

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 ₹ 61,476.93 crore for 2010-11 as per their latest finalised accounts as of September 2011. This turnover was equal to 10.83 *per cent* of State Gross Domestic Product (GDP) for 2010-11. Major activities of Andhra Pradesh State PSUs are concentrated in Power sector. The working State PSUs including working Statutory corporations earned a profit of ₹ 238.56 crore in the aggregate for 2010-11 as per their latest finalised accounts. They had employed 2.64 lakh employees as of 31 March 2011. 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 2011, there were 72 PSUs as per the details given below. Of these, no Company was listed on the stock exchanges.

Type of PSUs	Working PSUs	Non-working PSUs [†]	Total
Government Companies	45 [‡]	24 [∇]	69
Statutory Corporations	3	-	3
Total	48	24	72

1.3 During the year 2010-11, four PSUs namely Andhra Pradesh State Christian Minorities Finance Corporation Limited, Andhra Pradesh Gas Infrastructure Corporation Private Limited (619-B), Andhra Pradesh Gas Distribution Corporation Limited (619-B) and Krishnapatnam International Leather Complex Private Limited (619-B) were entrusted for audit.

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 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.

[†] Non- working PSUs are those which have ceased to carry on their operations.

[‡] Includes six 619-B working companies (SI No: 6, 14, 15, 21, 28 and 38 of Part A of Annexure-1).

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

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

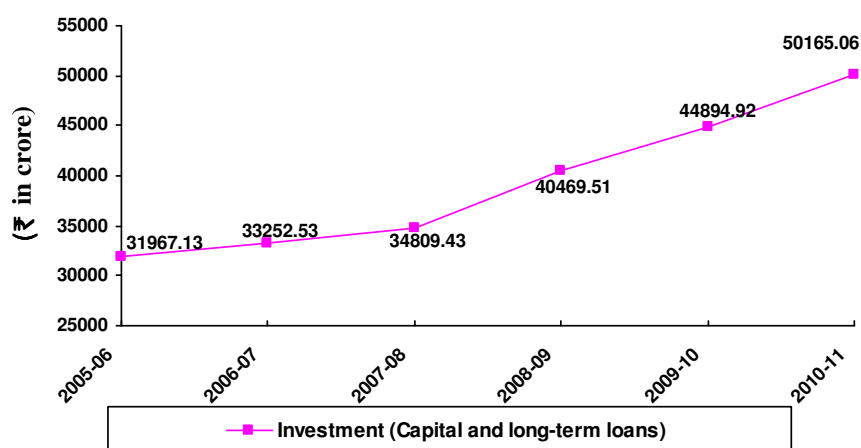
1.7 As on 31 March 2011, the investment (capital and long-term loans) in 72 PSUs (including 619-B companies) was ₹ 50,165.06 crore as per details given below:

Particulars	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	7385.50	37680.37	45065.87	414.89	4415.32	4830.21	49896.08
Non-working PSUs	81.97	187.01	268.98	--	--	--	268.98
Total	7467.47	37867.38	45334.85	414.89	4415.32	4830.21	50165.06

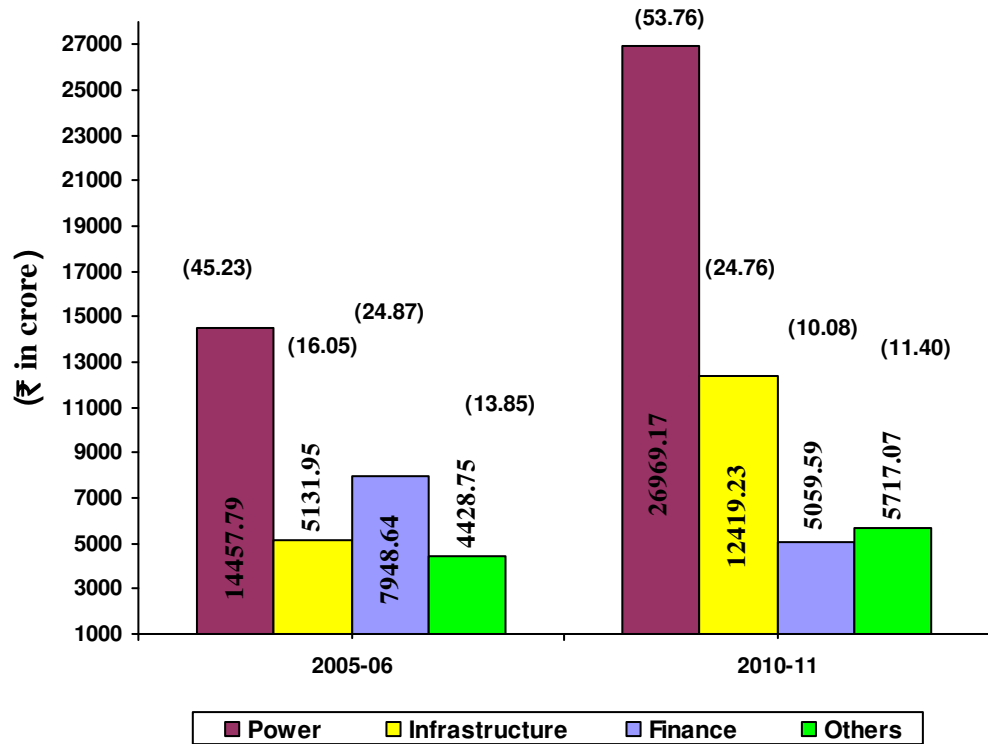
(₹ in crore)

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

1.8 As on 31 March 2011, of the total investment in State PSUs, 99.46 per cent was in working PSUs and the remaining 0.54 per cent in non-working PSUs. This total investment consisted of 15.71 per cent towards capital and 84.29 per cent in long-term loans. The investment has grown by 56.93 per cent from ₹ 31,967.13 crore in 2005-06 to ₹ 50,165.06 crore in 2010-11 as shown below.



1.9 The investment (amount ₹ in crore) in various important sectors and percentage thereof at the end of 31 March 2006 and 31 March 2011 are indicated below in the bar chart. The thrust of PSUs investment was mainly on Power sector during the five years. The investment in Power sector has seen increase in percentage share from 45.23 in 2005-06 to 53.76 in 2010-11.



(Figures in brackets show the percentage of total investment)

During the period from 2005-06 to 2010-11, the investment in Infrastructure sector had become more than twice with an increase of 142 *per cent* (₹ 7,287.28 crore) due to increase in investment in housing activity of Andhra Pradesh State Housing Corporation Limited (₹ 5,921.21 crore) and development of roads by Hyderabad Growth Corridor Limited (₹ 1,428.20 crore). The investment in Power sector had increased by 86.54 *per cent* (₹ 12,511.37 crore) due to development of infrastructure in Power sector. However, during the same period the investment in Finance sector had decreased by 36.35 *per cent* (₹ 2,889.05 crore) on account of decrease in business of lending of loans and advances to business entities in the state.

Budgetary outgo, grants/subsidies, guarantees and loans

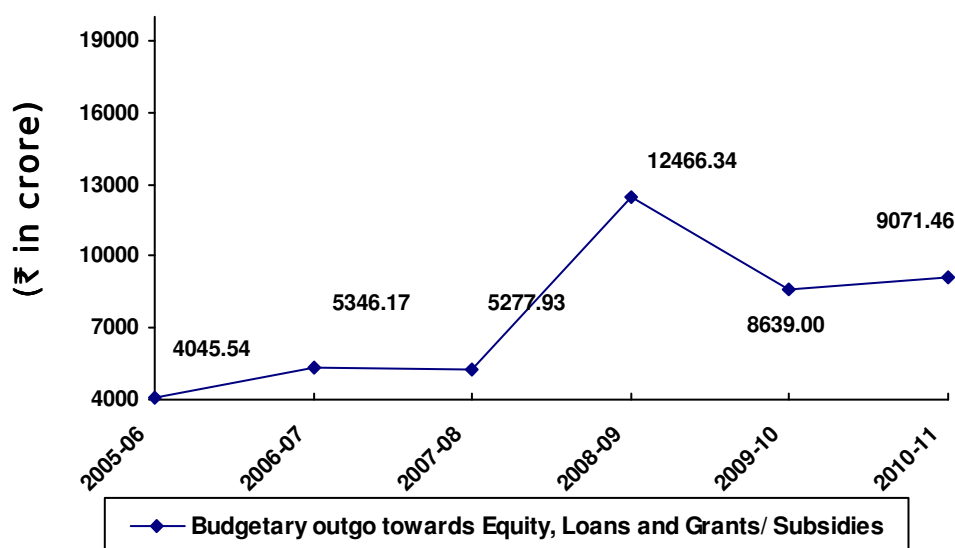
1.10 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Annexure-3**. The

summarised details are given below for three years ended 2010-11.

(₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget [≈]	02	5.06	2	2.02	4	27.06
2.	Loans given from budget	02	2732.21	3	648.94	5	1783.47
3.	Grants/Subsidy received	16	9729.07	20	7988.04	16	7260.93
4.	Total Outgo	18*	12466.34	24*	8639.00	21*	9071.46
5.	Interest/Penal interest written off	01	36.18	01	36.18	--	--
6.	Guarantees issued	05	511.78	4	229.65	5	2638.05
7.	Guarantee Commitment	15	15300.88	14	13770.31	14	14275.46

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 beneficiaries of subsidy and grants out of budget were Power and Service sectors which received 42.84 per cent (₹ 3,554.52 crore) and 29.20 per cent (₹ 2,423.25 crore) of total amount of subsidy and grants (₹ 8,297.53 crore) respectively, while the majority of loans given out of budget was to Infrastructure and Power sectors which received 68.65 per cent (₹ 1,224.32 crore) and 31.21 per cent (₹ 556.55 crore) of total amount of loans (₹ 1,783.47 crore) respectively.

1.12 The Government charges guarantee commission at the concessional rate of half per cent to two per cent for term loans granted by the Financial

[≈] 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.

Institutions and Banks to various PSUs. The guarantee commission is payable as and when loans are guaranteed. The amount of Guarantees outstanding decreased from ₹ 19,480.80 crore in 2005-06 to ₹ 14,275.46 crore in 2010-11 showing a decrease of 26.72 *per cent*. The guarantees mainly comprise amounts guaranteed for Power sector companies including 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 Finance Corporation to provide financial assistance to small and medium scale industries. During the Year 2010-11, the State Government received ₹ 0.12 crore* towards guarantee commission and ₹ 2.76 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 2011 is stated below:

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	3361.63	6302.69	2941.06
Loans	10370.35	11409.01	1038.66
Guarantees	9723.70	14275.46	4551.76

1.14 Audit observed that the amount as per the records of PSUs was more than that of Finance Accounts in respect of equity, loans and guarantees. The differences occurred in respect of 64 PSUs and some of the differences were pending reconciliation since long period. We observed that:

- The difference of ₹ 2,941.06 crore in equity is mainly due to the reason that eight[†] PSUs of Power sector accounted equity as ₹ 4,339.39 crore as against Finance Accounts figure of ₹ 1,574.65 crore.
- The difference of ₹ 1,038.66 crore in loans is mainly due to the reason that Andhra Pradesh State Housing Corporation Limited accounted loans as ₹ 9,469.71 crore as against Finance Accounts figure of ₹ 7,602.47 crore, Andhra Pradesh Industrial Infrastructure Corporation Limited accounted loans as ₹ 0.70 crore as against Finance Accounts figure of ₹ 105.45 crore, and Andhra Pradesh Urban Finance and Infrastructure Development Corporation Limited has not accounted any loans as against Finance Account figure of ₹ 210.65 crore
- The major difference in respect of guarantees was noticed in case of Andhra Pradesh Power Finance Corporation Limited (₹ 4,846.33 crore). This is due to non-accountal of guarantees in the Finance Accounts.

* Andhra Pradesh Industrial Development Corporation Limited.

† Andhra Pradesh Power Generation Corporation Limited, Central Power Distribution Company of Andhra Pradesh Limited, Eastern Power Distribution Company of Andhra Pradesh Limited, Northern Power Distribution Company of Andhra Pradesh Limited, New & Renewable Energy Development Corporation of Andhra Pradesh Limited, Southern Power Distribution Company of Andhra Pradesh Limited, Transmission Corporation of Andhra Pradesh Limited and Andhra Pradesh Power Development Company Limited (619-B)

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

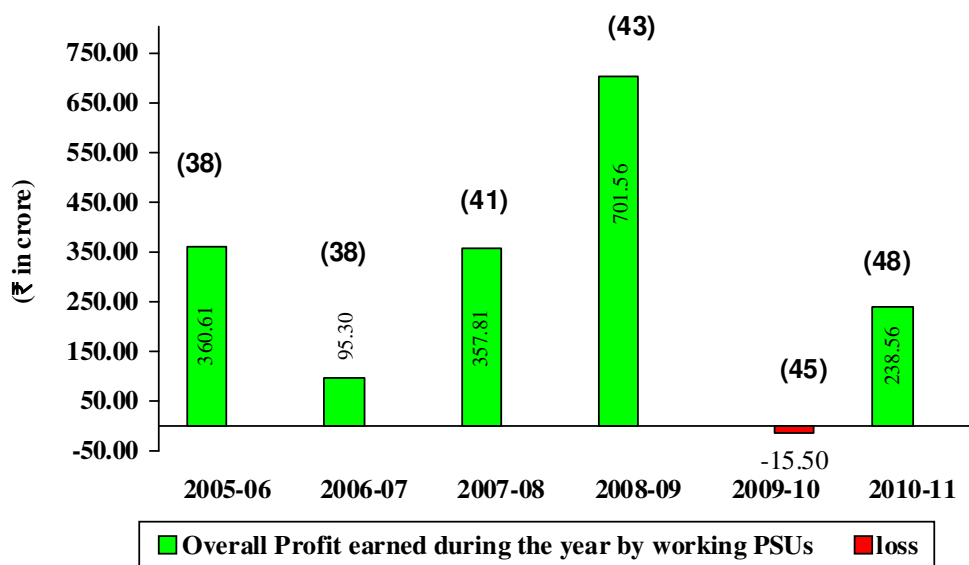
1.15 The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in **Annexure-2, 5 and 6** respectively. A ratio of PSUs turnover to State GDP shows the extent of PSUs activities in the State economy. The table below provides the details of working PSUs turnover and State GDP for the period 2005-06 to 2010-11.

(₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Turnover [™]	29019	31797	36923	44180	52822	61477
State GDP	255941	301035	364813	415832 [‡]	475267 [§]	567636 ^{**}
Percentage of Turnover to State GDP	11.34	10.56	10.12	10.62	11.11	10.83

The GDP and turnover of PSUs is in increasing trend during the period 2006-07 to 2010-11. But the share of PSUs turnover in State GDP has fallen down as compared to the previous year.

1.16 Profit earned/ Loss incurred[®] by State working PSUs during 2005-06 to 2010-11 are given below:



(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 2005-06 had decreased

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

[‡] Provisional.

[§] Quick.

^{**} Upgraded Advanced Estimates.

[®] Figures are as per the latest finalised accounts during the respective years and arrived before the below line adjustments.

by 73.57 per cent in 2006-07 when compared with profit earned in 2005-06. However, the profit had increased during 2007-08 by 275.46 per cent and further increased by 96.07 per cent in 2008-09 when compared with profit earned in the previous year. However, again it had decreased by 102.21 per cent in 2009-10 as compared to profit earned in 2008-09. However, the loss of ₹ 15.50 crore in 2009-10 turned into profit of ₹ 238.56 crore in 2010-11. According to the latest finalised accounts (**Annexure-2**), 28 PSUs earned profit of ₹ 922.95 crore and 9 PSUs incurred loss of ₹ 684.39 crore, four working PSUs* prepared their accounts on a 'no profit no loss' basis and five PSUs[®] have not finalised their first accounts since incorporation and two PSUs[✱] prepared Capital accounts out of total 48 working PSUs. The major contributors to profit were The Singareni Collieries Company Limited (₹ 351.37 crore), Andhra Pradesh Power Generation Corporation Limited (₹ 313.22 crore), Andhra Pradesh State Financial Corporation (₹ 67.33 crore) and Transmission Corporation of Andhra Pradesh Limited (₹ 61.74 crore). Heavy losses were incurred by Andhra Pradesh State Housing Corporation Limited (₹ 341.13 crore) and Andhra Pradesh State Road Transport Corporation (₹ 317.40 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 the last three Audit Reports of CAG shows that the State PSUs incurred losses to the tune of ₹ 19,603.77 crore and infructuous investment of ₹ 208.35 crore which were controllable with better management. Year-wise details from Audit Reports are stated below:

(₹ in crore)				
Particulars	2008-09	2009-10	2010-11	Total
Net Profit (loss)	701.56	(15.50)	238.56	924.62
Controllable losses as per CAG's Audit Report	574.96	4371.56	14654.85	19601.37
Infructuous Investment	4.20	179.83	24.32	208.35

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.

* Andhra Pradesh Power Finance Corporation Limited, Andhra Pradesh State Police Housing Corporation Limited, Andhra Pradesh Rajiv Swagruha Corporation Limited and New and Renewable Energy Development Corporation of Andhra Pradesh Limited.

[®] Indira Gandhi Centre for Advanced Research on Live Stock Private Limited, Andhra Pradesh State Christian Minorities Finance Corporation Limited, Andhra Pradesh Gas Distribution Corporation Limited, Krishnapatnam International Leather Complex Private Limited and Vizag Apparel Park for Exports.

[✱] Andhra Pradesh Gas Infrastructure Corporation Private Limited and Andhra Pradesh Power Development Company Limited.

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

(₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Return on Capital Employed (<i>per cent</i>)	1433.56 (5.32)	1447.82 (5.33)	2046.27 (6.18)	2999.08 (6.96)	3104.04 (5.28)	4260.35 (6.47)
Debt	24889.79	26366.38	27799.65	33234.97	37383.31	42282.70
Turnover [*]	29367.68	31796.88	36922.54	44180.06	52822.45	61476.93
Debt/ Turnover Ratio	0.85:1	0.83:1	0.75:1	0.75:1	0.71:1	0.69:1
Interest Payments [*]	2546.98	2344.48	2169.58	2644.13	3171.66	4063.59
Accumulated Profits (losses)	(2766.22)	(2628.25)	(3160.58)	(2761.49)	(3513.07)	(3121.66)

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

1.20 The turnover of PSUs increased by 109.34 *per cent* (₹ 32,109.25 crore) while debt increased by 69.88 *per cent* (₹ 17,392.91 crore) during the years 2005-06 to 2010-11. Debts to turnover ratio had been decreasing gradually from 0.85:1 in 2005-06 to 0.69:1 in 2010-11, which indicated the deteriorating operational performance of PSUs.

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, 28 PSUs earned an aggregate profit of ₹ 922.95 crore and two working PSUs declared a dividend of ₹ 70.33 crore^{††} at the rate of four *per cent* and 15.85 *per cent* on paid up share capital. As there is no specific dividend policy, the State Government should formulate a dividend policy to yield reasonable revenue on the investment made in all the profit making companies.

Arrears in finalisation of accounts

1.22 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 2011.

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Number of Working PSUs	39	42	43	45	48
2.	Number of accounts finalised during the year	32	39	46	51	46
3.	Number of accounts in arrears	70	73	70	64	70 ^{‡‡}
4.	Average arrears <i>per PSU</i> (3/1)	1.80	1.74	1.63	1.42	1.46
5.	Number of Working PSUs with arrears in accounts	25	29	26	25	30
6.	Extent of arrears	1 to 10 years	1 to 10 years	1 to 11 years	1 to 12 years	1 to 10 years

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

• Figures as per finalised accounts.

†† Andhra Pradesh Mineral Development Corporation Limited and The Singareni Collieries Company Limited.

‡‡ Includes arrears of eight accounts of four newly audit entrusted companies i.e., Andhra Pradesh State Christian Minorities Finance Corporation Limited (2), Andhra Pradesh Gas Infrastructure Corporation Limited (619-B) (2), Andhra Pradesh Gas Distribution Corporation Limited (619-B) (1) and Krishnapatnam International Leather Complex Private Limited (619-B) (3) {Opening Balance (64) + Due for audit (44) + New companies arrears (8) – Accounts finalised (46)= 70}

1.23 The average arrears per PSU decreased from 1.80 in 2006-07 to 1.46 in 2010-11. 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.

1.24 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 three to 27 years.

1.25 The State Government had invested ₹ 13,636.01 crore (Equity: ₹ 17.32 crore, loans: ₹ 4,437.49 crore, grants: ₹ 961.46 crore and subsidy: ₹ 8,219.74 crore) in 25 PSUs (22 working and 3 non-working PSUs) during the years between 2001-02 and 2010-11 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 remains 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.

1.26 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. Earlier, the matter of arrears in accounts was taken up with the Chief Secretary (April 2010) to expedite the backlog of arrears in accounts in a time bound manner and also discussed in the meetings held by COPU in September 2010, however COPU meetings were not held thereafter as the post of Chairman had fallen vacant.

1.27 In view of the 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 staff shortage exists.**

Winding up of non-working PSUs

1.28 There were 24 non-working PSUs[≈] (all companies) as on 31 March 2011. Of these, 11 PSUs have commenced liquidation process, two were being wound up and one PSU was under merger. The number of non-working

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

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.

1.29 The stages of closure in respect of non-working PSUs are given below:

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

1.30 During the year 2010-11, 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 3 to 18 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

1.31 Thirty five working companies forwarded their 40 audited accounts to the Accountant General (Commercial and Receipt Audit) during the year 2010-11. Of these, 34 accounts of 30 companies were selected for supplementary audit and six accounts of five companies[♦] were not reviewed and non-review certificates were issued. The audit reports of Statutory Auditors appointed by CAG and the supplementary audit by 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:

(Amount ₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	12	345.53	10	77.05	13	537.60
2.	Increase in profit	02	75.13	05	256.34	0	0
3.	Increase in loss	05	144.13	04	130.03	03	117.39
4.	Decrease in loss	01	5.96	02	8.35	03	6.23
5.	Non-disclosure of material facts	07	88.68	05	369.55	10	1802.11
6.	Errors of classification	12	213.53	04	484.12	03	483.52

[♦] Andhra Pradesh Meat Development Corporation Limited, Andhra Pradesh Urban Finance and Infrastructure Development Corporation Limited (2), Damodhara Minerals Private Limited (S), Overseas Manpower Company of Andhra Pradesh Limited and Hyderabad Metro Rail Limited

1.32 During the year, the Statutory Auditors had given unqualified certificates for 12 accounts, qualified certificates for 28 accounts of state PSUs 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, 18 comment certificates were issued. The compliance of companies with the Accounting Standards remained poor as there were 51 instances of non-compliance in 17^{§§} accounts during the year.

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

Andhra Pradesh State Minorities Finance Corporation Limited (2008-09)

- ❖ Without any commitment from the Government to reimburse the loans due and written off, accounting these amounts as receivable has resulted in overstatement of ‘Current Assets, Loans and Advances’ and understatement of ‘Expenditure - Government Loan Waiver Written Off’ by ₹ 142.42 crore. Profit is also overstated by an equal amount.

Andhra Pradesh Industrial Infrastructure Corporation Limited (2009-10)

- ❖ Non-accountal of interest of ₹ 36.15 crore on 12 *per cent* convertible debentures for the years 2008-09 and 2009-10 has resulted in overstatement of Interest income and profit for the year by ₹ 19.17 crore, overstatement of ‘prior period adjustments (net)’ by ₹ 16.98 crore and overstatement of ‘Sundry Debtors’ and ‘profit before taxation’ by ₹ 36.15 crore.

Andhra Pradesh Mineral Development Corporation Limited (2006-07)

- ❖ Fixed Deposits amounting to ₹ 72.50 crore made in various scheduled Banks by the company were not supported by fixed deposit receipts nor authenticated details of confirmation from Banks.

Andhra Pradesh Power Generation Corporation Limited (2010-11)

- ❖ Without considering the reduced rate of surcharge on income tax, the Company measured and accounted the Deferred Tax Liability and Deferred Tax Asset, which resulted in overstatement of Deferred Tax and understatement of Net Profit by ₹ 13.54 crore.

Eastern Power Distribution Company of Andhra Pradesh Limited (2010-11)

- ❖ Non-accountal of ₹ 28.88 crore claims made by APGENCO towards belated payment surcharge has resulted in understatement of ‘Current

^{§§} Andhra Pradesh State Agro Industries Development Corporation Limited, Andhra Pradesh State Irrigation Development Corporation Limited, Andhra Pradesh Power Finance Corporation Limited, Andhra Pradesh Industrial Infrastructure Corporation Limited, Andhra Pradesh State Police Housing Corporation Limited, Andhra Pradesh Rajiv Swagruha Corporation Limited, Andhra Pradesh Urban Finance and Infrastructure Development Corporation Limited, Infrastructure Corporation of Andhra Pradesh Limited, Leather Industries Development Corporation of Andhra Pradesh Limited (2003-04 & 2004-05), Nizam Sugars Limited, Central Power Distribution Company of Andhra Pradesh Limited, Eastern Power Distribution Company of Andhra Pradesh Limited, Northern Power Distribution Company of Andhra Pradesh Limited, Southern Power Distribution Company of Andhra Pradesh Limited, Andhra Pradesh State Civil Supplies Corporation Limited, Andhra Pradesh Tourism Development Corporation Limited

Liabilities and Provisions – Sundry Creditors’ and overstatement of ‘Net profit’ by ₹ 28.88 crore.

Northern Power Distribution Company of Andhra Pradesh Limited (2010-11)

- ❖ Non-accountal of ₹ 28.20 crore claims made by APGENCO towards belated payment surcharge has resulted in understatement of ‘Current Liabilities and Provisions – Sundry Creditors’ and overstatement of ‘Net profit’ by ₹ 28.20 crore.

Central Power Distribution Company of Andhra Pradesh Limited (2010-11)

- ❖ Accountal of the provision for leave encashment based on Actuary Report for the year 2004-05, which is contrary to the AS-15 has resulted in understatement of ‘Employee Costs’ and overstatement of ‘Net Profit’ by ₹ 87.85 crore.
- ❖ Non-accountal of ₹ 81.84 crore claims made by APGENCO towards belated payment surcharge has resulted in understatement of ‘Current Liabilities and Provisions – Sundry Creditors’ and overstatement of ‘Net profit’ by ₹ 81.84 crore.

Southern Power Distribution Company of Andhra Pradesh Limited (2010-11)

- ❖ Accountal of unidentified amount under bank balances has resulted in understatement of ‘Other Expenses – Miscellaneous losses and write-offs’ and ‘Net Loss before Tax for the year’ by ₹ 9.88 crore.
- ❖ Accountal of the negative balance of remittance in transit which should have been written off in the books of account has resulted in understatement of ‘Cash and Bank balances’ and ‘Other Income’ by ₹ 13.45 crore. Consequently, ‘Net Loss before Tax for the year’ is overstated by similar amount.
- ❖ Accountal of FSA pertaining to 2008-09 in current year i.e., 2010-11 though the same was already accounted for in 2008-09, has resulted in overstatement of ‘Other Income’ and ‘Sundry Debtors’ by ₹ 15.16 crore. Consequently, ‘Net Loss before Tax for the year’ is understated by similar amount.
- ❖ Non-accountal of ₹ 39.57 crore claims made by APGENCO towards belated payment surcharge has resulted in understatement of ‘Current Liabilities and Provisions – Sundry Creditors’ and overstatement of ‘Net Loss before tax’ by ₹ 39.57 crore.
- ❖ Non-capitalisation of interest on Power Finance Corporation loan has resulted in overstatement of ‘Interest and Finance Charges’ and understatement of ‘Capital Work-in-Progress’ by ₹ 8.58 crore. Consequently, ‘Net Loss before Tax for the year’ is overstated by similar amount.

1.34 Similarly three working Statutory corporations have forwarded their six accounts namely Andhra Pradesh State Warehousing Corporation (4), Andhra Pradesh State Financial Corporation (1) and Andhra Pradesh State Road Transport Corporation (1) to AG during the year 2010-11. The supplementary audit of these accounts had been completed by September 2011. During the year, the Statutory Auditors had given unqualified

certificates for four accounts and qualified certificate for one account. 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. The details of aggregate money value of comments of Statutory Auditors and CAG are given below:

(Amount ₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	02	79.70	01	1.11	01	0.14
2.	Increase in profit	--	--	--	--	01	9.37
3.	Non-disclosure of material facts	02	--	01	3.83	01	15.29
4.	Errors of classification	01	26.81	01	11.47	01	11.32

1.35 Some of the important comments in respect of accounts of Statutory corporations are stated below:

Andhra Pradesh State Warehousing Corporation (2008-09)

- ❖ Reserve for Bad and Doubtful Debts is overstated by ₹ 55.44 lakh being the provision made towards employees' contribution (₹ 43.78 lakh) and penalty (₹ 11.66 lakh). The same should have been included in 'Current Liabilities-Provisions'. Not doing so has also resulted in understatement of Provisions by ₹ 55.44 lakh.

Andhra Pradesh State Financial Corporation (2010-11)

- ❖ The Separate Audit Reports of the CAG, of the previous years have not been placed before Annual General Meetings of the Corporation as required under Section 36(2)(c) and the same are being placed on the table of the Legislature without adoption by the AGM. This was also commented by CAG on the accounts for the year 2008-09 and 2009-10

1.36 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 17 companies for the year 2008-09, 20 Companies for the year 2009-10 and

16 companies *** for the year 2010-11 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.	-	-
2.	Absence of internal audit system commensurate with the nature and size of business of the company.	12	A-2,3,17,18,26,27,32, 33, 36,39,41 and 42
3.	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.	9	A-1,12,13,18,21,32, 39,41 and 42
4.	Lack of internal control.	8	A - 1,13,18,27,36,39,41 and 42

Recoveries at the instance of Audit

1.37 During the financial year 2010-11, recoveries of ₹ 33.95 crore were pointed out to the Management of various PSUs. An amount of ₹ 9.48 crore was recovered from October 2010 to September 2011.

Status of placement of Separate Audit Reports

1.38 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	2009-10	2010-11	Yet to be submitted	--
2.	Andhra Pradesh State Warehousing Corporation	2004-05	2005-06	07-09-2011	Arrears in finalisation of accounts
3.	Andhra Pradesh State Road Transport Corporation	2008-09	2009-10	21-3-2011	--

*** Andhra Pradesh State Agro Industries Development Corporation Limited, Andhra Pradesh Forest Development Corporation Limited, Andhra Pradesh State Irrigation Development Corporation Limited, Andhra Pradesh Industrial Development Corporation Limited, Andhra Pradesh Industrial Infrastructure Corporation Limited, Andhra Pradesh State Police Housing Corporation Limited, Andhra Pradesh Rajiv Swagruha Corporation Limited, Hyderabad Growth Corridor Limited (619-B), Damodhara Minerals Private Limited(S), Leather Industries Development Corporation of Andhra Pradesh Limited, Central Power Distribution Company of Andhra Pradesh Limited, Eastern Power Distribution Company of Andhra Pradesh Limited, Southern Power Distribution Company of Andhra Pradesh Limited, Andhra Pradesh State Civil Supplies Corporation Limited, Andhra Pradesh Technology Services Limited and Andhra Pradesh Trade Promotion Corporation

Reforms in Power Sector

Andhra Pradesh Electricity Regulatory Commission

1.39 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 2005-06. During 2010-11, APERC issued 36 orders on the issues other than tariff.

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

1.40 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 2011)
(1)	(2)	(3)	(4)
	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 15.58 per cent.
2.	100 per cent electrification of all villages	NA	Achieved.
3.	a) 100 per cent metering of all distribution feeders b) 100 per cent metering of 11 KV feeders	December 2001 March 2001	Achieved.
4.	100 per cent metering of all consumers	March 2002	Achieved, except agricultural services for which free power is provided. 7,25,322 Nos. out of total agricultural services of 29,32,374 have been metered.
5.	Others		
	(i) Conversion of distribution companies into Joint Venture Companies	June 2002	There is no proposal at the moment for Conversion of Distribution Companies into Joint Venture Companies.
	(ii) Energy Audit at all Levels	December 2001	Energy audit in APTRANSCO is being done for assessment of the losses of energy in the power

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

Sl No.	Commitment as per MOU	Targeted completion Schedule	Status (As on 30 September 2011)
(1)	(2)	(3)	(4)
			system at transmission, sub transmission and distribution levels with the objective of identifying areas of high technical and commercial losses.
6.	Securitized outstanding dues of CPSUs ^{†††}	GOAP has issued Notification for issuance of Bonds to the tune of ₹2436.09 crore through RBI to CGS ^{‡‡‡} vide GoAP Lr.No.3321/706/A2/W&M /2003. Dated 18.08.2003	RBI has issued bonds to CGS through DEMAT ^{§§§} form for ₹2436.09 crore
7.	Supply of additional power	GoI will allocate additional 140 MW of power on completion of three double circuit transmission lines namely (1) 400 KV Khammam-Hyderabad double circuit Line and (2) 220 KV Nidadavole-Bhimadole double circuit line and (3) Lower Sileru-Bommuru double circuit Lines	1) 400 KV Khammam-Hyderabad double circuit Line charged on 29.09.2001 2) 220 KV Nidadavole-Bhimadole double circuit line charged on 27.01.2002 3) 220 KV Lower Sileru-Bommuru single circuit Line charged on 31.03.2003
8.	Allocation of additional power from new central generation stations to DISCOMs directly.	After achieving financial capability	All PPAs ^{****} including those of CGS allocated to DISCOMs ^{†††} with effect from June 2005
	General		
9.	Monitoring of MoU	Once in 3 months	T & D losses are being monitored monthly. Distribution Reforms Committee was constituted to conduct meeting once in every three months in order to review the progress and programme of APDRP ^{‡‡‡} works being implemented in four DISCOMs.

Source: Information furnished by APTRANSCO.

^{†††} Central Public Sector Units.

^{‡‡‡} Central Generation Stations.

^{§§§} Dematerialised.

^{****} Power Purchase Agreements.

^{††††} Distribution Companies

^{‡‡‡} Accelerated Power Development and Reforms Programme.