

Chapter-III
Social and Economic Sectors
(Public Sector Undertakings)

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Public Sector Undertakings (Social and Economic Sectors)

3.1 Functioning of State Public Sector Undertakings

3.1.1 Introduction

State Public Sector Undertakings (PSUs) consist of State Government companies and statutory corporations. State PSUs are established to carry out activities of a commercial nature and occupy an important place in the State's economy. As on 31 March 2016, there were 21 working PSUs. Of these, no company was listed on the stock exchange. During the year 2015-16, no PSU was either incorporated or closed down. Details of the State PSUs in Uttarakhand as on 31 March 2016 are given in **Table-3.1.1** below.

Table-3.1.1: Total number of PSUs as on 31 March 2016

Type of PSUs	Working PSUs	Non-working PSUs ¹	Total
Government Companies	18	04 ²	22
Statutory Corporations	03 ³	-	03
Total	21	04	25

The working PSUs registered a turnover of ₹ 7,173.33 crore (**Appendix-3.1.2**) as per their latest finalised accounts as of 30 September 2016. This turnover was equal to 3.90 per cent of the State Gross Domestic Product for 2015-16. The working PSUs earned an aggregate profit of ₹ 100.57 crore as per their latest finalised accounts as of 30 September 2016. They had employed 21,050 employees (**Appendix-3.1.2**) as at the end of March 2016.

As on 31 March 2016, there were four non-working PSUs with an investment of ₹ 0.38 crore.

3.1.2 Accountability framework

The audit of Government companies is governed by Sections 139 and 143 of the Companies Act, 2013(Act). According to Section 2 (45) of the Act, a Government company means any company in which not less than fifty one per cent of the paid up share capital is held by Central Government or by any State Government or governments or partly by the Central Government and partly by one or more State Governments and

¹ Non-working PSUs are those which have ceased to carry on their operations.

² Kumtron Limited, Uttar Pradesh Hill Phones Limited, Uttar Pradesh Hill Quartz Limited and UPAI Limited (under liquidation since 31 March 1991).

³ Uttarakhand Parivahan Nigam, Uttarakhand Forest Development Corporation and Uttarakhand Pey Jal Sansadhan Vikas Evam Nirman Nigam.

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, in case of any company covered under sub-Section (5) or sub-Section (7) of Section 139, the Comptroller and Auditor General of India (CAG) may cause an audit to be conducted of the accounts of such Company and Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to such audit. The audit of the financial statements of a Company in respect of the financial years that commenced on or after 31 March 2014 shall be governed by the provisions of the Companies Act, 2013.

3.1.3 Statutory Audit

The financial statements of Government companies (as defined in Section 2 (45) of the Companies Act, 2013) are audited by statutory auditors who are appointed by the CAG under Section 139 (5) or (7) of the Act. The statutory auditors shall submit a copy of the Audit Report to the CAG which, among other things, includes the directions issued by the CAG, the action taken thereon and its impact on the accounts. The financial statements are subject to supplementary audit by CAG within sixty days from the date of receipt of the Audit Report under Section 143 (6) of the Act.

Audit of statutory corporations is governed by their respective legislations. Out of the three statutory corporations, CAG is the sole auditor for the Uttarakhand Parivahan Nigam and the Uttarakhand Forest Development Corporation. In respect of Uttarakhand Peyjal Sansadhan Vikas Evam Nirman Nigam, the audit was entrusted to the CAG initially from 2003-04 to 2008-09 and then extended upto 2018-19 under Section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

3.1.4 Role of Government and Legislature

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 monitors the accounting and utilisation of Government investment in the PSUs. For this purpose, the Annual Reports together with the Statutory Auditors' Reports and the 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.

3.1.5 Stake of State Government in the Public Sector Undertakings

The State Government has substantial financial stake in these PSUs which is mainly of three types:

- **Share Capital and Loans-** In addition to 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 guarantees the repayment of loans with interest availed by the PSUs from financial institutions.

3.1.6 Investment in State PSUs

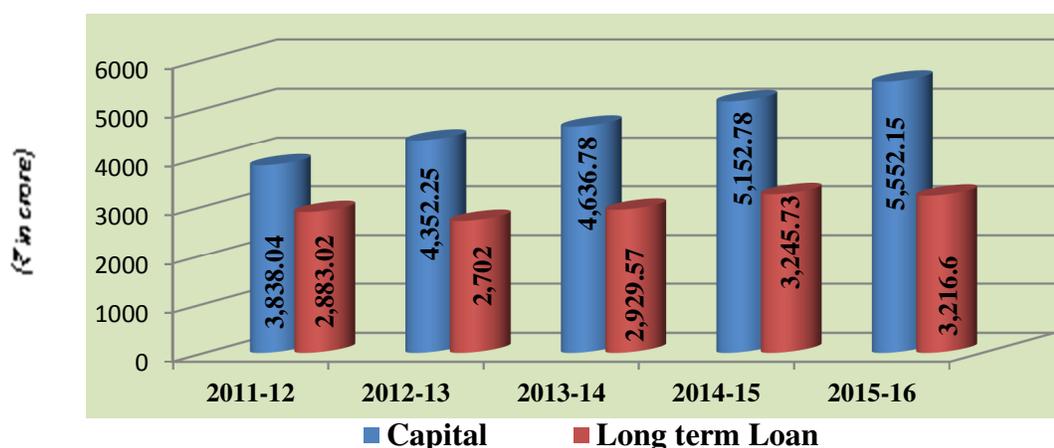
As on 31 March 2016, the investment (capital and long-term loans) in 25 PSUs was ₹ 8,768.75 crore as given in **Table-3.1.2** below.

Table-3.1.2: Total investment in PSUs

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	2,883.52	3,136.83	6,020.35	2,668.25	79.77	2,748.02	8,768.37
Non-working PSUs	0.38	-	0.38	-	-	-	0.38
Total	2,883.90	3,136.83	6,020.73	2,668.25	79.77	2,748.02	8,768.75

As on 31 March 2016, 99.99 *per cent* of the total investment in State PSUs was in working PSUs and the remaining 0.01 *per cent* in non-working PSUs. This total investment consisted of 63.32 *per cent* towards capital and 36.68 *per cent* in long-term loans. The investment has grown by 30.46 *per cent* from ₹ 6,721.16 crore in 2011-12 to ₹ 8,768.75 crore in 2015-16 as shown in the **Graph-3.1.1** below.

Graph-3.1.1: Total investment (Capital and Long Term Loans) in PSUs



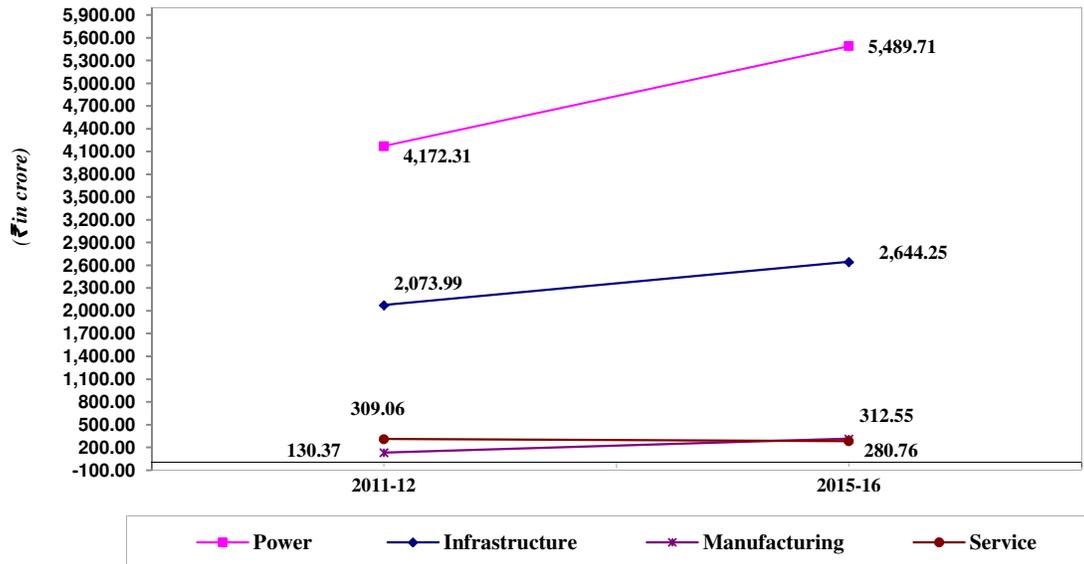
3.1.6.1 The sector wise summary of investments in the State PSUs as on 31 March 2016 is given in **Table-3.1.3** below.

Table-3.1.3:Sector-wise investment in PSUs

Name of Sector	Government companies		Statutory corporations	Total no. of PSUs	Total Investment (₹ in crore)
	Working	Non-Working	Working		
Power	3	-	-	3	5,489.71
Manufacturing	6	3	-	9	312.55
Finance	3	-	-	3	25.58
Miscellaneous	1	-	1	2	1.00
Service	2	-	1	3	280.76
Infrastructure	2	-	1	3	2,644.25
Agriculture & Allied	1	1	-	2	14.90
Total	18	4	3	25	8,768.75

The investment in four significant sectors and percentage thereof at the end of 31 March 2012 and 31 March 2016 are indicated in **Graph-3.1.2** below.

Graph-3.1.2: Sector wise investment in PSUs



Though during 2015-16, the highest investment was in the power sector i.e. ₹ 5,489.71 crore (31.57 per cent), the thrust of investment was also in infrastructure and manufacturing sectors which has seen its share rising from ₹ 2,073.99 crore in 2011-12 to ₹ 2,644.25 crore (27.50 per cent) in 2015-16 and from ₹ 130.37 crore in 2011-12 to ₹ 312.55 crore (139.74 per cent) in 2015-16 respectively. However, the investment in service sector decreased from ₹ 309.06 crore to ₹ 280.76 crore (9.16 per cent) from 2011-12 to 2015-16 due to repayment of loan by the companies/ corporation.

3.1.7 Special support and returns during the year

The State Government provides financial support to PSUs in various forms through its annual budget. The summarized details of budgetary outgo toward equity, loans, grants/subsidies, loans written off and interest waived in respect of State PSUs are given in **Table-3.1.4** below for three years ending 31 March 2016.

Table-3.1.4: Details regarding budgetary support to PSUs

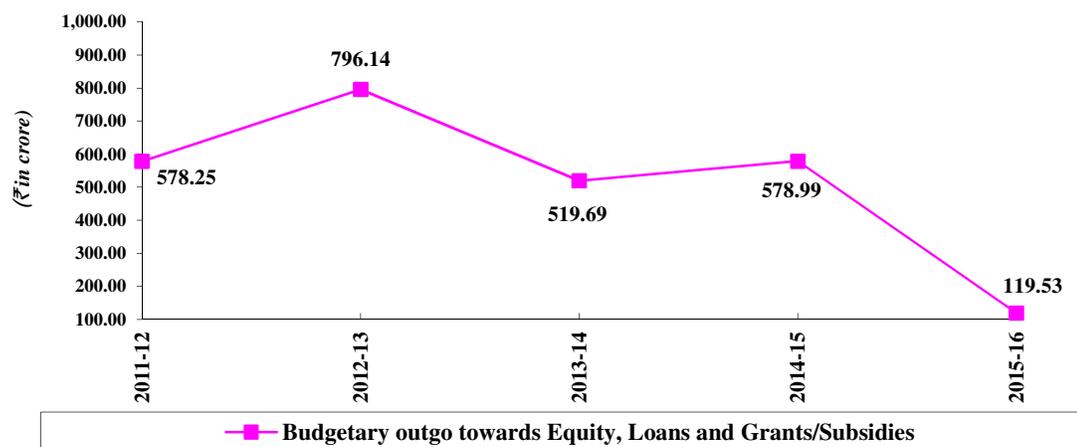
(₹ in crore)

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	4	259.91	4	171.96	4	57.76
2.	Loans given from budget	6	190.07	5	374.43	3	17.35
3.	Grants/Subsidy from budget	4	69.71	3	32.60	4	44.42
4.	Total Outgo (1+2+3)	8⁴	519.69	7⁴	578.99	6⁴	119.53
5.	Waiver of loans and interest	-	-	-	-	-	-
6.	Guarantees issued	1	1.54	2	57.87	4	509.52
7.	Guarantee Commitment	4	906.66	4	1,471.97	4	852.55

Source: Information provided by the PSUs/Companies.

The details regarding budgetary outgo towards equity, loans and grants/ subsidies for the past five years are given in the **Graph-3.1.3** below.

Graph-3.1.3: Budgetary outgo towards Equity, Loans and Grants/Subsidies



The budgetary outgo of the State Government towards equity, loans and grants/subsidies had shown a fluctuating trend with ₹ 578.25 crore in 2011-12 to ₹ 119.53 crore in 2015-16.

⁴ Represent actual number of company/corporation which received budgetary support in the form of equity/loans/subsidy during the respective year.

The amount of guarantee commitment as on 31 March 2014 was ₹ 906.66 crore (four PSUs) which increased to ₹ 1,471.97 crore (four PSUs) in 31 March 2015 due to the guarantee given by the State Government on the R-APDRP loan to the Uttarakhand Power Corporation Limited and then decreased to ₹ 852.55 crore in 2015-16. During the current year, loans aggregating ₹ 509.52 crore of four⁵ PSUs were guaranteed by the State Government.

In order to enable PSUs to obtain financial assistance from banks and financial institutions, the State government provides guarantee and charges guarantee fee from zero *per cent*⁶ to one *per cent*. Only one PSU, namely Uttarakhand Jal Vidhyut Nigam Limited paid guarantee fee to the tune of ₹ 5.54 crore during 2015-16.

3.1.8 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per the 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 the differences. The position in this regard as at 31 March 2016 is given in **Table-3.1.5** below.

Table-3.1.5: Equity, loans, guarantees outstanding as per the Finance Accounts *vis-à-vis* records of PSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	2,914.41	3,096.94	182.53
Loans	487.60	700.57	212.97
Guarantees	819.43	852.55	33.12

There was a mismatch between figures furnished by the State PSUs and those depicted in the Finance Accounts. Reasons for the difference were not furnished by the PSUs though the concerned PSUs and the Finance Department were requested (October 2016) to take necessary action to reconcile the differences.

3.1.9 Arrears in finalisation of accounts

3.1.9.1 The financial statements for every financial year are required to be finalised by the companies within six months from the end of the relevant financial year *i.e.* by September end in accordance with Section 96 (1) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Act. In case of statutory

⁵ Uttarakhand Power Corporation Limited (₹ 11.64 crore), Power Transmission Corporation of Uttarakhand Limited (₹ 6.64 crore), Uttarakhand Jal Vidhyut Nigam Ltd (₹ 488.60 crore) and Uttarakhand Bahudeshia Vitta Evam Vikas Nigam Limited (₹ 2.64 crore).

⁶ Guarantee fee for Uttarakhand Bahudeshia Vitta Evam Vikas Nigam Limited is zero *per cent*.

corporations, their accounts are finalised, audited and presented to the State Legislature as per the provisions of their respective Acts.

The details of progress made by working PSUs in finalisation of accounts as of 30 September 2016 are given in **Table-3.1.6** below.

Table-3.1.6: 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	20	20	21	21	21
2.	Number of accounts finalised during the year	15	10	23	16	16
3.	Number of accounts in arrears	140	150	148	153	158
4.	Number of Working PSUs with arrears in accounts	20	20	20	20	18
5.	Extent of arrears (numbers in years)	1 to 25 years	1 to 26 years	1 to 27 years	1 to 28 years	1 to 29 years

The administrative departments have the responsibility of overseeing the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the stipulated period. The concerned departments were regularly updated on the status of the arrears. In addition, the Accountant General also took up the matter with the Chief Secretary and the Secretary (Finance), Government of Uttarakhand, in May 2016 and July 2016 for liquidating the arrears of accounts. However, no significant improvement has been noticed. As a result, the net worth of these PSUs could not be assessed in audit.

3.1.9.2 The State Government had invested ₹ 113.56 crore in three PSUs for which accounts have not been finalised as detailed in **Appendix-3.1.1**. In the absence of finalisation of accounts and their audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and whether the purpose for which the amount was invested had been achieved or not. Thus, Government's investment in such PSUs has remained outside the oversight of the State Legislature.

3.1.9.3 As on 30 September 2016, there were also arrears in finalisation of accounts by non-working PSUs as depicted in **Table-3.1.7** below.

Table-3.1.7: Position relating to arrears of accounts in respect of non-working PSUs

Name of non-working companies	Period for which accounts were in arrears	No. of years for which accounts were in arrears
UPAI Limited	Since 1989-90	27
Kumtron limited	Since 1990-91	26
Uttar Pradesh Hill Phones Limited	Since Formation (1987-88)	29
Uttar Pradesh Hill Quartz Limited	Since Formation (1989-90)	27

Out of the four non-working PSUs, one PSU *i.e.* UPAI Limited was in the process of liquidation since 31 March 1991 and the remaining three non-working PSUs⁷ had arrears of accounts from 26 to 29 years.

In respect of statutory corporations, the Uttarakhand Pey Jal Sansadhan Vikas Evam Nirman Nigam and the Uttarakhand Parivahan Nigam have finalised its accounts upto 2013-14 and 2014-15 respectively. The accounts of the remaining statutory corporation, namely, the Uttarakhand Forest Development Corporation have been finalised upto 2010-11.

3.1.10 Placement of Separate Audit Reports

The status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2016) on the accounts of statutory corporations in the State Legislature is given in **Table-3.1.8** below:

Table-3.1.8: Status of placement of SARs in Legislature

Sl. No.	Name of statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature	
			Year of SAR	Date of issue to the Government/Present Status
1.	<i>Uttarakhand Parivahan Nigam</i>	2008-09	2010-11 to 2014-15	not yet placed
2.	<i>Uttarakhand Pey Jal Sansadhan Vikas Evam Nirman Nigam</i>	2013-14	-	-
3.	<i>Uttarakhand Forest Development Corporation</i>	2008-09	2009-10 to 2010-11	Issued to Government in May 2015

Though the concerned administrative departments were informed in (May and July 2016) of the arrears in finalisation of accounts, no remedial measures were taken. As a result, the net worth of these PSUs could not be assessed in audit.

3.1.11 Impact of non-finalisation of accounts

Delay in finalisation of accounts raises the risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view of the arrears of accounts, the actual contribution of the PSUs to the State Gross Domestic Product for the year 2015-16 could not be ascertained.

3.1.12 Performance of PSUs as per their latest finalized accounts

3.1.12.1 The financial position and working results of working Government companies and statutory corporations are detailed in **Appendix-3.1.2**. The ratio of PSU turnover to State GDP shows the extent of PSUs activities in the State's economy. The details of

⁷ Kumtron limited, Uttar Pradesh Hill Phones Limited and Uttar Pradesh Hill Quartz Limited.

working PSUs turnover and State GDP for a period of five years ending 31 March 2016 is given in **Table-3.1.9** below.

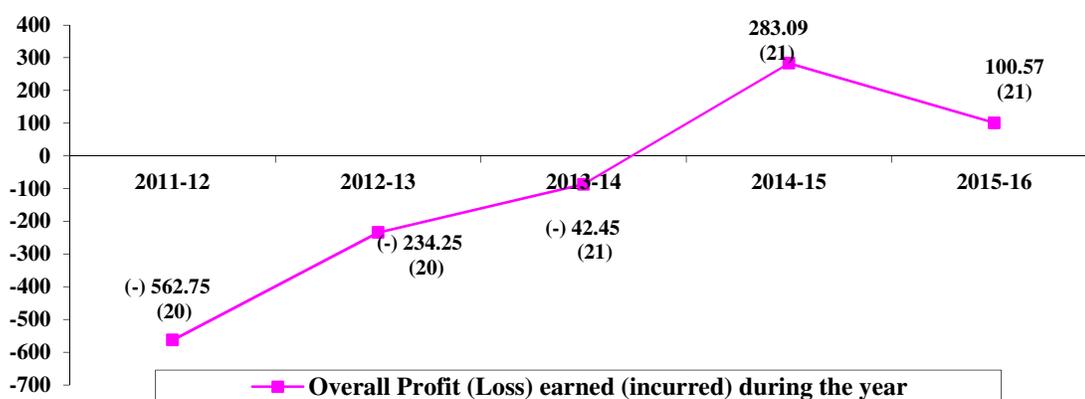
Table-3.1.9: Details of working PSUs turnover vis-à-vis State GDP

Particulars	₹ in crore				
	2011-12	2012-13	2013-14	2014-15	2015-16
Turnover ⁸	3,258.60	4,042.00	5,103.24	5,741.42	7,173.33
State GDP ⁹	1,15,523	1,31,835	1,49,817	1,61,985	1,84,091
Percentage of Turnover to State GDP	2.82	3.07	3.41	3.54	3.90

During the last five years, the turnover of working PSUs increased from ₹ 3,258.60 crore in 2011-12 to ₹ 7,173.33 crore in 2015-16 and its percentage to the State GDP also increased from 2.82 per cent in 2011-12 to 3.90 per cent in 2015-16.

3.1.12.2 Overall profits earned and losses incurred by working State PSUs during 2011-12 to 2015-16 are given in **Graph-3.1.4** below.

Graph-3.1.4: Profit/ (-) Loss of working PSUs



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

During the year 2015-16, out of 21 working PSUs, nine PSUs earned a profit of ₹ 349.25 crore and 12 PSUs incurred a loss of ₹ 248.68 crore. The major contributors to profit were Uttarakhand Jal Vidyut Nigam Limited (₹ 181.82 crore), State Industrial Development Corporation of Uttarakhand Limited (₹ 50.88 crore), and Power Transmission Corporation of Uttarakhand Limited (₹ 69.34 crore). The losses were incurred by Uttarakhand Power Corporation Limited (₹ 95.63 crore), Doiwala Sugar Company Limited (₹ 49.88 crore), and Uttarakhand Parivahan Nigam (₹ 34.94 crore).

⁸ Turnover as per the latest finalised accounts as of 30 September 2016.

⁹ GDP figures taken from the Report on State Finance for the year ended March 2016.

3.1.12.3 Some other key parameters of PSUs are given in **Table-3.1.10** below.

Table-3.1.10: Key Parameters of State PSUs

Particulars	(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Return on Capital Employed (<i>per cent</i>)	(-)3.56	0.59	(-) 6.31	8.74	5.74
Debt	2,883.12	2,702.00	2,929.57	3,245.73	3,216.60
Turnover ¹⁰	3,258.60	4,042.00	5,103.24	5,741.42	7,173.33
Debt/ Turnover Ratio	0.88:1	0.67:1	0.57:1	0.57:1	0.45:1
Interest Payments	288.64	276.93	281.65	358.33	391.13
Accumulated Profits/losses	(-)1,905.97	(-)2,081.42	(-)2,034.59	(-)1,883.90	(-)1,948.47

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

The Debt-Turnover Ratio decreased from 0.88:1 in 2011-12 to 0.45:1 in 2015-16 which impacted its profits. Consequently, accumulated losses increased by 3.43 *per cent* over the previous year 2014-15.

3.1.12.4 The State Government had not formulated any dividend policy under which PSUs would be required to pay a minimum return on the paid up share capital contributed by the State government. During the year 2015-16, no dividend was declared by any of the PSUs.

3.1.13 Winding up of non-working PSUs

3.1.13.1 There were four non-working PSUs/ companies as on 31 March 2016. Of these, one PSU, namely, UPAI Limited commenced liquidation process on 31 March 1991. The number of non-working PSUs/ companies at the end of each year during past five years has remained at four. The non-working PSUs are neither contributing to the State's economy nor meeting their intended objectives.

3.1.13.2 The stages of closure in respect of non-working PSUs are given in **Table-3.1.11** below.

Table-3.1.11: Closure of non working PSUs

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1.	Total No. of non-working PSUs	04	-	04
2.	Of (1) above, the No. under	-	-	-
(a)	liquidation by Court (liquidator appointed)	01	-	01
(b)	Voluntary winding up (liquidator appointed)	-	-	-
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	03	-	03

¹⁰ Turnover of working PSUs as per the latest finalised accounts as of 30 September 2016.

During the year 2015-16, no company/corporation was finally wound up. The only company *i.e.* UPAI Limited which had taken the route of winding up by Court order is under liquidation for more than 25 years. The Government may take a decision regarding commencement of liquidation process in respect of other three non-working PSUs.

3.1.14 Accounts Comments

Eleven working companies forwarded sixteen audited accounts to the Accountant General during the year 2015-16. Of these, 15 accounts of 10 companies were selected for supplementary audit. The details of aggregate money value of comments of CAG and statutory auditors are given in **Table-3.1.12** below.

Table-3.1.12: 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	5	28.07	5	22.94	7	34.73
2.	Increase in loss	2	16.96	2	0.76	5	192.62
3.	Total: Increase in Loss	7	45.03	7	23.70	12	227.35
4.	Non-disclosure of material facts	1	180.16	2	72.39	1	0.31
5.	Errors of classification	1	4.37	3	290.27	10	172.29

As a result of the accounts comments, there would be an overall increase in the loss in 12 PSUs by ₹ 227.35 crore during the year 2015-16.

During the year, the statutory auditors had given qualified certificates for 13 accounts and adverse certificates for three accounts¹¹. CAG gave qualified reports containing comments for 15 accounts during supplementary audit and Non Review Certificate was issued in respect of one company¹². The compliance of the companies with the accounting standards remained poor as there were 18 instances of non-compliance in eight accounts during the year.

Similarly, only one working statutory corporation *viz.* the Uttarakhand Parivahan Nigam, forwarded their two accounts for 2013-14 and 2014-15 to the Accountant General between October 2015 and September 2016. These accounts pertained to sole audit by CAG which was completed. The details of aggregate money value of comments of CAG and statutory auditors are given in **Table-3.1.13** below.

¹¹ State Infrastructure and Industrial Development Corporation of Uttarakhand Limited (2011-12 & 2012-13) and Garhwal Mandal Vikas Nigam Limited (2005-06).

¹² Uttarakhand Seeds and Tarai Development Corporation Limited (accounts for the year 2014-15).

Table-3.1.13: Impact of audit comments on Statutory Corporations

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of accounts	Amount (₹ in crore)	No. of accounts	Amount (₹ in crore)	No. of accounts	Amount (₹ in crore)
1.	Decrease in profit	-	-	2	49.49	-	
2.	Increase in loss	1	25.07	6	87.40		12.66
3.	Non-disclosure of material facts	-	-	-	-	2	11.73
4.	Errors of classification	-	-	2	0.88		

The impact of comments on ‘increase in loss’ escalated from ₹ 25.07 crore in 2013-14 to ₹ 136.89 crore in 2014-15 which was decreased to ₹ 12.66 crore in 2015-16.

3.1.15 Response of the Government to Audit

Paragraphs pertaining to the PSUs

For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2016, four compliance audit paragraphs were issued to the Additional Chief Secretaries/Principal Secretaries of the respective Departments with a request to furnish replies within six weeks. However, replies in respect of the audit paragraphs were awaited from the State Government (December 2016).

3.1.16 Follow up action on Audit Reports

The Reports of the Comptroller and Auditor General of India (CAG) represents the culmination of the process of statutory audit. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. All administrative departments are to submit replies/explanatory notes to paragraphs/reviews included in the Audit Reports of the CAG within a period of three months of their presentation to the Legislature in the prescribed format without waiting for any questionnaire from the Committee on Public Undertakings (COPU). The status of receipt of explanatory notes is given in **Table-3.1.14** below.

Table-3.1.14: Explanatory notes not received as on 31December 2016

Year of the Audit Report (Commercial /PSU)	Date of placement of Audit Report in the State Legislature	Total Performance audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2010-11	December 2012	01	04	01	04
2011-12	September 2013	01	02	01	02
2012-13	November 2014	01	02	01	02
2013-14	November 2015	-	06	-	06
2014-15	November 2016	-	06	-	06
Total		03	20	03	20

None of the explanatory notes to the above paragraphs/ performance audits relating to three departments were received (December 2016).

3.1.17 Discussion of Audit Reports by Committee on Public Undertakings

The status as on 31 December 2016 of performance audits and paragraphs that appeared in Audit Reports (PSUs) and were discussed by the Committee on Public Undertakings (COPU) is depicted in **Table-3.1.15** below.

Table-3.1.15: Performance audits/Paragraphs appeared in Audit Reports vis-à-vis discussed as on 31 December 2016

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	Pas	Paragraphs	PAs	Paragraphs
2010-11	1	4	1	2
2011-12	1	2	1	-
2012-13	1	2	1	1
2013-14	-	6	-	-
2014-15	-	6	-	-
Total	3	20	3	3

3.1.18 Compliance to Reports of Committee on Public Undertakings

Action Taken Notes (ATN) to 17 paragraphs pertaining to six Reports of COPU presented to the State Legislature between March 2010 and March 2016 had not been received (December 2016) as given in **Table-3.1.16** below.

Table-3.1.16: Compliance to COPU Reports

Year in which the COPU meeting held	No. of meeting held	Total number of COPU Reports	Total no. of recommendations in COPU Report	No. of recommendations where ATNs not received
2014-15	05	02	07	Neither recommendations nor ATNs were received.
2015-16	06	02	08	
2016-17	01	02	02	
Total	12	06	17	

It is recommended that the Government ensures: (a) sending of replies to inspection reports/ draft paragraphs/ performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule and (b) revamping of the system of responding to audit observations to ensure timely response.

3.1.19 Recoveries at the instance of audit

Audit findings involving recoveries that came to notice in the course of test audit of accounts of the PSUs were referred to the PSUs/State Government through Audit Inspections Reports for further investigation. In case of recovery, the same was required to be intimated to audit. As a result, recoveries of ₹ 16.19 crore were made by the PSUs during the year 2015-16 at the instance of audit as mentioned below:

(a) Audit pointed out recoveries of ₹ 0.44 crore¹³ on account of short charging of penalty, non-realization of cheques and non-levy of low power factor surcharges to the management of Uttarakhand Power Corporation Limited (UPCL) during 2015-16 which were admitted and recovered by them.

(b) During the course of audit in 2015-16, recoveries of ₹ 15.75 crore on account of non-claiming incentive on achieving the desired availability of Alternative Current system for the period from April 2009 to March 2016 were pointed out to the management of Power Transmission Corporation of Uttarakhand Limited (PTCUL) which was recovered (July 2016) by PTCUL.

3.1.20 Disinvestment, Restructuring and Privatisation of PSUs

During the year 2015-16, there was no case of privatization of Government companies and statutory corporations. The State Government has not prepared any policy on disinvestment of Government equity invested in the State PSUs.

3.1.21 Contents of Chapter-III (PSUs Chapter)

This PSUs Chapter contains two paragraphs including one thematic paragraph with financial implication of ₹ 38.19 crore.

¹³ ₹ 7.49 lakh pertaining to short charging of penalty by Electricity Store Division, Dehradun, ₹ 0.16 crore pertaining to realization of un-cashed cheques and ₹ 0.20 crore pertaining to non-levy of low power factor surcharges by the Electricity Distribution Division (Rural), Dehradun of UPCL during 2015-16.

COMPLIANCE AUDIT

Garhwal Mandal Vikas Nigam Limited

3.2 Loss due to improper and prolonged storage of perishable fruits

Unscientific and improper storage of apples procured under Market Intervention Programme for extended periods resulted in the Nigam having to sell them at base prices resulting in loss of ₹5.34 crore.

The Government of Uttarakhand (GOU) decided (06 August 2013) to procure apples from farmers in the June 2013 disaster affected areas of the State under its Market Intervention Programme (MIP) through the Garhwal Mandal Vikas Nigam Limited (Nigam). The Nigam was to procure the apples and get them processed through the processing units of the Horticulture Department. In the eventuality where the apples could not be processed fully through these units, Nigam was to undertake appropriate measures for timely sale to avoid any abnormal wastage. The minimum support price for the procurement of apples was fixed by the State Government at ₹ 3,000 per quintal. The Nigam was to be paid handling charges at the rate of 25 per cent of the procurement price.

Audit scrutiny of records of the Nigam in March 2015 revealed that it had procured 16,015.44 quintals of apples at a cost of ₹ 4.80 crore under the above programme from the disaster affected farmers during the third/fourth week of August 2013. However, the Nigam had neither made arrangements for proper storage¹⁴ of apples nor arranged for their timely sale¹⁵ though it was a perishable food item. Audit observed the following:

- Although the base price was fixed as ₹ 3,000 per quintal, maximum bid was received for only ₹ 1,400 per quintal in third week of September 2013 because the bidders refused to accept the base price *inter alia* on the ground that the apples had been purchased since 26 August 2013 and had been stored in heaps as a result of which the possibility of damage and loss of quality was quite high. Consequently, the contract for sale of apples could be finalized by the Nigam on 21 September 2013 only at the base price of ₹ 1,400 per quintal. As the apples had already started rotting, the contractor lifted only 4,637.50 quintals of good apples at ₹ 0.65 crore. Subsequently, after another three weeks, Nigam constituted a committee in October 2013 to dispose of the remaining apples. The Committee stated in its report dated 27 October 2013 that around 75 to 80 per cent apples had been damaged due to

¹⁴ Apples were stored in small rooms of health deptt., farmers houses, schools, hotels, etc of the area.

¹⁵ GMVN invited tenders for sale of apples only on 17 September 2013 *i.e.* after more than three weeks of the commencement of procurement process and that too after the intimation of Regional Manager, Uttarkashi (13 September 2013) that apples had started rotting.

storage of apples for more than two months and recommended their immediate disposal to avoid further losses and also to prevent spread of diseases in and around the storage area.

- The Nigam finally disposed of the remaining 11,377.94 quintals of apples at ₹ 0.60 lakh in November 2013.

Thus, unscientific and improper storage of apples for extended periods resulted in the Nigam having to sell them at base prices resulting in loss of ₹ 5.34 crore¹⁶.

The Nigam stated (March 2015) that the State Government had entrusted the work of procurement of apples to them without providing sufficient time for proper implementation of the programme. As a result, it was forced to sell apples at a lower price as the Corporation was not in a position to retain the procured apples for long. The reply is not tenable as apples were a perishable commodity and the Nigam should have ensured proper action for their storage and expeditious sale particularly when it was aware of the lack of proper storage facilities and the fact that apples were a perishable commodity.

The matter was reported to the Government (May 2016); their reply was awaited (December 2016).

UTTARAKHAND FOREST DEVELOPMENT CORPORATION

3.3 Audit of revenue earning activities

Production of timber and fire wood which was the main activity of the Corporation was below the prescribed norms by 77.30 per cent and 41.11 per cent respectively resulting in loss of revenue by ₹29.31 crore. The Corporation could not ensure felling of allotted trees within the prescribed time resulting in non-recovery of royalty amounting to ₹0.48 crore. Further, extraction of river bed material beyond the permissible area by the Corporation attracted a penalty of ₹2.85 crore while, short deposit of composition money in lieu of value added tax by the Corporation due to revision of rates resulted in avoidable payment of interest of ₹0.21 crore.

3.3.1 Introduction

The Uttarakhand Forest Development Corporation (Corporation) was established in April 2001 under the Uttar Pradesh Forest Corporation (Uttaranchal Amended) Act, 2001 (Act), for preservation, development of forests and scientific exploitation of forest produce within the State. The audit of the accounts of the Corporation was entrusted to the CAG of India *vide* Government of Uttarakhand Gazette notification dated

¹⁶ ₹ 4.80 crore cost of apples, *plus* ₹ 1.20 crore handling charges *less* by ₹ 0.66 crore receipts from sale.

8th June 2012. The main revenue earning activities of the Corporation comprise logging (felling / disposal of trees), mining (extraction of minor minerals from rivers in forest land), eco-tourism and sale of medicinal herbs-*jari buti*.

The activity wise breakup of the turnover of the Corporation in 2012-13 to 2015-16 is given in the **Table-3.3.1** below.

Table-3.3.1: Activity-wise turnover

(₹ in lakh)

Sl. No	Activity	2012-13	2013-14	2014-15	2015-16	Total
1	Logging	31,446.36	31,544.57	31,263.18	42,101.12	1,36,355.23
2	Mining of Minor Minerals	8,191.63	27,646.28	18,308.02	20,897.48	75,043.41
3	Jari-Buti	274.91	200.58	368.28	636.19	1,479.96
4	Eco-Tourism	5.82	3.74	0.63	3.07	13.26
Total		39,918.72	59,395.17	49,940.11	63,637.86	2,12,891.86

Source: Compiled information was provided by the Management.

An audit was conducted between January 2016 and May 2016 covering the period from 2012-13 to 2015-16 to assess the revenue earning activities and effectiveness of its logging and mining activities which contributed 99 *per cent* of the total revenue of the Corporation.

3.3.2 Logging Activities

The Work and Progress Report of the Corporation stipulates that work of disposal of actually felling and disposal of trees allotted by the Forest Department should be completed within the logging year (from October to September) in order to avoid decay of logs and timely recovery of royalty paid by the Corporation from the ultimate buyers.

3.3.2.1 Non-recovery of royalty due to delay in felling of lot of trees

The Corporation pays royalty to the Forest Department at rates determined by the State government for each lot of trees for different species every year irrespective of the actual felling of trees. As per the Works and Progress Manual of the Nigam, lots of trees were to be inspected within 15 days of allotment for any mismatch and if there is any dispute regarding the allotted lot of trees, they should not be taken over from the Forest Department.

Audit of records of Pithoragarh, Karnprayag and Pauri divisions revealed that felling of trees in 68 lots (Pithoragarh-14, Karnprayag- 46 and Pauri-08) allotted to the Corporation during 2008-09 to 2014-15 did not commence till 31 March 2016. Thus, royalty of ₹ 0.48 crore paid on these lot of trees by the Corporation in the respective years to the Forest Department could not be recovered. The royalty was to be recovered from the ultimate buyers only after felling down and selling out of allotted lots of trees by the Corporation.

The Management stated (February 2016) that work was pending due to disputes viz. change in alignment of road by PWD, trees damaged by PWD, dispute with Forest Department and the area of logging being remote. The reply was not tenable as these issues should have been addressed before the lots were accepted.

3.3.2.2 Production of Timber

To monitor the production of 'round timber'¹⁷, the Corporation has prescribed a proforma Report which requires details of the top, mid and bottom girth of the logs which are essential to establish the timber available and extracted from a tree. Further, timber with diameter less than 30 cms and small branches which are invariably produced along with round timber are to be treated as firewood.

(a) Short Production of Round Timber

Out of total 849 lots in seven divisions¹⁸, audit found that against the required production of 88,809 cum of round timber (based on norms¹⁹ prescribed by the Corporation) in 389 test-checked lots, the actual production of round timber was only 68,650 cum (77.30 per cent) i.e. less by 20,161 cum worth ₹ 29.18 crore²⁰. Further, instead of filling of complete proforma, only details of mid girth (excluding top and bottom girth) were being filled in by the test-checked divisions for assessing tree-wise production. The failure of an important check point thus compromised control over round timber production with potential revenue losses of ₹ 29.18 crore on short production of round timber of 20,161 cum.

It was further observed that as per the rules followed by the Corporation, logs were to be made up to a minimum mid-girth of 30 cms (21 cms in case of *Sagaun*). Test-check of 1,530 cases (relating to trees of *Sheesham*, *Sagaun*, *Khair* and other species) across seven divisions in Kotdwar and Ramnagar regions revealed that in 1,411 cases (92 per cent), logs were made with mid-girth between 40 cms to 78 cms. No logs were made with mid-girth in the range between 30 cms to 40 cms. This indicates that logs which could have a mid-girth between 30 cms and 40 cms were not accounted for resulting in potential timber being converted into firewood with resultant loss of revenue.

The Management stated (July 2016) that details were not being filled in by the respective divisions as the existing orders were to work out the volume of the timber on the basis of mid-girth only and it might also be possible that the lots test-checked by the audit did not have logs of mid girth less than 40 cms. The reply is not tenable given the fact that logs between 30 cms to 40 cms mid-girth were not accounted for in 92 per cent of the

¹⁷ Round timber comprises of timber with diameter more than 30 cm exception being *sagaun* having diameter of 21cms and more.

¹⁸ Pauri, Karnprayag, Central & West Haldwani, Kaladhungi East & West and Ramnagar East divisions.

¹⁹ 78.6 per cent of the allotted quantity.

²⁰ Worked out at the average selling price of ₹ 14,474 per cum during 2012-13 to 2015-16.

test-checked cases and no revised orders for filling up of the proforma Report had been issued by the Management.

(b) Short production of Fire wood

As per the norms, the production of firewood²¹ from the lots of Eucalyptus²² in forest area was fixed at 10-15 *per cent* of the allotted lots. Test-check of records of seven divisions²³ disclosed that the production of firewood during the period 2012-13 to 2014-15 was less (41.11 *per cent*) than the minimum norm fixed by the Corporation by 2,198.5775 cum worth ₹ 0.13 crore.

Management justified (July 2016) the short production of firewood on the plea that production of round timber was more than the normal production during the same period. It added that the timber of diameter less than 15 cms was generally left for the use of villagers.

The reply was not tenable as no records were available to indicate that the volume of timber of girth less than 15 cms was left in the forest for the use of villagers by the Corporation. Further, if production of round timber was more than normal, production of firewood should also be correspondingly more. This fact was reinforced in case of Haridwar division where production of round timber was more than normal production by 102 to 321 *per cent* and correspondingly production of firewood was also above the norms by 33 to 248 *per cent*.

3.3.3 Mining activities related to collection of river bed material

3.3.3.1 Penalty for mining beyond permissible area

Government of India (GoI) had granted permission to the Corporation for collection of River Bed Material (RBM) in Uttarakhand rivers subject to the fulfillment of the specified conditions regarding permissible area and depth of mining.

Scrutiny of records of the Gola River for the year 2013-14 revealed that the Corporation had extracted the RBM beyond the permissible area 1,497 hectares of river bed as well as below the prescribed depth of three metres at the centre of the river gradually reducing till it reaches boundary which was in violation of the permission granted by the GoI. Consequently, the Forest Department imposed (July 2014) a penalty of ₹ 2.28 crore²⁴ on

²¹ Firewood comprises timber with diameter less than 15 cm and small branches which are invariably produced along with round timber.

²² Eucalyptus is a diverse genus/ species of trees.

²³ Tanakpur, Kashipur, Ramnagar (East), Haldwani (East), (Central) and (West) and Kaladhungi (West) divisions.

²⁴ Penalty of ₹ 1.14 crore- (@ ₹ 90/- per cubic metre) and an additional amount of ₹ 1.14 crore towards compensatory afforestation.

the Corporation for mining outside of the permissible area from Sheesh Mahal to Gora Parav in the Haldwani Division and also for mining more than the permissible depth of three meters at the centre of River in Haldwani and Lalkuan Divisions.

Similarly, in respect of Dabka River, the Forest Department imposed (March 2014) a penalty of ₹ 0.58 crore²⁵ on the Corporation for mining of 32,355 cubic metres outside the permissible area during 2013-14.

The Management stated in July 2016 that there was some mismatch between the data of the joint inspection report and the penalty imposed by the Forest Department. The demand had been contested by the Corporation. In respect of Gola River, the Management added that the penalty demanded was not being included by the Forest Department in the list of dues recoverable by them from the Corporation. The reply is not tenable as the imposed penalty has not been waived off by the Forest Department.

3.3.4 Avoidable payment of Interest on composition money

Audit scrutiny of records of Ramnagar region of the Corporation revealed that the Corporation deposited composition money in lieu of VAT for the period of November 2013 to May 2014 at the pre-revised rates of November 2012 instead of revised rates of August 2013. This resulted in short deposit of composition money by ₹ 2.35 crore²⁶ which was deposited by the Corporation along with an interest of ₹ 0.21 crore (September 2014). Had the Corporation deposited the composition money at revised rates, it would not have to incur avoidable expenditure of ₹ 0.21 crore.

The Management stated (May 2016) that the Corporation had requested the Assistant Commissioner (Commercial tax) to furnish a copy of the orders of August 2013. However, the Commercial Tax Department provided a copy of orders of November 2012. Hence, composition money was paid at the pre-revised rates. The reply is not tenable as tax rates declared in August 2013 were known to the Corporation since its Haldwani Region had deposited the composition money at the revised rates.

Conclusion

Production of timber and fire wood which was the main activity of the Corporation was below the prescribed norms by 77.30 per cent and 41.11 per cent respectively resulting in loss of revenue by ₹ 29.31 crore. The Corporation could not ensure felling of allotted trees within the prescribed time resulting in non-recovery of royalty amounting to ₹ 0.48 crore. Further, extraction of river bed material beyond the permissible area by the

²⁵ 32,355 cubic metres X (@ 90/- per cubic metre = ₹ 29,11,950 /-penalty plus an additional amount of ₹ 29,11,950/- for compensatory afforestation.

²⁶ For the Period November 2013 to March 2014, ₹ 3.04 crore less ₹ 1.14 crore = ₹ 1.90 crore
Add: For the period April 2014 to May 2014, ₹ 0.72 crore less ₹ 0.27 crore = ₹ 0.45 crore.

Corporation attracted a penalty of ₹ 2.85 crore with short deposit of composition money in lieu of value added tax by the Corporation due to revision of rates resulted in avoidable payment of interest of ₹ 0.21 crore.

The audit findings were referred to the Government (August 2016); their reply was awaited (December 2016).



Dehradun
The 14 March 2017

(SAURABH NARAIN)
Accountant General (Audit) Uttarakhand

Countersigned



New Delhi
The 15 March 2017

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

