

## **CHAPTER - V**

# **State Public Sector Enterprises**



## CHAPTER-V

### STATE PUBLIC SECTOR ENTERPRISES

This chapter discusses the financial performance of Government Companies, Statutory Corporations and Government Controlled Other Companies (GCOCs). Impact of significant comments issued as a result of supplementary audit of the Financial Statements of these State Public Sector Enterprises (SPSEs) conducted by the Comptroller and Auditor General (CAG) of India for the year 2022-23 (or of earlier years which were finalised during the current year) has also been discussed.

#### 5.1 Definition of Government Companies

A Government Company is defined in Section 2(45) of the Companies Act, 2013 as a company in which not less than 51 *per cent* of the paid-up share capital is held by 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 of a Government Company.

Besides, any other company<sup>32</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.

#### 5.2 Mandate of Audit

Audit of Government Companies and Government Controlled Other Companies is conducted by the CAG of India under the provisions of Section 143(5) to 143(7) of the Companies Act, 2013 read with Section 19 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 and the Regulations made thereunder. Under the Companies Act, 2013, the CAG appoints the Chartered Accountants as Statutory Auditors for Companies and gives directions on the manner in which the accounts are to be audited. In addition, CAG has the right to conduct a supplementary audit of the company's financial statements. The statutes governing some Statutory Corporations require their accounts to be audited only by the CAG.

#### 5.3 SPSEs and their contributions to the GSDP of the State

SPSEs consist of State Government Companies and Statutory Corporations. SPSEs 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 2023, there were 113 SPSEs in Uttar Pradesh, including six Statutory Corporations, 86 Government Companies (including 41 inactive

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<sup>32</sup> Companies (Removal of Difficulties) Seventh Order, 2014 issued by Ministry of Corporate Affairs *vide* Gazette Notification dated 4 September 2014.

Government Companies<sup>33</sup>) and 21 Government Controlled Other Companies<sup>34</sup> (GCOCs) under the audit jurisdiction of the CAG. The list of these SPSEs are given in *Appendix 5.1*. The nature of SPSEs in Uttar Pradesh and their position of accounts are indicated in table 5.1 below:

**Table 5.1: Nature of SPSEs in Uttar Pradesh**

Nature of SPSEs	Total Number	Number of SPSEs of which accounts submitted upto 30 <sup>th</sup> September 2023		
		Number of SPSEs submitted accounts for the year 2022-23	Number of SPSEs submitted accounts for the year 2021-22	Number of SPSEs submitted accounts for the year 2020-21 and previous years <sup>35</sup>
Working Government Companies <sup>36</sup>	66	10	15	41
Statutory Corporations	6	0	2	4
<b>Total working SPSEs</b>	<b>72</b>	<b>10</b>	<b>17</b>	<b>45</b>
Inactive Government Companies	41	0	1	40
<b>Total</b>	<b>113</b>	<b>10</b>	<b>18</b>	<b>85</b>

Source: As per latest finalised accounts submitted by SPSEs.

### ***Inactive SPSEs***

There are 41 inactive SPSEs (including 13 under liquidation) in the State. As per the latest available financial statements and information provided by these companies, these inactive SPSEs<sup>37</sup> have investment of ₹ 1,107.52 crore, towards capital ₹ 832.08 crore (State Government: ₹ 291.67 crore and Others: ₹ 540.41 crore) and long-term loans ₹ 275.44 crore (State Government: ₹ 223.35 crore and Others: ₹ 52.09 crore). This is a critical area as the investments in inactive SPSEs do not contribute to the economic growth of the State.

### ***Working SPSEs***

A ratio of turnover of the SPSEs to the Gross State Domestic Product (GSDP) shows the extent of activities of the SPSEs in the State economy. The details of turnover of 72 working SPSEs are given in *Appendix 5.2*. Turnover of working SPSEs and GSDP for a period of three years ending 31 March 2023 are given in **Table 5.2**.

<sup>33</sup> Inactive SPSEs are those which have ceased to carry out their operations.

<sup>34</sup> At serial number 48 to 66, 101 and 113 of *Appendix-5.1*.

<sup>35</sup> Four SPSEs did not submit their first accounts (Lucknow City Transport Services Limited, Agra Mathura City Transport Services Limited, Varanasi City Transport Services Limited and Uttar Pradesh Rajya Krishi Evam Gramin Vikas Nigam Limited).

<sup>36</sup> Government SPSEs include Government controlled other Companies referred to in Section 139(5) and 139(7) of the Companies Act 2013.

<sup>37</sup> Excluding 13 SPSEs under liquidation.

Table 5.2: Details of turnover of SPSEs vis-à-vis GSDP of Uttar Pradesh

(₹ in crore)

Particulars	2020-21	2021-22	2022-23
<b>Turnover</b>			
Power Sector SPSEs	67,007.04	69,529.64	77,053.32
Other than Power	15,946.86	16,325.46	15,643.41
<b>Total</b>	<b>82,953.90</b>	<b>85,855.10</b>	<b>92,696.73</b>
<b>GSDP of Uttar Pradesh</b>	<b>16,45,317</b>	<b>19,74,532</b>	<b>22,57,575</b>
<b>Percentage of Turnover to GSDP of Uttar Pradesh</b>			
Power Sector SPSEs	4.07	3.52	3.41
Other than Power	0.97	0.83	0.69
<b>Total</b>	<b>5.04</b>	<b>4.35</b>	<b>4.10</b>

Source: Compilation based on Turnover figures as per latest finalised accounts of SPSEs and GSDP figures as per data of MOSPI, Government of India.

The contribution of SPSEs to the GSDP of Uttar Pradesh reduced from 5.04 per cent in 2020-21 to 4.10 per cent in 2022-23. The contribution of Power Sector SPSEs to the GSDP was 3.41 per cent while SPSEs of Other than Power Sector contributed 0.69 per cent in the year 2022-23.

Other than Power Sector SPSEs contribution to the GSDP though was minimal (from 0.97 in 2020-21 to 0.69 per cent in 2022-23).

#### 5.4 Investment in SPSEs and Budgetary Support

##### 5.4.1 Equity holding and Loans in SPSEs

The sector wise Total Equity, Equity Contribution by State Government and Long- Term Loans including the loans given by State Government in 72 working SPSEs as on 31 March 2023 is given below in Table 5.3.

Table-5.3: Sector-wise investment in SPSEs

Particulars	Investment (₹ in crore)					Percentage of Total Equity and Long-Term Loans
	Total Equity	State Government Equity	Total Long-Term Loans	State Government Loans	Total Equity and Long-Term Loans	
<b>Power Sector SPSEs</b>	256815.30	157818.01	71931.98	64.65	328747.28	88.55
<b>Other than Power Sector SPSEs</b>	25673.50	11451.23	16821.20	4949.91	42494.70	11.45
<b>Total</b>	<b>282488.80</b>	<b>169269.24</b>	<b>88753.18</b>	<b>5014.56</b>	<b>371241.98</b>	<b>100.00</b>

Source: Information provided by the SPSEs

As on 31 March 2023, State Government had investment of ₹ 1,74,283.80 crore (Equity ₹ 1,69,269.24 crore and long-term loan ₹ 5,014.56 crore) in these SPSEs. The thrust of SPSEs investment was mainly on power sector SPSEs which had received as much as 88.55 per cent (₹ 3,28,747.28 crore) of total investment of ₹ 3,71,241.98 crore as on

31 March 2023. The State Government share was 46.95 per cent of total investment of ₹ 3,71,241.98 crore.

In addition, as per information furnished by SPSEs and their finalised accounts for the year 2022-23 ₹ 6,676.49 crore of Grants (20 SPSEs), ₹ 25,449.11 crore subsidies<sup>38</sup> (9 SPSEs) and ₹ 13.91 crore loan (2 SPSEs) was provided to these SPSEs by GoUP during the period 2022-23.

#### 5.4.2 Market Capitalisation of equity investment in SPSEs

Market Capitalisation represents market value of shares of companies which are listed. As on 31 March 2023, shares of SPSEs of Uttar Pradesh was not listed on the Bombay Stock Exchange/National Stock Exchange in India.

#### 5.4.3 Disinvestment, Restructuring and Privatisation

During the year 2022-23, one inactive SPSE (Southern-UP Power Transmission Company Limited) was struck off (May 2022) from the register of companies by the office of Registrar of Companies, Ministry of Corporate Affairs and the company was dissolved. There was no other case of disinvestment, restructuring and privatisation of SPSEs.

#### 5.5 Returns from SPSEs

##### 5.5.1 Profit earned by SPSEs

As per the latest finalized financial statements furnished by SPSEs upto 30 September 2023, the number of SPSEs that earned profit was 39 in 2022-23 as compared to 37 in 2021-22. The profit earned increase to ₹ 2,169.50 crore in 2022-23 from ₹ 1,315.53 crore in 2021-22.

The top six SPSEs which contributed maximum profit during 2022-23 are summarised in Table 5.4.

Table 5.4: Top six SPSEs which contributed maximum profit

Name of SPSE	Period of latest finalised account	Net profit after tax (₹ in crore)	Percentage of profit to total profit of SPSEs
1. Paschimanchal Vidyut Vitaran Nigam Limited	2022-23	991.67	45.71
2. Uttar Pradesh Jal Vidyut Nigam Limited	2021-22	275.88	12.72
3. Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited	2021-22	235.66	10.86
4. Uttar Pradesh State Warehousing Corporation	2020-21	165.53	7.63
5. Uttar Pradesh Awam Vikas Parishad	2021-22	144.68	6.67
6. Uttar Pradesh Rajkiya Nirman Nigam Limited	2014-15	120.38	5.55
<b>Total</b>		<b>1933.80</b>	<b>89.14</b>

Source: Latest Financial Statements of SPSEs.

<sup>38</sup> This included ₹ 8,007.72 crore booked as grants-in-aid as detailed in Paragraph 4.4.3.

These six SPSEs alone had contributed as much as 89.14 *per cent* of the total profit (₹ 2,169.50 crore) earned by 39 SPSEs during 2022-23.

Net profit ratio<sup>39</sup> of SPSEs is depicted in **Table 5.5**.

**Table 5.5: Net Profit Ratio of SPSEs**

Sector	Net Profit (₹ in crore)	Turnover (₹ in crore)	Net profit Ratio (in <i>per cent</i> )
Power Sector SPSEs	(-)30128.46	77053.32	(-)39.10
Other than Power	(-)131.94	15643.41	(-)0.84
<b>Total</b>	<b>(-)30260.40</b>	<b>92696.73</b>	<b>(-)32.64</b>

### 5.5.2 Dividend paid by SPSEs

The State Government had formulated (October 2002) a dividend policy under which SPSEs running in profit are required to pay a minimum dividend of five *per cent* on the share capital contributed by the State Government. Three profit making SPSEs submitted their accounts for the year 2022-23. Out of three profit making SPSEs, two SPSEs<sup>40</sup> having accumulated losses and one SPSE<sup>41</sup> did not declare dividend during 2022-23.

## 5.6 Debt Servicing

### 5.6.1 Interest Coverage Ratio

Interest coverage ratio is used to determine the ability of a company to pay interest on outstanding debt and is calculated by dividing a company's earnings before interest and taxes (EBIT) by interest expenses of the same period. The lower the ratio, the lesser is the ability of the company to pay interest on debt. An interest coverage ratio of below one indicates that the company was not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio in workings SPSEs which had interest burden, as per latest finalised accounts, are given below in **Table 5.6**.

<sup>39</sup> Net Profit/Turnover\*100.

<sup>40</sup> Paschimanchal Vidyut Vitaran Nigam Limited and Kanpur Electricity Supply Company Limited.

<sup>41</sup> Uttar Pradesh Export Promotion Council.

**Table 5.6: Interest coverage ratio of SPSEs**

Year	Particulars	Interest (₹ in crore)	Earnings before interest and tax (EBIT) (₹ in crore)	Number of SPSEs having liability of loans from Government, and other financial institutions	Number of companies having interest coverage ratio equal to or more than one	Number of companies having interest coverage ratio less than one <sup>42</sup>
2020-21	Power Sector SPSEs	10277.64	21.55	10	4	5
	Other than Power	275.16	-118.80	29	8	9
	<b>Total</b>	<b>10552.80</b>	<b>-97.25</b>	<b>39</b>	<b>12</b>	<b>14</b>
2021-22	Power Sector SPSEs	12647.24	6233.69	10	3	6
	Other than Power	277.21	48.80	28	8	9
	<b>Total</b>	<b>12924.45</b>	<b>6282.49</b>	<b>38</b>	<b>11</b>	<b>15</b>
2022-23	Power Sector SPSEs	12167.05	-3265.83	10	5	4
	Other than Power	212.44	-152.88	28	8	8
	<b>Total</b>	<b>12379.49</b>	<b>-3418.71</b>	<b>38</b>	<b>13</b>	<b>12</b>

Source: Latest Financial Statement of SPSEs.

From the latest financial statement of SPSEs, it was observed that five SPSEs pertaining to Power Sector which had the liability of loans, had interest coverage ratio of more than or equal one during 2022-23. However, in case of SPSEs of Other than Power, which have the liability of loans, only eight SPSEs had interest coverage ratio of more than or equal one and eight SPSEs had interest coverage ratio of less than one. Thus, these SPSEs having less than one interest coverage ratio were not generating sufficient revenues to meet their expenses on interest.

## 5.7 Financial performance of SPSEs

### 5.7.1 Return on Capital Employed

Return on Capital Employed (RoCE) is a ratio that measures a company's profitability and the efficiency with which its capital is employed. RoCE is calculated by dividing a company's earnings before interest and taxes (EBIT) by the capital employed<sup>43</sup>. The details of RoCE during the period from 2020-21 to 2022-23 are given below in **Table 5.7**.

<sup>42</sup> Interest coverage ratio of the remaining 13 companies have not been calculated as the interest liability is nil during this period despite having outstanding loan.

<sup>43</sup> Capital Employed = Paid up Share capital + Free Reserves and surplus + Long term loans – Accumulated Loss-Deferred Revenue Expenditure.



Table-5.7: Return on Capital Employed

Year	Particulars	EBIT (₹ in crore)	Capital Employed (₹ in crore)	RoCE (in per cent)
2020-21	Power Sector SPSEs	17400.25	<b>101343.76</b>	17.17
	Other than Power	356.58	<b>29073.01</b>	1.23
	<b>Total</b>	<b>17756.83</b>	<b>130416.77</b>	<b>13.62</b>
2021-22	Power Sector SPSEs	-2071.60	98088.99	-2.11
	Other than Power	517.60	34904.86	1.48
	<b>Total</b>	<b>-1554.00</b>	132993.85	<b>-1.17</b>
2022-23	Power Sector SPSEs	-17838.09	75433.18	-23.65
	Other than Power	286.36	36425.97	0.79
	<b>Total</b>	<b>-17551.73</b>	<b>111859.15</b>	<b>-15.69</b>

Source: Latest Financial Statement of working SPSEs.

It was observed that RoCE was positive during 2020-21 for both Power Sector and Other than Power SPSEs. However, the RoCE for Power Sector reduced and became negative in 2021-22 and 2022-23 as compared to 2020-21 due to EBIT in negative.

### 5.7.2 Return on Equity by SPSEs

Return on Equity (RoE) is a measure of financial performance to assess how effectively a company's assets are being used to create profits. RoE is calculated by dividing net income (*i.e.*, net profit after taxes) by shareholders' fund. It is expressed as a percentage and can be calculated for any company if net income and shareholders' funds are both positive numbers.

Shareholders' fund is calculated by adding paid up capital and free reserves minus net of accumulated losses and deferred revenue expenditure and reveals how much would be left for a company's shareholders if all assets were sold and all debts paid. A positive shareholder's fund reveals that the company has enough assets to cover its liabilities while negative shareholder equity means liabilities exceed assets.

The Return on Equity<sup>44</sup> (RoE) of the profit earning 39 working SPSEs stood at 6.64 *per cent* in 2022-23. The overall RoE in 72 working SPSEs including loss making SPSEs was negative in 2022-23.

The details of Shareholders' Fund and RoE relating to working SPSEs are given below in **Table 5.8**.

<sup>44</sup> Return on equity = (Net Profit after Tax / Shareholder's Equity) X 100 where Shareholder's equity = paid up capital + free reserves - net of accumulated losses - deferred revenue expenditure.

**Table-5.8: Return on Equity relating to SPSEs**

Year	Particulars	Net Income (₹ in crore)	Shareholders' Fund (₹ in crore)	ROE (Percentage)
2020-21	Power Sector SPSEs	6985.41	74143.10	9.42
	Other than Power	-118.01	15059.08	-
	<b>Total</b>	<b>6867.40</b>	<b>89202.18</b>	<b>7.70</b>
2021-22	Power Sector SPSEs	-14842.16	79672.94	-
	Other than Power	34.53	17884.13	0.19
	<b>Total</b>	<b>-14807.63</b>	<b>97557.07</b>	<b>-</b>
2022-23	Power Sector SPSEs	-30128.46	66880.18	-
	Other than Power	-131.94	19293.13	-
	<b>Total</b>	<b>-30260.40</b>	<b>86173.31</b>	<b>-</b>

Source: As per latest finalised accounts of SPSEs.

During 2021-22 and 2022-23, RoE could not be calculated as the net income of all SPSEs taken together was negative.

### 5.7.3 SPSEs incurring losses

#### 5.7.3.1 Losses incurred

There were 27 working SPSEs that incurred losses as per latest finalised accounts as of 30 September 2023. The losses incurred by working SPSEs increased to ₹ 32,429.90 crore, as per their latest finalised accounts, from ₹ 11,366.55 crore in 2020-21 due to loss incurring Power Sector SPSEs, as detailed in **Table 5.9**.

**Table-5.9: Number of SPSEs that incurred losses during 2020-21 to 2022-23**

Year	Particulars	No of loss making SPSEs	Net loss for the year	Accumulated loss	Net Worth <sup>45</sup>
2020-21	Power Sector SPSEs	9	-10569.28	-66215.88	77022.22
	Other than Power	23	-797.27	-5062.70	5215.41
	<b>Total</b>	<b>32</b>	<b>-11366.55</b>	<b>-71278.58</b>	<b>82237.63</b>
2021-22	Power Sector SPSEs	9	-15354.12	-161218.71	-32812.35
	Other than Power	20	-769.04	-4943.07	3193.76
	<b>Total</b>	<b>29</b>	<b>-16123.16</b>	<b>-166161.78</b>	<b>-29618.59</b>
2022-23	Power Sector SPSEs	7	-31632.60	-166029.29	-47581.10
	Other than Power	20	-797.30	-6067.42	4353.49
	<b>Total</b>	<b>27</b>	<b>-32429.90</b>	<b>-172096.71</b>	<b>-43227.63</b>

Source: As per latest finalised accounts of SPSEs

<sup>45</sup> Net worth means the sum total of the paid-up share capital and free reserves and surplus less accumulated loss and deferred revenue expenditure. Free reserves mean all reserves created out of profits but do not include reserves created out of revaluation of assets and write back of depreciation provision.

In 2022-23, out of total loss of ₹ 32,429.90 crore incurred by 27 SPSEs having State Government's equity investment of ₹ 1,42,768.81 crore, loss of ₹ 31,632.46 crore (97.54 per cent) was attributed mainly to five<sup>46</sup> Power Sector SPSEs having State Government's equity investment of ₹ 1,35,759.57 crore.

#### 5.7.4 Erosion of Capital in SPSEs

As per latest finalised Financial Statement, as of 30 September 2023, there were 34 SPSEs with accumulated losses of ₹ 1,95,724.15 crore. Of these, 24 SPSEs incurred losses amounting to ₹ 32,427.27 crore (*Appendix 5.2*).

The net worth of 15 SPSEs<sup>47</sup> out of these 34 SPSEs had been completely eroded by accumulated losses and their net worth was either zero or negative. The net worth of these 15 SPSEs was (-) ₹ 77,811.31 crore against equity investment of ₹ 1,46,516.94 crore as on 31 March 2023. Out of 15 SPSEs, whose capital had eroded<sup>48</sup>, four SPSE had earned profit during 2022-23. Out of 15, there were 10 SPSEs with outstanding loans of ₹20,547.97 crore as on 31 March 2023 as detailed in **Table 5.10**.

**Table 5.10: Details of SPSEs whose net worth has eroded as per their latest finalised accounts**

(₹ in crore)

Sl. No.	Name of SPSEs	Latest year of accounts	Total Paid up Capital	Net Profit (+)/ Loss(-) after Dividend, Interest and Tax	(-) Accumulated Loss/+Free reserve	Net worth	State Government Equity as on 31 March 2023	State Government Loan as on 31 March 2023
1	Dakshinanchal Vidyut Vitaran Nigam Limited	2022-23	23988.47	-5073.77	-30049.98	-6061.51	Nil	Nil
2	Kanpur Electricity Supply Company Limited	2022-23	2431.28	0.51	-4186.93	-1755.65	Nil	Nil
3	Uttar Pradesh Power Corporation Limited	2022-23	119625.63	-14572.24	-95139.33	-68546.27 <sup>49</sup>	119625.63	Nil
4	UCM Coal Company Limited	2021-22	0.16	-0.12	-2.33	-2.17	Nil	Nil
5	UPSIDC Power Company Limited	2013-14	0.05	-0.02	-0.25	-0.20	Nil	Nil
6	The Pradeshiya Industrial and Investment Corporation of UP Limited	2020-21	135.58	4.29	-376.75	-241.17	110.58	995.41
7	Allahabad City Transport Services Limited	2019-20	4.91	-10.90	-16.48	-11.57	Nil	Nil
8	Uttar Pradesh Drugs and Pharmaceuticals Limited	2009-10	1.10	-9.21	-26.59	-25.49	1.10	Nil

<sup>46</sup> Uttar Pradesh Power Transmission Corporation Limited: (-) ₹ 556.26 crore (2021-22), Uttar Pradesh Power Corporation Limited: (-) ₹ 14,572.24 (2022-23), Madhyanchal Vidyut Vitaran Nigam Limited: (-) ₹ 4,892.19 crore (2022-23), Dakshinanchal Vidyut Vitaran Nigam Limited: (-) ₹ 5,073.77 crore (2022-23) and Purvanchal Vidyut Vitaran Nigam Limited: (-) ₹ 6,610.27 crore (2022-23).

<sup>47</sup> Net worth of two SPSEs has been excluded as Uttar Pradesh Jal Nigam did not have capital and Noida International Airport Limited has positive net worth in 2022-23 due to infusion of equity of ₹ 8,825.47 crore during 2022-23.

<sup>48</sup> These SPSEs are not able to meet establishment expenditure as well as other liabilities through their own source of income till support from government.

<sup>49</sup> ₹ 93,032.57 crore has been excluded for calculation of net worth in Uttar Pradesh Power Corporation Limited due to investment made in their subsidiaries companies.

Sl. No.	Name of SPSEs	Latest year of accounts	Total Paid up Capital	Net Profit (+)/ Loss(-) after Dividend, Interest and Tax	(-) Accumulated Loss/+Free reserve	Net worth	State Government Equity as on 31 March 2023	State Government Loan as on 31 March 2023
9	Uttar Pradesh Handicraft & Marketing Development Corporation Limited(Formerly Uttar Pradesh Export Corporation Limited)	2008-09	7.24	-1.90	-24.65	-17.41	6.34	10.59
10	Kanpur City Transport Services Limited	2017-18	0.67	-11.48	-7.41	-6.74	0.05	Nil
11	Uttar Pradesh Madhya Ganna Beej Evam Vikas Nigam Limited	2017-18	0.26	0.04	-0.76	-0.50	0.15	Nil
12	Uttar Pradesh State Handloom Corporation Limited	2000-01	47.07	-8.80	-84.93	-37.86	36.45	159.49
13	Uttar Pradesh State Spinning Company Limited	2018-19	93.24	-5.65	-274.49	-181.25	93.24	151.08
14	Aligarh Smart City Limited	2022-23	2.00	-40.91	-206.41	-204.41	0.25	Nil
15	Uttar Pradesh Financial Corporation	2012-13	179.28	17.38	-898.39	-719.11	114.51	345.94
<b>Total</b>			<b>146516.94</b>	<b>- 19712.78</b>	<b>-131295.68</b>	<b>-77811.31</b>	<b>119988.30</b>	<b>1662.51</b>

Source: As per latest finalised accounts of SPSEs

### **5.8 Audit of SPSEs**

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. CAG has a right to conduct a supplementary audit and issue comments upon or supplement the Audit Report of the statutory auditor. Statutes governing some Corporations require that their accounts be audited by the CAG and a report be submitted to the Legislature.

### **5.9 Appointment of statutory auditors of SPSEs by the CAG**

Sections 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 180 days from the commencement of the financial year.

The statutory auditors for the audit of SPSEs were appointed by the CAG.

### **5.10 Submission of accounts by SPSEs**

#### **5.10.1 Need for timely submission**

According to Section 394 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<sup>50</sup> (AGM). As soon as may be after such

<sup>50</sup> In case of the first AGM, it shall be held within a period of nine months from the date of closing of the first financial year of the company and in any other case within a period of six months, from the date of closing of the financial year, i.e., 30 September.

preparation, the Annual Report must be laid before Legislature, together with a copy of the Audit Report and comments of the CAG upon or as supplement to the Audit Report. 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 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 and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statements for the financial year have to be placed in the said AGM for their consideration.

Section 129 (7) of the Companies Act, 2013 also 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.

The annual accounts of various SPSEs were pending as on 30 September 2023, as detailed in the following paragraph.

#### **5.10.2 Timeliness in preparation of accounts by SPSEs**

As of 31 March 2023, there were 107 SPSEs<sup>51</sup> under the purview of CAG's audit. Of these, accounts for the year 2022-23 were due from 94 SPSEs excluding 13 under liquidation. However, only 10 SPSEs submitted their accounts for the year 2022-23 for audit by CAG by 30 September 2023. 1028 Accounts of 95 SPSEs were in arrears, as detailed in *Appendix 5.3*. Details of arrears in submission of accounts of SPSEs are given in **Table 5.12**.

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<sup>51</sup> Excluding six Statutory Corporations discussed in paragraph 5.10.3.

**Table 5.12: Details of arrears in submission of accounts**

Particulars		SPSEs	Number of Accounts
Total number of Companies under the purview of CAG's audit as on 31.03.2023		107	--
Less: New Companies from which accounts for 2022-23 were not due		0	0
Number of companies from which accounts for 2022-23 were due excluding 13 companies under liquidation		94	98 <sup>52</sup>
Number of companies which presented the accounts for the year 2022-23 for CAG audit by 30 September 2023		10	11 <sup>53</sup>
<b>Number of companies accounts in arrears including 13 companies under liquidation</b>		<b>95</b>	<b>1028</b>
Break- up of Arrears	(i) Working	56	305
	(ii) Inactive	28	603
	(iii) Under Liquidation	11 <sup>54</sup>	120
Age-wise analysis of arrears against 'Working' category	One year (2022-23)	15	16
	Two years (2021-22 and 2022-23)	07	16
	Three years and more	34	273

### 5.10.3 Timeliness in preparation of accounts by Statutory Corporations

Audit of six statutory corporations is conducted by the CAG and out of these, for four<sup>55</sup> Statutory Corporations, CAG is the sole auditor. No Statutory Corporations presented the accounts for the year 2022-23 for audit before 30 September 2023. As on 30 September 2023, 19 accounts of six Statutory Corporations were pending as detailed in *Appendix 5.3*.

## 5.11 CAG's oversight-Audit of accounts and supplementary audit

### 5.11.1 Financial Reporting Framework

Companies are required to prepare the Financial Statements in the format laid down in Schedule III to the Companies Act, 2013 and in adherence to the mandatory Accounting Standards prescribed by the Central Government, in consultation with National Advisory Committee on Accounting Standards renamed as National Financial Reporting Authority<sup>56</sup>. Statutory Corporations are required to prepare their accounts in the format prescribed under the rules framed in consultation with the CAG and any other specific provision relating to accounts in the Act governing such Corporations.

<sup>52</sup> Consolidated Financial Statements of Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited, Uttar Pradesh State Sugar Corporation Limited, Uttar Pradesh Electronics Corporation Limited and Uttar Pradesh Power Corporation Limited for the year 2022-23.

<sup>53</sup> Consolidated Financial Statements of Uttar Pradesh Power Corporation Limited for the year 2022-23.

<sup>54</sup> Two SPSEs (Uttar Pradesh (Poorva) Ganna Beej Evam Vikas Nigam Limited and Uttar Pradesh (Rohilkhand Tarai) Ganna Beej Evam Vikash Nigam Limited) have submitted their accounts upto the date going under liquidation.

<sup>55</sup> Uttar Pradesh Forest Corporation, Uttar Pradesh State Road Transport Corporation, Uttar Pradesh Jal Nigam, Uttar Pradesh Awasth Evam Vikas Parishad.

<sup>56</sup> Effective from 01 October 2018.

### **5.11.2 Audit of accounts of Government Companies by Statutory Auditors**

The statutory auditors appointed by the CAG under Section 139 of the Companies Act, 2013, conduct audit of accounts of the Government Companies and submit their report thereon in accordance with Section 143 of the Companies Act, 2013.

The CAG plays an oversight role by monitoring the performance of the statutory auditors in audit of public sector enterprises with the overall objective that the statutory auditors discharge the functions assigned to them properly and effectively. This function is discharged by exercising the power to:

- issue directions to the statutory auditors under Section 143 (5) of the Companies Act, 2013; and
- supplement or comment upon the statutory auditor's report under Section 143 (6) of the Companies Act, 2013.

### **5.11.3 Supplementary Audit of accounts of Government Companies**

The primary responsibility for preparation of Financial Statements in accordance with the financial reporting framework prescribed under the Companies Act, 2013 or other relevant Act is of the management of an entity.

The statutory auditors appointed by the CAG under section 139 of the Companies Act, 2013 are responsible for expressing an opinion on the Financial Statements under section 143 of the Companies Act, 2013 based on an independent audit in accordance with the Standard Auditing Practices of Institute of Chartered Accountants of India and directions given by the CAG. The statutory auditors are required to submit the Audit Report to the CAG under Section 143 of the Companies Act, 2013.

The certified accounts of selected Government Companies along with the report of the statutory auditors are reviewed by the CAG by carrying out a supplementary audit. Based on such review, significant audit observations, if any, are reported under Section 143 (6) of the Companies Act, 2013 to be placed before the AGM.

## **5.12 Result of CAG's oversight role**

### **5.12.1 Audit of accounts of SPSEs**

Sixty six Financial Statements<sup>57</sup> for the year 2022-23<sup>58</sup> and previous years<sup>59</sup> were received from 47 SPSEs from 1 October 2022 to 30 September 2023. Seventy-five<sup>60</sup> Financial Statements of 49 SPSEs were reviewed in audit by the CAG and Non-Review Certificate was issued for the 13 accounts of six SPSEs.

### **5.12.2 Amendment of Financial Statements**

During 2022-23, there is no case of SPSEs amending their Financial Statements before laying the same in the AGM.

### **5.12.3 Revision of Auditors' Report**

During 2022-23, there is one case of revision of statutory auditors' report as a result of supplementary audit of the Financial Statements conducted by the CAG.

## **5.13 Follow up action on State Finances Audit Report**

State Finances Audit Report is being prepared from the year 2008-09 onwards and presented to State Legislature. The Public Accounts Committee is yet to discuss these reports.

## **5.14 Conclusion**

As on 31 March 2023, there were 113 SPSEs including six Statutory Corporations. Out of 107 SPSEs, there are 41 inactive SPSEs (including 13 SPSEs under liquidation). SPSEs did not adhere to the prescribed timeline regarding submission of their Financial Statements. There were 1,047 accounts of 101 SPSEs in arrears.

As per latest finalised financial statements, out of the total profit of ₹ 2,169.50 crore earned by 39 SPSEs, profit of ₹ 1,933.80 crore (89.14 *per cent*) was contributed by six SPSEs. Also there were 34 SPSEs with accumulated losses of ₹ 1,95,724.15 crore. Of these, 24 SPSEs incurred losses amounting to ₹ 32,427.27 crore. Net-worth of 15 SPSEs had been completely eroded due to accumulated losses as per their latest finalised accounts.

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<sup>57</sup> Including Consolidated Financial Statement (CFS) of Uttar Pradesh Power Corporation Limited for the year 2022-23.

<sup>58</sup> 11 Financial Statements for the year 2022-23 (including one CFS) from 10 SPSEs were received.

<sup>59</sup> Fifty five Financial Statements received, were for the year 2021-22 and prior to that.

<sup>60</sup> Including four CFS of different SPSEs.



**5.15 Recommendations:**

18. *The administrative departments should strictly monitor and issue necessary directions to liquidate the arrears in accounts of the SPSEs and take necessary steps to resolve the constraints in preparing the accounts of SPSEs.*
19. *State Government may review the status of inactive SPSEs which have closed their operation and take policy decision regarding commencement of liquidation process in respect of inactive SPSEs.*
20. *State Government may analyse the reason for losses in those SPSEs whose net worth had been fully eroded and take decision about continuance of operation of these SPSEs.*

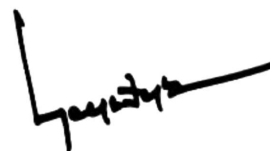
Lucknow  
The **21 June 2024**



(TANYA SINGH)  
Accountant General (Audit-II),  
Uttar Pradesh

Countersigned

New Delhi  
The **27 JUN 2024**



(GIRISH CHANDRA MURMU)  
Comptroller and Auditor General of India