

CHAPTER-I

Overview of Government companies and Statutory corporations

Introduction

1.1 As on 31 March 2006, there were 87 Government companies (48 working companies and 39 non-working companies¹) and seven working Statutory corporations under the control of the State Government, as against the same number of companies and corporations as on 31 March 2005. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956. The audit arrangements of Statutory corporations are as shown below:

Sl. No.	Name of the corporation	Authority for audit by the CAG	Audit arrangement
1.	Uttar Pradesh State Road Transport Corporation	Section 33(2) of the Road Transport Corporations Act, 1950	sole audit by CAG
2.	Uttar Pradesh Financial Corporation	Section 37(6) of the State Financial Corporations Act, 1951	audit by Chartered Accountants and supplementary audit by CAG
3.	Uttar Pradesh State Warehousing Corporation	Section 31(8) of the State Warehousing Corporations Act, 1962	audit by Chartered Accountants and supplementary audit by CAG
4.	Uttar Pradesh Avas Evam Vikas Parishad	Section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971	sole audit by CAG
5.	Uttar Pradesh Jal Nigam	Section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971	sole audit by CAG
6.	Uttar Pradesh Forest Corporation	Section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971	audit by CAG ²
7.	Uttar Pradesh Government Employees Welfare Corporation ³	Section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971	audit by Chartered Accountants and supplementary audit by CAG

The State Government had formed Uttar Pradesh Electricity Regulatory Commission and its audit is entrusted to the CAG under Section 104 (2) of the Electricity Act, 2003.

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

1.2 As on 31 March 2006, the total investment in 55 working PSUs (48 Government companies and seven Statutory corporations) was Rs.27,128.12 crore⁴ (equity: Rs.11,152.92 crore, share application money: Rs.7,733.56 crore and long term loans⁵: Rs.8,241.64 crore) against the total investment of

¹ Non-working companies are those that are in the process of liquidation/closure/merger, etc.

² Audit is also being conducted by Examiner, Local Fund Account as the amendment in the Uttar Pradesh Forest Corporation Act, 1974 is still awaited.

³ The Separate Audit Report of the CAG is not to be placed in the State Legislature in the absence of any specific provision in the rules of the Corporation, which is registered under the Societies Registration Act, 1860.

⁴ State Government's investment in working PSUs was Rs.17757.89 crore (others: Rs.9370.23 crore). Figures as per Finance accounts 2005-06 is Rs. 19,390.00 crore, the difference is under reconciliation.

⁵ Long term loans mentioned in para 1.2, 1.4, 1.5 and 1.18 are excluding interest accrued and due on such loans.

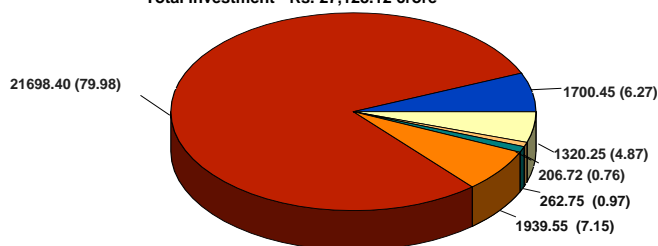
Rs.25,699.28 crore (equity: Rs.10,427.54 crore, share application money: Rs.7,571.06 crore and long term loans: Rs.7,700.68 crore) in 55 working PSUs (48 Government companies and seven Statutory corporations) as on 31 March 2005. Increase in total investment was due to increase in equity and loans mainly in the electronic, textile, sugar and power sectors. The analysis of investment in working PSUs is given in the following paragraphs.

Sector-wise investment in working Government companies and Statutory corporations

1.3 The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2006 and 31 March 2005 are indicated in the pie charts as follows:

Sector-wise investment in working Government companies and Statutory corporations As on 31 March 2006

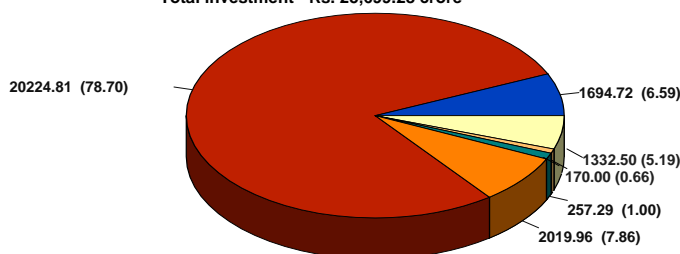
Amount - Rupees in crore
(Figures in bracket indicate percentage of investment)
Total investment - Rs. 27,128.12 crore



Legend: Sugar, Power, Financing, Electronics, Textile, Agriculture, Industry and Others

As on 31 March 2005

Amount - Rupees in crore
(Figures in bracket indicate percentage of investment)
Total investment - Rs. 25,699.28 crore



Legend: Sugar, Power, Financing, Electronics, Textile, Agriculture, Industry and Others

Working Government companies

1.4 The total investment in working Government companies at the end of March 2005 and March 2006 was as follows:

(Rupees in crore)

Year	Number of companies	Equity	Share application money	Loans	Total
2004-05	48	9924.96	7568.85	6247.12	23740.93
2005-06	48	10650.34	7731.35	6834.70	25216.39

Investment in the current year has increased over the previous year due to increase in equity and loans mainly in the electronic, textile, sugar and power sectors.

As on 31 March 2006, the total investment in working Government companies comprised 72.90 per cent of equity capital and 27.10 per cent of loans as compared to 73.69 per cent and 26.31 per cent respectively as on 31 March 2005.

The summarised statement of Government investment in working Government companies in the form of equity and loans is detailed in **Annexure-1**.

Working Statutory corporations

1.5 The total investment in seven working Statutory corporations at the end of March 2005 and March 2006* was as follows:

(Rupees in crore)

Name of the corporation	2004-05		2005-06	
	Capital	Loan	Capital	Loan
Uttar Pradesh State Road Transport Corporation	312.13	184.24	312.13	211.77
Uttar Pradesh Financial Corporation	179.28	1,035.89	179.28	1008.32
Uttar Pradesh State Warehousing Corporation	11.17 (2.21)	102.03	11.17 (2.21)	55.45
Uttar Pradesh Forest Corporation	-	-	-	-
Uttar Pradesh Avas Evam Vikas Parishad	-	-	-	-
Uttar Pradesh Jal Nigam	-	129.75	-	129.75
Uttar Pradesh Government Employees Welfare Corporation	-	1.65	-	1.65
Total	502.58 (2.21)	1,453.56	502.58 (2.21)	1406.94

(Figures in bracket indicate share application money)

As on 31 March 2006, the total investment in working Statutory corporations comprised 26.40 per cent of equity capital and 73.60 per cent of loans compared to 25.78 per cent and 74.22 per cent respectively as on 31 March 2005.

The summarised statement of Government investment in working Statutory corporations in the form of equity and loans is detailed in **Annexure-1**.

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

1.6 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to working Government companies and working Statutory corporations are given in **Annexure-1 and 3**.

* Figures for the year 2005-06 are provisional (except for Uttar Pradesh Financial Corporation).

The budgetary outgo in the form of equity, loans and grants/subsidies from the State Government to working Government companies and working Statutory corporations for the three years up to March 2006 are given below:

(Rupees in crore)

Particulars	2003-04				2004-05				2005-06			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
A. (i) Equity Capital outgo from budget	7	1,512.91	-	-	7	5,575.04	-	-	4	420.86	-	-
(ii) Loans given from budget	13	433.40	1	2.00	9	453.40	1	3.02	12	508.98	1	30.00
Total A (i)+(ii)	14	1,946.31	1	2.00	13	6,028.44	1	3.02	16	929.84	1	30.00
B. Grants/Subsidy for:												
(i) Projects/ programmes/ schemes	5	1,289.19 ¹	1	213.21	7	1,297.26 ³	1	76.91	5	479.01 ⁵	1	2.02
(ii) Other	3	2.91 ²	1	2.11	3	5.23 ⁴	-	-	2	3.31 ⁶	-	-
Total B (i) + (ii)	-	1,292.10	-	215.32	-	1,302.49	-	76.91	-	482.32	-	2.02
Total outgo (A+B)	19⁷	3,238.41	2⁷	217.32	17⁷	7,330.93	1⁷	79.93	21⁷	1412.16	2	32.02

During 2005-06, the Government had guaranteed the loans aggregating Rs.1827.20 crore obtained by 11 working companies (Rs.1825.59 crore) and one working Statutory corporation (Rs.1.61 crore). At the end of the year, guarantees amounting to Rs.6385.09 crore against nine working Government companies (Rs.5659.62 crore) and four working Statutory corporations (Rs.725.47 crore) were outstanding. The guarantee commission paid/payable to the Government by two⁸ Government companies and two⁸ Statutory corporations during the year 2005-06 was Rs.21.93 crore and Rs.62.72 lakh respectively. The Government had converted loan of Rs.339.13 crore outstanding from Uttar Pradesh State Spinning Company Limited (Rs.4.60 crore) and Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (Rs.334.53 crore) into equity.

Finalisation of accounts by working PSUs

1.7 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 Section 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read

¹ Includes grant of Rs.137.97 crore.

² Includes grant of Rs.59.19 lakh.

³ Includes grant of Rs.129.69 crore.

⁴ Includes grant of Rs.1.11 crore.

⁵ Includes grant of Rs.3.21 crore.

⁶ Includes grant of Rs.3.25 crore.

⁷ These are the actual number of companies /corporations which have received budgetary support in the form of equity, loans, grants and subsidies from the Government during the respective years.

⁸ Out of nine working Government companies and four Statutory corporations against which guarantees were outstanding, information has been furnished by only two Government companies (serial No. A-14 and 15 of Annexure-3) and two Statutory corporations (serial No. B- 1and B-3 of Annexure-3).

with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of the financial year. Similarly, in case of Statutory corporations, their accounts are to be finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

Out of 48 working Government companies, only 5* working Government companies, and out of seven working Statutory corporations, only one** Statutory corporation finalised their accounts for the year 2005-06 within the stipulated period. During October 2005 to September 2006, 40 working Government companies finalised 47 accounts for previous years. Similarly, during this period, six working Statutory corporations finalised seven accounts for the previous years.

The accounts of 43 working Government companies and six Statutory corporations were in arrears for periods ranging from one to 16 years as on 30 September 2006 as detailed below:

Sl No	No. of working companies/corporations		Year from which accounts are in arrears	Number of years for which accounts are in arrears	Reference to serial No. of Annexure-2	
	Government companies	Statutory corporations			Government companies	Statutory corporations
1	1		1990-91 to 2005-06	16	A-24	
2	2		1993-94 to 2005-06	13	A-10, 17	
3	1		1994-95 to 2005-06	12	A-43	
4	1		1996-97 to 2005-06	10	A-14	
5	2		1998-99 to 2005-06	8	A-6, 46	
6	2	1	1999-2000 to 2005-06	7	A-8, 21	B-4
7	2		2000-01 to 2005-06	6	A-23, 44	
8	1	1	2001-02 to 2005-06	5	A-9	B-7
9	6		2003-04 to 2005-06	3	A-7, 18, 28, 29, 34, 48,	
10	12	1	2004-05 to 2005-06	2	A-1, 5, 30, 32, 33, 36, 37, 38, 39, 41, 45, 47	B-5
11	13	3	2005-06	1	A-4, 11, 15, 16, 19, 20, 22, 25, 26, 27, 31, 40, 42	B-1, 3, 6

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments of the Government were informed every quarter by the Audit regarding arrears in finalisation of accounts, no

* Serial No. A-2, 3, 12, 13 and 35 of Annexure-2.

** Serial No.B-2 of Annexure-2.

remedial measures have been taken by the Government, as a result of which, the net worth of these PSUs could not be assessed in audit.

Financial position and working results of working PSUs

1.8 The summarised financial results of working PSUs (Government companies and Statutory corporations) as per their latest finalised accounts are given in **Annexure-2**. Besides, statements showing the financial position and working results of individual working Statutory corporations for the latest three years for which accounts have been finalised, are given in **Annexure-4 and 5** respectively.

According to the latest finalised accounts of 48 working Government companies and seven working Statutory corporations, 29 companies and one corporation had incurred an aggregate loss of Rs.1,792.46 crore and Rs.22.77 crore respectively and 18 companies and six corporations earned an aggregate profit of Rs.175.64 crore and Rs.211.32 crore respectively. One working Government company¹ was under construction.

Working Government companies

Profit earning working companies and dividend

1.9 The Government formulated (October 2002) a dividend policy for payment of minimum dividend and ordered the PSUs to pay a minimum dividend of 5 *per cent* on the capital invested by the Government from financial year 2002-03. Out of 40 working Government companies which finalised their accounts for previous years by September 2006, 16 companies earned an aggregate profit of Rs.174.11 crore, and 13² of these companies earned profit for two or more successive years and only three³ companies declared dividend of Rs.1.40 crore. The dividend as a percentage of share capital (Rs.28.08 crore) in above three companies worked out to 4.99. The remaining 13 profit making companies did not declare any dividend. The total return by way of dividend of Rs.1.40 crore worked out to 0.014 *per cent* in 2005-06 on total equity investment of Rs.9,785.15 crore by the State Government in all the working Government companies as against 0.008 *per cent* in the previous year.

Loss incurring working Government companies

1.10 Of the 29 loss incurring working Government companies, 18 companies had accumulated losses aggregating Rs.6,258.37 crore, which exceeded their aggregate paid up capital of Rs.4,717.60 crore (**Annexure-2**).

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies in the form of equity, loans and conversion of loans into equity. According to available information, out of these 18 companies, the total financial support so provided by the State Government by way of equity, loans and conversion of loans into equity during 2005-06 to seven companies amounted to Rs.422.65 crore.

¹ Serial No. A-35 of Annexure-2.

² Serial No. A-1, 5, 6, 13, 19, 20, 21, 22, 23, 41, 43, 45 and 48 of Annexure-2.

³ Serial No. A-19, 20 and 41 of Annexure-2.

Working Statutory corporations

Profit earning Statutory corporations and dividend

1.11 Five⁴ corporations, out of six working Statutory corporations which finalised their accounts for previous years by September 2006, earned an aggregate profit of Rs.182.02 crore. Three (Serial No. B-3, 5 and 7 of **Annexure-2**), out of these five corporations, earned profit for two or more successive years but only one corporation (B-3 of **Annexure-2**) declared dividend amounting to Rs.1.20 crore.

Loss incurring Statutory corporations

1.12 One Statutory corporation (Serial No. B-6 of **Annexure-2**) which finalised its accounts for previous years by September 2006, had accumulated loss aggregating to Rs.78.75 crore. This corporation has no paid-up capital.

Operational performance of working Statutory corporations

1.13 The operational performance of the working Statutory corporations is given in **Annexure-6**.

Return on capital employed

1.14 As per the latest finalised annual accounts of PSUs, the capital employed¹ worked out to Rs.18,145.65 crore in 48 working companies and total return² thereon amounted to Rs.(-) 582 crore as compared to total return of Rs.(-) 460.92 crore in the previous year. Similarly, the capital employed and total return thereon in case of seven working Statutory corporations as per their latest finalised annual accounts worked out to Rs.6,831.62 crore and Rs.288.75 crore (4.23 *per cent*), respectively, as against the total return of Rs.71.58 crore (1.26 *per cent*) in previous year. The details of capital employed and total return on capital employed in case of the working Government companies and Statutory corporations are given in **Annexure-2**.

Reforms in the power sector

Status of implementation of MOU between the State Government and Central Government

1.15 A memorandum of understanding (MOU) was signed (February 2000) between the Government of India and the Government of Uttar Pradesh as a joint commitment for implementation of reforms programme in power sector with identified milestones.

Status of implementation of the reform programme against each commitment made in MOU is detailed below:

Sl. No.	Reform programme commitment as per MOU	Targeted completion schedule	Present status
1	2	3	4
I	By the State Government:		
(i)	100 <i>per cent</i> metering of all consumers	31 December 2001	Only 55.58 ³ <i>per cent</i> consumers could be metered (March 2006)
(ii)	Online billing at 20 selected towns	31 March 2001	Introduced in one town only i.e. Lucknow in September 2006.
(iii)	Upgradation of distribution system	Nil	Various works <i>viz.</i> rearrangement of

⁴ Serial No. B-1, 2, 3, 5 and 7 of Annexure-2.

¹ Capital employed represents net fixed assets (including capital work-in-progress) plus working capital except in finance companies and corporations where it represents the mean of aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).

² For calculating total return on capital employed, interest on borrowed funds is added to net profit/ subtracted from the loss as disclosed in the profit and loss account.

³ The progress as reported during 2004-05 differs from the progress of the current year. The discrepancy has not been clarified (September 2006).

Audit Report (Commercial) for the year ended 31 March 2006

			service lines, installation of capacitor banks, construction of lines, installation of transformers and augmentation of distribution system were at various stages of completion (September 2006).
(iv)	Privatisation of distribution sector, if commercial viability is not achieved	Nil	No privatisation has been done so far (September 2006).

1	2	3	4
II	By the Central Government:		
(i)	Support from the Government of India for financing renovation and modernisation of existing thermal and hydro power stations	Nil	Loan of Rs.1103.98 crore has been sanctioned by the Power Finance Corporation to Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited. Besides this, loan of Rs.18.06 crore and subsidy of equal amount has been sanctioned by the Government of India under Accelerated Power Development Reform Programme (APDRP) (March 2006).
(ii)	Support from the Government of India for undertaking construction of important transmission works	Nil	UPPCL received Rs.695.25 crore from Power Finance Corporation against 49 projects (March 2006).

State Electricity Regulatory Commission

1.16 Uttar Pradesh Electricity Regulatory Commission (Commission) was formed on 10 September 1998 under Section 17 of Electricity Regulatory Commission Act, 1998¹. The Commission is a body corporate and comprises three members including a Chairman, who are appointed by the State Government. The audit of accounts of the Commission has been entrusted to CAG under Section 104 (2) of the Electricity Act, 2003. The Commission had issued five tariff orders up to September 2006.

Non-working Public Sector Undertakings (PSUs)

Investment in non-working PSUs

1.17 As on 31 March 2006, the total investment in 39 non-working PSUs (all Government companies) was Rs.875.84 crore² (equity: Rs.391.88 crore, share application money: Rs.45.85 crore and long term loans: Rs.438.11 crore) against the total investment of Rs.873.50 crore (equity: Rs.391.88 crore, share application money: Rs.49.06 crore and long term loans: Rs.432.56 crore) in the same number of companies as on 31 March 2005.

The classification of non-working Government companies at the end of March 2006 was as under:

Status of non-working Government companies	Number of companies	Investment	
		Equity ³	Long term loans
Under liquidation/ closure	10	59.09	150.77
Under merger	1	0.42	-
Defunct and non-operating companies	28	378.22	287.34
Total	39	437.73	438.11

Of the above non-working Government companies, 10 Government companies were under liquidation/closure under Section 560 of the Companies Act, 1956 for three to 31 years and substantial investment of Rs.209.86 crore was involved in these companies. Effective steps need to be taken for their expeditious liquidation or closure.

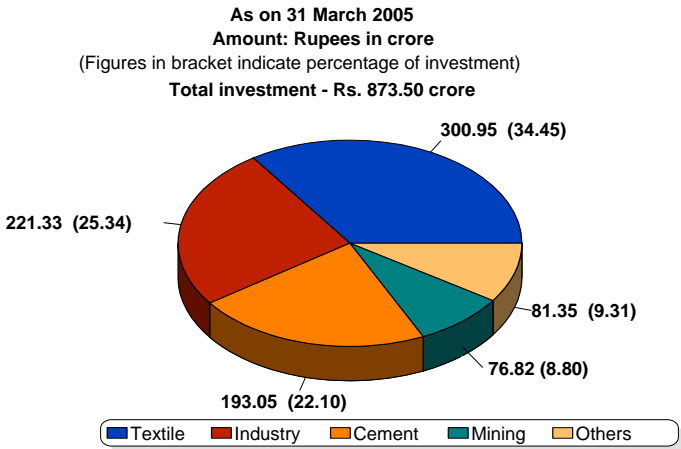
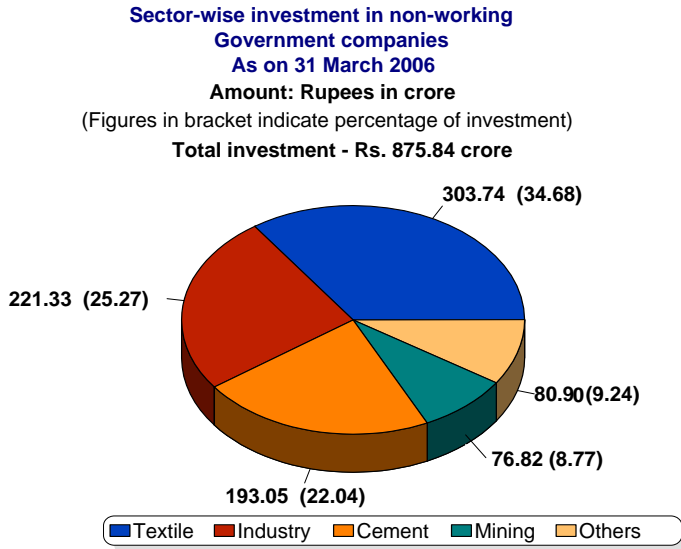
Sector-wise investment in non-working Government companies

¹ Since replaced with Section 82 (1) of the Electricity Act, 2003.

² State Government investments was Rs.652.48 crore (Others: Rs.223.36 crore). Figures as per finance accounts 2005-06 is Rs. 588.48 crore. The difference is under reconciliation.

³ Including share application money of Rs.45.85 crore in respect of defunct and non-operating companies.

1.18 The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2006 and 2005 are indicated in the pie charts as follows:



Budgetary outgo, grant/subsidy, guarantees, waiver of dues and conversion of loans into equity

1.19 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of non-working Government companies are given in **Annexures-1 and 3**.

During the year 2005-06, there was budgetary outgo in the form of loans amounting to Rs.6.11 crore to three* non-working companies. At the end of

* Serial No. C-1, 16 and 21 of Annexure-1.

March 2006, guarantees amounting to Rs.33.95 crore in respect of five non-working companies were outstanding.

Total establishment expenditure on non-working PSUs

1.20 The year-wise details of total establishment expenditure incurred by non-working Government companies and the sources of financing them during the last three years up to 2005-06 are given below:

(Rupees in crore)

Year	Number of PSUs	Total establishment expenditure	Financed by				
			Disposal of investment/assets	Loans from private parties	Government by way of		Others
					Loans	Grants	
2003-04	5	0.85	-	-	-	-	0.85
2004-05	5	1.13	-	-	-	-	1.13
2005-06	3 ¹	0.52	-	-	-	-	0.52

Finalisation of accounts by non-working PSUs

1.21 Ten companies out of 39 non-working companies were under liquidation. The accounts of 29 non-working companies were in arrears for periods ranging from one to 29 years as on 30 September 2006 as could be seen from **Annexure-2**.

Financial position and working results of non-working PSUs

1.22 The summarised financial results of non-working Government companies as per their latest finalised accounts are given in **Annexure-2**.

The summarised details of paid-up capital, net worth, cash loss and accumulated loss of non-working Government companies as per their latest finalised accounts are given below:

(Rupees in crore)

Particulars	Paid-up capital	Net worth ²	Cash loss ³	Accumulated loss
Non-working companies	386.03	(-) 1056.64	119.69	1138.88

Status of placement of Separate Audit Reports of Statutory corporations in Legislature

1.23 The following table indicates the status of placement in the State Legislature of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory corporations:

Sl No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Years for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement to the Legislature
1	2	3	4	5	6
1.	Uttar Pradesh State Road Transport Corporation	2002-03	01.04.2003 to 30.10.2003 31.10.2003 to 31.03.2004	26.10.2005 11.09.2006	Reasons not furnished by the Department/ Corporation

¹ Out of 39 non-working companies, only three companies (Serial No. C-1, 19 and C-39 of Annexure-1) furnished details of establishment expenditure.

² Net worth represents paid-up capital *plus* free reserves *less* accumulated loss.

³ Cash loss represents loss for the year *plus* depreciation for the year.

1	2	3	4	5	6
2.	Uttar Pradesh Financial Corporation	1992-93	1993-94 1994-95 1995-96 1996-97 1997-98 1998-99 1999-2000 2000-01 2001-02 2002-03 2003-04	07.07.1995 18.04.1996 28.08.1998 17.12.1999 27.07.2000 20.10.2001 25.07.2002 20.02.2004 28.01.2005 21.12.2005 08.09.2006	Reasons not furnished by the Department/ Corporation
3.	Uttar Pradesh State Warehousing Corporation	2003-04	2004-05	21.04.2006	--
4.	Uttar Pradesh Forest Corporation *	--	1997-98 1998-99	17.08.2000 23.05.2002	Reasons not furnished by the Department/ Corporation
5.	Uttar Pradesh Avas Evam Vikas Parishad	1989-90	1990-91 1991-92 1992-93 1993-94 1995-96 1996-97 1997-98 1998-99	23.02.1998 23.02.1998 27.02.1998 19.08.1999 10.02.2003 29.01.2004 22.02.2006 27.07.2006	Reasons not furnished by the Department/ Corporation
6.	Uttar Pradesh Jal Nigam	1994-95	1995-96 1996-97 1997-98 1998-99 1999-2000 2000-01 2001-02 2002-03 2003-04	21.10.1997 18.02.1999 03.07.2000 19.09.2001 07.02.2002 13.02.2003 27.03.2004 30.12.2005 07.06.2006	Reasons not furnished by the Department/ Corporation

The State Government has not placed the Separate Audit Reports in the State Legislature even after lapse of 10 years in respect of Uttar Pradesh Financial Corporation. Under the respective statutes, the State Government is required to place the separate Audit Reports in the Legislature, but the same has not been complied with.

Disinvestment, Privatisation and Restructuring of Public Sector Undertakings**

1.24 The policy of privatisation/disinvestment of PSUs formulated (June 1994) by the State Government provided for the review of all enterprises (excluding those engaged in social and welfare activities and public utilities) whose annual loss was more than Rs.10 crore and which had eroded their net worth by 50 per cent or more.

An Empowered Committee (EC) was constituted (December 1995) to review and decide cases for 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 was constituted (November 1998) but it was dissolved (January 2000) and a Divestment Commission (DC) was constituted (January 2000).

* Audit entrusted from 1997-98.

** Restructuring includes merger and closure of PSUs.

For smooth functioning, a Central Committee (CC) was also 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.

27 PSUs were referred to DC, and the DC gave its recommendations in all these cases. The CC considered and gave recommendations in respect of 25 PSUs. These recommendations were not made available to Audit.

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

The Government intimated (September 2003) that:

- In the first stage, disinvestment process has commenced for 11 sugar mills of Uttar Pradesh State Sugar Corporation Limited and eight sick and five closed sugar mills of Uttar Pradesh Rajya Chini Avam Ganna Vikas Nigam Limited.
- Action would be taken on the recommendations of DC on 27 PSUs, which were referred to the DC.
- Information was being collected regarding possible disinvestment from Departments/PSUs and, on the basis of information received, necessary action for disinvestment would be taken.
- The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited (PICUP) has been selected for providing consultancy for disinvestments. The HPDC was taking consultancy from PICUP for deciding policy matters and making practical recommendations.

Further, progress in the matter was not furnished by the State Government.

Results of audit of accounts of PSUs by the Comptroller and Auditor General of India

1.25 During the period from October 2005 to September 2006, the audit of accounts of 51 Government companies (41 working and 10 non-working) and seven Statutory corporations were selected for audit. The net impact of the important audit observations as a result of audit of accounts of the PSUs was as follows:

Details	No. of accounts			Rs. in lakh		
	Government companies		Statutory corporations	Government companies		Statutory corporations
	Working	Non-working	Working	Working	Non-working	Working
(i) Increase in profit	6	-	2	129.56	-	1126.34
(ii) Decrease in profit	2	-	1	8.5	-	51.04
(iii) Increase in loss	3	-	1	50244.56	-	7090.34
(iv) Decrease in loss	11	2	-	34274.60	18.41	-
(v) Non disclosure of material facts	7	-	1	467.56	-	1076.47
(vi) Errors of classification	7	1	1	166285.81	70.04	5724.28

Some of the major errors and omissions noticed in the course of audit of annual accounts of some of the above Government companies and Statutory corporations are mentioned in the succeeding paragraphs:

Errors and omissions noticed in case of Government companies

1.26 Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (2004-05)

- Non-adjustment of excess provision made in earlier years for interest payable on loan from LIC and Central Government resulted in overstatement of secured loans as well as loss by Rs.2.20 crore.
- The expenses as well as loss for the year and Unsecured Loans were understated by Rs.2.48 crore as the interest payable on loan from the State Government was calculated from the date of drawal of the loan instead of date of issue of Government orders sanctioning the loan.

1.27 Kanpur Electricity Supply Company Limited (2002-03)

- Non-provision of liability for house tax payable to Nagar Nigam, Kanpur resulted in understatement of loss for the year by Rs.71.04 lakh.

1.28 Uttar Pradesh Small Industries Corporation Limited (1998-99)

- Non-provision for bad and doubtful debts resulted in overstatement of sundry debtors and understatement of Loss by Rs.27.13 lakh.
- Other income included interest earned on unutilised Government Funds payable to the Government. This resulted in overstatement of income, and understatement of loss and current liabilities each by Rs.33.43 lakh.

1.29 Uttar Pradesh State Bridge Corporation Limited (2002-03)

- Non-provision for doubtful debts in respect of 17 deposit works resulted in understatement of loss for the year by Rs.3.54 crore.

Errors and omissions noticed in case of Statutory corporations

1.30 Uttar Pradesh State Warehousing Corporation (2004-05)

- Storage Charges and Handling & Transport charges (under the head Business Income) amounting to Rs.123.50 crore included Rs.8.87 crore deducted by the customer on account of transit losses, resulting in overstatement of income as well as profit by Rs.8.87 crore.

1.31 Uttar Pradesh Avas Evam Vikas Parishad (1998-99)

- Interest payable on loans from the State Government and other institutions (Rs.54.61 crore) included Rs.6.96 crore on account of interest payable to the State Government, which is understated by Rs.3.26 crore as the interest payable on loan from the State Government works out Rs.10.22 crore during the year. This resulted in understatement of liabilities and overstatement of excess of income over expenditure by Rs.3.26 crore.
- Cash at Bank includes Rs.18.07 crore as per bank statement. As per generally accepted accounting principles the bank balances shown in the Cash Book should have been taken in the accounts.
- Interest paid on loans does not include Rs.3.98 crore being the interest paid on loans obtained from HUDCO. This has resulted in understatement of expenditure by Rs.3.98 crore with consequent

overstatement of “excess of income over expenditure” by the same amount.

Persistent irregularities and system deficiencies in financial matters of PSUs

1.32 The following persistent irregularities and system deficiencies in financial matters of PSUs were repeatedly pointed out during the course of audit of their accounts but no corrective action has been taken by these PSUs so far:

Sl. No.	Name of the Government companies/Statutory corporations	Nature of irregularities
1	2	3
Government companies		
1.	Uttar Pradesh Power Corporation Limited	(i) Inclusion of time barred cheques in Cash and Bank Balances. (ii) Non-provision of surcharge on late payment of bills raised by UP Jal Vidyut Nigam Limited and Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited
2.	Kanpur Electricity Supply Company Limited	(i) Non-reconciliation of bank balance shown in bank statement and cash/bank book maintained by the Company. (ii) Non-provision for value reduction/obsolescence against scrap/obsolete/ non and slow moving inventories.
3.	Uttar Pradesh Matsya Vikas Nigam Limited	Non-provision of leave encashment in violation of Accounting Standard-15.
4.	Uttar Pradesh State Tourism Development Corporation Limited	Non-provision for bad and doubtful debts.
5.	Uttar Pradesh Pichhra Varg Vitta Evam Vikas Nigam Limited	Loan from National Backward Class Finance Development Corporation Limited is being shown as Secured Loan although it is not secured wholly or partially against an asset.
6.	Uttar Pradesh Small Industries Corporation Limited	Non-recording of transaction of receipt of loan from the Government and its disbursement to the subsidiary companies in the books of accounts.
7.	Uttar Pradesh State Handloom Corporation Limited	Non-capitalisation of Building (Rs.44.63 lakh).
Statutory corporations		
8.	Uttar Pradesh Jal Nigam	The Corporation has not provided for interest on loan obtained from the Government whose repayment period of 15 years has expired although the loan remained unpaid.
9.	Uttar Pradesh Avas Evam Vikas Parishad	Excess of assets over liabilities arising out of adjustments made in the accounts has not been properly investigated/reconciled and adjusted in the accounts.

Recoveries at the instance of Audit

1.33 Test check of records of power sector companies during 2005-06 disclosed wrong fixation of tariff/non-levy/short levy of tariff/short realisation of revenue aggregating to Rs.199.55 crore in 223 cases. The companies accepted the observations in 96 cases aggregating to Rs.46.60 crore and a sum of Rs.91.49 lakh relating to four audit observations was recovered.

Internal audit/Internal control

1.34 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal audit/internal control systems in the companies audited by them 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. Accordingly, the Statutory Auditors observed deficiencies in respect of internal audit system in case of 11 companies during the year 2005-06. An illustrative resume of major recommendations/comments made by the statutory Auditors on possible improvement in the internal audit/internal control system is indicated in **Annexure-7**. It would be noticed from the Annexure that major comments were of the following nature:

- internal audit system was not commensurate with the size and nature of business of most of the Government companies,
- internal audit system was non-existent,
- scope of audit and the periodicity of reporting was also inadequate.

Recommendation for closure of PSUs

1.35 Even after completion of 15 to 32 years of their existence, the turnover (sales and other income) of 10 working Government companies has been less than Rupees five crore in each of the preceding five years as per their latest finalised accounts (**Annexure-8**). Similarly, six working Government companies (**Annexure-9**) had been incurring losses for five consecutive years (as per latest finalised accounts) leading to negative net worth. In view of poor turnover and continuous losses, the Government may either improve the performance of these Government companies or consider their closure.

Position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings (COPU)

1.36 The following table indicates the details regarding number of reviews and paragraphs discussed by COPU by the end of 30 September 2006:

Period of Audit Report	Reviews and paragraphs appeared in the Audit Report		Reviews and paragraphs discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
1	2	3	4	5
1982-83	5	50	4	49
1983-84	4	60	2	60
1984-85	2	14	1	14
1985-86	6	22	5	22
1986-87	3	28	2	25
1987-88	8	23	7	23
1988-89	5	22	4	22
1989-90	6	14	6	14
1990-91	6	21	2	3
1991-92	4	38	--	5
1992-93	5	33	3	8
1993-94	5	31	1	17
1994-95	5	41	1	32
1995-96	7	39	5	19
1996-97	8	40	2	29
1997-98	5	67	2	20
1998-99	5	26	3	14

1	2	3	4	5
1999-2000	4	41	3	23
2000-01	5	34	3	28
2001-02	4	34	--	--
2002-03	4	38	1	3
2003-04	4	26	--	2
2004-05	4	27	--	--
Total	114	769	57	432

During the period from 1 October 2005 to 30 September 2006, the Committee on Public Undertakings (COPU) held 16 meetings and discussed three reviews and 40 draft paragraphs of Audit Report (Commercial) for the years from 1987-88 to 2003-04.

619-B Companies

1.37 There were four companies coming under the purview of Section 619-B of the Companies Act, 1956 of which only one was working Company. **Annexure-10** indicates the details of paid-up capital, investment by way of equity, loans and grants and summarised working results of these companies based on their latest available accounts.