

OVERVIEW

SECTION-A

Introduction: Functioning of State Public Sector Undertakings

Audit of Government Companies is governed by Section 139 and 143 of the Companies Act, 2013. The financial statements of Government Companies are audited by Statutory Auditors appointed by the Comptroller and Auditor General of India. These financial statements are also subject to supplementary audit by the Comptroller and Auditor General of India. Audit of Statutory Corporations is governed by their respective legislations.

As on 31 March 2018, the State of Andhra Pradesh had 68 working Public Sector Undertakings (PSUs) (65 Companies and 3 Statutory Corporations) and 20 inactive Public Sector Undertakings (all Companies). The working PSUs employed 0.93 lakh employees. Working PSUs, which had submitted their accounts for at least one of the reporting periods since their inception, registered a turnover of ₹ 51,423.74 crore as per their last finalised accounts as of 30 September 2018.

(Paragraph 1, 2 and 3)

PART I

Chapter I : Functioning of Power Sector PSUs

Investment in Power Sector PSUs

As on 31 March 2018, investment (capital and long-term loans) in eight Power Sector PSUs was ₹ 47,739.67 crore. The investment consisted of 10.76 per cent towards equity and 89.24 per cent in long term loans.

(Paragraph 1.4)

Performance of Power Sector PSUs

There were eight Power Sector PSUs in the State, out of which the accounts of three Power Sector PSUs were in arrears. Of these, four PSUs earned a profit of ₹ 421.73 crore and three Power Sector PSUs incurred a loss of ₹ 434.08 crore. One Company viz., Andhra Pradesh Tribal Power Company Limited has not submitted its first accounts since inception.

(Paragraphs 1.7 and 1.10)

The overall accumulated losses of the four out of eight Power Sector PSUs during 2017-18 was ₹ 17,464.63 crore as against the paid-up capital investment of ₹ 5,136.85 crore resulting in negative net worth of ₹ 7,739.81 crore. Of the eight Power Sector PSUs, the net worth was eroded mainly in Eastern Power Distribution Company Limited ((-) ₹ 3,019.70 crore), Southern Power Distribution Company Limited ((-) ₹ 13,133.42 crore.).

(Paragraph 1.14)

Explanatory notes to Paragraphs/ Performance Audits appearing in Audit Reports (Commercial/ Public Sector Undertakings) are to be submitted within three months of their tabling in the State Legislature. Explanatory notes to 27 Paragraphs/ Performance Audits appearing in Audit Reports (Commercial/ Public Sector Undertakings) are yet to be received. Action Taken Notes on the 15 recommendations contained in reports of the Committee on Public Undertakings (COPU) were yet to be received from the Departments as on 30 September 2018.

(Paragraph 1.24 and 1.26)

Chapter-II : Compliance Audit Observations

Compliance audit observations included in this Report highlight deficiencies in the management of Power Sector PSUs, with financial implications. Overview of compliance audit findings pertaining to Power Sector PSUs are given below:

- **Andhra Pradesh Power Development Company Limited** paid ₹ 12.90 crore towards price variation for the period of delay attributable to the contractor, contrary to Clause 13 of the contract.

(Paragraph 2.1)

- Non-effecting of TDS on terminal benefits by **Eastern Power Distribution Company of Andhra Pradesh Limited and Southern Power Distribution Company of Andhra Pradesh Limited** resulted in non-recovery of tax by the Companies to the extent of ₹ 77.50 crore and extending undue benefit to the retired officials.

(Paragraph 2.2)

PART II

Chapter III : Functioning of State PSUs (Non-Power Sector)

Investment in State PSUs (Non-Power Sector)

As on 31 March 2018, investment (capital and long-term loans) in 80 PSUs was ₹ 24,984.15 crore. The investment consisted of 5.20 *per cent* towards equity and 94.80 *per cent* in long-term loans.

(Paragraph 3.4)

Performance of State PSUs (Non-Power Sector)

Out of the 80 PSUs in the State 60 were working PSUs, out of which 32 PSUs finalised their accounts during October 2017 to September 2018, covering different reporting period. During 2017-18, 18 working PSUs earned a profit of ₹ 767.01 crore and 29 PSUs incurred a loss of ₹ 1,679.85 crore.

(Paragraph 3.12)

Explanatory notes to Paragraphs/Performance Audits appearing in Audit Reports (Commercial/Public Sector Undertakings) are to be submitted within three months of their tabling in the State Legislature. Explanatory notes to 73 Paragraphs/ Performance Audits appearing in Audit Reports (Commercial/Public Sector Undertakings) are yet to be received. Action Taken Notes on the 443

recommendations contained in reports of the Committee on Public Undertakings (COPU) were yet to be received from the departments as on 30 September 2018.

(Paragraphs 3.25 and 3.27)

Chapter-IV : Performance Audit relating to Government company

Andhra Pradesh Mineral Development Corporation Limited (Company) was incorporated in February 1961 under the Companies Act 1956, as a wholly owned undertaking of Government of Andhra Pradesh (GoAP). The authorised share capital of the Company as on 31 March 2018 was ₹ 10 crore and the paid-up capital stood at ₹ 6.31 crore. The accounts of the Company were finalised upto the year 2013-14 (1 April 2013 to 1 June 2014) and the accounts for the subsequent years were not finalised due to non-finalisation of demerger plan.

Performance Audit on “**Activities of Andhra Pradesh Mineral Development Corporation Limited**”, was conducted. Overview of audit findings is given below:

- The Company incurred extra expenditure on terminating the original excavation contract due to short production of barytes and awarding the leftover work to another contractor. The Company could not recover risk and cost amount of ₹ 13.11 crore from the original contractor.

(Paragraph 4.7.1.1)

- Though the Pulversing Units and Barium Chemical Manufacturing Units lifted less than 50 *per cent* of the agreed quantity of barytes, the Company, instead of forfeiting the Performance Security Deposit (PSD), recovered only penalty amount of ₹ 2.71 crore and released the PSD of ₹14.07 crore in violation of the terms of agreement.

(Paragraph 4.7.1.4)

- As per agreement, the Contractors were to pay 1.5 times of royalty or 10 *per cent* of turnover, whichever is higher. Though the quality of granite blocks produced by M/s Andhra Pradesh Granites (Midwest) Private Limited was better than that of M/s.Pallava RED Granites Private Limited, the sale price was however, lower than that of M/s.Pallava RED Granites Private Limited. Due to this, Company received ₹ 2.99 crore less consideration, as consideration received @ 1.5 times royalty was more than @ 10 *per cent* of the turnover at undervalued sale price.

(Paragraph 4.7.2.1(b))

- In violation of terms of Memorandum of Understanding, the Company permitted four parties to commence production without obtaining environmental and forest clearances and without forming Joint Venture companies. The Company had not recovered the consideration amount of ₹ 70.67 lakh from three parties, which stopped production due to non-receipt of the clearances and had not initiated action to realise the value of stock of 48.378 cbm lifted unauthorisedly by one party.

(Paragraph 4.7.2.4)

- The Company suffered loss of interest of ₹ 1.71 crore as it arranged interest free loan to Andhra Pradesh State Fibrenet Limited (APSFNL) on the directions of GoAP.

(Paragraph 4.7.3.1)

Chapter-V: Compliance Audit Observations

Compliance audit observations included in this Report highlight deficiencies in the management of Non-Power Sector PSUs, which resulted in financial implications. Overview of compliance audit findings is as given below:

- Andhra Pradesh State Housing Corporation Limited established the Housing Information Centres (HICs) in the entire State without assessing the possibility of the beneficiaries approaching the HICs for enquiries. Due to this, the Company incurred a wasteful expenditure of ₹ 16.77 crore towards monthly payments to the agency.

(Paragraph 5.1)

SECTION-B

Departments and Entities (Other than Public Sector Undertakings) under Economic Sector

Chapter-I: Introduction

This section of the Report covers the functioning of 10 Departments of the Economic Sector viz., Agriculture, Cooperation & Rain Shadow Areas Development; Animal Husbandry & Fisheries; Energy, Infrastructure & Investment; Environment, Forests, Science & Technology; Industries & Commerce; Information Technology, Electronics & Communications; Water Resources; Public Enterprises; Roads & Buildings and Tourism, Art & Culture.

Chapter-II: Performance Audit on Rashtriya Krishi Vikas Yojana

Government of India (GoI) had launched (2007-08) the Rashtriya Krishi Vikas Yojana (RKVY) with an objective of achieving four *per cent* annual growth in Agricultural Sector by ensuring holistic development in agriculture and allied sectors. In Andhra Pradesh, the Scheme was being implemented in various agriculture and allied sectors like agriculture, horticulture, animal husbandry, fisheries, etc. A Performance Audit was conducted on the implementation of RKVY in the State covering the four year period 2014-18. Audit covered three major sectors, viz - Agriculture, Animal Husbandry and Horticulture in four selected districts (Anantapuramu, Guntur, Krishna and SPSR Nellore).

The major audit findings are summarised below:

- The State Agriculture/Infrastructure Plans and District Plans for the XII Plan (2012-13 to 2016-17) were finalised belatedly in May 2016. During 2012-13 to 2015-16, the scheme was implemented without the comprehensive

State/District plans. Further, the Plans were prepared without taking inputs from the Mandal/ Village level units.

(Paragraphs 2.7.1 and 2.7.2)

- In all the four years covered in audit, sanctions for the proposed projects were obtained only after the start of the year, due to late receipt of project proposals/DPRs from the implementing agencies and consequent delays in screening of project proposals. Consequently, the first instalment funds were received from Government of India only in May/August/September in these four years.

(Paragraph 2.7.3)

- Even after receipt of funds from GoI, there were further delays in release of funds by GoAP/Nodal Agency to the line departments. The first instalments of funds reached the line departments/agencies only in the second half of the year and the second instalments reached the line departments in the subsequent financial years.

(Paragraph 2.8.1)

- Interest received on RKVY funds amounting to ₹10.41 crore diverted to other schemes/activities. Out of this, an amount of ₹2.19 crore was yet to be recouped.

(Paragraph 2.8.2)

- The implementing Departments were keeping the RKVY funds outside the Government Account in savings bank accounts. The balance as of March 2018 in the 14 bank accounts of the test checked offices was ₹35.57 crore.

(Paragraph 2.8.3)

- Needs of farmers and their willingness to avail benefits under proposed projects were not assessed while preparing the District/State plans or while preparing the DPRs. Consequently, the line departments in the test checked districts could not implement some of the approved projects.

(Paragraph 2.9)

- None of the 10 government infrastructure projects (cost: ₹21.05 crore) allotted to test checked districts during 2014-18 were completed as of July 2018, due to improper planning, revision of proposals/costs and abnormal delays in identification of land, release of funds, identification of implementing agencies, etc.

(Paragraph 2.10)

- The Nodal Agency had furnished Utilisation certificates (UCs) to GoI for the entire amount released for 2014-17. However, the UCs did not represent the actual expenditure, as funds of ₹25 crore pertaining to this period were not utilised in the test checked districts at the time of furnishing of UCs.

(Paragraph 2.12.1)

- Monitoring on scheme implementation was weak as the State Level Sanctioning Committee met only seven times during 2014-18 as against the minimum of 16 meetings and it was not conducting any critical review about the shortfall in achievements and the reasons thereof.

(Paragraph 2.12.2)

- There is no independent assurance about the effectiveness of RKVY scheme as the third party evaluation on RKVY for the years 2015-16 to 2017-18 was not taken up.

(Paragraph 2.12.4)

- The projects implemented under RKVY were aimed at reduction in operational costs of farmers, increasing production/productivity and income of small and marginal farmers. However, there was no mechanism to record the pre and post implementation statistics of production, yield, income, etc. of the beneficiaries. In the absence of this data, it was not ascertainable as to what extent the RKVY projects had achieved the intended outcomes.

(Paragraph 2.13)

Chapter-III: Compliance Audit

Preservation of Water Bodies in Andhra Pradesh

Water bodies play a significant role in maintaining ecological balance in addition to catering to the domestic and irrigation water requirements of the people. The water bodies, especially those in and around urban areas, face a threat from rapid urbanisation without adequate attention to ecology. Audit made an assessment of the status of water bodies in and around urban areas in the State and the adequacy and effectiveness of the existing mechanism in preservation of water bodies. Audit studied 37 water bodies in six selected (out of 110) urban local bodies (ULBs) (Vijayawada, Markapur, Srikakulam, Vizianagaram, Nagari and Pulivendula Municipalities/Municipal Corporations) and 37 water bodies in the villages adjacent to these ULBs. Major audit observations are summarised below:

- Audit observed encroachments (approximate area of 132.03 acres) in 25 out of 37 test checked water bodies under the five ULBs and 9 out of 37 test checked tanks in the adjacent villages. Of these, five tanks (three in Vijayawada city and two in Srikakulam town) did not physically exist as the entire area (25.21 acres) under these tanks was encroached.

(Paragraph 3.1.3)

- The exact extent of encroachments in these tanks was not known, as the Revenue Department had not undertaken any physical survey in the recent times. The last physical surveys/measurements were conducted way back during the years 1906 to 1956.

(Paragraph 3.1.3)

- The encroachments included constructions by the ULBs/Government agencies. For example, Audit observed an indoor stadium and a Rythu Bazaar in Nalla

Cheruvu in Patamata area of Vijayawada city. Similarly, a Zilla Parishad High School, a Gram Panchayat Building, an Anganwadi Kendra, etc. were seen in a tank in Gundrajakuppam area of Nagari town.

(Paragraph 3.1.3)

- While the encroachments occurred over long period, the Revenue Department failed to take note of the encroachments and prevent/evict them. Moreover, the Department issued D-Form Pattas to the encroachers for a total of 28.52 acres in four water bodies.

(Paragraph 3.1.4.1)

- The ULBs did not take any action for notification of the water bodies as municipal assets, geo-tagging/geo-mapping, formation of bunds, erection of fencing, etc. for protection of water bodies.

(Paragraph 3.1.4.2)

- Though the GoAP had enacted the AP Water Land & Trees Act (APWALTA) for protection and conservation of water sources, land and environment and had constituted (2002) the APWALT Authority at State level, the Authority was largely non-functional.

(Paragraph 3.1.4.3)

Other Compliance Audit observations

- In the work of Pungunur Branch Canal from Km 20.00 to Km 30.00 (Package No.25 - Balance work) under HNSS project (Phase-II), rejection of the beneficial offer of existing contractor to execute the supplemental work with 12.69 *per cent* discount and award of the work through tenders at a premium had resulted in avoidable extra financial burden of ₹4.87 crore on the Government.
- In the work of Kuppam branch canal under HNSS Project (Phase-II), payment of Central Excise Duty on the goods which are eligible for exemption led to avoidable extra expenditure of ₹8.68 crore.

(Paragraph 3.2)

- In the modernisation works of Commamuru Canal (Package Nos. 26 and 27) of Krishna Delta System, inaction on part of the Department to terminate the contracts despite suspension of work by contractor for three years and the consequent non-encashment of bank guarantees led to avoidable accumulation of interest to the extent of ₹18.68 crore on the mobilisation advance paid to the contractor. The accrued interest is being recovered from the contractor at the instance of Audit.

(Paragraph 3.3)