

OVERVIEW

1. Overview of State Public Sector Undertakings

The State Public Sector Undertakings (PSUs), consisting of State Government Companies and Statutory Corporations, are established to carry out activities of a commercial nature, while keeping in view the welfare of the people. Audit of Government Companies is governed by Section 619 of the Companies Act, 1956. The accounts of the State Government Companies 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. Audit of Statutory Corporations is governed by their respective legislations.

- As on 31 March 2012, the State of Andhra Pradesh had 50 working PSUs (47 companies and three Statutory Corporations) and 24 non-working PSUs (all companies). As of the same date, the investment (capital and long-term loans) in these 74 PSUs was ₹ 57,982.25 crore. This investment has grown by 74.37 *per cent* from 2006-07 to 2011-12. The thrust of the investment was mainly in the power sector.
- During 2011-12, the total outgo from the budget of the Government of Andhra Pradesh (GoAP) was ₹ 10,027.27 crore, of which equity capital outgo was ₹ 46.67 crore, loans outgo ₹ 3,035.07 and grants/ subsidies ₹ 6,945.53 crore. Notwithstanding this budgetary outgo, there was a total outstanding receivable amount from GoAP of ₹ 13,129.00 crore as of March 2012 towards subsidy for high cost power in respect of the four power distribution companies.
- There was a difference of ₹ 2,953.92 crore in equity, ₹ 2,563.87 crore in loans and ₹ 4,842.94 crore in guarantees as per the Finance Accounts and the records of PSUs, which needs to be reconciled.
- Out of 50 working PSUs, only 22 PSUs had finalized their annual accounts for 2011-12. The total number of annual accounts in arrears was 78, with arrears ranging from one to seven years.
- Out of the 22 PSUs that had finalized their accounts for 2011-12, 16 PSUs earned an aggregate profit of ₹ 1,224.32 crore, while 4 PSUs incurred a loss of ₹ 586.34 crore. The main profit earning PSUs were Andhra Pradesh Power Generation Corporation Limited (₹ 401.52 crore), The Singareni Collieries Company Limited (₹ 358.27 crore) and Transmission Corporation of Andhra Pradesh Limited (₹ 308.46 crore). The main loss incurring PSU was Andhra Pradesh State Road Transport Corporation (₹ 585.31 crore).

- Reports of Statutory Auditors on internal control of the companies indicated several weak areas.
- 13 Departments had not submitted Explanatory Notes on 116 out of 425 paragraphs/ review included in the CAG's Audit Reports as of September 2012. Further, Action Taken Notes on 607 recommendations pertaining to 37 Reports of the Committee on Public Undertakings presented to the State Legislature between April 1991 and March 2012 had not been received as of September 2012. Also, 3,035 paragraphs relating to 756 audit inspection reports issued to the Heads of PSUs and Departments remained outstanding as of September 2012.

(Chapter I)

2. Performance Audit relating to Statutory Corporation

Performance Audit relating to *Andhra Pradesh State Financial Corporation*

Introduction

Andhra Pradesh State Financial Corporation (APSFC) was set up in November 1956 under the State Financial Corporations (SFCs) Act, 1951 for extending financial assistance to Micro, Small and Medium Enterprises (MSME) in the State. The sources of funds for APSFC include the Small Industries Development Bank of India (SIDBI), borrowings from banks and financial institutions etc. In November 2003, APSFC, Government of Andhra Pradesh (GoAP) and SIDBI entered into an MoU for improvement of APSFC's profitability and viability, which was renewed in January 2010 for another five years.

A Performance Audit of the activities of APSFC thus, would not only cover a review of the follow-up action taken on the earlier audit findings and CoPU recommendations, but would also provide insight into how successful APSFC was in the medium-to-long term in the implementation of the tripartite MoU and completing its turnaround, besides appraisal of its policies and procedures for appraisal, sanction, disbursement and recovery of loans.

The current Performance Audit covered the activities of APSFC for the period 2007-08 to 2011-12. Out of 6,169 loans sanctioned for ₹ 5,699.91 crore during this period, detailed audit scrutiny of loan files covered a stratified sample of 175 loans, constituting about 21 *per cent* of the total sanctioned amount during 2007-12. In addition, 65 OTS (One Time Settlement) and recovery cases for loans sanctioned during earlier periods were also scrutinised.

The main objectives of the Performance Audit were to assess whether (a) the terms of the tripartite MoU were adhered to; (b) APSFC's policies and procedures for appraisal, sanction and disbursement of loans were effective; and (c) APSFC's processes for timely recovery of loans were adequate and effective.

Our main audit findings and recommendations are summarised below:

Adherence to MoU Terms

- GoAP's efforts towards strengthening of APSFC's equity base were limited to alienation and allotment of land in a prime area of Rangareddy District. However, since the land is encroached upon by people engaged in illegal quarrying, APSFC has not benefitted from GoAP's equity contribution.
- In the tripartite MoU, among APSFC, GoAP and SIDBI, APSFC had assured that it would curtail administrative and establishment expenditure to 10 *per cent* of total income by 2009. However, during 2007-08 to 2011-12, such expenditure ranged from 14 to 17 *per cent*. It was also unable to diversify its product base through non-fund income.

Appraisal, Sanction, Disbursement and Recovery of Loans

- Contrary to the Know Your Customer (KYC) norms, APSFC did not conduct due diligence in respect of the sources of interest-free advances brought in for a majority of high-value loans sanctioned. It also had no mechanism for updating of customer data on a periodical basis.

- Audit scrutiny of test-checked loans sanctioned during 2007-12 revealed several deficiencies/ deviations:

With effect from October 2009, interest rate for term loans was based on the credit ratings assigned by APSFC. However, there were several instances of grant of concessional rates of interest in an arbitrary/ non-transparent manner.

Loans were sanctioned to educational institutions, even though they were not included as eligible activities under the SFC Act.

Other deviations included improper consideration of the cost of machinery/ improper valuation of existing machinery, sanction for an unapproved purpose, non-obtaining of additional collateral security for a unit which had availed of OTS benefits, sanction to units with accumulated arrears on an earlier loan/ whose sister concerns had already been classified as NPAs.

- There were several deficiencies/ deviations in disbursement and recovery of test-checked loans:

APSFC had been disbursing loan amounts on *ad hoc* basis in selective basis without verification of proof of expenditure, resulting in large amounts pending adjustment for long periods. Further, APSFC was irregularly treating such *ad hoc* releases as regular term loan amounts.

APSFC had substantial NPAs (Non-Performing Assets); there was a jump from ₹ 233.11 crore in 2007-08 to ₹ 296.79 crore in 2011-12.

There were numerous instances of non-compliance/ delays in taking recovery action (issue of recall notices, seizure of assets and sale, action under the Revenue Recovery Act/ SFC Act etc.). Such action was not being initiated in time even in respect of doubtful assets (let alone all sub-standard assets).

There were instances of acceptance of defective securities, without proper verification, as well as irregular/ improper release of collateral security without adequately protecting the financial interests of APSFC (which resulted in accumulation of large outstanding amounts/ arrears).

APSFC has been operating the OTS Scheme for 15 years continuously without a fixed timeframe, promoting a culture of non-payment amongst its borrowers. There were numerous instances where APSFC settled the loan accounts for amounts less than the collateral security available, deviating from its own OTS guidelines and COPU's directions. Further, OTS benefits were also irregularly extended to wilful defaulters.

(Chapter II)

3. Thematic Audit of Land Allotments by Andhra Pradesh Industrial Infrastructure Corporation Limited

Alienation/ acquisition and allotment of land to private parties is a major activity undertaken by the Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC). Audit has commented on land allotments by APIIC and instances of undue favours granted to private parties by APIIC and Government of Andhra Pradesh (GoAP) in recent Audit Reports (viz., 2006-07-Commercial and 2011-12-Civil). However, in order to present a comprehensive picture of land acquisition/ alienation and allotments by APIIC, a thematic audit on this subject, covering the Corporate Office of APIIC and 8 out of its 16 Zonal Offices was conducted in May to July 2012. The audited sample of 1096 cases involved 43,920 acres of land, covering 78 per cent of the total land allotment during 2006-12. The main findings and recommendations arising out of the thematic audit are summarized below.

Sale/Lease of land in advance possession of APIIC pending alienation by GoAP

Alienation orders of GoAP had not been received for 49,046 acres of land, over which APIIC had already taken advance possession. Consequently, APIIC was making sales/lease to private parties based on the tentative market value of land.

Irregularities in allotment/ alienation

- Deficiencies in the award and implementation of the project for development of 'Integrated Vizag Knowledge City' over 1,750 acres of land, with corresponding undue favour to the successful bidder and allottee, Unitech Ltd, besides substantial post-bid changes such that the Development Agreement bore virtually no resemblance to the project terms and conditions envisaged at the time of bidding in detriment to the financial interests of APIIC.
- Instances of allotment of land to private parties at rates well below the market value or well below acquisition cost. Notable instances of such allotment at irregularly low rates to East Coast Energy Ltd., MLR Motors Pvt. Ltd, Orient Craft Fashion Institute of Technology, Krishnapatnam Power Corporation Ltd., and Kineta Power Pvt. Ltd., involving losses of ₹ 48.84 crore.
- 82 allotments by APIIC at rates lower than those of APIIC's own Price Fixation Committee (PFC); notable instances of such allotments were to J.T. Holdings, Hyderabad Gems Ltd., Hetero Drugs Ltd., Aurobindo Pharma Ltd., and Gujarat NRE Coke Ltd., involving losses of ₹ 69.83 crore. There were also instances of allotment of land by APIIC

before fixation of cost by its Price Fixation Committee (PFC), which resulted in loss of ₹ 25.09 crore in respect of six cases.

- Other deficiencies in allotment detrimental to APIIC's financial interests, including allotment at reduced rates leading to the allottees benefit of ₹ 44.07 crore.
- Short-levy/ non-levy of service charges and process fee amounting to ₹ 65.37 crore, non-levy of commercial rates for commercial activities in Industrial/ IT Parks with loss of revenue of ₹ 16.13 crore and short-levy of conversion fee for non-agricultural purposes of ₹ 6.40 crore.
- Irregularities in allotments of land on lease basis by APIIC in several cases, notably in respect of Samuha Engineering Industries Ltd., with undue favour of ₹ 61.24 crore. Other cases of irregularities in lease allotment included Solar Semiconductor Pvt. Ltd., and XL Telecom & Energy Ltd., in Fab City (Rangareddy District) and Thermal Power Tech Corporation India Ltd. (SPS Nellore District), with loss of revenue of ₹ 25.99 crore.

Non-achievement/ partial achievement of objectives

Out of 6,038 allotments, 4,220 allotments during 2006-10 should have been completed within 2 years. Of these, 1,204 units (involving 15,292 acres of land) were yet to even commence implementation. Audit scrutiny also revealed instances of non-fulfillment of targeted objectives of investment and employment generation for various industries, despite the rebate for land cost.

(Chapter – III)

4. Compliance Audit Observations

Gist of audit observations is given below:

1. Andhra Pradesh Industrial Infrastructure Corporation Limited

a) Irregularities in Construction of Corporate Office Building

APIIC obtained land allotment from the Government in a prime locality for construction of Corporate Office but resorted to unauthorised construction of arts theatre and commercial space. The unfinished building worth ₹ 9.61 crore was kept idle for the past one year pending decision by the Government on its utilisation.

(Paragraph 4.1)

b) Undue benefit to Allottees

APIIC's decision to lay a road between lands allotted to two SEZs on its own without ensuring feasibility of the road for public use resulted in infructuous expenditure of ₹ 26.81 crore besides extending undue benefit to the developers of these two SEZs.

(Paragraph 4.2)

2. Andhra Pradesh Gas Infrastructure Corporation Limited

Unfruitful expenditure towards consultancy charges

APGIC incurred unfruitful expenditure of ₹ 1.05 crore towards consultancy charges without deriving any significant services due to non-termination of agreement of consultant as the important termination clause was not included in the agreement even though the same was offered by the consultant.

(Paragraph 4.3)

3. Krishnapatnam International Leather Complex Private Limited

Abnormal delay in implementation of International Leather Complex Project

Lack of planned approach in project implementation, coupled with unexplained delays in decision making, resulted in failure to implement the ILC project even after abnormal delay of seven years of the sanction, and defeated the envisaged objective of exploiting emerging global leather trade opportunities and creation of sustainable employment in the state of Andhra Pradesh.

(Paragraph 4.4)

4. Indira Gandhi Centre for Advanced Research on Livestock Private Limited (IGCARL)

Unfruitful Expenditure

The objective of a functional world class livestock research centre remained far from reality having incurred an expenditure of ₹ 236.67 crore till March 2012 on buildings, land acquisition and other pre-operative expenses. Basic amenities (viz. water, power, effluent/ sewerage treatment plants) required for such a research facility had not been made available; funds required for completion of balance works and provision of basic amenities were yet to be provided. The infrastructural assets created and largely completed with 6.64 lakh sq. ft. of floor area were being put to limited use only as a cattle diary and for cultivation of fodder crops, rather than for research on livestock. The Bio-Tech SEZ was a non-starter.

(Paragraph 4.5)

5. Andhra Pradesh State Road Transport Corporation

Deficiencies in regulation of pay & allowances and related expenditure

Deficiencies in regulation of pay & allowances and related expenditure resulted in avoidable extra expenditure/ additional burden to the tune of ₹ 92.93 crore due to implementation of revised pay scales with effect from 1 April 2009 (RPS 2009) and financial indiscipline/ lack of control over expenditure, especially personnel cost.

Other observations in APSRTC include heavy expenditure on light vehicles, extension of interest free furniture advance out of borrowed funds resulted in additional burden of ₹ 2.98 crore, additional burden due to non-revision of man hour rates in respect of workshops-₹ 5.37 crore, heavy expenditure on officers' Travelling/ Daily Allowance due to higher rates and lack of control, Surrender of privilege bus passes, Reimbursement of expenditure on LTC to foreign countries.

(Paragraphs 4.6.1 to 4.6.11)

(Chapter 4)