

## OVERVIEW

### 1. Overview of State Public Sector Undertakings

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 the CAG. These accounts are also subject to supplementary audit conducted by the CAG. Audit of Statutory Corporations is governed by their respective legislations. As on 31 March 2010, the State of Andhra Pradesh had 44 working PSUs (41 companies including three 619B companies and three Statutory Corporations) and 24 non-working PSUs (all companies including six 619B companies), which employed 2.61 lakh employees. The State working PSUs registered a turnover of ₹ 52,822.45 crore for 2009-10 as per the latest finalized accounts. This turnover was equal to 12.84 *per cent* of State GDP indicating an important role played by State PSUs in the economy. The working State PSUs incurred a loss of ₹ 15.50 crore in aggregate for the year 2009-10 and had accumulated losses of ₹ 3,103.07 crore.

#### Investment in PSUs

As on 31 March 2010 the investment (Capital and long term loans) in 68 PSUs was ₹ 44,894.92 crore. It grew by 45.37 *per cent* from ₹ 30,882.85 crore in 2004-05. Power sector accounted for 52.81 *per cent* of total investment in 2009-10. The Government contributed ₹ 8,639 crore towards equity, loans and grants/subsidies during 2009-10.

#### Performance of PSUs

During the year 2009-10, 25 PSUs earned profit of ₹ 855.26 crore and 12 PSUs incurred loss of ₹ 870.76 crore. The major contributors to profit were Andhra Pradesh Power Generation Corporation Limited (₹ 288.66 crore), The Singareni Collieries Company Limited (₹ 268.01 crore), Transmission Corporation of Andhra Pradesh Limited (₹ 70.19 crore) and Andhra Pradesh State Financial Corporation (₹ 67.68 crore). Heavy losses were incurred by Andhra Pradesh State Road Transport Corporation (₹ 514.55 crore) and Andhra Pradesh State Housing Corporation Limited (₹ 341.13 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 ₹ 5,087.82 crore were controllable with better management. Thus, there is scope to improve the functioning and enhance the 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 47 accounts finalized during October 2009 to September 2010, 32 accounts received qualified certificates. There were 41 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**

25 working PSUs had arrears of 64 accounts as of September 2010. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of

accounts wherever staff shortage exists. There were 24 non-working companies including six 619B companies. As no purpose is served by keeping these PSUs in existence, they need to be wound up quickly.

*(Chapter I)*

## 2. Performance Reviews relating to Government Companies

Performance Reviews of *Transmission Corporation of Andhra Pradesh Limited* and *Andhra Pradesh Power Generation Corporation Limited* and IT Audit of e-Commerce Project implemented by *Andhra Pradesh Tourism Development Corporation Limited* were conducted. Executive summaries of audit findings are given below:

### *Performance Review of Transmission Corporation of Andhra Pradesh Limited*

The Transmission Corporation of Andhra Pradesh Limited (Company) is engaged in the business of transmission of electricity and grid operations. The activities of the Company include construction of Extra High Tension (EHT) transmission network, i.e., 400 kV to 132 kV level substations (SS) and lines. To the end of March 2010 the Company had 383 numbers SSs with installed capacity of 44,542 Mega Volt Ampere (MVA) and transmission lines of 30,970 Circuit Kilo Meters (CKM). The performance audit of the Company for the period from 2005-06 to 2009-10 was conducted to assess the economy, efficiency and effectiveness of its operations and ability to meet the objectives of its establishment.

#### **Financial position**

The Company's profit before tax decreased from ₹ 190.85 crore in 2005-06 to ₹ 146.81 crore in 2009-10 and Company created reserves and surplus amounting to ₹ 962.07 crore as at the end of 31 March 2010. The Company's borrowings

stood at ₹ 2,185.51 crore as at 31 March 2010.

#### **Capacity Additions**

The Company could add 73 EHT SSs and 4,124 CKM of EHT lines during the five year period (achievement of 56 per cent and 61 per cent respectively) from 2005-06 to 2009-10 as against its actual planned capacity addition of 130 numbers EHT SSs and laying of 6,730 CKM of EHT lines. The shortfall was attributed to delay in execution of projects beyond the scheduled dates due to delay in getting the forest clearances, delay in civil works, frequent breakdowns in newly erected equipments etc.

#### **Project Management**

The Company could not complete its projects as per the original schedule. The time overrun ranged between one to 62 months. The mismatch between the completion of generation capacity and evacuation system in three out of the four cases resulted in the Company evacuating the power under alternate systems which were already overloaded. The Company constructed Sub-stations

and lines without assessing the load requirements.

### **Operation and Maintenance**

The Company's capacity of the SSs at different voltage levels exceeded the norms fixed. The Company had installed inadequate number of Capacitor Banks in its substations resulting in additional expenditure of ₹ 4.09 crore by way of Reactive energy compensation charges.

### **Grid Management**

The frequency violation of the grid resulted in increase in receipt of type C messages in the current year. Shortage of power supply in the State increased from 0.42 in 2005-06 to 5.48 *per cent* in 2009-10 leading to payment of unscheduled interchange (UI) charges of ₹ 1,236.87 crore.

### **Transmission Losses and Disaster Management**

The Company could not control the transmission losses as it increased

from 4.43 *per cent* in 2005-06 to 5.57 *per cent* during 2009-10 as against the targeted reduction from 4.97 *per cent* in 2005-06 to 4.16 *per cent* in 2009-10. Consequently transmission losses in monetary terms (excess of norms) also increased from Nil in 2005-06 to ₹ 12.34 crore in 2009-10. The Company's disaster management system is inadequate to meet the unforeseen contingencies.

### **Monitoring and Control**

The monitoring system is inadequate as it is not maintained for all key aspects of the Company. The Company's Internal Audit system was outsourced and it was not effective either. The periodicity of Audit Committee meetings was not in tune with the Terms of Reference as adopted by the Board of Directors.

*(Chapter 2.1)*

## ***Performance Review of Andhra Pradesh Power Generation Corporation Limited***

The Andhra Pradesh Power Generation Corporation Limited (Company) contributes about half of the total energy requirement of Andhra Pradesh. In view of phenomenal growth in the demand of power since 2005-06, effective capacity addition was not adequate to meet the requirement leaving a deficit of 1,167 MW. In the background of chronic power shortage in the State, it was considered desirable to conduct performance audit to assess the status of power generation vis-a-vis requirement for power during the period from 2005-06 to 2009-10. The audit findings are discussed below:

### **Capacity Additions**

During 2005-10, the peak demand for power had increased by 2,389 MW in the State, but the Company increased capacity addition up to 1,037 MW against its actual planned capacity addition of 2,204 MW. Due to shortage in capacity additions as per planning, the State is perennially in power shortage and unlikely to attain the national objective of power for all on demand by 2012.

### **Execution of Projects**

Lack of proper monitoring and effective planning resulted in time overrun of 4 to 25 months with cost

overrun of ₹ 935.76 crore due to non-obtaining of forest clearance, non-mobilisation of skilled manpower, delays in providing work fronts, drawings and abnormal delay in acquisition of required land.

The failure of the State to maintain pace with the demand for power was *inter alia* due to lack of co-ordination in taking decisions, inter-departmental disputes, abnormal delays in completion of projects within the scheduled periods, failure to undertake annual repair and maintenance and renovation/modernisation works of the power plants in time.

### **Operational Performance**

Performance of the existing generation stations depends on efficient use of material, manpower and capacity of the plants so as to generate maximum energy possible without affecting the long term operation of the plants. Audit of operation of the power stations revealed the following:

### **Dependence on imported coal**

The Company's total linkage of coal for its thermal power was 835.80 lakh MTs during 2005-06 to 2009-10 but it could receive only 739.38 lakh MTs. The Company met the shortfall by procuring coal by way of import and e-auction.

### **Consumption of Coal**

Due to use of coal having less gross calorific value and consumption of excess heat than the designed heat rate due to leakages of steam in the aging units of power plants on account of delay in taking up of the life extension programmes, there was excess consumption of coal to the tune of 323.77 lakh MTs (₹ 4,845.29 crore) on account of use of low GCV coal and 74.41 lakh MTs (₹ 1,099.53 crore) on account of high heat rate.

### **Availability of coal stock**

Due to failure to keep the adequate stock of coal for generation of power, there was a loss of generation of 73.50 MUs valued at ₹ 15.07 crore in two thermal units. Non-lifting of washed coal from the site of washing plant resulted in procurement of coal through e-auction by incurring an extra expenditure of ₹ 15.42 crore.

### **Plant Load Factor**

The PLF of A, B and C plants of Kothagudem Thermal Power Station had not achieved the national average (79.54 *per cent* in 2007-08 and 70.75 *per cent* in 2008-09) due to coal feeding problems, major shutdowns and delays in repairs and maintenance works. In other units, national average was achieved.

### **Outages**

In Thermal Power Stations the total number of hours lost due to planned

outages increased from 10,509 hours in 2005-06 to 13,592 hours in 2009-10 i.e. from 6.31 *per cent* to 7.39 *per cent* of the total available hours in the respective years. The forced outages in thermal power generating stations decreased from 4,754 hours in 2005-06 to 3,667 hours in 2009-10 i.e., from 2.86 to 1.99 *per cent* of the total available hours in the respective years. The forced outages in respect of thermal stations were within the norm of 10 *per cent* fixed by CEA in all the units except Units 7 & 8 of KTPS (2006-07), which were mainly due to LPT blade failure (Unit 7) and turbine failure (Unit 8).

In Hydel Stations, major part of the hours were lost due to water and grid constraints (ranged between 56.63 *per cent* and 65.08 *per cent*).

### **Auxiliary Consumption**

Auxiliary consumption of power in respect of Thermal Power Stations was higher than the APERC norm of 8.5 *per cent* and 9 *per cent* without cooling towers and with cooling towers respectively. This resulted in excess consumption of 554.54 MUs valuing ₹ 89.94 crore during review period.

### **Financial Management**

The borrowings increased from ₹ 10,102.01 crore in 2005-06 to ₹ 14,639.89 crore in 2009-10 for execution of new projects and renovation & modernisation works during the period under audit. As a result, the Company incurred ₹ 3,433.52 crore towards payment

of interest on borrowings during review period, which rose from ₹ 778.81 crore in 2005-06 to ₹ 1,469.12 crore in 2009-10 leading to increase in the operating cost of the Company.

The Company held stock of stores and spares in excess of norms per MW resulting in locking up of funds to the extent of ₹ 168.96 crore.

The Company was to receive ₹ 2,552.99 crore from APDISCOMs towards sale of power and it failed to levy the penalty of ₹ 1,254.95 crore as per norms of APERC.

#### **Environmental issues**

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

*(Chapter 2.2)*

**IT Audit of “e-Commerce Project” implemented by Andhra Pradesh Tourism Development Corporation Limited.**

The Andhra Pradesh Tourism Development Corporation Limited, Hyderabad (Company) was incorporated in February 1976 as a wholly owned Government Company with the main objective to start, operate and promote establishments and activities which are likely to facilitate the development of travel, tourist coach services to promote development of tourism in general.

The Company felt that the then application software VISTA for online reservation through their counters only, was not adequate to meet the requirements of the Company. In order to facilitate online reservation for tours and hotels for tourists, and for better MIS reports, the Company intended to develop another application software ‘e-Commerce’.

It was observed that in absence of User Requirement Specification (URS), the extent to which intended benefits could be achieved were not verifiable.

**Application Software**

The web-based application software was developed with client server architecture with POSTGRES as back end and Java as front end. The operating system in use was Red Hat Linux.

**Control Deficiencies**

Input controls were not robust to validate the correctness of the data fed.

**Project Management**

The Company did not follow the accepted principles and procedure like feasibility study etc., for software

development lifecycle. The Company had entered (September 2006) into an agreement with Ram Informatics Limited (RIL) without any time limit which was significant for software development.

**Investment and Finance**

Against an estimated cost of ₹ 1.50 crore the Company had invested an amount of ₹ 1.67 crore. The Company also incurred an unwarranted expenditure of ₹ 9.16 lakh in re-designing the website developed by RIL.

**Absence of policies, strategy and planning**

The Company had neither formulated any IT Policy nor drawn up any IT strategy for preparation of long term and short term plans for automation of activities. 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. Further, the Company had no strategic plans to utilise the website for promotion of tourism in the State.

**Inordinate delay**

The software developers had so far partially developed six modules only out of eleven modules. Because of delay, the Company’s main objective of providing the facility of online reservation to the general public was defeated.

**Incomplete data**

The database was incomplete, inaccurate 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.

### **Inadequacies**

The software did not provide for adequate logical and input controls. Extant Business Rules were also not incorporated in the application software. A test check revealed a revenue loss on account of the above to the extent of ₹ 2.68 lakh in transportation and ₹ 0.36 lakh in hotels. As a result of not making available the online reservation facility to the general public/agents, deficiencies in the software for generation of bills and non-incorporation of business rules, utilisation of software was only to the

extent of 15.56 *per cent*. Meaningful MIS reports also could not be generated. This has resulted in excess payment of service tax of ₹ 1.54 lakh.

### **Recommendations**

There is an urgent need to complete the development of application software in totality. The Company should draw up and document IT policy and Security policy, Change management policy, Business continuity plan with adequate validation checks. The Company should also utilise the website optimally.

*(Chapter 2.3)*

### 3. 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 ₹ 97.16 crore in nine cases due to non compliance with rules, directives, procedures, terms and conditions of contracts.*

*(Paragraphs 3.1,3.2,3.3,3.4 ,3.9,3.11,3.13,3.15 and 3.17)*

*Loss of ₹ 126.64 crore in two cases due to non-safeguarding the financial interests of organisation.*

*(Paragraphs 3.6 and 3.10)*

*Loss of ₹0.75 crore due to defective/deficient planning*

*(Paragraph 3.12)*

*Loss of ₹ 3.78 crore due to lack of fairness/transparency and competitiveness in operations.*

*(Paragraph 3.16)*

*Loss of ₹ 6.75 crore in three cases due to inadequate/deficient monitoring.*

*(Paragraphs 3.7,3.8 and 3.14)*

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

The decision of **Andhra Pradesh Industrial Infrastructure Corporation Limited** to collect lesser service charges from an allottee in contravention of its allotment regulations resulted in loss of ₹ 25.55 crore with consequential undue favour to that extent.

*(Paragraph 3.2)*

Allotment of land at a lesser rate of ₹ 1.6 lakh per acre, ignoring the rate of ₹ 12 lakh per acre fixed by Company's Price Fixation Committee, resulted in loss of ₹ 7.77 crore to **Andhra Pradesh Industrial Infrastructure Corporation Limited**.

*(Paragraph 3.4)*

Failure of **The Andhra Pradesh Mineral Development Corporation Limited** in preparation of estimates at the time of tendering for excavation of barytes resulted in loss of ₹ 97.21 crore. Further, during execution of the contract, Company made unauthorized payment of ₹ 24.72 crore for the excess overburden removed and made payment of ₹ 2.33 crore towards service tax in excess of Statutory requirement.

*(Paragraph 3.6)*

**Central Power Distribution Company of Andhra Pradesh Limited** waived the penalty levied for delayed supply of electronic energy meters without valid reasons resulting in extending undue benefit to the supplier by waiver of penalty of ₹ 2.28 crore.

*(Paragraph 3.9)*

Failure of **Southern Power Distribution Company of Andhra Pradesh Limited** to incorporate a suitable clause in the agreement for execution of HVDS works (for which the Company borrowed funds from Rural Electrification Corporation Limited (REC)), for charging interest on mobilization advance given to contractors resulted in non-recovery of interest of ₹ 5.78 crore besides extending undue favour to the contractors to that extent.

*(Paragraph 3.11)*

Failure of **Andhra Pradesh State Civil Supplies Corporation Limited** to procure gunnies in a transparent manner and non-carrying out of pre-despatch inspection resulted in procurement of poor quality gunnies and consequent loss of ₹ 3.12 crore.

*(Paragraph 3.14)*

**Andhra Pradesh Tourism Development Corporation Limited** suffered loss of ₹ 1.26 crore in a project in Necklace Road due to non-adoption of correct market value and leasing of land without collection of Additional Development Premium.

*(Paragraph 3.15)*

Procurement of tubes as a set for radial tyres by **Andhra Pradesh State Road Transport Corporation** at higher cost ignoring the separate rates received for tubes for such tyres from the bidders, resulted in avoidable expenditure of ₹ 3.78 crore.

*(Paragraph 3.16)*

***(Chapter 3)***