Overview

1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2009, the State of Andhra Pradesh had 42 working PSUs (39 companies including two 619 B companies and 3 Statutory corporations) and 24 non-working PSUs (all companies including six 619 B companies), which employed 2.60 lakh employees. The State working PSUs registered a turnover of Rs 44,180.06 crore for 2008-09 as per their latest finalised accounts. This turnover was equal to 14.13 *per cent* of State GDP indicating an important role played by State PSUs in the economy. The working State PSUs earned an aggregate profit of Rs 701.56 crore for 2008-09 and had accumulated losses of Rs 2,351.72 crore.

Investments in PSUs

As on 31 March 2009, the investment (Capital and long term loans) in 66 PSUs was Rs 40,469.51 crore. It grew by over 31.22 *per cent* from Rs 30,841.99 crore in 2003-04. Power Sector accounted for nearly 49 *per cent* of total investment in 2008-09. The Government contributed Rs 12,466.34 crore towards equity, loans and grants/subsidies during 2008-09.

Performance of PSUs

During the year 2008-09, 26 PSUs earned profit of Rs 1,015.71 crore and eight PSUs incurred loss of Rs 314.15 crore. 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). The heavy losses were incurred by Andhra Pradesh State Housing Corporation Limited (Rs 296.12 crore) and Nizam Sugars Limited (Rs 11.63 crore).

The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of CAG shows that the State PSUs' losses of Rs 1,238.09 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and enhance profits. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Out of 46 accounts finalised during October 2008 to September 2009, 33 accounts received qualified certificates. There were 16 instances of non-compliance with Accounting Standards. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

26 working PSUs had arrears of 70 accounts as of September 2009. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There were 24 non-working companies including six 619-B companies. As no purpose is served by keeping these PSUs in existence, they need to be wound up quickly.

Discussion of Audit Reports by COPU

The Audit Reports (Commercial) for 1992-93 onwards are yet to be discussed fully by COPU. These audit reports contained 66 reviews and 313 paragraphs of which 19 reviews and 174 paragraphs have been discussed.

(Chapter 1)

2. Performance audits relating to Government companies

Performance Audit relating to ***Operational performance of Kothagudem Thermal Power Station of Andhra Pradesh Power Generation Corporation Limited*** and IT Audit relating to ***INDIRAMMA Project Management and MIS in Andhra Pradesh State Housing Corporation Limited*** were conducted. Executive summaries of audit findings are given below.

Performance audit of operational performance of Kothagudem Thermal Power Station

Kothagudem Thermal Power Station (KTPS) located at Paloncha in Khammam District, consists of 10 Units in two plants (Operation & Maintenance Complex and Stage V) having a generation capacity of 1,220 MW and is one of the five thermal stations under Andhra Pradesh Power Generation Corporation Limited (Company). The performance review was conducted to ascertain whether the generation was at optimum of installed capacity, effective preventive maintenance was carried out, auxiliary consumption was within norms, material management was efficient and environment control measures were implemented.

Operational Performance

The norm fixed by CEA/ APERC for generation of power was achieved during the period under review. Net generation of power by these Units during the five year period 2004-09 was 39,386 MUs at an aggregate cost of Rs 5,768 crore. There was a shortfall of 4,586 MUs in the possible generation.

Auxiliary consumption

The auxiliary consumption was in excess of norms due to inherent design constraints in Units V and VI, partial load operations and deferring of overhauls in Units IX and X and use of power for construction loads for Unit XI resulting in excess consumption of 84.18 MUs valuing Rs 12.14 crore.

Energy audit

Energy audit was not conducted for Units IX and X. The recommendations made by Energy Auditors in respect of Units I to VIII were not implemented there by expected savings of power valuing Rs 5.63 crore per annum was not achieved.

Inputs management

Consumption of inputs was in excess of norms to the extent of Rs 44.94 crore in Coal (Rs 35.11 crore) due to non-inclusion of boilers in refurbishment works, Grinding media (Rs 5.66 crore) due to inefficient operations and Fuel oil (Rs 4.17 crore) due to frequent trippings during the period 2004-09.

Inventory management

Holding of stock of stores & spares in excess of norms of 12 months consumption and Fuel oil in excess of two months consumption led to loss of interest of Rs 9.57 crore during 2004-09.

Environmental safeguards

Air, Noise and Water pollution were not kept at levels prescribed by Andhra Pradesh Pollution Control Board.

Safety measures

Insufficient manpower, non-existence of hydrant system, smoke detection system and portable fire extinguishing equipment in the coal handling plant and non-installation of equipment bought for Units I to IV made the safety measures inadequate to the requirement.

Conclusion and Recommendations

The KTPS achieved the norm of generation prescribed by the CEA but none of the Units generated the possible power during the actual hours of operation. There were deficiencies in control of input costs and auxiliary consumption. The review contains five recommendations which include undertaking timely preventive maintenance and efficient utilization of inputs.

(Chapter 2.1)

IT Audit relating to ***INDIRAMMA Project Management and MIS in Andhra Pradesh State Housing Corporation Limited***

The A.P. State Housing Corporation Limited was incorporated in July 1979 with the main objective to formulate, promote and execute various housing schemes on behalf of State and Central Government for the benefit of weaker sections. The Government of A.P. launched (May 2006) a new housing programme under INDIRAMMA and to monitor the financial and physical progress of the scheme, the Company developed a web-based application software.

Application Software

The application software was developed (January 2007) with client server technology with POSTGRE SQL as database, Java as front end and Redhat Linux as Operating System.

Investment and Finance

The Company procured Laptops, Digital Cameras, Printers and other hardware at a total cost of Rs 7.38 crore and incurred an expenditure of Rs 1.57 crore (March 2009) towards software development. The Company also incurs a monthly expenditure of Rs 5.34 lakh towards maintenance.

Project Management

The Company did not follow the accepted software development life cycle. There was no feasibility study. The Company did not enter into an agreement with Centre for Good Governance (CGG). System design documents, process control specification documents and test documents were not provided by CGG.

Absence of policy, strategy and planning

The Company has not formulated any IT policy or drawn up any IT strategy for preparation of long term and short term plans for computerisation. It did not formulate any formal security policy and change management policy. The Company did not develop a business continuity and disaster recovery plan for continuing the operations in the event of a disaster.

Incomplete data

The database developed was not complete or accurate and lacked integrity and thus could not be relied upon. Neither the application software itself nor the data residing in the database was ever subjected to Internal Audit. The data entry was also not supervised.

Inadequacies

The application did not provide for adequate Input controls. The security for online transactions was inadequate. Business Rules were also not incorporated in the application software. Inadequacy of such controls led to disbursement of Rs 479.55 crore to multiple beneficiaries under one ration card and Rs 4.15 crore to the same beneficiaries under different IDs in contravention of the Scheme guidelines. Non-incorporation of business rules also resulted in allotment of houses under SPR Scheme to beneficiaries other than STs, short-recovery of administrative charges and issue of cement in excess of norms fixed. Lack of security in seamless transfer of files also led to fraudulent payment of Rs 2.29 crore to persons other than beneficiaries.

Recommendations

The Company should draw up and document IT Policy and Security Policy, Change Management Policy, Business continuity plan with adequate validation checks.

(Chapter 2.2)

3. Performance Audit relating to Statutory Corporation

Performance Audit on the functioning of ***Andhra Pradesh State Road Transport Corporation*** was conducted. Executive summary of audit findings is given below.

The Andhra Pradesh State Road Transport Corporation (Corporation) provides public transport in the State through its 202 depots. The Corporation had fleet strength of 20704 buses as on 31 March 2009 and carried an average of 1.40 crore passengers per day. It accounted for a share of 80.34 *per cent* in public transport while the remaining came from private operators. The performance audit of the Corporation for the period from 2004-05 to 2008-09 was conducted to assess efficiency and economy of its operations, ability to meet its financial commitments, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the Corporation.

Finances and Performance

The Corporation earned a profit of Rs 110.78 crore in 2008-09. Its accumulated losses and borrowings stood at Rs 1151.84 crore and Rs 1404.47 crore as at 31 March 2009, respectively. The Corporation earned Rs 18.84 per kilometre and expended Rs 18.43 per kilometre in 2008-09. Audit noticed that with a right kind of policy measures and better management of its affairs, it is possible to increase revenue and reduce costs, so as to earn more profit and serve its cause better.

Declining Share

Of 24,877 buses licensed for public transport in 2007-08, about 80.34 *per cent* belonged to the Corporation. The percentage share declined marginally from 84.36 *per cent* in 2004-05. The decline in share was mainly due to procurement of lesser number of buses than planned on account of non-availability of adequate funds to replace/add new buses. Nonetheless, vehicle density (including private operators buses) per one lakh population increased marginally from 28.88 in 2004-05 to 29.69 in 2007-08 due to increase in number of private buses indicating stability in the level of public transport in the State.

Vehicle profile and utilisation

Corporation's buses consisted of own fleet of 17,096 buses and 3,279 hired buses. Of its own fleet, 12,576 (72.76 *per cent*) were overage, i.e., run for more than five lakh kilometres. Corporation's fleet utilisation at 99.52 *per cent* in 2008-09 and its vehicle productivity at 360 kilometres per day per bus was above the AIA. Similarly, its load factor at 72.27 *per cent* remained above the AIA of 63 *per cent*. The Corporation did well on operational parameters as 40 *per cent* routes were profitable and preventive maintenance was appreciable as backlog declined from 3.71 *per cent* to 2.31 *per cent* during review period.

Economy in operations

Manpower and fuel constitute 68.24 *per cent* of total cost. Interest, depreciation and taxes account for 12.50 *per cent* and are not controllable in the short term. Thus, the expenditure control has to come from manpower and fuel. The Corporation succeeded in reducing the manpower per bus from 6.14 in 2004-05 to 5.59 in 2008-09. However, the expenditure on repairs and maintenance was Rs 550.01 crore (Rs 3.18 lakh per bus) in 2008-09, of which nearly 39.32 *per cent* was on manpower. The Corporation did not attain its own fuel consumption targets resulting in excess consumption of fuel valued at Rs 222.91 crore during 2004-09.

The Corporation has 3279 hired buses where bus owners provide buses with drivers and incur all expenses. The Corporation provides conductors and makes payment as per kilometres operated. The Corporation saved an amount of Rs 245.62 crore towards cost by operating these hired buses during the period 2004-09. As this arrangement has the potential to cut down the cost substantially, the Corporation needs to explore possibility to replace overage buses by hired buses in future

Revenue Maximisation

As it mainly utilises ground floor/ land for its operations, the space above can be developed on public private partnership basis to earn steady income which can be used to cross-subsidise its operations. The Corporation has not framed any policy in this regard. The Corporation however identified vacant sites at 133 locations of which 11 projects covering 71,575 Sq.mtrs area were given for development. The anticipated revenue was Rs 2,309 crore over a period of 30 to 33 years.

Need for a regulator

Though the Government approves the fare increase, there is no scientific basis for its calculation. The Corporation has also not formed norms for providing services on uneconomical schedules. Thus, it would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify operations on uneconomical routes and address grievances of commuters.

Monitoring by top management

There is effective Management Information System (MIS) for obtaining feedback on achievement. The Board of Directors regularly monitors the operational parameters.

Conclusion and Recommendations

Though the Corporation is earning profits for last two years ending 2008-09 it can still improve its performance i.e. by hiring more number of buses. This review contains six recommendations to improve the Corporation's performance. Hiring of buses and creating a regulator to regulate fares and services are some of these recommendations.

(Chapter 3)

4. Transaction audit observations

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

Loss of Rs 6.19 crore in five cases due to non compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 4.7, 4.8, 4.12, 4.13 and 4.15)

Loss of Rs 22.53 crore in five cases due to non-safeguarding the financial interests of organisation.

(Paragraphs 4.3, 4.10, 4.16, 4.19 and 4.20)

Loss of Rs 3.06 crore in four cases due to defective/deficient planning

(Paragraphs 4.5, 4.6, 4.11 and 4.18)

Loss of Rs 0.30 crore due to lack of fairness/transparency and competitiveness in operations.

(Paragraph 4.14)

Loss of Rs 4.97 crore in four cases due to inadequate/deficient monitoring.

(Paragraphs 4.4, 4.9, 4.17 and 4.21)

Unfruitful expenditure of Rs 2.90 crore in two cases due to non-realisation/partial realisation of objectives.

(Paragraphs 4.1 and 4.2)

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

Expenditure of Rs 2.70 crore incurred by **Andhra Pradesh State Irrigation Development Corporation Limited** on a Lift Irrigation Scheme became nugatory as the Company failed to ascertain before going ahead with the execution about the areas to be covered in a reservoir project.

(Paragraph 4.1)

Failure to enhance insurance cover for the stocks by **Andhra Pradesh Beverages Corporation Limited** resulted in loss of Rs 1.04 crore.

(Paragraph 4.4)

Payment of rail freight in higher slab by **Andhra Pradesh Power Generation Corporation Limited** resulted in excess payment of Rs 9.87 crore.

(Paragraph 4.10)

Allowing price variation in excess of 10 *per cent* contrary to the provisions of purchase manual by **Northern Power Distribution Company of Andhra Pradesh Limited** resulted in unauthorized payment of Rs 3.05 crore.

(Paragraph 4.17)

Failure to levy voltage surcharge by **Southern Power Distribution Company of Andhra Pradesh Limited** resulted in non-realisation of revenue - Rs 2.67 crore and loss of interest- Rs 43.72 lakh.

(Paragraph 4.12)