OVERVIEW

This Report contains following three Chapters:

Chapter-1: General information on functioning of State Public Sector Undertakings,

Chapter-2: Performance Audit on Rajiv Gandhi Grameen Vidyutikaran Yojana (now subsumed in Deen Dayal Upadhyaya Gram Jyoti Yojana), Audit on operation of Urban Transport in Uttar Pradesh under Jawaharlal Nehru National Urban Renewal Mission, and follow-up audit of Review of the Performance of Uttar Pradesh Projects Corporation Limited.

Chapter-3: Six Compliance Audit Paragraphs on Public Sector Undertakings.

The total financial impact of the Audit findings is ₹ 1,176.51 crore.

Chapter-1: Functioning of State Public Sector Undertakings

As on 31 March 2017, there are 103 PSUs in Uttar Pradesh, of which only 51 Government companies and six Statutory corporations are working. The remaining 46 non-working PSUs are all Government companies.

Out of 103 PSUs, only 40 PSUs finalised their accounts in the last three years, and 95 PSUs had arrears in accounts ranging from 1981-82 onwards. Delays/non-preparation of accounts are fraught with risk of misrepresentation of facts, fraud and misappropriation.

As per the latest finalised accounts of these 40 PSUs, 22 PSUs[1] had earned a profit of ₹ 963.97 crore, 17 PSUs[2] had incurred loss of ₹ 19,299.56 crore and the remaining one PSU[3] had reported no profit or loss. The loss, if any, incurred by the remaining 63 PSUs (103-40) who have not finalised their accounts could not be assessed. These PSUs registered a turnover of ₹ 88,036.52 crore as per their latest finalised accounts as of 31 December 2017.

The 22 PSUs (PSUs in which the State Government has made investments) generated an average negative Return on Investment of 19 *per cent* on the investments made by the State Government. This remained well below the average cost of borrowings of 6.52 *per cent* during 2014-15 to 2016-17. Thus, the loss to the public exchequer as a result of the investment in the 22 PSUs as per their latest finalised accounts in the past three years (as on 31 December 2017) amounted to ₹ 11,920.32 crore.

(Paragraphs 1.1, 1.9 and 1.10)

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[1] 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**.

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

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

Investment in State PSUs

As on 31 March 2017, the investment (Capital and Long Term loans) in 103 PSUs was ₹ 2,39,019.94 crore. The thrust of the investment in PSUs during the last five years was in the Power sector (₹1,36,393.21 crore).

(Paragraphs 1.5 and 1.6)

Arrears in finalisation of accounts

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, under which every officer of the 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, or with both.

Out of 57 working PSUs, only seven PSUs finalised their accounts for the year 2016-17 while 50 PSUs had arrears of 192 accounts as of 31 December 2017 with the extent of arrears ranging from one to 14 years. Out of 46 non-working PSUs, 12 PSUs were in the process of liquidation and the remaining 33 PSUs (one PSU submitted accounts for the year 2016-17) had arrears of 509 accounts for one to 35 years. The State Government had extended Budgetary support (Equity, Loans, Grants and Subsidy to consumers, *etc.*) of ₹ 56,273.05 crore to 22 working PSUs whose accounts were in arrears during last three years. Out of this, the budgetary support of ₹ 20,908.98 crore was extended to 14 PSUs during the year 2016-17. 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 PSUs were required to declare dividend as per the dividend policy. However, only eight PSUs declared a dividend of ₹ 6.54 crore. The remaining 10 profit earning PSUs did not declare dividend of ₹ 507.48 crore in compliance with the State Government's policy regarding payment of minimum dividend due.

(Paragraphs 1.9, 1.10, 1.11 and 1.15)

Placement of Separate Audit Reports

Separate Audit Reports (SARs) of five to nine years of six Corporations were not placed in the State Legislature. This weakens legislative control over Statutory corporations and dilutes the latter's financial accountability. The lack of financial accountability in the Uttar Pradesh Jal Nigam (UPJN) is so serious that the CAG has refused to provide an opinion on the accounts of the UPJN for 2011-12 that was finalised during 2017-18. The State Government has provided loan 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.

(Paragraph 1.12)

Winding up of non-working PSUs

Out of 46 non-working PSUs, 12 PSUs have commenced liquidation process in the last 14 to 36 years, which are pending with the official liquidator and with the High Court, Allahabad. Further, the State Government has issued orders to initiate liquidation of 31 PSUs, but final action by the concerned authority is still pending.

(Paragraph 1.17)

Accounts Comments

The quality of accounts of companies needs improvement. The Statutory Auditors had given unqualified certificates for six accounts, qualified certificates for 40 accounts, given an adverse certificate in case of one account[4]. Statutory Auditors have also declined to give an opioin in view of serious shortcomings in respect of Uttar Pradesh Food and Essential Commodities Corporation Limited for the year 2008-09. Compliance to 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.

(Paragraph 1.18)

Follow-up action on Audit Reports

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). It was observed, however, that out of 88 audit paragraphs/performance audits, explanatory notes to 55 paragraphs/ performance audits, which were placed in the State Legislature during the last five years, were still awaited (December 2017).

(Paragraph 1.21)

Restructuring of PSUs

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 PSUs[5] 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 PSUs[6] as of March 2018.

(Paragraph 1.24)

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[4] Uttar Pradesh State Spinning Company Limited.

[5] 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.**

[6] 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 Limited.

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

A Memorandum of Understanding (MoU) was signed (January 2016) between Ministry of Power, GoI, Government of Uttar Pradesh (GoUP) and Uttar Pradesh Power Corporation Limited (UPPCL) on behalf of DISCOMs[7] for implementation of UDAY with identified financial and operational targets. While the financial targets have been achieved, the achievement of operational targets by the five DISCOMs especially in rural areas was far from satisfactory.

(Paragraph 1.25)

Summary of recommendations:

- **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; (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.**

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

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

- **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.**

- **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.**

- **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.**

- **The Finance Department should ensure that the SARs of the Statutory corporations are placed in the Legislature immediately, and no further budgetary support is extended to these corporations till this is done.**

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

[7] Madhyanchal Vidyut Vitran Nigam Limited, Purvanchal Vidyut Vitran Nigam Limited, Paschimanchal Vidyut Vitran Nigam Limited, Dakshinanchal Vidyut Vitran Nigam Limited and Kanpur Electricity Company Limited.

- **The Finance Department and the concerned administrative departments should immediately review 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 in view of the serious shortcomings in these PSUs. In particular, the Finance Department may review the working of Uttar Pradesh Jal Nigam where the CAG had declined to give an opinion on the accounts of the corporation, and Uttar Pradesh Food and Essential Commodities Corporation Limited where the Statutory Auditors had declined to give an opinion on the accounts of the Company.**

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

- **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.**

Chapter-2: Performance Audits relating to Public Sector Undertakings

2.1 Performance Audit on Rajiv Gandhi Grameen Vidyutikaran Yojana (now subsumed in Deen Dayal Upadhyaya Gram Jyoti Yojana)

Ministry of Power (MoP), Government of India (GoI) launched (March 2005) the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) under the X Five Year Plan (2002-09) with the objective of electrifying all villages and all Rural House Holds (RHHs) with access of electricity and electricity connections to Below Poverty Line (BPL) families free of cost.

GoI twice extended (February 2008/September 2013) the scope of RGGVY under Eleventh Five Year Plan (XI FYP 2007-12) and Twelfth Five Year Plan (XII FYP 2012-17) to increase coverage of habitations having the population above 300 and 100 respectively. In Uttar Pradesh, 1,21,20,231 households (36.81 *per cent*) out of total 3,29,24,216 households had access to electricity as per 2011 Census data. As against this, access to electricity has increased (March 2017) to 2,33,43,305 households.

The Performance Audit covers the formulation, approval and the implementation of the XI and XII FYP of RGGVY (Scheme) during 2012-13 to 2016-17 in the State of Uttar Pradesh.

Physical and Financial progress of the Scheme

REC sanctioned ₹ 11,697.83 crore for 86 projects in 75 districts during 2012-17. Out of 75 districts, 11 districts were covered under the XI FYP, 53 districts under the XII FYP and 11 districts under both the plans and REC has withheld (as of 31 March 2017) reimbursement of ₹ 1,197.22 crore due to negligence of the DISCOMs. Physical progress achieved under the XI and XII FYP was 79.10 and 44.47 *per cent* respectively.

(Paragraph 2.1.9)

The following are the main audit findings:

Project Planning

- The DPRs were prepared either on the basis of a doubtful or no survey due to complete dependence on PMCs data/survey. DISCOMs failed to ensure existence of the villages covered in the DPRs and correctness of the DPRs prepared by the PMCs.

(Paragraph 2.1.13)

- DISCOMs reduced the scope of the works of the sanctioned DPRs in order to limit the overall cost of the project within the sanctioned amount. Consequently, 4,24,370 households were deprived of electrification and 1,22,441 BPL households could not get connections at free of cost.

(Paragraph 2.1.15)

- Inclusion of inadmissible works/items and non-provision of received back materials in the DPRs resulted in an avoidable expenditure of ₹ 12.98 crore and excess drawal of funds of ₹ 11.99 crore from Scheme funds by DISCOMs.

(Paragraphs 2.1.14 and 2.1.17)

Project Management

- The physical progress in 19 sampled districts ranged between 22.81 *per cent* and 89.09 *per cent* even after delay of one to 20 months after the scheduled date of completion. The main reasons for delay in completion were delays in awarding works, delay in actual site survey and delay in supply of materials.

(Paragraph 2.1.22)

- The DISCOMs, without ensuring the reasonability of the quoted rates with the estimated and prevailing market rates, awarded the work to turn-key contractors at significantly higher rates, in violation of Central Vigilance Commission's guidelines, which led to extra expenditure of ₹ 537.45 crore.

(Paragraph 2.1.23)

- DISCOMs failed to deduct liquidated damages of ₹ 43.87 crore from the bills of contracting firms failing to perform the assigned works within the stipulated time.

(Paragraph 2.1.26)

- Negligence of DISCOMs in taking necessary steps in respect of obtaining full amount of Bank Guarantee (BG)/Contract Performance Guarantee (CPG) from Contractors and in encashment of BG/CPG of defaulting firm resulted in undue favour to the Contractors of ₹ 95.91 crore.

(Paragraph 2.1.29)

Financial Management

- Drawal of loan by the DISCOMs from the REC despite the availability of subsidy was indicative of poor financial management leading to avoidable burden of interest of ₹ 129.22 crore on the State exchequer.

(Paragraph 2.1.32)

- DISCOMs incurred expenditure in respect of value added tax and works contract tax of ₹ 136.88 crore from the Scheme fund and failed to claim this amount from the State Government as required.

(Paragraph 2.1.35)

- DISCOMs irregularly diverted the Scheme fund of ₹ 10.63 crore for purposes not covered under the Scheme and diverted fund of ₹ 42.42 crore from XI FYP to XII FYP and *vice-versa*.

(Paragraphs 2.1.37 and 2.1.38)

Scheme Performance

- In 19 sampled districts, DISCOMs failed to provide 29.65 lakh BPL households with electricity connections against the target of 41.21 lakh connections to BPL households.

(Paragraph 2.1.40)

- In 19 sampled districts, 19,48,218 RHHs (61 *per cent*) were electrified against the target of electrification of 31,69,925 RHHs (excluding BPLs).

(Paragraph 2.1.41)

- In 19 sampled districts, 3,29,930 energy meters installed at the premises of BPL consumers at a cost of ₹ 29.14 crore but the billing of these consumers was still being done on provisional basis without taking actual meter reading due to shortage of manpower. This defeated the purpose of installation of meters and the expenditure incurred on installation of meters proved to be unproductive.

(Paragraph 2.1.42)

Summary of Recommendations:

- **The DISCOMs should ensure inclusion of only eligible villages/habitations in DPRs.**

- **DISCOMs should adhere to the Scheme guidelines and ensure due diligence in project planning *i.e.*, preparation of DPRs.**

- **The DISCOMs should ensure the reasonableness of the rates as per the CVC guidelines when awarding the work.**

- **The Department may examine from vigilance angle the undue advantage extended to contractors by DISCOM functionaries.**

- **DISCOMs should strictly comply with the provisions of the Scheme guidelines relating to fund management.**

- **DISCOMs should ensure completion of projects within the stipulated timelines to achieve intended objectives of the Scheme to provide access of electricity to all RHHs (including BPL families).**

2.2 Audit on operation of Urban Transport in Uttar Pradesh under Jawaharlal Nehru National Urban Renewal Mission

As part of Jawaharlal Nehru National Urban Renewal Mission (scheme), the Ministry of Urban Development (MoUD), Government of India (GoI) issued guidelines (January 2009) and provided financial assistance of ₹ 217.17 crore, as a one-time measure for purchase and operation of 1,140 buses for establishing and maintaining an efficient, reliable and cost effective public transport solution in the selected seven cities of the State, to the Uttar Pradesh State Road Transport Corporation (UPSRTC) nominated (April 2009) as the Executing Agency (EA) by the Government of Uttar Pradesh (GoUP). UPSRTC constituted (February 2010 to July 2010) six Urban Transport Companies (UTCs) for operating bus services in seven cities *viz.,* Agra-Mathura City Transport Services Limited (A-MCTSL), Allahabad City Transport Services Limited (ACTSL), Kanpur City Transport Services Limited (KCTSL), Lucknow City Transport Services Limited (LCTSL), Meerut City Transport Services Limited (MCTSL) and Varanasi City Transport Services Limited (VCTSL).

(Paragraph 2.2.1)

The important audit findings are detailed below:

- GoUP constituted (June 2010) Unified Metropolitan Transport Authority (UMTA) as committee under the chairmanship of Chief Secretary of the State for oversight control and monitoring of the urban transport. Since formation, only three meetings (June 2010, October 2010 and September 2012) of UMTA were held. Consequently UTCs formed for urban transport remained unmonitored. Further, Dedicated Urban Transport Fund (DUTF) amounting to ₹ 445.67 crore made available to Directorate of Urban transport for reforms in urban transport remained un-utilised.

(Paragraphs 2.2.6 and 2.2.7)

- KCTSL did not prepare annual financial statements. A-MCTSL prepared annual financial statements from the date of commencement of business (10 April 2012) to 2015-16 and LCTSL prepared its first financial statements from January 2011 to March 2011 only. None of the UTCs submitted financial statements to CAG for supplementary audit. Delays/ non-preparation of accounts are fraught with risk of misrepresentation of facts, fraud and misappropriation.

(Paragraph 2.2.11)

- UTCs failed to monitor the operation of city buses to achieve the standards prescribed in Detailed Project Report. Further, UTCs did not prepare their own standards of the operation of city buses or adopt standards of UPSRTC for effective monitoring and control of operation of city buses.

(Paragraphs 2.2.14 and 2.2.15)

- Intelligent Transport System (ITS) was not installed in the buses of UTCs despite incurring an expenditure of ₹ 2.04 crore.

(Paragraph 2.2.17)

- Despite having their own supervisory staff in the same premises adjacent to the workshop, MDs and service managers of LCTSL and KCTSL did not inspect the maintenance of repair work by the Contractor. This led to cannibalisation of buses resulting in loss of ₹ 20.22 crore.

(Paragraph 2.2.18)

Summary of recommendations:

- **UMTA should ensure adequate oversight control and should make efforts for effective utilisation of DUTF.**

- **The Department of Urban Development should ensure that the UTCs 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.**

- **UTCs should prepare their own standards of operation or adopt UPSRTC's Standards for periodic monitoring of operation of city buses.**

- **UTCs should ensure installation of ITS on all city buses for effective monitoring.**

- **UTCs should develop MIS to ensure daily monitoring of the bus wise/job wise maintenance work done with strict follow-up of the same to prevent unauthorised cannibalisation of buses.**

2.3 Follow-up audit of Review of the performance of Uttar Pradesh Projects Corporation Limited (UPPCL)

The follow-up audit disclosed that recommendations were partly implemented by the UPPCL. The persistent shortcomings going unchecked are: violation of provisions of the Uttar Pradesh Rajkiya Nirman Nigam Working Manual, 91.66 *per cent* works were executed through sub-contractors, non adherence to the prescribed procedure for execution of works, engagement of architects and payment of architects' fees and continued to appoint architects without competitive bidding; irregular technical sanction to 434 works of ₹ 359.85 crore by officers below the rank of CGM *viz.,* PM/GM in violation of the orders of GoUP; irregular release of advances to the sub-contractors to the extent of ₹ 65.27 crore; and failure to strengthen the internal control mechanisms relating to financial management, execution of works and maintenance of necessary control records.

Chapter-3: Compliance Audit Observations

Gist of some of the important compliance audit paragraphs is given below:

- **Uttar Pradesh Avas Evam Vikas Parishad** did not realise infrastructure surcharge of ₹ 33.89 crore on sale of 20 plots in contravention to Government orders and thus, extended undue benefit to purchasers of plots.

(Paragraph 3.1)

- **Uttar Pradesh State Road Transport Corporation** extended undue benefit to contractor in recovery of dues which resulted in loss of revenue of ₹ 16.25 crore.

(Paragraph 3.2)

- **Madhyanchal Vidyut Vitran Nigam Limited and Paschimanchal Vidyut Vitran Nigam Limited** suffered a loss of ₹ 3.69 crore due to not having a system of procurement of replaceable meter boxes separate from procurement of meters.

(Paragraph 3.3)

- **Purvanchal Vidyut Vitran Nigam Limited** recovered ₹ 3.63 crore recovered from a consumer towards wrong adjustment of banked energy, at the instance of Audit.

(Paragraph 3.4)

- **Paschimanchal Vidyut Vitran Nigam Limited (PVVNL)** short charged a consumer by ₹ 1.28 crore by not adhering to the provisions of the Supply Code, 2005.

(Paragraph 3.6)