

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 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. Their 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 2013, the State of Andhra Pradesh had 52 working PSUs (49 companies and three Statutory corporations) and 24 non-working PSUs (all companies). As of the same date the investment (capital and long-term loans) in these 76 PSUs (including 619-B companies) was ₹ 64,426.77 crore. The investment has grown by 85.08 *per cent* from ₹ 34,809.43 crore in 2007-08 to ₹ 64,426.77 crore in 2012-13. Thrust of investment was mainly in the power sector PSUs.
- During 2012-13, the total outgo from the budget of the Government of Andhra Pradesh (GoAP) was ₹ 12,198.47 crore, of which equity capital outgo was ₹ 37.99 crore, loans outgo ₹ 1,868.70 crore and grants/subsidies ₹ 10,291.78 crore.
- There was a difference of ₹ 2,892.64 crore in equity, ₹ 2,145.56 crore in loans and ₹ 1,288.10 crore in guarantees as per the Finance Accounts and the records of PSUs, which needs to be reconciled.
- Out of 52 working PSUs, only 19 PSUs had finalised their annual accounts for 2012-13. The total number of annual accounts in arrears was 88, with arrears ranging from one to eight years.
- Out of the 19 PSUs that had finalised their accounts for 2012-13, nine PSUs earned an aggregate profit of ₹ 877.66 crore, five PSUs incurred a loss of ₹ 93.18 crore, two PSUs neither earned profit nor loss. Of the remaining three PSUs, two are preparing accounts on no profit/ no loss basis and one yet to commence commercial operation and, hence, has not prepared profit and loss account. The main profit earning PSUs were Singareni Collieries Company Limited (₹ 401.14 crore) and Transmission Corporation of Andhra Pradesh Limited (₹ 344.32 crore). The main loss-incurring PSU was Andhra Pradesh State Road Transport Corporation (₹ 80.71 crore).

(Chapter I)

2. Performance Audit relating to Government companies

Performance Audit relating to Implementation of Rajiv Gandhi Grameen Vidyutikaran Yojana in Andhra Pradesh

Introduction

Government of India launched in March 2005 Rajiv Gandhi Grameen Vidyutikaran Yojana with an objective of electrifying all villages and habitations (hamlets) and providing all Rural Households (RHHs) access to electricity by year 2009 and notified in August 2006 Rural Electrification Policy, which required the State Governments to prepare and notify their own Rural Electrification Plans. Rural Electrification Corporation was nodal agency for implementing RGGVY. GoI provided 90 *per cent* capital subsidy to State Government to meet overall cost of project, while 10 *per cent* would be a loan provided by REC to State Government. Four Distribution Companies (DISCOMs) were project implementing agencies. Seventeen projects and five projects were sanctioned under 10th and 11th plans respectively, in four DISCOMs.

Planning

Inordinate delay of more than four years in notifying the Rural Electrification Plan, inadequate initial survey for infrastructure to be provided and for identification of beneficiaries resulted in incorrect preparation of DPRs, which led to subsequent revision in quantities /number of beneficiaries with consequent increase in cost of projects

Contract and Project Management

Instances of excess rates claimed for material, short closure of contracts at the request of contractors (SPDCL) and use of other than approved material resulting in excess expenditure were noticed. These factors also contributed to revision of project costs.

Finance Management

DISCOMs paid Price variation claims of ₹ 6.04 crore in contravention of terms and conditions of agreement. NPDCL and SPDCL had not recovered Labour cess of ₹ 1.16 crore and ₹ 2.53 crore respectively from the Contractors, as a result, liability rests with the respective DISCOMs. Non-levy of penalties for delayed works resulted in undue favour to contractors. Non-adjustment of the interest earned on unspent RGGVY funds to the final project cost resulted in excess claim of ₹ 5.75 crore (SPDCL, NPDCL and EPDCL).

Monitoring and Impact Assessment

Lack of wide publicity about the scheme at block level resulted in poor response from Rural Households of Below Poverty Line. Non-compliance with provisions for releasing service connections like providing earth wire, providing service line connection free of cost, fixing of outmoded meters not covered under the scheme, lack of safeguard measures to provide fencing at danger points were noticed in audit. Non-convening of State Level Coordination committee meetings to ensure the effective implementation of RGGVY in four DISCOMs and non engagement of franchisees at block level as per RGGVY guidelines were noticed.

(Chapter II)

3. Performance Audit relating to Statutory corporation

Performance Audit relating to *Andhra Pradesh State Warehousing Corporation*

Introduction

Andhra Pradesh State Warehousing Corporation (APSWC) was established in August, 1958 under the provisions of the Warehousing Corporation Act, 1958. Government of Andhra Pradesh (GoAP) and Central Warehousing Corporation (CWC) have 50:50 share capital in APSWC. The major activities of the organisation are to construct warehouses within the State to facilitate storage and transportation of agricultural produce, seeds, manures, fertilisers, agricultural implements and notified commodities and to act as an agent of CWC or the State Government to help purchase these commodities.

Planning for construction of storage facilities

APSWC failed to prepare five-year Corporate Plan for the period 2008-13.

Though APSWC made proposals for implementation of galvalume roofing for godowns in June 2007, which offers economy in both time and energy taken to construct as compared to traditional roofing, it belatedly constructed (2011-13) 10 godowns of 1.32 lakh MT capacity with galvalume roofing. Re-roofing of old godowns in seven locations was carried out during 2010-12 by traditional roofing instead of galvalume roofing.

APSWC proposed in January 2006 to construct modern warehouse Container Freight Station (CFS) facilities at Visakhapatnam Port for bulk handling of exports and imports under new business, which was delayed because of poor initiatives of APSWC.

APSWC had earned profits continuously and the accumulated profit as at the end of March 2013 stood at ₹ 283.35 crore. There was no significant construction activity during the period 2008-11.

Scheme-wise Construction of godowns

Annual plans of APSWC for the years 2008-13 projected addition of their own warehousing capacity of 3.78 lakh Metric Tonnes (MT) but added only 1.32 lakh MTs capacity resulting in a shortfall of 2.46 lakh MTs.

Due to delay in submission of DPRs under NABARD's RIDF XVII scheme for construction of godowns, APSWC could not avail the loan under the scheme but availed under another scheme, RIDF XVIII, resulting in additional interest burden of ₹ 7.40 crore apart from additional investment of its own funds.

Godown constructed (December 2012) at Vemulapally under RIDF scheme with a guaranteed 100 *per cent* reservation by FCI was not taken over by FCI resulting in loss of revenue to the tune of ₹ 1.37 crore from the date of confirmation of reservation (February 2013) to December 2013.

Capacity utilisation

Average occupancy of own godowns ranged from 58 to 89 *per cent* during the period 2008-13, whereas the same was of full capacity in case of Hired godowns and investor godowns.

APSWC had not maintained separate data relating to utilization of storage space by farmers till May 2012. Utilisation of storage space by farmers from May 2012 to March 2013 was zero *per cent* to six *per cent* in eight Regions, defeating the main objective.

Operation & Maintenance of godowns

There were 56 units which incurred losses of ₹ 1.69 crore during 2008-13. Loss making godowns have progressively declined but six godowns consistently made losses. No action was taken to wind up the unviable godowns.

APSWC had not preferred the claims in respect of investor godowns with revised storage charges retrospectively inspite of Government directions, which resulted in a revenue loss of ₹ 40.96 crore.

Revision of rates was not effected in respect of goods other than food grains like fertilisers, cotton etc. since April 2002 and there is no rate revision policy framed by APSWC.

APSWC had written-off ₹ 2.65 crore towards storage losses in excess of norms during the period 2007-12. Audit scrutiny revealed that the capacity utilisation of the Investor Godowns was more than 100 *per cent* which resulted in higher storage losses as stocks were stored unscientifically.

Management Information System (MIS)

Implementation of online Warehouse Management System, to be completed by September 2012, was delayed. Monthly Business Report, which is main source of MIS has not been standardized.

(Chapter – III)

4. 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 ₹ 145.93 crore in five cases due to non-compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 4.1.2.7, 4.3.2.2, 4.4.2.5, 4.5 and 4.6.2.5)

Loss of ₹ 173.80 crore in eight cases due to non-safeguarding the financial interests of organisation.

(Paragraphs 4.1.2.4, 4.1.2.8, 4.1.2.9, 4.4.2.7, 4.4.2.10, 4.7.5.3, 4.7.5.18 and 4.7.5.20)

Loss of ₹ 83.95 crore in four cases due to defective/deficient planning.

(Paragraphs 4.2, 4.3.2.1, 4.8.2.5 and 4.9)

Loss of ₹ 4.48 crore in one case due to inadequate/ deficient monitoring.

(Paragraph 4.1.2.15)

Unfruitful expenditure of ₹ 7.27 crore in two cases due to non-achievement/partial achievement of objectives.

(Paragraphs 4.3.2.3 and 4.3.2.4)

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

Andhra Pradesh Mineral Development Corporation Limited allotted subsequent leases to promoter firms who defaulted in payment of Mining Franchisee Fee and thus affecting transparency in selection of JV partners; consideration payable by the JV companies for mining of black galaxy granite was fixed at nominal rates. There was loss of revenue due to fixation of low rate for C+D+Waste grade barites. Value of bauxite mines was understated and price of bauxite to be supplied was fixed based on royalty without adopting the market price. Escot charges for limestone mining were fixed at nominal levels of ₹ 0.50 to ₹ 0.75 per tonne. JV company was formed for mining ilmenite without obtaining license from the Atomic Energy Regulatory Board.

The Company, keeping its own prime office space vacant, shifted its office to rented building resulting in loss of revenue.

(Paragraphs 4.1 & 4.2)

Andhra Pradesh Trade Promotion Corporation Limited failed to utilize facilities established at a cost of ₹ 26.88 crore due to lack of planning and proper synchronization; there were delays in land alienation, obtaining power connections and notifications from Customs Department; the Company's efforts in creation of trade promotional facilities suffered as the lone attempt to establish Trade Fair Centre at YSR district turned out to be a non-starter due to lack of proper planning/choice of location.

(Paragraph 4.3)

The DPRs prepared by **Southern Power Distribution Company of Andhra Pradesh Limited and Northern Power Distribution Company of Andhra Pradesh Limited** for conversion of Low Voltage Distribution System into High Voltage Distribution System were found deficient and not based on realistic data obtained through proper baseline survey, resulting in variance between estimated and actual quantities, abnormal delays in execution and shortfall in conversion of planned feeders. Estimates were not economical due to inflated cost of DTRs, which resulted in additional financial burden to DISCOMs. Non-stipulation of a Bid clause restricting payment of Price Variation Claims (PVC) to the scheduled delivery period, payment of PVC on ineligible components and without stipulated ceiling limit resulted in undue benefit to contractors and avoidable expenditure to DISCOMs. Excess payment was made to contractors towards Excise Duty and VAT. While Post-bid amendment made to pay mobilization advance vitiated bid process, levy of interest on mobilisation advance at half the borrowing cost lacked justification with undue benefit to contractors. Delay in execution of works and consequent slippage in loan resulted in payment of interest at higher rates and commitment charges.

(Paragraph 4.4)

Central Power Distribution Company of Andhra Pradesh Limited did not adhere to the Purchase Manual conditions relating to taxes and duties, in respect of HVDS phase III bids and incurred avoidable excess expenditure of ₹ 6.17 crore towards excise duty.

(Paragraph 4.5)

Andhra Pradesh Power Generation Corporation Limited delayed execution of thermal projects due to deficient planning and project management with consequent time and cost overruns and there were cases of non-levy/ short levy of liquidated damages. Due to non-completion of the projects as planned in DPRs, DISCOMs purchased expensive power from open market to tide over shortages, with consequent burden on consumers by way of Fuel Surcharge Adjustment.

(Paragraph 4.6)

Southern Power Distribution Company of Andhra Pradesh Limited and Eastern Power Distribution Company of Andhra Pradesh Limited did not formulate IT policy. SPDCL and EPDCL did not enable any audit trails and logging of critical activities in their HT billing applications and did not have an approved backup policy. SPDCL did not formulate Change management and password policies. Critical responsibilities of System Administrator and Data Base Administrator are being performed by a single official thus giving scope for unauthorized changes. Vulnerable ports were open on the computers connected to the network, exposing the system to attacks of viruses and hackers. The application is deficient of validation checks and input controls. HT billing components were excluded from the software necessitating manual calculations/ interference. EPDCL incurred an additional expenditure of ₹ 7.40 crore in procurement of a billing application software though the source code of same was already available with the Company. Non-creation of proper interface between HT billing and SAP by the HT billing application vendor

resulted in duplication of work. Critical activities like system administration and database administration were entrusted to contract employees in violation of the provisions of its Security Manual.

(Paragraph 4.7)

Andhra Pradesh State Road Transport Corporation prepared DPR without conducting basic field studies. Though construction of Commuter Amenities Centres/ Bus Terminals with borrowed funds was financially not viable, as per the financing pattern, for debt ridden Corporation, it went ahead without ensuring receipt of entire central and state share of grants under the scheme. The Corporation could not implement Pilot Project in toto even five years after sanction. Ultramodern passenger amenities envisaged in the DPR/ Scheme were not provided in completed Bus Terminals. Due to delay in both handing/ taking over of completed projects and leasing out commercial/ advertisement space after taking over the projects by Regional Manager/Depot, the Corporation was deprived of commercial revenue.

The Corporation lacks policy on collection of toll charges from the passengers and lack of efforts to minimise expenditure on toll tax resulted in additional burden of ₹ 50.69 crore on the Corporation during 2010-14 with recurring effect.

(Paragraphs 4.8 & 4.9)

(Chapter IV)