

## CHAPTER-I

### Overview of Government companies and Statutory corporations

#### Introduction

**1.1** As on 31 March 2003, there were 86 Government companies (46 working companies and 40 non-working companies<sup>1</sup>) and seven working Statutory corporations, as against 84 Government companies (44 working companies and 40 non-working companies) and seven working Statutory corporations as on 31 March 2002 under the control of the State Government. One working Government company (Uttar Pradesh Digitals Limited) was transferred to the Government of Uttaranchal and three new Government companies (Uttar Pradesh Beej Vikas Nigam Limited, Uttar Pradesh Rajya Chini Avam Ganna Vikas Nigam Limited and UPSIDC Power Company Limited) were incorporated during the year. 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 provision 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 State had formed Uttar Pradesh Electricity Regulatory Commission and its audit is entrusted to the CAG under Section 34 (3) of the Electricity Regulatory Commission Act, 1998. 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 State Financial Corporation	Section 37(6) of the State Financial Corporations Act, 1951	Chartered Accountants and supplementary audit by CAG
3.	Uttar Pradesh State Warehousing Corporation	Section 31(8) of the State Warehousing Corporations Act, 1962	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	Amendment in Forest Corporation Act is awaited. Audit by Examiner, Local Fund Account is also being done.
7.	Uttar Pradesh State Employees Welfare Corporation	Section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971	Chartered Accountants and supplementary audit by CAG

#### Working Public Sector Undertakings (PSUs)

##### *Investment in working PSUs*

**1.2** The total investment in 51 working PSUs (44 Government companies and seven Statutory corporations) at the end of March 2002 and 53 working PSUs (46 Government companies and seven Statutory corporations) at the end of March 2003 were as follows:

<sup>1</sup> Non-working companies are those that are in the process of liquidation or closure or merger.

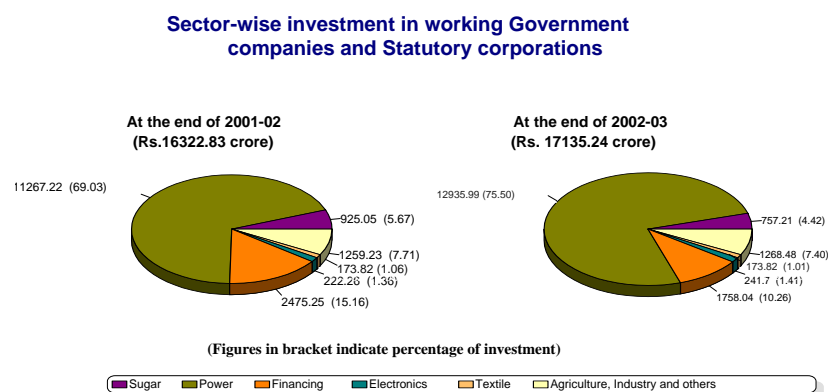
**Audit Report (Commercial) for the year ended 31 March 2003**

(Amount: Rs. in crore)

Year	Number of working PSUs	Investment in working PSUs			
		Equity	Share application money	Loan <sup>1</sup>	Total
2001-02	51	7241.82	1304.99	7776.02	16322.83
2002-03	53	8535.08	1153.91	7446.25	17135.24

The analysis of investment in working PSUs is given in the following paragraphs.

The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2002 and 31 March 2003 are given below in the pie charts:



Due to increase in equity, mainly in power and financing sectors, the debt equity ratio has decreased from 0.91:1 in 2001-02 to 0.77:1 in 2002-03.

**Working Government companies**

**1.2.1** The total investment in 44 working Government companies at the end of March 2002 and 46 working Government companies at the end of March 2003 were as follows:

(Amount: Rs. in crore)

Year	Number of working Government companies	Investment in working PSUs			
		Equity	Share application money	Loan <sup>1</sup>	Total
2001-02	44	6730.00	1302.78	6132.41	14165.19
2002-03	46	8023.26	1151.70	5887.04	15062.00

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

Investment in the current year has increased over the previous year mainly due to increase in loan and equity in the agriculture & allied, electronic, sugar, power and financing sectors.

As on 31 March 2003, the total investment in working Government companies, comprised 60.91 per cent of equity capital and 39.09 per cent of loans as compared to 56.71 per cent and 43.29 per cent, respectively, as on 31 March 2002.

<sup>1</sup> Long term loans mentioned in para 1.2, 1.2.1 and 1.2.2 are excluding interest accrued and due on such loans.

**Working Statutory corporations**

**1.2.2** The total investment in seven working Statutory corporations at the end of March 2002 and March 2003 was as follows:

Name of the corporation	2001-02		2002-03	
	Capital	Loan	Capital	Loan
Uttar Pradesh State Road Transport Corporation	321.37	137.68	321.37	153.74
Uttar Pradesh Financial Corporation	179.28	1,208.17	179.28	1150.57
Uttar Pradesh State Warehousing Corporation	11.17 (2.21)	131.07	11.17 (2.21)	123.53
Uttar Pradesh Avas Evam Vikas Parishad	-	19.94	-	0.12
Uttar Pradesh Jal Nigam	-	130.36	-	130.36
Uttar Pradesh Forest Corporation	-	14.75	-	-
Uttar Pradesh State Employees Welfare Corporation	-	1.65	-	0.89
<b>Total</b>	<b>511.82</b> <b>(2.21)</b>	<b>1,643.62</b>	<b>511.82</b> <b>(2.21)</b>	<b>1559.21</b>

(Figures in bracket indicate share application money)

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**

**1.2.3** The details regarding budgetary outgo, guarantees/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*.

The budgetary outgo in the form of equity capital and loans and grants/subsidies from the State Government to working Government companies and working Statutory corporations for the two years up to 2002-03 are given below:

Particulars	(Amount: Rs. in crore)							
	2001-02				2002-03			
	Companies		Corporations		Companies		Corporations	
No.	Amount	No.	Amount	No.	Amount	No.	Amount	
A. (i) Equity Capital outgo from budget	8	902.96	-	-	4	264.23	-	-
(ii) Loans given from budget	9	374.66	-	-	9	582.35	-	-
<b>Total A (i)+(ii)</b>		<b>1277.62</b>	-	-		<b>846.58</b>	-	-
B. Grants/Subsidy for:								
(i) Projects/ programmes/schemes	6	1,176.15 <sup>1</sup>	2	376.52 <sup>3</sup>	6	445.93 <sup>4</sup>		
(ii) Other	3	6.68 <sup>2</sup>	1	2.05	3	695.63 <sup>5</sup>	1	2.07
<b>Total B (i) + (ii)</b>		<b>1,182.83</b>	<b>3</b>	<b>378.57</b>		<b>1141.56</b>	<b>1</b>	<b>2.07</b>
<b>Total outgo (A + B)</b>	<b>18<sup>6</sup></b>	<b>2,460.45</b>	<b>3<sup>6</sup></b>	<b>378.57</b>	<b>16<sup>6</sup></b>	<b>1988.14</b>	<b>1</b>	<b>2.07</b>

During the year 2002-03, the Government had guaranteed the loans aggregating Rs.949.43 crore obtained by seven working companies (Rs.832.83 crore) and three working Statutory corporations (Rs.116.60 crore). At the end of the year, guarantees amounting to Rs.3,923.12 crore against 16 working Government companies (Rs.3,028.56 crore) and four working Statutory corporations (Rs.894.56 crore) were outstanding. The Government had written off Rs.40.06 crore of loan repayment and waived off interest Rs.170.24 crore in Uttar Pradesh State Sugar Corporation Limited. The Government had also waived off sales tax amounting Rs.21.47 crore

<sup>1</sup> Includes grant of Rs.201.37 crore.

<sup>2</sup> Includes grant of Rs.3.62 crore.

<sup>3</sup> Grant.

<sup>4</sup> Includes grant of Rs.314.15 crore.

<sup>5</sup> Includes grant of Rs.80.75 lakh.

<sup>6</sup> Indicates number of companies/corporations that received budgetary support in the form of equity, loans, grants and subsidies from the Government in respective years.

(which was earlier deferred) in respect of Uttar Pradesh State Spinning Company Limited. The guarantee commission paid/payable to Government by two<sup>1</sup> Government companies and by three<sup>1</sup> Statutory corporations during 2002-03 was Rs.112.67 crore and Rs.83 lakh respectively.

**Finalisation of accounts by working PSUs**

**1.2.4** The accounts of the 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 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 financial year. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of the respective Acts.

It could be noticed from **Annexure-2**, out of 46 working Government companies, only one<sup>2</sup> working company and out of seven working Statutory corporations, none of the Statutory corporation finalised their accounts for the year 2002-03 within stipulated period. Accounts of two<sup>3</sup> working companies were not due. During the period from October 2002 to September 2003, 30 working Government companies finalised 36 accounts for previous years. Similarly, during this period, five working Statutory corporations finalised seven accounts for previous years.

The accounts of 43 working Government companies and seven Statutory corporations were in arrear for periods ranging from 1 to 14 years as on 30 September 2003 as detailed below:

SI No	No. of working Companies/Corporations		Year from which accounts are in arrear	Number of years for which accounts are in arrear	Reference to serial No. of Annexure-2	
	Government Companies	Statutory Corporations			Government Companies	Statutory Corporations
1	1		1989-90	14	26	
2	2		1991-92	12	12,19	
3	1		1992-93	11	40	
4	2		1995-96	8	10,44	
5	2		1996-97	7	8,16	
6	2	1	1997-98	6	23,25	7
7	2	1	1998-99	5	41,45	5
8	2	1	1999-00	4	29,46	4
9	6		2000-01	3	20,27,28,36, 37, 42	
10	7		2001-02	2	1,6,7,11,15, 30, 43	
11	16	4	2002-03	1	2,4,5,13,14,17,18,21, 22,24,32,33,34,35, 38,39	1,2,3,6

It is the responsibility of the administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within prescribed period. Though the concerned administrative departments and officials of the Government were apprised quarterly by the audit regarding arrears in finalisation of accounts, no effective measures have been taken by the Government and as a result, the net worth of these PSUs could not be assessed in audit.

<sup>1</sup> Out of 16 working Government companies and four Statutory corporations against which loans were outstanding, information has been furnished by only two Government companies and three Statutory corporations.

<sup>2</sup> Serial No. A-3 of Annexure-2.

<sup>3</sup> Serial No. A-9 and A-31 of Annexure-2.

***Financial position and working results of working PSUs***

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

According to latest accounts of 43<sup>1</sup> working Government companies and six<sup>2</sup> working Statutory corporations, 31 companies and two corporations had incurred losses for the respective years aggregating Rs.2,179.47 crore and Rs.193.64 crore respectively, 11 companies and four corporations earned an aggregate profit of Rs.27.18 crore and Rs.76.52 crore respectively. Profit/Loss of Kanpur Electric Supply Company Limited is being transferred to Uttar Pradesh Power Corporation Limited as per Government orders.

***Working Government companies***

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

**1.3.1** Eight profit earning companies, which finalised their accounts for previous years during October 2002 to September 2003, earned an aggregate profit of Rs.22.72 crore. Three<sup>3</sup> companies were earning profit for two or more successive years. Only one Company, Uttar Pradesh State Industrial Development Corporation Limited (Sl. No. A-38 of ***Annexure-2***) declared dividend of Rs.48 lakh. The Government has not formulated a dividend policy for payment of minimum dividend.

***Loss incurring working Government companies***

**1.3.2** Of the 31 loss incurring working Government companies, 20 companies had accumulated losses aggregating Rs.6,249.76 crore, which exceeded their aggregate paid-up capital of Rs.4,512.11 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 contribution towards equity, further grant of loans, conversion of loans into equity, subsidy, etc. The total financial support extended to nine companies by the State Government in the form of equity, further grants of loans, subsidy, writing off of loans, waiver of interest and waiver of sales tax during 2002-03 amounted to Rs.1,860.77 crore.

***Working Statutory corporations***

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

**1.3.3** None of the Statutory corporations finalised accounts for 2002-03 by September 2003.

Out of five working Statutory corporations which finalised their accounts for previous years by September 2003, Uttar Pradesh State Warehousing Corporation, Uttar Pradesh Avas Evam Vikas Parishad and Uttar Pradesh Jal Nigam (Serial No. B-3, B-5 and B-6 of ***Annexure-2***) earned an aggregate profit of Rs.47.22 crore. Of these two corporations (Serial No. B-3 and B-5 of ***Annexure-2***) earned profit for two or more successive years but did not declare any dividend.

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<sup>1</sup> Accounts of two companies (serial No. A-9 and A-31 of Annexure-2) were not due and one company (serial No. A-37 of Annexure-2) has not submitted its first accounts.

<sup>2</sup> One Statutory corporation at Serial No. B-7 of Annexure-2 had not submitted the accounts.

<sup>3</sup> Serial No. A-7, 38 & 46 of Annexure-2.

***Loss incurring Statutory corporations***

**1.3.4** Of the two loss incurring working Statutory corporations, Uttar Pradesh State Road Transport Corporation and Uttar Pradesh Financial Corporation (Sl. No. B-1 and B-2 of *Annexure-2*) had accumulated losses aggregating Rs.1,453.03 crore which exceeded their aggregate paid-up capital of Rs.500.65 crore.

***Operational performance of working Statutory corporations***

**1.3.5** The operational performance of the working Statutory corporations is given in *Annexure-6* which brings out the following facts:

- The average number of vehicles on road (including hired) by Uttar Pradesh State Road Transport Corporation dropped by six *per cent* during 2001-02 as compared to 1999-2000. The loss per kilometer increased from 116 paise during 1999-2000 to 179 paise during 2001-02 as a sequel to increase in average expenditure (from 1,128 paise in 1999-2000 to 1,247 paise in 2001-02), decline in occupancy ratio (63 *per cent* in 1999-2000 to 57 *per cent* in 2001-02), and decline in passenger kms (2,316 crore in 1999-2000 to 2,043 crore in 2001-02).
- Overdue principal and interest in respect of Uttar Pradesh Financial Corporation increased from 84.74 *per cent* during 1999-2000 to 127.31 *per cent* during 2001-02 reflecting poor recovery performance.

***Return on capital employed***

**1.3.6** As per the latest accounts, the capital employed<sup>1</sup> worked out to Rs.9,362.52 crore in 43 working companies and total return<sup>2</sup> thereon amounted to Rs.(-) 982.01 crore as compared to total return of Rs.(-) 72.35 crore in the previous year. Similarly, the capital employed and total return thereon in case of six working Statutory corporations as per the latest accounts worked out to Rs.7,440.50 crore and Rs.95.68 crore (1.28 *per cent*), respectively, against the total return of Rs.130.14 crore (1.93 *per cent*) in previous year.

The details of capital employed and total return on capital employed in case of working Government companies and Statutory corporations are given in *Annexure-2*.

***Reforms in power sector***

***Uttar Pradesh Electricity Regulatory Commission***

**1.4** Commission was formed on 10 September 1998 under Section 17 of Electricity Regulatory Commission Act, 1998 with the main objective of rationalising generation, transmission, distribution and supply of electricity in the State, regulating the electricity industry in the State including the purchase, distribution, supply and utilisation of electricity, the quality of service, tariff and other charges keeping in view the interest of the consumers and utilities and creating an environment which will attract participation of private sector entrepreneurs in the electricity industry in the State. The Commission is a body corporate and comprises three members including a Chairman, who are appointed by the State Government. The Commission has fixed tariff for licensees (including bulk supply of Kanpur

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

<sup>2</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.

Electricity Supply Company Limited and Noida Power Company Limited) during 2001, 2002 and 2003 and also issued Uttar Pradesh Electricity Supply Code 2002 (Distribution Code). The audit of accounts of the commission has been entrusted to CAG under Section 34 of the Act *ibid*. The commission has finalised its accounts up to 2000-01.

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

**1.4.1** A memorandum of understanding (MOU) was reached on 25 January 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 as summarised below:

- Energy audit programme envisaged monitoring of feeder-wise energy account to facilitate identification of high loss feeders. For this, meters have been installed on all 7,064, 11 KV outgoing feeder panels and monitoring at the close of June 2003 revealed that 2,333 feeders had line losses ranging from 30 - 60 *per cent*. Against the target of 100 *per cent* installation of electronic meters at consumers' premises by March 2004 (extended up to March 2005), 15.95 lakh electronic meters (out of approximately 28 lakh) have been installed as of September 2003.
- Arrangement for online computerised billing has been made in all 27 centres in Lucknow City. This is to be implemented in 17 other districts subsequently.
- Formation of distribution profit centres was another area of the MOU. The Uttar Pradesh Cabinet had decided (14 November 2002) to form four distribution companies. Accordingly, Paschimanchal Vidyut Vitran Nigam Limited, Meerut, Madhyanchal Vidyut Vitran Nigam Limited, Lucknow, Dakshinanchal Vidyut Vitran Nigam Limited, Agra and Poorvanchal Vidyut Vitran Nigam Limited, Varanasi have been formed in May 2003.
- Outstanding dues of Rural Electrification Corporation have been rescheduled with redemption from financial year 2009 at an interest of 10 *per cent* per annum. Further, as per MOU, outstanding dues of Central PSUs have been securitised.

**Non-working PSUs**

**Investment in non-working PSUs**

**1.5** The total investment in 40 non-working PSUs<sup>1</sup> (all Government companies) at the end of March 2002 and at the end of March 2003 was as follows:

(Rs. in crore)

Year	Number of non-working PSUs	Investment in non-working PSUs			
		Equity	Share application money	Loan <sup>2</sup>	Total
2001-02	40	390.01	49.06	425.04	864.11
2002-03	40	390.01	49.06	422.38	861.45

The classification of non-working Government companies at the end of March 2003 was as under:

Sl. No.	Status of non-working Government companies	Number of companies	Investment (Rs. in crore)	
			Equity <sup>3</sup>	Long term loans
(i)	Under liquidation/ closure	9	12.94	11.04
(ii)	Under merger	2	0.44	2.09
(iii)	Others <sup>4</sup>	29	425.69	409.25
	<b>Total</b>	<b>40</b>	<b>439.07</b>	<b>422.38</b>

<sup>1</sup> There is no non-working statutory corporation.

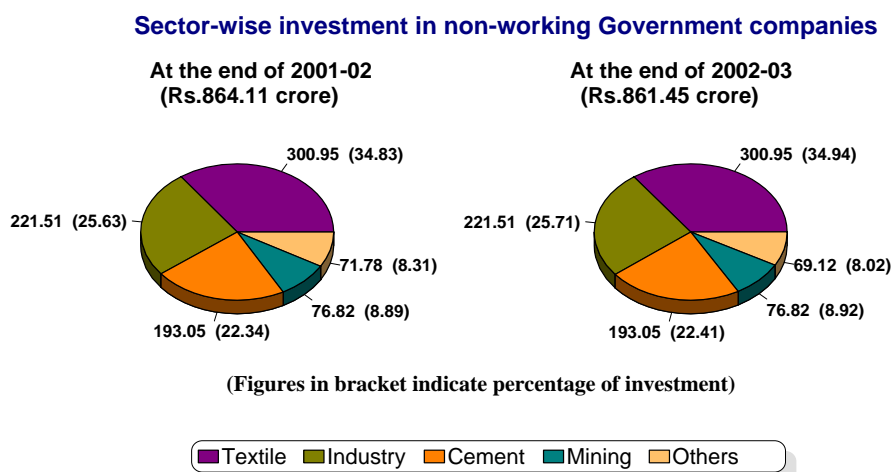
<sup>2</sup> Long term loans are excluding interest accrued and due on such loans.

<sup>3</sup> Equity includes share application money of Rs.49.06 crore for companies under 'others'.

<sup>4</sup> Defunct and non-operating companies.

Of the above non-working Government companies, nine Government companies were under liquidation/closure under Section 560 of the Companies Act, 1956 for 7 to 29 years and substantial investment of Rs.23.98 crore was involved in these companies. Effective steps need to be taken for their expeditious liquidation or revival.

The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2002 and 2003 are indicated below in the pie charts:



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

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

At the end of March 2003, guarantee amounting to Rs.36.07 crore in respect of five non-working companies was outstanding.

***Total establishment expenditure on non-working Government companies***

**1.5.2** The summarised details of total establishment expenditure of non-working Government companies and the sources of financing them during last three years up to 2002-03 are given in the table below:

(Rs. 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	
2000-01	4	0.99	0.92	-	-	-	0.07
2001-02	8	0.98	0.34	-	-	-	0.64
2002-03	5 <sup>1</sup>	0.61	0.02	-	-	-	0.59

***Finalisation of accounts by non-working Government companies***

**1.5.3** The accounts of 40 non-working companies were in arrears for periods ranging from 1 to 28 years as on 30 September 2003 as could be noticed from sub-section C of ***Annexure-2***.

<sup>1</sup> Out of 40 non-working companies, only five companies (Serial No. C-1, 3, 20, 36, and 40 of Annexure-1) furnished details of establishment expenditure.

**Financial position and working results of non-working Government companies**

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

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

(Rs. in crore)				
Particulars	Paid-up capital	Net worth <sup>1</sup>	Cash loss(-) / profit <sup>2</sup> (+)	Accumulated loss (-)/ profit(+)
Non-working companies	384.12	(-) 462.62	(-) 83.77	(-) 880.00

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

**1.6** The table given below indicates the status of placement of various Separate Audit Reports (SARs) on the accounts of Statutory corporations issued by CAG of India in the Legislature by the State Government:

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	1993-94	1994-95 1995-96 1996-97 1997-98 1998-99 1999-2000 2000-01	08.11.1996 20.01.1998 10.09.1999 12.01.2000 11.10.2001 05.10.2002 09.09.2003	Information awaited
2.	Uttar Pradesh Financial Corporation	1992-93	1993-94 1994-95 1995-96 1996-97 1997-98 1998-99 1999-2000	07.07.1995 18.04.1996 28.08.1998 17.12.1999 27.07.2000 20.10.2001 25.07.2002	Information awaited
3.	Uttar Pradesh State Warehousing Corporation	1997-98	1998-99 1999-2000 2000-01 2001-02	27.07.2000 29.05.2001 29.04.2002 13.08.2003	Information awaited
4.	Uttar Pradesh Forest Corporation <sup>3</sup>	--	1997-98 1998-99	17.08.2000 23.05.2002	Information awaited
5.	Uttar Pradesh Avas Evam Vikas Parishad	-- <sup>4</sup>	1990-91 1991-92 1992-93 1993-94 1995-96	23.02.1998 23.02.1998 27.02.1998 19.08.1999	Information awaited
6.	Uttar Pradesh Jal Nigam	-- <sup>4</sup>	1995-96 1996-97 1997-98 1998-99 1999-2000 2000-01	21.10.1997 18.02.1999 03.07.2000 19.09.2001 07.02.2002 13.02.2003	Information awaited
7.	Uttar Pradesh State Employees Welfare Corporation <sup>5</sup>	--	--	--	--

<sup>1</sup> Net worth represents paid-up capital plus free reserves less accumulated loss.

<sup>2</sup> Cash loss/profit represents loss/profit for the year plus depreciation for the year.

<sup>3</sup> Audit entrusted from 1997-98.

<sup>4</sup> Information in respect of Uttar Pradesh Avas Evam Vikas Parishad prior to 1990-91 and Uttar Pradesh Jal Nigam prior to 1995-96 awaited from Government.

<sup>5</sup> Audit entrusted from 1997-98, accounts not been received so far (October 2003).

The State Government has not provided the information regarding placement of SAR in the Legislature. Besides others, the SAR of Uttar Pradesh Financial Corporation for the year 1993-94 was issued on 7 July 1995. The information regarding its placement, however, is still awaited. This is a serious matter which requires action by Government.

### **Disinvestment, Privatisation and Restructuring<sup>1</sup> of Public Sector Undertakings**

**1.7** The policy of privatisation/disinvestment of PSUs formulated (June 1994) by the 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 have not been 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).

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.

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

- A High Power Disinvestment Committee (HPDC) was constituted (April 2003) and the work of disinvestments was assigned to the Planning Department.

The Government intimated (September 2003) that:

- In 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 recommendation of DC on 27 PSUs, which were referred to the DC.
- Information was being collected for possibility of disinvestment from Departments/PSUs and on the basis of information obtained, necessary action for disinvestment would be taken in third stage.
- The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited (PICUP) has been selected for consultancy for disinvestments. The HPDC was taking consultancy from PICUP for deciding policy matters and for making practical recommendations.

### **Results of audit by Comptroller and Auditor General of India**

**1.8** During the period from October 2002 to September 2003, the accounts of 35 Government companies (29 working and 6 non-working) and 6 Statutory

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<sup>1</sup> Restructuring includes merger and closure of PSUs.

corporations were selected for review. The net impact of the important audit observations as a result of review 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) Decrease in profit	7	-	2	775.50	-	448.90
(ii) Increase in loss	8	1	1	40068.98	1.97	7867.00
(iii) Decrease in loss	2	-	-	1279.11	-	-
(iv) Non disclosure of material facts	9	1	1	223010.17	68.24	10497.00
(v) Errors of classification	11	2	3	26906.36	29.61	18582.81

Note: None of the Statutory corporations are non-working.

Some of the major errors and omissions noticed in the course of review of annual accounts of some of the above companies and corporations are mentioned below:

### **1.8.1 Errors and omissions noticed in case of Government companies**

#### ***Uttar Pradesh Projects and Tubewells Corporation Limited (2000-01)***

- Share Application Money of Rs.4.47 crore was overstated on account of unilateral conversion of accumulated interest amounting to Rs.4.47 crore payable on unutilised Government funds up to the year 1993-94 into share application money, resulting in understatement of current liabilities and provisions and overstatement of share capital by Rs.4.47 crore.
- Sundry debtors (Rs.6.84 crore) included a sum of Rs.50.52 lakh towards inadmissible escalation claims resulting in overstatement of sundry debtors and understatement of accumulated loss by Rs.50.52 lakh
- Work-in-progress (Rs.67.54 crore) in credit side of Profit and Loss Account was overstated by Rs.5.58 crore on account of billing and valuation of closing work-in-progress at estimated rates instead of the actual cost as provided in terms and conditions of the work of the client, resulting in overstatement of profit for the year by Rs.5.58 crore.
- The Company has not accorded credit of Rs.1.02 crore to the Government on account of interest earned by investing unutilised funds in contravention of the orders of the Government, resulting in overstatement of profit for the year by Rs.1.02 crore.

#### ***Chhata Sugar Company Limited (1999-2000)***

- Sundry creditors (Rs.15.98 crore) were understated by Rs.1.16 crore due to non-inclusion of service charges on sale of sugar and bagasse payable to Uttar Pradesh State Sugar Corporation Limited for the previous year (Rs.73 lakh) and for the current year (Rs.42.63 lakh), resulting in overstatement of profit for the year by Rs.42.63 lakh and understatement of accumulated loss as on 31 March 2000 by Rs.1.16 crore.
- Liabilities amounting to Rs.1.80 crore towards payment of excise duty on sugar and molasses were not provided. This has resulted in understatement of current liabilities by Rs.1.80 crore and stock-in-trade to the same extent as well.

***The Pradeshiya Industrial and Investment Corporation  
of Uttar Pradesh Limited (2001-02)***

- Receivable – Others (Rs.12.35 crore) under Current Assets, Loans and Advances was overstated by Rs.3.94 crore due to non-provision of irrecoverable advances, resulting in understatement of loss by Rs.3.94 crore.
- Provision for Assets Classification (Rs.138.36 crore) was understated resulting in overstatement of Current Assets, Loans and Advances by Rs.12.44 crore on account of:
  - Short provision of Rs.7.09 crore in respect of 11 companies where the assistance rendered to them had been classified as doubtful instead of loss;
  - Short provision of Rs.5.35 crore in respect of five companies where the lease assistance rendered to them had been classified as doubtful instead of loss.
- The Company has not made provision for interest on Government loan of Rs.33.53 crore amounting to Rs.15.78 crore for the period from April 1999 to March 2002. The Government had not waived off the interest on the loan though it converted loan of Rs.26.03 crore into interest free loan with effect from 31 March 2002. The non-provision of interest on Rs.33.53 crore resulted in understatement of accumulated loss by Rs.15.78 crore (including loss for the year by Rs.5.55 crore) and Financial Expenses (for the year) by Rs.5.55 crore.
- Financial Expenses (Rs.95.44 crore) were understated by Rs.1.41 crore on account of non-provision of interest @ 15 *per cent* per annum on the funds received from Ministry of Food Processing, Government of India, towards investment in the equity shares of Hind Agro Industries (Rs.2.10 crore) and Mahan Proteins Limited (Rs.2.00 crore), resulting in understatement of Current Liabilities and provisions and accumulated loss by Rs.1.41 crore.

***Uttar Pradesh Rajkiya Nirman Nigam Limited (2001-02)***

- Debts outstanding for a period exceeding six months (Rs.27.38 crore) under sundry debtors included debts of Rs.5.14 crore outstanding for more than 10 years against which provision for only Rs.21 lakh was made, resulting in short provision to the extent of Rs.4.93 crore. Consequently, sundry debtors was overstated by Rs.4.93 crore and loss for the year understated to the same extent.

***Uttar Pradesh Jal Vidyut Nigam Limited (2000-01)***

- Sale of power (Rs.185.00 crore) included Rs.167.18 crore as revenue from sale of power to UPPCL against which UPPCL verified and accounted for purchase worth Rs.149.53 crore, resulting in overstatement of income and understatement of loss by Rs.17.65 crore.
- Other Income (Rs.19.53 crore) included Rs.2.94 crore on account of delayed payment charges on the unpaid electricity bills recoverable by the Company on behalf of UPPCL. Thus, loss and liability both were understated by Rs.2.94 crore.

***Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (2000-01)***

- Coal in transit (Rs.46.90 crore) did not include Rs.1.73 crore being value of coal despatched to Obra, resulting in understatement of coal in transit and liability by Rs.1.73 crore.

***Uttar Pradesh Power Corporation Limited (2000-01)***

- Sale of power to Kanpur Electricity Supply Company Limited (KESCO) (Rs.524.68 crore) included surcharge of Rs.19.82 crore instead of Rs.15.30 crore resulting in understatement of loss and overstatement of sundry debtors by Rs.4.52 crore.
- Revenue from sale of power was overstated by Rs.9.56 crore due to showing sale against Railway traction for Rs.373.65 crore instead of Rs.364.09 crore worked out on the basis of bills raised by the Company and verified by the Railway. This resulted in understatement of loss and overstatement of sundry debtors by Rs.9.56 crore.
- Revenue from sale of power was overstated by Rs.5.29 crore due to account of sale of power for Rs.83.34 crore instead of Rs.78.05 crore in two Distribution Divisions of Meerut, resulting in understatement of loss and overstatement of sundry debtors by Rs.5.29 crore.

***Kanpur Electricity Supply Company Limited (1999-2000)***

- Purchase of power (Rs.84.03 crore) in Profit and Loss Account was understated by Rs.9.10 crore due to account of power (43,31,31,907.10 units) at Rs.1.94 instead of Rs.2.15 per unit fixed by the UPPCL.
- Establishment expenses (Rs.8.25 crore) was understated by Rs.1.03 crore due to non-provision of employees terminal benefits for the period 15 January 2000 to 31 March 2000 based on actuarial valuation made in terms of para 4 (4) (d) of Government notification dated 15 January 2000, resulting in understatement of liabilities and loss by Rs.1.03 crore.

**1.8.2 Errors and omissions noticed in case of Statutory corporations**

***Uttar Pradesh State Warehousing Corporation (2001-02)***

- Storage Charges (Rs.75.06 crore) in credit side of Profit and Loss Account included Rs.59.30 lakh (including Rs.10.95 lakh for current year) shown as recoverable from Central Warehousing Corporation (CWC) which was neither paid nor accepted by the CWC but the amount was not written back in the accounts. This resulted in overstatement of profit for the year by Rs.10.95 lakh, overstatement of accumulated profit by Rs.59.30 lakh and overstatement of accrued storage charges by Rs.59.30 lakh.

***Uttar Pradesh Jal Nigam (2000-01)***

- Amount due to suppliers/contractors (Rs.29.17 crore) was understated by Rs.2.78 crore due to non account of material received from suppliers which were accepted and accounted for in stores ledger up to March 2001 but not given effect in accounts by debit to Material Account and corresponding credit to Liability.

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

**Government companies**

Contribution amounting to Rs.25 lakh to the Corpus Fund raised by the Institute of Entrepreneurship Development paid in July 1999 was being included in Current Assets, Loans and Advances, which should have been charged to the Profit and Loss Account since it was in the nature of donation and nothing was recoverable by the Company. Further, the consent of the shareholders for making the contribution as required under Section 293(1) (e) of the Companies Act, 1956 had not been obtained.

***(The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited)***

### **Statutory corporations**

- Consequent upon implementation of recommendation of pay commission, the pay of employees/officers, who retired during 01.01.1996 to 31.03.1999, was also revised. No provision, however, for enhanced gratuity/pensionary contribution amounting to Rs.5.63 crore was made in the accounts in respect of the employees who retired during January 1996 to December 1998. This resulted in understatement of accumulated loss and other liabilities both by Rs.5.63 crore as on 31 March 2001.
- The Corporation has not reconciled debit balances of Rs.8.12 crore pertaining to years up to 1989-90, which stood included in the 'Inter Office Remittances'.

*(Uttar Pradesh State Road Transport Corporation)*

- Excess of Income over Expenditure (Rs.29.52 crore) under Capital and Liabilities – Reserve Fund stood overstated by Rs.3.51 crore due to not writing back the excess centage credited in respect of those works where no such centage at lower rate was admissible.

*(Uttar Pradesh Jal Nigam)*

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

**1.9** 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 Comptroller and Auditor General of India to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major recommendations made/comments made by Statutory auditors' on possible improvement in the internal audit/ internal control system in respect of State Government is indicated in *Annexure-7*. It is 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 Government companies, internal audit not conducted, time taken by the Internal Auditor was not as per size of the business, the compliance mechanism was found defective as the compliance of observations and recommendations was inordinately delayed, etc.

### **Recommendation for closure of PSUs**

**1.10** Even after completion of five years of their existence, the turnover (sales and other income) of 13 working Government companies (*Annexure-8*) has been less than Rs.5 crore in each of the preceding five years of latest accounts. Similarly, eight working Government companies (*Annexure-8A*) had been incurring losses for five consecutive years (as per latest accounts) leading to negative net worth. In view of poor turnover and continuous losses, the Government may either improve performance of above Government companies or consider their closure.

### **Response to Inspection Reports, Draft Paragraphs and Reviews**

**1.11** Audit observations noticed during audit and not settled on the spot are communicated to the Head of PSUs and concerned departments of State Government through Inspection Reports. The Heads of PSUs are required to furnish replies to the Inspection Reports through respective Heads of departments within a period of six weeks. Inspection Reports issued up to March 2003 pertaining to 63 PSUs disclosed that 12,624 paragraphs relating to 3,376 Inspection Reports

remained outstanding at the end of September 2003. Of these, 502 Inspection Reports containing 2,409 paragraphs had not been replied for more than five years. Department-wise break-up of Inspection Reports and Audit Observations outstanding as on 30 September 2003 is given in *Annexure-9*.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary, Finance and the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that out of 38 draft paragraphs and four draft reviews forwarded to the various departments during March 2003 to July 2003, the Government had not replied to two draft reviews and 31 draft paragraphs so far, as detailed in *Annexure-10*.

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who failed to send replies to Inspection Reports/Draft Paragraphs/Reviews as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayment in a time bound schedule and (c) system of responding to the audit observations is revamped.

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

Period	Reviews and paragraphs appeared in the Audit Report		Reviews and paragraphs pending for discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1976-77	2	53	--	4
1977-78	5	28	--	3
1979-80	6	59	--	7
1980-81	6	30	--	1
1981-82	4	73	2	37
1982-83	5	50	3	16
1983-84	4	60	3	4
1984-85	2	14	1	6
1985-86	6	22	6	9
1986-87	3	28	1	12
1987-88	8	23	5	8
1988-89	5	22	3	9
1989-90	6	14	1	7
1990-91	6	21	4	19
1991-92	4	38	4	35
1992-93	5	33	3	26
1993-94	5	31	5	23
1994-95	5	41	5	23
1995-96	7	39	6	26
1996-97	8	40	7	20
1997-98	5	67	5	61
1998-99	5	26	5	25
1999-2000	4	41	4	41
2000-01	5	34	5	34
<b>Total</b>	<b>121</b>	<b>887</b>	<b>78</b>	<b>456</b>

### 619-B Companies

**1.13** Five companies come under the purview of Section 619-B of the Companies Act, 1956 of which three were non-working. *Annexure-11* 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.