

## OVERVIEW

### 1. Overview of State Public Sector Undertakings

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 Comptroller and Auditor General of India. These Accounts are also subject to supplementary audit conducted by Comptroller and Auditor General of India. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2014, the State of Uttar Pradesh had 87 working PSUs (80 companies and seven Statutory corporations) and 39 non-working PSUs (all companies). The working PSUs registered a turnover of ₹ 65,683.38 crore and incurred overall aggregate loss of ₹ 12,223.08 crore as per their latest finalised accounts.

(Paragraphs 1.1, 1.2, 1.5 and 1.6)

#### Investments in PSUs

As on 31 March 2014, the Investment (Capital and Long Term Loans) in 126 PSUs was ₹ 1,56,906.28 crore. It grew by 296.53 *per cent* from ₹ 52,915.82 crore in 2008-09 to ₹ 1,56,906.28 crore in 2013-14 mainly because of increase in Investment in Power Sector which accounted for 95.76 *per cent* of the total Investment in 2013-14. The Government contributed ₹ 8338.29 crore towards Equity, Loans and Grants/Subsidies to State PSUs during 2013-14.

(Paragraphs 1.7, 1.8, 1.9 and 1.11)

#### Performance of PSUs

As per the latest finalised accounts, out of 87 working PSUs, 28 PSUs earned Profit of ₹ 1,315.03 crore and 27 PSUs incurred Loss of ₹ 13,538.11 crore. Seven working PSUs had not submitted their first Accounts whereas 25 PSUs earns no profit/loss. Heavy losses were incurred by Uttar Pradesh Power Corporation Limited (₹ 3,479.32 crore), Dakshinanchal Vidyut Vitran Nigam Limited (₹ 3,364.06 crore), Purvanchal Vidyut Vitran Nigam Limited (₹ 2,532.84 crore), Paschimanchal Vidyut Vitran Nigam Limited (₹ 1,303.35 crore) and Madhyanchal Vidyut Vitran Nigam Limited (₹ 2,033 crore).

(Paragraph 1.14)

This Audit Report shows that the working PSUs in the State incurred controllable losses of ₹ 339.80 crore and made infructuous investments of ₹ 47 lakh.

(Paragraph 1.15)

#### Arrears in Accounts and winding up of Non-working PSUs

Out of 87 working PSUs, only four PSUs finalised the accounts for the year 2013-14 while 83 PSUs had arrear of 274 accounts as of September 2014 with the extent of arrears ranging from one year to 18 years. Out of 39 non-working PSUs (all companies), 13 have gone into the process of liquidation and the remaining 26 had arrear of accounts for one year to 31 years. Government needs to expedite closing down of the non-working PSUs.

(Paragraphs 1.19, 1.20 and 1.26)

#### Quality of Accounts

The quality of accounts of PSUs needs improvement. Of the 36 accounts finalised by 33 working companies during October 2013 to September 2014,

the Statutory Auditors have given qualified certificates for 33 accounts, adverse certificates for two accounts and disclaimer for one account. There were 104 instances of non-compliance with Accounting Standards. Five accounts of five Statutory corporations were finalised during October 2013 to September 2014. Of these, three accounts where Comptroller and Auditor General of India is sole auditor, qualified certificates were issued. For remaining two accounts, Statutory Auditors had given qualified certificates for one account and adverse certificate for one account.

**(Paragraphs 1.27, 1.28 and 1.30)**

## **2. Performance Audit relating to Government Companies**

### **2.1 Performance Audit on Collection and Disposal of Forest Produce by Uttar Pradesh Forest Corporation**

#### **Introduction**

Uttar Pradesh Forest Corporation (Corporation) was established in November 1974 under the Uttar Pradesh Forest Corporation Act, 1974 (Act) as local authority for better preservation, development of forest and scientific exploitation of forest produce within the State. The main activities of the Corporation comprise production/collection and disposal of forest produce (timber, firewood, *tendu* leaves, bamboo, medicinal herbs-*jari buti* and baib grass).

**(Paragraph 2.1.1)**

Audit findings pertaining to activities of the Corporation are discussed below:-

#### **Round Timber**

- The logging work of 378 to 1,177 lots were not started within the logging years. Consequently, it resulted in payment of royalty at higher rates on 3,604 un-worked lots and 2,124 lots were returned to Department during 2009-10 to 2013-14 for allotment in subsequent years.

**(Paragraph 2.1.8)**

- The Corporation adopted Quarter Girth formula for calculating volume of logs produced wherein the volume was worked out at 78.60 *per cent* of the actual volume. It further failed to ensure higher realisations due to non-fixation of separate floor prices for green and dry timber.

**(Paragraphs 2.1.9 and 2.1.10)**

- In six Divisions, the actual production fell short against the required production by 15,920 cum which resulted in loss of revenue amounting to ₹ 15.81 crore.

**(Paragraph 2.1.11)**

- The Corporation failed to realise best prices due to revision of floor prices at the rates below the increase in the average sale price over previous logging year and lost the opportunity to earn additional revenue due to delay in revision of the floor prices.

**(Paragraphs 2.1.15 and 2.1.16)**

### **Tendu Leaves**

- Payments were made to *tendu* leave collectors after one to seven months from their collection. Payment of collection charges of ₹ 91.34 lakh for 13,467 standard bags pertaining to Karwi and Renukoot Divisions for the years 2009-10 to 2013-14 were not made so far.

**(Paragraph 2.1.20)**

- The Corporation did not fix any norm for rain affected *tendu* leaves. Failure in protecting *tendu* leaves from rain and deterioration in the quality resulted in loss of ₹ 2.15 crore against 24,907 standard bags affected by rain during the years 2011-12 and 2013-14.

**(Paragraph 2.1.22)**

- Out of 20 units where *tendu* culture was done in Renukoot Division for season 2012 and 2013, the production and weight per standard bag of *tendu* leaves declined in five units each as compared to the corresponding averages for the last three years. The average weight per standard bag of the units of the Karwi Division where *tendu* culture was done remained lower than that of their respective control units in 11 out of 27 units for the seasons 2011 to 2013.

**(Paragraph 2.1.24)**

- The Corporation failed to dispose-off complete stock of *tendu* leaves during the respective years of production and suffered a loss of ₹ 4.49 crore.

**(Paragraph 2.1.26)**

- The Corporation made short payment of royalty to the State Government of ₹ 201.52 crore on *tendu* leaves during the period 2010-11 to 2013-14.

**(Paragraph 2.1.27)**

### **Internal control and monitoring**

- Internal control system of the Corporation was not effective as it failed to ensure production of logs up to the prescribed minimum girth, detect the difference in measurement of boot and bottom girth of first log, ensure maintenance of the prescribed records of production and handover of the sites to the Department after completion of felling within the stipulated time.

**(Paragraph 2.1.28)**

## **2.2 Performance Audit on the Working of Power Distribution Companies**

### **Introduction**

The business of distribution of power in Uttar Pradesh is carried out by five Power Distribution Companies (DISCOMs) i.e. Madhyanchal Vidyut Vitran Nigam Limited (MVVNL), Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL), Purvanchal Vidyut Vitran Nigam Limited (PuVVNL), Paschimanchal Vidyut Vitran Nigam Limited (PVVNL) and Kanpur Electricity Supply Company Limited (KESCO). These DISCOMs work under the functional control of Uttar Pradesh Power Corporation Limited (UPPCL) and administrative control of Energy Department, Government of Uttar Pradesh. UPPCL procures the power on behalf of the DISCOMs and make

available the power to the DISCOMs for distribution to the consumers. UPPCL could meet 75 per cent power demand in 2009-10 and 71 per cent in 2013-14.

The important audit findings in respect of three DISCOMs selected for Performance Audit are detailed below:

**Madhyanchal Vidyut Vitran Nigam Limited (MVVNL)**

- Against the required capacity addition of 4878 MVA, MVVNL planned and added transformers with a capacity of 1500 MVA and 1138 MVA respectively during 2010-14 leading to shortage of 3740 MVA (77 per cent) as of March 2014. Resultantly, the existing transformers of MVVNL were running overloaded and posing a threat to entire distribution system.

**(Paragraph 2.2.7)**

- MVVNL had incurred excess expenditure of ₹ 10.26 crore due to award of higher package rate for repair of Distribution Transformers (DTs) and made excess payment of ₹ 6.83 crore on account of VAT on repair of DTs.

**(Paragraphs 2.2.10 and 2.2.11)**

- Operational efficiencies were adversely affected due to non-conversion of Low Tension(LT) into High Tension(HT) system, non-installation of capacitor banks at the Sub Stations(SS) and allowance of excess load loss to the private repairer firms in the contracts for repair of DTs. During 2010-14, Technical and Commercial (T&C) losses exceeded the limit allowed by Uttar Pradesh Electricity Regulatory Commission (UPERC) in three years valuing at ₹ 258.20 crore.

**(Paragraph 2.2.13 to 2.2.16)**

- MVVNL did not adhere to the applicable provisions for billing resulting in short billing of the consumers by ₹ 3.04 crore.

**(Paragraph 2.2.18)**

**Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL)**

- Against the required capacity addition of 6262 MVA, DVVNL added transformers with a capacity of 2152 MVA during 2010-14 leading to shortage of 4110 MVA (66 per cent) as of March 2014. Resultantly, the existing transformers of DVVNL were running overloaded and posing a threat to entire distribution system.

**(Paragraph 2.2.27)**

- DVVNL had incurred excess expenditure of ₹ 12.62 crore due to award of underground cable laying works at higher rates, award of higher package rate for repair of DTs and made excess payment of ₹ 4.52 crore on account of Value Added Tax (VAT) on repair of DTs.

**(Paragraphs 2.2.29 to 2.2.31)**

- Operational efficiencies were adversely affected due to non-installation of capacitor banks at the SSs and allowance of excess load loss to the private repairer firms in the contracts for repair of DTs. During 2010-14, T&C losses exceeded the limit allowed by UPERC in two years valuing at ₹ 879.17 crore.

**(Paragraph 2.2.32 to 2.2.34)**

- DVVNL did not adhere to the applicable provisions for billing resulting in excess billing of consumers by ₹ 12.42 crore and short billing by ₹ 98.17 crore.

**(Paragraph 2.2.35)**

- DVVNL unduly retained subsidy of ₹ 25.58 crore and mis-utilised the subsidy of ₹ 3.38 crore received from GoI for release of connections to private tube well consumers during 2013-14 under Bundelkhand Drought Mitigation Scheme.

**(Paragraphs 2.2.41 and 2.2.42)**

### **Purvanchal Vidyut Vitran Nigam Limited (PuVVNL)**

- Against the required capacity addition of 8715 MVA, PuVVNL planned and added transformers with a capacity of 1678 MVA and 1355 MVA respectively during 2010-14 leading to shortage of 7360 MVA (84 per cent) as of March 2014. Resultantly, the existing transformers of PuVVNL were running overloaded and posing a threat to entire distribution system.

**(Paragraph 2.2.46)**

- PuVVNL had incurred excess expenditure of ₹ 3.34 crore due to award of higher package rate for repair of DTs and made excess payment of ₹ 6.13 crore on account of VAT on repair of DTs.

**(Paragraphs 2.2.48 and 2.2.49)**

- Operational efficiencies were adversely affected due to non-conversion of LT into HT system and non-installation of capacitor banks at the SSs. During 2010-14, T&C losses exceeded the limit allowed by UPERC in three years valuing at ₹ 309.46 crore.

**(Paragraph 2.2.50 to 2.2.52)**

### **3. 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 four cases of undue favour to contractor amounting to ₹ 21.60 crore.

**(Paragraphs 3.2, 3.9, 3.14 and 3.15)**

- There was one case of violation of Statutory obligations amounting to ₹ 21.93 crore.

**(Paragraph 3.3)**

**Gist of some important paragraphs is given below:**

- **Uttar Pradesh Rajkiya Nirman Nigam Limited (UPRNN)** made an excess payment of ₹ 11.84 crore to the sub-contractor due to incorrect application of cost index.

**(Paragraph 3.1.2)**

- **UPRNN** extended undue favour to contractors resulting in avoidable expenditure of ₹ 17.51 crore on procurement of transformers at higher rate.

*(Paragraph 3.2)*

- **UPRNN** failed to limit employer's contribution towards Employees' Provident Fund as prescribed in the Employees' Provident Fund Scheme, 1952 resulting in excess contribution of ₹ 21.93 crore.

*(Paragraph 3.3)*

- **U. P. Electronics Corporation Limited** suffered loss of ₹ one crore due to short levy of institutional charges and undue benefit to supplier

*(Paragraph 3.5)*

- **Purvanchal Vidyut Vitran Nigam Limited** provided undue benefit of ₹ 55 lakh to UPRNN by making additional payment of VAT on awarded rate of electrical equipments, worked out on the basis of Rural Electrification and Secondary System Planning Organisation (RESPO) rates which include Value Added Tax.

*(Paragraph 3.9)*

- **Uttar Pradesh Jal Nigam** extended undue favour to the Contractor by allowing changes in the bid submitted and subsequently reimbursed service tax and entry tax of ₹ 2.92 crore

*(Paragraph 3.14)*