OVERVIEW

1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2009, the State of Uttar Pradesh had 82 working PSUs (75 companies and 7 Statutory corporations) and 43 non-working PSUs (all companies), which employed 1.38 lakh employees. The working PSUs registered a turnover of Rs. 31,480.07 crore for 2008-09 as per their latest finalised accounts. This turnover was equal to 7.86 per cent of the State GDP indicating a moderate role played by the State PSUs in the economy. However, the working PSUs incurred overall loss of Rs. 3,410.53 crore in 2008-09 and had accumulated losses of Rs.14,386.17 crore.

Investments in PSUs

As on 31 March 2009, the investment (Capital and long term loans) in 125 PSUs was Rs. 52,915.82 crore. It grew by over 133.62 per cent from Rs. 22,650.56 crore in 2003-04 mainly because of increase in investment in power sector. Power Sector accounted for 87.14 per cent of the total investment in 2008-09. The Government contributed Rs. 3,594.14 crore towards equity and grants/subsidies during 2008-09.

Performance of PSUs

During the year 2008-09, out of 82 working PSUs, 30 PSUs earned profit of Rs. 538.41 crore and 26 PSUs incurred loss of Rs. 3,948.94 crore. Twenty six working PSUs, which were incorporated during 2006-07 (3), 2007-08 (1) and 2008-09 (22) had not submitted their first accounts. The major contributors to profit were Uttar Pradesh Avas Evam Vikas Parishad (Rs 178.58 crore), Uttar Pradesh Rajkiya Nirman Nigam Limited (Rs 80.41 crore), Uttar Pradesh State Industrial Development Corporation Limited (Rs 79.03 crore), Uttar Pradesh State Road Transport Corporation (Rs 40.71 crore) and Uttar Pradesh State Warehousing Corporation (Rs 40.15 crore). The heavy losses were incurred by Dakshinanchal Vidyut Vitaran Nigam Limited (Rs 892.20 crore), Paschimanchal Vidyut Vitaran Nigam Limited (Rs 621.82 crore), Purvanchal Vidyut Vitran Nigam Limited (Rs 606.75 crore), Uttar Pradesh Power Corporation Limited (Rs 505.42 crore), Uttar Pradesh Financial Corporation (Rs 115.01 crore), Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (Rs 77.10 crore) and Uttar Pradesh Rajya Chini Evam Ganna Vikas Nigam Limited (Rs 57.92 crore).

The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years Audit Reports of CAG shows that the state PSUs losses of Rs.7931.19 crore and infructuous investments of Rs. 27.60 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Of the 41 accounts of working companies finalised during October 2008 to September 2009, 35 accounts received qualified certificates, one account received adverse certificate and three accounts received disclaimers. There were 133 instances of non-compliance with Accounting Standards. Of the five accounts finalised during October 2008 to September 2009 by the statutory corporations, audit of three accounts was completed and all three accounts received qualified certificates. The Reports of the Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Fifty four working PSUs had arrears of 197 accounts as of September 2009. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There were 43 non-working companies. As no purpose may be served by keeping these PSUs in existence, Government needs to expedite closing down of the non working PSUs.

Discussion of Audit Reports by COPU

The Audit Reports (Commercial) for 1982-83 onwards (except for 1989-90 which was fully discussed) are yet to be fully discussed by COPU. The 25 pending Audit Reports contained 123 reviews and 850 paragraphs of which 63 reviews and 388 paragraphs were pending for discussion.

2. Performance reviews relating to Government Companies

Performance reviews relating to Renovation & Modernisation and Refurbishment activities in Thermal Power Stations of Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited and Information Technology Support System of Revenue Billing in Dakshinanchal Vidyut Vitran Nigam Limited, Agra were conducted. Executive summary of the Audit findings is given below:

Renovation & Modernisation and Refurbishment activities in Thermal Power Stations of Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited

Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited was formed in 1980 for construction of new thermal power stations (TPS) in the State. As on 31 March 2009, the Company had seven TPS having derated capacity of 4,032 MW. Many units of these TPSs have crossed their useful working life of 25 years and some of them have been lying closed since long, creating acute shortage of power in the State.

Project planning and Report formulation

R&M and refurbishment activities involve identification of the problems of unit of TPS, preparation of techno economic viability reports, preparation of detailed project reports (DPR) to lay down benefits to be achieved from these works. Power Finance Corporation (PFC) sanctions loan equal to 70 per cent of the estimated cost of the activity against guarantee furnished by the State Government and rest of the fund is met through internal sources or loan from State Government. Ill planning of the Company led to non installation of major equipments during R & M and refurbishment shutdown period and non adherence of annual maintenance schedule in many instances in violation of CEA directives. The Company was unable to maintain sustainable levels of performance.

Execution of works

R & M and Refurbishment works of Rs 2363.52 crore were executed in Harduaganj, Panki, Parichha, Anpara 'A', Obra 'A' and B TPS. These works, along with supply of equipments/material were mostly awarded to BHEL on single quotation basis. Thus the purpose of getting the work done at competitive rates was defeated. Though negotiations were held with BHEL but basis for carrying out negotiations to keep the cost of works at lowest level could not be ascertained in the absence of competitive bidding. Instances of deficiencies in material procurement, poor quality of R&M works and delayed execution of refurbishment works were noticed.

Post R&M/ refurbishment Performance evaluation

The performance of TPSs after carrying out R&M/Refurbishment was much short than expected/envisaged. It indicated that R&M/refurbishment works were not carried out efficiently, economically and effectively. This resulted in loss of Rs 3031.11 crore during 2006-07 to 2008-09 on account of non achievement of norms.

Environmental Issue

Ministry of Environment and Forest (MoEF), Government of India launched (March 2003) the charter on Corporate Responsibility for Environmental Protection (CREP) for compliance of regulatory norms for prevention and control of pollution. The Charter provided for installation of new ESP, provisioning for dry fly ash handling and storage system, ash water recirculation system and opacity system for monitoring emission levels by December 2005. The Company, however, could not complete the said work in any of its TPS (September 2009). As a result, the Company could not get air and water consent from UPPCB for any of its TPS and the Company was penalized with additional water cess amounting to Rs 14.24 crore for 2008-09 alone.

Information Technology Support System of Revenue Billing in Dakshinanchal Vidyut Vitran Nigam Limited, Agra

Dakshinanchal Vidyut Vitran Nigam Limited, Agra (Company) was incorporated with the main objective of distribution of energy to consumer of 17 districts of Uttar Pradesh. The billing of the Company is outsourced and the consumers of the Company are billed as per Tariff Orders approved by Uttar Pradesh Electricity Regulatory Commission (UPERC) from time to time.

IT Controls

The Company did not formulate and document a formal IT policy. The database of the Company is being maintained by the outsourced billing agencies and no clear responsibilities exist to monitor the development of software and correct billing. The Company did not have a disaster recovery and business continuity plan and there were differences in the structure of databases being used by different outsourced agencies. As a result of which there were cases of incorrect application of formula in billing software, duplicate and fictitious records in the data bank.

Compliance of tariff orders

In billing of consumers having defective meters, the provisions of tariff orders were not applied. As a result the excess assessment for Rs 31.85 crore was made in nine divisions. The rural metered consumers of EUDD Fatehabad were excess billed for Rs 0.79 crore due to incorrect application of tariff. EUDD Firozabad billed the consumers on fixed units instead of their actual consumption resulted in short assessment of Rs 2.20 crore. Further, there was excess billing of Rs 47.81 lakh due to billing of consumers as 'ADF' instead of at their actual consumption. EUDD III Agra did not levy the fixed charges on domestic and commercial consumers resulted in short charge of Rs 56.14 lakh. The Company did not levy the penalty of Rs 13.49 crore on consumers billed under NA/NR category. Air conditioning charges of Rs 24.05 lakh were not levied on consumers by four divisions. EDD-II, Aligarh and EDD Fatehabad levied incorrect fixed charges of Rs 10.87 lakh on rural metered consumers. The Company did not provide credit of interest on security deposit amounting to Rs 50.64 lakh.

Monitoring mechanism

The Company failed to ensure the compliance of the terms of the agreement executed with the billing agencies. As a result bills of 4.48 lakh consumers were not generated by the billing agencies in five divisions. As a result, the assessment for Rs 23.59 crore could not be done. EUDD IV and VII Agra billed the consumer for 63 units instead of actual consumption. In EUDD-V Agra, 29 consumers having arrears of Rs 31.12 lakh were deleted from the database without payment of arrear amount and duplicate billing was done in EUDD-IV Agra. Cases of high consumption in case of domestic light and fan consumers were not identified in five divisions despite the consumption ranged from 251 to 172580 units per month. There were differences in the figures shown in commercial statements and billing database. The Geographical Information System (GIS) mapping got prepared at the cost of Rs 41.91 lakh were not utilized.

Conclusion and Recommendations

The billing system outsourced by the Company did not have adequate and effective IT control regarding security features, uniform data structures, generation of bills/reports etc. The provisions of tariff orders issued by UPERC were found to be incorrectly and improperly applied in the system along with the insufficient application control and validation checks resulting in excess/short billing against the consumers. The Company should formulate and document an IT policy, disaster and business continuity plan. The compliance of tariff orders and use of uniform data structure by outsource agencies should be ensured through regular monitoring of database.

3. Performance review relating to Statutory Corporation

Performance review relating to Functioning of Uttar Pradesh State Road Transport Corporation was conducted. Executive summary of the Audit findings is given below:

Functioning of Uttar Pradesh State Road Transport Corporation

Uttar Pradesh State Road Transport Corporation (Corporation) provides public transport in the State through its 107 depots. The Corporation had fleet strength of 7710 buses as on 31 March 2009 and carried on an average 12.79 lakh passengers per day. It accounted for a share of 28.18 per cent in public transport with rest coming from private operators The performance audit of the Corporation for the period from 2004-05 to 2008-09 was conducted to assess efficiency and economy of its operation, ability to meet its financial commitments, possibility to realign the business model to tap non-conventional source of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the Corporation.

Finances and Performance

The Corporation earned profit of Rs.10.67 crore during 2008-09 without considering prior period adjustments. Its accumulated losses and borrowings stood at Rs.804.29 crore and Rs.239.17 crore respectively as on 31 March 2009. The Corporation earned Rs.15.02 per kilometre and expended Rs.14.91 per kilometre in 2008-09. Audit noticed that with a right kind of policy measure and better management of its affairs it is possible to increase revenue and reduce costs, so as to earn more profit and serve its cause better.

Declining Share

Of 27361 buses licensed for public transport in 2008-09 about 28.18 per cent belonged to the Corporation. The percentage share declined marginally from 31.33 per cent in 2007-08 to 28.18 per cent in 2008-09. The decline in share was mainly due to its operational inefficiency i.e. operation on non nationalized routes up to 39.89 per cent due to non obtaining permits although it has been given priority in allotment of permits over private operators under the Motor vehicle Act, 1988. Vehicle density (including private operators' buses) per one lakh population remained 13 during review period against the All India Average (AIA) of 35 buses, which indicated deterioration in the level of public transport in the State.

Vehicle profile and utilization

The Corporation's bus fleet includes 6831 own buses and 879 hired buses. The Corporation had no bus of eight years old at the end of 2008-09. The percentage of overage buses declined from 16.99 per cent in 2004-05 due to acquisition of 5375 new buses during 2004-09. However, according to management 1239 over aged buses were held at the end of 2008-09 needing replacement.

The Corporation's fleet utilization at 95 per cent in 2008-09 was above AIA of 92 per cent. Its vehicle productivity at 332 kilometres per day per bus was also above the AIA of 313 Kilometres. Similarly, its load factor of 65 per cent remained above the AIA of 63 per cent. However, 14 to 39 depots were under performing as regards fleet utilisation and 29 to 65 depots did not achieve Corporation's average in fuel efficiency. An effective monitoring may improve their operations. Though, the Corporation did well on operational parameter, it did not conduct route wise profitability so as to exercise the effective monitoring.

Economy in operations

Manpower and fuel expenditure constituted 73.88 per cent of total cost during 2008-09. The Corporation succeeded in reducing the manpower per bus from 6.23 in 2004-05 to 5.15 in 2008-09.

Revenue Maximisation

The Corporation had above 36.06 lakh square meter land for its operations, the space above can be developed on "public private partnership" (PPP) basis to earn steady income which can be used to cross-subsidise its operation. The Corporation has not framed any policy in this regard.

Need for a regulator

The fare per kilometre stood at 49.52 paisa since September 2005. Though the State Government approves the fare increase, there is no scientific basis for its calculation. Thus, it would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify service coverage to

different areas and address grievances of commuters.

Monitoring

An effective Management Information System (MIS) for obtaining feed back on achievement is essential for monitoring by the top management. The shortfall in operations was deliberated upon in the Board of Directors with suitable remedial action to be taken by the depot.

Conclusion and Recommendations

The Corporation has been earning profit during review period. However, there was still scope for maximisation of revenue by covering more routes and tapping non–conventional sources of revenue. This review contains eight recommendations to improve the Corporation's performance. Hiring of more buses, creating a regulator to regulate fares and services, tapping non-conventional sources of revenue by undertaking PPP projects and continuing the Chief Executive for a considerable period are some of these recommendations.

4. Transaction audit observations

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

There were seven cases of avoidable loss/expenditure amounting to Rs 6.22 crore on account of:

- failure in restricting the expenditure to the extent of grant;
- award of work at higher rates;
- omission of a vital clause in the agreement;
- failure to deduct TDS;
- failure in construction of building within stipulated period;
- acceptance of FDs at higher rates of interest;
- unwarranted change in the location of Sewerage Treatment Plant;

(Paragraphs 4.4, 4.6, 4.11, 4.18, 4.19, 4.20 and 4.21)

There were five cases of loss of revenue of Rs 9.38 crore on account of:

- unjustified waiver of dues;
- short recovery of fixed line charges;
- incorrect application of tariff;
- non-levy of penalty/demand charges.

(Paragraphs 4.5, 4.7, 4.9, 4.15 and 4.17)

There were three cases of undue favour to contractors/consumers amounting to Rs 1.14 crore on account of:

- providing uninterrupted power supply without sanction of protective load;
- withdrawal of assessment against theft of energy;
- release of payment in excess of work executed;

(Paragraphs 4.12, 4.13 and 4.22)

There were three cases of financial mismanagement amounting to Rs 2.73 crore on account of:

- non-availment of auto sweep facility/non-transfer of funds;
- non-surrender of bonds on maturity date.

(Paragraphs 4.2, 4.3 and 4.16)

Gist of some of the important paragraphs is given below:

- **Uttar Pradesh State Industrial Development Corporation Limited** suffered loss of interest of Rs. 6.54 crore due to imprudent decision for going into an appeal against the orders of Hon'ble High Court.

(Paragraph 4.1)

- **Uttar Pradesh Samaj Kalyan Nirman Nigam Limited** incurred an avoidable expenditure of Rs 35.91 lakh due to failure in restricting the expenditure to the extent of grant.

(Paragraph 4.4)

- **Dakshinanchal Vidyut Vitran Nigam Limited** suffered revenue loss Rs 7.43 crore due to incorrect application of tariff.

(Paragraph 4.9)

- **Dakshinanchal Vidyut Vitran Nigam Limited** suffered a loss of Rs 2.44 crore in release of single PTW connections from 25 KVA transformer without ensuring recoverability of cost of connections incurred in excess of the admissible subsidy.

(Paragraph 4.10)

- **Purvanchal Vidyut Vitran Nigam Limited** suffered loss of Rs 1.16 crore due to non-levy of demand charges and penalty.

(Paragraph 4.15)

- **Uttar Pradesh Financial Corporation** suffered loss of Rs. 4.13 crore due to failure to deduct and deposit the TDS payable on interest paid/credited to Bond holders.

(Paragraph 4.18)