

**CHAPTER-I**

**1. Overview of Government companies and Statutory corporations**

**Introduction**

**1.1** As on 31 March 2008, there were 88 Government companies (48 working companies and 40 non-working companies<sup>1</sup>) and seven working Statutory corporations under the control of the State Government. The number of Government companies and Statutory corporations as on 31 March 2007 was same. According to information received during the year 2007-08, two non-working companies<sup>2</sup> are under merger and 12 companies were under liquidation. 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 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	
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 <sup>3</sup>
7.	U.P. Government Employees Welfare Corporation <sup>4</sup>	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

<sup>1</sup> Non-working Companies are those that are in the process of liquidation/closure/merger, etc.

<sup>2</sup> Handloom Intensive Development Corporation (Gorakhpur and Basti) Limited and Handloom Intensive Development Project (Bijnore) Limited both subsidiaries of Uttar Pradesh State Handloom Corporation Limited.

<sup>3</sup> Though the audit of the corporation was entrusted to CAG, audit of the corporation was conducted only up to January 2005 as necessary amendment in this regard to the Forest Corporation Act is awaited. Presently the audit of the corporation is being conducted by Examiner, Local Fund Account.

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.

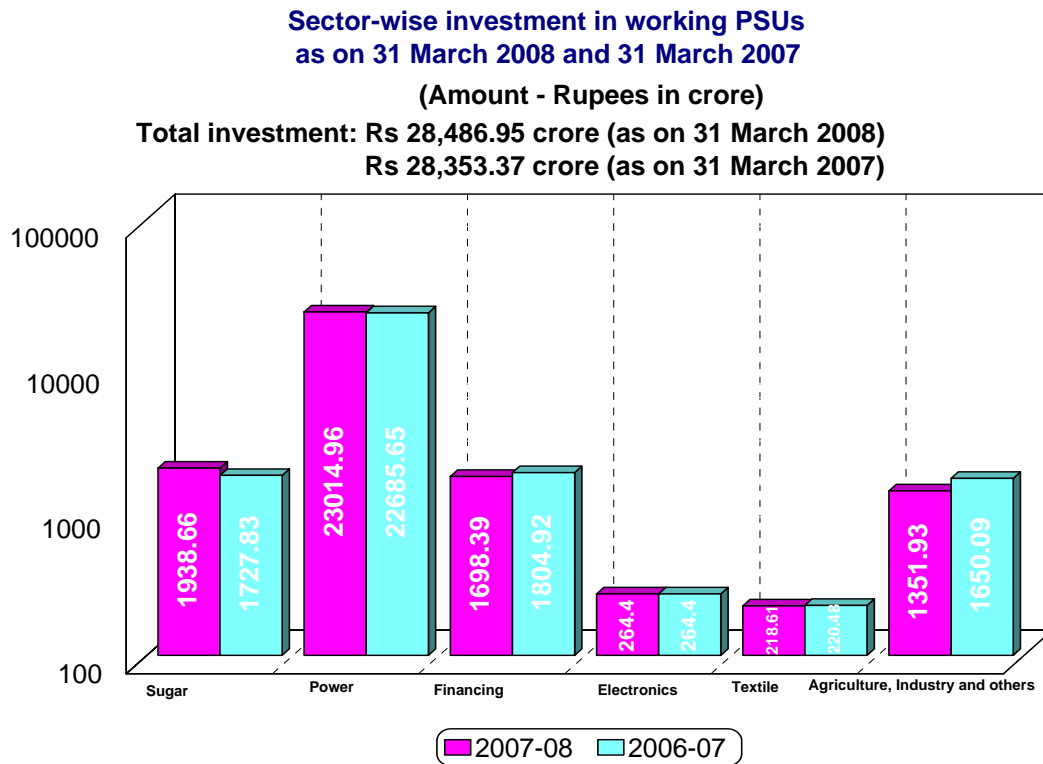
**Working Public Sector Undertakings**

*Investment in working PSUs*

**1.2** As on 31 March 2008, the total investment in 55 working Public Sector Undertakings (PSUs) (48 Government companies and seven Statutory corporations) was Rs 28,486.95 crore\* (equity: Rs 11,662.40 crore, share application money: Rs 7,723.95 crore and long term loans\*\* : Rs 9,100.60 crore) as against total investment of Rs 28,353.37 crore (equity: Rs 11,650.48 crore, share application money: Rs 7,714.18 crore and long term loans: Rs 8,988.71 crore) in equal number of working PSUs (48 Government companies and seven Statutory corporations) as on 31 March 2007. Increase in total investment was due to increase in equity and loans mainly in the PSUs in power and sugar 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 PSUs in various sectors and percentage thereof at the end of 31 March 2008 and 31 March 2007 are indicated in the bar chart as follows:



<sup>4</sup> 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.

\* State Government's investment in working PSUs was Rs 18,536.07 crore (others: Rs 9,950.88 crore). Figure as per Finance accounts 2007-08 is Rs 13,837.69 crore, the difference is under reconciliation.

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

**Working Government companies**

**1.4** The total investment in working Government companies at the end of March 2008 and March 2007 was as follows:

(Rupees in crore)

Year	Number of Companies	Equity	Share application money	Loans	Total
2006-07	48	11,100.90	7,711.97	7,422.60	26,235.47
2007-08	48	11,112.82	7,721.74	7,888.89	26,723.45

Investment in the current year has increased over the previous year due to increase in equity mainly in PSUs in the power, development of economically weaker section and construction sectors and loans in power and sugar sectors.

As on 31 March 2008, the total investment in working Government companies comprised 70.48 per cent of equity capital and 29.52 per cent of loans as compared to 71.71 per cent and 28.29 per cent respectively as on 31 March 2007.

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 2007 and March 2008<sup>1</sup> was as follows:

(Rupees in crore)

Name of the corporation	2006-07		2007-08	
	Capital	Loan	Capital	Loan
Uttar Pradesh State Road Transport Corporation	359.13	187.07	359.13	167.18
Uttar Pradesh Financial Corporation	179.28	944.62	179.28	907.56
Uttar Pradesh State Warehousing Corporation	11.17 (2.21)	39.87	11.17 (2.21)	30.03
Uttar Pradesh Forest Corporation <sup>2</sup>	-	-	-	-
Uttar Pradesh Avas Evam Vikas Parishad <sup>3</sup>	-	Nil	-	-
Uttar Pradesh Jal Nigam <sup>3</sup>	-	392.90	-	98.85
U.P. Government Employees Welfare Corporation <sup>3</sup>	-	1.65	-	8.09
<b>Total</b>	<b>549.58</b> <b>(2.21)</b>	<b>1566.11</b>	<b>549.58</b> <b>(2.21)</b>	<b>1211.71</b>

(Figures in bracket indicate share application money)

As on 31 March 2008, the total investment in working Statutory corporations comprised 31.29 per cent of equity capital and 68.71 per cent of loans compared to 26.05 per cent and 73.95 per cent respectively as on 31 March 2007.

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**.

<sup>1</sup> Figures for the year 2007-08 are provisional.

<sup>2</sup> Information has not been furnished by the Corporation.

<sup>3</sup> Do not have share capital.

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 2007-08 are given below:

(Rupees in crore)

Particulars	2005-06				2006-07				2007-08			
	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	4	420.86	-	-	5	423.31	--	--	5	20.20	--	--
(ii) Loans given from budget	12	508.98	1	30.00	6	126.28	--	--	4	147.19	2	66.95
<b>Total A (i)+(ii)</b>	<b>16</b>	<b>929.84</b>	<b>1</b>	<b>30.00</b>	<b>11</b>	<b>549.59</b>	<b>--</b>	<b>--</b>	<b>9</b>	<b>167.39</b>	<b>2</b>	<b>66.95</b>
B. Grants/Subsidy for:												
(i) Projects/ programmes/ schemes	5	479.01 <sup>1</sup>	1	2.02	3	145.38	01	2.62 <sup>3</sup>	3	106.16 <sup>3</sup>	1	255.63 <sup>3</sup>
(ii) Other	2	3.31 <sup>2</sup>	-	-	1	4.38	--	--	1	214.91	1	1.30
<b>Total B (i) + (ii)</b>	<b>-</b>	<b>482.32</b>	<b>-</b>	<b>2.02</b>	<b>-</b>	<b>149.76</b>	<b>01</b>	<b>2.62</b>	<b>4</b>	<b>321.07</b>	<b>2</b>	<b>256.93</b>
<b>Total outgo (A + B)</b>	<b>21<sup>4</sup></b>	<b>1,412.16</b>	<b>2</b>	<b>32.02</b>	<b>13<sup>4</sup></b>	<b>699.35</b>	<b>01<sup>4</sup></b>	<b>2.62</b>	<b>10<sup>4</sup></b>	<b>488.46</b>	<b>3<sup>4</sup></b>	<b>323.88</b>

Source: Information furnished by the Companies/corporations.

During the year 2007-08, the Government had guaranteed the loans aggregating Rs 455.30 crore obtained by five working companies (Rs 452.30 crore) and one Statutory corporation (Rs three crore). At the end of the year, guarantees amounting to Rs 322.80 crore against five working Government companies (Rs 40.05 crore) and three working Statutory corporations (Rs 282.75 crore) were outstanding. The guarantee commission paid/payable to the State Government by two<sup>5</sup> Statutory corporations during the year 2007-08 was Rs 3.91 lakh.

### **Finalisation of accounts by working PSUs**

**1.7** The accounts of the Government companies for every financial year are required to be finalised within six months from the end of relevant financial year under Section 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read 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 the respective statutes.

However, as could be noticed from **Annexure-2**, out of 48 working Government companies, only five<sup>6</sup> working Government companies and one<sup>6</sup> working Statutory corporation, finalised their accounts for 2007-08 within the stipulated period. During October 2007 to September 2008, 37 working Government companies finalised their 55 accounts for previous years. Similarly, during this period, six working Statutory corporations finalised eight accounts for previous years.

<sup>1</sup> Includes grant of Rs 3.21 crore.

<sup>2</sup> Includes grant of Rs 3.25 crore.

<sup>3</sup> Grant.

<sup>4</sup> These are the actual numbers of companies/corporations which have received budgetary support in the form of equity, loans, grants as subsidies from the Government during the respective years.

<sup>5</sup> Uttar Pradesh State Road Transport Corporation and U.P. Government Employees Welfare Corporation.

<sup>6</sup> Uttar Pradesh (Paschim) Ganna Beej Evam Vikas Nigam Limited, Uttar Pradesh (Madhya) Ganna Beej Evam Vikas Nigam Limited, Uptron Powertronics Limited, Shreeron India Limited, Uttar Pradesh Mahila Kalyan Nigam Limited and Uttar Pradesh Avas Evam Vikas Parishad (working Statutory corporation).

The accounts of 43 working Government companies and six Statutory corporations were in arrear for periods ranging from 1 to 14 years as on 30 September 2008 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	--	1994-95 to 2007-08	14	A-10	--
2	3	--	1995-96 to 2007-08	13	A-17, 24, 43	--
3	1	--	1996-97 to 2007-08	12	A-14	--
4	1	1	1999-2000 to 2007-08	9	A-46	B-4
5	1	--	2000-01 to 2007-08	8	A-6	--
6	2	--	2001-02 to 2007-08	7	A-8, 9	--
7	1	--	2002-03 to 2007-08	6	A-23	--
8	1	--	2003-04 to 2007-08	5	A-44	--
9	2	--	2004-05 to 2007-08	4	A-21, A-34	--
10	6	1	2005-06 to 2007-08	3	A-1, 7, 36, 37, 38, 39,	B-7
11	7	--	2006-07 to 2007-08	2	A-27, 29, 30, 32, 33, 41, 48	--
12	17	4	2007-08	1	A-4, 5, 11, 15, 16, 18, 19, 20, 22, 25, 26, 28, 31, 35, 40, 42, 45	B-1, 2, 3,6
<b>Total</b>	<b>43</b>	<b>6</b>				

The State Government had invested Rs 2,192.06 crore (Equity Rs 64.42 crore, Loans Rs 721.54 crore, Grants and subsidies Rs 1,406.10 crore) in working PSUs during the years for which accounts have not been finalised as detailed in **Annexure-4**. In absence of finalisation of accounts and their subsequent audit, it can not be ensured whether the investment and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of frauds and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments of the Government were apprised quarterly by the Accountant General regarding arrears in finalisation of accounts, adequate measures had not been taken by the Government and as a result, 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-5 and 6** respectively.

According to the latest finalised accounts of 48 working Government companies and seven working Statutory corporations, 24\* companies and one corporation had incurred an aggregate loss of Rs 2,802.14 crore and Rs 1.69 crore

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\* Includes UPSIDC Power Company Limited (Subsidiary of Uttar Pradesh State Industrial Corporation Limited) which was under construction.

respectively. Further, 24 companies and six corporations earned an aggregate profit of Rs 218.52 crore and Rs 332.67 crore respectively.

***Working Government companies***

***Profit earning working companies and dividend***

**1.9** Out of five working Government companies which finalised their accounts for 2007-08 by September 2008, four<sup>1</sup> companies earned an aggregate profit of Rs 4.50 crore and none of these profit making companies declared any dividend (**Annexure-2**). The State Government formulated (October 2002) a dividend policy for payment of minimum dividend and directed the PSUs to pay a minimum dividend of 5 *per cent* on the capital invested by the State Government from financial year 2002-03. However, these guidelines were not complied with by any of these companies.

Similarly, out of 43 working Government companies which finalised their accounts for previous years by September 2008, 20 companies earned an aggregate profit of Rs 214.02 crore and 16<sup>2</sup> companies earned profit for two or more successive years. Out of these 20 profit earning companies, only five<sup>3</sup> companies declared dividend of Rs 0.79 crore.

***Loss incurring working Government companies***

**1.10** Of the 24 loss incurring working Government companies, 19 companies had accumulated losses aggregating Rs 11,083.95 crore, which exceeded their aggregate paid up capital of Rs 6,275.28 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 loans, subsidies *etc.* According to available information, the total financial support so provided by the State Government by way of loans and subsidies during 2007-08 to three<sup>4</sup> companies out of these 19 companies amounted to Rs 242.62 crore.

***Working Statutory corporations***

***Profit earning Statutory corporations and dividend***

**1.11** Out of seven Statutory corporations, only one Statutory corporation (Uttar Pradesh Avas Evam Vikas Parishad) finalised the accounts for 2007-08 and earned a profit of Rs 178.58 crore but did not declare any dividend. The State Government formulated (October 2002) a dividend policy for payment of minimum dividend and directed the PSUs to pay a minimum dividend of 5 *per cent* on the capital invested by the State Government from financial year 2002-03. However, these guidelines were not complied with by the corporation.

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<sup>1</sup> Uttar Pradesh (Paschim) Ganna Beej Vikas Nigam, Uptron Powertronics Limited, Shreetron India Limited and Uttar Pradesh Mahila Kalyan Nigam Limited.

<sup>2</sup> Uttar Pradesh State Agro Industrial Corporation Limited, Uttar Pradesh Projects Corporation Limited, Uttar Pradesh Bhumi Sudhar Nigam, Uttar Pradesh Matsya Vikas Nigam Limited, Uttar Pradesh Beej Vikas Nigam, U.P. Electronics Corporation Limited, Uttar Pradesh State Bridge Corporation Limited, Uttar Pradesh Rajkiya Nirman Nigam Limited, Uttar Pradesh Police Avas Nigam Limited, Uttar Pradesh Scheduled Castes Finance and Development Corporation Limited, Uttar Pradesh Samaj Kalyan Nirman Nigam Limited, Uttar Pradesh Pichhara Varg Vitta Evam Vikas Nigam Limited, Uttar Pradesh Drugs and Pharmaceuticals Limited, Uttar Pradesh State Industrial Development Corporation, Uttar Pradesh Development Systems Corporation Limited and Uttar Pradesh Sainik Kalyan Nigam Limited (Annexure-2).

<sup>3</sup> Uttar Pradesh Project Corporation limited, Uttar Pradesh Rajkiya Nirman Nigam Limited, Uttar Pradesh Police Avas Nigam Limited Uttar Pradesh pichhara Varg Vitta Evam Vikash Nigam Limited and Uttar Pradesh Development System Corporation limited (Annexure-2).

<sup>4</sup> Uttar Pradesh State Yarn Company Limited, Uttar Pradesh State Handloom Corporation Limited and Dakshinanchal Vidyut Vitran Nigam Limited.

Similarly, out of six working Statutory corporations which finalised their accounts for previous years by September 2008, five<sup>1</sup> corporations earned an aggregate profit of Rs 154.09 crore (**Annexure-2**) and all these corporations, earned profit for two or more successive years. Out of these five profit earning corporations, only one corporation (Uttar Pradesh State Warehousing Corporation) declared dividend amounting to Rs 1.51 crore.

**Loss incurring Statutory corporations**

**1.12** One Statutory corporation (U.P. Government Employees Welfare Corporation), which finalised its accounts for previous years by September 2008, had incurred loss of Rs 1.69 crore, although it had accumulated profit of Rs 13.43 crore (**Annexure-2**). This corporation has no paid-up capital.

**Operational performance of working Statutory corporations**

**1.13** The operational performance of the four working Statutory corporations<sup>2</sup> is given in **Annexure-7**.

**Return on capital employed**

**1.14** As per the latest finalised accounts up to September 2008, the capital employed<sup>3</sup> worked out to Rs 15,664.35 crore in 48 working companies and total return<sup>4</sup> thereon amounted to Rs (-)1,503.17 crore as compared to total return of Rs 337.05 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 accounts (up to September 2008) worked out to Rs 7,267.30 crore and Rs 411.43 crore (5.66 per cent) respectively, as against the total return of Rs 171.75 crore (2.56 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 Memorandum of Understanding 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 reforms programme against each commitment made in MOU is detailed below:

Sl. No.	Reforms programme commitment as per MOU	Targeted completion schedule	Present status
1	2	3	4
<b>I</b>	<b>By the State Government:</b>		
(i)	Installation of meters on all 11 KV feeders	30 September 2000	97 per cent meters installed on feeders of transmission network and 99.38 per cent meters installed on feeders of distribution network (March 2008).

<sup>1</sup> Uttar Pradesh State Road Transport Corporation, Uttar Pradesh Financial Corporation, Uttar Pradesh State Warehousing Corporation Uttar Pradesh Avas Evam Vikas Parishad and Uttar Pradesh Jal Nigam (**Annexure-2**).

<sup>2</sup> Uttar Pradesh State Road Transport Corporation, Uttar Pradesh Financial Corporation, Uttar Pradesh State Warehousing Corporation and Uttar Pradesh Forest Corporation.

<sup>3</sup> 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).

<sup>4</sup> 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.

1	2	3	4
(ii)	100 <i>per cent</i> metering of all consumers	31 December 2001	Only 58.70 <i>per cent</i> consumers could be metered (June 2007).
(iii)	Online billing at 20 selected towns	31 March 2001	Introduced in one town only i.e. Lucknow in September 2006. Online billing in other 17 towns is under consideration.
(iv)	Upgradation of distribution system	Nil	Various works <i>viz.</i> rearrangement of service lines, installation of capacitor banks, construction of lines, installation of transformers and augmentation of distribution system are at various stages of completion (September 2008).
(v)	Privatisation of distribution sector, if commercial viability is not achieved	Nil	No privatisation has been done so far (September 2008).
<b>II</b>	<b>By the Central Government:</b>		
(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 loan of Rs 18.06 crore and subsidy of equal amount has been sanctioned by 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 986.78 crore from Power Finance Corporation for 57 projects (March 2007). Power Finance Corporation has sanctioned a loan of Rs 1178.54 crore for 79 projects, out of which Rs 1094.04 has been awarded for 15 projects (March 2008).

Source: Information furnished by UPPCL.

**1.16** Uttar Pradesh Electricity Regulatory Commission (Commission) was formed on 10 September 1998 under Section 17 of Electricity Regulatory Commission Act, 1998<sup>1</sup>. 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 seven tariff orders up to August 2008. The Commission has finalised its accounts for the years up to 2006-07.

### **Non-working Public Sector Undertakings (PSUs)**

#### **Investment in non-working PSUs**

**1.17** As on 31 March 2008, the total investment in 40 non-working PSUs (all Government companies) was Rs 878.98 crore<sup>2</sup> (equity: Rs 394.90 crore, share application money: Rs 45.85 crore and long term loans: Rs 438.23 crore) as against the total investment of Rs 878.96 crore (equity: Rs 391.87 crore, share application money: Rs 48.88 crore and long term loans: Rs 438.21 crore) in equal number of non-working PSUs (all Government companies) as on 31 March 2007.

The classification of non-working Government companies at the end of March 2008 was as under:

<sup>1</sup> Since replaced with Section 82 (1) of the Electricity Act, 2003.

<sup>2</sup> State Government investment was Rs 654.09 crore (Others: Rs 224.89 crore). Figure as per finance accounts 2007-08 is Rs 600.00 crore. The difference is under reconciliation.



(Rupees in crore)

Status of non-working Government companies	Number of companies	Investment	
		Equity <sup>1</sup>	Long term loans
Under liquidation	12 <sup>2</sup>	60.12	159.02
Under merger	2 <sup>3</sup>	0.05	--
Defunct and non-operating companies	26	380.58	279.21
<b>Total</b>	<b>40</b>	<b>440.75</b>	<b>438.23</b>

Source: Information furnished by the Companies.

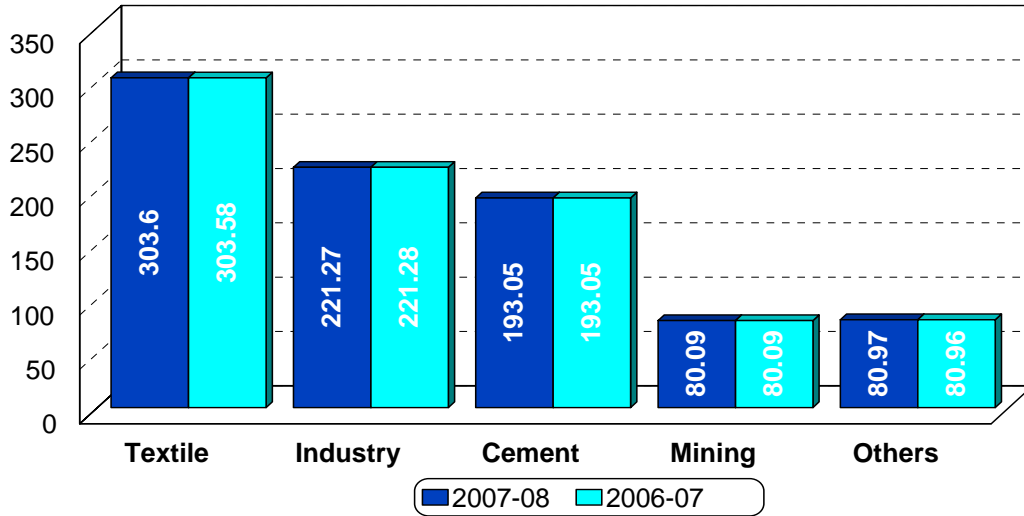
Of the above non-working Government companies, 12 Government companies were under liquidation under Section 560 of the Companies Act, 1956 for 5 to 33 years and substantial investment of Rs 219.14 crore was involved in these companies.

**Sector-wise investment in non-working Government companies**

**1.18** The investment (equity and long term loans) in PSUs in various sectors and percentage thereof at the end of 31 March 2008 and 2007 are indicated in the bar chart as follows:

**Sector-wise investment in non-working Government companies as on 31 March 2008 and as on 31 March 2007**  
(Amount Rupees in crore)

**Total investment: Rs 878.98 crore (as on 31 March 2008)**  
**Rs 878.96 crore (as on 31 March 2007)**



**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 2007-08, the State Government had provided budgetary support in the form of loan amounting to Rs 0.02 crore to one<sup>1</sup> non-working company. At the

<sup>1</sup> Including share application money of Rs 45.85 crore in respect of defunct and non-operating Companies.

<sup>2</sup> Serial number C-2,3,6,10,11,12,13,14,17,21,33 and 37 of Annexure-I.

<sup>3</sup> Serial number C-18 and 19 of Annexure-I.

<sup>1</sup> Uttar Pradesh State Textile Corporation Limited (Annexure-1).

end of March 2008, guarantees amounting to Rs 2.02 crore in respect of two<sup>2</sup> non-working companies were outstanding.

**Total establishment expenditure on non-working PSUs**

**1.20** The year-wise details of establishment expenditure incurred by non-working Government companies and the sources of financing them during the last three years up to 2007-08 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	
2005-06	3	0.52	-	-	-	-	0.52
2006-07	2	0.51	-	-	-	-	0.51
2007-08	3 <sup>3</sup>	0.19	-	-	-	0.02	0.17

Source: Information furnished by the Companies.

**Finalisation of accounts by non-working PSUs**

**1.21** Twelve out of 40 non-working companies were under liquidation and remaining 28 companies were defunct. The accounts of all 28 defunct companies were in arrears for periods ranging from one to 26 years as on 30 September 2008 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 <sup>4</sup>	Cash loss <sup>5</sup>	Accumulated loss
Non-working companies	389.20*	(-) 1147.42	130.28	1182.90

\*Figure of paid up capital is as per the latest finalised accounts of the non-working companies and does not include additions in subsequent years.

**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) on the accounts of Statutory corporations as issued by the CAG:

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
1	2	3	4	5
1.	Uttar Pradesh State Road Transport Corporation	31.10.2003 to 31.03.2004	2004-05 2005-06	11.06.2007 01.10.2007

<sup>2</sup> Allahabad Mandal Vikas Nigam and the Indian Turpentine and Rosin Company Limited.

<sup>3</sup> Out of 40 non-working companies, only three companies (Uttar Pradesh Pashudhan Udyog Nigam Limited, Uttar Pradesh State Textile Corporation Limited and Uttar Pradesh Chalchitra Nigam Limited) furnished details of establishment expenditure.

<sup>4</sup> Net worth represents paid-up capital plus free reserves less accumulated loss.

<sup>5</sup> Cash loss represents loss for the year plus depreciation for the year.

1	2	3	4	5
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 2004-05 2005-06 2006-07	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 01.05.2007 12.09.2007 17.04.2008
3.	Uttar Pradesh State Warehousing Corporation	2005-06	2006-07	17.01.2008
4.	Uttar Pradesh Forest Corporation*	--	1997-98 1998-99	17.08.2000 23.05.2002
5.	Uttar Pradesh Avas Evam Vikas Parishad	1996-97	1997-98 1998-99 1999-2000 2000-01 2001-02	22.02.2006 27.07.2006 16.11.2006 23.04.2007 31.07.2008
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 2004-05 2005-06	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 02.02.2007 02.04.2008

Source: Accounts file and information furnished by the Companies.

The State Government has not placed these Separate Audit Reports in the State Legislature even after lapse of period ranging from 7 months to 13 years. The reasons for non-placement of all these SARs in State Legislature, though called for, have not been intimated by the concerned administrative departments.

### 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 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 of 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 of process of disinvestments, 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 which made its recommendations in all these cases. The CC considered and made 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 Pradeshia 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 on accounts of PSUs by the Comptroller and Auditor General of India**

**1.25** During the period from October 2007 to September 2008, the accounts of 55 Government companies (39 working and 16 non-working) and five 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 crore		
	Government companies		Statutory corporations	Government companies		Statutory corporations
	Working	Non-working	Working	Working	Non-working	Working
(i) Increase in profit	2	-	1	1.02	-	24.42
(ii) Decrease in profit	6	-	2	21.88	-	230.00
(iii) Increase in loss	4	2	-	1.69	0.31	-
(iv) Decrease in loss	2	-	1	77.69	-	-
(v) Non disclosure of material facts	5	-	1	5.09	-	1.35
(vi) Errors of classification	3	-	-	7.78	-	-

Source: Comments/SARs issued during October 2007 to September 2008.

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

**1.26 Important Comments raised by Statutory auditors in case of working Government companies**

***Uttar Pradesh Poorva Sainik Kalyan Nigam Lucknow (2005-06)***

**1.26.1** The company has neither claimed nor paid service tax liability imposed w.e.f. 16 June 2005 on account of manpower recruitment or supply agency services and booked under the head income from technical/other services, resulting in short payment/liability of Rs one crore. As a result, profit of the Company was overstated by Rs one crore.

***Uttar Pradesh State Agro Industrial Corporation Limited (2004-05)***

**1.26.2** Investment Rs 64.25 lakh was made in share of U.P. Hortico having face value of Rs 100/- per share. The aforementioned company has suspended all its operation since 1979-80. Thus, in view of permanent diminution in the value of shares, the carrying cost of investments as shown in the Balance sheet is not appropriate and is not in accordance with the Accounting Standard 11 and “Accounting for investment” issued by the Institute of Chartered Accountants of India. Further the investments are not disclosed as trade investments and other investments separately by the Corporation.

***Uttar Pradesh Development System Corporation Limited (2006-07)***

**1.26.3** Liability for leave encashment payable to employees has been accounted for on accrual basis from the financial year 2004-05. However, no provision has been made for leave encashment amounting to Rs 0.75 crore payable to employees on superannuation for the year up to 31 March 2004.

***Shretron India Limited (2007-08)***

**1.26.4** Company has not complied with the requirement of AS 26 issued by the Institute of the Chartered Accountants of India and thus not amortised Technical Know-how up to 31.03.2006 amounting to Rs 35.90 lakh, even though Technical know how was ready to use on that time. This resulted in understatement of cumulative loss by Rs 35.90 lakh as on 31 March 2008

**1.27 Important Comments arising from Supplementary audit in case of the working Government companies**

***Uttar Pradesh State Bridge Corporation Limited (2006-07)***

**1.27.1** Current liabilities and provisions are understated by Rs 13.96 crore due to non- provision of anticipated losses on estimated basis relating to remaining part of construction contracts (Railway bridge Ganga river and Guide bund: Rs 4.98 crore and Road & Bridge Project, Hapur: Rs 8.98 crore) in terms of the provisions of Accounting Standard (AS-7). Current Liabilities and Provisions are, thus, understated and profit for the year is overstated by Rs 13.96 crore.

***Paschimanchal Vidyut Vitran Nigam Limited (2004-05)***

**1.27.2** Cash and Bank Balances include unencashed cheques amounting Rs 2.67 crore relating to the period September 1988 to August 2004, which have already expired their validity period (six months) and cheques of Rs 0.06 crore deposited but dishonoured by bank during 2004-05 and not reversed in the books. Thus, the

Cash and Bank Balance are overstated and Sundry Debtors are understated by Rs 2.73 crore each.

***1.28 Important Comments raised by the Statutory Auditors in case of Statutory corporations***

***Uttar Pradesh Financial Corporation (2006-07)***

**1.28.1** Loans and advances are not shown net of provisions for sub-standard/doubtful/ loss assets due to which the loans and advances as well as provisions are overstated by Rs 302 crore. Further, the corporation has accumulated losses of Rs 847.68 crore as a result of which its net worth has been completely eroded. However, the corporation has prepared its accounts on a “going concern” assumption which cannot be substantiated by the above facts.

***1.29 Important Comments arising from Supplementary/sole audit in case of Statutory Corporations***

***Uttar Pradesh Financial Corporation (2006-07)***

**1.29.1** As per revised guidelines of Small Scale Industrial Development Bank of India (SIDBI) (27 April 2006) hundred percent provision is to be made for the year 2006-07 in respect of all advances classified as Doubtful for more than 3 years on or after 1 April 2006 (D-2 category as per previous guidelines). This has not been done by the Corporation, which resulted in understatement of “Provisions for Non Performing Assets” by Rs 141.87 crore. Had this provision been made the profit for the year (Rs 60.10 crore) would have got converted into loss of Rs 81.77 crore.

***Uttar Pradesh State Warehousing Corporation (2006-07)***

**1.29.2** Amount recoverable from Ex-Employees includes Rs 43.04 lakh recoverable from the ex-employees whose all dues have been released by the corporation and no court cases are pending against these employees. Thus, the amount is not recoverable and provision of Rs 43.04 lakh for bad and doubtful advances should have been made in the accounts.

***Uttar Pradesh Jal Nigam (2005-06)***

**1.29.3** Centage suspense is overstated by Rs 1.80 crore due to incorrect accounting of credit balances of centage in works cost, consequently, the work in progress is also understated by Rs 1.80 crore.

**1.29.4** The assets under Rural Water Projects of the Nigam (Waterworks’ Assets Nigam owned scheme Jamuna) are understated by Rs 28.35 crore due to non-capitalisation of water works assets completed during the year. This has also resulted in overstatement of works-in-progress by Rs 28.35 crore.

***Uttar Pradesh Avas Eavam Vikas Parishad (2001-02)***

**1.29.5** The amount of accrued interest up to 31 March 2002 works out to Rs 62.56 crore against which Rs 31.94 crore has been shown in the Balance Sheet, resulting in understatement of accrued income by Rs 30.62 crore.

**Persistent irregularities and system deficiencies in financial matters of PSUs**

**1.30** 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 company/Statutory corporation	Nature of irregularities
1	2	3
<b>Government companies</b>		
1	Uttar Pradesh Jal Vidyut Nigam Limited	Non-accounting of income of late payment surcharge on accrual basis.
2	Uttar Pradesh Scheduled Castes Finance and Development Corporation Limited	The Auditors had been reporting that the accounts of the company did not give true and fair view continuously from 1982-83 and up to 2002-03 viz. the latest year up to which the audit has been completed but no corrective action was taken by the Management.
3	Uttar Pradesh Small Industries Corporation Limited	Non- accounting of short term loan received from State Government.
4	Uttar Pradesh Police Avas Nigam Ltd	Non-provision of expenditure incurred in excess of the sanctioned cost on the works executed and handed over to the clients 11 to 18 years ago.
5	Uttar Pradesh Development Systems Corporation Ltd	Interest received on clients fund wrongly accounted as income of the company.
<b>Statutory Corporations</b>		
1	Uttar Pradesh Avas Avam Vikas Parishad	Cash at bank represents balances in various bank accounts as per bank statement, which is not correct and is contrary to generally accepted accounting principles. Bank Book and bank reconciliation not being maintained.
2	Uttar Pradesh State Warehousing Corporation	Storage charges and handling and transport charges deducted by customer against the transit losses were included in the income.
3	Uttar Pradesh Financial Corporation	The balances with scheduled bank are understated due to netting of credit balances which scheduled banks which should have been shown under “Other Liabilities” as overdraft.
4	Uttar Pradesh Jal Nigam	(i) Non-provision of interest on loan whose repayment period had expired although the loan had remained unpaid. (ii) Adjustment of credit balances against debit balances in contractor’s account instead of showing separately under current liabilities and current assets.

*Source: Comments/SARs issued during October 2007 to September 2008.*

### **Recoveries at the instance of Audit**

**1.31** Test check of records of power sector companies during 2007-08 disclosed non-levy/short levy and non-realisation of revenue aggregating Rs 161.19 crore in 134 cases. The companies accepted the observations in 82 cases aggregating Rs 99.62 crore and a sum of Rs 0.40 crore relating to two audit observations was recovered at the instance of Audit.

### **Internal audit/Internal control**

**1.32** 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 eleven companies during the year 2007-08. An illustrative resume of major recommendations/comments made by Statutory Auditors on possible improvement in the internal audit/ internal control system is indicated in **Annexure-8**. The major comments were of the following nature:

- internal audit system was ineffective and not commensurate with the size and nature of business of most of the Government companies.

- internal audit system was non-existent in some PSUs.

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

**1.33** The following table indicates the details regarding number of reviews and paragraphs discussed by COPU by the end of 30 September 2008:

Period of Audit Report	Reviews and paragraphs appeared in the Audit Report		Reviews and paragraphs discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
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	--	6
1992-93	5	33	3	9
1993-94	5	31	2	17
1994-95	5	41	1	32
1995-96	7	39	5	20
1996-97	8	40	2	30
1997-98	5	67	3	21
1998-99	5	26	3	14
1999-2000	4	41	3	23
2000-01	5	34	4	33
2001-02	4	34	--	3
2002-03	4	38	2	6
2003-04	4	26	1	7
2004-05	4	27	1	7
2005-06	6	34	1	4
2006-07	5	32	--	--
<b>Total</b>	<b>125</b>	<b>835</b>	<b>64</b>	<b>464</b>

During the period from October 2007 to September 2008, the Committee on Public Undertakings (COPU) held 11 meetings and discussed four reviews and 40 draft paragraphs of Audit Report (Commercial) for the years from 1991-92 to 2005-06.

**619-B Companies**

**1.34** There were four companies falling within the purview of Section 619-B of the Companies Act, 1956 of which only one was working company. **Annexure-9** 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.