

## Overview

This Report contains the following chapters:

- Part-A : Public Sector Undertakings (PSUs)**
- Introduction :** Functioning of State Public Sector Undertakings
- Chapter-I :** Functioning of power sector undertakings
- Chapter-II :** Compliance audit observations relating to power sector Undertakings
- Chapter-III :** Functioning of State Public Sector Undertakings (other than power sector)
- Chapter-IV :** Compliance Audit Observations relating to Public Sector Undertakings (other than power sector)
- Part-B : Departments and Entities (other than Public Sector Undertakings) under the Economic Sector**
- Chapter-V :** Functioning of Departments and Entities (other than Public Sector Undertakings) under the Economic Sector, and
- Chapter-VI :** Compliance Audit Observations relating to Government Departments and Entities (other than Public Sector Undertakings) under the Economic Sector

The total financial impact of the audit findings included in this Report is ₹ 324.44 crore. Moreover, recoveries of ₹ 47.98 crore were effected in eight cases on being pointed out during the course of audit.

### Part-A: Functioning of State Public Sector Undertakings

As on 31 March 2019, Uttar Pradesh had 114 State Public Sector Undertakings (PSUs) including six Statutory Corporations and 108 Government Companies (including 46 non-functional Government companies) under the audit jurisdiction of the Comptroller and Auditor General of India. This Report covers 35 PSUs whose accounts were not in arrears for three years or more and were functional/not under liquidation. The functional PSUs covered in this Report registered an annual turnover of ₹ 71,473 crore as per their latest finalised accounts. This turnover was equal to 4.63 *per cent* of Gross State Domestic Product (GSDP) of Uttar Pradesh for the year 2018-19. There are 79 PSUs having an investment of ₹ 9,423.77 crore which are not covered in this Report.

(Paragraphs 1.1, 1.4, 3.1, 3.2 and 3.4)

### Chapter-I: Functioning of Power Sector Undertakings

Out of 15 power sector PSUs, 11 PSUs which were functional and prepared their accounts up to 2016-17 or later periods were selected for detailed financial analysis.

These 11 PSUs registered a turnover of ₹ 61,856 crore during 2018-19 as per their latest finalised accounts. This turnover was equal to 4.01 *per cent* of the Gross State Domestic Product (GSDP) of Uttar Pradesh indicating the important role played by the power sector PSUs in the economy of the State.

(Paragraphs 1.1 and 1.4)

### **Stake of Government of Uttar Pradesh (GoUP)**

As on 31 March 2019, the total investment (equity and long term loans) in 11 power sector undertakings was ₹ 1,97,352.73 crore. The investment consisted of 59.75 *per cent* towards equity and 40.25 *per cent* in long-term loans. Out of this, GoUP has investment of ₹ 1,23,483.54 crore in power sector PSUs consisting of equity of ₹ 1,17,911.72 crore and long-term loans of ₹ 5,571.82 crore.

**(Paragraphs 1.4 and 1.9)**

### ***Performance of Power Sector Undertakings***

#### **Performance of PSUs**

The overall loss incurred by 11 power sector PSUs was ₹ 14,398.96 crore in the year 2018-19 against losses of ₹ 11,143.21 crore and ₹ 13,460.89 crore incurred in the years 2016-17 and 2017-18 respectively. According to the latest finalised accounts of these PSUs, two PSUs earned profit of ₹ 126.39 crore and nine PSUs incurred loss of ₹ 14,525.35 crore including significant loss of ₹ 8,118.80 crore incurred by Uttar Pradesh Power Corporation Limited.

**(Paragraph 1.10)**

#### **Real Return on Investment on the basis of present value of investment**

The present value of investment of the State Government in 11 power sector PSUs upto 31 March 2019 worked out to ₹ 3,53,573.44 crore. During the period between 2000-01 and 2018-19, total earnings of these PSUs remained negative which indicates that instead of generating returns on the invested funds, these PSUs did not even recover the cost of funds to the Government. During 2018-19 against the minimum expected return of ₹ 21,579.60 crore on the State Government investment, these 11 power sector PSUs incurred loss of ₹ 14,398.96 crore.

**(Paragraph 1.12)**

#### **Erosion of Net worth**

As on 31 March 2019, overall accumulated loss of 11 power sector PSUs was ₹ 1,62,180.07 crore. Of these, nine PSUs which incurred losses in the year 2018-19, had accumulated loss of ₹ 1,63,356.12 crore and two profit making PSUs had accumulated profit/surplus of ₹ 1,176.05 crore. Net worth of six out of 11 PSUs had been completely eroded by accumulated losses and it stood at (-) ₹ 74,102.48 crore against equity investment of ₹ 72,338.46 crore in these PSUs as on 31 March 2019. Net worth was less than half of the paid-up capital in respect of two out of five PSUs whose net worth was positive at the end of March 2019, indicating their potential financial sickness.

**(Paragraph 1.13)**

#### **Return on Equity**

Return on Equity (ROE) in respect of 11 power sector undertakings where funds had been infused by the State Government either directly or through the holding company (UPPCL and UPRVUNL in case of their subsidiaries) could not be worked out as shareholders' fund was negative during the period from 2016-17 to 2018-19 which indicates that accumulated losses have wiped out the entire share capital.

**(Paragraph 1.15)**

### Return on Capital Employed

Return on Capital Employed (ROCE) of 11 power sector undertakings remained negative during the period 2016-17 to 2018-19 and it ranged between (-) 23.51 *per cent* and (-) 57.65 *per cent*.

(Paragraph 1.16)

### Financial Turnaround of DISCOMs under Ujwal DISCOM Assurance Yojana (UDAY)

GoUP had taken over total debt of ₹ 39,133.76 crore during the period 2015-16 and 2016-17 by providing equity of ₹ 9,783.44 crore, grant of ₹ 19,566.88 crore and loan of ₹ 9,783.44 crore as per requirement of UDAY. Besides, GoUP provided subsidy of ₹ 669 crore (5 *per cent* of the loss of 2016-17) in the year 2017-18 and ₹ 1,417 crore (10 *per cent* of the loss of 2017-18) in the year 2018-19.

However, as regards achievement of operational targets under UDAY, the performance of DISCOMs was not up to the mark in the areas of metering at distribution transformers (DTs), feeder segregation, electricity to unconnected households, smart metering and ACS-ARR gap. Further, the Aggregate Technical and Commercial (AT&C) loss of the State DISCOMs was 30.30 *per cent* by 2019-20 against the target of 14.86 *per cent*. Hence, the State DISCOMs could not achieve the most important target of reduction of AT&C loss.

(Paragraphs 1.20.3 and 1.20.4)

### Quality of accounts

The quality of accounts of power sector PSUs needs improvement. Out of 28 accounts finalised during 01 October 2018 to 31 December 2019, the Statutory Auditors gave qualified opinion on 19 accounts. There were 70 instances of non-compliance with the Accounting Standards in 16 accounts.

(Paragraph 1.21)

### Recoveries at the instance of Audit

Recoveries of ₹ 29.01 crore were effected in three cases on being pointed out during the course of audit of power sector undertakings.

(Paragraph 1.26)

## Chapter-II: Compliance Audit Observations relating to Powers Sector Undertakings

Gist of the compliance audit observations on power sector PSUs is given below:

The construction of a transmission line was poorly planned by **Uttar Pradesh Power Transmission Corporation Limited** which resulted in loss of ₹ 2.08 crore being the cost of erection and interest on borrowed funds besides blocking of funds of ₹ 4.21 crore on material procured.

(Paragraph 2.1)

**Purvanchal Vidyut Vitran Nigam Limited** suffered loss of ₹ 99.27 lakh due to non-recovery of interest-free mobilisation advance from a contractor in a time-bound manner.

(Paragraph 2.2)

### **Chapter-III: Functioning of State Public Sector Undertakings (other than Power Sector)**

As on 31 March 2019, Uttar Pradesh had 99 State Public Sector Undertakings (other than power sector) consisting of 56 functional PSUs (50 companies and six Statutory Corporations) and 43 non-functional PSUs (all companies). Of the 99 State PSUs, financial performance of 24 PSUs is covered in this report. These 24 PSUs registered a turnover of ₹ 9,617 crore during 2018-19 as per their latest finalised accounts. This turnover was equal to 0.62 *per cent* of the Gross State Domestic Product.

**(Paragraphs 3.1 and 3.2)**

#### **Stake of Government of Uttar Pradesh**

As on 31 March 2019, the total investment (equity and long-term loans) in 24 PSUs (other than power sector) covered in this report was ₹ 13,127.56 crore. The investment consisted of 40.34 *per cent* towards equity and 59.66 *per cent* in long-term loans. Out of this, GoUP has invested ₹ 4,991.35 crore in the 15 PSUs consisting of equity of ₹ 2,217.33 crore and long term loans of ₹ 2,774.02 crore.

**(Paragraphs 3.4 and 3.12)**

#### **Arrears in accounts**

Out of 56 functional PSUs, only seven PSUs had submitted their accounts for the year 2018-19 and 49 functional PSUs had arrears of 208 accounts. Out of 43 non-functional PSUs (including 12 PSUs under liquidation), one PSU (Uttar Pradesh State Yarn Company Limited) had submitted its accounts for the year 2018-19 and 40 PSUs<sup>1</sup> had arrears of 653 accounts. GoUP had provided ₹ 3,685.90 crore (Equity: ₹ 48.84 crore, Loan: ₹ 1,161.24 crore and Grant: ₹ 2,475.82 crore) in 27 of the 89 State PSUs having arrear accounts during the period for which their accounts were in arrears.

**(Paragraphs 3.8 and 3.8.1)**

#### **Performance of State PSUs (other than Power Sector)**

##### **Performance of the PSUs**

The profit of ₹ 55.62 crore earned by the 24 functional PSUs in the year 2016-17 decreased to loss of ₹ 42.48 crore in the year 2018-19. According to the latest finalised accounts of these PSUs, 15 PSUs earned profit of ₹ 374.35 crore and nine PSUs incurred losses of ₹ 416.83 crore. Out of 15 PSUs who earned profit during 2018-19, five PSUs belonged to the monopolistic sector, nine PSUs belonged to assured source of income category and one PSU belonged to the competitive sector. Thus, profits of these PSUs were mainly either due to having monopolistic advantage or having assured source of income from budgetary support, centage, commission, interest on bank deposits *etc.*

**(Paragraph 3.13)**

<sup>1</sup> This excludes two PSUs namely Uttar Pradesh (Poorva) Ganna Beej Evam Vikas Nigam Limited and Uttar Pradesh (Rohilkhand Tarai) Ganna Beej Evam Vikas Nigam Limited which were under liquidation, for which no accounts are in arrears up to the date of going into liquidation.

### **Real Return on Investment on the basis of Present Value of investment**

The present value of funds infused by the State Government in 15 PSUs (other than power sector) up to 31 March 2019 worked out to ₹ 6,657.36 crore. During the period 2000-01 to 2004-05, these PSUs suffered overall loss but during the period 2005-06 to 2009-10 earned profit which was more than the minimum expected return to recover cost of funds infused in these PSUs. However, during the years 2010-11 to 2012-13, though these PSUs earned profits, the total earnings remained below the minimum expected return to recover cost of funds infused in these PSUs during this period. From 2013-14 onwards these PSUs were again incurring losses.

**(Paragraph 3.15)**

### **Return on Equity (ROE)**

The net income and shareholders' funds both were negative in case of PSUs in competitive environment sector, hence their ROE could not be worked out. In case of PSUs in monopolistic environment sector, ROE was negative during 2016-17 and 2018-19 despite their monopolistic advantage while in case of PSUs with assured source of income, ROE was positive during the period 2016-17 to 2018-19.

**(Paragraph 3.16)**

### **Return on Capital Employed**

ROCE of 24 PSUs (other than power sector) decreased from 1.60 *per cent* during 2016-17 to 0.51 *per cent* during 2018-19 due to significant increase in capital employed in Uttar Pradesh Metro Rail Corporation Limited (₹ 3,783.00 crore) and Noida Metro Rail Corporation Limited (₹ 998.51 crore) during 2017-18 and 2018-19. ROCE of two PSUs in the competitive environment sector was negative during 2016-17 to 2018-19 as Earnings before Interest and Tax (EBIT) was negative in all the three years.

**(Paragraph 3.17)**

### **Erosion of Net worth**

As on 31 March 2019, out of the 24 PSUs, there were 12 PSUs with accumulated losses of ₹ 3,057.98 crore. Of these 12 PSUs, eight PSUs incurred losses in the year 2018-19 amounting to ₹ 416.38 crore. These included one PSU (Uttar Pradesh State Spinning Company Limited) in the competitive sector which incurred loss of ₹ 11.69 crore during the year. Further, four PSUs had not incurred loss in the year 2018-19, though they had an accumulated loss of ₹ 1,410.99 crore.

Net worth of seven PSUs including both the PSUs in the competitive sector had been completely eroded by accumulated loss and their net worth was (-) ₹ 1,686.44 crore against an equity investment of ₹ 1,162.17 crore as on 31 March 2019.

**(Paragraph 3.19)**

### **Dividend Payout**

During the period 2016-17 to 2018-19, the number of PSUs running in profits which declared/paid dividend to GoUP ranged from none to seven. The dividend payout ratio increased from 2.87 *per cent* in 2016-17 to 4.73 *per cent* in 2017-18. However, no dividend was declared/paid by any profit earning PSU during 2018-19.

**(Paragraph 3.20)**

### **Quality of accounts**

The quality of accounts of PSUs needs improvement. Out of 35 accounts finalised during the period 1 October 2018 to 31 December 2019 by the functional PSUs, the Statutory Auditors had issued qualified certificates on 15 accounts and in case of accounts of Uttar Pradesh Pichhara Varg Vitta Evam Vikas Nigam Limited, the Statutory Auditors had given adverse opinion for three years viz. 2012-13, 2013-14 and 2014-15. There were 80 instances of non-compliance with Accounting Standards in 18 accounts. The CAG had also issued adverse certificate on three accounts namely Uttar Pradesh Rajkiya Nirman Nigam Limited for the financial year 2013-14, Uttar Pradesh State Bridge Corporation Limited for the financial year 2015-16 and Allahabad City Transport Services Limited for the financial year 2015-16.

**(Paragraph 3.24)**

### **Chapter-IV: Compliance Audit Observations relating to State PSUs (other than Power Sector)**

Gist of the compliance audit observations on other than power sector PSUs is given below:

**Uttar Pradesh Rajkiya Nirman Nigam Limited** failed to comply with its own order for sale of surplus earth, which resulted in avoidable expenditure of ₹ 3.14 crore on disposal of surplus earth which was ultimately borne by GoUP besides depriving the State exchequer of revenue amounting to ₹ 1.41 crore.

**(Paragraph 4.1)**

Due to improper accounting system **Uttar Pradesh State Bridge Corporation Limited** failed to correctly assess its income and advance tax liability resulting in avoidable payment of penal interest of ₹ 3.59 crore.

**(Paragraph 4.2)**

**Uttar Pradesh State Bridge Corporation Limited** suffered loss of ₹ 2.20 crore due to extension of undue favour in award and execution of work to a contractor.

**(Paragraph 4.3)**

**Uttar Pradesh Jal Nigam** made avoidable payment of electricity charges of ₹ 3.54 crore due to verification of incorrect electricity bills and excess contracted load.

**(Paragraph 4.4)**

### **Part-B: Departments and Entities (other than Public Sector Undertakings) under Economic Sector**

### **Chapter-V: Functioning of Departments and Entities (other than Public Sector Undertakings) under Economic Sector**

Eighteen departments of Government of Uttar Pradesh fall under the Economic Sector. The trend of expenditure of five major departments under the Economic Sector during 2016-17 to 2018-19 is given in the following **Table**.

**Table: Trend of Expenditure of major departments under the Economic Sector**

Department	₹ in crore)		
	2016-17	2017-18	2018-19
Energy	33,976.69	17,265.50 <sup>2</sup>	31,270.17 <sup>3</sup>
Infrastructure and Industrial Development Department	6,296.11	1,740.56 <sup>4</sup>	4,114.53 <sup>5</sup>
Housing and Urban Planning	2,888.06	723.39 <sup>6</sup>	983.69 <sup>7</sup>
Revenue (Except Collectorate)	2,721.56	2,987.80	3,051.80
Forest	1,231.72	808.21 <sup>8</sup>	811.33

Source: Appropriation Accounts of respective years.

(Paragraph 5.2)

### Recoveries at the instance of Audit

Recoveries of ₹ 18.97 crore were effected in five cases on being pointed out during the course of audit of departments/entities.

(Paragraph 5.7)

## Chapter-VI: Compliance Audit Observations relating to Departments and Entities (other than Public Sector Undertakings) under Economic Sector

Gist of the compliance audit observations relating to departments and entities (other than PSUs) under the Economic Sector is given below:

Failure of the State Government in constituting the State Electricity Regulatory Commission Fund resulted in receipts of ₹ 102.01 crore of the **Uttar Pradesh Electricity Regulatory Commission** being kept out of Government account.

(Paragraph 6.1)

The **Housing and Urban Planning Department's** decision to allow higher Floor Area Ratio retrospectively to Hi-tech Township Developers without levy of any charges led to undue benefit of ₹ 170.99 crore to the developer.

(Paragraph 6.2)

**Lucknow Development Authority** had to pay interest of ₹ 2.40 crore due to failure to incorporate standard clause in the contracts for deduction of security deposit.

(Paragraph 6.3)

<sup>2</sup> Reduction in expenditure during 2017-18 was mainly due to decrease in power subsidy, capital expenditure and loans for power projects.

<sup>3</sup> Increase in expenditure during 2018-19 was mainly due to increase in expenditure on interest paid, electricity (aid to public sector and other undertakings and other expenses), capital expenditure on electricity projects and loans for electricity projects.

<sup>4</sup> Reduction in expenditure during 2017-18 was mainly due to decrease in capital expenditure on roads and bridges.

<sup>5</sup> Increase in expenditure during 2018-19 was mainly due to increase in expenditure on telecommunication and electronic industries, other expenses and capital expenditure on roads and bridges.

<sup>6</sup> Reduction in expenditure during 2017-18 was mainly due to decrease in expenditure on urban development, other general economic services, capital expenditure on education, sports, arts & culture, housing and urban development and decrease in loans for urban development.

<sup>7</sup> Increase in expenditure during 2018-19 was mainly due to increase in capital expenditure on urban development.

<sup>8</sup> Reduction in expenditure during 2017-18 was mainly due to decrease in capital expenditure on forestry and wildlife.

**Lucknow Development Authority** executed extra item of pile work at a higher rate resulting in undue benefit to the contractor to the extent of ₹ 1.41 crore.

**(Paragraph 6.4)**

**Meerut Development Authority** incurred infructuous expenditure of ₹ 2.94 crore on a plot valuing ₹ 5.36 crore on construction of a residential house for its Vice Chairman in violation of the norms of the State Government.

**(Paragraph 6.5)**

**Ghaziabad Development Authority** granted undue favour to a developer by non-recovery of administrative charges of ₹ 2.51 crore.

**(Paragraph 6.6)**

The **Forest and Wildlife Department** failed to levy and realise premium and lease rent amounting to ₹ 22.53 crore on transfer of forest land for non-forest use.

**(Paragraph 6.7)**

Lack of due diligence by **Greater Noida Industrial Development Authority** in preparing cost analysis led to award of two sweeping contracts at higher rates resulting in extra expenditure of ₹ 1.60 crore which will further increase to ₹ 3.04 crore till the completion of the contract.

**(Paragraph 6.8)**

**Greater Noida Industrial Development Authority** recovered ₹ 1.10 crore from a contractor after being pointed out by Audit.

**(Paragraph 6.9)**