

CHAPTER-1

1. Functioning of State Public Sector Undertakings

Introduction

1.1 As on 31 March 2017, there were 103 State Public Sector Undertakings (PSUs) in Uttar Pradesh (*Annexure 1.1*) as depicted in table 1.1.

Table 1.1: Number of PSUs as on 31 March 2017

Type of PSUs	Working PSUs	Non-working PSUs ¹	Total
Government companies ²	51	46	97
Statutory corporations	6	Nil	6
Total	57	46	103

Source: Information furnished by PSUs

Out of 57 working PSUs and 46 non-working PSUs, only 33 working PSUs and seven non-working PSUs³ had finalised their accounts for the years 2014-15 to 2016-17 as on 31 December 2017 (*Annexure 1.2*). As per the latest finalised accounts of these 40 PSUs, 22 PSUs⁴ had earned a profit of ₹ 963.97 crore, 17 PSUs⁵ had incurred loss of ₹ 19,299.56 crore and the remaining one PSU⁶ had reported no profit or loss. These PSUs registered a turnover of ₹ 88,036.52 crore as per their latest finalised accounts as of 31 December 2017. The loss, if any incurred by the remaining 63 PSUs who have not finalised their accounts could not be assessed.

Against the average cost of borrowings of 6.52 *per cent* during 2014-15 to 2016-17, the 22 PSUs, where the State Government has invested ₹ 1,09,996.96 crore, generated on an average, negative Return on Investment (ROI) of 19 *per cent* on the investments by the State Government rendering the entire investment a total loss. Thus, the overall loss to the public exchequer (accounting for the negative return and average borrowing cost) as a result of the investment in the 22 PSUs as per their latest finalised accounts (between the period 2014-17) amounted to ₹ 11,920.32 crore.

As on 31 March 2017, the State PSUs had 1,12,784 employees (1,11,901 in 50 working PSUs and 883 in 11 non-working PSUs). The non-working PSUs have had no activity for more than three years and had an investment of ₹ 1,829.46 crore.

Recommendation:

Since the continued existence of loss making and non-working PSUs constitutes a substantial drain on the public exchequer, the State Government may (i) review the functioning of all loss making PSUs;

¹ PSUs which have had no activity for more than last three years.

² Companies referred to in Section 2 (45), 139 (5) and 139 (7) of the Companies Act, 2013.

³ Sl. No. C15, C18, C20, C27 and C31 to C33 of *Annexure 1.1*.

⁴ Sl. No. A1, A3, A5, A12, A14, A15, A18, A19, A20, A22, A32, A34, A37, A39, 43, B1, B2, B4, B6, C15, C18 and C20 of *Annexure-1.1*.

⁵ Sl. No. A7, A16, A17, A25, A27 to A31, A35, A36, A42, A45, C27, C31, C32 and C33 of *Annexure -1.1*.

⁶ The sole power plant of Jawaharpur Vidyut Utpadan Nigam Limited is at the construction stage and hence, there was no profit or loss.

(ii) review the status of non-working PSUs to initiate/ expedite the process of their winding up; and (iii) assess whether employees of non-working PSUs can be sent on reverse deputation to Government departments having vacancies, as has been done by the Government of Rajasthan.

Accountability framework

1.2 Sections 139 and 143 of the Companies Act, 2013 (Act) apply to audit of Government companies. The CAG appoints the Statutory Auditors (Chartered Accountants) and conducts supplementary audit in respect of these companies.

Audit of Statutory corporations is governed by their respective legislations as detailed below in table 1.2:

Table 1.2: Legislations governing audit of Statutory corporations			
S. No.	Name of Corporation	Authority for audit by the CAG	Audit arrangement
1	Uttar Pradesh State Warehousing Corporation	Section 31(8) of the State Warehousing Corporations Act, 1962	Audit by Chartered Accountants and supplementary audit by the CAG
2	Uttar Pradesh Forest Corporation	Section 23(2) of U P Forest Corporation Act, 1974	Sole audit by CAG
3	Uttar Pradesh Financial Corporation	Section 37(6) of the State Financial Corporations Act, 1951	Audit by Chartered Accountants and supplementary audit by the CAG
4	Uttar Pradesh Avas Evam Vikas Parishad	Section 20(1) of the CAG (DPC) Act, 1971	Sole audit by CAG
5	Uttar Pradesh Jal Nigam	Section 20(1) of the CAG (DPC) Act, 1971	Sole audit by CAG
6	Uttar Pradesh State Road Transport Corporation	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by CAG

The Audit Reports of the CAG are submitted to the Government, who shall, in terms of the CAG's (Duties, Powers and Conditions of Service) Act, 1971, cause them to be laid before the Legislature.

1.3 The concerned administrative departments under the Government of Uttar Pradesh exercise control over the affairs of these PSUs, whose Chief Executives and Directors to the Board are appointed by the State Government.

Stake of Government of Uttar Pradesh

1.4 The State Government's stake in PSUs falls under three broad categories, viz., Share Capital and Loans, special budgetary support by way of grants and subsidies to consumers and guaranteeing of loans availed by PSUs from the financial institutions.

Investment in State PSUs

1.5 As on 31 March 2017, the investment (Share Capital and Long-Term Loans) in 103 State PSUs by the State Government, the Central Government

and others⁷ was ₹ 2,39,019.94 crore as per details given in table 1.3 (Further details are given in *Annexure 1.1*).

								(₹ in crore)
Type of PSUs	Status of accounts finalised	Equity			Long term loans			Grand total
		State Government	Others ⁸	Total	State Government	Others ⁹	Total	
Working PSUs	2014-15 to 2016-17 ¹⁰	98,355.54	49,306.79	1,47,662.33	11,163.52	74,170.11	85,333.63	2,32,995.96
	Prior to 2014-15	2,933.00	178.97	3,111.97	604.01	478.54	1,082.55	4,194.52
	Sub-total	1,01,288.54	49,485.76	1,50,774.30	11,767.53	74,648.65	86,416.18	2,37,190.48
Non-working PSUs	2014-15 to 2016-17	214.46	494.97	709.43	263.44	28.06	291.50	1,000.93
	Prior to 2014-15	214.35	134.52	348.87	297.98	181.68	479.66	828.53
	Sub-total	428.81	629.49	1,058.30	561.42	209.74	771.16	1,829.46
Total		1,01,717.35	50,115.25	1,51,832.60	12,328.95	74,858.39	87,187.34	2,39,019.94

Source: As per audited accounts/Information furnished by the PSUs

1.6 The sector wise summary of investments in the State PSUs as on 31 March 2017 is given in the table 1.4.

							(₹ in crore)
Name of Sector	Working PSUs		Non-working PSUs		Total	Total Investment	Investment in last five years
	With three years' accounts	Without three years' accounts	With three years' accounts	Without three years' accounts			
Power	11	1	2	1	15	2,27,779.67	1,36,393.21
Manufacturing	5	4	5	14	28	4,497.48	925.23
Infrastructure	6	2	0	3	11	3,633.26	3,243.04
Finance	1	5	0	2	8	1,894.26	275.62
Service	4	8	0	12	24	1,075.53	304.22
Social Welfare and Agriculture	5	5	0	7	17	139.74	10.93
Total	32	25	7	39	103	2,39,019.94	1,41,152.25

Source: As per audited accounts/ Information furnished by PSUs

The thrust of the State Government investment in PSUs was in the Power Sector which increased from ₹ 45,607.46 crore (91.21 per cent) in 2011-12 to ₹ 1,06,118.31 crore (93.05 per cent) in 2016-17. Three PSUs under the Power sector with major State Government investment were Uttar Pradesh Power Corporation Limited (₹ 85,935.80 crore), Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (₹ 10,110.43 crore) and Uttar Pradesh Power Transmission Corporation Limited (₹ 9,572.93 crore). During 2012-17 alone, the State Government invested ₹ 60,590.36 crore in these three major PSUs.

⁷ Financial Institutions and other PSUs.

⁸ Includes Share Capital of Central Government and by eight holding companies in their 20 subsidiary companies.

⁹ Includes loans from Central Government and Financial Institutions.

¹⁰ Accounts finalised at least up to 2014-15.

1.7 Differences between figures of Government equity and loans depicted in the Finance Accounts¹¹ and in the records of PSUs are given in the table 1.5.

Table 1.5: Equity and Loans outstanding as on 31 March 2017			
(₹ in crore)			
Investment	As per Finance Accounts¹²	As per records of PSUs	Difference¹³
Equity	1,01,863.84	1,01,717.35	146.49
Loans	13,160.88	12,328.95	831.93

Source Information furnished by the PSUs and Finance Account, GoUP, 2016-17

Differences between the figures relating to guarantees given by the State Government in the Finance Accounts and in the records of PSUs are given in table 1.6.

Table 1.6: Guarantees outstanding as on 31 March 2017			
(₹ in crore)			
Guarantees Outstanding	As per Finance Accounts	As per records of PSUs	Difference
	52,883.80	52,843.82	39.98 ¹⁴

Source: Information furnished by PSUs and Finance Accounts, GoUP, 2016-17

Recommendation:

The Finance department, administrative departments and the PSUs may take immediate steps to reconcile the differences in figures with the Accountant General (A&E-I).

1.8 The position of the State Government stake in non-working PSUs is as stated in table 1.7.

Table 1.7 Position showing Government stake in non-working PSUs		
(₹ in crore)		
Particulars	Number of PSUs	Amount
Nominal ¹⁵ or nil Government stake	20	2.89
Non-working PSUs where there is no expenditure at all	0	0
Equity, loan and grant/ subsidy received during 2014-15 to 2016-17	3 ¹⁶	7.03
Outstanding GoUP loans to PSUs which have not paid interest on loans for last five years	21	368.77

Source: Information furnished by PSUs and Finance Accounts, GoUP, 2016-17

Recommendations:

1. Government of Uttar Pradesh (GoUP) should review for winding up/disinvestment of all PSUs where its stake is nominal.

¹¹ More details are available in Statement No. 19 and 18 of State Finance Accounts (2016-17), Government of Uttar Pradesh.

¹² The information is in respect of 103 PSUs as appearing in the Finance Accounts.

¹³ The main reason for difference is non-accountal of adjustments in the Finance Accounts arising out of conversion of loans into equity and waiver of interest, etc.

¹⁴ Differences relates to eight PSUs. S.No. A1, A7, A11, B3, C6, C7, C21 and C27 of **Annexure 1.1.**

¹⁵ Equity and Loan less than ₹ one crore.

¹⁶ Uttar Pradesh State Textile Corporation Limited, Chhata Sugar Company Limited. and Uttar Pradesh State Yarn Company Limited.

2. Since the chances of repayment of loans by 21 non-working PSUs who have not even paid interest on loans, are remote, if not non-existent, GoUP should consider converting past loans to equity or writing them off and future payments, if any, should be by way of grants in aid, pending review of whether at least some of these PSUs should not be wound up.

Arrears in finalisation of Accounts

1.9 The Companies Act, 2013 stipulates that the annual financial statements of Companies are to be finalised within six months from the end of the relevant financial year *i.e.*, by September end. Failure to do so may attract penal provisions, which stipulates that every officer of the concerned defaulting company shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand Rupees, but which may extend to five lakh Rupees, or with both.

The accounts of Statutory corporations are required to be finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

As of 31 December 2017, accounts of 44 working companies and six Statutory corporations were in arrears for periods up to 14 years and five years respectively, as depicted in **Annexure 1.3**

Out of 57 working PSUs, only seven PSUs¹⁷ had finalised their accounts for the financial year 2016-17. The remaining 50 PSUs have arrears of 192 accounts up to December 2017. Out of 50 PSUs, accounts of 26 PSUs were in arrears for 1-2 years, 11 PSUs for 3-5 years, 11 PSUs for 6-10 years and two PSUs for above 10 years as detailed in **Annexure 1.3**.

Details of the directors of 41 working companies¹⁸ whose accounts are in arrears, who also simultaneously held various posts in different departments and are liable under the above penal provisions of the Companies Act are given in **Annexures 1.4 (A) and (B)**.

1.10 In addition to the above, as on 31 December 2017, the accounts of all non-working PSUs were in arrears, except one¹⁹. Out of 46 non-working PSUs, 12²⁰ PSUs were in the process of liquidation from 14 to 36 years, whose 315 Accounts were in arrears for one to 29 years. Details of the arrears in accounts of the remaining non-working PSUs are given in table 1.8.

Year	No. of non-working PSUs	No. of Accounts in arrears	Period for which Accounts were in arrears ²¹	No. of years for which Accounts were in arrears
2014-15	27	413	1981- 82 to 2014-15	1 to 33
2015-16	26	422	1981-82 to 2015-16	1 to 34
2016-17	33	509	1981-82 to 2016-17	1 to 35

¹⁷ Sl. No. A1, A16 to A20 and A37 of Annexure-1.1.

¹⁸ 41 companies mentioned at Sl. No. A2 to A7, A9 to A15, A21 to A36, A38 to A40 and A42 to 50 of **Annexure-1.1**. Three companies at S.No. A8, A41 and A51 of **Annexure-1.1** did not furnish the information.

¹⁹ Uttar Pradesh State Yarn Company Limited.

²⁰ Sl. No. C2, C3, C10, C12, C13, C14, C16, C17, C19, C22, C23 and C25 of Annexure-1.1 and Sl. No. 1, 7, 8, 9, 13, 24 and 25 of **Annexure 1.2**.

²¹ Period of arrears of Accounts includes arrears of 12 companies up to date of going in to liquidation.

1.11 The State Government had extended budgetary support of ₹ 56,273.05 crore {Equity: ₹ 44,308.92 crore (nine Government companies and one Statutory corporation), Loans: ₹ 4,103.20 crore (six Government companies and one Statutory corporation), Grants: ₹ 2,020.77 crore (eight Government companies and one Statutory corporation) and others (subsidies): ₹ 5,840.16 crore (four Government companies)} to 22 working PSUs whose accounts were in arrears during last three years as detailed in **Annexure 1.5**. Out of this, the budgetary support of ₹ 20,908.98 crore was extended to 14 PSUs²² during the year 2016-17.

Further, the State Government had extended budgetary support of ₹ 7.03 crore (loan) to three non-working PSUs whose accounts were in arrears during last three years as detailed in **Annexure 1.5**. Out of this, the budgetary support of ₹ 4.54 crore was extended to these PSUs during the year 2016-17.

The decision of the State Government to extend budgetary support to the above PSUs that were in arrears in accounts was financially imprudent, since the State Government had no basis to assess the financial soundness of these PSUs. This is evident from the fact that all the above PSUs that received the State Government loan did not even repay the interest thereon.

Recommendations:

1. The Finance Department and the concerned administrative departments should ensure that the State PSUs take immediate action to make their accounts current, so that the directors of these PSUs do not continue to fall foul of the Companies Act and the relevant Acts governing State Statutory corporations.

2. The Finance Department and the concerned administrative departments should initiate steps to ensure that budgetary support is extended only to such PSUs whose accounts are current.

Placement of Separate Audit Reports

1.12 The respective Acts of the Statutory corporations stipulate that the audit reports of the CAG shall be placed in the Legislature soon after placement in the annual general meeting and the Government shall as soon as thereafter cause the same to be laid before the Legislature. It was, however, observed that the State Government failed to ensure compliance to the Act in the laying of the Separate Audit Reports (SARs) of the CAG relating to the six Statutory corporations (up to 31 December 2017), as depicted in table 1.9.

²² Uttar Pradesh State Spinning Company Limited, Uttar Pradesh Electronics Corporation Limited, Uttar Pradesh Bhumi Sudhar Nigam Limited, Uttar Pradesh Power Corporation Limited, Pashchimanchal Vidyut Vitran Nigam Limited, Uttar Pradesh Power Transmission Corporation Limited, Purvanchal Vidyut Vitran Nigam Limited, Uttar Pradesh Scheduled Caste Finance and Development Corporation Limited, Allahabad City Transport Services Limited, Varanasi City Transport Services Limited, Uttar Pradesh State Food and Essential Commodities Corporation Limited, Uttar Pradesh Waqf Vikas Nigam Limited and Uttar Pradesh State Road Transport Corporation.

Table:1.9 Placement of Separate Audit Reports in Respect of Statutory corporations				
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
1.	Uttar Pradesh State Road Transport Corporation	2011-12	2012-13 2013-14 2014-15	6 June 2014 2 September 2015 24 March 2017
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
3.	Uttar Pradesh Forest Corporation	-- ²³	2008-09 2009-10 2010-11 2011-12 2012-13 2013-14 2014-15	9 March 2011 16 November 2011 21 September 2012 11 July 2013 6 June 2014 21 April 2015 17 October 2016
4.	Uttar Pradesh Avas Evam Vikas Parishad	2010-11	2011-12 2012-13 2013-14 2014-15 2015-16	16 September 2013 7 November 2014 20 August 2015 15 November 2016 23 February 2017
5.	Uttar Pradesh Jal Nigam	2007-08	2008-09 2009-10 2010-11 2011-12	3 August 2011 20 May 2013 12 December 2013 25 May 2017
6.	Uttar Pradesh State Warehousing Corporation	2011-12	2012-13 2013-14 2014-15	29 June 2015 20 July 2016 27 June 2017

Source: Information furnished by the corporations and compiled by Audit

The State Government has provided budgetary support of ₹ 2,947.97 crore to two Statutory corporations²⁴ (₹ 100 crore equity, ₹ 50 crore loans and ₹ 2,797.97 crore grant) over the past five years alone. The lack of financial accountability in the Uttar Pradesh Jal Nigam (UPJN) is so serious²⁵ that the CAG has refused to provide an opinion on the accounts of the UPJN for 2011-12 (finalised during 2017-18). The State Government has provided loans of ₹ 171.35 crore to UPJN between 2012-17 when its accounts were in arrears and there was no possibility of evaluating the financial capability of UPJN.

Besides, due to non-laying of SARs before the State Legislature, the serious irregularities as detailed in **Annexure 1.6** could not be brought to the notice of the Legislature.

Recommendation:

The Finance Department should ensure that the SARs of the Statutory corporations are placed in the State Legislature immediately, and no further budgetary support is extended to Corporations whose accounts are in arrears and/or whose accounts are defective.

²³ Uttar Pradesh Forest Corporation submitted its Accounts for the year 2008-09 after incorporating amendment for audit by CAG in U. P. Forest Corporation Act, 1974.

²⁴ Uttar Pradesh Jal Nigam and Uttar Pradesh State Road Transport Corporation.

²⁵ Uttar Pradesh Jal Nigam did not provide source/ basic information/records in support of different items appearing in the Balance Sheet and Income and Expenditure Account.

Performance of PSUs as per their latest finalised Accounts

1.13 The key financial ratios used to assess the performance of the 40 PSUs²⁶ that had finalised their accounts for the period 2014-15 to 2016-17 are given in table 1.10: (Further details are given in *Annexure 1.7*).

Table 1.10 Key parameters of working PSUs					
Particulars	Key Parameters (in percentage)	2014-15	2015-16	2016-17	Average
Profit making PSUs	ROCE ²⁷	6.57	5.04	12.60	8.07
	ROI ²⁸	6.57	5.04	12.60	8.07
	ROE ²⁹	1.01	1.95	3.55	2.17
Loss making PSUs	ROCE	-32.07	-31.56	-31.11	-31.58
	ROI	-32.07	-31.56	-31.11	-31.58
	ROE	-43.33	-42.00	-42.29	-42.54
Cost of Borrowing		6.40	6.35	6.82	6.52

Source: Information as per finalised accounts of PSUs

1.14 The major contributors to profit were Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (₹ 677.94 crore), Uttar Pradesh State Warehousing corporation (₹ 87.07 crore) and Uttar Pradesh Avas Evam Vikas Parishad (₹ 50.68 crore). The RoI on these PSUs ranged between 1.17 per cent and 22.19 per cent between 2014-15 and 2016-17. The PSUs which incurred heavy losses were Uttar Pradesh Power Corporation Limited (₹ 12,669.08 crore), Dakshinanchal Vidyut Vitran Nigam Limited (₹ 2,036.31 crore) and Paschimanchal Vidyut Vitran Nigam Limited (₹ 1,836.84 crore) as per their latest finalised Accounts.

1.15 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. Accordingly, 18 PSUs³⁰ were required to declare dividend as per the dividend policy. However, only eight PSUs³¹ declared a dividend of ₹ 6.54 crore. The remaining 10 profit earning PSUs³² did not declare dividend of ₹ 507.48 crore as stipulated in the State Government's policy.

Recommendation

The State Government should direct profit making PSUs to remit to Government account arrears of dividend (amounting to ₹ 582.61 crore) from the date of adoption of dividend policy (October 2002).

1.16 The Companies Act, 2013 stipulates that the Board of Directors of every company meet a minimum of four times a year. It was observed, however, that

²⁶ Financial ratios cannot be calculated for non-working PSUs or those PSUs whose accounts are in arrears.

²⁷ Return on Capital employed= (Net Profit/Loss before dividend, interest and tax)/Capital Employed.

²⁸ Return on Investment (ROI)= (Net Profit before dividend, tax and interest)/Investment.

²⁹ Return on Equity (ROE)= (Net Profit after tax-Preference dividend)/Shareholders' Fund.

³⁰ 18= [Total PSUs: 32 Less 14 PSUs (three PSUs namely Uttar Pradesh Jal Nigam, Uptron Powertronics Limited and UCM Coal Company Limited fall under both category i.e. having accumulated Losses and without having Government Equity)].

³¹ Sl. No. A5, A11, A13 to A15, A22, A41 and A43 of **Annexure-1.1**.

³² Sl. No. A2 to A4, A8, A10, A12, A37, A39, A50 and B1 of **Annexure-1.1**.

out of 51 working companies, 13 companies³³ conducted less than four meetings during 2014-17.

Winding up of non-working PSUs

1.17 There were 46 non-working PSUs as on 31 March 2017. Of these, 12 PSUs³⁴ have commenced liquidation process in the last 14 to 36 years which are pending with the official liquidator and with the High Court, Allahabad. Though the remaining 34 PSUs³⁵ are not working for the past five to 42 years, liquidation process has not yet been started despite orders of the State Government for closure of 31 companies having net worth of (-) ₹ 744.48 crore. No PSU was wound up in 2016-17.

Accounts Comments

1.18 Thirty seven³⁶ working companies forwarded their 48 audited accounts³⁷ to the Accountant General during 2016-17³⁸. Of these, 37 accounts³⁹ of 31 companies pertaining to periods ranging from 1998-99 to 2016-17 were selected for supplementary audit. The Audit Reports of Statutory Auditors appointed by CAG and the supplementary audit of CAG indicated that the quality of maintenance of accounts needs to be improved substantially. Details of comments of Statutory Auditors and CAG are given in table 1.11.

(₹ in crore)							
Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in profit	10	43.92	15	224.75	17	383.25
2.	Increase in loss	9	7.11	5	42.58	13	286.57
3.	Material facts not disclosed	12	2,290.30	4	11,286.83	11	815.12
4.	Errors of classification	2	2.20	1	10.67	15	381.32

During the year, the Statutory Auditors had given unqualified certificates for six accounts, qualified certificates for 40 accounts, given an adverse certificate

³³ Uttar Pradesh State Industrial Development Corporation Limited, Uttar Pradesh State Bridge Corporation Limited, Uttar Pradesh Rajkiya Nirman Nigam Limited, Uptron Powertronics Limited, Noida Metro Rail Corporation Limited, Uttar Pradesh Development Systems Corporation Limited, Kanpur City Transport Services Limited, Lucknow City Transport Services Limited, Meerut City Transport Services Limited, Varanasi City Transport Services Limited, Allahabad City Transport Services Limited, Agra-Mathura City Transport Services Limited and Uttar Pradesh State Sugar Corporation Limited.

³⁴ Sl. No. C2, C3, C10, C12 to C14, C16 to C17, C19, C22, C23 and C25 of Annexure-1.1.

³⁵ Sl. No. C-1, 4, 5, 6, 7, 8,9,11, 15, 18, 20, 21, 24, 26 to 46

³⁶ Sl. No. A-1, 3, 4, 5, 6, 7, 8, 10, 11, 12, 13, 14, 15, 16, 19, 20, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 37, 38, 41, 42, 43, 46 and 51 of Annexure-1.1.

³⁷ Including two accounts each of PSUs at Sl. No. A10, A16, A24, A37 and A46, three accounts of each PSUs at Sl. No. A3 and five accounts of PSU at Sl. No. A8 of Annexure-1.1.

³⁸ October 2016 to September 2017.

³⁹ 11 Accounts of seven companies were not selected for supplementary audit. These were issued Non-review certificate.

in case of one account⁴⁰. Statutory Auditor has also declined to give an opinion in view of serious shortcomings in respect of Uttar Pradesh Food and Essential Commodities Corporation Limited for the year 2008-09 submitted in 2016-17. Compliance with the Accounting Standards issued by the Companies remained poor as there were 173 instances in 39 accounts of 33 Companies where there was no compliance with the Accounting Standards. Further, during 2016-17, the CAG had also issued an adverse certificate in respect of Uttar Pradesh Electronic Corporation Limited for the accounts of 2015-16.

1.19 Similarly, five working Statutory corporations forwarded their five accounts⁴¹ to the Accountant General during the year 2016-17⁴². Of these, four accounts of four Statutory corporations⁴³ pertained to sole audit by CAG. The remaining one account⁴⁴ was 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. Details of comments of Statutory Auditors and CAG are given in table 1.12.

(₹ in crore)							
Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in profit	3	232.85	2	3.66	5	7.27
2.	Increase in loss	1	10.00	-	-	-	-
3.	Material Facts not disclosed	4	704.58	1	448.02	5	1,114.38
4.	Errors of classification	2	20.05	-	-	4	1,472.19

During the year, out of five⁴⁵ accounts, in one account in respect of Uttar Pradesh Jal Nigam (2011-12) CAG has declined to give an opinion in view of serious shortcomings and in respect of Uttar Pradesh Avas Evam Vikas Parishad for the year 2015-16 an adverse certificate was issued. Compliance by the Statutory corporations to the Accounting Standards remained poor, as there were six instances of non-compliance in two accounts during the year.

Recommendation:

The Finance Department and the concerned administrative departments should immediately review for appropriate action, the working of the 35 PSUs (31 companies and four Statutory corporations) where the CAG/Statutory Auditors have given qualified comments, adverse comments and declined to give an opinion.

⁴⁰ Uttar Pradesh State Spinning Company Limited.

⁴¹ Uttar Pradesh State Warehousing Corporation (for the year 2014-15), Uttar Pradesh Forest Corporation (for the year 2015-16), Uttar Pradesh Avas Evam Vikas Parishad (for the year 2015-16), Uttar Pradesh State Road Transport Corporation (for the year 2015-16) and Uttar Pradesh Jal Nigam (for the year 2011-12).

⁴² October 2016 to December 2017.

⁴³ Uttar Pradesh Avas Evam Vikas Parishad, Uttar Pradesh State Road Transport Corporation, Uttar Pradesh Jal Nigam and Uttar Pradesh Forest Corporation.

⁴⁴ Uttar Pradesh State Warehousing Corporation.

⁴⁵ Serial no. B-1, 2, 4, 5 and 6 of **Annexure 1.1**

Response of the Government to Audit**Performance Audits and Paragraphs**

1.20 One Performance Audit, two long paragraphs, one follow-up audit report and six compliance audit paragraphs were issued (June 2017 to February 2018) to the Government/Management. Replies of Management were received. Replies in respect of one Performance Audit, two long paras, one follow-up audit, and five audit paragraphs were awaited from the State Government (September 2018).

Follow up action on Audit Reports**Replies outstanding**

1.21 Reports of the Comptroller and Auditor General of India represent 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 1.13.

Year of the Audit Report (Commercial/ PSUs)	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PA) and Paragraphs in the Audit Report		Number of PA/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
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
2015-16	18 May 2017	6	11	6	11
Total		17	71	16	39

Recommendation:

The concerned administrative departments should ensure compliance to the directives (June 1987) of the Finance Department and furnish timely response to audit observations.

Discussion of Audit Reports by COPU

1.22 The status as on 31 December 2017 of Performance Audits and Paragraphs that appeared in Audit Reports (PSUs) and discussed by the COPU⁴⁶ is given in table 1.14.

⁴⁶ Committee on Public Sector Undertakings.

Table 1.14: Performance Audits/ Paragraphs in Audit Reports vis a vis discussed (as on 31 December 2017)				
Period of Audit Report	Number of PAs/paragraphs			
	Appeared in Audit Report		Paragraphs on which discussion completed	
	PAs	Paragraphs	PAs	Paragraphs
1982-83 to 2010-11	138 ⁴⁷	914	78	545
2011-12	2	14	0	4
2012-13	1	19	0	7
2013-14	2	15	0	3
2014-15	6	12	0	0
2015-16	6	11	0	0
Total	155	985	78	559

Compliance to Reports of COPU

1.23 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 the Committee. Therefore, the status of ATNs is not discussed here.

Restructuring of PSUs consequent to reorganisation of the State

1.24 Consequent to the reorganisation of the erstwhile Uttar Pradesh State into the states of Uttar Pradesh and Uttarakhand w.e.f. 25 August 2000, the assets and liabilities of the then existing 42 PSUs⁴⁸ were to be divided as per the provisions laid down in the Uttar Pradesh Reorganisation Act, 2000. This exercise, has, however, not been completed in respect of six PSUs⁴⁹ as of March 2018.

Recommendation:

Since almost two decades have passed after the reorganisation of the State, the State Government is required to work closely with the Government of Uttarakhand for the expeditious division of assets and liabilities of the six PSUs, where the Government investment as on 31 March 2001 was ₹ 6,174.40 crore.

Reforms in Power Sector under Ujwal Discom Assurance Yojana (UDAY)

1.25 With an objective to improve the operational and financial efficiency of the State DISCOMs, Ministry of Power, Government of India (GoI) had launched (November 2015) the Ujwal DISCOM Assurance Yojana (UDAY), a scheme for financial turnaround of Power Distribution Companies.

⁴⁷ Included Standalone Performance Audit Report on Sale of Sugar Mills of Uttar Pradesh State Sugar Corporation Limited.

⁴⁸ Sl. No.A1, A3 to A15, A22, A24, A26, A34, A35, A37, A39, A40 to A43, A50, A51, B2, B4, B6, C2 to C5, C7, C9, C10, C11, C21, C27, C29 and C30 of **Annexure 1.1**.

⁴⁹ Uttar Pradesh State Industrial Development Corporation Limited, Uttar Pradesh Jal Vidyut Nigam Limited, Uttar Pradesh Power Corporation Limited, Uttar Pradesh Forest Corporation, Uttar Pradesh Avas Evam Vikas Parishad and Uttar Pradesh State Road Transport Corporation.

A Memorandum of Understanding (MoU) was signed (January 2016) among Ministry of Power, GoI, Government of Uttar Pradesh (GoUP) and Uttar Pradesh Power Corporation Limited (UPPCL) on behalf of DISCOMs⁵⁰ for implementation of the scheme with identified financial and operational targets.

The progress achieved so far in respect of important financial and operational targets fixed as per MoU and achievements thereof of each DISCOM as on 31 March 2018 is given in **Annexure 1.8**.

The overall financial and operational achievements of DISCOMs under UDAY Scheme are given in table 1.15.

Table 1.15: Implementation of UDAY scheme by DISCOM			
Parameter	Target period as per MoU	Target	Achievement
Financial			
Taking over 75 per cent of UP DISCOMs debts of ₹ 59205 crore by GoUP	2015-16 (last quarter of FY)	₹ 29,602 crore	₹ 29,602 crore has been taken over in 2015-16
	2016-17 (up to 30 June 2016)	₹ 14,801 crore	₹ 14,801 crore has been taken over in 2016-17 by GoUP.
Taking over and funding of future losses of UP DISCOMs by GoUP	2017-18	5 per cent Loss (₹ 409.93 crore) of 2016-17	State Government has funded ₹ 409.93 crore in 2017-18
Reduction of AT & C Loss ⁵¹ (in per cent)	2015-16	32.36	38.41 (not achieved)
	2016-17	28.27	30.22 (partially achieved)
	2017-18	23.63	27.67 (partially achieved)
Reduction of ACS-ARR Gap ⁵²	2016-17	₹ 1.04/kWH	₹ 0.62/kWH (not achieved)
	2017-18	₹ 0.60/kWH	₹ 0.37/kWH (partially achieved)
Billing Efficiency (in per cent)	2015-16	76.43	78.33 (achieved)
	2016-17	78.29	78.91 (achieved)
	2017-18	80.82	79.15 (partially achieved)
Collection Efficiency (in per cent)	2015-16	88.50	78.63 (not achieved)
	2016-17	91.64	88.43 (partially achieved)
	2017-18	94.50	91.39 (partially achieved)
Tariff Revision in time	2015-16	November 2014	November 2014
	2016-17	November 2015	December 2015
	2017-18	November 2016	June 2017
Operational			
Distribution Transformer Metering (in Nos.)	100 per cent by 30 September 2017	3,82,460	1,97,235 (Not achieved)
Feeder Metering (in Nos.)	100 per cent by 30 September 2016	16,072	16,072 (Achieved)
Feeder segregation (in Nos.)	2016-17	1,660 (30 per cent)	0 (Not achieved)
	2017-18	3,597 (65 per cent)	374 (Not achieved)
11 kV Rural Feeder Audit (in Nos.)	2016-17	847 (10 per cent)	2,515 (Achieved)
	2017-18	2,542 (30 per cent)	6,505 (Achieved)
Smart Metering above 200 kWh and up to 500 kWh (in Nos.)	2017-18	1.56 lakh	0 (Not achieved)

⁵⁰ Madhyanchal Vidyut Vitran Nigam Limited, Purvanchal Vidyut Vitran Nigam Limited, Paschimanchal Vidyut Vitran Nigam Limited, Dakshinanchal Vidyut Vitran Nigam Limited and Kanpur Electricity Supply Company Limited.

⁵¹ Aggregate Technical and Commercial (AT & C) loss is the sum total of technical and commercial loss and shortage due to non-realisation of billed amount.

⁵² Average Cost of Supply (ACS)- Average Revenue Realisation (ARR) gap.

Parameter	Target period as per MoU	Target	Achievement
Smart Metering equal to or above 500 kWh (in Nos.)	2016-17	1.11 lakh	0 (Not achieved)
	2017-18	1.12 lakh	0 (Not achieved)
Electricity access to un-connected households (in Nos.)	2019-20	143.54	Under implementation
Distribution of LEDs under UJALA scheme (in Nos.)	2016-17	50.00 lakh	148.25 lakh (Achieved)
	2017-18	80.00 lakh	82.33 lakh (Achieved)

DISCOMs have achieved the financial targets fixed under the MoU except reduction of AT&C loss in case of three DISCOMs (MVVNL, DVVNL and PuVVNL) and reduction of ACS-ARR gap and collection efficiency in case of four DISCOMs (MVVNL, DVVNL, PuVVNL and PVVNL). In so far as achievement of operational targets is concerned, the performance of DISCOMs was far from satisfactory, especially in the rural areas. There are still 1.44 crore households which have no access to electricity. There was no/slow progress in smart metering and only nominal progress made in feeder segregation. Thus, operational turnaround of the five DISCOMs, as envisaged in the MoU, was yet to be achieved.