

**CHAPTER–I**

**Functioning of State Public  
Sector Undertakings**



## CHAPTER-I

### 1. Functioning of State Public Sector Undertakings

#### 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 keeping in view the welfare of people and also occupy an important place in the State economy. As on 31 March 2016, in Uttar Pradesh, there were 103 PSUs (*Annexure 1.1*). Of these, no Company was listed on the stock exchange(s). During the year 2015-16, one Company named Uttar Pradesh Tyre and Tubes Limited (Subsidiary of Uttar Pradesh State Industrial Development Corporation Limited) was closed down due to dissolution by the Ministry of Corporate Affairs. The details of PSUs in Uttar Pradesh as on 31 March 2016 are given in table 1.1.

**Table 1.1: Total number of PSUs as on 31 March 2016**

Type of PSUs	Working PSUs	PSUs not working <sup>1</sup>	Total
Government companies <sup>2</sup>	58	38	96
Statutory corporations	7	Nil	7
<b>Total</b>	<b>65</b>	<b>38</b>	<b>103</b>

*Source: Information furnished by PSUs*

The working PSUs registered a turnover of ₹ 85,281.53 crore as per their latest finalised Accounts as of September 2016. This turnover was equal to 7.39 *per cent* of State Gross Domestic Product (GDP) for 2015-16. The working PSUs incurred an aggregate loss of ₹ 17,789.91 crore as per their latest finalised Accounts as of September 2016. They had employed 1.14 lakh<sup>3</sup> employees as at the end of March 2016.

As on 31 March 2016, there were 38 PSUs not working from last four to 41 years and having an investment of ₹ 1058.90 crore. This is a critical area as the investment in not working PSUs do not contribute to the economic growth of the State.

#### Accountability framework

**1.2** The audit of Financial statements of Government companies is governed by respective provisions of Section 139 and 143 of the Companies Act, 2013 (Act). According to Section 2 (45) of the Act, "Government company" means any Company in which not less than 51 *per cent* of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments and includes a Company which is a subsidiary Company of such a Government company.

Further, as per sub-section 7 of Section 143 of the Act, the Comptroller and Auditor General of India (CAG) may, in case of any Company covered under sub-section (5) or sub-section (7) of Section 139, if he considers necessary, by an order, cause test audit to be conducted of the Accounts of such Company and the provisions of Section 19 A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report

<sup>1</sup> PSUs not working are those which have ceased to carry on their operations.

<sup>2</sup> Government companies includes other Companies referred to in Section 139 (5) and 139 (7) of the Companies Act, 2013.

<sup>3</sup> As per details provided by 37 PSUs. Remaining 28 PSUs did not furnish the details.

of such test Audit. Thus, a Government company or any other Company owned or controlled, directly or indirectly, by the Central Government or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

### **Statutory Audit**

**1.3** The financial statements of the Government companies (as defined in Section 2 (45) of the Act) are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 139 (5) or (7) of the Act which shall submit a copy of the Audit Report to the CAG which, among other things, including financial statements of the Company under Section 143 (5) of the Act. These financial Statements are subject to supplementary audit conducted by CAG under the provisions of Section 143 (6) of the Act.

Audit of Statutory corporations is governed by their respective legislations. Out of seven Statutory corporations, CAG 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 conducted by CAG.

### **Role of Government and Legislature**

**1.4** The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors Reports and comments of the CAG, in respect of State Government companies and Separate Audit Reports in case of Statutory corporations are to be placed before the State Legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

### **Stake of Government of Uttar Pradesh**

**1.5** The State Government has huge financial stake in these PSUs. This stake is of mainly three types:

- **Share Capital and Loans**– In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support**- State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees**– State Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

### **Investment in State PSUs**

**1.6** As on 31 March 2016, the investment (capital and long-term loans) in 103 PSUs (including companies under Section 139 (5) and 139 (7) of the Act) was ₹ 1,96,277.76 crore as per details given in table 1.2.

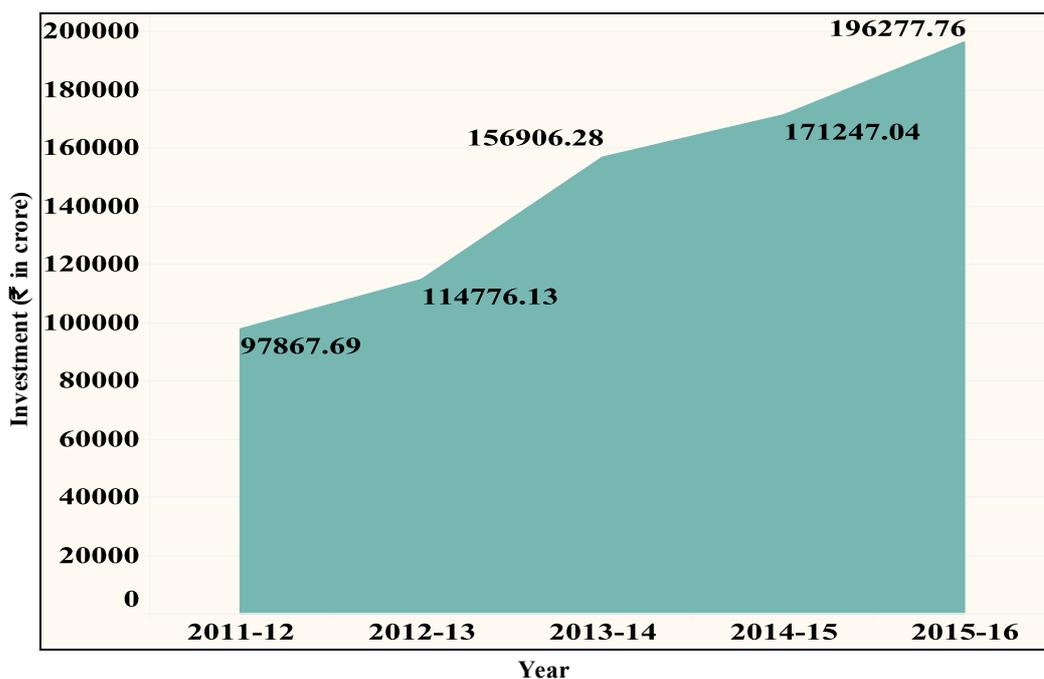
Table 1.2: Total investments in PSUs

Type of PSUs	Government companies			Statutory corporations			Grand total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	119012.41	74375.30	193387.71	610.73	1220.42	1831.15	195218.86
PSUs not working	704.35	354.55	1058.90	0.00	0.00	0.00	1058.90
<b>Total</b>	<b>119716.76</b>	<b>74729.85</b>	<b>194446.61</b>	<b>610.73</b>	<b>1220.42</b>	<b>1831.15</b>	<b>196277.76</b>

Source: Information furnished by PSUs

As on 31 March 2016, of the total investment in State PSUs, 99.46 per cent was in working PSUs and the remaining 0.54 per cent in PSUs not working. This total investment consisted of 61.30 per cent towards capital and 38.70 per cent in long-term loans. The investment has grown by 200.55 per cent from ₹ 97,867.69 crore in 2011-12 to ₹ 1,96,277.76 crore in 2015-16 as shown in chart 1.1.

Chart 1.1: Total investment (Capital and Long-term loans) in PSUs



1.7 The sector-wise summary of investments in the State PSUs as on 31 March 2016 is given in table 1.3.

Table 1.3: Sector-wise investment in PSUs

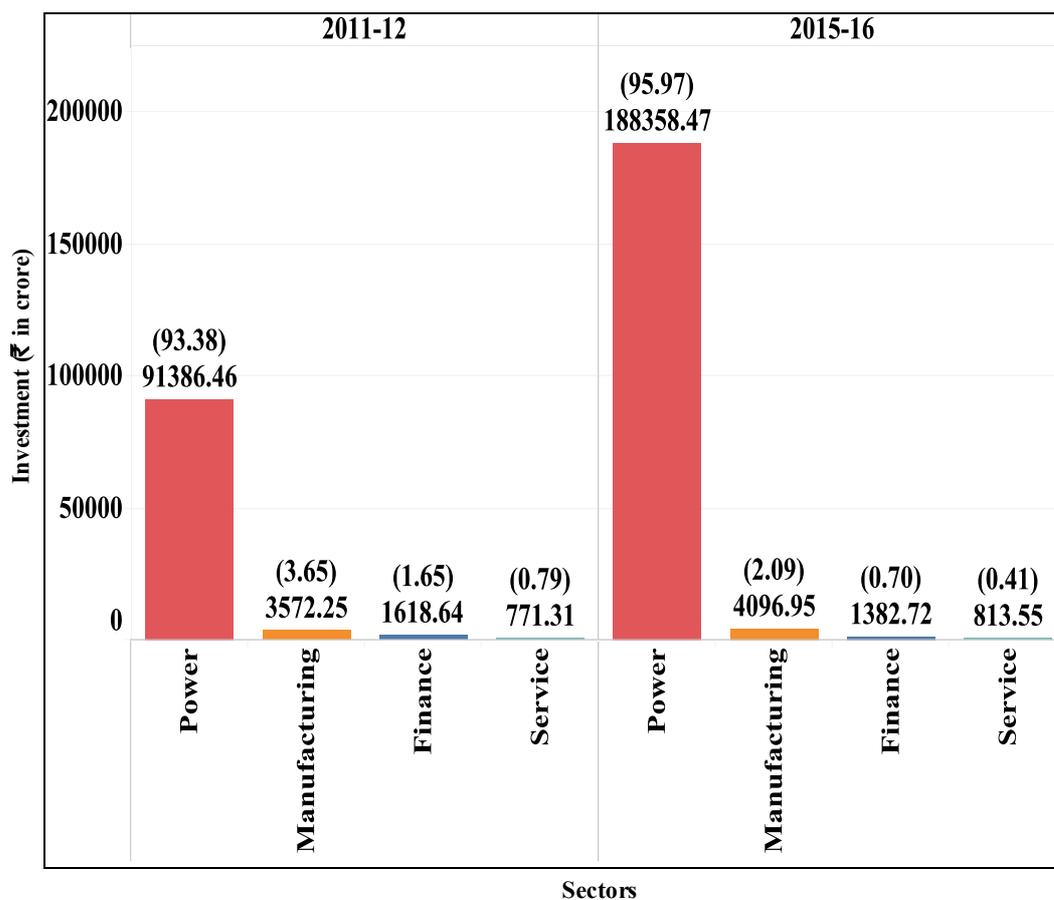
Name of Sector	Government/Other companies		Statutory corporation	Total Investment
	Working	Not Working	Working	
Power	188358.47	0.00	0.00	188358.47
Manufacturing	3367.58	729.37	0.00	4096.95
Finance	548.76	6.65	827.31	1382.72
Service	66.62	26.49	720.44	813.55
Infrastructure	865.17	271.14	270.03	1406.34

Name of Sector	Government/Other companies		Statutory corporation	Total Investment
	Working	Not Working	Working	
Agriculture and Allied	143.29	25.25	13.37	181.91
Miscellaneous	37.82	0.00	0.00	37.82
<b>Total</b>	<b>193387.71</b>	<b>1058.90</b>	<b>1831.15</b>	<b>196277.76</b>

Source: Information furnished by PSUs

The investment in four significant sectors and percentage thereof at the end of 31 March 2012 and 31 March 2016 are indicated in chart 1.2.

Chart 1.2: Sector-wise investment in PSUs



(Figures in brackets indicate the sector percentage to total investment)

The chart 1.2 depicts that, out of four significant sectors, the thrust of PSUs investment was mainly in the power sector, which increased from ₹ 91,386.46 crore (93.38 per cent) in 2011-12 to ₹ 1,88,358.47 crore (95.97 per cent) in 2015-16. The remaining PSUs investment was distributed in other three significant sectors viz. Manufacturing, Finance and Service, which decreased from 6.09 per cent in 2011-12 to 3.20 per cent in 2015-16.

### Special support and returns during the year

**1.8** The State Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/ subsidies, loans written off and interest waived in respect of PSUs for three years ended 2015-16 are given in table 1.4.

Table 1.4: Details regarding budgetary support to PSUs

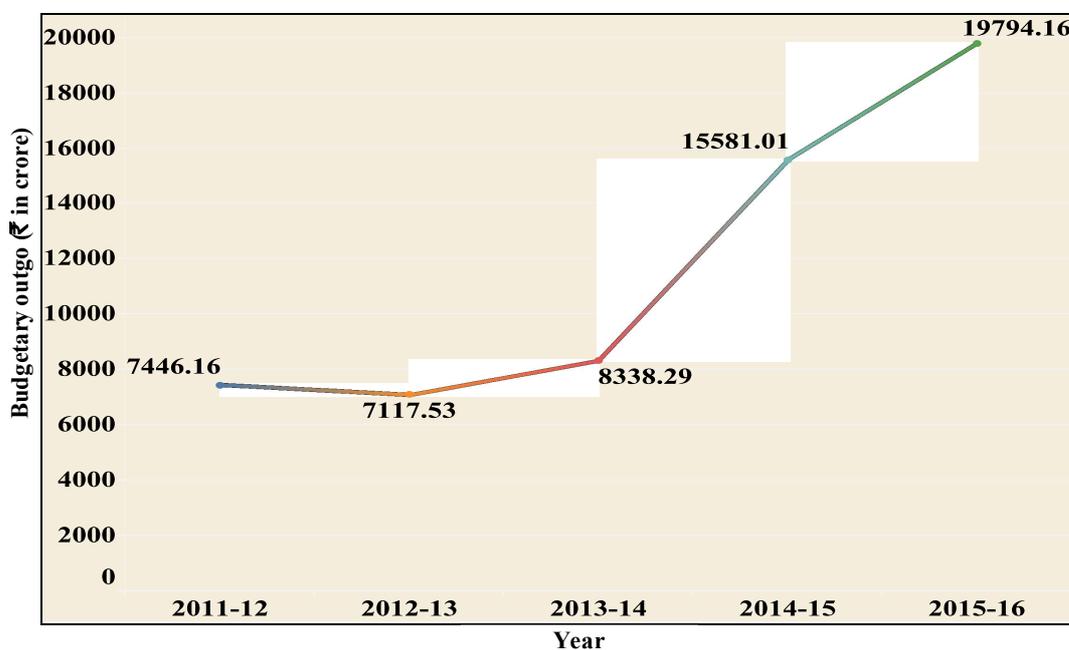
(₹ in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	5	5324.42	6	11464.85	6	19251.33
2.	Loans given from budget	6	123.80	6	138.78	3	162.73
3.	Grants/Subsidy from budget	7	2890.07	10	3977.38	3	380.10
4.	<b>Total Outgo (1+2+3)</b>	<b>17<sup>4</sup></b>	<b>8338.29</b>	<b>19<sup>4</sup></b>	<b>15581.01</b>	<b>9<sup>4</sup></b>	<b>19794.16</b>
5.	Loans converted into Equity	-	-	3	1210.28	-	-
6.	Interest waived	-	-	-	-	-	-
7.	Guarantees issued	3	124.68	3	241.00	2	2761.25
8.	Guarantee commitment	5	9120.15	5	59822.93	5	35218.47

Source: Information furnished by PSUs

The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in the chart 1.3.

Chart 1.3: Budgetary outgo towards Equity, Loans and Grants/ Subsidies



The chart 1.3 depicts that the budgetary outgo in the form of equity, loans and grants/subsidies to PSUs was in increasing trend and registered an increase of 265.83 per cent during 2011-12 to 2015-16 except in 2012-13, where it slightly decreased by 4.41 per cent as compared to the budgetary outgo of 2011-12.

<sup>4</sup> These represent actual number of PSUs which received budgetary support. Some PSUs fall in more than one category.

It may be seen from table 1.4 that the amount of guarantees outstanding stood at ₹ 35,218.47 crore in 2015-16, which registered a significant decrease of 41.13 per cent during 2014-15 to 2015-16.

In order to enable PSUs to obtain financial assistance from Banks and Financial Institutions, Government of Uttar Pradesh (GoUP) gives guarantee for which the guarantee commission is being charged at the rate of 0.25 per cent to one per cent as decided by the GoUP depending upon the loanees. The amount of guarantee commission payable up to 2014-15 by five PSUs<sup>5</sup> was ₹ 4.46 crore, out of which four PSUs<sup>6</sup> had paid guarantee commission of ₹ 3.36 crore during the current year. The outstanding guarantee commission decreased to ₹ 1.17 crore<sup>7</sup> which included ₹ seven lakh payable by one PSU<sup>8</sup> during current year.

### **Reconciliation with Finance Accounts**

**1.9** The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with 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.

The position in this regard as of 31 March 2016 is stated in table 1.5.

**Table 1.5: Equity, loans and guarantees outstanding as per Finance Accounts vis-a-vis records of PSUs**

(₹ in crore)			
Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	66942.29	87713.59	20771.30
Loans	8772.61	7234.31	1538.30
Guarantees	54456.28	35218.47	19237.81

*Source: State Finance Accounts for the year 2015-16 and information furnished by PSUs*

Audit observed that the differences between the figures as per Finance Accounts and that as per records of the PSUs occurred in respect of 14 PSUs and some of the differences were pending for reconciliation since 2000-01. The Accountant General had regularly taken up the matter of not reconciled figures appearing in Finance Accounts and that in Audit Report (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.

### **Arrears in finalisation of Accounts**

**1.10** The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year *i.e.* by September end in accordance with the provisions of Section 96 (1) read with Section 129 (2) of the Companies Act, 2013 (Act).

<sup>5</sup> The Pradeshiya Industrial and Investment Corporation of U. P. Limited (₹ 0.49 crore), Uttar Pradesh Power Corporation Limited (₹ 1.45 crore), Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (₹ 0.81 crore), Uttar Pradesh Power Transmission Corporation Limited (₹ 1.69 crore) and Pachimanchal Vidyut Vitran Nigam Limited (₹ 0.02 crore).

<sup>6</sup> Uttar Pradesh Power Transmission Corporation Limited (₹ 1.69 crore), Pachimanchal Vidyut Vitran Nigam Limited (₹ 0.02 crore), Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (₹ 0.20 crore) and Uttar Pradesh Power Corporation Limited (₹ 1.45 crore).

<sup>7</sup> The Pradeshiya Industrial and Investment Corporation of U. P. Limited (₹ 0.56 crore) and Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (₹ 0.61 crore).

<sup>8</sup> The Pradeshiya Industrial and Investment Corporation of U. P. Limited.

Failure to do so may attract penal provisions under Section 99 of the Act which provides that every officer of the Company who is in default shall be punishable with fine which may extend to one lakh rupees and in case of continuing default, with a further fine which may extend to five thousand rupees for every day during which such default continues. As such Management of Government companies, whose Accounts are in arrear, are liable for default. Similarly, in case of Statutory corporations, their Accounts are finalised, audited and presented to the State Legislature as per the provisions of their respective Acts.

The table 1.6 provides the details of progress made by working PSUs in finalisation of Accounts as of 30 September 2016.

**Table 1.6: Position relating to finalisation of Accounts of working PSUs**

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Number of Working PSUs/other companies	85	87	87	65	65
2.	Number of Accounts finalised during the year	66	84	42	43	48
3.	Number of Accounts in arrears	234	228	273	249 <sup>9</sup>	266
4.	Number of Working PSUs with arrears in Accounts	81	82	83	61	62
5.	Extent of arrears	1 to 16 years	1 to 17 years	1 to 18 years	1 to 19 years	1 to 20 years

*Source: Latest finalised Accounts of PSU*

As shown in table 1.6 the number of Accounts in arrears has increased from 234 in 2011-12 to 266 in 2015-16. The average number of Accounts in arrears per working PSUs ranged between 2.75 and 4.09 during 2011-12 to 2015-16. Out of the 65 working PSUs, only three<sup>10</sup> PSUs finalised their Accounts for the year 2015-16 while 62 PSUs had 266 Accounts in arrears as of September 2016 with extent of arrears ranging from one to 20 years.

The Administrative Departments have the responsibility to oversee the activities of these PSUs and to ensure that the Accounts are finalised and adopted by these PSUs within stipulated period. The concerned Departments were informed regularly by the Senior Deputy Accountant General. In addition, the matter had been taken up by the Accountant General with the Chief Secretary and Principal Secretary (Finance), Government of Uttar Pradesh through quarterly Demi Official letters, for liquidating the arrears of Accounts. However, no improvement has been noticed.

**1.11** The State Government had invested ₹ 19,794.16 crore (equity: ₹ 19,251.33 crore, loans: ₹ 162.73 crore, grants: ₹ 320.93 crore and subsidies ₹ 59.17 crore) in nine working PSUs during the year for which Accounts have not been finalised as detailed in **Annexure-1.2**. In the absence of finalisation of Accounts and their subsequent audit, it could not be ascertained whether the

<sup>9</sup> Excluding 44 arrears of accounts of closed subsidiary companies of Uttar Pradesh State Tourism Development Corporation Limited and two arrears of accounts of Western U. P. Power Transmission Company Limited which was placed under private ownership w.e.f. 22 September 2011.

<sup>10</sup> Serial no. A-1, 18 and 19 of Annexure 1.1.

investments and expenditure incurred had been properly accounted for and the purposes for which the amount was invested, was achieved. As a result, Government's investment in such PSUs remained outside the control of the State Legislature.

**1.12** In addition to above, as on 30 September 2016, there were arrears in finalisation of Accounts by the PSUs which are not working. Out of 38 PSUs which are not working, 12<sup>11</sup> PSUs were in the process of liquidation, whose 315 Accounts<sup>12</sup> were in arrears for nine to 41 years. The remaining 26 not working PSUs had arrears of 422 Accounts ranging from one to 33 years as on 30 September 2016. The position relating to arrears of Accounts in respect of not working PSUs is given in table 1.7.

**Table 1.7: Position relating to arrears of Accounts in respect of PSUs not working**

Year	No. of PSUs not working	No. of Accounts in arrears	Period for which Accounts were in arrears	No. of years for which Accounts were in arrears
2013-14	39	695	1974- 75 to 2013-14	1 to 39
2014-15	39	728	1974- 75 to 2014-15	1 to 40
2015-16	38	737	1974- 75 to 2015-16	1 to 41

*Source: Information furnished by not working PSUs*

Table 1.7 depicts that the number of Accounts in arrears has increased from 695 in 2013-14 to 737 in 2015-16 (6.04 *per cent*). The average number of Accounts in arrears in respect of PSUs which are not working ranged between 18 and 19 during 2013-14 to 2015-16, which reflected an increasing trend in arrears of Accounts of not working PSUs.

#### **Impact of Accounts not finalised**

**1.13** As pointed out in paragraphs 1.10 to 1.12, the delay in finalisation of Accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view of the above state of arrears of Accounts, the actual contribution of PSUs to State GDP for the year 2015-16 could not be ascertained and their contribution to the State exchequer could also not be reported to the State Legislature.

**It is, therefore, recommended that:**

- the Government may set up a cell to oversee the clearance of arrears of Accounts in a time bound manner and set the targets for individual companies which should be monitored by this cell; and
- the Government may consider outsourcing the work relating to preparation of Accounts, wherever the staff is inadequate or where it lacks expertise.

<sup>11</sup> Serial no. C-2, 3, 9, 11, 12, 13, 15, 16, 18, 21, 22 and 24 of Annexure 1.1.

<sup>12</sup> Excluding 22 arrears of accounts of Uttar Pradesh Tyre and Tubes Limited due to dissolution by the Ministry of Corporate Affairs during 2015-16.

**Placement of Separate Audit Reports**

**1.14** On completion of financial audit of the Corporation, Separate Audit Report (SAR) is issued to the Managing Director of the Corporation and State Government. As per respective legislation of the each Corporation, the Managing Director is responsible for forwarding the SAR to the State Government for placement in the legislature. The State Government causes the SAR to be placed in the State Legislature.

The position depicted in table 1.8 shows the status of placement of SARs issued by the CAG (up to 30 September 2016) on the Accounts of Statutory corporations in the State Legislature.

**Table 1.8: Status of placement of SARs in State Legislature**

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in State Legislature	Years for which SARs not placed in State Legislature		
			Year of SAR	Date of issue to the Government	Reasons for not placing the SARs
1.	Uttar Pradesh State Road Transport Corporation	2011-12	2012-13 2013-14	6 June 2014 2 September 2015	Reasons not furnished by the Corporation
2.	Uttar Pradesh Financial Corporation	2007-08	2008-09 2009-10 2010-11 2011-12 2012-13	20 May 2011 13 April 2012 27 August 2012 16 September 2013 12 November 2015	Reasons not furnished by the Corporation
3.	Uttar Pradesh Forest Corporation <sup>13</sup>	--	2008-09 2009-10 2010-11 2011-12 2012-13 2013-14	9 March 2011 16 November 2011 21 September 2012 11 July 2013 6 June 2014 21 April 2015	Reasons not furnished by the Corporation
4.	Uttar Pradesh Avas Evam Vikas Parishad	2010-11	2011-12 2012-13 2013-14	16 September 2013 7 November 2014 20 August 2015	Reasons not furnished by the Corporation
5.	Uttar Pradesh Jal Nigam	2007-08	2008-09 2009-10 2010-11	3 August 2011 20 May 2013 12 December 2013	Reasons not furnished by the Corporation
6	Uttar Pradesh State Warehousing Corporation	2011-12	2012-13 2013-14	29 June 2015 20 July 2016	Reasons not furnished by the Corporation

*Source: Information furnished by corporations and compiled by Audit*

It can be observed from table 1.8 that the Corporations did not present SARs of two to six years in the State Legislature. The matter of delay in placement of the SARs was taken up regularly by the Accountant General but no action for placement was taken and also reasons for the same were not furnished.

Not placing SARs in the State Legislature weakens the legislative control over Statutory corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the Legislature.

<sup>13</sup> Uttar Pradesh Forest Corporation submitted its account for the year 2008-09 after incorporating necessary amendment in U. P. Forest Corporation Act, 1974.

**Performance of PSUs as per their latest finalised Accounts**

1.15 The financial position and working results of working Government companies and Statutory corporations are detailed in **Annexure-1.1**. Table 1.9 provides the details of working PSUs turnover and State GDP for a period of five years ending 2015-16.

**Table 1.9: Details of working PSUs turnover vis-a-vis State GDP**

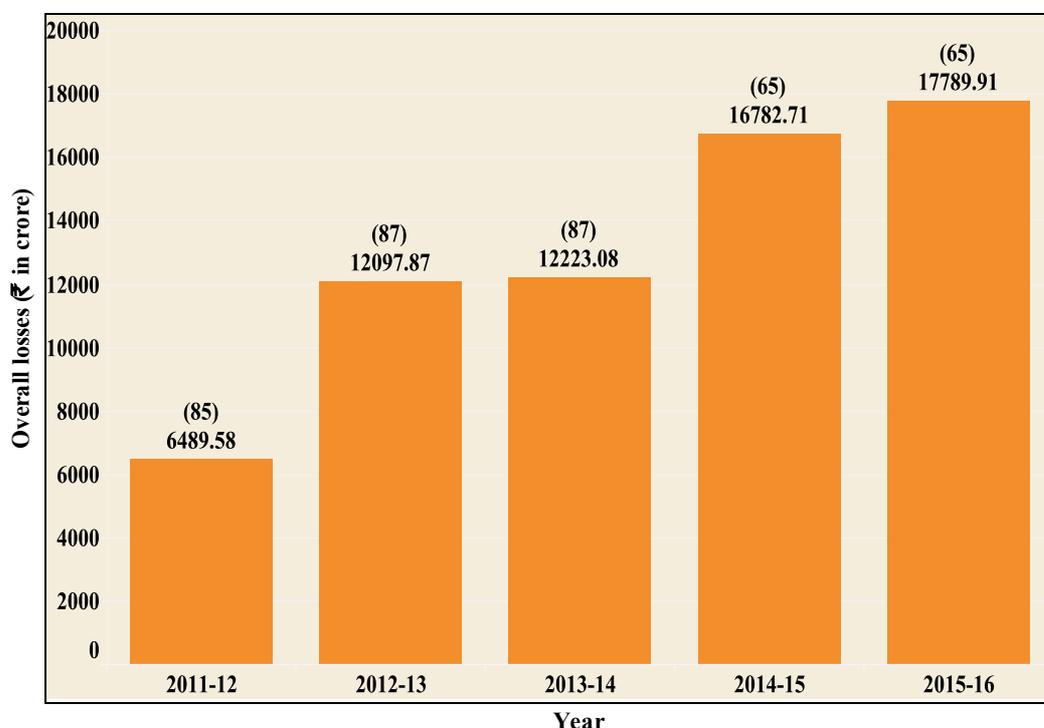
Particulars	₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Turnover <sup>14</sup>	42987.46	62432.56	65683.38	85138.42	85281.53
State GDP	687836	769729	890265	976297	1153795
Percentage of Turnover to State GDP	6.25	8.11	7.38	8.72	7.39

Source: Information furnished by working PSUs and Finance Accounts

Table 1.9 depicts that the turnover of the working PSUs stood at ₹ 42,987.46 crore and ₹ 85,281.53 crore in 2011-12 and 2015-16 respectively, which registered an increase of 98.39 per cent during the above period against which State GDP registered an increase of 67.74 per cent during the same period. However, percentage of turnover to State GDP increased from 6.25 per cent in 2011-12 to 7.39 per cent in 2015-16.

1.16 Overall losses<sup>15</sup> incurred by State working PSUs during 2011-12 to 2015-16 are given in the chart 1.4.

**Chart 1.4: Overall losses incurred during the year by working PSUs**



(Figures in brackets show the number of working PSUs in respective years)

The chart 1.4 depicts that losses incurred by working PSUs have increased from ₹ 6,489.58 crore in 2011-12 to ₹ 17,789.91 crore (174.13 per cent) in 2015-16 which reflected a deteriorating financial position of PSUs.

<sup>14</sup> As per the latest finalised accounts as of 30 September 2016.

<sup>15</sup> As per the latest finalised accounts as of 30 September 2016.

As per latest finalised Accounts as of 30 September 2016, during the year 2015-16, out of 65 working PSUs, 33 PSUs earned profit of ₹ 707.52 crore and 24 PSUs incurred loss of ₹ 18,497.43 crore. Four working PSUs<sup>16</sup> had not submitted their first Accounts whereas four working PSUs<sup>17</sup> prepared their Accounts on a “no profit no loss” basis. The major contributors to profit were Uttar Pradesh Rajkiya Nirman Nigam Limited (₹ 207.19 crore), Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (₹ 98.71 crore), Uttar Pradesh State Industrial Development Corporation Limited (₹ 92.63 crore) and Uttar Pradesh State Warehousing Corporation (₹ 66.15 crore). The heavy losses were incurred by Dakshinanchal Vidyut Vitran Nigam Limited (₹ 5,521 crore), Purvanchal Vidyut Vitran Nigam Limited (₹ 4,094.62 crore), Madhyanchal Vidyut Vitran Nigam Limited (₹ 3,262.77 crore) and Paschimanchal Vidyut Vitran Nigam Limited (₹ 3,171.51 crore).

1.17 Some other key parameters of PSUs (working and not working) are given in table 1.10.

**Table 1.10: Key Parameters of State PSUs**

Particulars <sup>18</sup>	(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Return on Capital Employed <sup>19</sup> (per cent)	-	-	-	-	-
Debt	35952.78	50259.24	86458.19	88850.29	75950.27
Turnover (working PSUs)	42987.46	62432.56	65683.38	85138.42	85281.53
Debt-Turnover Ratio	0.84:1	0.81:1	1.32:1	1.04:1	0.89:1
Interest Payments	1639.70	3756.60	4920.79	5182.60	5151.30
Accumulated Losses	(29380.10)	(64555.91)	(77258.93)	(94151.70)	(91401.19)

Source: Information furnished by PSUs and worked out by Audit

It can be observed that the debt of the PSUs stood at ₹ 35,952.78 crore and ₹ 75,950.27 crore in 2011-12 and 2015-16 respectively, which registered an increase of 111.25 per cent during the above period against which debt-turnover ratio increased from 0.84:1 in 2011-12 to 0.89:1 in 2015-16. The increase in interest payments corresponding to increase in debts impacted the accumulated losses which registered an increase of 211.10 per cent during 2011-12 to 2015-16. The overall return on capital employed remained negative in all five years due to negative return of power sector companies.

1.18 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 of working PSUs, 33 PSUs earned an aggregate profit of ₹ 707.52 crore and 10 PSUs<sup>20</sup> declared a dividend of ₹ 7.90 crore. The remaining profit earning PSUs did not comply with the State Government policy regarding payment of minimum dividend.

<sup>16</sup> Serial no. A-53, A-56, A-57 and A-58 of Annexure 1.1.

<sup>17</sup> UCM Coal Company Limited, Meerut City Transport Services Limited, Jawahar Vidyut Utpadan Nigam Limited and Allahabad City Transport Services Limited.

<sup>18</sup> As per the latest finalised accounts as of 30 September 2016.

<sup>19</sup> Overall return on capital employed remained negative due to negative return of Power sector companies.

<sup>20</sup> Serial Numbers A-6, A-12, A-13, A-15, A-16, A-24, A-46, A-48, A-51 and B-1 of Annexure-1.1.

**Winding up of PSUs which are not working**

**1.19** There were 38 not working PSUs (36 Government companies and two companies under Section 139 (5) and 139 (7) of the Act) as on 31 March 2016. Of these, 12 PSUs have commenced liquidation process. Since, the not working PSUs are not contributing to the State economy and meeting the intended objectives, these PSUs may be considered either for closure or revival. During 2015-16, two not working PSU<sup>21</sup> incurred an expenditure of ₹ 59 lakh towards establishment expenditure. This expenditure was financed by the holding Company of the above PSUs.

**1.20** The stages of closure in respect of the PSUs not working are given in table 1.11.

**Table 1.11: Closure of the PSUs not working**

Sl. No.	Particulars	Companies
1.	Total no. of the PSUs not working	38
2.	Of (1) above, the no. of PSUs under:	
(a)	Liquidation by Court (liquidator appointed)	12
(b)	Voluntary winding up (liquidator appointed)	-
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	26

*Source: Information furnished by Registrar of Companies*

During the year 2015-16, one Company named Uttar Pradesh Tyre and Tubes Limited (Subsidiary of Uttar Pradesh State Industrial Development Corporation Limited) was finally wound up. Twelve PSUs which have taken the route of winding up by Court order are under liquidation for a period ranging from 10 years to 35 years. The remaining 26 PSUs are not working since four to 41 years, liquidation process has not yet been started despite orders of the State Government for closure of these companies.

The process of voluntary winding up under the Companies Act is much faster and needs to be adopted/ pursued vigorously.

**Accounts Comments**

**1.21** Thirty one<sup>22</sup> working companies forwarded their 44 audited Accounts<sup>23</sup> to the Accountant General during the year 2015-16<sup>24</sup>. Of these, 38 Accounts<sup>25</sup> of 27 companies were selected for supplementary audit. The Audit Reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of Accounts needs to be improved

<sup>21</sup> Ghatampur Sugar Company Limited and Uttar Pradesh Bundelkhand Vikas Nigam Limited.

<sup>22</sup> Serial no. A-1, 3, 4, 6, 8, 9, 12, 13, 14, 15, 16, 17, 18, 19, 24, 25, 26, 29, 30, 31, 38, 40, 42, 43, 44, 46, 48,49,51,52 and 55 of Annexure-1.1.

<sup>23</sup> Including two accounts each of Uttar Pradesh Bhumi Sudhar Nigam, Uttar Pradesh Alpsankhyak Vitya Avam Vikas Nigam Limited, Noida Metro Rail Corporation Limited, Uttar Pradesh Small Industries Corporation Limited, Uttar Pradesh State Sugar Corporation Limited, Uttar Pradesh Development Systems Corporation Limited and Allahabad City Transport Services Limited and four accounts each of Jawahar Vidyut Utpadan Nigam Limited and Uttar Pradesh Waqf Vikas Nigam Limited.

<sup>24</sup> October 2015 to September 2016.

<sup>25</sup> Six accounts of four companies were not selected for supplementary audit. These were issued a No review certificate.

substantially. The details of aggregate money value of comments of statutory auditors and CAG are given in table 1.12.

**Table 1.12: Impact of audit comments on working companies**

(₹ in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in profit	10	68.55	10	43.92	15	224.75
2.	Increase in loss	15	248.82	9	7.11	5	42.58
3.	Material facts not disclosed	11	9057.64	12	2290.30	4	11286.83
4.	Errors of classification	3	255.37	2	2.20	1	10.67
	<b>Total</b>	<b>39</b>	<b>9630.38</b>	<b>33</b>	<b>2343.53</b>	<b>25</b>	<b>11564.83</b>

Source: Figures worked out by Audit

The aggregate money value of comments of statutory auditors and CAG increased from ₹ 9,630.38 crore in 2013-14 to ₹ 11,564.83 crore in 2015-16. Further, the average money value of comments per Account of ₹ 246.93 crore in 2013-14 increased to ₹ 462.59 crore in 2015-16. This indicated the need of improvement of quality of Accounts.

During the year, the statutory auditors had given qualified certificates for 42 Accounts, adverse certificate for one Account<sup>26</sup> and disclaimer for one Account<sup>27</sup>. The compliance of companies with the Accounting Standards remained poor as there were 95 instances where compliance of Accounting Standards was not done in 26 Accounts during the year.

**1.22** Similarly, four working Statutory corporations forwarded their four Accounts to the Accountant General during the year 2015-16<sup>28</sup>. Of these, two Accounts of two Statutory corporations<sup>29</sup> pertained to sole audit by CAG, which was completed. The remaining two Accounts were selected for supplementary audit. The Audit Reports of statutory auditors and the sole/supplementary audit of CAG indicate that the quality of maintenance of Accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given in table 1.13.

**Table 1.13: Impact of audit comments on working Statutory corporations**

(₹ in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in profit	4	731.98	3	232.85	2	3.66
2.	Increase in loss	1	4.05	1	10.00	-	-
3.	Material facts not disclosed	-	-	4	704.58	1	448.02
4.	Errors of classification	-	-	2	20.05	-	-
	<b>Total</b>	<b>5</b>	<b>736.03</b>	<b>10</b>	<b>967.48</b>	<b>3</b>	<b>451.68</b>

Source: Figures worked out by Audit

<sup>26</sup> Uttar Pradesh State Spinning Company Limited.

<sup>27</sup> Uttar Pradesh State Food and Essential Commodities Corporation Limited.

<sup>28</sup> October 2015 to September 2016.

<sup>29</sup> Uttar Pradesh Avas Evam Vikas Parishad and Uttar Pradesh Forest Corporation.

The aggregate money value of comments of statutory auditors and CAG decreased from ₹ 736.03 crore in 2013-14 to ₹ 451.68 crore in 2015-16. Further, the average money value of comments per Account of ₹ 147.21 crore in 2013-14 increased to ₹ 150.56 crore in 2015-16. This indicated the need for improvement in the quality of Accounts.

During the year, out of four<sup>30</sup> Accounts, one<sup>31</sup> Account received qualified certificate and one<sup>32</sup> Account was given adverse certificate in case where CAG is sole auditor. For remaining two Accounts, statutory auditors had given qualified certificate for one Account<sup>33</sup> and adverse certificate for one Account<sup>34</sup>. The compliance of Statutory corporations with the Accounting Standards remained poor as there were five instances where compliance of Accounting Standards was not done in two Accounts during the year.

### **Response of the Government to Audit**

#### **Performance Audits and Paragraphs**

**1.23** For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2016, two Performance Audits, three Audits *viz.* Audit on Metering System in Dakshinanchal Vidyut Vitran Nigam Limited, Audit on Construction of solid waste management system in selected cities by Construction and Design Services wing of Uttar Pradesh Jal Nigam and Audit on Recovery of Dues by Uttar Pradesh Financial Corporation, one Follow-up audit and 14 transaction audit paragraphs were issued to the Principal Secretaries of the respective Departments with request to furnish replies within six weeks. However, replies in respect of two Performance Audits, two Audits *viz.* Audit on Metering System in Dakshinanchal Vidyut Vitran Nigam Limited and Audit on Construction of solid waste management system in selected cities by Construction and Design Services wing of Uttar Pradesh Jal Nigam, one Follow-up audit and 14 transaction audit paragraphs were awaited from the State Government (October 2016).

### **Follow-up action on Audit Reports**

#### **Replies outstanding**

**1.24** The Report of the Comptroller and Auditor General of India represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Uttar Pradesh issued (June 1987) instructions to all administrative Departments to submit replies/explanatory notes to paragraphs/performance audits included in the Audit Reports of the CAG of India within a period of two to three months of their presentation to the State Legislature, in the prescribed format without waiting for any questionnaires from the Committee on Public Undertakings (COPU). The position of explanatory notes not received is given in table 1.14.

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<sup>30</sup> Serial no. B-1, 3, 6 and 7 of Annexure 1.1.

<sup>31</sup> Uttar Pradesh Forest Corporation (2014-15).

<sup>32</sup> Uttar Pradesh Awas Evam Vikas Parishad (2014-15).

<sup>33</sup> Uttar Pradesh State Warehousing Corporation (2013-14).

<sup>34</sup> Uttar Pradesh Government Employees Welfare Corporation (2012-13).

**Table 1.14: Explanatory notes not received (as on 30 September 2016)**

Year of the Audit Report (Commercial/PSUs)	Date of placement of Audit Report in the State Legislature	Total Performance Audit (PA) and Paragraphs in the Audit Report		Number of PA/ Paragraphs for which explanatory notes were not received	
		PA	Paragraphs	PA	Paragraphs
2010-11	30 May 2012	2	13	0	8
2011-12	16 September 2013	2	14	1	6
2012-13	20 June 2014	1	19	1	2
2013-14	17 August 2015	2	15	2	9
2014-15	8 March 2016	6	12	6	11
<b>Total</b>		<b>13</b>	<b>73</b>	<b>10</b>	<b>36</b>

Source: Information compiled by Audit

From the above, it could be seen that, out of 73 paragraphs and 13 Performance Audits, explanatory notes to 36 Paragraphs and 10 Performance Audits in respect of 10 Departments, which were commented upon, were awaited (September 2016).

### Discussion of Audit Reports by COPU

1.25 The status as on 30 September 2016 of Performance Audits and paragraphs that appeared in Audit Reports (Commercial/PSUs) and on which discussion completed by the COPU is given in table 1.15.

**Table 1.15: Performance Audits/Paragraphs appeared in Audit Reports vis-a-vis discussed as on 30 September 2016**

Period of Audit Report	Number of Performance Audits (PAs)/Paragraphs			
	Appeared in Audit Report		PAs and Paragraphs on which discussion completed	
	PAs	Paragraphs	PAs	Paragraphs
1982-83 to 2009-10	135	901	78	539
2010-11	3 <sup>35</sup>	13	0	3
2011-12	2	14	0	4
2012-13	1	19	0	6
2013-14	2	15	0	2
2014-15	6	12	0	0
<b>Total</b>	<b>149</b>	<b>974</b>	<b>78</b>	<b>554</b>

Source: Information compiled by Audit

### Compliance to Reports of the Committee on Public Undertakings

1.26 The internal working rules of COPU do not provide for vetting of Action Taken Notes (ATNs) by the Accountant General. Hence, the ATNs on the recommendations of COPU are furnished by the Departments to the Accountant General, only at the time of discussion of ATNs by COPU. Therefore, the status of ATNs is not discussed here.

**It is recommended that the Government may ensure:**

- sending of replies/explanatory notes to Paragraphs/Performance Audits as per the prescribed time schedule;
- revamping of the system of responding to audit observations.

<sup>35</sup> Included Stand alone Performance Audit Report on Sale of Sugar Mills of Uttar Pradesh State Sugar Corporation Limited.

**Disinvestment, Restructuring and Privatisation of PSUs and reforms in power sector**

**1.27** There was no disinvestment, restructuring, privatisation of PSUs and reforms in power sector in the State of Uttar Pradesh during 2015-16.