

## Introduction

### Functioning of State Public Sector Undertakings

#### General

1. State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. State PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and occupy an important place in the State economy. As on 31 March 2018, there were 107 PSUs in Uttar Pradesh, including 6 Statutory Corporations<sup>1</sup> and 101 Government Companies (including 46 non-functional government companies) under the audit jurisdiction of the Comptroller & Auditor General of India. None of these Government Companies were listed on the stock exchange. During the year none of the PSUs was amalgamated with their holding Company.

2. The nature of PSUs in Uttar Pradesh and their position of accounts are indicated in Table 1.1 below:

**Table 1.1: Nature of PSUs in Uttar Pradesh**

Nature of PSUs	Total Number	Number of PSUs of which accounts received during the reporting period				Number of PSUs of which accounts are in arrear (total accounts in arrear) as on 30 September 2018
		Accounts upto 2017-18 <sup>2</sup>	Accounts upto 2016-17	Accounts upto 2015-16	Total	
Functional Government Companies <sup>3</sup>	55	7	15	28	50	48 (191)
Statutory Corporations	6	-	3	2	5	6 (16)
<b>Total working PSUs</b>	<b>61</b>	<b>7</b>	<b>18</b>	<b>30</b>	<b>55</b>	<b>54 (207)</b>
Non-functional Government Companies	46	-	3	10	13	44 (633)
<b>Total</b>	<b>107</b>	<b>7</b>	<b>21</b>	<b>40</b>	<b>68</b>	<b>98 (840)</b>

The financial performance of 36 PSUs on the basis of latest finalised accounts upto 30 September 2018 is covered in this Report. This Chapter does not include 71 PSUs (including four Government Controlled Companies) whose accounts are in arrears for three years or more or were defunct/under liquidation or first accounts were not received as detailed in *Appendix-4.2*. The PSUs covered in this Chapter registered an annual turnover of ₹ 60,016.92 crore as per their latest finalised accounts as on 30 September 2018. This turnover was equal to 4.36 per cent of Gross State

<sup>1</sup> Uttar Pradesh Avas Evam Vikas Parishad, Uttar Pradesh Jal Nigam, Uttar Pradesh Financial Corporation, Uttar Pradesh State Road Transport Corporation, Uttar Pradesh State Warehousing Corporation and Uttar Pradesh Forest Corporation.

<sup>2</sup> From 1 October 2017 to 30 September 2018.

<sup>3</sup> Government PSUs include Government controlled other Companies referred to in Section 139(5) and 139(7) of the Companies Act 2013.

Domestic Product (GSDP) for the year 2017-18 (₹ 13,75,607 crore). The PSUs covered in this Chapter suffered a loss of ₹ 18,167.68 crore as per their latest finalised accounts. As on March 2018, the State PSUs covered in this Report had employed around 78,436 employees.

There are 46 non-functional PSUs which were non-functional having GoUP investment of ₹ 929.76 crore towards capital (₹ 462.98 crore) and long term loans (₹ 466.78 crore). This is a critical area as the investments in non-functional PSUs do not contribute to the economic growth of the State.

### **Accountability framework**

3. The procedure for audit of Government companies are laid down in Sections 139 and 143 of the Companies Act, 2013 (Act 2013). According to Section 2 (45) of the Act 2013, a Government Company means any company in which not less than fifty one *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. Besides, any other company<sup>4</sup> owned or controlled, directly or indirectly, 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 are referred to in this Report as Government Controlled other Companies.

Comptroller & Auditor General of India (CAG) appoints the Statutory Auditors of a Government Company and Government Controlled Other Company under Section 139 (5) and (7) of the Companies Act, 2013. Section 139 (5) of the Companies Act, 2013 provides that the Statutory Auditors in case of a Government Company or Government Controlled Other Company are to be appointed by the CAG within a period of one hundred and eighty days from the commencement of the financial year. Section 139 (7) of the Companies Acts, 2013 provides that in case of a Government Company or Government Controlled Other Company, the first auditors are to be appointed by the CAG within sixty days from the date of registration of the company and in case CAG does not appoint such auditor within the said period, the Board of Directors of the Company or the members of the Company have to appoint such auditor.

Further, as per sub-Section 7 of Section 143 of the Act 2013, 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 considered necessary, by an order, cause test audit to be conducted of the accounts of such Company and the provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report 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

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<sup>4</sup> The Companies (Removal of Difficulties) Seventh Order 2014 dated 4 September 2014 issued by Ministry of Corporate Affairs, Government of India

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***

4. The financial statements of the Government Companies (as defined in Section 2 (45) of the Act 2013) are audited by Statutory Auditors, who are appointed by the CAG as per the provisions of Section 139(5) or (7) of the Act 2013. The Statutory Auditors submit a copy of the Audit Report to the CAG including, among other things, financial statements of the Company under Section 143(5) of the Act 2013. These financial statements are also subject to supplementary audit by the CAG within sixty days from the date of receipt of the audit report under the provisions of Section 143(6) of the Act 2013.

Audit of Statutory Corporations is governed by their respective legislations. Out of six Statutory Corporations, the CAG is sole auditor for four Statutory Corporations namely Uttar Pradesh Avas Evam Vikas Parishad, Uttar Pradesh Jal Nigam, Uttar Pradesh State Road Transport Corporation and Uttar Pradesh Forest Corporation. In respect of Uttar Pradesh State Warehousing Corporation and Uttar Pradesh Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit is conducted by the CAG.

### **Submission of accounts by PSUs**

#### ***Need for timely finalisation and submission***

5. According to Section 394 and 395 of the Companies Act 2013, Annual Report on the working and affairs of a Government Company, is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation laid before the Houses or both the Houses of State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. Almost similar provisions exist in the respective Acts regulating Statutory Corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the companies from the Consolidated Fund of the State.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statement for the financial year has to be placed in the said AGM for their consideration. Section 129 (7) of the Companies Act, 2013 provides for levy of penalty like fine and imprisonment on the persons including directors of the company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

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

6. 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 State 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 2013 or as stipulated in the respective Acts. The Audit Reports of the CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

**Investment by Government of Uttar Pradesh in State Public Sector Undertakings (PSUs)**

7. The Government of Uttar Pradesh (GoUP) has high financial stakes in the PSUs. This is of mainly three types:

- **Share capital and loans** – In addition to the share capital contribution, GoUP also provides financial assistance by way of loans to the PSUs from time to time.
- **Special financial support** – GoUP provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees** – GoUP also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

8. The total sector-wise summary of investment in the PSUs as on 31 March 2018 is given in Table 1.2 below:

**Table 1.2: Sector-wise total investment in PSUs**

(₹ in crore)

Name of sector	Government Companies		Statutory Corporations		Total	Investment		
	Covered in this Report	Not covered in this Report	Covered in this Report	Not covered in this Report		Equity	Long term loans	Total
Power	183202.93	-	-	-	183202.93	106718.49	76484.44	183202.93
Other than Power	8458.34	5156.11	948.92	2041.37	16604.74	7560.40	9044.34	16604.74
<b>Total</b>	<b>191661.27</b>	<b>5156.11</b>	<b>948.92</b>	<b>2041.37</b>	<b>199807.67</b>	<b>114278.89</b>	<b>85528.78</b>	<b>199807.67</b>

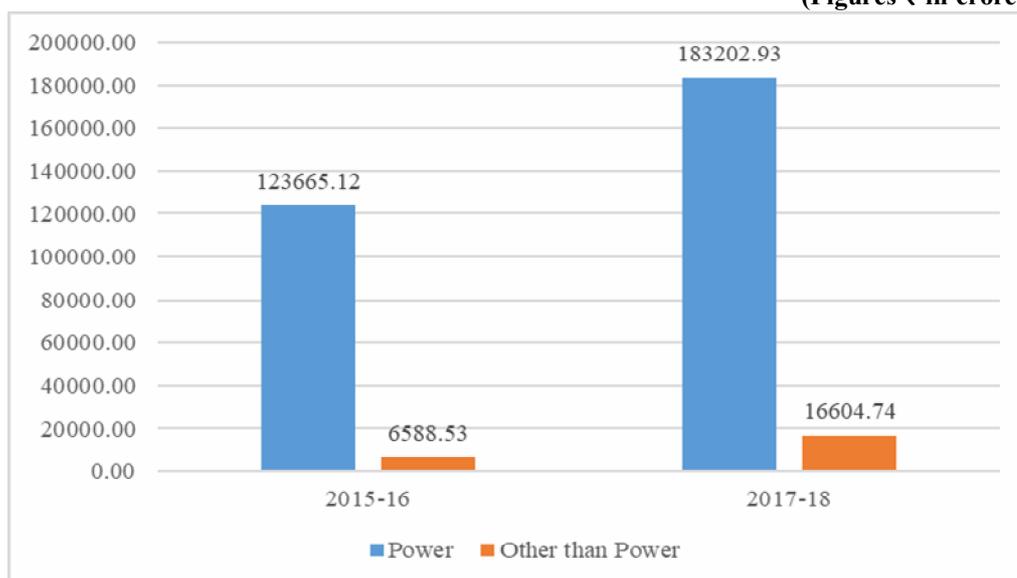
*Source: Compiled based on annual accounts of PSUs, sanction/release orders for equity and loans and information provided by PSUs.*

The thrust of PSU investment was mainly in power sector during the last three years. The power sector received investments of ₹ 59,537.81 crore (85.60 per cent) out of total investment of ₹ 69,554.02 crore made during the period from 2015-16 to 2017-18.

9. The investment in Power and other than Power Sector at the end of 31 March 2016 and 31 March 2018 is indicated in the chart 1.1.

Chart 1.1: Sector-wise investment in PSUs

(Figures ₹ in crore)



Keeping in view the huge investment in Power Sector, we are presenting the results of audit of 15 Power Sector PSUs in Part-I<sup>5</sup> and of 92 PSUs (other than Power Sector) in Part-II<sup>6</sup> of Part-A of the Report.

5 The Part-I includes Chapter-I (Functioning of Power Sector undertakings), Chapter-II (Audit on “Construction of new sub-stations and augmentation of capacity of the existing sub-stations by the Uttar Pradesh Power Transmission Corporation Limited”) and Chapter-III (Compliance Audit Observations relating to Power Sector undertakings).

6 The Part-II includes Chapter-IV (Functioning of PSUs other than Power Sector) and Chapter-V (Compliance Audit Observations relating to PSUs other than Power Sector).