

Chapter I

1. Overview of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Andhra Pradesh, the State PSUs occupy an important place in the state economy. The working State PSUs registered a turnover of Rs 44,180 crore for 2008-09 as per their latest finalised accounts as of September 2009. This turnover was equal to 14.13 *per cent* of State Gross Domestic Product (GDP) for 2008-09. Major activities of Andhra Pradesh State PSUs are concentrated in power sector. The working State PSUs including working statutory corporations earned a profit of Rs 701.56 crore in the aggregate for 2008-09 as per their latest finalised accounts. They had employed 2.60 lakh employees* as of 31 March 2009. The State PSUs do not include nine Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments. Audit findings of these DUs are incorporated in the Civil Audit Report for the State.

1.2 As on 31 March 2009, there were 66 PSUs as per the details given below. Of these, no Company was listed on the stock exchange.

Type of PSUs	Working PSUs	Non-working PSUs ^Y	Total
Government Companies	39 [~]	24 [∇]	63
Statutory Corporations	3	-	3
Total	42	24	66

1.3 During the year 2008-09, No PSU was established whereas one PSU namely Wolkem Andhra Mining Private Limited became a non-Government Company (December 2008). The Company though became a joint venture Company with Andhra Pradesh Mineral Development Corporation Limited (APMDC) in the year November 2000, had not commenced business activities till December 2008 and created no assets for carrying out its business for the reason that the Company could not obtain the required mining lease license to carry out the excavation of minerals.

Audit Mandate

1.4 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is

* As per the details provided by 38 working PSUs. Remaining PSUs have not furnished the man power details.

^Y Non working PSUs are those which have ceased to carry on their operations.

[~] includes two 619-B working companies (SI No: 5 and 17 of Part A of Annexure-1).

[∇] includes six 619-B non- working companies (SI No: 17 to 22 of Part-C of Annexure-1).

one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as per Section 619-B of the Companies Act, 1956.

1.5 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per the provisions of Section 619 of the Companies Act, 1956.

1.6 Audit of Statutory corporations is governed by their respective legislations. Out of three statutory corporations, CAG is the sole auditor for Andhra Pradesh State Road Transport Corporation. In respect of Andhra Pradesh State Warehousing Corporation and Andhra Pradesh State Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

Investment in State PSUs

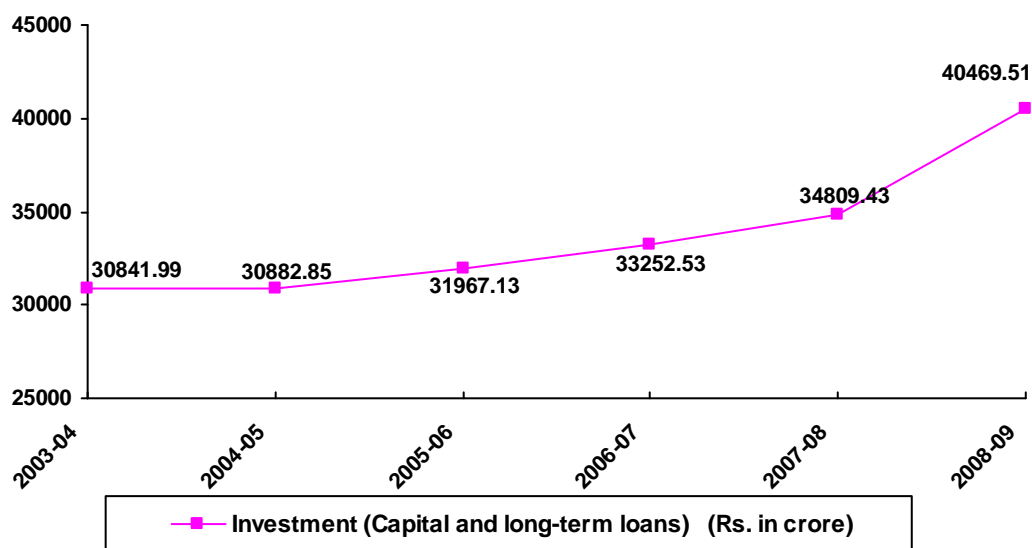
1.7 As on 31 March 2009, the investment (capital and long-term loans) in 66 PSUs (including 619-B companies) was Rs 40,469.51 crore as per details given below:

(Rupees in crore)

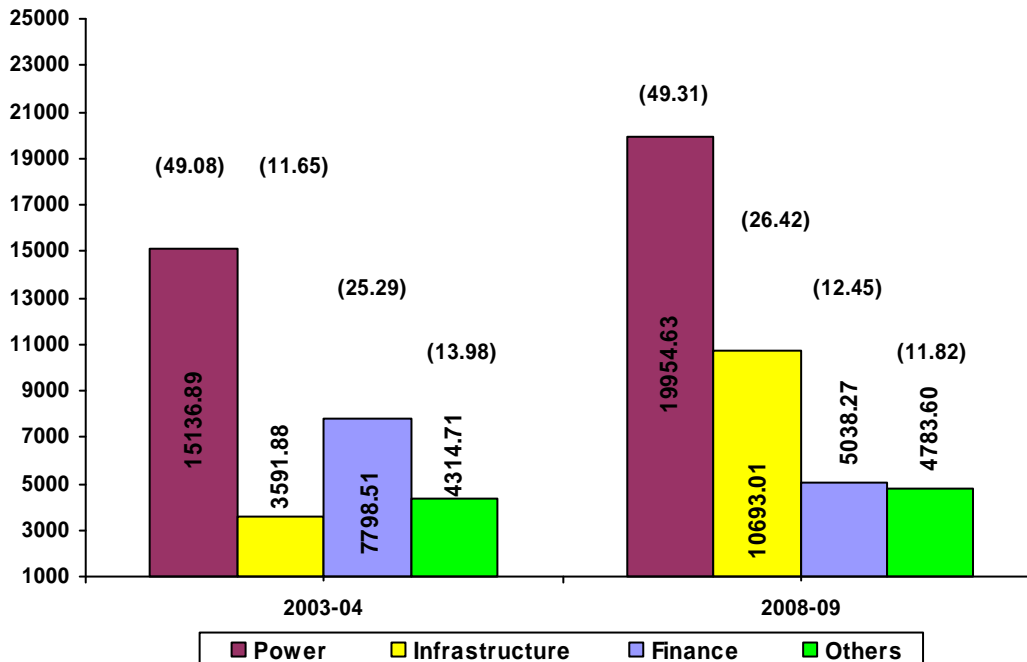
	Government Companies			Statutory Corporations			Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	6737.68	30064.61	36802.29	414.89	2986.92	3401.81	40204.10
Non-working PSUs	81.97	183.44	265.41	--	--	--	265.41
Total	6819.65	30248.05	37067.70	414.89	2986.92	3401.81	40469.51

A summarized position of Government investment in State PSUs is detailed in **Annexure-1**.

1.8 As on 31 March 2009, of the total investment in State PSUs, 99.34 *per cent* was in working PSUs and the remaining 0.66 *per cent* in non-working PSUs. This total investment consisted of 17.88 *per cent* towards capital and 82.12 *per cent* in long-term loans. The investment has grown by 31.22 *per cent* from Rs 30,841.99 crore in 2003-04 to Rs 40,469.51 crore in 2008-09 as shown in the graph on the next page.



1.9 The investment (amount in crore) in various important sectors and percentage thereof at the end of 31 March 2004 and 31 March 2009 are indicated below in the bar chart. The thrust of PSUs investment was mainly on power sector during the five years which has seen marginal increase in percentage share from 49.08 in 2003-04 to 49.31 in 2008-09.



(Figures in brackets show the percentage of total investment)

During the period from 2003-04 to 2008-09, the investment in Infrastructure sector had become almost tripled with an increase of 197.70 per cent (Rs 7,101.13 crore) due to increase in investment in housing activity of

Andhra Pradesh State Housing Corporation Limited (Rs 6,375.71 crore). The investment in Power sector had increased by 31.83 per cent (Rs 4,817.74 crore) due to development of infrastructure in power sector. However, during the same period the investment in Finance sector had decreased by 35.39 per cent (Rs 2,760.24 crore) on account of decrease in business of lending of loans and advances to business entities in the state, as a result the long term loans from SIDBI and IDBI got reduced.

Budgetary outgo, grants/subsidies, guarantees and loans

1.10 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Annexure-3**. The summarised details are given below for three years ended 2008-09.

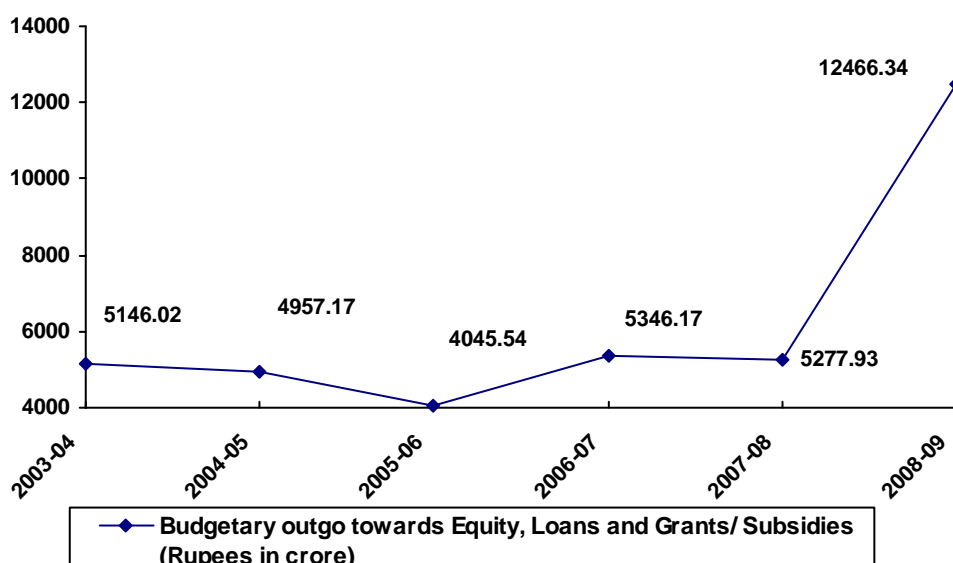
(Rupees in crore)

		2006-07		2007-08		2008-09	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	02	14.42	06	131.40	02	5.06
2.	Loans given from budget	07	817.04	04	21.67	02	2732.21
3.	Grants/Subsidy received [≈]	18	4514.71	17	5124.86	16	9729.07
4.	Total Outgo (1+2+3)	22*	5346.17	17*	5277.93	18*	12466.34
5.	Loans converted into equity	--	--	--	--	--	--
6.	Loans written off	01	0.21	--	---	--	--
7.	Interest/Penal interest written off	01	0.76	--	--	01	36.18
8.	Total Waiver (6+7)	01	0.97	--	--	01	36.18
9.	Guarantees issued	07	1514.06	6	807.27	05	511.78
10.	Guarantee Commitment	15	18278.63	16	16313.51	15	15300.88

[≈] Amount represents outgo from State budget only.

* The figure represents number of PSUs which have received outgo from budget under one or more heads i.e., Equity, loans and grants/subsidies.

1.11 The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past five years are given in a graph below.



The main beneficiary of subsidy and grants out of budget was Power sector which received 56.32 *per cent* (Rs 5,479.01 crore) of total amount of subsidy and grants (Rs 9,729.07 crore) while the main beneficiary of loans given out of budget was Infrastructure Sector which received 99.96 *per cent* (Rs 2,731.22 crore) of total amount of loans (Rs 2,732.21 crore). During the year 2008-09, penal interest of Rs 36.18 crore levied on Southern Power Distribution Company of Andhra Pradesh Limited was waived.

1.12 The Government charges guarantee commission at the concessional rate of 0.50 *per cent* to two *per cent* for term loans granted by the Financial Institutions and Banks to various PSUs. The guarantee commission is payable as and when loans are guaranteed. The amount of Guarantees outstanding increased from Rs 2,648.49 crore in 2003-04 to Rs 15,300.88 crore in 2008-09 showing an increase of 477.72 *per cent*. The increase was mainly on account of more amounts guaranteed by State Government over a period of six years for Andhra Pradesh Power Finance Corporation Limited to develop power projects and infrastructure in power sector, Andhra Pradesh State Housing Corporation Limited to implement housing activity under various schemes and Andhra Pradesh State Financial Corporation to provide financial assistant to small and medium scale industries. During the Year 2008-09, the State Government received Rs 3.76 crore towards guarantee commission and Rs 0.74 crore was due to be received.

Reconciliation with Finance Accounts

1.13 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation

of differences. The position in this regard as at 31 March 2009 is stated below.

(Rupees in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	3314.88	6254.55	2939.67
Loans	2677.04	9016.28	6339.24
Guarantees	13475.15	15300.88	1825.73

1.14 Audit observed that the amount as per the records of PSUs was much more than that of Finance Accounts. The differences occurred in respect of 61 PSUs and some of the differences were pending reconciliation since long period. The matter was taken up from time to time with the Finance Department of Government of Andhra Pradesh regarding the difference in figures relating to equity, loans and guarantees as per finance accounts and as per records of PSUs. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of PSUs

1.15 The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in **Annexure - 2, 5 and 6** respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for the period 2003-04 to 2008-09.

(Rupees in crore)

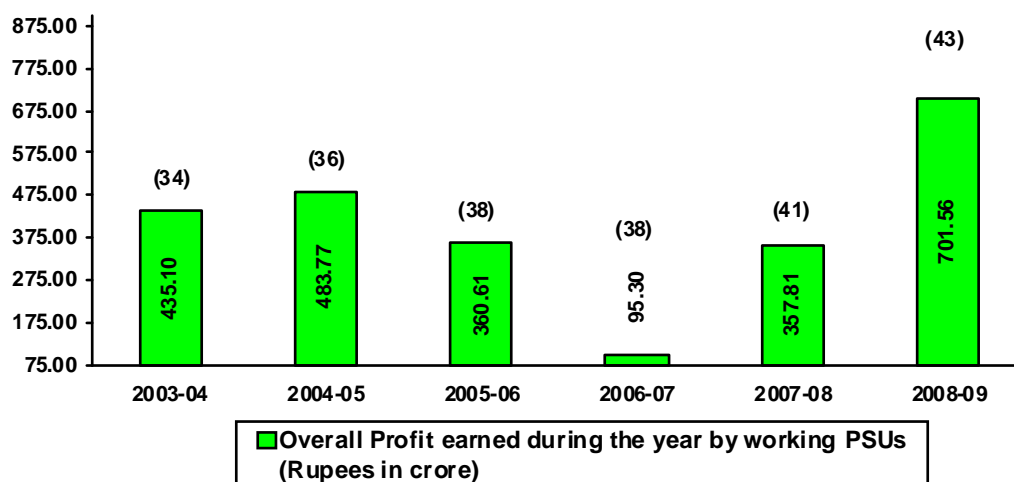
Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover [™]	31553	33983	29019	31797	36923	44180
State GDP	190880	210449	236034	269173	311752	312741*
Percentage of Turnover to State GDP	16.53	16.15	12.29	11.81	11.84	14.13

*Provisional

The turnover of PSUs after recording a decline of Rs 4,964 crore (14.61 *per cent*) in 2005-06 over the previous year 2004-05 increased gradually during 2006-07 to 2008-09. Percentage of increase in turnover ranged between 9.57 and 19.65 during 2006-09 whereas percentage of increase in GDP ranged between 0.32 and 15.82 during the period 2003-09.

[™] Turnover of working PSUs as per finalized accounts.

1.16 Profit[®] earned by State working PSUs during 2003-04 to 2008-09 are given below in a bar chart.



(Figures in brackets show the number of working PSUs in respective years)

It can be seen from the above chart that the profit earned by the working PSUs was showing the fluctuating trend. The profit earned in 2004-05 had increased by 11.19 per cent and later decreased by 25.46 per cent in 2005-06 and by 73.57 per cent in 2006-07. However, the profit had increased during 2007-08 by 275.46 per cent and by 96.07 per cent in 2008-09. According to the latest finalised accounts (**Annexure-2**), 26 PSUs earned profit of Rs 1,015.71 crore and eight PSUs incurred loss of Rs 314.15 crore. Three working PSUs* prepared their accounts on a 'no profit no loss' basis and four PSUs^{~®} have not finalised their first accounts since incorporation. Two PSUs^ℵ prepared Capital accounts out of total 43 working PSUs[♦]. The major contributors to profit were Andhra Pradesh Industrial Infrastructure Corporation Limited (Rs 312.88 crore), The Singareni Collieries Company Limited (Rs 132.83 crore), Andhra Pradesh Power Generation Corporation Limited (Rs 246.46 crore) and Andhra Pradesh State Road Transport Corporation (Rs 110.78 crore). Heavy losses were incurred by Andhra Pradesh State Housing Corporation Limited (Rs 296.12 crore) and Nizam Sugars Limited (Rs 11.63 crore).

1.17 The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of projects, running their operations and monitoring. A review of latest three Audit Reports of CAG shows that the State PSUs incurred losses to the tune of Rs 1,238.09 crore and infructuous investment of Rs 69.99 crore which were controllable with better

[®] Figures are as per the latest finalised accounts during the respective years.

* Andhra Pradesh Power Finance Corporation Limited, Andhra Pradesh State Police Housing Corporation Limited and Non-conventional Energy Development Corporation of Andhra Pradesh Limited.

^{~®} Andhra Pradesh Rajiv Swagruha Corporation Limited, Fab city SPV (India) Pvt Limited, Hyderabad Growth Corridor Limited, Vizag Apparel Park for Exports.

^ℵ Wolkem Andhra Mining Private Limited (became private company from December 2008) and Hyderabad Metro Rail Limited.

[♦] includes Wolkem Andhra Mining Company Limited which was privatized in December 2008 but yet to furnish two years accounts.

management. Year-wise details from Audit Reports are stated below.

(Rupees in crore)

Particulars	2006-07	2007-08	2008-09	Total
Net Profit (loss)	95.30	357.81	701.56	1154.67
Controllable losses as per CAG's Audit Report	521.83	141.30	574.96	1238.09
Infructuous Investment	48.49	17.30	4.20	69.99

1.18 The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management the profits can be enhanced substantially. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for greater professionalism and accountability in the functioning of PSUs.

1.19 Some other key parameters pertaining to State PSUs are given below.

(Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed (<i>Per cent</i>)	2430.21 (10.93)	2309.27 (9.12)	1433.56 (5.32)	1447.82 (5.33)	2046.27 (6.18)	2999.08 (6.96)
Debt	22679.76	25567.79	24889.79	26366.38	27799.65	33234.97
Turnover ^ⁿ	31553.38	33983.13	29367.68	31796.88	36922.54	44180.06
Debt/ Turnover Ratio	0.72:1	0.75:1	0.85:1	0.83:1	0.75:1	0.75:1
Interest Payments [•]	2712.39	2613.52	2546.98	2344.48	2169.58	2644.13
Accumulated Profits (losses)	(2872.60)	(2215.35)	(2766.22)	(2628.25)	(3160.58)	(2761.49)

Note: Above figures pertain to all PSUs except for turnover which is for working PSUs

1.20 The turnover of PSUs recorded an average annual growth of 7.06 *per cent* during last five years while average annual growth of debts was 8.20 *per cent* indicating that the debts were rising at more than the turnover. The rising debts to turnover ratio from 0.72:1 in 2003-04 to 0.75:1 in 2008-09 as well as decreasing trend in return on capital employed (decreased by 3.97 *per cent*) pointed to deteriorating performance of PSUs. The Infrastructure sector was major contributor to the rising debt to turnover ratio as debt/turnover ratio rose from 18.93:1 in 2003-04 to 27.48:1 in 2008-09.

1.21 The State Government had not formulated any specific dividend policy under which all PSUs are required to pay a minimum return on the paid up share capital contributed by the State Government. As per their latest finalised accounts, 26 PSUs earned an aggregate profit of Rs 1,015.71 crore and four PSUs declared a dividend of Rs 36.62 crore (Rs 35.10 crore by three working PSUs[♦] and Rs 1.52 crore by one working Statutory corporation^ⁿ) at the rates ranging between two *per cent* and 20 *per cent* on paid up share capital. In the absence of specific dividend policy, the State Government should formulate

^ⁿ Figures as per latest finalised accounts shown in Part A+B of Annexure-2.

[•] Figures as per finalised accounts.

[♦] The Singareni Collieries Company Limited, Andhra Pradesh Mineral Development Corporation Limited and Andhra Pradesh Handcraft Development Corporation Limited.

^ⁿ Andhra Pradesh State Warehousing Corporation.

such dividend policy to yield reasonable revenue on the investment made in all the profit making companies.

Performance of major PSUs

1.22 The investment in working PSUs and their turnover together aggregated to Rs 84,384.16 crore during 2008-09. Out of 42 working PSUs, the following five major PSUs accounted for individual investment *plus* turnover of more than five *per cent* of aggregate investment *plus* turnover. These five PSUs together accounted for 59.31 *per cent* of aggregate investment *plus* turnover.

(Rupees in crore)				
PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to Aggregate Investment plus Turnover of all PSUs
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh Power Generation Corporation Limited	11259.03	6229.99	17489.02	20.73
Andhra Pradesh State Housing Corporation Limited	9597.54	96.48	9694.02	11.49
The Singareni Collieries Company Limited	2263.87	6396.09	8659.96	10.26
Central Power Distribution Company of Andhra Pradesh Limited	1886.70	6475.85	8362.55	9.91
Andhra Pradesh State Road Transport Corporation	1605.74	4237.75	5843.49	6.92
Total	26612.88	23436.16	50049.04	59.31

Some of the major audit findings of past five years for above PSUs are stated in the succeeding paragraphs.

Andhra Pradesh Power Generation Corporation Limited

1.23 The profit of the Company has risen continuously in past three years from Rs 63.04 crore in 2005-06 to Rs 246.46 crore in 2008-09. Similarly, the turnover too has risen from Rs 3,888.68 crore to Rs 6,229.99 crore during this period and the return on capital employed has also increased from 3.23 *per cent* to 5.74 *per cent*.

1.24 The following are the major findings from last five years Audit Reports

Deficiencies in planning

- ❖ Failure of the Company to get itself linked with a colliery for long term supply of coal resulted in excess expenditure of Rs 48.72 crore due to procurement of coal through e-auction.

(Paragraph 2.2.22 Audit Report 2008-09)

Deficiencies in monitoring

- ❖ Due to non-compliance with pollution control parameters at Kothagudem Thermal Power Station, Rayalaseema Thermal Power Project and Vijayawada Thermal Power Station, the Company could not take the advantage of concessional rate of water cess and rebate on water cess amounting to Rs 31.80 crore during 2000-05.

(Paragraphs 2.1.28 and 2.1.31 of Audit Report 2004-05)

Non-achievement of objectives

- ❖ The suspended Particulate Matter (SPM) levels in 15 out of 20 thermal generating units were more than the prescribed level during the last four years up to 2004-05. Although seven of these units were upgraded for obtaining designed SPM level of 50 mg/Nm³, the annual SPM level was quite high rendering the expenditure of Rs 35.42 crore on up-gradation by and large unproductive.

(Paragraphs 2.1.11 to 2.1.13 of Audit Report 2004-05)

- ❖ Failure to adhere to norms for consumption of major components for generation of power like coal, fuel oil, demineralised water and auxiliary power resulted in extra expenditure of Rs 45.96 crore.

(Paragraphs 2.1.23 to 2.1.26 of Audit Report 2007-08)

Deficiencies in financial management

- ❖ The Company failed to avail interest rebate on loan from Power Finance Corporation due to delay in commissioning of units as per schedule and also the interest subsidy on loan from Rural Electrification Corporation to the extent of Rs 9.21 crore.

(Paragraph 2.1.8 of Audit Report 2007-08)

Andhra Pradesh State Housing Corporation Limited

1.25 The Company has submitted its latest accounts for the year 2005-06. The Company had arrears of three years accounts.

1.26 The loss of the Company has risen continuously in past three years from Rs 282.38 crore in 2001-02 to Rs 296.12 crore in 2005-06. Similarly, the turnover too has risen from Rs 16 crore to Rs 96.48 crore during this period. The return on capital employed has also increased from zero *per cent* to 1.48 *per cent*.

1.27 **The following are the major findings from last five years Audit Reports**

Deficiencies in planning

- ❖ Due to delay in completion of houses at Daminedu in Tirupati Municipality beyond the scheduled time, the expenditure of Rs 11.50 crore remained unfruitful.

(Paragraph 2.2.28 of Audit Report 2007-08)

Deficiencies in implementation

- ❖ Due to un-authorised implementation of State Government orders in respect of Urban Permanent Houses scheme regarding revocation of conversion of UP houses into Vambay houses, the expenditure of Rs 7.48 crore incurred by the Company became unfruitful besides depriving the targeted families of housing facility.

(Paragraph 2.2.14 of Audit Report 2007-08)

Deficiencies in monitoring

- ❖ Due to non-release of matching grant on time by the State Government for Indira Awaas Yojana, funds to the extent of Rs 22.72 crore were diverted from other schemes which showed the ineffective monitoring in implementation of schemes to attain the relevant objective for which the said scheme was introduced.

(Paragraph 2.2.21 of Audit Report 2007-08)

Non-achievement of objectives

- ❖ Failure to take up the matter with the State Government and lack of co-ordination between the Company and State Government regarding partial release of subsidy of Rs 84.03 crore in respect of Urban Permanent Housing resulted in non-achievement of objective to provide houses to economically weaker sections.

(Paragraph 2.2.26 of Audit Report 2007-08)

- ❖ Ineffective planning to execute the works under Valmiki Ambedkar Awaas Yojana without ensuring the loan tie up with banks resulted in non-completion and delay in completion of 23,204 houses with the delay of one to six years thus defeating the main objective to provide shelter to the Below Poverty Line beneficiaries in urban slums besides diverting the funds of Rs 42.17 crore from other schemes.

(Paragraph 2.2.10 of Audit Report 2007-08)

Central Power Distribution Company of Andhra Pradesh Limited

1.28 The Company earned a profit of Rs 47.29 crore in 2005-06 and the same declined to Rs 12.52 crore in 2008-09. But, the turnover has risen from Rs 4,496.64 crore to Rs 6,475.85 crore during this period. However, the return on capital employed has declined from 7.12 per cent to 6.75 per cent.

1.29 The following are the major findings from last five years Audit Reports

Deficiencies in implementation

- ❖ The Company failed to adhere to the quota fixed by Andhra Pradesh Electricity Regulatory Commission for purchase and sale of energy to various categories of consumers and suffered net loss of revenue of Rs 190.58 crore

(Paragraphs 2.2.1, 2.2.8 and 2.2.10 of Audit Report 2004-05)

Deficiencies in monitoring

- ❖ The Company extended concessional tariff to ineligible consumers without ensuring fulfillment of criteria or compliance of the foremost conditions which led to loss of revenue of Rs 29.66 crore.

(Paragraphs 2.2.21 and 2.2.23 of Audit Report 2004-05)

The Singareni Collieries Company Limited

1.30 The Profit of the Company decreased in past three years from Rs 332.49 crore in 2005-06 to Rs 132.83 crore in 2008-09. The turnover has risen from Rs 3,629.11 crore to Rs 6,396.09 crore during this period. However, the return on capital employed has declined from 15.71 *per cent* to 5.10 *per cent*.

1.31 The following are the major findings from last five years Audit Reports

Deficiencies in planning

- ❖ Though proposals for outsourcing of OB removal for the next year were to be received six months in advance, there were delays in submitting the proposals by OC mines' authorities. Two proposals received for outsourcing of OB removal relating to the same mine were finalized separately at different rates resulting in extra expenditure of Rs 19.47 crore.

(Paragraph 2.1.13 of Audit Report 2005-06)

Deficiencies in implementation

- ❖ The guidelines and conditions for environmental aspects issued by Ministry of Environment and Forest as well as Pollution control Board were not fully complied with on implementation of environmental control measures relating to air, water and noise pollution.

(Paragraph 3.10 of Audit Report 2004-05)

Deficiencies in monitoring

- ❖ Due to award of contracts at composite rates without segregating the quantities of topsoil that did not require drilling and blasting, the Company incurred avoidable expenditure of Rs 8.55 crore.

(Paragraph 2.1.14 of Audit Report 2005-06)

Andhra Pradesh State Road Transport Corporation

1.32 The Corporation incurred loss of Rs 42.78 crore in 2005-06 but earned a profit of Rs 110.78 crore in 2008-09. The turnover has risen from Rs 3,192.45 crore to Rs 4,237.75 crore during this period. The return on capital employed has also increased from 4.86 per cent to 44.24 per cent.

1.33 The following are the major findings from last five years Audit Reports

Deficiencies in monitoring

- ❖ Despite obtaining the competitive rates in open tender, the Corporation failed to negotiate with existing bus owners before renewal of agreement for operation of hired buses resulting in extra financial burden of Rs 2.88 crore.

(Paragraph 3.18 of Audit Report 2004-05)

Non-achievement of objective

- ❖ Land acquired for construction of a bus depot was kept vacant for over two decades which forced the Corporation to transfer the prime land valuing Rs 12.92 crore back to Jubli Hills Co-operative society without receipt of any compensation.

(Paragraph 3.21 of Audit Report 2006-07)

Deficiencies in financial management

- ❖ Failure to negotiate for revision of interest rates on outstanding loans on par with the rates agreed upon for the fresh loans resulted in avoidable payment of interest of Rs 7.28 crore.

(Paragraph 3.19 of Audit Report 2004-05)

Conclusion

1.34 The above details indicate that there is tremendous scope for improvement in their overall performance. The PSUs need to imbibe greater degree of professionalism to ensure delivery of their products and services efficiently and profitably. The State Government should introduce a performance based system of accountability for PSUs.

Arrears in finalisation of accounts

1.35 The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2009.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Number of Working PSUs	34	39	39	42	43 [♦]
2.	Number of accounts finalised during the year	29	32	28	36	46
3.	Number of accounts in arrears	63	63	70	73	70
4.	Average arrears <i>per</i> PSU (3/1)	1.85	1.62	1.80	1.74	1.63
5.	Number of Working PSUs with arrears in accounts	24	23	25	29	26
6.	Extent of arrears	1 to 8 years	1 to 9 years	1 to 10 years	1 to 10 years	1 to 11 years

1.36 It could be seen from the above table that there was an improvement in finalisation of arrears accounts by Working PSUs after continuous pursuance with the management of PSUs. The average arrears per PSU reduced from 1.85 in 2004-05 to 1.63 in 2008-09. The main reasons for the delay in finalisation of accounts were (i) non-maintenance/ incorrect maintenance of records, (ii) non-reconciliation of various transactions, (iii) lack of effective internal controls and (iv) lack of co-ordination amongst various departments in PSUs.

1.37 As regards non-working companies, out of 24 such PSUs, 11 had gone into liquidation process, two were wound up and one was under merger. The remaining 10 non-working PSUs were either under closure having no business activities or having no assets besides they had arrears of accounts for six to 25 years.

1.38 The State Government had invested Rs 11,306.42 crore (Equity: Rs 24.47 crore, loans: Rs 3,600.77 crore, grants: Rs 5,657.39 crore and others: Rs 2,023.79 crore in 29 PSUs (26 working and three non-working PSUs) during the years between 1998-99 and 2008-09 for which accounts have not been finalised as detailed in **Annexure-4**. In the absence of accounts and their subsequent audit, it cannot be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not. Thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

[♦] includes Wolkem Andhra Mining Company Limited which was privatized in December 2008 but yet to furnish two years accounts.

1.39 The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed every quarter by the Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up (June 2009) with the Chief Secretary to expedite the backlog of arrears in accounts in a time bound manner. Assurance was given that expeditious action would be taken to finalise the arrears accounts at the earliest.

1.40 In view of above state of arrears, it is recommended that:

- ❖ **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**
- ❖ **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**

Winding up of non-working PSUs

1.41 There were 24 non-working PSUs[≈] (all companies) as on 31 March 2009. Of these, 11 PSUs have commenced liquidation process, two were under winding up and one PSU was under merger. The number of non-working companies at the end of each year during past five years was 24.

The non-working PSUs are required to be closed down as their existence is not going to serve any purpose. During 2008-09, three non-working PSUs[•] incurred an expenditure of Rs 21.66 lakh towards salary and establishment. This expenditure was met through sale of assets, interest on deposits and rent on buildings of these PSUs.

1.42 The stages of closure in respect of non-working PSUs are given below.

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1.	Total No. of non-working PSUs	24	-	24
2.	Of (1) above, the No. under			
(a)	liquidation by Court/ Voluntary winding up (liquidator appointed)	11	-	11
(b)	Winding up (liquidator not appointed)	02	-	02
(b)	Merger	01	-	01
(c)	Closure, i.e., closing orders/ instructions issued but winding up process not yet started.	10	-	10

[≈] includes six 619 (B) non working companies at Sl No: 17 to 22 of Part C of Annexure-1 and 2.

[•] Andhra Pradesh Textile Development Corporation Limited, Andhra Pradesh Electronics Development Corporation Limited and Andhra Pradesh Small Scale Industrial Development Corporation Limited.

1.43 During the year 2008-09, no company was wound up. The companies which have taken the route of winding up by Court order are under liquidation for a period ranging from two years to eight years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted/pursued vigorously. The Government may make a decision regarding winding up of left over 10 non-working PSUs where no decision about their continuation or otherwise has been taken after they became non-working. The Government may consider setting up a cell to expedite closing down its non-working companies.

Accounts Comments and Internal Audit

1.44 Thirty one working companies forwarded their 43 audited accounts to the Accountant General (Commercial and Receipt Audit) during the year 2008-09. Of these, 39 accounts of 28 companies were selected for supplementary audit and four accounts of three companies[♦] were not reviewed. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Rupees in crore)

		2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	06	314.30	09	246.72	12	345.53
2.	Increase in profit	05	92.08	05	62.18	02	75.13
3.	Increase in loss	07	399.48	06	776.79	05	144.13
4.	Decrease in loss	01	31.90	--	--	01	5.96
5.	Non-disclosure of material facts	--	--	--	--	07	88.68
6.	Errors of classification	02	60.04	05	408.11	12	213.53

1.45 During the year, the statutory auditors had given unqualified certificates for 12 accounts, qualified certificates for 31 accounts while adverse certificates (which means that accounts do not reflect a true and fair position) and disclaimers (meaning the auditors are unable to form an opinion on accounts) were not issued against any account. Additionally, CAG also gave neither adverse comments nor disclaimer comments on any accounts during the supplementary audit. However, a certificate indicating turning of profit into loss in respect of Central Power Distribution Company of Andhra Pradesh Limited, Eastern Power Distribution Company of Andhra Pradesh Limited, Northern Power Distribution Company of Andhra Pradesh Limited and Southern Power Distribution Company of Andhra Pradesh Limited was issued by CAG on the accounts of 2008-09. The compliance of companies with the Accounting Standards remained poor as there were 16 instances of

[♦] Wolkem Andhra mining Company Limited (2NRCs), Damodara Minerals Private Limited (1 NRC) and Leather Industries Development Corporation of Andhra Pradesh Limited (1 NRC).

non-compliance in eight accounts[®] during the year.

1.46 Some of the important comments in respect of accounts of companies are stated below.

Central Power Distribution Company of Andhra Pradesh Limited (2008-09)

- ❖ Non accountal of thermal incentive claimed by APGENCO resulted in understatement of Current Liabilities and overstatement of Profit by Rs 24.91 crore.

Eastern Power Distribution Company of Andhra Pradesh Limited (2008-09)

- ❖ Non-accountal of thermal incentive claimed by APGENCO resulted in understatement of Current Liabilities and overstatement of Profit by Rs 8.55 crore.

Northern Power Distribution Company of Andhra Pradesh Limited (2008-09)

- ❖ Non-accountal of thermal incentive claimed by APGENCO resulted in understatement of Current Liabilities and overstatement of Profit by Rs 8.58 crore.

Southern Power Distribution Company of Andhra Pradesh Limited (2008-09)

- ❖ Non-accountal of thermal incentive claimed by APGENCO resulted in understatement of Current Liabilities and overstatement of Profit by Rs 12.04 crore.
- ❖ Non-accountal of demand withdrawn resulted in overstatement of Profit and Sundry Debtors by Rs 1.47 crore.

Andhra Pradesh Power Generation Corporation Limited (2008-09)

- ❖ Non provision for loss suffered on account of rejection of claim by the insurance company resulted in overstatement of Other Current Assets and Profit by Rs 5.70 crore.

Andhra Pradesh Industrial Development Corporation Limited (2006-07)

- ❖ Non-provision of permanent diminution in value of long term investments in terms of AS-13 resulted in overstatement of Profit and Investments by Rs 33.59 crore as the accounting policy declared by the Company is in violation of provisions of AS-13.

[®] Andhra Pradesh State Agro Industries Development Corporation Limited, Andhra Pradesh Industrial Development Corporation Limited, Andhra Pradesh Industrial Infrastructure Corporation Limited, Andhra Pradesh State Housing Corporation Limited (2 accounts) and Nizam Sugar Limited (2 accounts) and Andhra Pradesh Tourism Development Corporation Limited.

- ❖ Non-provision of the value of loss assets (Term loans and other loans) in respect of 13 sold units being irrecoverable resulted in overstatement of Profit as well as Loans and Advances by Rs 7.18 crore.

Andhra Pradesh State Irrigation Development Corporation Limited (2006-07)

- ❖ Non-provision for difference of contribution to Group gratuity between accrued liability and fund balance resulted in understatement of Current Liabilities and 'loss for the year' by Rs 5.38 crore.

Andhra Pradesh State Housing Corporation Limited (2005-06)

- ❖ Due to non-provision of known and crystallized liabilities/ losses, there was an understatement of "Excess of expenditure over income" by Rs 3.56 crore.

1.47 Similarly two working Statutory corporations forwarded their three accounts to AG during the year 2008-09. Of these, two accounts of Andhra Pradesh State Road Transport Corporation (APSRTC) pertained to sole audit by CAG, the audit of which for the year 2008-09 is under progress (September 2009). The remaining one account pertaining to Andhra Pradesh State Financial Corporation (APSFC) was selected for supplementary audit. The audit reports of statutory auditors and the sole/ supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

		(Rupees in crore)					
		2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	--	--	01	0.07	02	79.70
2.	Increase in loss	01	165.15	--	--	--	--
3.	Non-disclosure of material facts	--	--	--	--	02	--
4.	Errors of classification	02	172.37	02	90.46	01	26.81

1.48 During the year 2008-09, three accounts (two from APSRTC and one from APSFC) were received. CAG of India is the sole auditor for APSRTC and issued qualified certificate for the year 2007-08 while the accounts of APSFC were issued qualified certificates by Statutory Auditors.

1.49 Some of the important comments in respect of accounts of statutory corporations are stated below.

Andhra Pradesh State Road Transport Corporation (2007-08)

- ❖ Non-provision of interest on loan received from State Government resulted in overstatement of Profit carried over to Appropriation account by Rs 30.74 crore and understatement of Interest on Borrowings by Rs 10.60

crore and Prior period expenditure by Rs 20.14 crore.

- ❖ Incorrect withdrawal of provision made towards gratuity between old pay and new pay as per the revised pay scales (01 April 2005) resulted in overstatement of Profit carried over to Appropriation account and understatement of Revenue Liabilities by Rs 8.58 crore.
- ❖ In Hyderabad Zone, value of buildings as on 31 March 2008 as per accounts was Rs 64.38 crore against Rs 52.28 crore as per fixed assets register resulting in difference of Rs 12.10 crore.

Andhra Pradesh State Financial Corporation (2008-09)

- ❖ Non provision of guarantee commission of Rs 12.01 crore resulted in understatement of Prior Period Expenses by Rs 11.74 crore and overstatement of profit for the year by Rs 0.27 crore with consequential overstatement of Reserve Fund and Other Reserves by Rs 12.01 crore and understatement of Current Liabilities and Provisions by similar amount.
- ❖ Due to restructuring, the loan accounts as per the revised guidelines of SIDBI, loans to the extent of Rs 225.24 crore were upgraded during the year as a special regulatory treatment. The impact on accounts due to such change was not disclosed.

1.50 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the companies audited 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. An illustrative resume of major comments made by the Statutory Auditors in respect of finalised accounts on possible improvement in the internal audit/ internal control system in respect of 15 companies for the year 2007-08 and 17 companies[€] for the year 2008-09

[€] Andhra Pradesh Meat Development Corporation Limited, Andhra Pradesh Handicrafts Development Corporation Limited, Andhra Pradesh Industrial Development Corporation Limited, Andhra Pradesh Industrial Infrastructure Corporation Limited, Andhra Pradesh State Housing Corporation Limited, Andhra Pradesh Police Housing Corporation Limited, Andhra Pradesh Urban Finance and Infrastructure Development Corporation Limited, Andhra Pradesh Beverages Corporation Limited, Andhra Pradesh Heavy Machinery and Engineering Limited, Leather Industries Development Corporation of Andhra Pradesh Limited, Non conventional Energy Development Corporation of Andhra Pradesh Limited, Andhra Pradesh State Civil Supplies Corporation Limited, Andhra Pradesh State Trade Promotion Corporation Limited, Andhra Pradesh Technology Services Limited, Andhra Pradesh Tourism Development Corporation Limited, Andhra Pradesh State Warehousing Corporation and Andhra Pradesh State Financial Corporation.

are given below.

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Annexure 2
1.	Non-fixation of minimum/ maximum limits of store and spares	01	A - 12
2.	Absence of internal audit system commensurate with the nature and size of business of the company.	12	A - 4, 7, 11, 13, 19, 20, 34, 35, 36 & 37 and B - 1 & 2.
3.	Non maintenance of cost record	01	A - 12.
4.	Non maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations	06	A - 4, 7, 10, 11, 19 and 31.
5.	Lack of internal control	06	A - 4, 11, 12, 13 23, and 37.

Recoveries at the instance of audit

1.51 During the course of propriety audit in 2008-09, recoveries of Rs 14.63 crore were pointed out to the Management of various PSUs, of which, recoveries of Rs 14.63 crore were admitted by PSUs. An amount of Rs 1.12 crore was recovered during the year 2008-09.

Status of placement of Separate Audit Reports

1.52 The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory corporations in the Legislature by the Government.

Sl No.	Name of the Statutory Corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1.	Andhra Pradesh State Financial Corporation	2007-08	2008-09	September 2009	--
2.	Andhra Pradesh State Warehousing Corporation	2004-05	--	--	--
3.	Andhra Pradesh State Road Transport Corporation	2006-07	2007-08	July 2009	--

Disinvestment, Privatisation and Restructuring of PSUs

Restructuring programme of Government of Andhra Pradesh

1.53 The Government of Andhra Pradesh had constituted (January 1995) a committee to study the working of PSUs and to make suitable recommendations. As a follow up to the Committee's recommendations, the State Government undertook public sector reforms, which included the following:

- ❖ An autonomous body by the name "Implementation Secretariat" was formed (April 1998).
- ❖ The reforms were implemented in two phases viz., Phase-I covering the period from January 1999 to December 2003 and Phase-II from 2002-03 to 2005-06.
- ❖ As a part of the reform programme under Phase-I all the manufacturing units except one in a Government Company (The Nizam Sugars Limited) had been privatised. Three Government Companies[¥] were closed and four Government companies[€] were downsized/restructured.
- ❖ Under Phase-II of the reform programme, three Government companies[^] were closed and five Government companies^{*} and one Statutory corporation (Andhra Pradesh State Warehousing Corporation) were downsized/restructured.
- ❖ On the recommendations of the Committee, voluntary retirement scheme (VRS) was introduced in 15 working Government companies[^] and one Statutory Corporation (Andhra Pradesh State Financial Corporation). At the end of March 2008, 24,033 employees (23,857 from Government companies and 176 from Statutory corporation) were discharged after payment of Rs 779.35 crore (Rs 763.27 crore by working Government companies and Rs 16.08 crore by Statutory corporation) towards retirement compensation. Similarly in respect of nine non-working

[¥] AP Small Scale Industries Development Corporation Limited, Allwyn Watches Limited and Andhra Pradesh State Textile Development Corporation Limited.

[€] Andhra Pradesh State Agro Industries Development Corporation Limited, Andhra Pradesh State Irrigation Development Corporation Limited, Andhra Pradesh Meat Development Corporation Limited and Andhra Pradesh Handicrafts Development Corporation Limited.

[•] Andhra Pradesh Fisheries Corporation Limited, Andhra Pradesh Electronics Development Corporation Limited and Andhra Pradesh State Non Resident Indian Investment Corporation Limited.

^{*} Leather Industries Development Corporation of Andhra Pradesh Limited, Andhra Pradesh State Police Housing Corporation Limited, Andhra Pradesh State Film Television and Theatre Development Corporation Limited, Non Conventional Energy Development Corporation of Andhra Pradesh Limited and Andhra Pradesh Technology Services Limited.

[^] Andhra Pradesh State Agro Industries Development Corporation Limited, Andhra Pradesh State Irrigation Development Corporation Limited, Andhra Pradesh Meat Development Corporation Limited, Andhra Pradesh Industrial Development Corporation Limited, Andhra Pradesh Industrial Infrastructure Corporation Limited, Leather Industries Development Corporation of Andhra Pradesh Limited, Andhra Pradesh Heavy Machinery and Engineering Limited, Andhra Pradesh Handicrafts Development Corporation Limited, Andhra Pradesh Mineral Development Corporation Limited, The Singareni Collieries Company Limited, The Nizam Sugars Limited, Andhra Pradesh Power Generation Corporation Limited, Transmission Corporation of Andhra Pradesh Limited, Andhra Pradesh State Film Television and Theatre Development Corporation Limited and Andhra Pradesh State Trade Promotion Corporation Limited.

Government companies[×], 7,647 employees were discharged under VRS after paying retirement compensation of Rs 100.42 crore.

Reforms in Power Sector

Andhra Pradesh Electricity Regulatory Commission

1.54 Andhra Pradesh Electricity Regulatory Commission (APERC) with three members, including a Chairman appointed by the State Government was formed in March 1999 under the provisions of the Andhra Pradesh Electricity Reform Act [^] (APER Act) to act as a regulator of the electricity sector in the State and with the objective of rationalization of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licenses. The audit of accounts of the Commission has been entrusted to the CAG under Section 104 (2) of the Electricity Act, 2003. The Commission had finalised its accounts upto the year 2004-05. During 2008-09, APERC issued only one order that too on annual revenue requirements pertaining to six power companies and no order on others was issued.

Status of implementation of Memorandum of Understanding (MoU) between the State Government and the Central Government

1.55 In pursuance of the decision taken at the Chief Ministers' conference on Power Sector Reforms, a Memorandum of Understanding (MoU) was signed on 09 March 2001 between the Ministry of Power, Government of India (GoI) and the Department of Energy, Government of Andhra Pradesh (GoAP) as a joint commitment for implementation of a reform programme in the power sector with identified milestones. The progress achieved so far in respect of important milestones is shown below.

Sl No.	Commitment as per MOU	Targeted completion Schedule	Status (As on 30 September 2009)
	Commitments made by the State Government		
1.	Reduction in Transmission and Distribution losses	From 29.6 per cent to 19.5 per cent by 2006-2007	Reduced to 19.41 per cent
2.	100 per cent electrification of all villages		Achieved
3.	a) 100 per cent metering of all distribution feeders b) 100 per cent metering of 11 KV feeders	December 2001 March 2001	a) & b) 12492 numbers of 11KV Distribution feeders have been metered out of total 12537 Distribution feeders.

[×] Andhra Pradesh Fisheries Corporation Limited, Andhra Pradesh Dairy Development Corporation Limited, AP Small Scale Industries Development Corporation Limited, Allwyn Watches Limited, Allwyn Auto Limited, Republic Forge Company Limited, Andhra Pradesh Electronics Development Corporation Limited, Andhra Pradesh State Textile Development Corporation Limited and Andhra Pradesh State Non Resident Indian Investment Corporation Limited.

[^] Since replaced with Section 82 (1) of Electricity Act, 2003.

4.	100 per cent metering of all consumers	March 2002	All the 1,81,65,672 numbers non agricultural services have been metered. 4,69,800 numbers agricultural service out of total agricultural services of 26,89,307 have been metered.
5.	Others		
	(i) Conversion of distribution companies into Joint Venture Companies	June 2002	There was no such proposal at this moment on privatization of DISCOMs
	(ii) Energy Audit at all Levels	December 2001	Energy audit at transmission and sub transmission levels to identify technical and commercial losses is being done in the power system.
	(a) 220 KV/132 KV boundary metering points between APGENCO and APTRANSCO		89 Numbers 0.2 class accuracy meters have been installed.
	(b) at 485 inter - face points between APTRANSCO and DISCOMS		563 Numbers of 0.2 class accuracy and 495 Numbers 0.5 class accuracy meters have been installed.
	(c) at LT side of Agricultural transformers		Meters provided to 89,588 Numbers agricultural transformers on LT side.
	General		
6.	Monitoring of MoU	Once in 3 months	Distribution reforms committee was constituted (December 2002) to conduct meetings once in every three months. The meetings were held in every quarter.

Discussion of Audit Reports by COPU

1.56 The status as on 30 September 2009 of reviews and paragraphs that appeared in Audit Reports (Commercial) and discussed by the Committee on Public Undertakings (COPU) is as under:

Year of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
1992-93	07	29	06	29
1993-94	06	19	04	19
1995-96	05	23	02	12
1996-97	06	23	03	22
1997-98	06	23	01	10
1998-99	04	25	--	12
1999-2000	06	18	01	07
2000-01	04	17	01	14
2001-02	03	20	--	14
2002-03	03	13	01	10

Audit Report (Commercial) for the year ended 31 March 2009

2003-04	02	19	--	06
2004-05	02	21	--	09
2005-06	04	19	--	07
2006-07	05	24	--	03
2007-08	03	20	--	--
Total	66	313	19	174

1.57 The matter relating to clearance of backlog of reviews/ paragraphs was also discussed with Chairperson of COPU in May 2008 and February 2009.