interest amount. In its reply (July 2024), GoUP did not offer any comments on the observation.

Repayment conditions of NOIDA loan not complied with

5.2.6 New Okhla Industrial Development Authority (NOIDA) released¹⁰ loan of ₹ 450 crore to UPSIDC with interest applicable at the rate of 10.20 *per cent* per annum, payable quarterly. The principal amount was repayable in twelve equal quarterly installments after the expiry of moratorium period of one year. As per the loan agreement of the term loan, additional interest at the rate of 3 *per cent*, compounded quarterly was chargeable in case of default in repayment. Further, UPSIDC agreed to other terms and conditions that may be stipulated by NOIDA from time to time either in the letter of sanction or otherwise.

NOIDA reduced (July 2018) the interest rate from 10.20 *per cent* per annum to 8 *per cent* per annum, applicable from 1 April 2018 onwards. Subsequently, NOIDA communicated (December 2020) to UPSIDA, its Board's decision to charge only simple interest at the rate of government securities¹¹ from the date of disbursement of the loan and that no penal interest or compound interest would be charged.

⁸ During July 2006 to February 2007.

⁹ During October 2019 to March 2021.

¹⁰ ₹ 350 crore on 22 October 2014 and ₹ 100 crore on 20 November 2014.

¹¹ As applicable annually.

Audit noticed that UPSIDA (including UPSIDC) did not adhere to the repayment terms and conditions of the MoU, which clearly stated that interest was immediately payable quarterly and principal amount was repayable in twelve equal quarterly installments after the moratorium period. UPSIDA (including UPSIDC) considered its payment of ₹ 450 crore made to NOIDA during December 2017 to November 2018 as principal repayment and payment of ₹ 132.55 crore made during April 2019 to January 2021 as interest payment.

Accordingly, NOIDA objected (March 2024) to UPSIDA's adjustment of the principal first and thereafter interest. It also objected to the application of interest at the rate of 8.016 per cent¹² from the date of disbursement of loan up to 31 March 2018 and at the rate of 8 per cent¹³ from 1 April 2018 by UPSIDA instead of applying simple interest at the rate of government securities¹⁴ as per NOIDA's decision in December 2020. NOIDA claimed ₹ 15.05 crore as principal and ₹ 4.63 crore as interest outstanding from UPSIDA in addition to already paid amount of ₹ 582.55 crore¹⁵. NOIDA's claim of ₹ 19.68 crore¹⁶ remained unpaid as of 31 March 2024.

During Exit Conference (April 2024), UPSIDA accepted the observation and assured that the loan repayment would be done accordingly. GoUP stated (July 2024) that there was loan adjustment related discrepancy between the two authorities. Further action would be taken as per government direction.

Investment in fixed deposits in violation of guidelines

5.2.7 As per the provisions of Section 20 (3) of the UPIAD Act, 1976 subject to any direction of the State Government, the Authority may keep in current account of any scheduled bank such sum of money out of its funds as it may think necessary for meeting its expected current requirements and invest any surplus money in such a manner as it thinks fit. GoUP also directed (23 February 2016) that the Board of public sector undertakings/autonomous bodies would be responsible for opening of bank accounts and investment of surplus funds in line with the rules/provisions governing them. Accordingly, UPSIDA's Board in its 36th Meeting (September 2020) framed guidelines for investment of surplus in deposit accounts of public sector and private sector banks.

Audit noticed that UPSIDA invested¹⁷ the surplus funds in fixed deposits accounts of several public sector banks without assessing the financial parameters of the banks as stated in the above guidelines. One of the conditions for investment was that the banks have declared profit in the immediately preceding three financial years. It was, however, noticed that ₹ 57.23 crore was invested in public sector banks having losses in all three preceding financial years as detailed in **Appendix-5.1**.

During the Exit Conference (April 2024), UPSIDA stated that it was a government body and hence, from safety point of view fixed deposits were

¹² Average rate of Government securities from 2014 to 2018.

¹³ Communicated by NOIDA in July 2018.

¹⁴ As applicable annually.

¹⁵ ₹ 450 crore + ₹ 132.55 crore.

¹⁶ ₹ 15.05 crore + ₹ 4.63 crore.

¹⁷ During the years 2020-21 and 2021-22.

made in public sector banks after obtaining highest interest rates. GoUP stated (July 2024) that investment was being made in public sector banks at higher interest rates after approval of the competent authority.

The reply is not acceptable as Audit observed that such investment was not allowed as per the Board approved investment guidelines.

Fixed deposit register not maintained

5.2.8 Audit noticed that fixed deposit register was not maintained properly and certified from competent authority to ensure effective control over the investment made in fixed deposits from time to time.

During Exit Conference (15 April 2024), UPSIDA stated that proper maintenance of fixed deposit register for the period 2017-18 to 2022-23 would be ensured at earliest. The GoUP stated (July 2024) that details of investment were maintained in computer. Preparation of fixed deposit register for future investments has been directed.

Recommendation No. 10

UPSIDA should ensure that a digitisation of fixed deposits register duly certified by competent authority is prepared at the earliest and monitor it at all times. Fund investment policy needs to be formulated as per direction of GoUP from time to time.

Refund on TDS not claimed timely

5.2.9 Ex-LIDA was registered under section 12AA of the Income Tax Act, 1961 and was exempt from income tax on property and contributions.

Audit noticed that on fixed deposits valuing ₹ 44 crore and pertaining to Ex-LIDA, bank deducted (August 2019) ₹ 60.33 lakh as Tax Deducted at Source (TDS) due to correction and mapping issue in Ex-LIDA's Permanent Account Number (PAN). UPSIDA (including ex-LIDA), however, failed to make a timely claim and obtain the refund of ₹ 60.33 lakh from income tax authorities. UPSIDA applied to the Commissioner of Income Tax for condonation of delay in claiming refund of TDS in March 2024 only after being pointed out by audit (August 2022). However, the refund was pending till December 2024.

During Exit conference (15 April 2024) UPSIDA stated that efforts were being made to obtain refund of TDS from income tax authorities. GoUP stated (July 2024) bank deducted tax from the interest earned on the amount invested by LIDA, even though LIDA was exempted from income tax. UPSIDA has appointed income tax advisor for ensuring action to obtain refund of the deducted amount from income tax department.

Conclusion

UPSIDA had not prepared its accounts since inception and without the preparation of annual accounts of UPSIDC and Ex-LIDA, Assets and liabilities of these entities were not transferred to UPSIDA. UPSIDA had to deposit ₹ 184.43 crore as income tax due to not obtaining exemption under Section 10 (46) of Income Tax Act, 1961. Unsecured loans amounting to ₹ 52.84 crore was granted to two State PSUs without entering into loan agreements. There was accumulated interest outstanding of ₹ 132.49 crore as on 31 March 2024 on the loan amount of

₹ 41 crore due to inaction. In violation of the guidelines, ₹ 57.23 crore was invested in such public sector banks which had losses in all three preceding financial years. Refund of TDS amounting to ₹ 60.33 lakh was not claimed timely. Internal control did not provide reasonable assurance for efficiency of operation, reliability of financial reporting and compliance with applicable laws and regulations.

Lucknow
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The **14 JAN 2026**



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