

OVERVIEW

1. Overview of State Public Sector Undertakings

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The Accounts of Government companies are audited by Statutory Auditors appointed by Comptroller and Auditor General of India. These Accounts are also subject to supplementary audit conducted by Comptroller and Auditor General of India. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2013, the State of Uttar Pradesh had 87 working PSUs (80 companies and seven Statutory corporations) and 39 non-working PSUs (all companies). The working PSUs registered a turnover of ₹ 62,432.56 crore and incurred overall aggregate loss of ₹ 10,842.45 crore as per their latest finalised accounts.

(Paragraphs 1.1, 1.5 and 1.6)

Investments in PSUs

As on 31 March 2013, the Investment (Capital and Long Term Loans) in 126 PSUs was ₹ 1,14,776.13 crore. It grew by 290.85 *per cent* from ₹ 29,365.93 crore in 2007-08 to ₹ 1,14,776.13 crore in 2012-13 mainly because of increase in Investment in Power Sector which accounted for 94.43 *per cent* of the total Investment in 2012-13. The Government contributed ₹ 7,117.53 crore towards Equity, Loans and Grants/Subsidies during 2012-13.

(Paragraphs 1.7, 1.8, 1.9 and 1.10)

Performance of PSUs

As per the latest finalised accounts, out of 87 working PSUs, 34 PSUs earned Profit of ₹ 1,255.42 crore and 22 PSUs incurred Loss of ₹ 12,097.87 crore. Six working PSUs 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 Avas Evam 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 heavy losses were incurred by five Power Sector companies (total ₹ 11,562.21 crore).

A review of three years Audit Reports of Comptroller and Auditor General of India shows that the state PSUs losses of ₹ 35,838.70 crore and infructuous Investments of ₹ 315.46 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses.

(Paragraphs 1.14 and 1.15)

Arrears in Accounts and winding up of Non-working PSUs

Out of 87 working PSUs, only five PSUs finalised the accounts for the year 2012-13 while 82 PSUs had arrear of 228 Accounts as of September 2013 with the extent of arrears ranging from one year to 17 years. The arrears need to be cleared in a time bound manner by setting targets for PSUs. Out of 39 non-working PSUs (all companies), 13 have gone into liquidation process and the remaining 26 had

arrears of accounts for one year to 30 years. Government needs to expedite closing down of the non-working PSUs.

(Paragraphs 1.18, 1.19, 1.20 and 1.24)

Quality of Accounts

The quality of Accounts of PSUs needs improvement. Of the 78 Accounts finalised by 61 working companies during October 2012 to September 2013, the Statutory Auditors have given qualified certificates for 75 Accounts, adverse certificates for two Accounts and disclaimer for one account. There were 105 instances of non-compliance with Accounting Standards. Of the six Accounts finalised by the six Statutory corporations during October 2012 to September 2013, we completed audit of five Accounts and issued qualified certificate for three Accounts and adverse certificate was issued in two Accounts. The audit of remaining one corporation was under finalisation (September 2013).

(Paragraphs 1.27, 1.28 and 1.30)

2. Performance review relating to Government company

Review of the performance of U.P. Projects Corporation Limited was conducted. Executive summary of our audit findings is given below:

Introduction

U.P. Projects Corporation Limited (Company) is a wholly owned Government Company under the administrative control of the Irrigation Department of Government of Uttar Pradesh (GoUP). The main objective of the Company was to carry on the business as general and Government contractors, to submit tenders and undertake to do construction work of every nature. During last six years ending March 2013, the Company did not participate in tenders and was primarily engaged in execution of deposit works entrusted by various Government Departments/Organisations on the basis of cost plus centage.

(Paragraphs 2.1 and 2.6)

Execution of works

During the last six years (2007-08 to 2012-13), the Company executed the works of the value of ₹ 3,581.21 crore (69.63 *per cent*) out of the total available works of ₹ 5,143.40 crore. Ninety-two *per cent* of the completed works were executed by placing work orders with sub-contractors at composite rates whereas only eight *per cent* works were executed departmentally. During the five years up to 2011-12, the Company did not appoint architects through competitive bidding in most of the cases. The Company made excess payment of ₹ 93.20 lakh to architects by allowing service tax and architect fee over and above the limit prescribed by GoUP/ Government of India and also by allowing more than 0.25 *per cent* fee on repetitive nature of works.

(Paragraphs 2.7 to 2.12 and 2.16)

The Company made excess payment of ₹ 6.13 crore to the sub-contractors in 18 works test checked by us, due to finalisation of rates higher than the rates provided in Uttar Pradesh Public Works Department Schedule Of Rates of the respective district for concerned period. Further, excess payment of ₹ 1.74 crore to the sub-contractors was allowed due to incorrect preparation of estimates. In these 18 works, the Company also claimed excess centage of ₹ 0.99 crore from the clients.

(Paragraphs 2.17 and 2.18)

Multiple interest free advances of ₹ 22.60 crore were released to 17 sub-contractors executing works under Integrated Housing and Slum Development Programme test checked by us, without adjustment of previous advances and without measurement of works. Moreover, no Bank guarantee was obtained against advances.

(Paragraph 2.19)

Deficient Manpower Planning

The actual available manpower of Superintending, Executive and Assistant engineers was much in excess of the sanctioned strength. No assessment was made for manpower requirement considering the increase in Units/Zones and also the sub-contracting of majority of the works.

(Paragraph 2.25)

Financial Management

The Company has not devised any system to identify the surplus investible funds and to ensure optimum returns on investments. Due to non-availing flexi facility offered by the Banks, the Company suffered a loss of interest of ₹ 67.17 lakh during the period from 2009-10 to 2011-12. The details of interest earned on Government funds were not maintained department/work wise.

(Paragraphs 2.29, 2.30 and 2.31)

In case of 180 works completed during the period 2007-08 to 2011-12, the Company received funds of ₹ 112.12 crore for direct expenditure on works whereas the expenditure incurred on these works was ₹ 114.93 crore leading to excess expenditure of ₹ 2.81 crore which was not even claimed from client Departments and was met from its centage, adversely affecting its own financial position.

(Paragraph 2.32)

The Company did not maintain basic records viz. work register, material consumption statements after completion of works and index of measurement books. Internal control mechanisms were found to be ineffective and inadequate.

(Paragraphs 2.39 and 2.40)

3. Transaction Audit Observations

Our Transaction Audit Observations included in this Report highlight deficiencies in the management of Public Sector Undertakings involving significant financial implications. The irregularities pointed out are broadly of the following nature:

- There were 15 cases of avoidable Loss/Expenditure amounting to ₹ 17,095.15 crore¹.

(Paragraphs 3.1, 3.3 to 3.8 and 3.11 to 3.18)

- There were two cases of undue benefit amounting to ₹ 52.37 crore.

(Paragraphs 3.9 and 3.10)

- There was one case of violation of Statutory obligations amounting to ₹ 29.52 crore.

(Paragraph 3.19)

¹ ₹ 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.

Gist of some important paragraphs is given below:

- **Uttar Pradesh Rajkiya Nirman Nigam Limited** extended undue advantage to sub-contractors by releasing interest-free mobilisation advance of ₹ 138.01 crore, without ensuring availability of land/requisite approvals, which were pre-requisites to start the work.

(Paragraph 3.2)

- **Purvanchal Vidyut Vitran Nigam Limited** suffered loss of interest of ₹ 11.30 crore due to delay in raising bill for energy supplied during peak hours to Hindalco as per provisions specified in CNCE Regulations, 2009.

(Paragraph 3.6)

- **Purvanchal Vidyut Vitran Nigam Limited** suffered a loss of interest of ₹ 9.05 crore due to incorrect billing of demand charges.

(Paragraph 3.7)

- **Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited** incurred avoidable expenditure of ₹ 2.05 crore due to purchase of Hi-Chrome Liners at higher rates.

(Paragraph 3.8)

- Examination of Power Purchase Agreements with Independent Power Producers (IPPs) revealed that the **Uttar Pradesh Power Corporation Limited** (Company) failed in its duty to file logical comments based on cost benefit analysis, Details Project Report norms etc. against petitions filed by IPPs to Uttar Pradesh Electricity Regulatory Commission. The Company failed to file appeal with Appellate Tribunal of Electricity to protect its financial interest. The Company did not evolve any mechanism to verify data given in the petition by the IPPs and to verify amount of power purchase bills submitted by IPPs. Besides, the Energy Department, Government of Uttar Pradesh also failed to monitor the action taken by the Company in this regard.

(Paragraph 3.13)

- **Uttar Pradesh Jal Nigam** suffered a loss of ₹ 18.99 crore due to short retrieval of GI pipes in rebore of hand pumps.

(Paragraph 3.14)

- **Uttar Pradesh Avas Evam Vikas Parishad** was deprived of revenue of ₹ 4.43 crore due to incorrect fixation of reserve price of plot sold to a builder.

(Paragraph 3.17)