

## CHAPTER-I

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

#### Introduction

**1.1** The State Public Sector Undertakings (PSUs) consist of State Government companies and Statutory corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Uttar Pradesh, the State PSUs occupy a moderate place in the State economy. Major activities of State PSUs are concentrated in Power Sector. The State working PSUs registered a turnover of ₹ 62,432.56 crore as per their latest finalised Accounts. The State working PSUs incurred a loss of ₹ 10,842.45 crore in the aggregate as per their latest finalised Accounts. The State PSUs had 0.82 lakh<sup>1</sup> employees as of 31 March 2013. The State PSUs do not include six Departmental Undertakings<sup>2</sup> (DUs), which carry out commercial operations but are a part of Government departments. Audit findings of these DUs are incorporated in the Audit Report (General and Social Sector Audit) of the State.

**1.2** As on 31 March 2013, there were 126 PSUs as per details given below. Of these, no company was listed on the stock exchange(s).

**Table No. 1.1**

Type of PSUs	Working PSUs	Non-working PSUs <sup>3</sup>	Total
Government companies <sup>4</sup>	80	39	119
Statutory corporations	7	--	7
<b>Total</b>	<b>87</b>	<b>39</b>	<b>126</b>

**1.3** During the year 2012-13, three companies named Yamuna Power Generation Corporation Limited, Kanpur City Transport Services Limited and Varanasi City Transport Services Limited were incorporated under the Companies Act, 1956 and five<sup>5</sup> companies were finally wound-up.

#### Audit mandate

**1.4** Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a Company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as per Section 619-B of the Companies Act, 1956.

**1.5** The Accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by Comptroller and Auditor General of India as per the provisions of Section 619(2) of the Companies Act, 1956. These Accounts are also subject to supplementary audit conducted by Comptroller and Auditor

<sup>1</sup> As per the details provided by 57 PSUs. Remaining 69 PSUs did not furnish the details.

<sup>2</sup> Commissioner, Food and Civil Supplies; Government Press; State Pharmacy of Ayurvedic and Unani Medicines; Dy. Director, Animal Husbandry; Irrigation Workshops and Criminal Tribes Settlement Tailoring Factory, Kanpur.

<sup>3</sup> Non-working PSUs are those which have ceased to carry on their operations.

<sup>4</sup> Includes 619-B companies.

<sup>5</sup> UPSIC Potteries Limited, Upton Sempack Limited, Bundelkhand Concrete Structural Limited, Gandak Samadesh Khestriya Vikas Nigam Limited and Steel and Fastners Limited.

General of India as per the provisions of Section 619 of the Companies Act, 1956.

**1.6** Audit of Statutory corporations is governed by their respective legislations. Out of seven Statutory corporations, Comptroller and Auditor General of India is the sole auditor for Uttar Pradesh State Road Transport Corporation, Uttar Pradesh Avas Evam Vikas Parishad, Uttar Pradesh Forest Corporation and Uttar Pradesh Jal Nigam. In respect of Uttar Pradesh State Warehousing Corporation, Uttar Pradesh Financial Corporation and Uttar Pradesh Government Employees Welfare Corporation, the audit is conducted by the Chartered Accountants and supplementary audit is done by the Comptroller and Auditor General of India.

The audit of Uttar Pradesh Electricity Regulatory Commission is entrusted to the Comptroller and Auditor General of India under Section 104 (2) of the Electricity Act, 2003.

### Investment in State PSUs

**1.7** As on 31 March 2013, the Investment in 126 PSUs (including 619-B companies) was ₹ 1,14,776.13 crore as per details given below:

**Table No. 1.2**

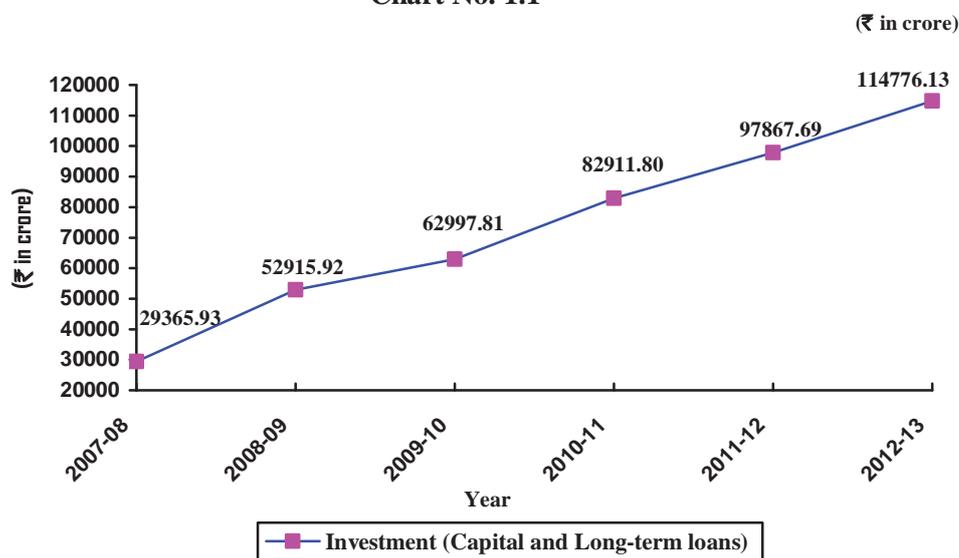
Type of PSUs	Government companies			Statutory corporations			Grand total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	63215.43	48859.05	112074.48	607.30	1010.05	1617.35	113691.83
Non-working PSUs	694.16	390.14	1084.30	-	-	-	1084.30
<b>Total</b>	<b>63909.59</b>	<b>49249.19</b>	<b>113158.78</b>	<b>607.30</b>	<b>1010.05</b>	<b>1617.35</b>	<b>114776.13</b>

Source: Information furnished by PSUs

A summarised position of Government Investment in State PSUs is given in **Annexure-1**.

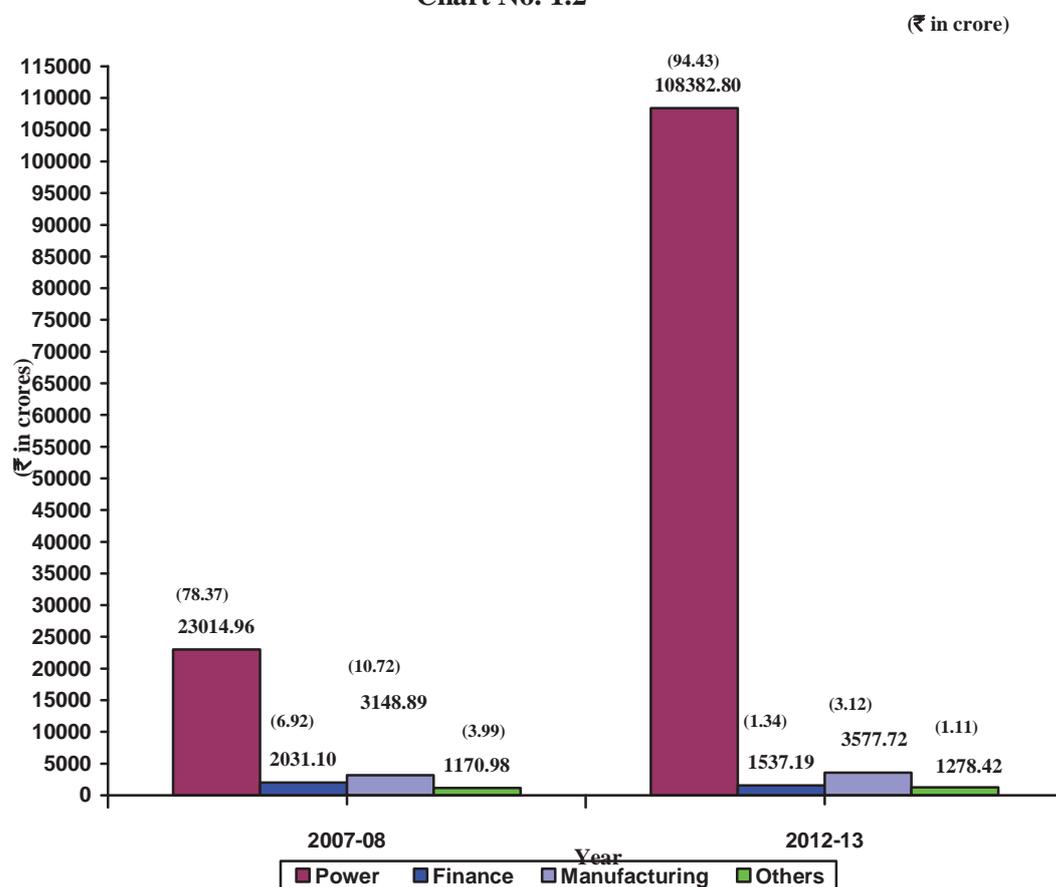
**1.8** As on 31 March 2013, of the total Investment in State PSUs, 99.06 per cent was in working PSUs and the remaining 0.94 per cent in non-working PSUs. This total Investment consisted of 56.21 per cent towards Capital and 43.79 per cent in Long-Term Loans. The Investment has grown by 290.85 per cent from ₹ 29,365.93 crore in 2007-08 to ₹ 1,14,776.13 crore in 2012-13 as shown in the following graph.

**Chart No. 1.1**



1.9 The Investment in various important sectors and percentage thereof at the end of 31 March 2008 and 31 March 2013 are indicated below in the bar chart. The thrust of PSU Investment was mainly in Power Sector during the five years which has seen its percentage share rising from 78.37 per cent in 2007-08 to 94.43 per cent in 2012-13 while the share of manufacturing sector decreased from 10.72 per cent in 2007-08 to 3.12 per cent in 2012-13.

Chart No. 1.2



(Figures in brackets indicate the Sector percentage to total Investment)

### Budgetary outgo, Grants/Subsidies, Guarantees and Loans

1.10 The details regarding budgetary outgo towards Equity, Loans, Grants/Subsidies, Interest waived and Guarantees issued in respect of State PSUs are given in **Annexure-2**. The summarised details for the three years ended 2012-13 are given below.

Table No. 1.3

(₹ in crore)

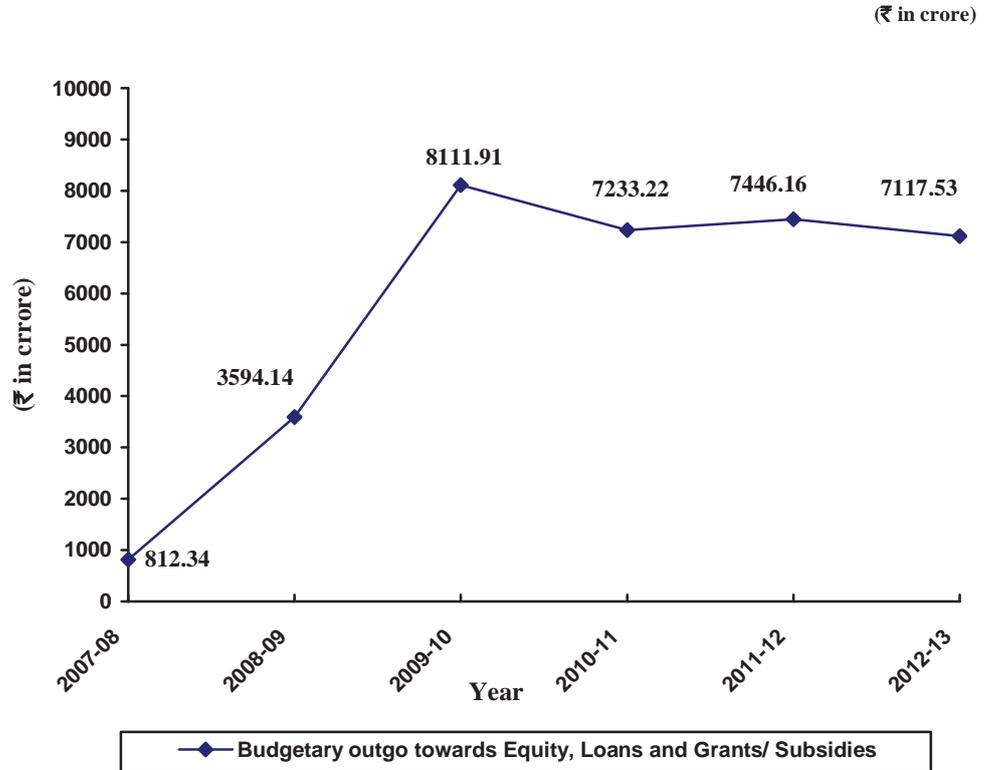
Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity capital outgo from budget	6	3502.49	5	4325.50	5	2987.40
2.	Loans given from budget	8	113.20	1	11.85	3	25.18
3.	Grants/subsidy received	11	3617.53	10	3108.81	11	4104.95
4.	<b>Total Outgo (1+2+3)</b>	<b>23<sup>6</sup></b>	<b>7233.22</b>	<b>15*</b>	<b>7446.16</b>	<b>18*</b>	<b>7117.53</b>
5.	Loans converted into Equity	1	100.00	-	-	1	64.38
6.	Interest waived	-	-	-	-	1	425.44
7.	Guarantees issued	3	10549.50	4	1194.65	4	848.35
8.	Guarantee commitment	8	17718.22	6	9578.49	9	9734.56

Source: Information furnished by PSUs

<sup>6</sup> These represent actual number of PSUs which received budgetary support. Some PSUs fall in more than one category.

1.11 The details regarding budgetary outgo towards Equity, Loans and Grants/Subsidies for past six years are given in the graph.

Chart No. 1.3



It can be seen that the budgetary outgo in the form of Equity, Loans and Grants/Subsidies to State PSUs was all time low in 2007-08 during the period from 2007-08 to 2012-13. The budgetary outgo was ₹ 7,117.53 crore in 2012-13 mainly due to extension of financial support of ₹ 6,439.34 crore by the State Government to seven Power Sector companies in the form of Equity (₹ 2,986.15 crore) and Grants/Subsidies (₹ 3,453.19 crore). The amount of guarantee outstanding decreased from ₹ 17,718.22 crore in 2010-11 to ₹ 9,578.49 crore in 2011-12 but increased to ₹ 9,734.56 crore in 2012-13. The amount of guarantee commission payable by four PSUs<sup>7</sup> as on 31 March 2013 was ₹ 5.25 crore. During the year, seven PSUs<sup>8</sup> had paid guarantee commission of ₹ 6.81 crore.

### Reconciliation with Finance Accounts

1.12 The figures in respect of Equity, Loans and Guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. We observed that differences occurred in respect of 52 PSUs as indicated in the table below:

<sup>7</sup> The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited, Uttar Pradesh Power Corporation Limited, Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited and Uttar Pradesh Power Transmission Corporation Limited.

<sup>8</sup> Uttar Pradesh Power Corporation Limited, Madhyanchal Vidyut Vitran Nigam Limited, Paschimanchal Vidyut Vitran Nigam Limited, Purvanchal Vidyut Vitran Nigam Limited, Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited, Uttar Pradesh Power Transmission Corporation Limited and Dakshinanchal Vidyut Vitran Nigam Limited.

Table No. 1.4

(₹ in crore)			
Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	43020.47	51508.84	8488.37
Loans	801.10	1311.51	510.41
Guarantees	38635.57	9734.56	28901.01

Source: State Finance Accounts for the year 2012-13 and information furnished by PSUs.

We noticed that the differences were pending for reconciliation since 2000-01. The Accountant General had regularly taken up the matter of non-reconciliation of figures between Finance Accounts and records of State PSUs, with the PSUs, requesting them to expedite the reconciliation. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

### Performance of PSUs

**1.13** The financial results of all the PSUs are given in **Annexure-3**. The financial position and working results of working Statutory corporations are indicated in **Annexures-4** and **5** respectively.

**1.14** As per the latest finalised accounts, out of 87<sup>9</sup> working PSUs, 34 PSUs earned profit of ₹ 1,255.42 crore and 22 PSUs incurred loss of ₹ 12,097.87 crore. Six working PSUs<sup>10</sup> had not submitted their first Accounts whereas 25 PSUs are treated as “no profit/loss” as their data of financial results was less than ₹ one lakh. The major contributors to profit were Uttar Pradesh Avam Vikas Parishad (₹ 431.05 crore), Uttar Pradesh Rajkiya Nirman Nigam Limited (₹ 232.49 crore), Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (₹ 126.38 crore) and Uttar Pradesh Forest Corporation (₹ 126.08 crore). The remaining 30 PSUs earned profit of ₹ 339.42 crore. The heavy losses were incurred by Dakshinanchal Vidyut Vitran Nigam Limited (₹ 2,839.88 crore), Uttar Pradesh Power Corporation (₹ 2,721.85 crore), Purvanchal Vidyut Vitran Nigam Limited (₹ 2,244.04 crore), Paschimanchal Vidyut Vitran Nigam Limited (₹ 1,991.60 crore) and Madhyanchal Vidyut Vitran Nigam Limited (₹ 1,764.84 crore). The remaining 17 PSUs incurred loss of ₹ 535.66 crore.

**1.15** A review of the latest three years' Audit Reports of Comptroller and Auditor General of India shows that the State's working PSUs incurred losses to the tune of ₹ 35,838.70 crore and infructuous Investment of ₹ 315.46 crore which were controllable with better management. Year wise details from the Audit Reports are given below.

Table No. 1.5

(₹ in crore)				
Particulars	2010-11	2011-12	2012-13	Total
Controllable losses as per Audit Reports of the Comptroller and Auditor General of India	1789.57	16879.05 <sup>11</sup>	17170.08 <sup>12</sup>	35838.70
Infructuous Investment	9.22	132.80	173.44	315.46

Source: Latest finalised Accounts of PSUs and Audit Reports of the Comptroller and Auditor General of India.

**1.16** The above losses pointed out in the Audit Reports of Comptroller and Auditor General of India are based on test check of records of working PSUs. The actual controllable losses would be much more. The above table shows that with better management, the losses can be minimised substantially.

<sup>9</sup> 25 PSUs reported net profit/loss less than ₹ one lakh, hence profit/loss of such PSUs could not be indicated in **Annexure-3** wherein the indicated figures are ₹ in crore.

<sup>10</sup> Serial number A-45, A-75, A-77, A-78, A-79 and A-80 in **Annexure-3**.

<sup>11</sup> ₹ 1,446.11 crore was incurred up to March 2012 and ₹ 15,432.94 crore will be incurred as per pre-existing rates during the next 25 and 18 years as referred in detail in paragraphs 3.4 and 3.6 of Audit Report (PSUs) for the year ended 31 March 2012.

<sup>12</sup> ₹ 9,704.12 crore will be incurred as per pre-existing rates during the next 22 years, 23 years and nine months, 24 years and 25 years as referred in detail in paragraph 3.13 of this Report.

**1.17** The State Government had formulated (October 2002) a Dividend policy under which all profit earning PSUs are required to pay a minimum return of five *per cent* on the paid up Share Capital contributed by the State Government. As per their latest finalised Accounts, 34 PSUs earned an aggregate profit of ₹ 1,255.42 crore and ten PSUs<sup>13</sup> declared a dividend of ₹ 6.81 crore. The remaining profit earning PSUs did not comply with the State Government policy regarding payment of minimum dividend.

### Arrears in finalisation of Accounts

**1.18** The Accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory corporations, their Accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of Accounts by 30 September 2013.

**Table No. 1.6**

Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1.	Number of Working PSUs	60	83	83	85	87
2.	Number of Accounts finalised during the year	46	98	59	66	84
3.	Number of Accounts in arrears	197	182	206	234	228
4.	Average arrears per PSUs (Row 3 / Row 1)	3.28	2.19	2.48	2.75	2.62
5.	Number of Working PSUs with arrears in Accounts	54	52	69	81	82
6.	Extent of arrears	1 to 14 years	1 to 15 years	1 to 15 years	1 to 16 years	1 to 17 Years

(Source: Latest finalised Accounts of PSUs)

**1.19** The average number of Accounts in arrears per working PSUs ranged between 2.19 to 3.28 during 2008-09 to 2012-13. Out of the 87 working PSUs, only five PSUs<sup>14</sup> finalised their Accounts for the year 2012-13 while 82 PSUs had arrear of 228 Accounts as of September 2013 with extent of arrear ranging from one to 17 years. The PSUs having arrears of Accounts need to take effective measures for early clearance of back log and make the Accounts up-to-date. The PSUs should also ensure that at least one year's Accounts are finalised each year so as to restrict the accumulation of arrears.

**1.20** In addition to above, there were also arrears in finalisation of Accounts by non-working PSUs. Out of 39 non-working PSUs, 13<sup>15</sup> had gone into liquidation process. The remaining 26 non-working PSUs had arrears of Accounts for one to 30 years.

**1.21** The State Government had invested ₹ 7,116.99 crore (Equity: ₹ 2,987.40 crore, Loans: ₹ 24.75 crore, Grants: ₹ 587.31 crore and Subsidies: ₹ 3,517.53 crore) during the year 2012-13 in 16 working PSUs which had

<sup>13</sup> U.P. Projects Corporation Limited, Uttar Pradesh Development Systems Corporation Limited, Uttar Pradesh Purva Sainik Kalyan Nigam Limited, Uttar Pradesh Samaj Kalyan Nirman Nigam Limited, Uttar Pradesh State Bridge Corporation Limited, Uttar Pradesh Electronics Corporation Limited, Uttar Pradesh State Industrial Development Corporation Limited, Uttar Pradesh Rajkiya Nirman Nigam Limited, Uttar Pradesh Food and Essential Commodities Limited and Uttar Pradesh State Warehousing Corporation.

<sup>14</sup> Serial No. A-1, 2, 17, 18 and 20 of Annexure-3.

<sup>15</sup> Serial no. C-2, 3, 9, 11, 12, 13, 15, 16, 18, 21, 22, 24, and 27 of Annexure-3.

arrears in finalisation of accounts as detailed in **Annexure-6**. In the absence of Accounts and their subsequent audit, it can not be ensured whether the Investments and expenditure incurred have been properly accounted for and the purposes for which the amount was invested have been achieved. Thus outcome of the Investment of the Government in such PSUs remained outside the scrutiny of the State Legislature. This delay in finalisation of Accounts apart from being a violation of the provisions of the Companies Act, 1956, may also result in risk of fraud and leakage of public money.

**1.22** The Administrative Departments have the responsibility to oversee the activities of these entities and to ensure that the Accounts are finalised and adopted by these PSUs within the prescribed period. The Accountant General brought the position of arrears of Accounts to the notice of the Administrative Departments concerned at the end of every quarter. No remedial measures were, however, taken. The matter of arrears in Accounts was also brought (latest being 20 November 2013 for the quarter ending September 2013) to the attention of the Chief Secretary/Finance Secretary from time to time highlighting the need to finalise the Accounts with special emphasis or to expedite clearance of the backlog of arrears in Accounts in a time bound manner.

### Status of placement of Annual Report

**1.23** As per Section 619 A(3) of the Companies Act, 1956 where State Government is a member of a company, the State Government shall cause an Annual Report on the working and affairs of the Company alongwith the Audit Report and comments or supplement of the Comptroller and Auditor General of India to be placed before the State Legislature within three months from the date of Annual General Meeting (AGM) of the Company in which the Accounts have been adopted. The placing of the Annual Report before the State Legislature gives the Legislature an opportunity to have important information regarding the performance of a Government company, in which the State Government is the major shareholder.

We observed that in case of 40<sup>16</sup> Companies the Annual Report alongwith Statutory Auditors' Report and Comments of Comptroller and Auditor General have not been placed in the State Legislature (September 2013).

### Winding up of non-working PSUs

**1.24** There were 39 non-working PSUs (37 Government companies and two 619-B Government companies) as on 31 March 2013. Of these, 13 PSUs had gone into liquidation process. The number of non-working PSUs at the end of each year during the past five years are given below:

**Table No. 1.7**

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
No. of non-working PSUs	43	43	40	43	39

The non-working PSUs should be closed down as their existence is not in the financial interest of the State. During 2012-13, three<sup>17</sup> non-working PSUs incurred an expenditure of ₹ 0.26 crore towards establishment expenditure.

<sup>16</sup> Serial no. A-1, 2, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 16, 18, 20, 21, 22, 23, 27, 28, 29, 31, 32, 33, 34, 36, 37, 38, 39, 40, 68, 70, 72, 73; C-5, 26, 34, 36 and 37 of **Annexure-3**.

<sup>17</sup> Out of 39 non-working PSUs only three PSUs (Uttar Pradesh Chalchitra Nigam Limited - ₹ 9.20 lakh, Uttar Pradesh Bundelkhand Vikas Nigam Limited- ₹ 11.40 lakh and Uttar Pradesh Poultry and Livestock Specialities Limited ₹ 5.67 lakh) furnished the information.

**1.25** The stages of closure as on 31 March 2013 in respect of non-working PSUs are given below:

**Table No. 1.8**

Sl. No.	Particulars	Companies
1.	Total no. of non-working PSUs	39
2.	Of (1) above, the no. of PSUs under:	
(a)	Liquidation by Court (Liquidator appointed)	13
(b)	Voluntary winding up (Liquidator appointed)	-
(c)	Closure, i.e. closing orders/ instructions issued by the State Government but liquidation process not yet started.	26

*Source: Information furnished by Registrar of Companies*

**1.26** During the year 2012-13, five<sup>18</sup> companies were finally wound up. The companies which have taken the route of winding up by Court order are under liquidation for a period ranging from nine years to 32 years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted/pursued vigorously. The Government may take a decision regarding winding up of 26 non-working PSUs where no decision about their continuation or otherwise has been taken after they became non-working. The Government may consider setting up a cell to expedite closing down the non-working companies.

### Accounts Comments and Internal Audit

**1.27** Sixty one<sup>19</sup> working companies forwarded their 78 Accounts to the Accountant General during the year 2012-13<sup>20</sup>. Of these, 48 Accounts<sup>21</sup> of 34 companies were selected for supplementary audit. The Audit Reports of Statutory Auditors appointed by Comptroller and Auditor General of India and the supplementary audit by us indicate that the quality of maintenance of Accounts needs to be improved substantially. The details of aggregate money value of our comments and those of Statutory Auditors are given below:

**Table No. 1.9**

(₹ in crore)

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in Profit	14	160.90	15	107.12	14	163.88
2.	Increase in Loss	11	543.59	5	2165.60	21	1248.38
3.	Non-disclosure of material facts	-	-	3	12.92	8	587.68
4.	Errors of classification	4	40.28	5	7.42	1	0.07

The above position indicates the deterioration in the quality of accounts of PSUs. During the current year, as a result of supplementary audit, statutory

<sup>18</sup> UPSIC Potteries Limited, Upron Sempack Limited, Bundelkhand Concrete Structural Limited, Gandak Samadesh Khestriya Vikas Nigam Limited and Steel and Fastners Limited.

<sup>19</sup> Serial no. A-1, 2, 3, 5, 6, 8, 10, 11, 12, 13, 14, 15, 16, 17, 18, 20, 21, 22, 23, 27, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 42, 43, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 70, 71, 73 and 76 of **Annexure-3**.

<sup>20</sup> October 2012 to September 2013.

<sup>21</sup> Thirty accounts of 29 companies were not selected for supplementary audit.

auditor of one company<sup>22</sup> revised their report to incorporate significant observations omitted from their report.

**1.28** During the year, the Statutory Auditors had given qualified certificates for 75 Accounts, adverse certificates (which means that Accounts do not reflect a true and fair position) for two Accounts of two Companies<sup>23</sup> and disclaimers (meaning the Auditors are unable to form an opinion on Accounts) for one Accounts<sup>24</sup> in respect of latest Accounts finalised by 61 companies. The compliance to the Accounting Standards (AS) issued by the Institute of Chartered Accountants of India (ICAI) remained poor as there were 105 instances of non-compliance with the AS in 33 Accounts during the year.

**1.29** Some of the important comments of the Comptroller and Auditor General of India in respect of Accounts of the companies finalised during the year 2012-13 are stated below:

***Madhyanchal Vidyut Vitran Nigam Limited (2011-12)***

- The Capital work-in-progress included expenditure of ₹ 337.95 crore incurred on construction of sub-stations and augmentation of sub-stations and associated lines on three projects (details of other projects were not furnished) under Rajeev Gandhi Gramin Vidyutikaran Yojana which were completed and commissioned during 2007-08 to 2010-11 but the same were not capitalised. As a result, Capital work-in-progress was overstated by ₹ 337.95 crore and Fixed Assets were understated by ₹ 286.77 crore. Besides, the depreciation as well as loss was understated each by ₹ 51.18 crore (including ₹ 16.05 crore for the year).
- As per Accounting Standard 16 – ‘Borrowing Cost’, issued by the ICAI, borrowing costs on works should be capitalised for the period during which asset is under construction. Accounting policy 2(f) of the Company also provides that Borrowing cost on loan for capital works are capitalized during the year.

The Company had drawn loan of ₹ 200.23 crore from Power Finance Corporation (as on 31 March 2012) under Restructured Accelerated Power Development Reforms Program on which interest at the rate of 11.5 per cent per annum was payable. In contravention to above mentioned provisions, Company charged the interest to Profit and Loss Account instead of transferring the same to Capital work-in-progress account.

This has resulted in understatement of Capital work-in-progress and over statement of loss of the year to the tune of ₹ 18.61 crore.

***Purvanchal Vidyut Vitran Nigam Limited (2010-11)***

The Significant Accounting Policy states that depreciation on additions to/deductions from fixed assets during the year is charged on pro-rata basis. Further, Note No. 6 of Schedule 22-B ‘Notes on Accounts’ provided that depreciation had been provided on straight line method basis on the opening balance of fixed assets as on the beginning of the year on the rate prescribed in the Schedule XIV of the Companies Act, 1956. Thus, both the above disclosures were contradictory to each other.

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<sup>22</sup> Uttar Pradesh Rajya Chini Evam Ganna Vikas Nigam Limited.

<sup>23</sup> Uttar Pradesh Pichhra Varg Vitta Evam Vikas Nigam Limited and Uttar Pradesh State Spinning Company Limited.

<sup>24</sup> Uttar Pradesh Food and Essential Commodities Corporation Limited.

The depreciation was provided by the Company on the opening balance of the fixed assets which was in contradiction to the provisions of the Schedule XIV of the Companies Act, 1956 as well as Accounting policy. This consequently resulted in understatement of the Depreciation and loss by ₹ 32.22 crore and overstatement of fixed assets by ₹ 32.22 crore.

***Uttar Pradesh Jal Vidyut Nigam Limited (2010-11)***

Para 4 V of ‘Statutory Auditors Report’ and Note No. 4 of ‘Notes on Accounts’ stated that sale of power to Uttar Pradesh Power Corporation Limited (UPPCL) was accounted for on the basis of tariff order issued by Uttar Pradesh Electricity Regulatory Commission (UPERC) after reducing the interest component on LIC loan in tariff, as the same, as per policy followed in previous years is to be claimed on “payment basis”. This reversal of sale by the amount of interest component was not as per the terms of tariff order passed by UPERC. The financial impact thereof works out to ₹ 8.01 crore which was not disclosed. This resulted in understatement of Sales and consequently profit and Sundry Debtors each by ₹ 8.01 crore.

***Kanpur Electricity Supply Company Limited (2009-10)***

Significant Accounting Policy No. 14 stated that ‘The provision for doubtful debts from the consumers is provided for at the rate of 15 per cent of the incremental value of Sundry Debtors’. Accordingly, provision for doubtful debts of ₹ 21.94 crore was made during the year and total provision for doubtful debts as on 31 March 2010 was ₹ 424.49 crore.

Audit noticed that there were Sundry debtors of ₹ 1,049.75 crore as on 31 March 2010 (LMV-1: ₹ 599.09 crore, LMV-2: ₹ 388.02 crore and LMV-6: ₹ 62.64 crore) outstanding for more than six months in which online billing was stopped and therefore, in these cases chances of recovery were very remote.

Thus, against total debtors of ₹ 1,470.31 crore including doubtful debts of ₹ 1,049.75 crore, there was provision of ₹ 424.49 crore only resulting into short provision for doubtful debts by ₹ 625.26 crore. This consequently resulted in overstatement of Sundry Debtors and understatement of loss by ₹ 625.26 crore. Hence, policy regarding provision for doubtful debts was deficient as it did not cover total risk.

***Uttar Pradesh Power Corporation Limited (2010-11)***

The reactive energy charges included an amount of ₹ 371.26 crore (₹ 160.40 crore for 2008-09, ₹ 150.88 crore for 2009-10 and ₹ 59.98 crore for 2010-11) pertaining to provision for differential ceiling rate of additional Unscheduled Interchange (U.I.) charges payable. The matter in regard with payment of additional U.I. charges was sub-judice and these charges, however, were not required to be paid by the Company in pursuance of Hon’ble High Court, Allahabad (Lucknow bench) order dated 12 November 2009 and Central Electricity Regulatory Commission’s order dated 3 December 2010. Hence, in the light of above orders, provision for additional U.I. charges was not required to be made as the liability was not finally established. Alternatively, such a liability should have been disclosed as contingent liability in the Accounts. Thus, unnecessary provision for additional U.I. charges resulted into overstatement of Purchase Cost of Power and Current Liabilities and

Provisions by ₹ 371.26 crore with further overstatement of loss for the year by the same amount.

***Uttar Pradesh State Industrial Development Corporation Limited (2009-10)***

The compensation and additional compensation paid to land owners was booked under ‘Industrial Land under development at cost’. The above did not include ₹ 9.08 crore being the additional compensation for land finally paid after 31 March 2010 but before the approval of the balance sheet (28 February 2012). As the expenses were known to the Management, this should have been accounted for in the Accounts. Non-accounting of the above resulted in understatement of ‘Industrial Land under development at cost’ as well as current liabilities both by ₹ 9.08 crore.

**1.30** Similarly, six working Statutory corporations forwarded their six Accounts to the Accountant General during the year 2012-13<sup>25</sup>. Of these, four Accounts of four Statutory corporations were subject to sole audit by Comptroller and Auditor General of India of which audit of three Accounts was completed and the audit of other one Accounts was in progress (September 2013). The supplementary audit of the remaining two Accounts of two Statutory corporations was completed (September 2013). The Audit Reports of Statutory Auditors and our sole/supplementary audit indicate that the quality of maintenance of Accounts needs to be improved substantially. The details of aggregate money value of our comments and those of Statutory Auditors are given below.

**Table No. 1.10**

(₹ in crore)

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in Profit	1	3.90	2	13.98	4	38.05
2.	Increase in Loss	2	59.37	1	87.84	1	79.60

During the year, out of six Accounts received, audit of five Accounts was completed and qualified certificates were issued in three Accounts and adverse certificate was issued in two Accounts<sup>26</sup>. The remaining Account<sup>27</sup> was under finalisation (September 2013). During the year, Statutory Auditors had given qualified certificates for two Accounts.

**1.31** Important comments of the Comptroller and Auditor General of India in respect of Accounts of the Statutory corporations finalised during the year 2012-13 are stated below:

***Uttar Pradesh State Road Transport Corporation (2011-12)***

As per Para 14.2 of Accounting Standard-10, items of Fixed Assets that have been retired from active use and are held for disposal are stated at the lower of their Net Block value and Net Realisable value and are shown separately in the financial statements. Any expected loss is recognized immediately in the Profit and Loss Statement.

<sup>25</sup> October 2012 to September 2013.

<sup>26</sup> Uttar Pradesh Avas Evam Vikas Parishad (2011-12) and Uttar Pradesh Financial Corporation (2011-12).

<sup>27</sup> Uttar Pradesh Jal Nigam (2010-11).

Fixed assets are overstated (Gross Block: ₹ 109.83 crore and Net Block: ₹ 11.42 crore) on account of inclusion of 988 number of buses which had outlived their useful lives and had been discarded and set apart from regular operations.

***Uttar Pradesh Avas Evam Vikas Parishad (2011-12)***

The interest received on saving bank accounts/flexi accounts was understated by ₹ 7.12 crore due to non accountal of interest credited by the bank during the year but not accounted for by the four Construction Divisions.

This resulted in understatement of excess of income over expenditure by ₹ 7.12 crore.

***Uttar Pradesh Forest Corporation (2011-12)***

The current liability did not include ₹ 4.70 crore on account of non-accountal of Trade Tax payable in respect of Tendu Patta for the period up to 1994-95 paid in July 2012. The same should have been provided in the books of accounts in terms of requirement of Accounting Standard-4 issued by the ICAI.

This resulted in understatement of current liabilities and overstatement of Profits each by ₹ 4.70 crore. In view of above, disclosure made in the Notes on Accounts was redundant.

**1.32** The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including Internal control/Internal audit systems in the companies audited 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 comments made by the Statutory Auditors are given below:

**Table No. 1.11**

Sl. No.	Nature of comments made by Statutory Auditors	Number of Companies where recommendations were made	Reference to serial number of the Companies as per Annexure- 3
1.	Non-fixation of minimum/maximum limits of store and spares	15	A-3, 6, 14, 17, 31, 32, 33, 34, 38, 41, 68, 70, 71, C- 8 and 17.
2.	Absence of internal audit system commensurate with the nature and size of business of the company	16	A-3, 6, 10, 14, 15, 17, 31, 33, 34, 36, 38, 39, 41, 68, 71 and C-8.
3.	Non-maintenance of cost record	33	A- 6, 10, 14, 17, 33, 34, 38, 40, 42, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 70 and 71.
4.	Non-maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations.	10	A-22, 32, 33, 34, 38, 39, 41, C-8, 10 and 17.

*Source: Detailed Reports furnished by Statutory Auditors in accordance with the directions issued by the Comptroller and Auditor General of India*

**Recoveries at the instance of audit**

**1.33** During the course of propriety audit, recoveries of ₹ 157.74 crore were pointed out to the Management of various PSUs, of which, recoveries of ₹ 101 crore were admitted and ₹ 1.48 crore<sup>28</sup> was recovered by PSUs during the year 2012-13.

<sup>28</sup> Purvanchal Vidyut Vitran Nigam Limited ₹ 1.35 crore and Uttar Pradesh Rajkiya Nirman Nigam Limited ₹ 0.13 crore.

### Status of placement of Separate Audit Reports

**1.34** The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the Comptroller and Auditor General of India on the Accounts of Statutory corporations in the Legislature.

**Table No. 1.12**

Sl No.	Name of Statutory corporation	Year up to which SAR placed in Legislature	Years for which SAR not placed in Legislature		Reasons for non-placement of SAR
			Year of SAR	Date of issue to the Government	
1.	Uttar Pradesh State Road Transport Corporation	2010-11	2011-12	25 July 2013	Reasons not furnished by the Government.
2.	Uttar Pradesh Financial Corporation	2007-08	2008-09 2009-10 2010-11 2011-12	20 May 2011 13 April 2012 27 August 2012 16 September 2013	
3.	Uttar Pradesh Forest Corporation <sup>29</sup>	--	2008-09 2009-10 2010-11 2011-12	9 March 2011 16 November 2011 21 September 2012 11 July 2013	
4.	Uttar Pradesh Avas Evam Vikas Parishad	2002-03	2003-04 2004-05 2005-06 2006-07 2007-08 2008-09 2009-10 2010-11 2011-12	8 February 2008 13 July 2010 8 February 2011 25 April 2011 1 August 2011 28 December 2011 18 July 2012 15 October 2012 16 September 2013	
5.	Uttar Pradesh Jal Nigam	2006-07	2007-08 2008-09 2009-10	11 October 2010 3 August 2011 20 May 2013	
6.	Uttar Pradesh State Warehousing Corporation	2009-10	2010-11	16 September 2013	

Delay in placement of SAR weakens the legislative control over Statutory corporations and dilutes the latter's financial accountability. Despite the fact that the matter of delay in placement of SARs was taken up (February 2009) by the Comptroller and Auditor General of India with the Chief Minister of the State and is also being pursued regularly by the Accountant General, the status of placement of SARs has deteriorated and 22 SARs were pending placement in the Legislature as on 30 September 2013 as compared to 16 SARs as on 30 September 2012. The Government should ensure prompt placement of SAR in the Legislature.

### Disinvestment, Privatisation and Restructuring of PSUs

**1.35** 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 ₹ 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 Board for Industrial and Financial Reconstruction (BIFR) and to recommend other alternatives such as partial privatisation, management by private entrepreneurs, lease to private entrepreneurs, etc. The recommendations of the

<sup>29</sup> Uttar Pradesh Forest Corporation submitted its Account for the year 2008-09 after doing necessary amendment in Uttar Pradesh Forest Corporation Act, 1974.

EC were not made available to Audit. On the recommendation of EC, the State Disinvestment Commission (DC) and a Central Committee (CC) were 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.

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

The Government of Uttar Pradesh issued (June 2007) Guidelines for selection of consultants/advisors, developers for Public Private Partnership (PPP) projects and private partners for disinvestment in Uttar Pradesh. The Guidelines provide for formation of various committees, process to be followed for disinvestment, appointment and functions of Lead Advisor, Legal Advisor, Accounting Advisors, Asset Valuers, procedure to be followed for bidding and methodologies of valuation of enterprise.

The State Government finalised sale of 10 mills of Uttar Pradesh State Sugar Corporation Limited and 11 mills of Uttar Pradesh Rajya Chinni Evam Ganna Vikas Nigam Limited in July 2010 to March 2011. The audit findings on the sale of these sugar Mills featured in the stand-alone Report of the Comptroller and Auditor General of India for the year ended 31 March, 2011. After 2010-11, no further disinvestment was done by the Government.