

Chapter III

Functioning of Public Sector Undertakings

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3.1 Introduction

Public Sector Undertakings (PSUs) are established by Governments to carry out activities of a commercial nature for the development of the State as well as cater to the welfare of its people.

The erstwhile composite State of Andhra Pradesh (AP) was bifurcated into Telangana State and the residual State of AP on 2 June 2014, as per the AP Reorganisation Act, 2014. As on 31 March 2019, there were 93 PSUs in AP (including 90 Government Companies and three Statutory Corporations¹⁵⁶) under the audit jurisdiction of the Comptroller and Auditor General of India (CAG). Of these, 73 were working PSUs and 20 were inactive¹⁵⁷. None of the PSUs was listed on the stock exchange(s).

The status of submission of financial statements by the PSUs as on 30 September 2019 is presented in **Table 3.1**.

Table 3.1: Status of submission of financial statements by PSUs

Nature of PSUs	Total Number of PSUs	Status of finalisation of Accounts by PSUs as on 30 September 2019				Number of PSUs whose accounts were in arrears (total arrears)
		Accounts for 2018-19	Accounts for 2017-18	Accounts up to 2016-17	Total	
Government Companies	70	10	15	25	50	60(152)
Statutory Corporations	3	1	--	1	2	2(6)
Total Working PSUs	73	11	15	26	52	62(158)
Inactive Government Companies	20	0	--	2	2	20(458)
Total (Working + Inactive)	93	11	15	28	54	82(616)

Source: Annual Accounts received during the period October 2018 to September 2019

As on 30 September 2019, only 11 PSUs submitted their accounts for the year 2018-19 and the financial statements of 62 working PSUs were in arrears with 158 accounts outstanding. 12 PSUs¹⁵⁸ had not submitted even the first accounts since their inception. Of these, three PSUs¹⁵⁹ had submitted their first accounts and 26 working PSUs had submitted

¹⁵⁶ Andhra Pradesh State Road Transport Corporation (APSRTC), Andhra Pradesh State Warehousing Corporation (APSWCL) and Andhra Pradesh State Financial Corporation (APSFC)

¹⁵⁷ inactive PSUs are those, which have ceased to carry out their operations

¹⁵⁸ (1) Kakinada Smart City Corporation Limited (2) Tirupati Smart City Corporation Limited (3) Eluru Smart City Corporation Limited (4) Amaravati Smart & Sustainable City Corporation Limited (5) Vijayawada Urban Transport Company Limited (6) Andhra Pradesh Drinking Water Supply Corporation Limited (7) Andhra Pradesh Mahila Sadhikara Samastha (8) Andhra Pradesh Aviation Corporation Limited (9) Energy University of Andhra Pradesh (10) Andhra Pradesh State Mega Seeds Park Limited (11) AIC-AMTZ Medi Valley Incubation Council and (12) Bio Valley Incubation Council

¹⁵⁹ (1) AIC-AMTZ Medi Valley Incubation Council (2) Bio Valley Incubation Council and (3) Andhra Pradesh Mahila Sadhikara Samastha

their accounts for different years after 30 September 2019. For the purpose of analysis presented in this report, only 50 PSUs whose accounts have arrears of less than three years have been considered (*Appendix-3.1*). Eight of these PSUs belong to the Power Sector while 42 belong to the Non-Power Sector.

During 2018-19, as per their latest finalised accounts, the PSUs registered a turnover of ₹61,107.37 crore, which constituted 6.55 *per cent* of the GSDP (₹9,33,402 crore) of AP.

3.2 Investment in State PSUs

The Government of Andhra Pradesh (GoAP) has a significant financial stake in these PSUs in the form of the following;

- **Share Capital and Loans** - In addition to the share capital contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support** - State Government provides budgetary support by way of grants and subsidies to the PSUs as required.
- **Guarantees** - State Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

The sector wise summary of investment (equity and long-term loans) in the 93 PSUs as on 31 March 2019 is given in **Table 3.2**.

Table 3.2: Sector-wise investment in PSUs

Nature of Sector	Government Companies		Statutory Corporations		Equity (₹ in crore)	Long term loans (₹ in crore)	Total (₹ in crore)
	Working	Inactive	Working	Inactive			
Power	9	0	0	0	5,137.12	48,033.87	53,170.99
Finance	8	1	1	0	357.22	3,671.99	4,029.21
Service	11	1	1	0	121.67	4,196.80	4,318.47
Infrastructure	24	0	0	0	850.78	16,909.72	17,760.50
Others	18	18	1	0	215.95	518.07	734.02
Total	70	20	3	0	6,682.74	73,330.45	80,013.19

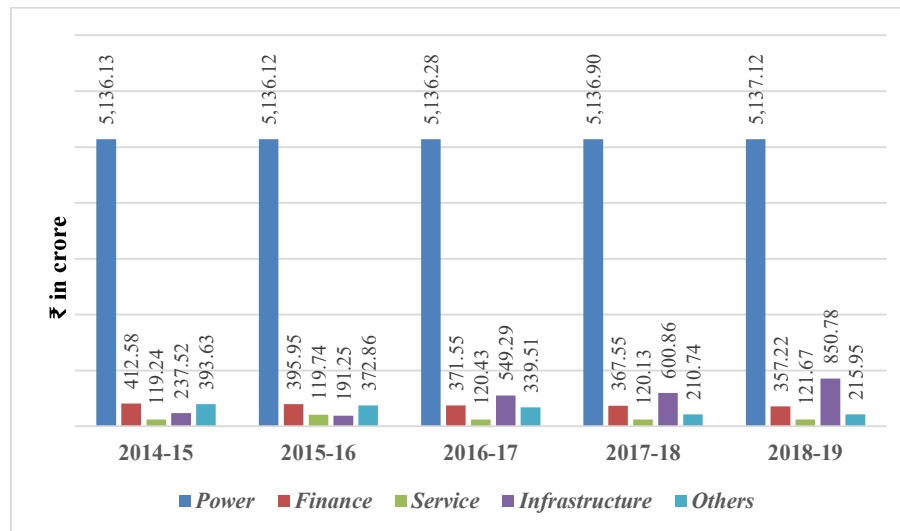
Source: Accounts of PSUs and Information furnished by the PSUs

As on 31 March 2019, the total investment in PSUs comprised 8.35 *per cent* of equity capital and 91.65 *per cent* of long-term loans. The long-term loans in 73 working PSUs consisted of ₹12,303.67 crore advanced by the Central and State Governments and ₹60,853.44 crore raised from other sources. The thrust of State Government's investment in PSUs was mainly in power sector during the last five years. Out of total investment (equity and loans) of ₹80,013.19 crore as at the end of 2018-19, the share of power sector was 66.45 *per cent* (₹53,170.99 crore) (*Appendix-3.2*).

Further, the Government made a total equity investment of ₹65.53 crore and long-term loans of ₹173.34 crore in inactive PSUs, which were under demerger as of September 2020.

The pattern of State Government investment (equity) in various important sectors at the end of the year from 2014-15 to 2018-19 is given in **Chart 3.1**.

Chart 3.1: Sector wise investment in PSUs



3.3 Accountability Framework

A Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG. Audit of Government Companies is governed by respective provisions of Sections 139 and 143 of the Companies Act, 2013. Section 2 (45) defined a ‘Government Company’ as one in which not less than 51 *per cent* of the paid-up share capital is held by the Government(s). A Government company includes a subsidiary of a Government Company.

Statutory Auditors of the Government Companies are appointed by the CAG under Section 139 of the Companies Act, 2013 for conducting audit of PSUs as per Section 143(5) of the Companies Act, 2013. The accounts of PSUs are also subject to supplementary audit by the CAG under Section 143(6) of the Companies Act, 2013. The CAG plays an oversight role by monitoring the performance of the Statutory Auditors. This role is discharged by means of the following;

- (i) Issuing directions to the Statutory Auditors under Section 143(5) of the Companies Act, 2013, and
- (ii) Supplementing or commenting upon the Statutory Auditor’s report under Section 143 (6) of the Companies Act, 2013.

Audit of Statutory Corporations is governed by their respective legislations. Of the three Statutory Corporations (APSRTC, APSWC and APSFC), CAG is the sole auditor for APSRTC. The audit of APSWC and APSFC is conducted by Chartered Accountants, followed by Supplementary audit by the CAG.

3.4 Submission of Accounts by PSUs

3.4.1 Need for timely finalisation and submission

According to Sections 394 and 395 of the Companies Act, 2013, Annual Report on the working and affairs of a Government Company is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation laid before both the Houses of State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. Almost similar provisions exist in the respective Acts regulating Statutory Corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the PSUs from the Consolidated Fund of the State.

Section 96 of the Companies Act, 2013 requires every Company to hold AGM of the shareholders once in every calendar year. It also specifies that not more than 15 months shall lapse between the date of one AGM and that of the next AGM. Further, Section 129 of the Companies Act, 2013 stipulates that the audited financial statements for the financial year have to be placed in the said AGM. Section 129 (7) of the Companies Act, 2013 provides for levy of penalty like fine and imprisonment on the persons including directors of the company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

3.4.2 Role of Government and Legislature

State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors of the Board are appointed by the Government.

State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. Towards this end, the Annual Reports of State Government Companies together with the Statutory Auditors' Reports and comments of the CAG are to be placed before the State Legislature under Section 394 of the Companies Act, 2013. Separate Audit Reports are also required to be placed before the Legislature in case of Statutory Corporations as stipulated in the respective Acts.

The Audit Reports of the CAG are submitted to the Government for placing before the State Legislature under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

3.5 Follow-up action on Audit Reports

The Reports of the CAG are the products of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. As per the instructions issued (June 2004) by the Finance Department of GoAP, all Administrative Departments are required to submit replies/ Explanatory Notes (ENs) to Paragraphs/ Performance Audits (PA) included in the Reports of the CAG of India within a period of three months after their presentation to the Legislature in the prescribed format, without waiting for any questionnaires from the Committee on Public Undertakings (COPU).

As on 30 September 2019, out of 195 PAs/ Paragraphs relating to Reports of Power Sector PSUs, ENs to 27 PAs/Paragraphs that featured in CAG Reports were awaited. Similarly, out of 302 PAs/Paragraphs relating to Reports of Non-Power Sector PSUs, ENs to 73 PAs/Paragraphs were awaited as of this date. Details are given in **Table 3.3**.

Table 3.3: Position of receipt of ENs as on 30 September 2019

Year of the Audit Report (Commercial/ PSU)	Date of Placement of Audit Report in the State Legislature	Total PAs and Paragraphs in the Audit Report		Number of PAs/Paragraphs for which ENs were not received			
				Exclusive to State		Common (AP&TS) ¹⁶⁰	
		PAs	Paragraphs	PAs	Paragraphs	PAs	Paragraphs
Power Sector							
Up to 2013-14		42	148	0	1	7	14
2014-15	30-03-2016	0	1	0	1	0	0
2015-16	31-03-2017	1	2	1	2	0	0
2016-17	06-04-2018	0	1	0	1	0	0
Total		43	152	1	5	7	14
Non-Power Sector							
Up to 2013-14		39	251	0	1	14	46
2014-15	30-03-2016	1	3	1	3	0	0
2015-16	31-03-2017	0	4	0	4	0	0
2016-17	06-04-2018	1	3	1	3	0	0
Total		41	261	2	11	14	46

Source: Compiled by Office of the Principal Accountant General (Audit), AP

3.6 Discussion of Audit Reports by COPU

The status of discussion of PAs and Paragraphs related to Power and Non-Power Sector PSUs that featured in Audit Reports (PSUs) as on 30 September 2019 and discussed by the COPU is given in **Table 3.4**.

Table 3.4: PAs/Paragraphs discussed by COPU vis-à-vis featured in Audit Reports

Year of the Audit Report (Commercial/ PSU)	Number of PAs/Paragraphs					
	Appeared in Audit Report [^]		Discussed [#]		Pending discussion [#]	
	PAs	Paragraphs	PAs	Paragraphs	PAs	Paragraphs
Power Sector						
Up to 2013-14	42	148	8	64	25	47
2014-15	0	1	0	0	0	1
2015-16	1	2	0	0	1	2
2016-17	0	1	0	0	0	1
Total	43	152	8	64	26	51
Non-Power Sector						
Up to 2013-14	39	251	13	139	26	98
2014-15	1	3	0	0	1	3
2015-16	0	4	0	0	0	4
2016-17	1	3	0	0	1	3
Total	41	261	13	139	28	108

Source: Compiled by Office of the Principal Accountant General (Audit), AP

[^] Include PAs/Paragraphs which are exclusive to Andhra Pradesh, exclusive to Telangana as well as common to both Andhra Pradesh and Telangana

[#] Includes PAs/Paragraphs either exclusive to AP or common to AP and Telangana

¹⁶⁰ PAs and Paragraphs which deal with issues relating to both Andhra Pradesh and Telangana

Out of 43 PAs and 152 Paragraphs relating to Power Sector PSUs, eight PAs and 64 Paragraphs were discussed by COPU. Similarly, out of 41 PAs and 261 Paragraphs relating to Non-Power Sector PSUs, 13 PAs and 139 Paragraphs were discussed by COPU. During 2018-19, COPU had discussed three Paragraphs in the Audit Reports relating to PSUs.

3.7 Compliance to Reports of COPU

Action Taken Notes (ATNs) on 15 COPU Recommendations presented in the State Legislature relating to Power Sector PSUs had not been received (September 2019). Similarly, ATNs on 443 recommendations pertaining to 38 Reports of the COPU presented in the State Legislature in respect of Non-Power Sector PSUs had not been received (September 2019). The details are given in *Table 3.5*.

Table 3.5: Compliance to COPU Reports

Year of the COPU Report	Total number of COPU Reports	Total No. of Recommendations in COPU Reports	Number of Recommendations where ATNs not received
Power Sector			
Up to 1998-99	3	24	2
2000-01	3	21	0
2004-05	5	43	0
2006-07	1	13	13
Total	12	101	15
Non-Power Sector			
Up to 1998-99	19	568	378
2000-01	10	93	52
2002-03	1	24	0
2004-05	4	23	7
2004-06	1	14	0
2006-07	3	12	6
Total	38	734	443

Source: Compiled by Office of the Principal Accountant General (Audit), AP

Note 1: The above information pertains to erstwhile composite State of Andhra Pradesh

Note 2: After 2006-07, no Report was issued by the COPU