

## CHAPTER-I

### Overview of Government companies and Statutory corporations

#### Introduction

**1.1** As on 31 March 2005, there were 87 Government companies (48 working companies and 39 non-working companies<sup>1</sup>) and seven working Statutory corporations under the control of the State Government, as against 89 Government companies (48 working companies and 41 non-working companies) and seven working Statutory corporations as on 31 March 2004. According to information received during the year 2004-05, one subsidiary<sup>2</sup> of a Central Government Company became a State Government Company (working) as the share capital was taken over by the Government, two subsidiaries<sup>3</sup> (non-working) merged with their holding companies and affairs of one Company<sup>4</sup> (non-working) under liquidation were finally dissolved and one working Government company<sup>5</sup> became non-working company. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956. The audit arrangements of Statutory corporations are as shown below:

| Sl. No. | Name of the corporation   | Authority for audit by the CAG  | Audit arrangement   |
|---------|---|---|---|
| 1.      | Uttar Pradesh State Road Transport Corporation                      | Section 33(2) of the Road Transport Corporations Act, 1950  | sole audit by CAG   |
| 2.      | Uttar Pradesh State Financial Corporation                           | Section 37(6) of the State Financial Corporations Act, 1951   | audit by Chartered Accountants and supplementary audit by CAG |
| 3.      | Uttar Pradesh State Warehousing Corporation                         | Section 31(8) of the State Warehousing Corporations Act, 1962   | audit by Chartered Accountants and supplementary audit by CAG |
| 4.      | Uttar Pradesh Avas Evam Vikas Parishad                              | Section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 | sole audit by CAG   |
| 5.      | Uttar Pradesh Jal Nigam   | Section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 | sole audit by CAG   |
| 6.      | Uttar Pradesh Forest Corporation                                    | Section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 | audit by CAG <sup>6</sup>                                     |
| 7.      | Uttar Pradesh Government Employees Welfare Corporation <sup>7</sup> | Section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 | audit by Chartered Accountants and supplementary audit by CAG |

The State Government had formed Uttar Pradesh Electricity Regulatory Commission and its audit is entrusted to the CAG under Section 104 (2) of the Electricity Act, 2003<sup>8</sup>.

<sup>1</sup> Non-working companies are those that are in the process of liquidation/closure/merger, etc.

<sup>2</sup> Uttar Pradesh Drugs and Pharmaceuticals Limited.

<sup>3</sup> The Turpentine Subsidiary Industries Limited and Handloom Intensive Development Project (Bijnore) Limited.

<sup>4</sup> Indian Bobbin Company Limited.

<sup>5</sup> Uttar Pradesh (Rohelkhand-Tarai) Ganna Beej Evam Vikas Nigam Limited.

<sup>6</sup> Audit is also being conducted by Examiner, Local Fund Account as the amendment in the Act is still awaited.

<sup>7</sup> Audit of annual account for the year 1998-99 is under progress. The Separate Audit Report of the CAG is not to be placed in the State Legislature in the absence of any specific provision in the rules of the Corporation, which is registered under the Societies Registration Act, 1860.

<sup>8</sup> Erstwhile Section 34 (4) of the Electricity Regulatory Commission Act, 1998 repealed by the Electricity Act, 2003.

**Working Public Sector Undertakings (PSUs)**

**Investment in working PSUs**

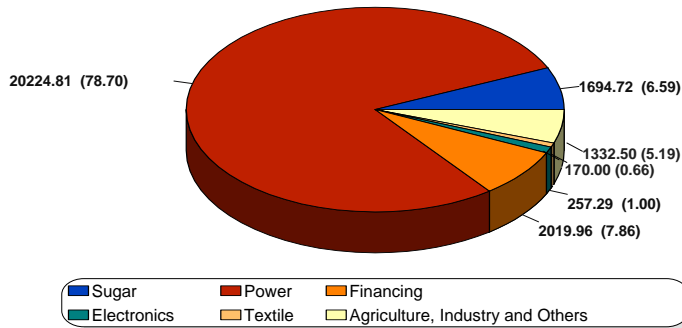
**1.2** As on 31 March 2005, the total investment in 55 working PSUs (48 Government companies and seven Statutory corporations) was Rs.25,699.28 crore\* (equity: Rs.10,427.54 crore, share application money: Rs.7,571.06 crore and long term loans\*\* : Rs.7,700.68 crore) as against 55 working PSUs (48 Government companies and seven Statutory corporations) with a total investment of Rs.21,778.65 crore (equity: Rs.10,054.58 crore, share application money: Rs.2,384.40 crore and long term loans: Rs.9,339.67 crore) as on 31 March 2004. Increase in total investment was due to increase in equity and loans mainly in the electronics sector, development of economically weaker section, power and miscellaneous sectors. The analysis of investment in working PSUs is given in the following paragraphs.

**Sector-wise investment in working Government companies and Statutory corporations**

**1.3** The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2005 and 31 March 2004 are indicated in the pie charts as follows:

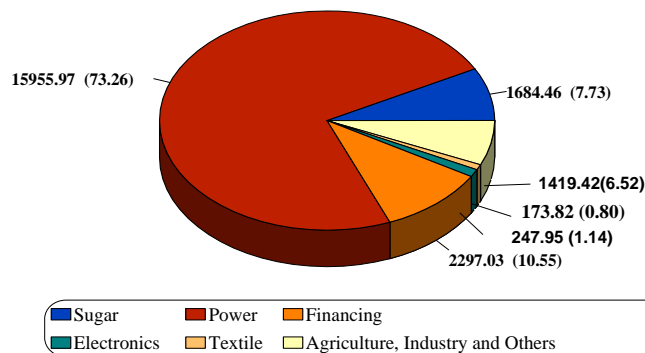
**Sector-wise investment in working Government companies and Statutory corporations As on 31 March 2005**

Amount - Rupees in crore  
(Figures in bracket indicate percentage of investment)  
Total investment - Rs. 25,699.28 crore



**As on 31 March 2004**

Amount: Rupees in crore  
Total investment - Rs. 21,778.65 crore



\* State Government's investment in working PSUs was Rs.18,889.13 crore (others: Rs.6,810.15 crore). Figure as per Finance Accounts 2004-05 is Rs.13644.61 crore; the difference is under reconciliation.

\*\* Long term loans mentioned in para 1.2, 1.4, 1.5 and 1.18 are excluding interest accrued and due on such loans.

**Working Government companies**

**1.4** The total investment in working Government companies at the end of March 2004 and March 2005 was as follows:

(Rupees in crore)

| Year    | Number of companies | Equity   | Share application money | Loans    | Total     |
|---------|---------------------|----------|-------------------------|----------|-----------|
| 2003-04 | 48                  | 9,542.76 | 2,382.19                | 7,735.59 | 19,660.54 |
| 2004-05 | 48                  | 9924.96  | 7568.85                 | 6247.12  | 23740.93  |

Investment in the current year has increased over the previous year due to increase in equity and loans mainly in the electronics sector, development of economically weaker section, power and miscellaneous sectors.

As on 31 March 2005, the total investment in working Government companies comprised 73.69 per cent of equity capital and 26.31 per cent of loans as compared to 60.65 per cent and 39.35 per cent respectively, as on 31 March 2004.

The summarised statement of Government investment in working Government companies in the form of equity and loans is detailed in **Annexure-1**.

**Working Statutory corporations**

**1.5** The total investment in seven working Statutory corporations at the end of March 2004 and March 2005<sup>1</sup> was as follows:

(Rupees in crore)

| Name of the corporation                                | 2003-04                        |                 | 2004-05                        |                 |
|--|--------------------------------|-----------------|--------------------------------|-----------------|
|  | Capital                        | Loan            | Capital                        | Loan            |
| Uttar Pradesh State Road Transport Corporation         | 321.37                         | 227.27          | 312.13 <sup>2</sup>            | 184.24          |
| Uttar Pradesh Financial Corporation                    | 179.28                         | 1,117.28        | 179.28                         | 1,035.89        |
| Uttar Pradesh State Warehousing Corporation            | 11.17<br>(2.21)                | 110.63          | 11.17<br>(2.21)                | 102.03          |
| Uttar Pradesh Forest Corporation                       | -                              | 17.50           | -                              | -               |
| Uttar Pradesh Avas Evam Vikas Parishad                 | -                              | -               | -                              | -               |
| Uttar Pradesh Jal Nigam                                | -                              | 129.75          | - <sup>3</sup>                 | 129.75          |
| Uttar Pradesh Government Employees Welfare Corporation | -                              | 1.65            | -                              | 1.65            |
| <b>Total</b>   | <b>511.82</b><br><b>(2.21)</b> | <b>1,604.08</b> | <b>502.58</b><br><b>(2.21)</b> | <b>1,453.56</b> |

(Figures in bracket indicate share application money)

As on 31 March 2005, the total investment in working Statutory corporations comprised 25.78 per cent of equity capital and 74.22 per cent of loans compared to 24.27 per cent and 75.73 per cent respectively as on 31 March 2004.

The summarised statement of Government investment in working Statutory corporations in the form of equity and loans is detailed in **Annexure-1**.

**Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity**

**1.6** The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to working Government companies and working Statutory corporations are given in **Annexure-1 and 3**.

<sup>1</sup> Figures for the year 2004-05 are provisional.

<sup>2</sup> As per Government of India notification SO 1233 (E) dated 27.10.2003 the Uttar Pradesh State Road Transport Corporation has been bifurcated between Uttar Pradesh and Uttaranchal States with effect from 30.10.2003 (AN). The accounts of Uttar Pradesh State Road Transport Corporation for the period 30.10.2003 were finalised during the year 2004-05.

<sup>3</sup> As per provision of Uttar Pradesh Punargathan Adhinyam 2000, Uttaranchal Payjal Sansadhan Vikas Evam Nirman Nigam has been established by Uttaranchal Government vide notification No. 2231/9/12/Adhinyam 2000 dated 7.11.2002. In compliance to the above notification, all the assets and liabilities as on 31.3.2002 except assets and liabilities of C&DS wing of Uttar Pradesh Jal Nigam related to Uttaranchal have been transferred to the Uttaranchal Payjal Sansadhan Vikas Evam Nirman Nigam. The accounts of Uttar Pradesh Jal Nigam for the year 2002-03 were finalised during the year 2004-05.

The budgetary outgo in the form of equity, loans and grants/subsidies from the State Government to working Government companies and working Statutory corporations for the three years up to 2004-05 are given below:

| Particulars                             | 2002-03               |                     |                      |             | 2003-04               |                       |                      |               | 2004-05               |                       |                      |              |
|---|-----------------------|---------------------|----------------------|-------------|-----------------------|-----------------------|----------------------|---------------|-----------------------|-----------------------|----------------------|--------------|
|   | Companies             |                     | Corporations         |             | Companies             |                       | Corporations         |               | Companies             |                       | Corporations         |              |
|   | No.                   | Amount              | No.                  | Amount      | No.                   | Amount                | No.                  | Amount        | No.                   | Amount                | No.                  | Amount       |
| A. (i) Equity Capital outgo from budget | 4                     | 264.23              | -                    | -           | 7                     | 1,512.91              | -                    | -             | 7                     | 5,575.04              | -                    | -            |
| (ii) Loans given from budget            | 9                     | 582.35              | -                    | -           | 13                    | 433.40                | 1                    | 2.00          | 9                     | 453.40                | 1                    | 3.02         |
| <b>Total A (i)+(ii)</b>                 |                       | <b>846.58</b>       |                      | <b>-</b>    | <b>14</b>             | <b>1,946.31</b>       | <b>1</b>             | <b>2.00</b>   | <b>13</b>             | <b>6,028.44</b>       | <b>1</b>             | <b>3.02</b>  |
| <b>B.</b><br>Grants/Subsidy for:        |                       |                     |                      |             |                       |                       |                      |               |                       |                       |                      |              |
| (i) Projects/programmes/schemes         | 6                     | 445.93 <sup>1</sup> | 1                    | 2.07        | 5                     | 1,289.19 <sup>3</sup> | 1                    | 213.21        | 7                     | 1,297.26 <sup>5</sup> | 1                    | 76.91        |
| (ii) Other                              | 3                     | 695.63 <sup>2</sup> |                      |             | 3                     | 2.91 <sup>4</sup>     | 1                    | 2.11          | 3                     | 5.23 <sup>6</sup>     | -                    | -            |
| <b>Total B (i) + (ii)</b>               |                       | <b>1,141.56</b>     |                      | <b>2.07</b> | <b>-</b>              | <b>1,292.10</b>       | <b>-</b>             | <b>215.32</b> |                       | <b>1,302.49</b>       | <b>-</b>             | <b>76.91</b> |
| <b>Total outgo (A + B)</b>              | <b>16<sup>7</sup></b> | <b>1,988.14</b>     | <b>1<sup>7</sup></b> | <b>2.07</b> | <b>19<sup>7</sup></b> | <b>3,238.41</b>       | <b>2<sup>7</sup></b> | <b>217.32</b> | <b>17<sup>7</sup></b> | <b>7,330.93</b>       | <b>1<sup>7</sup></b> | <b>79.93</b> |

During the year 2004-05, the Government had guaranteed the loans aggregating Rs.1,634.28 crore obtained by eight working companies (Rs.1,475.78 crore) and three working Statutory corporations (Rs.158.50 crore). At the end of the year, guarantees amounting to Rs.1,464.88 crore against nine working Government companies (Rs.846.61 crore) and four working Statutory corporations (Rs.618.27 crore) were outstanding. The guarantee commission paid/payable to Government by two<sup>8</sup> Government companies and by two<sup>8</sup> Statutory corporations during the year 2004-05 was Rs.21.28 crore and Rs.98.17 lakh respectively. The Government had converted loan of Rs.3.07 crore outstanding from Shretron India Limited into equity.

**Finalisation of accounts by working PSUs**

**1.7** The accounts of the companies for every financial year are required to be finalised within six months from the end of relevant financial year under Section 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of the financial year. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of the respective Acts.

It could be noticed from **Annexure-2**, that out of 48 working Government companies, only five<sup>9</sup> working Government companies and out of seven working Statutory corporations, none of the Statutory corporations finalised their accounts for the year 2004-05 within the stipulated period. During the

<sup>1</sup> Includes grant of Rs.314.15 crore.

<sup>2</sup> Includes grant of Rs.80.75 lakh.

<sup>3</sup> Includes grant of Rs.137.97 crore.

<sup>4</sup> Includes grant of Rs.59.19 lakh.

<sup>5</sup> Includes grant of Rs.129.69 crore.

<sup>6</sup> Includes grant of Rs.1.11 crore.

<sup>7</sup> These are the actual number of companies /corporations which have received budgetary support in the form of equity, loans, grants and subsidies from the Government during the respective years.

<sup>8</sup> Out of nine working Government companies and four Statutory corporations against which guarantees were outstanding, information has been furnished by only two Government companies (serial No. A-13 and 15 of Annexure-3) and two Statutory corporations (serial No. B-1 and B-3 of Annexure-3).

<sup>9</sup> Serial No. A-2, 12, 13, 16 and 35 of Annexure-2.

period from October 2004 to September 2005, 34 working Government companies finalised 44 accounts for previous years. Similarly, during this period, four working Statutory corporations finalised five accounts for previous years.

The accounts of 43 working Government companies and seven Statutory corporations were in arrear for periods ranging from one to 16 years as on 30 September 2005 as detailed below:

| Sl No | No. of working companies/corporations |                        | Year from which accounts are in arrears | Number of years for which accounts are in arrears | Reference to serial No. of Annexure-2              |                        |
|-------|---------------------------------------|------------------------|---|---|--|------------------------|
|       | Government companies                  | Statutory corporations |   |   | Government companies                               | Statutory corporations |
| 1     | 1                                     | -                      | 1989-90 to 2004-05                      | 16  | A-24   | -                      |
| 2     | 2                                     | -                      | 1992-93 to 2004-05                      | 13  | A-10, 17   | -                      |
| 3     | 1                                     | -                      | 1993-94 to 2004-05                      | 12  | A-43   | -                      |
| 4     | 1                                     | -                      | 1996-97 to 2004-05                      | 9   | A-14   | -                      |
| 5     | 2                                     | -                      | 1997-98 to 2004-05                      | 8   | A-6, 46  | -                      |
| 6     | 2                                     | -                      | 1998-99 to 2004-05                      | 7   | A-8, 21  | -                      |
| 7     | 1                                     | 3                      | 1999-2000 to 2004-05                    | 6   | A-23   | B-4, 5, 7              |
| 8     | 1                                     | -                      | 2000-01 to 2004-05                      | 5   | A-44   | -                      |
| 9     | 2                                     | -                      | 2001-02 to 2004-05                      | 4   | A-9, 47  | -                      |
| 10    | 6                                     | -                      | 2002-03 to 2004-05                      | 3   | A-5, 27, 28, 29, 34, 48                            | -                      |
| 11    | 13                                    | -                      | 2003-04 to 2004-05                      | 2   | A-1, 7, 18, 25, 26, 30, 33, 36, 37, 38, 39, 41, 45 | -                      |
| 12    | 11                                    | 4                      | 2004-05                                 | 1   | A-3, 4, 11, 15, 19, 20, 22, 31, 32, 40, 42         | B-1, 2, 3, 6           |

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within prescribed period. Though the concerned administrative departments and officials of the Government were informed every quarter by Audit regarding arrears in finalisation of accounts, no effective measures have been taken by the Government, as a result, the net worth of these PSUs could not be assessed in audit.

***Financial position and working results of working PSUs***

**1.8** The summarised financial results of working PSUs (Government companies and Statutory corporations) as per their latest finalised accounts are given in **Annexure-2**. Besides, statements showing financial position and working results of individual working Statutory corporations for the latest three years for which accounts have been finalised, are given in **Annexure-4 and 5** respectively.

According to the latest finalised accounts of 42\* working Government companies and seven working Statutory corporations, 24 companies and three corporations had incurred an aggregate loss of Rs.1555.49 crore and Rs.168 crore respectively, 18 companies and four corporations earned an aggregate profit of Rs.25.77 crore and Rs.57.34 crore respectively.

***Working Government companies***

***Profit earning working companies and dividend***

**1.9** Out of 34 working Government companies which finalised their accounts for previous years by September 2005, 15 companies earned an aggregate profit of Rs.25.27 crore, and nine\*\* of these companies earned profit for two or more successive years. The Government formulated (October

\* Six companies (serial No. A-29, 36, 37, 38, 39 and A-40 of Annexure-2) had not submitted their first accounts.

\*\* Serial No. A-4, 19, 20, 21, 22, 41, 45, 46 and 48 of Annexure-2.

2002) a dividend policy for payment of minimum dividend and ordered the PSUs to pay a minimum dividend of 5 per cent on the capital invested by the Government from financial year 2002-03. Only two<sup>1</sup> companies declared dividend of Rs.63.15 lakh.

***Loss incurring working Government companies***

**1.10** Of the 24 loss incurring working Government companies, 17 companies had accumulated losses aggregating Rs.6,453.34 crore, which exceeded their aggregate paid up capital of Rs.4,834.72 crore (**Annexure-2**).

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies in the form of loans, subsidy and grants. According to available information, out of these 17 companies, the total financial support so provided by the State Government by way of equity, loans, subsidies and grants during 2004-05 to six companies amounted to Rs.6,936.11 crore.

***Working Statutory corporations***

***Profit earning Statutory corporations and dividend***

**1.11** Two corporations (Serial No. B-3 and B-5 of **Annexure-2**), out of four working Statutory corporations which finalised their accounts for previous years by September 2005, earned an aggregate profit of Rs.27.02 crore. One (Serial No. B-3 of **Annexure-2**), out of these two corporations, earned profit for two or more successive years and declared dividend amounting to Rs.1.20 crore.

***Loss incurring Statutory corporations***

**1.12** Two Statutory Corporations (Serial No. B-1 and B-2 of **Annexure-2**), out of three loss incurring working Statutory corporations, which finalised their accounts for previous years by September 2005, had accumulated losses aggregating Rs.1,557.81 crore which exceeded their aggregate paid-up capital of Rs.491.41 crore.

***Operational performance of working Statutory corporations***

**1.13** The operational performance of the working Statutory corporations is given in **Annexure-6**.

Some of the important observations on the operational performance of the Statutory corporations are given below:

***Uttar Pradesh State Road Transport Corporation***

The loss per km. decreased from 179 paise during 2001-02 to 67 paise during the period 1 November 2003 to 31 March 2004 as a sequel to the increase in operating revenue per km. from 1,068 paise (during 2001-02) to 1,097 paise (during the period 1 November 2003 to 31 March 2004).

***Uttar Pradesh Financial Corporation***

Percentage of overdues to the total loans outstanding increased from 127.31 in 2001-02 to 237.31 in 2003-04 which reflects poor recovery performance.

***Return on capital employed***

**1.14** As per the latest finalised accounts (up to September 2005), the capital employed<sup>2</sup> worked out to Rs.11,824.18 crore in 42<sup>3</sup> working companies and

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<sup>1</sup> Serial No. A-20 and 41 of Annexure-2.

<sup>2</sup> Capital employed represents net fixed assets (including capital work-in-progress) plus working capital except in finance companies and corporations where it represents the mean of aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).

<sup>3</sup> Six companies (Sl. No. A-29, 36, 37, 38, 39 and A-40 of Annexure-2) had not submitted their first accounts.

total return\* thereon amounted to Rs.(-) 460.92 crore as compared to total return of Rs.(-) 94.15 crore in the previous year. Similarly, the capital employed and total return thereon in case of seven working Statutory corporations as per the latest finalised accounts (up to September 2005) worked out to Rs.5,684.39 crore and Rs.71.58 crore (1.26 per cent), respectively, as against the total return of Rs.151.45 crore (2.06 per cent) in previous year. The details of capital employed and total return on capital employed in case of the working Government companies and Statutory corporations are given in **Annexure-2**.

**Reforms in the power sector**

***Status of implementation of MOU between the State Government and Central Government***

**1.15** A memorandum of understanding (MOU) was signed (February 2000) between the Government of India and the Government of Uttar Pradesh as a joint commitment for implementation of reforms programme in power sector.

Status of implementation of the reform programme against each commitment made in MOU is detailed below:

| <b>Sl. No.</b> | <b>Reform programme commitment as per MOU</b>  | <b>Targeted completion schedule</b> | <b>Present status</b>  |
|----------------|--|-------------------------------------|--|
| <b>I</b>       | <b>By the State Government:</b>  |                                     |  |
| (i)            | Installation of meters on all 11 KV feeders  | 30 September 2000                   | Meters on all 11 KV feeders (7059 numbers) installed (December 2003)   |
| (ii)           | 100 per cent metering of all consumers   | 31 December 2001                    | Only 83 per cent consumers could be metered (March 2005).  |
| (iii)          | On-line billing at 20 selected towns   | 31 March 2001                       | Introduced in one town only i.e. Lucknow in September 2004.  |
| (iv)           | Upgradation of distribution system   | Nil                                 | Various works viz. rearrangement of service lines, installation of capacitor banks, construction of lines, installation of transformers and augmentation of distribution system were at various stages of completion (September 2005). |
| (v)            | Formation of distinct distribution profit centres  | Nil                                 | Four distribution companies incorporated in May 2003.  |
| (vi)           | Privatisation of distribution sector, if commercial viability is not achieved  | Nil                                 | No privatisation has been done so far (September 2005).  |
| <b>II</b>      | <b>By the Central Government:</b>  |                                     |  |
| (i)            | Support from the Government of India for financing renovation and modernisation of existing thermal and hydro power stations | Nil                                 | Loan of Rs.463.98 crore has been sanctioned by the Power Finance Corporation in March 2005 to Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited.  |
| (ii)           | Support from the Government of India for undertaking construction of important transmission works                            | Nil                                 | UPPCL received Rs.380.64 crore from Power Finance Corporation against 35 projects in March 2005.   |

\* For calculating total return on capital employed, interest on borrowed funds is added to net profit/ subtracted from the loss as disclosed in the profit and loss account.

***Unbundling and corporatisation***

**1.16** To make energy sector commercially viable, Government of Uttar Pradesh (GoUP) restructured (January 2000) erstwhile Uttar Pradesh State Electricity Board (UPSEB). Thermal and hydro generation functions were transferred to the existing companies namely, Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited and Uttar Pradesh Jal Vidyut Nigam Limited. The transmission and distribution functions of UPSEB were transferred to the newly created companies namely, Uttar Pradesh Power Corporation Limited (UPPCL) and Kanpur Electricity Supply Company Limited (KESCO). The transmission function was retained by the UPPCL and the distribution function was further transferred to four distribution companies (Discoms) incorporated in May 2003.

***State Electricity Regulatory Commission***

**1.17** Uttar Pradesh Electricity Regulatory Commission (Commission) was formed on 10 September 1998 under Section 17 of Electricity Regulatory Commission Act, 1998<sup>1</sup>. The Commission is a body corporate and comprises three members including a Chairman, who are appointed by the State Government. The audit of accounts of the Commission has been entrusted to CAG under Section 104 (2) of the Electricity Act, 2003. Commission had issued five tariff orders up to September 2005.

**Non-working Public Sector Undertakings (PSUs)**

***Investment in non-working PSUs***

**1.18** As on 31 March 2005, the total investment in 39 non-working PSUs (all Government companies) was Rs.873.50 crore<sup>2</sup> (equity: Rs.391.88 crore, share application money: Rs.49.06 crore and long term loans: Rs.432.56 crore) as against the total investment of Rs.868.52 crore (equity: Rs.391.37 crore, share application money: Rs.49.06 crore and long term loans: Rs.428.09 crore) in 41 non-working PSUs (all Government companies) as on 31 March 2004.

The classification of non-working Government companies at the end of March 2005 was as under:

(Rupees in crore)

| Status of non-working Government companies | Number of companies | Investment          |                 |
|--|---------------------|---------------------|-----------------|
|  |                     | Equity <sup>3</sup> | Long term loans |
| Under liquidation/ closure                 | 10                  | 59.09               | 150.77          |
| Under merger                               | 1                   | 0.42                | -               |
| Defunct and non-operating companies        | 28                  | 381.43              | 281.79          |
| <b>Total</b>                               | <b>39</b>           | <b>440.94</b>       | <b>432.56</b>   |

Of the above non-working Government companies, 10 Government companies were under liquidation/closure under Section 560 of the Companies Act, 1956 for two to 30 years and substantial investment of Rs.209.86 crore was involved in these companies. Effective steps need to be taken for their expeditious liquidation or revival.

***Sector-wise investment in non-working Government companies***

**1.19** The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2005 and 2004 are indicated in the pie charts as follows:

<sup>1</sup> Since replaced with Section 82 (1) of the Electricity Act, 2003.

<sup>2</sup> State Government investments was Rs.650.14 crore (Others: Rs.223.36 crore). Figure as per Finance Accounts 2004-05 is Rs.587.70 crore. The difference is under reconciliation.

<sup>3</sup> Including share application money of Rs.49.06 crore in respect of defunct and non-operating companies.

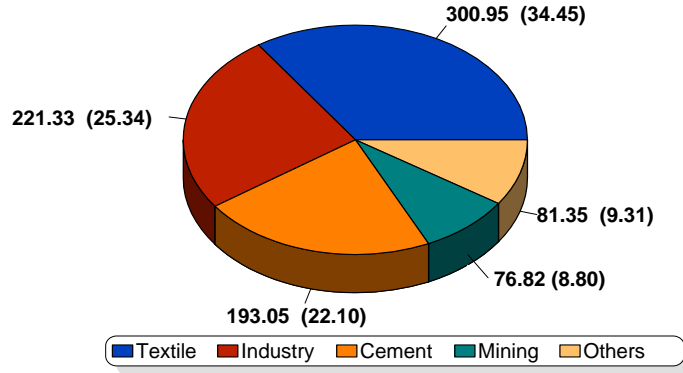


**Sector-wise investment in non-working  
Government companies  
As on 31 March 2005**

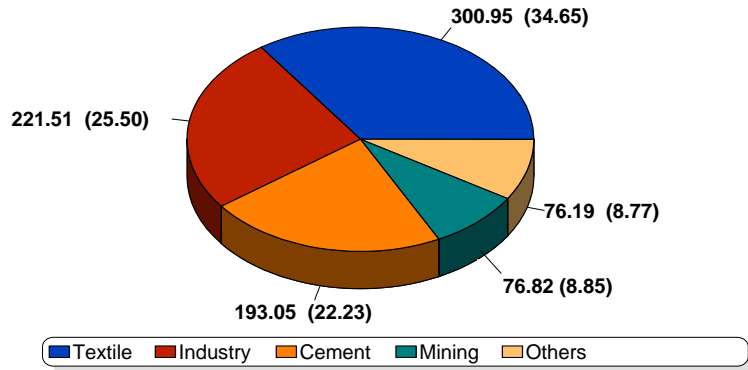
Amount: Rupees in crore

(Figures in bracket indicate percentage of investment)

Total investment - Rs. 873.50 crore



**As on 31 March 2004**  
Amount: Rupees in crore  
Total investment - Rs. 868.52 crore



***Budgetary outgo, grant/subsidy, guarantees, waiver of dues and conversion of loans into equity***

**1.20** The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to non-working Government companies are given in **Annexures-1 and 3**.

During the year 2004-05, there was no budgetary outgo in the form of equity/loans/subsidy/grants.

At the end of March 2005, guarantees amounting to Rs.36.07 crore in respect of five non-working companies were outstanding.

***Total establishment expenditure on non-working PSUs***

**1.21** The year-wise details of total establishment expenditure of non-working Government companies and the sources of financing them during the last three years up to 2004-05 are given below:

(Rupees in crore)

| Year    | Number of PSUs | Total establishment expenditure | Financed by                   |                            |                      |        |        |
|---------|----------------|---------------------------------|-------------------------------|----------------------------|----------------------|--------|--------|
|         |                |                                 | Disposal of investment/assets | Loans from private parties | Government by way of |        | Others |
|         |                |                                 |                               |                            | Loans                | Grants |        |
| 2002-03 | 5              | 0.61                            | 0.02                          | -                          | -                    | -      | 0.59   |
| 2003-04 | 5              | 0.85                            | -                             | -                          | -                    | -      | 0.85   |
| 2004-05 | 5 <sup>1</sup> | 1.13                            | -                             | -                          | -                    | -      | 1.13   |

**Finalisation of accounts by non-working PSUs**

**1.22** Ten companies out of 39 non-working companies were under liquidation. The accounts of 29 non-working companies were in arrears for periods ranging from one to 28 years as on 30 September 2005 as could be noticed from **Annexure-2**.

**Financial position and working results of non-working PSUs**

**1.23** The summarised financial results of non-working Government companies as per their latest finalised accounts are given in **Annexure-2**.

The summarised details of paid-up capital, net worth, cash loss and accumulated loss of non-working Government companies as per their latest finalised accounts are given below:

(Rupees in crore)

| Particulars           | Paid-up capital | Net worth <sup>2</sup> | Cash loss <sup>3</sup> | Accumulated loss |
|-----------------------|-----------------|------------------------|------------------------|------------------|
| Non-working companies | 386.01          | (-) 734.67             | 154.22                 | 1,115.72         |

**Status of placement of Separate Audit Reports of Statutory corporations in Legislature**

**1.24** The following table indicates the status of placement in the State Legislature of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory corporations:

| Sl No. | Name of Statutory corporation                  | Year up to which SARs placed in Legislature | Years for which SARs not placed in Legislature  |  |  |
|--------|--|---|---|--|--|
|        |  |   | Year of SAR   | Date of issue to the Government  | Reasons for delay in placement to the Legislature    |
| 1      | 2  | 3   | 4   | 5  | 6  |
| 1.     | Uttar Pradesh State Road Transport Corporation | 1999-2000                                   | 2000-01<br>2001-02<br>2002-03   | 09.09.2003<br>26.12.2003<br>27.10.2004   | Reasons not furnished by the Department/ Corporation |
| 2.     | Uttar Pradesh Financial Corporation            | 1992-93                                     | 1993-94<br>1994-95<br>1995-96<br>1996-97<br>1997-98<br>1998-99<br>1999-2000<br>2000-01<br>2001-02 | 07.07.1995<br>18.04.1996<br>28.08.1998<br>17.12.1999<br>27.07.2000<br>20.10.2001<br>25.07.2002<br>20.02.2004<br>28.01.2005 | Reasons not furnished by the Department/ Corporation |
| 3.     | Uttar Pradesh State Warehousing Corporation    | 1997-98                                     | 1998-99<br>1999-2000<br>2000-01<br>2001-02<br>2002-03<br>2003-04                                  | 27.07.2000<br>29.05.2001<br>29.04.2002<br>13.08.2003<br>16.09.2004<br>10.08.2005   | Reasons not furnished by the Department/ Corporation |

<sup>1</sup> Out of 39 non-working companies, only five companies (Serial No. C-1, 5, 9, 19 and C-39 of Annexure-1) furnished details of establishment expenditure.

<sup>2</sup> Net worth represents paid-up capital plus free reserves less accumulated loss.

<sup>3</sup> Cash loss represents loss for the year plus depreciation for the year.

| 1  | 2                                      | 3       | 4   | 5  | 6  |
|----|--|---------|---|--|--|
| 4. | Uttar Pradesh Forest Corporation *     | --      | 1997-98<br>1998-99  | 17.08.2000<br>23.05.2002   | Reasons not furnished by the Department/ Corporation |
| 5. | Uttar Pradesh Avas Evam Vikas Parishad | 1989-90 | 1990-91<br>1991-92<br>1992-93<br>1993-94<br>1995-96<br>1996-97              | 23.02.1998<br>23.02.1998<br>27.02.1998<br>19.08.1999<br>10.02.2003<br>29.01.2004               | Reasons not furnished by the Department/ Corporation |
| 6. | Uttar Pradesh Jal Nigam                | 1994-95 | 1995-96<br>1996-97<br>1997-98<br>1998-99<br>1999-2000<br>2000-01<br>2001-02 | 21.10.1997<br>18.02.1999<br>03.07.2000<br>19.09.2001<br>07.02.2002<br>13.02.2003<br>27.03.2004 | Reasons not furnished by the Department/ Corporation |

The State Government has not placed the Separate Audit Reports in the State Legislature even after lapse of nine years (Uttar Pradesh Financial Corporation). Though under respective statutes, State Government is required to place the separate Audit Reports in the Legislature, same has not been complied with.

**Disinvestment, Privatisation and Restructuring\*\* of Public Sector Undertakings**

**1.25** The policy of privatisation/disinvestment of PSUs formulated (June 1994) by the State Government provided for the review of all enterprises (excluding those engaged in social and welfare activities and public utilities) whose annual loss was more than Rs.10 crore and which had eroded their net worth by 50 per cent or more.

An Empowered Committee (EC) was constituted (December 1995) to review and decide cases for privatisation/disinvestment/ reference to BIFR and to recommend other alternatives such as partial privatisation, management by private entrepreneurs, lease to private entrepreneurs, etc. The recommendations of the EC have not been made available to Audit. On the recommendation of EC, the State Disinvestment Commission was constituted (November 1998) but it was dissolved (January 2000) and a Divestment Commission (DC) was constituted (January 2000).

For smooth functioning of process of disinvestments, a Central Committee (CC) was also constituted (January 2000). The CC was entrusted to make reference to the DC on the matters relating to reform in working, merger, reorganisation, privatisation or closure of the PSUs. It was envisaged that DC would forward its recommendations to the CC.

Reference of 27 PSUs was made to DC, and the DC in all these cases gave recommendations. The CC considered and gave recommendations in respect of 25 PSUs. These recommendations were not made available to Audit.

Further, High Power Disinvestment Committee (HPDC) was constituted (April 2003) and the work of disinvestments was assigned to the Planning Department.

The Government intimated (September 2003) that:

\* Audit entrusted from 1997-98.

\*\* Restructuring includes merger and closure of PSUs.

- In first stage, disinvestment process has commenced for 11 sugar mills of Uttar Pradesh State Sugar Corporation Limited, and eight sick and five closed sugar mills of Uttar Pradesh Rajya Chini Avam Ganna Vikas Nigam Limited.
- Action would be taken on the recommendations of DC on 27 PSUs, which were referred to the DC.
- Information was being collected for possibility of disinvestment from Departments/PSUs and on the basis of information obtained, necessary action for disinvestment would be taken.
- The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited (PICUP) has been selected for consultancy for disinvestments. The HPDC was taking consultancy from PICUP for deciding policy matters and for making practical recommendations.

**Results of audit on accounts of PSUs by the Comptroller and Auditor General of India**

**1.26** During the period from October 2004 to September 2005, the audit of accounts of 31 Government companies (27 working and four non-working) and four Statutory corporations were selected for review. The net impact of the important audit observations as a result of review of the PSUs was as follows:

| Details                               | No. of accounts      |             |                        | Rs. in lakh          |             |                        |
|---------------------------------------|----------------------|-------------|------------------------|----------------------|-------------|------------------------|
|                                       | Government companies |             | Statutory corporations | Government companies |             | Statutory corporations |
|                                       | Working              | Non-working | Working                | Working              | Non-working | Working                |
| (i) Decrease in profit                | 5                    | -           | 1                      | 250.71               | -           | 25.17                  |
| (ii) Increase in loss                 | 11                   | -           | 2                      | 51,053.97            | -           | 4,167.36               |
| (iii) Decrease in loss                | 4                    | -           | -                      | 9,603.18             | -           | -                      |
| (iv) Non disclosure of material facts | 4                    | -           | 1                      | 285.36               | -           | 529.48                 |
| (v) Errors of classification          | 10                   | 2           | 2                      | 19,956.03            | 1,171.00    | 1,338.75               |

Some of the major errors and omissions noticed in the course of review of annual accounts of some of the above Government companies and Statutory corporations are mentioned below:

**Errors and omissions noticed in case of Government companies**

**1.27 Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (2003-04)**

- Non-capitalisation of interest on loan sanctioned for capital work resulted in overstatement of loss and under statement of fixed assets by Rs.9.80 crore.
- Non-provision of advances to suppliers/contractors outstanding for more than 18 years resulted in overstatement of capital work-in-progress and understatement of loss by Rs.94.75 crore.

**1.28 Uttar Pradesh Jal Vidyut Nigam Limited (2002-03)**

- Late payment surcharge amounting to Rs.65.91 crore, recoverable from Uttar Pradesh Power Corporation Limited up to 31 March 2003, was not accounted for by the Nigam. This resulted in understatement of sundry debtors by Rs.65.91 crore and overstatement of loss to the same extent.

**1.29 Uttar Pradesh Power Corporation Limited (2002-03)**

- Non-provision of interest liability of Rs.105.16 crore on loan obtained from Rural Electrification Corporation resulted in understatement of loss as well as current liabilities by Rs.105.16 crore.

**1.30 Kanpur Electricity Supply Company Limited (2001-02)**

- The Company provided liability of Rs.291.72 crore against Rs.348.52 crore towards power purchased from Uttar Pradesh Power Corporation Limited, the suppliers of Electricity. The short provision resulted in understatement of liabilities as well as loss for the year by Rs.56.80 crore.

**Errors and omissions noticed in case of Statutory corporation**

**1.31 Uttar Pradesh State Road Transport Corporation (2002-03)**

- Miscellaneous Receipts (Rs.62.18 crore) shown in Income side of Profit and Loss Account included surcharge of Rs.51.58 crore on account of (a) Passenger Amenity Fund (Rs.25.79 crore) and (b) Insurance Reserve Fund (Rs.25.79 crore). This should have been credited to separate reserve account under the head 'Reserve and Funds' in the Balance Sheet instead of showing it as income. Further, Rs.11.77 crore paid on account of claim for accident during the year had been charged to revenue (Profit and Loss Account) instead of Insurance Reserve Fund created for this purpose.

This resulted in understatement of loss by Rs.39.81 crore, understatement of Passenger Amenity Fund by Rs.25.79 crore and understatement of Insurance Reserve Fund by Rs.14.02 crore.

**Persistent irregularities and system deficiencies in financial matters of PSUs**

**1.32** The following persistent irregularities and system deficiencies in financial matters of PSUs were repeatedly pointed out during the course of audit of their accounts but no corrective action had been taken by these PSUs so far:

| Sl. No.                      | Name of the Government companies/Statutory corporations                       | Nature of irregularities   |
|------------------------------|---|--|
| <b>Government companies</b>  |   |  |
| 1.                           | Uttar Pradesh Power Corporation Limited                                       | (i) inclusion of time barred cheques in Cash and Bank Balances.<br>(ii) non-provision of surcharge on late payment of bills raised by UP Jal Vidyut Nigam Limited.   |
| 2.                           | Kanpur Electricity Supply Company Limited                                     | non-reconciliation of bank balance shown in bank statement and cash/bank book maintained by the Company.   |
| 3.                           | Uttar Pradesh State Agro Industrial Corporation Limited                       | (i) charging of inadmissible margin and supervision charges on installation of hand pumps.<br>(ii) charging of inadmissible centage from Basic Siksha Parishad and other agencies.   |
| 4.                           | Uttar Pradesh Pichhra Varg Vitta Evam Vikas Nigam Limited                     | loan from National Backward Class Finance Development Corporation Limited is being shown as Secured Loan although it is not secured wholly or partly against an asset.   |
| 5.                           | Uttar Pradesh State Bridge Corporation Limited                                | (i) inclusion of inadmissible centage in gross value of work done.<br>(ii) non-amortisation of lease hold land.  |
| 6.                           | Uttar Pradesh State Sugar Corporation Limited                                 | inclusion of expenditure incurred on civil works in the capital work-in-progress though the project had been abandoned.  |
| 7.                           | Chhata Sugar Company Limited  | inclusion of purchase tax in Sundry Creditors instead of showing separately.   |
| 8.                           | Uttar Pradesh State Tourism Development Corporation Limited                   | <ul style="list-style-type: none"> <li>• non-provision for bad and doubtful debts.</li> <li>• non-disclosure of method for providing depreciation.</li> <li>• non-posting of a full time Company Secretary although required under Section 383A of the Companies Act, 1956.</li> </ul> |
| 9.                           | The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited | inclusion of missing assets in the gross block of the Company.   |
| <b>Statutory corporation</b> |   |  |
| 10.                          | Uttar Pradesh Financial Corporation   | inclusion of disputed trade tax in the recoverable expenses instead of disclosing it separately.   |

**Recoveries at the instance of Audit**

**1.33** Test check of records of power sector companies conducted during 2004-05 disclosed wrong fixation of tariff/non-levy/short levy of tariff/short realisation of revenue aggregating Rs.156.44 crore in 245 cases. The companies accepted the observations in 130 cases aggregating Rs.61.92 crore and a sum of Rs.1.20 crore relating to four audit observations was recovered at the instance of Audit.

**Internal audit/Internal control**

**1.34** The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal audit /internal control systems in the companies audited by them in accordance with the directions issued by the CAG to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. Accordingly, the Statutory Auditors observed deficiencies in respect of internal audit system in case of 11 companies during the year 2004-05. An illustrative resume of major recommendations/comments made by Statutory Auditors on possible improvement in the internal audit/ internal control system is indicated in **Annexure-7**. It is noticed from the Annexure that major comments were of the following nature:

- internal audit system was not commensurate with the size and nature of business of most of the Government companies,
- internal audit system was non-existent,
- scope of audit and the periodicity of reporting was also inadequate.

**Recommendation for closure of PSUs**

**1.35** Even after completion of five years of their existence, the turnover (sales and other income) of 10 working Government companies has been less than Rupees five crore in each of the preceding five years of their latest finalised accounts (**Annexure-8**). Similarly, seven working Government companies (**Annexure-9**) had been incurring losses for five consecutive years (as per latest finalised accounts) leading to negative net worth. In view of poor turnover and continuous losses, the Government may either improve the performance of these Government companies or consider their closure.

**Position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings (COPU)**

**1.36** The following table indicates the details regarding number of reviews and paragraphs pending for discussion by COPU at the end of 30 September 2005:

| Period of Audit Report | Reviews and paragraphs appeared in the Audit Report |            | Reviews and paragraphs pending for discussion |            |
|------------------------|---|------------|---|------------|
|                        | Reviews   | Paragraphs | Reviews                                       | Paragraphs |
| 1                      |   | 2          | 3   | 4          |
| 1982-83                | 5   | 50         | 1   | 1          |
| 1983-84                | 4   | 60         | 2   | -          |
| 1984-85                | 2   | 14         | 1   | -          |
| 1985-86                | 6   | 22         | 1   | -          |
| 1986-87                | 3   | 28         | 1   | 3          |
| 1987-88                | 8   | 23         | 2   | 5          |
| 1988-89                | 5   | 22         | 3   | 8          |
| 1989-90                | 6   | 14         | -   | 5          |
| 1990-91                | 6   | 21         | 4   | 18         |
| 1991-92                | 4   | 38         | 4   | 33         |

| 1            |            | 2          | 3         | 4          |
|--------------|------------|------------|-----------|------------|
| 1992-93      | 5          | 33         | 2         | 25         |
| 1993-94      | 5          | 31         | 4         | 14         |
| 1994-95      | 5          | 41         | 4         | 9          |
| 1995-96      | 7          | 39         | 2         | 20         |
| 1996-97      | 8          | 40         | 6         | 12         |
| 1997-98      | 5          | 67         | 3         | 54         |
| 1998-99      | 5          | 26         | 2         | 12         |
| 1999-2000    | 4          | 41         | 1         | 18         |
| 2000-01      | 5          | 34         | 2         | 16         |
| 2001-02      | 4          | 34         | 4         | 34         |
| 2002-03      | 4          | 38         | 3         | 37         |
| 2003-04      | 4          | 26         | 4         | 26         |
| <b>Total</b> | <b>110</b> | <b>742</b> | <b>56</b> | <b>350</b> |

During the period from 1 October 2004 to 30 September 2005, the Committee on Public Undertakings (COPU) held 24 meetings and discussed 22 reviews and 123 draft paragraphs of Audit Report (Commercial) for the years from 1976-77 to 2002-03. Further, COPU decided not to discuss eight reviews and 46 paragraphs relating to 13 non-working Government companies.

#### **619-B Companies**

**1.37** There were four companies coming under Section 619-B of the Companies Act, 1956 of which only one was working Company. **Annexure-10** indicates the details of paid-up capital, investment by way of equity, loans and grants and summarised working results of these companies based on their latest available accounts.