

## 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 2011, the State of Andhra Pradesh had 48 working PSUs (45 companies including six 619B companies and three Statutory Corporations) and 24 non-working PSUs (all companies including six 619B companies), which employed 2.64 lakh employees. The State working PSUs registered a turnover of ₹ 61,476.93 crore for 2010-11 as per the latest finalized accounts. This turnover was equal to 10.83 *per cent* of State GDP indicating an important role played by State PSUs in the economy. The working State PSUs earned a profit of ₹ 238.56 crore in aggregate for the year 2010-11 and had accumulated losses of ₹ 2,711.66 crore.

#### Investment in PSUs

As on 31 March 2011 the investment (Capital and long term loans) in 72 PSUs was ₹ 50,165.06 crore. It grew by 56.93 *per cent* from ₹ 31,967.13 crore in 2005-06. Power sector accounted for 53.76 *per cent* of total investment in 2010-11. The Government contributed ₹ 9,071.46 crore towards equity, loans and grants/subsidies during 2010-11.

#### Performance of PSUs

During the year 2010-11, 28 PSUs earned profit of ₹ 922.95 crore and 9 PSUs incurred loss of ₹ 684.39 crore. The major contributors to profit were The Singareni Collieries Company Limited (₹ 351.37 crore), Andhra Pradesh Power Generation Corporation Limited (₹ 313.22 crore), Andhra Pradesh State Financial Corporation (₹ 67.33 crore) and Transmission Corporation of Andhra Pradesh Limited (₹ 61.74 crore). Heavy losses were incurred by Andhra Pradesh State Housing Corporation Limited (₹ 341.13 crore) and Andhra Pradesh State Road Transport Corporation (₹ 317.40 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 ₹ 19,601.37 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 46 accounts finalized during October 2010 to September 2011, 28 accounts received qualified certificates. There were 51 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**

30 working PSUs had arrears of 70 accounts as of September 2011. 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 relating to *Power Distribution Companies in Andhra Pradesh, Mining and Sales activities of The Singareni Collieries Company Limited* and IT Audit relating to *Implementation of ERP in Transmission Corporation of Andhra Pradesh Limited* were conducted. Executive summaries of audit findings are given below:

### *Performance Review of Power Distribution Companies in Andhra Pradesh*

The power distribution in Andhra Pradesh is carried out by four Power Distribution companies namely Andhra Pradesh Central Power Distribution Company Limited (APCPDCL), Andhra Pradesh Eastern Power Distribution Company Limited (APEPDCL), Andhra Pradesh Northern Power Distribution Company Limited (APNPDCL) and Andhra Pradesh Southern Power Distribution Company Limited (APSPDCL) which were incorporated on 01 April 2000 under the Companies Act, 1956.

As on 31 March 2011, the State had distribution network of 8.60 lakh Circuit Kilo Meters (CKM) of lines (33/11 KV and LT), 3,871 sub-stations, 5,226 Power transformers (PTR) and 7,92,841 Distribution transformers (DTR) catering to 2.24 crore consumers.

#### **Distribution Network planning**

Against the planned additions of 1,649 sub-stations only 1,200 sub-stations were actually added. As against the growth of connected load from 28,157 MW in 2006-07 to 41,872 MW in 2010-11 (48 per cent), the corresponding increase in DTR capacity was from 26,025 MVA to 34,650 MVA (33 per cent). Thus, the increase in distribution capacity could not match the pace of growth in connected load.

Delay in implementation of HVDS works resulted in non-achievement of envisaged benefits amounting to ₹ 147.71 crore.

#### **Implementation of centrally sponsored schemes**

Under RGGVY the percentage of achievement, of electrification of BPL houses, against target in the State ranged between 71.09 and 82.72 per cent during 2006-10, which decreased to 49.16 per cent in 2010-11. APEPDCL was lagging behind in achievement with only 32 to 55 per cent of electrification of households during the review period.

The DISCOMs could utilise only 32.74 per cent of RAPDRP funds out of ₹ 326.93 crore received till end of March 2011, due to delay in selection of IT implementing agency. DISCOMs may lose opportunity of conversion of loan into grant by GoI, if RAPDRP projects are not implemented within stipulated time.

In respect of APCPDCL the AT&C losses were beyond 15 per cent and ranged between 17.26 and 18.34 per cent during 2006-11.

#### **Operational efficiency**

Due to Sub transmission and distribution losses in excess of APERC norms, APCPDCL suffered a loss of revenue to the tune of ₹ 1,633.96 crore.

Wide gap between transformation capacity and connected load led to overloading of distribution system, excess failure of DTRs and higher quantum of energy losses.

#### **Financial position**

Subsidy towards purchase of high cost power alarmingly increased from ₹ 617 crore in 2006-07 to ₹ 6,542 crore in 2008-09, which stood at ₹ 1,619 crore in 2010-11, in respect of all the DISCOMs.

As against total subsidy claim of ₹ 10,415.87 crore during 2006-11 by APCPDCL and APEPDCL, GoAP released only ₹ 5,356.13 crore, resulting in dependence on more borrowings.

The Loan funds and Current liabilities of APCPDCL and APEPDCL increased from ₹ 4,006.21 crore and ₹ 1,603.96 crore in 2006-07 to ₹ 11,073.99 crore and ₹ 4,827.58 crore in 2010-11, respectively.

#### **Billing and Revenue collection efficiency**

APERC disallowed 7,530.51 MU of free power to agriculture consumers, consequent to which APCPDCL and APEPDCL could not claim subsidy

amounting to ₹ 2,519.94 crore from GoAP.

The outstanding dues of APCPDCL and APEPDCL were ₹ 1,633.50 crore at the end of March 2011, out of which ₹ 466.26 crore was outstanding for more than three years; ₹ 444.15 crore was involved in court cases and ₹ 465.52 crore was due from Government departments and local bodies.

#### **Energy Audit**

Out of 7,464 Nos. 11 KV feeders existing in APCPDCL and APEPDCL, energy audit was conducted only on 2,571 feeders. Energy audit was not conducted on the rural feeders. Consumer mapping was also not done in the above case.

#### **Monitoring by Top Management**

The monitoring system is inadequate as the follow up action was not effective due to which increase in arrears, excess failure of DTRs, high distribution losses, shortage of transformer oil etc., continued to occur.

*(Chapter 2.1)*

## ***Performance Review of Mining and Sales Activities of The Singareni Collieries Company Limited***

The Singareni Collieries Company Limited (SCCL/Company) was incorporated in December 1920 with the main objective of development of mines for extraction of coal. Jointly owned by GoI and GoAP, the Company had (31 March 2011) 9,481 million tonnes of proven coal reserves, which were 10.31 per cent of the country's reserves. As on 31 March 2011 the Company has 50 operative mines (16 Open Cast and 34 Under Ground mines). About 63 to 65 per cent of the coal produced in these coalfields is of thermal power grade, ranging from E to G, which is mainly supplied to power sector units.

### **Project Planning and Execution**

During the year 2006-11, 21 projects were completed out of which 11 projects were completed with time over run of one to five years resulting in cost over-run of ₹ 39.75 crore and loss of production of 7.34 million tonnes of coal valued ₹ 858.20 crore. Six projects scheduled to be completed during 2006-11 and one project scheduled to be completed in 2011-12 were lagging behind, due to delay in land acquisition and procurement of equipment, which resulted in cost overrun of ₹ 64.46 crore besides shortfall in coal production of 93.78 lakh tonnes valued ₹ 1,247.43 crore.

### **Production of Coal**

Though the overall production achieved by UG & OC mines put together had exceeded the targets, the UG mines could not achieve the targets and incurred a loss of ₹ 3,483.39 crore during 2006-11. Non re-deployment of surplus manpower to needy areas resulted in payment of ₹ 438.92 crore on account of wages to

surplus staff. Output per Manshift (OMS) ranged between 1.91 and 3.59 tonnes, as compared to OMS of Coal India Limited, that ranged between 3.54 and 4.73 tonnes during 2006-11.

### **Mining Activity**

The average stripping ratio of the Company was high at 5.45 as against 1.87 of CIL. Defective clauses in the agreement for removal of overburden resulted in excess payment of ₹ 21.52 crore.

Under utilization of machines in UG mines resulted in loss of production of 78.86 lakh tonnes of coal valued ₹ 1,092.61 crore.

Utilization of HEMM ranged between 20 to 55 per cent as against the norm of 40 to 73 per cent during 2006-11. HEMM consumed HSD oil valued ₹ 24.46 crore over and above the norm.

### **Sales**

There was no coal pricing policy. Non-revision of coal prices (F & G grades) resulted in loss of revenue of ₹ 3,411.96 crore during 2007-11. Non collection of Additional price from APGENCO for supply of coal over and above the linked quantity resulted in loss of revenue of ₹ 432.54 crore.

### **Internal Control and Monitoring**

Technical audit was not conducted and strategic plan covering the risk assessment for audit for three years was not prepared. Internal Audit activity was limited to routine pre-audit checks of various claims but did not cover important issues viz., OB contracts, land acquisition, manpower deployment, FSAs, etc.

**Safety Management**

The number of accidents recorded had decreased during past five years, but there was a loss of 2.36 lakh man days due to accidents during 2006-10.

**Environment Management**

Notwithstanding the fact that the Company had been conferred awards during 2006-11 in recognition of their

commitment towards the environment, effective action needs to be taken to establish Effluent Treatment Plants at all Coal Handling Plants/ Area Workshops/ Base Workshops; Sewage Treatment Plants in all the colonies; and ensure better survival in all plantations.

*(Chapter 2.2)*

***IT Audit on Implementation of ERP in Transmission Corporation of Andhra Pradesh Limited***

Transmission Corporation of Andhra Pradesh Limited (Company) is engaged in transmission of electricity and Grid operations.

The Company decided (April 2003) to implement an Enterprise Resource Planning (ERP) with four modules viz., Finance and Controlling, Materials Management, Projects Management and Maintenance Management to provide management accurate, timely and reliable information for better decision making.

An IT Audit of the system revealed that

- There was no IT strategy and IT policy.
- Objectives of the system were partially achieved.
- Major business activities such as calculation of price variation, generation of bills for its consumers, loan administration and pension accounting were not included in the ERP.

- No documentation available defining roles for allocation of user ID based on job description.
- System exposed to greater risks by allowing the access to data from backend.
- Security of the system stands compromised by allowing the access to ERP application servers through LAN and existence of open ports on the computers connected to both ERP and LAN networks.
- Continuance of manual processing even after four years of ERP commissioning.
- Intended MIS reports are not generated.
- Migration of data from partially completed HR module into Payroll module resulted in serious errors in maintenance of service particulars of employees.
- Post Implementation Review of the system was not conducted for evaluating the System Effectiveness.

***(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 ₹458.23 crore in 12 cases due to non compliance with rules, directives, procedures, terms and conditions of contracts.*

*(Paragraphs 3.3 to 3.10, 3.12, 3.13, 3.18 and 3.20)*

*Loss of ₹94.24 crore in three cases due to non-safeguarding the financial interests of organisation.*

*(Paragraphs 3.14, 3.15 and 3.21)*

*Loss of ₹6.06 crore in three cases due to defective/deficient planning.*

*(Paragraphs 3.1, 3.16 and 3.17)*

*Loss of ₹5.37 crore in two cases due to inadequate/deficient monitoring.*

*(Paragraphs 3.2 and 3.19)*

*Unfruitful expenditure of ₹72.45 crore in one case due to non-achievement/partial achievement of objectives.*

*(Paragraph 3.11)*

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

Inclusion of contradictory clause in the MOU by **Andhra Pradesh Industrial Infrastructure Corporation Limited** and consequent reassignment of development rights to other parties by the SPV, formed for development of villas/ residential accommodation, without in-principle approval of the Company, failure of the VC&MD of the Company to monitor and report the same and sale of plots below market rate by the third party Developer resulted in loss of revenue of ₹126.90 crore. In another SPV relating to development of golf course also the Company had suffered a loss of revenue of ₹3.67 crore with an expected loss of ₹109.37 crore for the balance period of lease.

*(Paragraph 3.3)*

**Andhra Pradesh Industrial Infrastructure Corporation Limited** extended undue benefit at every stage of project implementation to the consortium of Reliance Energy Limited formed for development of Trade Towers and Business District, leading to forgoing revenue of ₹126.22 crore towards Development Premium, loss of ₹33.29 crore towards interest in debentures, deferment of payment of ₹230.27 crore towards land cost and non-forfeiture of Performance Security amounting to ₹32.90 crore, besides the project has not yet taken off.

*(Paragraph 3.4)*

**Hyderabad Growth Corridor Limited**, made irregular payment of ₹ 9.11 crore towards price adjustment, without ensuring the genuineness of claims preferred by the contractors in the Outer Ring Road and its ancillary projects.

*(Paragraph 3.12)*

**Northern Power Distribution Company of Andhra Pradesh Limited** procured Distribution Transformers, which failed within guarantee period and failure of the Company to get them repaired at the risk and cost of the suppliers led to unfruitful expenditure of ₹ 11.11 crore.

*(Paragraph 3.13)*

**Southern Power Distribution Company of Andhra Pradesh Limited** failed to include appropriate price variation clause in the bid for HVDS works, to take care of both positive and negative price variation of the cost of DTRs, which led to avoidable expenditure of ₹ 33.08 crore.

*(Paragraph 3.14)*

**Andhra Pradesh State Road Transport Corporation** incurred extra expenditure of ₹ 9.72 crore on procurement of Pre-cured Tread Rubber due to (i) non-enforcement of risk purchase clause; and (ii) change in evaluation method.

*(Paragraph 3.18)*

***(Chapter 3)***