

Overview

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About this Report

This Report presents an analysis of the financial performance of State Public Sector Enterprises (SPSEs) in Uttar Pradesh, the oversight role of the Comptroller and Auditor General (CAG) in relation to SPSEs, the state of corporate governance in SPSEs, the implementation of Indian Accounting Standards (Ind AS) by SPSEs, and the status of implementation of Corporate Social Responsibility by SPSEs. Besides, the significant results of the performance audit on the working of Uttar Pradesh Rajkiya Nirman Nigam Limited (UPRNN) and the compliance audits of SPSEs for the period ended March 2023 have also been presented in this Report.

The contents of this Report have been arranged under seven chapters, which are as follows:

- Chapter-I** : Financial Performance of State Public Sector Enterprises
- Chapter-II** : Oversight Role of the CAG
- Chapter-III** : Corporate Governance
- Chapter-IV** : Transition to Indian Accounting Standards and the impact of their adoption on State Public Sector Enterprises
- Chapter-V** : Corporate Social Responsibility
- Chapter-VI** : Performance Audit on the working of Uttar Pradesh Rajkiya Nirman Nigam Limited
- Chapter-VII** : Compliance Audit observations relating to State Public Sector Enterprises

Chapter-I: Financial Performance of State Public Sector Enterprises

As on 31 March 2023, there were 113 SPSEs under the audit jurisdiction of the CAG in Uttar Pradesh. Out of the 113 SPSEs, 86 were Government Companies, 21 were Government Controlled Other Companies, and six were Statutory Corporations. Further, out of the 113 SPSEs, 72 were functional and 41 were inactive (including 13 under liquidation). Of the 72 functional SPSEs, four had not submitted their first financial statements; these SPSEs were 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.

(Paragraphs 1.1 and 1.4)

Of the 68 functional SPSEs (excluding four SPSEs that had not submitted their first financial statements), 39 SPSEs had earned profits of ₹ 2,169.50 crore, while 27 SPSEs had incurred losses amounting to ₹ 32,393.08 crore, and two SPSEs reported no profit or loss, as per their latest finalised financial statements. While the top five profit-making SPSEs were Pashchimanchal Vidyut Vitran Nigam Limited, Uttar Pradesh Jal Vidyut Nigam Limited, Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited, Uttar Pradesh State Warehousing Corporation, and Uttar Pradesh Avas Evam Vikas Parishad, the top five loss-making SPSEs were Uttar Pradesh Power Corporation Limited, Purvanchal Vidyut Vitran Nigam Limited, Dakshinanchal Vidyut Vitran Nigam Limited, Madhyanchal

Vidyut Vitran Nigam Limited, and Uttar Pradesh Power Transmission Corporation Limited.

(Paragraphs 1.4, 1.26 and 1.27)

The turnover (₹ 92,696.60 crore) of the 68 functional SPSEs (excluding four SPSEs that had not submitted their first financial statements), as per their latest finalised financial statements, was 4.10 *per cent* of the Gross State Domestic Product of Uttar Pradesh for the year 2022-23 (₹ 22,57,575 crore).

(Paragraph 1.5)

As on 31 March 2023, the total investment in the 72 functional SPSEs was ₹ 4,12,768.89 crore (Equity: ₹ 2,82,529.29 crore and Long-term loans: ₹ 1,30,239.60 crore), of which the Government of Uttar Pradesh (GoUP) contributed ₹ 1,74,333.04 crore (Equity: ₹ 1,69,318.48 crore and Long-term loans: ₹ 5,014.56 crore), which accounted for 42 *per cent* of the total investment.

(Paragraph 1.7)

Apart from investing in equity and providing long-term loans to the SPSEs, GoUP also provides financial support to the SPSEs in the form of grants and subsidies through annual budgets, as well as guarantees to SPSEs seeking financial assistance from banks and financial institutions. The budgetary support by GoUP to SPSEs in the form of grants and subsidies increased from ₹ 23,439.82 crore in 2021-22 to ₹ 28,318.69 crore in 2022-23; and the outstanding guarantee commitments at the end of the year also increased from ₹ 37,387.30 crore as on 31 March 2022 to ₹ 46,641.91 crore as on 31 March 2023.

(Paragraph 1.10)

Of the 25 SPSEs that had outstanding loans and finance costs, as per their latest finalised financial statements, 13 SPSEs had an interest coverage ratio of more than one, indicating adequate earnings to meet their interest obligation. However, 12 SPSEs had an interest coverage ratio of less than one, which indicates that these SPSEs could not generate sufficient income to pay off their interest liability.

(Paragraph 1.15)

Of the 38 SPSEs, 36 SPSEs had total assets exceeding their outstanding long-term loans, indicating a relatively stronger asset position in relation to their debt obligations. However, two SPSEs, *viz.*, Uttar Pradesh State Spinning Company Limited and Uttar Pradesh (Madhya) Ganna Beej Evam Vikas Nigam Limited, had total assets less than the outstanding long-term loans.

(Paragraph 1.16)

Of the 38 SPSEs that had loan liability, as per their latest finalised financial statements, six SPSEs had defaulted in servicing their debt.

(Paragraph 1.17)

Of the 68 functional SPSEs (excluding four SPSEs that had not submitted their first financial statements), 56 SPSEs had a current ratio of more than one at the year-end, indicating they had sufficient short-term assets to cover their short-term obligations. However, 12 SPSEs had a current ratio of less than one, which indicates that these SPSEs did not have sufficient short-term assets to meet their short-term obligations.

(Paragraph 1.19)

Of the 52 functional SPSEs that had positive shareholders' fund, 34 SPSEs had a positive Return on Equity (ROE), 16 SPSEs had a negative ROE, and two SPSEs had a 'Nil' ROE.

(Paragraph 1.21)

Analysis of the net worth of the 68 SPSEs, as per their latest finalised financial statements, indicated that the net worth of 16 SPSEs had completely eroded. The paid-up capital, and free reserves and surplus of these SPSEs were ₹ 26,891.32 crore, while the accumulated losses and deferred revenue expenditure stood at ₹ 37,979.25 crore.

(Paragraph 1.22)

Of the 59 functional SPSEs that had positive capital employed, as per their latest finalised financial statements, 41 SPSEs had a positive Return on Capital Employed (ROCE), 16 SPSEs had a negative ROCE, and two SPSEs had 'Nil' ROCE.

(Paragraph 1.23)

Chapter-II: Oversight Role of CAG

Of the 113 SPSEs under the audit jurisdiction of the CAG in Uttar Pradesh, only 10 SPSEs had submitted their financial statements for the year 2022-23 to the CAG up to 30 September 2023. Further, two SPSEs under liquidation had submitted their financial statements up to the date of going under liquidation. As on 30 September 2023, 324 annual accounts of 62 functional SPSEs, 603 annual accounts of 28 inactive SPSEs (excluding SPSEs under liquidation), and 120 annual accounts of 11 SPSEs under liquidation were in arrears for a period ranging between one and 41 years.

(Paragraph 2.3)

CAG conducted supplementary audit of 76 financial statements of 47 SPSEs (31 Government Companies, 12 Government Controlled other Companies and four Statutory Corporations) and issued comments/ Separate Audit Reports (SARs) thereon during the period from October 2022 to September 2023. The impact of some significant comments issued on the financial statements of SPSEs was ₹ 4,686.28 crore on profitability and ₹ 10,375.62 crore on financial position. The CAG also pointed out cases of non-compliance with Ind AS/AS in 32 financial statements of 22 SPSEs. In addition, the CAG issued 25 'Management Letters' to 18 SPSEs.

(Paragraphs 2.5 and 2.7 to 2.9)

As per the provisions of the respective Acts governing the Statutory Corporations, Separate Audit Reports (SARs) issued by the CAG on their accounts are to be laid before the State Legislature. Of the six Statutory Corporations, only two Statutory Corporations had placed all SARs issued by the CAG in the State Legislature. The remaining four Statutory Corporations had not placed 19 SARs (ranging between three and six years) issued by the CAG in the State Legislature, thereby not complying with the statutory requirements.

(Paragraph 2.10)

Chapter-III: Corporate Governance

Of the 32 SPSEs that were required to have at least two independent directors on their Boards, 26 SPSEs did not have any independent directors on their Boards, and two SPSEs had only one independent director on their Boards. Among the six SPSEs that had appointed independent directors, their attendance in Board meetings ranged between 50 and 80 *per cent*.

(Paragraphs 3.6 and 3.17)

Of the 31 SPSEs that were required to have at least one woman director on their Boards, 16 SPSEs had at least one woman director on their Board of Directors during the year 2022-23, whereas five SPSEs had a woman director for a part of the year, and 10 SPSEs had no woman director on their Board of Directors throughout the year.

(Paragraph 3.7)

Of the 66 functional SPSEs (excluding six Statutory Corporations), 35 SPSEs did not conduct the requisite four meetings of their Board of Directors during the year 2022-23. Further, in the case of five SPSEs, the intervening period between two meetings of the Board of Directors ranged between 134 and 178 days, exceeding the prescribed time limit of 120 days

(Paragraph 3.8)

Of the 32 SPSEs that were required to have an Audit Committee, 21 SPSEs constituted the Audit Committee during the year 2022-23. Of these 21 SPSEs, the composition of the Audit Committee in 18 SPSEs was not as per the provisions of the Companies Act, 2013.

(Paragraph 3.10)

Of the 32 SPSEs that were required to have a Nomination and Remuneration Committee (NRC) during the year 2022-23, 28 SPSEs did not have an NRC.

(Paragraph 3.11)

Out of the 66 functional SPSEs, six SPSEs were required to constitute a CSR Committee. All six SPSEs complied with this requirement during the year 2022-23. In addition, three other SPSEs voluntarily established the CSR Committee despite not being mandated to do so.

(Paragraph 3.12)

Of the 36 SPSEs that were required to appoint whole-time Key Managerial Personnel (KMPs), 21 SPSEs had appointed whole-time KMPs during the year 2022-23.

(Paragraph 3.20)

Of the 38 SPSEs that were required to appoint an internal auditor for the year 2022-23, 30 SPSEs appointed an internal auditor for the year 2022-23. Of these, in 28 SPSEs, internal audit was conducted by Chartered Accountant/Cost Accountant firms, while in two SPSEs, it was carried out by their respective internal audit wing.

(Paragraph 3.22)

Chapter-IV: Transition to Indian Accounting Standards and the impact of their adoption on State Public Sector Enterprises

Of the 107 SPSEs (excluding six statutory corporations), 26 SPSEs had adopted Indian Accounting Standards (Ind AS). Out of these 26 SPSEs, one SPSE had adopted Ind AS from its first financial statements.

(Paragraph 4.3)

Five SPSEs did not comply with the prescribed timelines for mandatory adoption of Ind AS, which not only constituted a violation of regulatory requirements but also hindered the alignment of financial reporting with internationally recognised standards.

(Paragraph 4.6)

Of the 25 SPSEs that had adopted Ind AS (excluding one SPSE that had adopted Ind AS from its first financial statements), 19 SPSEs did not prepare the required reconciliation statements in their first Ind AS-compliant financial statements.

(Paragraph 4.7)

The impact of the adoption of Ind AS on profit after tax, revenues, total assets, and net worth of the 25 SPSEs that adopted Ind AS (excluding one SPSE that had adopted Ind AS from its first financial statements) was as follows:

- There was no impact on the Profit after Tax (PAT) of 15 SPSEs. In the remaining 10 SPSEs, there was a total net impact of ₹ 162.58 crore on PAT, ranging from (-) ₹ 132.03 crore to ₹ 244.23 crore.
- There was no impact on the revenue from operations of 19 SPSEs. In the remaining six SPSEs, there was a total net impact of (-) ₹ 35.70 crore, ranging from (-) ₹ 40.07 crore to ₹ 3.30 crore.
- There was no impact on the value of total assets of 19 SPSEs. In the remaining six SPSEs, there was a total net impact of ₹ 1,879.31 crore on the value of total assets, ranging from (-) ₹ 1,064.12 crore to ₹ 8.55 crore.
- There was no impact on the net worth of 14 SPSEs. In the remaining 11 SPSEs, 10 SPSEs experienced a decrease in net worth by ₹ 244.33 crore, while one SPSE registered an increase of ₹ 150.85 crore, indicating a total net impact of (-) ₹ 93.48 crore.

(Paragraph 4.8)

Chapter-V: Corporate Social Responsibility

Out of the 66 functional SPSEs (excluding six Statutory Corporations), nine SPSEs were mandated to spend ₹ 8.75 crore on CSR activities during the respective succeeding financial year. Of these nine SPSEs, three SPSEs allocated and spent ₹ 4.44 crore against the required minimum amount of ₹ 4.14 crore. The remaining six SPSEs neither allocated nor spent any amount on CSR activities, against the required amount of ₹ 4.61 crore.

(Paragraph 5.3)

While most SPSEs fulfilled their basic obligation of forming CSR Committees and formulating CSR policies, lapses were observed in several other critical aspects of CSR governance. None of the four SPSEs required to formulate

Annual Action Plans had done so. CSR Committee meetings were irregular, and the disclosure of CSR-related information remained inadequate.

(Paragraphs 5.5 to 5.7, 5.14 and 5.15)

Chapter-VI: Performance Audit on the Working of Uttar Pradesh Rajkiya Nirman Nigam Limited

The Performance Audit on the Working of Uttar Pradesh Rajkiya Nirman Nigam Limited (Company) was conducted to assess whether it had an effective and efficient financial management system; planned and executed its operations economically, efficiently, and effectively conforming with the objectives of the Company and in accordance with prescribed procedures and rules; and maintained adequate internal controls and monitoring mechanisms.

(Paragraph 6.5)

The Company, incorporated on 1 May 1975 as a State-owned construction undertaking with a view to undertake civil engineering works, is managed by a 10-member Board of Directors (BoD), including a Chairman and a Managing Director. The overall men in position ranged from 53 *per cent* to 66 *per cent* of the total sanctioned strength during the period from 2018-19 to 2022-23.

(Paragraphs 6.1 to 6.3)

Financial Management

The main source of funds for the Company is the amount received from clients against deposit works. The Company carried out the works for the years 2019-20 to 2021-22 in the absence of an appropriate budget, which affected the Company's ability to effectively monitor progress and exercise budgetary control.

(Paragraphs 6.11.1 and 6.11.2)

The Company, in the case of 99 works out of 1,003 works completed during the period 2018-19 to 2022-23, incurred expenditure of ₹ 65.80 crore in excess of funds received. Further, during the same period, the Company closed accounts of 33 completed deposit works. Of these, the Company, in the case of 22 works, did not refund the unspent balance of ₹ 1.65 crore to the concerned Departments of GoUP.

(Paragraphs 6.11.3 and 6.11.4)

GoUP directed (May 2015) the departments and SPSEs to deposit interest earned on funds released by it in the Treasury. However, the Company did not deposit an amount of ₹ 641.45 crore, being interest earned on funds released by the Government, into the Treasury. Further, the Company accounted for ₹ 7.47 crore, recovered as interest on mobilisation advances from contractors, as its own income, rather than crediting the amount to the Government's account and remitting it to the Treasury, as required.

(Paragraphs 6.11.5 and 6.11.6)

Operational Planning

During the period 2018-19 to 2022-23, the Company obtained 1,192 cost-plus centage/deposit works valuing ₹ 7,550.91 crore on nomination basis, and secured 24 construction and 57 project management consultancy (PMC) works

valuing ₹ 2,814.04 crore and ₹ 1,953.06 crore, respectively, through tenders. Audit observed that though the number of deposit/cost plus centage works assigned to the Company increased from 209 in 2018-19 to 275 in 2022-23, the sanctioned cost thereof dropped significantly from ₹ 2,956 crore in 2018-19 to ₹ 777.93 crore in 2022-23, indicating that the Company was being entrusted with low ticket size works. Notably, GoUP withdrew the award of deposit works above ₹ 50 crore on nomination basis to the Company in December 2019.

(Paragraph 6.12.1)

Out of 14 disqualified tenders examined in detail, the Company was disqualified in seven cases due to insufficient document submission, and in seven other tenders, the clients disqualified the Company on account of blacklisting by the Infrastructure Committee of Subordinate Judiciary. The Company was the lowest bidder in six rejected tenders valuing ₹ 1,354.11 crore.

(Paragraph 6.12.2)

Detailed examination of 57 deposit/cost plus centage works valuing ₹ 3,939.08 crore indicated that the Company commenced 34 works valuing ₹ 2,058.35 crore before obtaining Technical Sanction. Further, the Company commenced construction on 12 works without obtaining the requisite environmental clearance.

(Paragraphs 6.12.4 and 6.12.5)

Execution of Operations

In five works, the Unit In-charges, in deviation from the Company's established procedures, issued 52 work orders aggregating ₹ 1,047.67 crore for complete items of work, without obtaining the required authorisation from the Managing Director and without intimating the Board of Directors. Besides, instead of inviting open tenders, all 52 work orders were issued by the Unit In-charges after inviting quotations from empanelled contractors.

(Paragraph 6.13.2)

The Company, in three works, released advances amounting to ₹ 20.40 crore to three sub-contractors for providing financial assistance without obtaining any bank guarantee/security. Further, the Company also released advances of ₹ 18.47 crore to six sub-contractors against materials supplied without entering into a formal agreement to secure a lien on the materials, and of ₹ 245.71 crore to 14 sub-contractors against work done but not measured, without quantification of work done and certification from the Company's engineer.

(Paragraph 6.13.4)

In three works, the Company short recovered interest on mobilisation advance amounting to ₹ 4.97 crore from the sub-contractors. Further, the Company did not deduct the Workers' Welfare Cess amounting to ₹ 2.03 crore from the bills of the contractors.

(Paragraphs 6.13.5 and 6.13.7)

The Company, in violation of the provisions of the agreement, did not deduct the payment of ₹ 2.81 crore made by it to the Project Management Consultant from the bills of the contractor.

(Paragraph 6.13.8)

The Company incurred an excess expenditure of ₹ 89.21 lakh due to awarding the work of excavation (hard rock without blasting) at higher rates. Besides, an excess payment of ₹ 1.83 crore was made to the contractor due to irregular payment towards the cost of centering and shuttering, which was already subsumed in the cost of reinforced cement concrete items.

(Paragraph 6.13.9)

The Company executed dewatering work valuing ₹ 12.86 crore without obtaining formal written approval from the New Okhla Industrial Development Authority (NOIDA) regarding the estimated quantum of work to be executed in terms of quantity/duration, resulting in stalling of its claim.

(Paragraph 6.13.11)

The Company increased the quantity of existing items of work and included new items of work without informing the administrative department, resulting in denial of centage amounting to ₹ 9.42 crore by the Expenditure Finance Committee.

(Paragraph 6.13.12)

Internal Controls and Monitoring

The financial statements of the Company were in arrears for seven years (2016-17 to 2022-23), and annual reports were not laid before the State Legislature since 2000-01.

(Paragraphs 6.14.1 and 6.14.2)

There was a significant unreconciled debit balance of ₹ 316.87 crore on account of inter-unit transactions. Further, the Company could not obtain certificates for UPVAT deducted at source by the clients, amounting to ₹ 176.83 crore.

(Paragraphs 6.14.3 and 6.14.4)

The Company did not have any independent directors on its Board of Directors during the period 2018-19 to 2022-23. Besides, it did not constitute an Audit Committee or a Nomination and Remuneration Committee.

(Paragraphs 6.14.5 and 6.14.6)

The Company had to bear an additional burden of ₹ 165.72 crore due to financial irregularities in 137 deposit works. Further, in the case of seven works, payments of ₹ 31.72 crore were made without actual execution of work.

(Paragraphs 6.14.10 and 6.14.11)

Recommendations

- **The Company may maintain a centralised repository of frequently required documents and establish a rigorous internal review process for all bids to ensure full compliance with tender requirements before submission.**
- **The Company may develop and implement a comprehensive action plan to address the issue of blacklisting.**
- **The Company may execute additional works only after obtaining prior written approval from the client.**

- The Company may devise a time-bound plan to clear the backlog of seven years' financial statements (2016-17 to 2022-23). Further, the Company may establish a financial reporting mechanism to oversee the timely preparation of accounts, audit, and adoption of annual financial statements.
- The Company may prioritise investigating and resolving the ₹ 316.87 crore net debit balance through comprehensive reconciliation procedures.

Chapter-VII: Compliance Audit observations relating to State Public Sector Enterprises

In January 2021, **DMIC Integrated Industrial Township Greater Noida Limited** (Company) awarded a contract worth ₹ 70.87 crore to the L-1 consortium for the supply, implementation, integration, operations, and maintenance of smart city information and communication technology components at the Integrated Industrial Township, Greater Noida. However, in June 2021, the Company cancelled the award after discovering that the consortium had misrepresented material facts in their submitted affidavit, and returned (August 2021) the bank guarantee of ₹ two crore towards Earnest Money Deposit (EMD). Audit observed that the return of the EMD, in case of the cancellation of the contract due to misrepresentation of facts, was in violation of the terms and conditions stipulated in the bid documents.

(Paragraph 7.1)

Uttar Pradesh State Road Transport Corporation did not publish the tender notice in local newspapers, which led to the cancellation of the tender. In the subsequent tendering process, the Corporation did not receive bids comparable to those in the first tender and ultimately had to award the contract at lower rates. This led to a revenue loss of ₹ 2.15 crore for the Corporation.

(Paragraph 7.2)

