

Chapter-I

1. Overview of Government companies and Statutory corporations

Introduction

1.1 As on 31 March 2003 there were 49 Government companies (31 working companies and 18 non-working companies*) and three Statutory corporations (all working) as against equal number of Government companies (31 working companies and 18 non-working companies) and three Statutory corporations (all working) as on 31 March 2002 under the control of the State Government. The accounts of the Government companies (as defined in section 617 of the Companies Act, 1956) are audited by statutory auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per provisions of section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956. The State Government had formed Andhra Pradesh Electricity Regulatory Commission (APERC) and audit is entrusted to the CAG under section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of service) Act, 1971. The audit arrangements of Statutory corporations are as shown below:

Sl. No.	Name of the corporation	Authority for audit by CAG	Audit arrangement
1.	Andhra Pradesh State Road Transport Corporation	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by CAG
2.	Andhra Pradesh State Financial Corporation	Section 37(6) of the State Financial Corporations Act, 1951	Chartered accountants and supplementary audit by CAG
3.	Andhra Pradesh State Warehousing Corporation	Section 31(8) of the State Warehousing Corporations Act, 1962	Chartered accountants and supplementary audit by CAG

* Non-working Government companies are those which are under the process of liquidation/closure/merger, etc.

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

1.2 The total investment in 34 working PSUs (31 working Government companies and three working Statutory corporations) at the end of March 2002 and March 2003 was as follows:

(Rupees in crore)

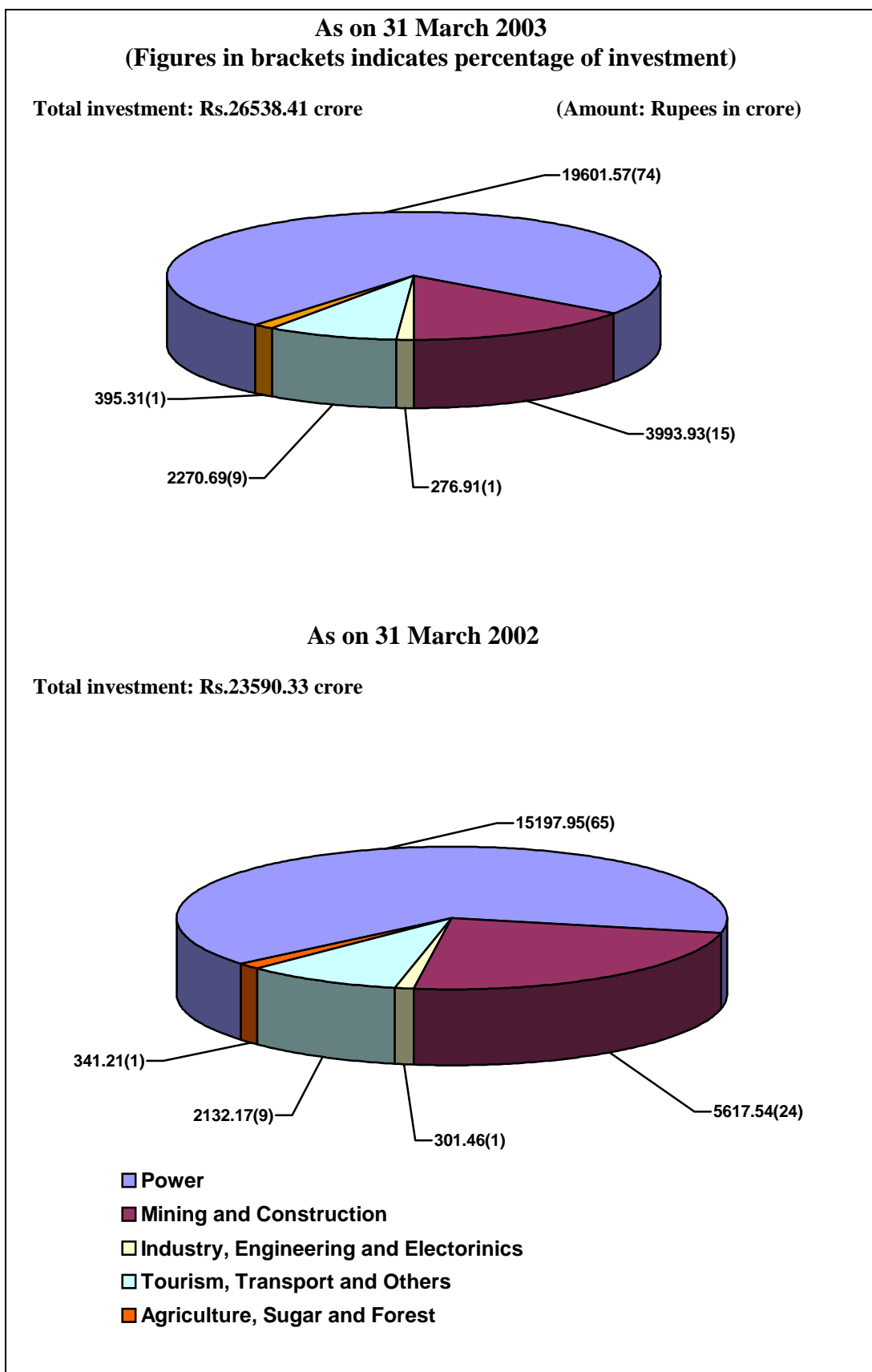
Year	Number of working PSUs	Investment in working PSUs			
		Equity	Share application money	Loan	Total
2001-2002	34	7260.29	105.59	16224.45	23590.33
2002-2003	34	7328.04	71.75	19138.62	26538.41

The analysis of investment in working PSUs is given in the following paragraphs.

Sector-wise investment in working Government companies and Statutory corporations

1.3 The investment (equity and long term loans) in various sectors and percentage thereof at the end of March 2003 and March 2002 are indicated below in the pie charts.

Sector-wise investment in working Government companies and Statutory corporations



Working Government companies

1.4 The total investment in 31 working Government companies at the end of March 2002 and March 2003 was as follows:

(Rupees in crore)

Year	Number of working Government companies	Investment in working Government companies			
		Equity	Share application money	Loan	Total
2001-2002	31	6963.68	105.59	14474.42	21543.69
2002-2003	31	7031.44	71.75	17261.93	24365.12

The summarised statement of investment in working Government companies in the form of equity and loans is detailed in Part-A of **Annexure-1**.

As on 31 March 2003, total investment of working Government companies comprised 29 per cent of equity capital and 71 per cent of loans as compared to 33 per cent and 67 per cent respectively as on 31 March 2002.

Due to significant increase in loans to power sectors, the debt equity ratio increased to 2.43:1 in 2002-2003 from 2.05:1 in 2001-2002.

Working Statutory corporations

1.5 The total investment in three working Statutory corporations at the end of March 2002 and March 2003 was as follows:

(Rupees in crore)

Name of Corporation	2001-02		2002-03	
	Capital	Loan	Capital	Loan
Andhra Pradesh State Road Transport Corporation	201.27	754.08	201.27*	821.84*
Andhra Pradesh State Financial Corporation	87.72	995.95	87.72	1053.09
Andhra Pradesh State Warehousing Corporation	7.61	--	7.61*	1.76*
Total	296.60	1750.03	296.60	1876.69

* *Provisional*

The summarised statement of investment in working Statutory corporations in the form of equity and loans is detailed in Part-B of **Annexure-1**.

As on 31 March 2003, the total investment in working Statutory corporations comprised 14 per cent of equity capital and 86 per cent of loans.

Due to increase in outstanding long-term loans of Andhra Pradesh State Road Transport Corporation and Andhra Pradesh State Financial Corporation, the debt-equity ratio increased to 6.33:1 in 2002-2003 from 5.90:1 in 2001-02.

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

1.6 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by State Government to working Government companies and working Statutory corporations are given in **Annexures-1 & 3**.

The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from the State Government to working Government companies and working Statutory corporations for the three years up to 31 March 2003 are given below:

Particulars	(Rupees in crore)											
	2000-01				2001-02				2002-03			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital outgo from budget	4	97.94	--	--	4	16.39	--	--	4	18.80	--	--
Loans given from budget	6	679.18	--	--	6	1128.72	-	--	14	2165.62	--	--
Grants/subsidy towards												
i) projects/ programmes/ schemes	5	838.46	1	13.72	9	615.54	--	--	11 ¹	247.15	--	--
ii) other subsidy	6	2231.25	--	--	5	2672.35	1	100.00	10 ²	2093.81	2 ³	100.55
Total subsidy	11	3069.71	1	13.72	14	3287.89	1	100.00	16	2340.96	2	100.55
Total outgo		3846.83		13.72		4433.00		100.00		4525.38		100.55

During the year 2002-2003, the Government had guaranteed loans aggregating Rs.8303.86 crore obtained by 10 working Government companies (Rs.8237.88 crore) and one Statutory corporation (Rs.65.98 crore). At the end of the year, guarantees of Rs.18,694.01 crore against 15 working Government companies (Rs.18,170.40 crore) and one working Statutory corporation (Rs.523.61 crore) were outstanding. Moratorium of loans amounting to Rs.1809.48 crore was allowed to five companies (Sl. Nos. 16 to 20 of **Annexure-3**). The guarantee commission paid/payable to Government, by Government companies and Statutory corporations during 2002-2003 was Rs.46.06 crore and Rs.1.01 crore respectively.

¹ Sl No: 1,4,8,9,10,11,14,17,18,19 and 20 of Annexure – 3.

² Sl No: 3,9,12,16,17,18,19,20,21 and 22 of Annexure-3.

³ Sl.No: 23 & 25 of Annexure-3.

Finalisation of accounts by working PSUs

1.7 The accounts of the companies for every financial year are required to be finalised within six months from the end of relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of financial year. Similarly, in the case of Statutory corporations their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

However, as could be noticed from **Annexure-2**, out of 31 working Government companies, only two working Government companies and out of three working Statutory corporations, only one working corporation has finalised its accounts for the year 2002-03 within the stipulated period. During October 2002 to September 2003, 19 working Government companies finalised 20 accounts for previous years. Similarly, during this period one working Statutory corporation finalised one year accounts for the previous year.

The accounts of 29 working Government companies and two Statutory corporations were in arrears for periods ranging from one to six years as on 30 September 2003 as detailed below:

Sl. No.	Number of working Government companies/corporations		Year from which accounts are in arrears	Number of years for which accounts are in arrears	Reference to Sl.No. of Annexure -2	
	Government companies	Statutory corporations			Government companies (Part-A)	Statutory corporations (Part-B)
1.	2	--	1997-98 to 2002-03	6	6,15	--
2.	3	--	1998-99 to 2002-03	5	3,14 and 16	--
3.	2	--	1999-2000 to 2002-03	4	2 and 5	--
4.	3	--	2000-01 to 2002-03	3	7,9 and 20	--
5.	10	--	2001-02 to 2002-03	2	1,4,11,17,18, 19,21,28,29 and 31	--
6.	9	2	2002-2003	1	10,13,22 to 27 and 30	1 and 3
	29	2				

It is the responsibility of the administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were apprised quarterly by the Accountant General regarding arrears in finalisation of accounts, no effective measures had been taken by the Government and as a result, the net worth of these PSUs could not be assessed in Audit.

Financial position and working results of working PSUs

1.8 The summarised financial results of working PSUs (Government companies and Statutory corporations) as per the finalised accounts are given in Part-A & B of **Annexure-2**. Besides, statements showing financial position and working results of individual working Statutory corporations for the latest three years for which accounts are finalised are given in **Annexures-4 and 5** respectively.

The summarised working results of 30* working PSUs (including three Statutory corporations), as per the finalised accounts, were as under:

(Rs. in crore)			
Working PSUs	No. of PSUs	Aggregate loss	Aggregate profit
Government companies	14	678.58	--
	13	--	437.17
Statutory corporations	1	272.07	--
	2	--	25.82

Working Government companies***Profit earning working Government companies and dividend***

1.9 Two working Government companies which finalised their accounts for 2002-2003 by September 2003, (Sl No. 8 and 12 of part A of **Annexure-2**) earned a profit of Rs.412.98 crore but only one company i.e., The Singareni Collieries Company Limited proposed a dividend of Rs.86.66 crore.

Out of 19 working Government companies which finalised their accounts (20 accounts) for previous years by September 2003, seven[∞] companies earned profit for two or more successive years with an aggregate profit of Rs.13.27 crore for the year.

Loss incurring working Government companies

1.10 Of the 14 loss incurring working Government companies, four companies (Sl. Nos. 6,8,14 and 18 of Part-A of **Annexure-2**) had accumulated losses aggregating Rs.412.52 crore which exceeded their aggregate paid up capital of Rs.58.77 crore.

Despite poor performance and complete erosion of paid up capital, the State Government continued to provide financial support to these companies in the form of loans, subsidy, etc. During 2002-03, the State Government and Central Government provided financial support in the form of loans (Rs.62.10 crore) to two companies (Sl. No. 6 and 18 of Part-A of **Annexure-1**) and subsidy (Rs.279.86 crore) to other two companies (Sl. No.4 and 9 of **Annexure-3**).

* Excluding four Government companies working on 'no profit and no loss' basis (Sl.Nos. 13,20, 27 and 29 of Part A of Annexure-2).

[∞] Sl Nos: 7,9,10,17,19,28 and 30 of part A of Annexure – 2.

Working Statutory corporations

Profit earning Statutory corporations and dividend

1.11 Out of three Statutory corporations, one corporation (i.e., Andhra Pradesh State Financial Corporation) finalised its accounts for 2002-03 by September 2003 and earned an aggregate profit of Rs.3.69 crore. This Corporation earned profit for two or more successive years but did not declare dividend. However, despite earning profits Andhra Pradesh State Financial Corporation still had accumulated loss of Rs.157.95 crore as on 31 March 2003, which exceeded the paid up capital of Rs.87.72 crore (Sl. No. 2 of Part B of **Annexure-2**).

Similarly, Andhra Pradesh State Warehousing Corporation, which finalised its accounts for 2001-02 by September 2003, had earned a profit of Rs.22.13 crore and declared a dividend of Rs.1.52 crore.

Loss incurring Statutory corporations

1.12 The only loss incurring Statutory corporation i.e., Andhra Pradesh State Road Transport Corporation, which finalised its accounts for the year 2001-2002 by September 2003, had incurred loss of Rs.272.07 crore. The accumulated loss of Rs.795.13 crore exceeded the paid up capital of Rs.201.27 crore. The Corporation was provided in 2002-03 a financial support in the form of a subsidy of Rs.100 crore by the State Government (Sl No. 1 of Part B of **Annexure-2** and 23 of **Annexure -3**).

Operational performance of working Statutory corporations

The operational performance of the Statutory corporations is given in **Annexure-6**.

Return on capital employed

1.13 As per the latest finalised accounts (up to September 2003), the capital employed* worked out to Rs.19225.65 crore in 27 working Government companies (excluding four^ψ no profit no loss companies) and total return[#] thereon amounted to Rs.1288.77 crore which is 6.70 per cent as compared to total return of Rs.1559.56 crore (8.84 per cent) in the previous year. Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest finalised accounts (up to September 2003) worked out to Rs.1680.73 crore and Rs.(-)80.72 crore as compared to Rs.1556.41 crore and Rs. (-) 45.47 crore in previous year (accounts finalised up to September 2002). The details of capital employed and total return on

* Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in finance companies and Corporations where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).

^ψ Serial No.13,20,27 and 29 of Part-A of Annexure-2.

[#] For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account.

capital employed in case of working Government companies and Statutory corporations are given in Part-A & B of **Annexure-2**.

Reforms in Power sector

Status of implementation of Memorandum of Understandings (MOUs) between the State Government and the Central Government

1.14 In pursuance of Chief Ministers' conference on Power sector reforms held in March 2001, a MOU was signed on 9 March 2001 between the Ministry of Power, Government of India (GOI) and the Department of Energy, Government of Andhra Pradesh (GoAP) as a joint commitment for implementation of reforms programme in power sector with identified milestones. Status of implementation of reform programme as on 30 June 2003 is given in **Annexure-10**.

Andhra Pradesh Electricity Regulatory Commission (APERC)

1.15 Government of Andhra Pradesh framed Andhra Pradesh Electricity Reforms Act (APER Act) in October 1998. Accordingly, the Andhra Pradesh Electricity Regulatory Commission (APERC) with three members, including chairman appointed by the State Government was constituted on 31 March 1999 to act as a regulator of the electricity sector in the State and started functioning with effect from 3 April 1999. The audit of accounts of the Commission has been entrusted to CAG under Section 34, of the APER Act. The Commission had finalised its first accounts for the year 1999-2000 and the accounts for the years 2000-01 to 2002-03 are in arrears (30 September 2003).

Non-working PSUs

Investment in non-working PSUs

1.16 The total investment in 18 non-working PSUs (all Government companies) at the end of March 2002 and March 2003 was as follows:

(Rupees in crore)

Year	Number of non-working PSUs	Investment in non-working Government companies			
		Equity	Share application money	Loan	Total
2001-02	18	85.78	0.50	556.06	642.34
2002-03	18	85.78	0.50	616.21	702.49

The classification of the non-working PSUs was as under:

(Rupees in crore)

Sl. No.	Status of non-working Government companies	Number of companies	Investment in companies	
			Equity	Long term loans
(i)	Under liquidation ¹	9	55.69	95.42
(ii)	Under closure ²	5	1.76	520.79
(iii)	Under merger ³	1	1.13	--
(iv)	Others ⁴ [▲]	3	27.70	--
	Total	18	86.28	616.21

Of the above non-working PSUs, 14 Government companies were under liquidation or closure under Section 560 of the Companies Act, 1956 for one to 10 years and substantial investment of Rs.673.66 crore was involved in these companies. Liquidators were also appointed in respect of nine of these companies. Effective steps need to be taken for their expeditious liquidation/merger or closure.

Sector-wise investment in non-working Government companies

1.17 The investment (equity and long term loans) in various sectors and percentage thereof at the end of March 2002 and 2003 are indicated below in the pie charts:

¹ Sl Nos: 1,4,8,9,10,11,12,14 and 18 of part C of Annexure – 1.

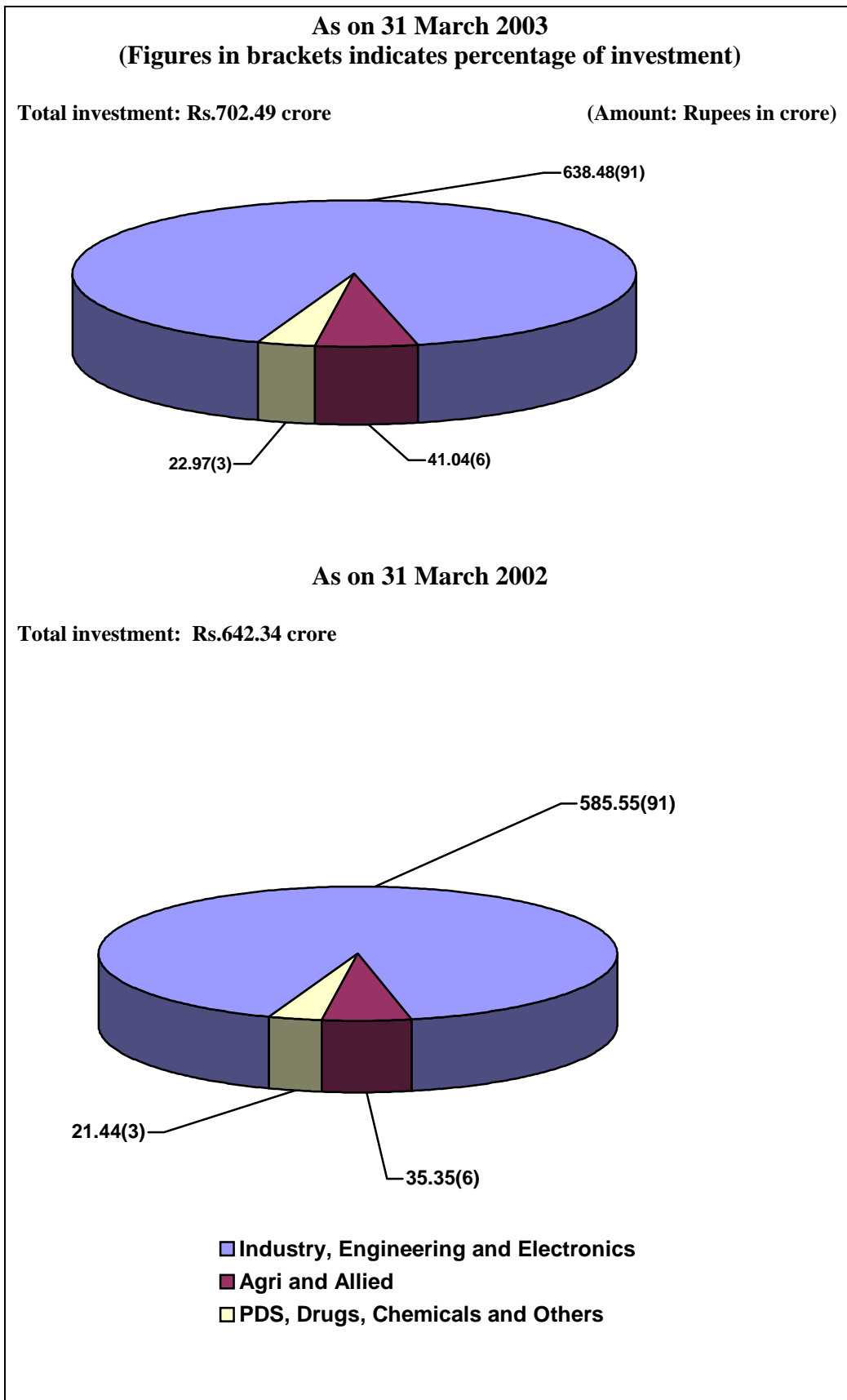
² Sl Nos: 5,6,7,16 and 17 of part C of Annexure – 1.

³ Sl No: 15 of part C of Annexure – 1.

⁴ Sl No: 2,3 and 13 of part C of Annexure – 1.

[▲] Others include Andhra Pradesh Dairy Development Corporation Limited and Proddutur Milk foods limited, which were converted in to co-operative societies and Apronix Communications Limited, which has not started its activities since inception.

Sector wise investment in non-working Government companies



Budgetary outgo, grants/subsidy, guarantees, waiver of dues and conversion of loans into equity

1.18 During the year 2002-03, State Government released loan of Rs.0.66 crore to two non-working companies (Sl.No.1 and 6 of Part-C, **Annexure-1**).

Total establishment expenditure of non-working PSUs

1.19 The year wise details of total establishment expenditure of non-working PSUs (for which information was available) and the sources of financing the same during last three years up to 2002-03 were as given below:

(Rupees in crore)

Year	Number of PSUs	Total establishment expenditure	Financed by	
			Disposal of investment/assets	Others
2000-01	5	0.73	0.24	0.49
2001-02	5	0.69	0.22	0.47
2002-03	6 [§]	2.04	0.31	1.73

Finalisation of accounts by non-working PSUs

1.20 The accounts of 18 non-working Government companies were in arrears for periods ranging from one to 19 years as on 30 September 2003 as could be noticed from Part-C of **Annexure-2**.

Financial position and working results of non-working PSUs

1.21 The summarised financial results of non-working PSUs (all Government companies) as per the latest finalised accounts are given in Part-C of **Annexure-2**.

The summarised details of paid-up capital, net worth, cash loss and accumulated loss of non-working PSUs[♦] as per their latest finalised accounts were as given below:

(Rupees in crore)

Sl. No.	Name of the Company	Paid-up capital	Net worth	Cash loss [‡]	Accumulated loss [*]
1	Allwyn Watches Limited	0.15	(-) 248.40	16.60	248.70
2	Allwyn Auto Limited	0.15	(-) 13.39	6.43	13.54
3	Andhra Pradesh Non Resident Indian Investment Corporation Limited	1.56	(-) 0.32	0.10	1.88
	TOTAL	1.86	(-) 262.11	23.13	264.12

[§] Sl.Nos: 1,4,5,12,14 and 17 of Part C of Annexure –2.

[♦] excluding companies under liquidation/merger and companies which had not finalised their accounts for more than 18 years.

[‡] Sl Nos: 5,7 and 17 of Part C of Annexure – 2.

^{*} For the latest year of audited accounts.

The above three non-working Government companies have not finalised their accounts for one to eight years as indicated in Part-C of **Annexure–2**.

Status of placement of Separate Audit Reports of Statutory corporations in Legislature

1.22 The following table indicates the status of placement of various Separate Audit Reports (SARs) on the accounts of Statutory corporations issued by the CAG of India in the State Legislature by the Government.

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Years for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in the Legislature
1	Andhra Pradesh State Road Transport Corporation	2000-01	--	--	--
2	Andhra Pradesh State Financial Corporation	1998-99	1999-2000 2000-01 2001-02	16-10-2001 30-05-2002 14-07-2003	Information awaited
3	Andhra Pradesh State Warehousing Corporation	2000-01	2001-02	--	SAR under printing

Audit observed that SARs of AP State Financial Corporation for the years 1999-2000, 2000-01 and 2001-02 though issued to Government in October 2001, May 2002 and July 2003 respectively had not been placed before the State Legislature till December 2003 i.e., even after a lapse of 26, 19 and five months respectively. This shows lack of adequate response of SARs for placement before State Legislature.

Disinvestment, privatisation and restructuring of Public Sector Undertakings

1.23 Government of Andhra Pradesh had constituted a committee to study the working of PSUs and to make suitable recommendations.

As a follow up to committee's report, the State Government undertook public sector reforms which included the following.

- (i) An autonomous body by name "Implementation Secretariat" was formed.
- (ii) The reforms programme envisaged restructuring/privatising/winding up of eight[#] PSUs in phase-I which was to be completed by 2002-03.
- (iii) Six^{*} of the PSUs were closed/restructured.

[#] Sl.No.1,2,3,9 and 18 of part-A of Annexure-1 and 4,6 and 14 of part-C of Annexure-1.

^{*} Sl.No.1,2 and 3 of part-A of Annexure-1 and 4,6, and 14 of part-C of Annexure-1.

(iv) Nizam Sugars Limited (Sl.No.18, Part-A, **Annexure-1**) was partly privatised and no action was initiated against the other company (Sl.No.9, Part-A of **Annexure-1**).

(v) On the lines of recommendations of the committee, voluntary retirement scheme (VRS) was introduced in 13 working Government companies (Sl. Nos. 1,2,3,4,5,6,8,9,11,12,18,22 and 31 of Part-A of **Annexure-2**) and one Statutory corporation (Sl No 2 of Part B of **Annexure-2**) during October 1994 to March 2003. As many as 8376 employees (8180 from Government companies and 196 from Statutory corporation) were discharged after incurring Rs.180.49 crore (Rs.178.39 crore by working Government companies and Rs.2.10 crore by Statutory corporation) towards compensation.

Results of audit by Comptroller and Auditor General of India

1.24 During the period from October 2002 to September 2003, the accounts of 17 companies (12 working and five non-working) and one working corporation were selected for review. As a result of the observations made by CAG, one working company i.e., Andhra Pradesh State Civil Supplies Corporation Limited (1999-2000) revised the accounts. In addition, the net impact of the important audit observations as a result of review of the remaining PSUs (all working) was as follows:

Details	No. of accounts		Rupees in crore	
	Government companies	Statutory corporations	Government companies	Statutory corporations
Decrease in profit	7	-	87.39	-
Increase in loss	9	-	90.98	-
Decrease in loss	1	1	6.68	1.05
Non-disclosure of material facts	10	-	405.00	-

Some of the major errors and omissions noticed in the course of review of annual accounts of some of the above companies and corporations are mentioned below:

Errors and omissions noticed in the case of working Government companies

1.25 The Singareni Collieries Company Limited (2002- 2003)

- Specific reserve for future overburden removal is understated by Rs.87.05 crore due to non-accountal of liability towards backlog of removal of overburden at present market rates. This has resulted in overstatement of profit to the extent of Rs.87.05 crore.

- Waiver of interest on coal dues to the extent of Rs.21.98 crore contrary to Ahluwalia Committee report has resulted in understatement of profit for the year by Rs.21.98 crore.

1.26 Andhra Pradesh Industrial Development Corporation Limited (2000-2001)

- There was overstatement of loans and advances due to non-provision of irrecoverable term loans in respect of 20 assisted units. This resulted in overstatement of profit by Rs.12.99 crore.
- There was overstatement of profit by Rs.0.81 crore due to inclusion of penal interest and accrued penal interest contrary to accounting policy.

1.27 Andhra Pradesh Mineral Development Corporation Limited (2000-01)

Non-provision of contribution to technology upgradation fund which was (cumulative liability Rs.8.91 crore) initially qualified by the statutory auditors in their original report and subsequently excluded in the revised report based on management version.

1.28 Transmission Corporation of Andhra Pradesh Limited (2000-2001)

- Revenue from sale of power was overstated by Rs.12.47 crore due to non-reversal of earlier years provision for unbilled revenue and non-provision of the same during the current year. This has correspondingly resulted in overstatement of profit.
- Guarantee commission paid was overstated by Rs.11.80 crore due to non-transfer of proportionate commission to power distribution companies. This resulted in understatement of profit.

1.29 Eastern Power Distribution Company of Andhra Pradesh Limited (2000-01)

- Revenue from sale of power was understated by Rs.13.44 crore representing the un-accounted HT revenue for eight days from 24 March to 31 March 2001.
- Sundry debtors for sale of power was overstated by Rs.6.67 crore due to wrong/excess booking of dues against two HT consumers

1.30 Southern Power Distribution Company of Andhra Pradesh Limited (2000-2001)

- Revenue from sale of power was overstated by Rs.8.52 crore due to non-adjustment of provision for unbilled revenue pertaining to previous year. Correspondingly amount receivable was also overstated.
- Interest and other financial charges were understated by Rs.4.01 crore representing guarantee commission paid but not accounted for.

Persistent irregularities and system deficiencies in financial matters of PSUs

Working Government companies

1.31 The business of **Andhra Pradesh Industrial Infrastructure Corporation Limited** is to develop industrial estates/plots for sale. Although the developed estates/plots form part of current assets of the Company, they were being classified as fixed assets in spite of this being commented upon in Audit from time to time. The Company stated (July 1997) that the Companies Act, 1956, did not define fixed assets. The reply was not tenable, as the Company has been dealing in sale of sheds/plots, which form part of its stock-in trade.

Working Statutory corporations

1.32 Physical verification of fixed assets is not being conducted before the close of the financial year in respect of all regions, zones and head office units of **Andhra Pradesh State Road Transport Corporation**.

Internal audit/internal control

1.33 The statutory auditors (chartered accountants) are required to furnish a detailed report upon various aspects including internal control/internal audit system in the companies audited in accordance with the directions issued by the Comptroller and Auditor General of India, to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify the areas requiring improvement.

During the year such supplementary audit reports were received in respect of three out of 14 companies, which rendered the accounts, and whose paid up capital was more than Rs.5 crore. In respect of AP State Civil Supplies Corporation Limited it was opined that the existing system of internal audit was adequate. In respect of Andhra Pradesh Heavy Machinery & Engineering Limited, it was opined that the existing system was adequate; however, no manual depicting the scope and coverage was available. In respect of The Singareni Collieries Company Limited, the auditors have opined that the system of internal audit was adequate though full compliance of internal audit observation was absent and that the scope of internal audit should extend to other areas like invoicing of coal, verification of production records and financial books of accounts.

Recommendations for closure of PSUs

1.34 Two working Government companies (Sl. Nos. 6 and 14 of Part-A of **Annexure-2**) had been incurring losses for five consecutive years (as per the latest finalised accounts) leading to negative net worth. One of these companies (Sl. No. 6 of Part-A of **Annexure-2**) turnover was also less than Rs.5 crore even after completion of 30 years of its existence. In view of

continuous losses and poor turnover, the Government may either improve performance of above two companies or consider their closure.

Response to inspection reports, draft paragraphs

1.35 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of six weeks. Inspection reports issued up to March 2002 pertaining to 42 PSUs disclosed that 8620 paragraphs relating to 2482 inspection reports remained outstanding at the end of September 2003. Replies for these inspection reports had not been received for more than one to 26 years. Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2003 is given in **Annexure-7**.

Similarly, draft paragraphs and reviews are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that 13 draft paragraphs and three reviews were forwarded to the various departments during May to July 2003 out of which two draft paragraphs and one review had not been replied to, as detailed in **Annexure-8**.

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who failed to send replies to inspection reports/draft paragraphs/reviews within the prescribed time schedule, (b) action is taken to recover loss/outstanding advances/overpayment in a time-bound schedule, and (c) the system of responding to the audit observations is revamped.

Position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings (COPU)

1.36 The status of audit reviews/paragraphs that appeared in successive Audit Reports (Commercial) but were pending for discussion at the end of September 2003 is indicated in the following table:

Period of Audit Report	No. of reviews and paragraphs appeared in the Audit Report		No. of reviews/paragraphs pending for discussion	
	Reviews	Paragraphs	Reviews	Paragraph
1992-93	7	29	1	1
1993-94	6	19	2	-
1994-95	4	17	1	-
1995-96	5	23	3	11
1996-97	6	23	3	6
1997-98	6	23	5	13
1998-99	4	25	4	18
1999-2000	6	18	5	13
2000-2001	4	17	4	17
2001-2002	3	20	3	20
Total	51	214	31	99

As of September 2003, action taken notes on 706 recommendations contained in 35 Reports of COPU in respect of 18 Audit Reports (Commercial) (1980-81 to 1997-98) were pending settlement. Recommendations of the Committee as adopted in its meeting during March 2003 in respect of APSRTC (five paras of AR(C) 1995-96 and one review and five paras of AR(C) 1996-97) are awaited from AP State Legislature Secretariat. Audit Report (Commercial) for the year 2001-2002 was placed before the State Legislature on 31 March 2003.

619-B companies

1.37 There were 11 companies coming under Section 619-B of the Companies Act, 1956, of which six were non-working. During the year, one new company (Wolkem Andhra Mining Private Limited) was included under this category. Another company (Andhra Pradesh Gas Power Corporation Limited) has gone out of audit purview due to reduction of Government holding to 44 *per cent* on account of privatisation. **Annexure-9** indicates the details of paid-up capital, investment by way of equity, loans and grants and summarised working results of these companies based on their latest available accounts.