

OVERVIEW

1. Overview of Government companies and Statutory corporations

- As on 31 March 2006, the State had 94 Public Sector Undertakings (PSUs) comprising 87 Government companies including 39 non-working companies and seven Statutory corporations, against the same number of companies and corporations as on 31 March 2005. All the seven Statutory corporations were working corporations. In addition, there were four companies (one working and three non-working) under the purview of Section 619-B of the Companies Act, 1956 as on 31 March 2006.

(Paragraphs 1.1 and 1.38)

- The total investment in working PSUs increased from Rs.25,699.28 crore as on 31 March 2005 to Rs.27,128.12 crore as on 31 March 2006. The total investment in non-working PSUs increased from Rs.873.50 crore to Rs.875.84 crore during the same period.

(Paragraphs 1.2 and 1.18)

- The budgetary support in the form of capital, loans and grants/subsidies disbursed to the working PSUs decreased from Rs.7,410.86 crore in 2004-05 to Rs.1,444.18 crore in 2005-06. The State Government guaranteed loans aggregating Rs.1,827.20 crore to the working PSUs during 2005-06. The guarantees of Rs.6,385.09 crore were outstanding against working PSUs as on 31 March 2006.

(Paragraph 1.6)

- Only five working Government companies and one statutory corporation finalised their accounts for the year 2005-06. The accounts of 43 working Government companies and six working Statutory corporations were in arrears for periods ranging from one to 16 years as on 30 September 2006. Ten companies out of 39 non-working companies were under liquidation. Accounts of remaining 29 non-working Government companies were in arrears for periods ranging from one to 29 years as on 30 September 2006.

(Paragraphs 1.7, 1.17 and 1.21)

- According to latest finalised accounts, 24 working PSUs (18 Government companies and six Statutory corporations) earned an aggregate profit of Rs.386.96 crore and 30 working PSUs (29 Government companies and one Statutory corporation) incurred an aggregate loss of Rs.1,815.23 crore. Of the 29 loss incurring 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. Similarly, one loss incurring Statutory corporation had accumulated losses aggregating Rs.78.75 crore. This corporation had no paid-up capital.

(Paragraphs 1.8, 1.10 and 1.12)

2. Performance reviews relating to Government companies and Statutory corporations

Performance reviews relating to Internal Control System in **Uttar Pradesh State Food and Essential Commodities Corporation Limited**, Efficiency in billing and collection of revenue in **Kanpur Electricity Supply Company Limited**, Purchase and Sale of Energy by **Uttar Pradesh Power Corporation Limited and its subsidiary Companies (Discoms)**, IT Review on Recovery and Billing System in **The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited**, Construction and Allotment of Properties by **Uttar Pradesh Avas Evam Vikas Parishad** and Construction and Operation of Warehouses by **Uttar Pradesh State Warehousing Corporation** were conducted. Some of the major findings are as follows:

Internal Control System in Uttar Pradesh State Food and Essential Commodities Corporation Limited

- The internal control system in the Company was not adequate and effective as the Corporate Plan and Functional Manuals (Administrative, Accounting and Audit) were not prepared.
- The Internal Audit was not adequate and effective. The annual Audit Plan for Internal Audit was not prepared during 2001-02 to 2005-06. The compliance to Internal Audit observations was not ensured as a result the shortages/misappropriation of food grains valuing Rs.4.20 crore pointed out by Internal Audit remained unrecovered.
- The Budgets were neither prepared in time nor variances analysed. The financial management of the Company was unsatisfactory as the Company failed to recover its margin money from different Government Departments and shortages/ misappropriation from its officials.
- The preparation of accounts of the Company was in arrears for 16 years (1990-91 to 2005-06). As a result the actual financial health of the Company could not be ascertained and the possibility of misappropriation/fraud can not be ruled out.
- In violation of provisions in the Minimum Support Price Scheme, the food grains valued at Rs.0.57 crore were purchased from middlemen instead of from farmers.

(Chapter-2.1)

Efficiency in billing and collection of revenue in Kanpur Electricity Supply Company Limited

The Company was incorporated in July 1999 for the distribution of power in the urban areas of Kanpur. Some of the major deficiencies noticed during performance review of billing and collection of revenue are:

- The Company could not recover the cost of energy purchased due to heavy distribution losses. The Company fixed low target of revenue realisation and its collection mechanism was not efficient as a result collection of revenue was not prompt.
- The Company suffered loss of revenue due to non-levy of additional demand charges, late payment surcharge and shunt capacitor surcharge

aggregating Rs.3.23 crore.

- The Company failed to issue bills to Kanpur Development Authority for 3800 street light points resulting in undercharge of revenue aggregating Rs.3.47 crore.
- Failure of the Company in periodical checking of meters of the consumers resulted in loss of revenue aggregating Rs.1.06 crore.

(Chapter-2.2)

Purchase and Sale of Energy by Uttar Pradesh Power Corporation Limited and its subsidiary Companies (Discoms)

UPPCL could not reconcile figures of energy purchased with the energy recorded as per meters at delivery points of transmission system. UPPCL/Discoms suffered heavy losses on account of their failure to follow grid discipline *etc.* PuVNL (Discom) whose records were checked failed to devise a mechanism for analysis of data bank and billing ledgers that had large cases of duplicate meters and service connection numbers. Some of the important deficiencies noticed are as under:

- UPPCL/Discoms could not realise potential revenue of Rs.1485.75 crore due to delayed submission/non-submission of Annual Revenue Requirement to Uttar Pradesh Electricity Regulatory Commission (UPERC) for finalisation of tariff orders
- UPPCL/Discoms suffered loss of Rs.2979.62 crore due to excessive transmission and distribution losses over targets fixed by UPERC during five years up to 2005-06.
- UPPCL/Discoms suffered loss of Rs.48.54 crore due to waste of 194.92 MU of energy in the system on account of defective capacitor banks at 132/33/11 KV system. Further, PuVNL suffered loss of Rs.2.59 crore on account of its failure to bill the consumers as per tariff for non-installation of capacitor banks or for power factor below the prescribed limit.

(Chapter-2.3)

IT Review on Recovery and Billing System in The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited

- The Company undertook computerisation of its activities without formulating an overall and coordinated IT Policy or strategy. General and application controls were not effective, user requirements were not defined or documented and physical and logical controls essential to prevent misuse of the system or unauthorised manipulation of data stored were absent.
- Heavy differences exist in the data relating to one time settlement (OTS) cases due to non-integration of Recover 2000 with the stand alone data base used for maintaining OTS details. Every body was allowed to change the data as login and passwords have not been provided to different users.
- Data was unreliable and did not give adequate assurance to integrity and it did not have written authorizations and safeguards against theft, damage, protection of programmes/data files etc. It also did not have disaster recovery and business continuity plans.

(Chapter-2.4)

Construction and Allotment of Properties by Uttar Pradesh Avas Evam Vikas Parishad

The *Parishad* could not achieve objective of providing houses and plots at affordable prices due to systemic deficiencies of inordinate delays in acquisition of land attributing to increase in the cost of acquisition of land, non-investment of idle funds lying with District Collector Offices, failure in preventing the land from encroachments and slow pace of development of the available land coupled with mis-match of construction plan with the target assigned by the Government resulting in huge shortfall in construction of houses and plots as indicated below:

- The Government took 21 to 272 months in giving approval for six schemes due to non-submission of complete proposals by the Parishad. As a result, the Parishad could not acquire 8,860.36 acres of land and the area remained undeveloped and unurbanized.
- Development and betterment charges of Rs104.82 crore could not be realised due to encroachments on land.
- In Vasundhara Scheme, non-consideration of the higher rate obtained in earlier auction for fixing reserve price in subsequent auctions and incorrect fixation of reserve price of plots for commercial purposes resulted in non-realisation of Rs.13.44 crore.

(Chapter-3.1)

Construction and Operation of Warehouses by Uttar Pradesh State Warehousing Corporation

The performance of the Corporation with regard to its stated objectives was found to be deficient. The Corporation constructed godowns not conforming to FCI specifications and it failed to get competitive rates for construction of godowns due to failure in adherence to tendering procedures. The Corporation failed to have proper control over the storage loss above permissible limits. Heavy expenditure was incurred on outsourcing of weighment ignoring the need for its own weigh bridges. Some of the major irregularities are indicated below:

- Construction of godowns for FCI not conforming to their specifications resulted in under assessment of storage capacity and consequential loss of storage charges of Rs.34.48 crore.
- The Corporation was deprived of capital subsidy of Rs.4.69 crore due to non-deferment of loan from UBI and delayed submission of claim for subsidy resulted in extra payment of interest of Rs.29.11 lakh.
- The Corporation made avoidable payment of interest aggregating Rs.1.85 crore on loan obtained for construction of godowns at higher rates and delayed refund of Government loan obtained for wheat purchase.
- There were also excessive storage loss of Rs.15.47 crore as compared to permissible storage loss in rice stored by Food Department.

(Chapter-3.2)

3. Transaction audit observations

Audit observations included in this Report highlight deficiencies in the management of Public Sector Undertakings involving serious financial irregularities. The irregularities pointed out are broadly of the following nature:

There were 13 cases of loss of revenue amounting to Rs.17.04 crore on account of:

- Non-levy of shunt capacitor surcharge,
- Non-levy of centage on deposit works,
- Granting of irregular load factor rebate,
- Short assessment of penalty and irregular application of tariff,
- Under preferment of claim, and
- Incorrect application of tariff.

(Paragraphs 4.1, 4.7, 4.9, 4.13, 4.14, 4.15, 4.16, 4.19, 4.20, 4.23, 4.25, 4.26 and 4.29)

There were seven instances of avoidable, excess/wasteful expenditure amounting to Rs.6.42 crore due to:

- Payment of *ex-gratia* for inadmissible period,
- Non-reduction of contracted load,
- Parking of funds in short term deposits bearing lower rate of interest, and
- Unfruitful expenditure on annual repair and maintenance.

(Paragraphs 4.3, 4.4, 4.5, 4.6, 4.8, 4.11 and 4.22)

There were 10 cases of undue favour to contractors/consumers/loanees amounting to Rs.15.41 crore on account of:

- Non-recovery of cost of custom mill rice from the rice millers,
- Acceptance of cheques from consumers despite their earlier cheques getting dishonored,
- Tapping of existing lines,
- Allowing receipt of payment beyond due date, and
- Offering OTS in contravention to the OTS policy.

(Paragraphs 4.2, 4.12, 4.17, 4.18, 4.21, 4.24, 4.27, 4.28, 4.30 and 4.31)

There were two cases of irregular expenditure and inadmissible payment amounting to Rs.3.80 crore on account of:

- Construction of office building in violation of orders of the Government, and
- Payment of inadmissible brokerage and underwriting commission.

(Paragraphs 4.10 and 4.32)

Gist of some of the important paragraphs are given below:

- **Uttar Pradesh State Bridge Corporation Limited** suffered loss of Rs.99.97 lakh due to excess expenditure incurred on construction of a road.

(Paragraph 4.8)

- **Uttar Pradesh Samaj Kalyan Nirman Nigam Limited** failed to levy centage charges on deposit works which resulted in loss of Rs.3.53 crore and the Company also incurred irregular expenditure of Rs.2.97 crore on construction of its own office building.

(Paragraphs 4.9 and 4.10)

- **Uttar Pradesh State Sugar Corporation Limited** incurred unfruitful expenditure of Rs.3.64 crore on annual repair and maintenance of the closed sugar mill due to non-adhering to the time schedule for annual repair and maintenance.

(Paragraph 4.11)

- **Purvanchal Vidyut Vitran Nigam Limited** allowed irregular credit of load factor rebate of Rs.3.42 crore to consumers.

(Paragraph 4.15)

- **Paschimanchal Vidyut Vitran Nigam Limited** and **Dakshinanchal Vidyut Vitran Nigam Limited** failed to recover shunt capacitor surcharge of Rs.4.93 crore from private tube well consumers.

(Paragraph 4.14.2)

- **Uttar Pradesh Financial Corporation** could not recover dues amounting to Rs.11.64 crore due to non-taking over the physical possession of defaulting unit.

(Paragraph 4.30)