

SECTION A
Public Sector
Undertakings

INTRODUCTION

Functioning of
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Functioning of State Public Sector Undertakings

General

1. State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and occupy an important place in the State economy.

The Andhra Pradesh Reorganisation Act, 2014 (AP Reorganisation Act) which came into effect from 2 June 2014, bifurcated the erstwhile composite State of Andhra Pradesh. Accordingly, the residual Andhra Pradesh State and new State *viz.*, Telangana came into existence on that date. Under the AP Reorganisation Act, a PSU shall pass to that State it is exclusively located in or its operations are exclusively confined to. Assets and Liabilities of the PSUs with inter-state operations were to be apportioned between the two States as under:

- The operational Units on location basis; and
- Assets and Liabilities at Headquarters on the basis of population ratio.

Under the Act, 33 PSUs with inter-state operations were identified. These PSUs were to be demerged. Out of these 33 PSUs, 30 PSUs were functionally bifurcated. The transfer of assets and liabilities of these demerged PSUs is, however, yet to be finalised. Two of the PSUs¹ are yet to be demerged and one PSU² has been transferred to Telangana.

As on 31 March 2018, there were 88 PSUs in Andhra Pradesh. Of these, 68 were working PSUs (36 PSUs were exclusive to State, 30 PSUs including three Statutory Corporations³ were formed due to demerger and two PSUs were under demerger) and 20 were inactive⁴ PSUs. None of these Government Companies were listed on the stock exchange. During the year 2017-18, two inactive PSUs⁵ were dissolved and one inactive PSU⁶ was struck off from the Register of Companies by the Registrar of Companies, Hyderabad, under Section 248(5)⁷ of the Companies Act, 2013.

¹ Infrastructure Corporation of Andhra Pradesh Limited and Andhra Pradesh Tribal Power Company Limited.

² The Nizam Sugars Limited, which was shown as PSU under demerger in the previous Reports upto 2015-16 had been treated as Company exclusive to Telangana State.

³ Andhra Pradesh State Road Transport Corporation, Andhra Pradesh State Financial Corporation and Andhra Pradesh State Warehousing Corporation.

⁴ Inactive PSUs are those which have ceased to carry out their operations.

⁵ Andhra Pradesh Scooters Limited and Suganthy Alloy Castings Limited.

⁶ Andhra Pradesh Tourism Finance Limited.

⁷ Section 248(5) of the Companies Act, 2013 prescribes the power of the Registrar of Companies to remove name of the Company from the Register of Companies after sending the required notice to the Company and its Directors. At the expiry of the time mentioned in the notice, the Registrar may, unless cause to the contrary is shown by the Company, strike off its name from the Register of Companies, and shall publish notice thereof in the Official Gazette, and on the publication in the Official Gazette of this notice, the Company shall stand dissolved.

Two companies⁸ were newly incorporated during the year 2017-18. Three companies⁹ were incorporated in 2016-17 but incorporation details were received after finalisation of Audit Report 2016-17.

2. The financial performance of the PSUs on the basis of last finalised accounts as on 30 September 2018, covered in this report. The nature of PSUs and the position of accounts are indicated in table below:

Table 1 – Financial Performance of PSUs covered in the Report

Nature of PSUs	Total Number	Number of PSUs of which accounts received during the reporting period ¹⁰				Number of PSUs of which accounts are in arrears (total accounts in arrears) as on 30 September 2018
		Accounts for 2017-18	Accounts for 2016-17	Accounts upto 2015-16	Total	
Working Government Companies ¹¹ (exclusive to State ¹² plus formed due to demerger ¹³)	63	14	11	12	37	49 (125)
Statutory Corporations (formed due to demerger)	3	1	1	--	2	2 (5)
Working Government Companies (under demerger)	2	--	--	--	--	2 (7)
Total Working PSUs	68	15	12	12	39	53 (137)
Inactive Government Companies	20	--	--	--	--	20

(Source: Compiled by O/o PAG (Audit), Andhra Pradesh as per accounts received during the period October 2017 to September 2018)

Out of 68 working PSUs (36 PSUs exclusive to State, 30 PSUs formed due to demerger, and 2 PSUs under demerger) as on 30 September 2018, 58 PSUs had submitted the accounts for atleast one of the reporting period since their inception and 10 PSUs¹⁴ had not submitted even the first accounts since their inception. The 58 PSUs registered a turnover of ₹ 51,423.74 crore and incurred a net loss of ₹ 925.19 crore as per their last finalised accounts as on 30 September 2018. The 68 working PSUs had a work force of 0.93 lakh employees as at the end of March 2018.

As on 31 March 2018, there were 20 inactive PSUs. These inactive PSUs have been in existence for over 22 years and the Government's investment in these PSUs was ₹ 241.74 crore. This is a critical area, as the investments in inactive

⁸ Andhra Pradesh Drinking Water Supply Corporation Limited and Amaravathi Smart & Sustainable City Corporation Limited.

⁹ Eluru Smart City Corporation Limited, Tirupathi Smart City Corporation Limited and Andhra Pradesh State Energy Efficiency Development Corporation Limited.

¹⁰ From October 2017 to September 2018.

¹¹ Government Companies include other Companies referred to in Section 139(5) and 139(7) of the Companies Act, 2013.

¹² (a) Companies, which are completely falling under Andhra Pradesh State after bifurcation due to its operations being entirely in the State before bifurcation (b) New companies formed on or after bifurcation of the State.

¹³ Companies which are formed upon bifurcation of the State.

¹⁴ Andhra Pradesh State Kapu Welfare and Development Corporation Limited, Kakinada Smart City Corporation Limited, Tirupathi Smart City Corporation Limited, Eluru Smart City Corporation Limited, Amaravathi Smart & Sustainable City Corporation Limited, Vijayawada Urban Transport Company Limited, Andhra Pradesh Drinking Water Supply Corporation Limited, Andhra Pradesh Mahila Sadhikara Samastha, Andhra Pradesh Aviation Corporation Limited and Andhra Pradesh Tribal Power Company Limited.

PSUs does not contribute to the economic growth of the State. All these inactive PSUs are under demerger.

Accountability Framework

3. The procedure for audit of Government Companies is laid down in Sections 139 and 143 of the Companies Act, 2013. According to Section 2 (45) of the Act, a Government Company means any company in which not less than 51 *per cent* of the paid-up share capital is held by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government Company. Besides, any Other Company¹⁵ owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments are referred to in this Report as Government Controlled Other Companies.

Comptroller and Auditor General of India (CAG) appoints the Statutory Auditors of a Government Company or Government Controlled Other Company under Section 139 (5) and (7) of the Companies Act, 2013. Section 139 (5) of the Companies Act, 2013 provides that the Statutory Auditors in case of a Government Company or Government Controlled Other Company are to be appointed by the CAG within a period of 180 days from the commencement of the financial year. Section 139 (7) of the Companies Act, 2013 provides that in case of a Government Company or Government Controlled Other Company, the first auditor is to be appointed by the CAG within 60 days from the date of registration of the Company and in case CAG does not appoint such auditor within the said period, the Board of Directors of the Company or the members of the Company have to appoint such auditor.

Further, as per sub-Section 7 of Section 143 of the Companies Act, 2013, CAG may, in case of any Company covered under sub-Section (5) or sub-Section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted of the accounts of such Company and the provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test audit. Thus, a Government Company or any Other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

¹⁵ Ministry of Corporate Affairs- (Removal of Difficulties) Seventh Order 2014 dated 4 September 2014.

Statutory Audit

4. The financial statements of the Government Companies (as defined in Section 2 (45) of the Companies Act, 2013) are audited by Statutory Auditors, who are appointed by the CAG as per the provisions of Section 139(5) or (7) of the Companies Act, 2013. The Statutory Auditors submit a copy of the Audit Report to the CAG including, among other things, financial statements of the Company under Section 143(5) of the Companies Act, 2013. These financial statements are also subject to supplementary audit by the CAG within 60 days from the date of receipt of the Audit Report under the provisions of Section 143 (6) of the Companies Act, 2013.

Audit of Statutory Corporations is governed by their respective legislations. Out of the three Statutory Corporations, CAG is sole auditor for Andhra Pradesh State Road Transport Corporation. In respect of Andhra Pradesh State Warehousing Corporation and Andhra Pradesh State Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit is conducted by the CAG.

Submission of Accounts by PSUs

Need for timely finalisation and submission

5. According to Sections 394 and 395 of the Companies Act 2013, Annual Report on the working and affairs of a Government Company, is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation laid before both the Houses of State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. Almost similar provisions exist in the respective Acts regulating Statutory Corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the Companies from the Consolidated Fund of the State. Section 96 of the Companies Act, 2013 requires every Company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited financial statement for the financial year has to be placed in the said AGM for their consideration. Section 129 (7) of the Companies Act, 2013 provides for levy of penalty like fine and imprisonment on the persons including directors of the company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

Role of Government and Legislature

6. The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the State Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of

State Government Companies and Separate Audit Reports in case of Statutory Corporations are to be placed before the State Legislature under Section 394 of the Companies Act, 2013 or as stipulated in the respective Acts. The Audit Reports of the CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 for placing before the State Legislature.

Investment by Government of Andhra Pradesh in State PSUs

7. The Government of Andhra Pradesh (GoAP) has high financial stakes in the PSUs. This is mainly of three types:

- **Share capital and loans** -In addition to the share capital contribution, GoAP also provides financial assistance by way of loans to the PSUs from time to time.
- **Special financial support** - GoAP provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees** - GoAP also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

8. The sector-wise summary of investment in the PSUs as on 31 March 2018 is given below:

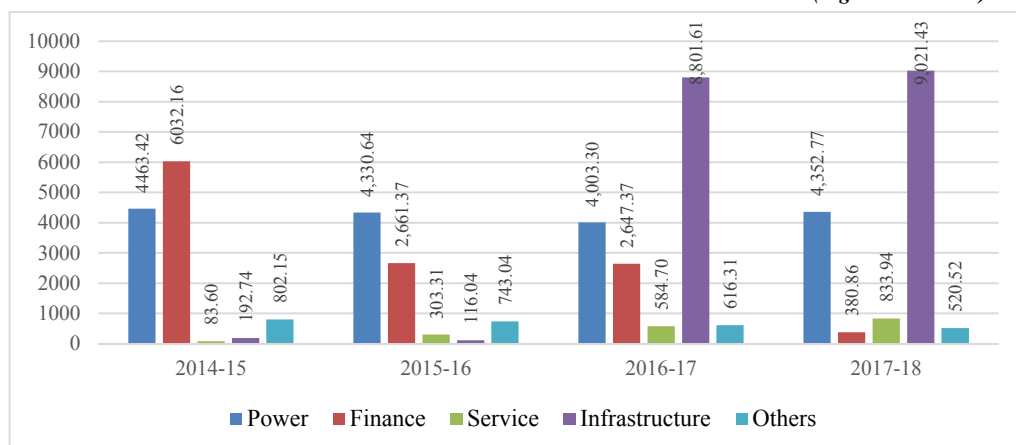
Table 2 – Sector-wise investment in PSUs

Nature of Sector	Government Companies		Statutory Corporations		Investment (₹ in crore)		
	Working	Inactive	Working	Inactive	Equity	Long term loans	Total
Power	8	0	0	0	5,136.90	42,602.77	47,739.67
Finance	7	1	1	0	367.55	3,990.76	4,358.31
Service	10	1	1	0	120.13	3,660.77	3,780.90
Infrastructure	22	0	0	0	600.86	13,605.47	14,206.33
Others	18	18	1	0	210.74	2,427.87	2,638.61
Total	65	20	3	0	6,436.18	66,287.64	72,723.82

It can be noted from the above table that the power sector received investments of ₹ 47,739.67 crore (65.65 per cent) out of total investment of ₹ 72,723.82 crore. The pattern of State Government investment in various important sectors as at the end of 31 March of 2015 to 31 March 2018 is indicated in the chart below:

Chart 1: Sector-wise investment in PSUs by GoAP

(Figures in ₹ crore)



We are presenting the results of audit of eight Power Sector PSUs in Part I of this Section and of the 80 State PSUs (Non-Power Sector) in the Part II of the Section.