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. In Andhra Pradesh, the State PSUs occupy an important place in the State economy. 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 2014, the State of Andhra Pradesh had 55 working PSUs (52 companies and three Statutory Corporations) and 22 non-working PSUs (all companies). As of the same date the investment (capital and long-term loans) in these 77 PSUs (including 619-B companies) was ₹ 76,239.06 crore. The investment has grown by 88.39 *per cent* from ₹ 40,469.51 crore in 2008-09 to ₹ 76,239.06 crore in 2013-14. Thrust of investment was mainly in the power sector PSUs.
- During 2013-14, the total outgo from the budget of the Government of Andhra Pradesh (GoAP) was ₹ 14704.94 crore, of which equity capital outgo was ₹ 27.33 crore, loans outgo ₹ 1,726.53 crore and grants/ subsidies ₹ 12,951.08 crore.
- There was a difference of ₹ 2,934.00 crore in equity, ₹ 1,614.59 crore in loans and ₹ 7,450.90 crore in guarantees as per the Finance Accounts and the records of PSUs, which needs to be reconciled.
- Out of 55 working PSUs, only 17 PSUs had finalised their annual accounts for 2013-14. The total number of annual accounts in arrears was 84, with arrears ranging from one to nine years.
- Out of the 17 PSUs that had finalised their accounts for 2013-14, seven PSUs earned an aggregate profit of ₹ 1,146.34 crore, eight PSUs incurred a loss of ₹ 1,386.05 crore, one PSU neither earned profit nor loss and one PSU has not started its commercial operations & hence has not prepared profit & loss account. The main profit earning PSUs were Andhra Pradesh Power Generation Corporation Limited (₹ 555.76 crore), Singareni Collieries Company Limited (₹ 418.74 crore) and Transmission Corporation of Andhra Pradesh Limited (₹ 102.77 crore). The main loss-incurring PSU was Central Power Distribution Company of Andhra Pradesh Limited (₹ 811.24 crore).

(Chapter I)

2. Performance Audit relating to Government companies

Performance Audit of **Underground Mining Activities in The Singareni Collieries Company Limited** and **Activities of Andhra Pradesh State Agro Industries Development Corporation Limited** were conducted**.** Executive summaries of audit findings are given below:

Underground Mining Activities in The Singareni Collieries Company Limited

Introduction

The Singareni Collieries Company Limited (SCCL/ Company) was incorporated in December 1920 with main objective of development of mines for extraction of coal in the state of Andhra Pradesh. As most of the mines up to a depth of 350 metres have already been opened up by the Company either by underground or opencast method, all future mines will have to be operated in a depth range of 350 metres to 600 metres. Hence incremental production has to come mainly from underground (UG) mining.

Production and Profitability

The production from UG mines was continuously decreasing during 2009-14, except for an increase in 2012-13. In case of UG mining, cost of production increased by 54.79 *per cent* whereas sales realisation increased only by 28.46 *per cent* during the period. The losses increased by 135.63 *per cent*.

Under utilization of Machinery

Overall percentage of machine utilization during the five year period was only 35.85 *per cent*. There was overall shortfall in targeted production from UG mines and 54.41 *per cent* of that shortfall was attributable to under-performance of Side Dump Loaders (SDLs). The Company was using a large number of SDLs past their useful lives which were yet to be surveyed off.

Planning and execution of projects for introduction of Longwall method (LW)

The Company had planned to introduce the state of the art Longwall technologies for bulk production from UG mines in four new projects with a total estimated capital outlay of ₹ 1,608.68 crore and production capacity of 9.01 MT.

The four longwall projects (KTK, Shanthikhani, Adriyala and Jallaram) though planned to achieve total additional production of 9.01 MT by 2012-13, could not commence production till June 2014, for which expenditure of ₹ 1,405.80 crore was incurred till March 2014.

Contrary to the Board's approval for preparation of Notice Inviting Tender (NIT) for global tenders on risk and gain sharing basis, the Company engaged a private consultancy firm for preparation of NIT and identification of a technology provider-cum-operator (TPO). As the TPO failed to obtain the necessary approvals and clearances, Company terminated the agreement in March 2014. The Company had spent ₹ 125.16 crore till March 2014.

Expenditure of ₹ 61.67 crore incurred on Shanthikhani longwall project became unfruitful due to unreasonable delays in decision making at every stage.

Combining two high cost projects, i.e. Jallaram and Adriyala, without assessing the feasibility of implementation and subsequent deferment of Jallaram project has adversely impacted the productivity and viability of Adriyala mine. Failure to take into account the planned overburden (OB) dump before planning the project led to loss of safety in the UG mine.

Irregularities in award of contracts for processing sand from Overburden

The Company decided to process sand from the OB for which four contracts were awarded during the last five years. Amendments to NIT were issued for supply of water and power free of cost to the Contractor instead of chargeable basis without the approval of competent authority. Financial impact of these was ₹ 101.38 crore.

Sales Realization

Loss incurred due to selling coal as Run of the Mine (ROM) coal instead of crushed coal worked out to ₹ 28.40 crore during the period from 2009-10 to 2013-14. Sale of coal without separating into B-grade and D-grade in Vakilpalli mine resulted in loss of revenue of ₹ 29.56 crore in 2012-13.

Manpower

Special Incentive scheme was designed without considering the additional financial burden compared to additional production over the target in case of UG mines.

Environment

Failure to complete the projects on schedule necessitated the company to resort to mining in excess of EC capacity in violation of Environment Laws.

(Chapter 2.1)

Activities of Andhra Pradesh State Agro Industries Development Corporation Limited

Introduction

Andhra Pradesh State Agro Industries Development Corporation (APS Agros) Limited was established on 5 March 1968 to help in growth and modernisation of agriculture, horticulture, sericulture and other allied sectors of the State. The Company is engaged primarily in Land Development Activity (LDA) and is the nodal agency for supply of farm machinery and agriculture inputs to beneficiary farmers. Other activities of the Company include trading of fertilizers and pesticides through Agro Rythu Seva Kendras (ARSK) and maintenance of Agro Service Centres (ASC) for distribution of agricultural implements and sale of tyres, tubes and batteries for government departments. It has two mango processing units at Nuzivedu and Tirupati for exporting mangoes to Japan.

Financial Position

The Company earned profit of ₹ 8.51 crore in 2011-12 and incurred loss of ₹ 2.91 crore in 2012-13 and loss further increased to ₹ 9.14 crore in 2013-14 due to decrease in allocation of business by the Agriculture and Horticulture departments.

Implementation of schemes:

A) Construction of display centres:

Government released (September 2011 & November 2012) ₹ 10.80 crore for construction of farm machinery display centres in Phase-I and Phase-II. Without utilising the sheds constructed under phase-I at a cost of ₹ 3.13 crore, Company further initiated action for construction of display centres under phase-II.

B) Machinery repair centres:

The government released (September 2011 to September 2013) ₹ 1.11 crore for imparting training to unemployed youth to open 'machinery repair centres'. Company identified and trained only 119 candidates against 1,100 candidates proposed under scheme, by spending ₹ 12.73 lakh and only one trainee opened the repair centre.

C) Construction of Godowns:

Government released (November, 2012) an amount of ₹ 4.01 crore for construction of godowns, at Chintal, Hyderabad. The Company did not commence the works and kept the funds in fixed deposits. Government further released (September, 2013) an amount of ₹ three crore during 2013-14, but the Company dropped the proposal of construction of godown citing paucity of time and surrendered ₹ one crore. Remaining amount of ₹ two crore was proposed to be utilised for procurement of machinery (₹ 1.87 crore) for display centres and machinery repair centre (₹ 0.13 crore). The Company failed to utilise these funds till date (July 2014).

D) Fruit processing plants for export of mangoes:

The Company constructed (2008-09) two fruit processing plants at Nuziveedu (Krishna district) and Tirupati (Chittoor district), at a cost of ₹ 26.40 crore, with an objective of exporting mangoes. But the plants were kept idle without utilisation/ exporting mangoes, rendering the entire expenditure futile.

Agro Service Centres (ASCs)

Unauthorised reduction of service charges from four *per cent* to two *per cent*, by Commissioner and Director of Agriculture, resulted in loss of business. Lack of proper monitoring of Agro Rythu Seva Kendras (ARSKs) resulted in non-renewal of agreements with them resulting in loss of ₹ 82.92 lakh.

Ineffective Land Development Activity (LDA)

Company did not achieve the targeted hours of operation of land development machinery, as well as financial targets in any of the years during the period of review.

The Company revised the rate per hour for land machinery factoring oil cost only and ignoring changes in the other fixed and variable costs which resulted in loss in LDA activity of ₹ 1.39 crore during the five year review period.

Inefficient management of lands and other properties

The Company, on orders of Government, retransferred (1994-96) two lands to other State Government departments and did not receive compensation of ₹ 20.39 lakh, even after 20 years of their transfer due to non pursuance with the departments.

Company took possession (2005) of lands at Hyderabad (23.28 acres) and Bellampally (543.15 acres) from its subsidiary Company i.e. Hyderabad Chemicals and Fertilisers (HCF). Even 10 years after taking possession of the lands, Company had not planned utilisation of the lands which were lying idle.

Internal control mechanism

Monthly review meetings with regional managers to analyse the working of various activities in the regions were not being conducted, which resulted in lack of proper internal control and supervision. Idling of surplus funds in current accounts resulted in loss of interest of ₹ 6.70 crore.

(Chapter 2.2)

3. Compliance Audit Observations

Compliance audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in financial implications. The irregularities pointed out are broadly of the following nature:

Loss of ₹ 1939.50 crore in five cases due to non-compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 3.1.3.8, 3.2.3.1, 3.2.3.6, 3.2.3.7 and 3.3.3.1)

Loss of ₹ 727.10 crore in ten cases due to non-safeguarding the financial interest of organization.

(Paragraphs 3.1.3.3, 3.1.3.4, 3.1.3.5, 3.1.3.7, 3.2.3.2, 3.2.3.3, 3.2.3.4, 3.2.3.6, 3.4 and 3.5)

Loss of ₹ 947.00 crore in two cases due to defective/ deficient planning.

(Paragraphs 3.1.3.2 and 3.3.3.2)

Loss of ₹ 68.48 crore in one case due to inadequate/ deficient planning.

(Paragraphs 3.1.3.6)

Gist of some of the important audit observations is given below:

The Singareni Collieries Company Limited started outsourcing of OB removal works in OC mines in 1992 apart from removal through its own equipment. There was backlog of OBR in 12 OC mines due to delays in award of contracts inspite of outsourcing. The Company awarded OBR contracts at composite weighted average rates instead of bench-wise rates resulting in avoidable expenditure. Contracts were awarded at different rates in same mine resulting in extra expenditure. The Company did not maintain Performance record and fleet of equipment held by the contractors resulting in termination of contracts at incomplete stages. Re-awarding of unexecuted quantities at higher rates resulted in additional expenditure of ₹ 68.48 crore. Contracts were awarded with costlier combination of HEMM resulting in additional expenditure of ₹ 364.80 crore. Payment terms of bonus for less consumption of diesel were changed from 1 April 2012 at the request of the contractors and paid ₹ 45.07 crore before closure of the contracts.

(*Paragraph 3.1*)

Transmission Corporation of Andhra Pradesh Limited and Distribution Companies of Andhra Pradesh Limited Andhra Pradesh Power Co-ordination Committee (APPCC) did not verify documents viz., invoices, ledgers, certified annual accounts etc., before making the payments to Independent Power Producers (IPPs); Public issues expenses of ₹ 10.40 crore though not actually incurred were not reduced from the Capital cost ceilings, resulting in excess payment of ₹ 1.92 crore per annum; adopting station Heat Rate (SHR) of 1,850 kcal/ kWh instead of actual SHR of 1,611 kcal/ kWh for payment of variable charges, resulted in undue favour to an IPP and extra expenditure of ₹ 256 crore; did not collect ₹ 3.64 crore from IPPs on par with other industrial consumers for supply of power; irregularly paid cash advances of ₹ 965 crore during 2010-12 to an IPP; did not avail rebate of ₹ 7.77 crore by insisting on provisional billing as per PPA; paid transmission charges of ₹ 7.59 crore without receiving power from an IPP; did not recover penalty of ₹ 23.30 crore from short term power suppliers for short/ no supply of power.

(*Paragraph 3.2*)

Central Power Distribution Company of Andhra Pradesh Limited & Northern Power Distribution Company of Andhra Pradesh Limited did not develop reliable agricultural power consumption data either by installing meters or by using APERC approved methodology for estimation. Subsidy to the two DISCOMs on free power supply quantity of 4398.93 MU was disallowed by APERC/Government resulting in loss of ₹ 1861.44 crore during 2010-14 to the DISCOMs.

(*Paragraph 3.3*)

Andhra Pradesh Power Generation Corporation Limited reversing its earlier Board decision procured costlier Ductile Iron (DI) pipes for the water supply pipeline of Kakatiya Thermal Power Plant - Stage II instead of MS pipes resulting in an avoidable extra cost of ₹ 43.30 crore.

(Paragraph 3.4)

Andhra Pradesh State Road Transport Corporation, though court decreed to recover with interest an amount of ₹ 85.18 lakh long outstanding from a private party, accepted an out of court settlement with the party and waived ₹ 42.40 lakh without due approval.

(Paragraph 3.5)

(Chapter III)