

OVERVIEW

1. Overview of Government companies and Statutory corporations

As on 31 March 2006, the State had 56 Public Sector Undertakings (PSUs) comprising 53 Government companies and three Statutory corporations as against 54 PSUs comprising 51 Government companies and three Statutory corporations as on 31 March 2005. Out of 53 Government companies, 35 were working Government companies while 18 were non-working companies. All the three Statutory corporations were working corporations. In addition, there were nine companies (three working and six non-working) under the purview of section 619-B of the Companies Act, 1956 as on 31 March 2006.

(Paragraphs 1.1 and 1.31)

The total investment in 38 working PSUs decreased from Rs. 33,131.06 crore as on 31 March 2005 to Rs.31,703.85 crore as on 31 March 2006. The total investment in non-working PSUs also decreased from Rs.782.85 crore as on 31 March 2005 to Rs. 263.31 crore as on 31 March 2006.

(Paragraphs 1.2 and 1.17)

The budgetary support in the form of capital, loans, grants and subsidies disbursed to the working PSUs decreased from Rs.4,957.17 crore in 2004-05 to Rs.4,045.54 crore in 2005-06. The State Government guaranteed loans aggregating Rs.1,182.90 crore obtained by nine working PSUs during 2005-06. Guarantees of Rs.19,480.80 crore were outstanding against 16 working PSUs as on 31 March 2006.

(Paragraphs 1.6)

Fourteen working Government companies and one Statutory Corporation had finalised their accounts for the year 2005-06. The accounts of the remaining 21 working Government companies and two Statutory corporations were in arrears for periods ranging from one year to nine years. Ten companies (out of 18 non-working companies) were under liquidation and the accounts of the remaining eight defunct/under closure companies were in arrears for period ranging from three to 22 years.

(Paragraphs 1.7 and 1.21)

Twelve working PSUs (eleven Government companies and one Statutory Corporation) out of 15 PSUs (14 Government companies and one Statutory Corporation) which finalised their accounts for 2005-06 earned an aggregate profit of Rs.825.97 crore and only one working company declared a dividend of Rs.86.66 crore during the year. Of the nine loss incurring working Government companies, two companies had accumulated losses aggregating Rs.922.64 crore which exceeded their aggregate paid-up capital of Rs.7.50 crore. One loss incurring Statutory Corporation had accumulated loss of Rs.1,243.69 crore which exceeded its paid-up capital of Rs.201.27 crore.

(Paragraphs 1.9, 1.10, 1.11 and 1.12)

2. Performance Reviews relating to Government Companies/Corporations

The Performance reviews on “Removal of overburden in Open cast mines of **Singareni Collieries Company Limited**”, “Tariff, Billing and Collection mechanism in **Southern Power Distribution Company of Andhra Pradesh Limited**”, “Implementation of Accelerated Power Development and Reforms Programme by **Power Sector Companies**” and “Internal Control System in **State Financial Sector Undertakings**” were conducted and some of the main observations are as follows:

Removal of Overburden in open-cast mines of the Singareni Collieries Company Limited

Coal is mined mainly through two methods viz., Open-cast mining and under ground mining depending upon the geological nature of coal deposits. The company had 14 working and three closed mines as on 31 March 2006. The expenditure towards Over-burden (OB) removal for the last five years ended 31 March 2006 ranged between 23 and 25 *per cent* of the total expenditure of the Company. More than 70 *per cent* of OB removal work was outsourced in five to eleven mines in each year. The Company had no clear cut stated policy for outsourcing of OB removal.

Despite revision of stripping ratios and outsourcing there was backlog of OB removal in six OC mines resulting in additional expenditure of Rs.48.93 crore on its removal subsequently.

Though proposals for outsourcing of OB removal for the next year were to be received six months in advance, there were delays in submitting the proposals by OC mines authorities. Two proposals received for outsourcing of OB removal relating to the same mine were finalised separately at different rates resulting in extra expenditure of Rs.19.47 crore.

The Company incurred avoidable expenditure of Rs.8.55 crore in drilling and blasting of top soil/loose soil due to award of contracts on composite rates without segregating the quantities of topsoil that did not require blasting and drilling.

After imposition of service tax, the company accepted the rates of diesel component quoted by the contractors without verification resulting in extra commitment of Rs.43.13 crore.

(Chapter 2.1)

Tariff, Billing and Collection Mechanism in Southern Power Distribution Company of Andhra Pradesh Limited

Southern Power Distribution Company of Andhra Pradesh Limited was incorporated on 30 March 2000 as a subsidiary of Transmission Corporation of Andhra Pradesh Limited to take-over the retail distribution of power in six out of 23 districts in the state.

The Company suffered a loss of Rs.359.72 crore during the period 2001-02 to 2005-06 due to sale of power in excess of the quota fixed by Andhra Pradesh Electricity Regulatory Commission in respect of subsidised categories of consumers.

The company did not levy Bulk Supply Tariff rate for excess sale to RESCOs resulting in short billing of revenue by Rs.14.83 crore. There was also short billing of revenue amounting to Rs.27 crore due to wrong categorisation of services and non-adherence of tariff conditions.

The company extended concessional tariff to ineligible consumers without ensuring fulfillment of the criteria which led to loss of revenue of Rs.5.67 crore.

(Chapter 2.2)

Implementation of Accelerated Power Development and Reforms Programme by Power Sector Companies

The Government of India entered (May 2002) into a Memorandum of Agreement (MoA) with the Transmission Corporation of Andhra Pradesh Limited for implementation of the Accelerated Power Development and Reforms Programme in all the four distribution companies (Discoms) with a view to upgrade the sub-transmission and distribution system (33 KV and below).

Though the State Government received Rs.265.10 crore towards incentive for reduction of losses the same was not released to Discoms in contravention of conditions of the MoA.

One Discom (EPDCL) drew loan of Rs.78.68 crore from Power Finance Corporation Limited (PFC) despite having surplus funds ranging from Rs.110.44 crore to Rs.220.40 crore during March 2004 to March 2006 resulting in avoidable payment of interest of Rs.1.36 crore.

All the four Discoms furnished wrong financial progress reports to the Distribution Reforms Committee and drew excess loans amounting to Rs.180.58 crore from financial institutions and Government of India.

(Chapter 2.3)

Internal Control System in State Financial Sector Undertakings (Andhra Pradesh State Financial Corporation (APSFC) and Andhra Pradesh Industrial Development Corporation Limited (APIDC))

Andhra Pradesh State Financial Corporation (APSFC) was established with the objective of catering to the financial needs of tiny small and medium scale industries and service enterprises. Andhra Pradesh Industrial Development Corporation Limited (APIDC) was incorporated with the objective to plan, formulate and execute projects for setting up of industries or developing lines of production and to promote, improve and develop industries in the State. The internal control system in both APSFC and APIDC was found to be weak as various tools of internal control were not used effectively.

APSFC did not finalise the Business plan and resource forecasting before commencement of financial year. The reasons for variations in achievements were not analysed in both the organisations (APSFC and APIDC).

Audit Committee was not constituted in APIDC. In APSFC though audit committee was constituted, it did not discuss certain operational aspects falling under its scope.

There is no internal audit in APIDC. In APSFC internal audit covers only routine areas and compliance with its observations was very slow.

There were deficiencies in the internal control system in both the organisations in respect of appraisal, disbursement, monitoring, demand and recovery of term loans.

Inadequate monitoring and non existence of an adequate recovery mechanism led to accumulation of non performance assets in both the organisations.

(Chapter 2.4)

3. Transaction Audit Observations

Audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications which are listed below category-wise:

There were nine cases of loss amounting to Rs.63.48 crore on account of :

- Faulty planning;
- Undue benefit to contractors/suppliers;
- Non-collection of Electricity Duty;
- Non-recovery of dues.

(Paragraphs 3.1, 3.2, 3.3, 3.4, 3.6, 3.8, 3.9, 3.10 and 3.14)

Ten instances were noticed of avoidable/wasteful expenditure and blockage of funds amounting to Rs.36.93 crore due to:

- unfavourable directions of the Government;
- faulty decisions of the management;
- undue favour to contractors;
- unproductive expenditure.

(Paragraphs 3.4, 3.5, 3.7, 3.11, 3.12, 3.13, 3.15, 3.16, 3.17 and 3.18)

Some of the important observations are highlighted below:

Government Companies

Hyderabad Information Technology Venture Enterprises Limited made investment of Rs.7.80 crore in venture capital undertakings without following the investment guidelines, as a result the investment remained dormant without any return.

(Paragraph 3.5)

Andhra Pradesh Beverages Corporation Limited sold liquor and beer at old rates instead of new rates after announcement of the new excise policy resulting in loss of Rs.32.78 crore.

(Paragraph 3.6)

Andhra Pradesh Forest Development Corporation Limited suffered a loss of Rs.2.83 crore due to export of coffee at low rates as compared to rates prevailing in the domestic market despite the known upward trend in coffee prices.

(Paragraph 3.9)

Andhra Pradesh State Trading Corporation Limited suffered financial loss of Rs.77.94 lakh due to release of share of profit of Rs.1.50 crore to the agent without receiving the sale proceeds from the buyer. The Company is also faced with a claim for repayment of Rs.11.28 crore with interest to the banker.

(Paragraph 3.4)

Andhra Pradesh Industrial Infrastructure Corporation Limited, on the directions of the State Government, allotted an alternate plot at original allotment rate instead of prevailing market rate resulting in loss of Rs.78.52 lakh.

(Paragraph 3.10)

Transmission Corporation of Andhra Pradesh Limited extended undue benefit of Rs.8.28 crore to an independent power producer by way of reimbursement of insurance charges not covered by the Power purchase agreement.

(Paragraph 3.13)

Central Power Distribution Company of Andhra Pradesh Limited and **Eastern Power Distribution Company of Andhra Pradesh Limited** failed to collect Electricity duty in respect of power supplied to ferro alloy manufacturing units which resulted in loss of revenue to the State exchequer by Rs.13.55 crore.

(Paragraph 3.14)

Statutory Corporation

Andhra Pradesh State Road Transport Corporation implemented 'Real Time Passenger Information System' without study of its feasibility and its technological anvil rendering the investment of Rs.1.26 crore unproductive.

(Paragraph 3.17)