

## OVERVIEW

### 1. Overview of State Public Sector Undertakings

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

The AP Reorganization Act, 2014 came into effect from 2 June 2014 vide which erstwhile composite Andhra Pradesh was bifurcated and Andhra Pradesh State was formed on the same day. In Andhra Pradesh, the State PSUs occupy an important place in the state economy. The accounts of these PSUs are subject to supplementary audit conducted by CAG as per the provisions of Section 143 of the Companies Act, 2013 and audit of Statutory Corporations is governed by their respective legislations.

As on 31 March 2015, there were 70 PSUs, falling under audit preview. Out of these, 15 working PSUs pertain exclusively to Andhra Pradesh and 33 PSUs are under demerger and remaining 22 are non-working PSUs (yet to be bifurcated). As on 31 March 2015, the investment (capital & long term loans) in 70 PSUs was ₹ 60,708.77 crore. The investment has grown by 65.27 per cent from ₹ 6,275.99 crore in 2010-11 to ₹ 18,069.99 crore in 2014-15 in respect of working PSUs and the thrust of investment was mainly in power sector.

- During 2014-15 total outgo from the budget of the State of Andhra Pradesh was ₹ 2,266.89 crore for working PSUs and ₹ 7,117.64 crore for PSUs under demerger.
- As per their latest finalised accounts 15 working PSUs (Exclusive Andhra Pradesh) incurred a loss of ₹ 565.14 crore. Thirty three PSUs under demerger, incurred a loss of ₹ 444.12 crore and four PSUs declared a dividend of ₹ 16.19 crore.
- During the year 2014-15 out of seven working PSUs (Exclusive Andhra Pradesh) which finalised accounts, one PSU (Andhra Pradesh Heavy Machinery & Engineering Limited) earned a profit of ₹ 2.50 crore and five PSUs incurred loss of ₹ 28.58 crore and one working PSU has not started its commercial operations. Out of 22 PSUs under demerger which finalised accounts, 14 PSUs earned a profit of ₹ 510.27 crore, seven PSUs incurred a loss of ₹ 1,221.54 crore and one PSU prepared its accounts on 'no profit no loss' basis. Major contributors to profit were Andhra Pradesh Forest Development Corporation Limited, Andhra Pradesh State Warehousing Corporation, Andhra Pradesh Industrial Infrastructure Corporation Limited and Andhra Pradesh State Irrigation Development Corporation Limited.

*(Chapter I)*

## **2. Performance Audit relating to Government company**

Performance Audit of **Activities of Andhra Pradesh Forest Development Corporation Limited** was conducted. Executive summary of audit findings is given below:

### **Introduction**

Andhra Pradesh Forest Development Corporation Limited (APFDC) was set up in June 1975 as a wholly owned Government Company to develop land for raising forest plantations and in particular, eucalyptus, tropical pines, rubber, cashew nut, cocoa and such other suitable species in the State for the purpose of development of industries based on their produce.

The Performance Audit covered the activities of the Company in Andhra Pradesh for the period 2009-14.

### ***Eucalyptus Plantations***

#### ***Nurseries - Non-usage of new and cost-effective technology***

The Company introduced (2009-10) Sand Bed Nursery (SBN) Technique (development of propagules at one place) with a capacity of 18.08 lakh propagules per annum on experimental basis. SBN avoids transportation of propagules over long distances and increases survival rate (80 to 90 *per cent*). The Company did not expand this successful technique to the total available capacity of 134.95 lakh propagules which resulted in increased cost of clonal plants.

#### ***Abnormal delay in replacement of gall infested plantations***

The Company identified (2006) that eucalyptus plants were affected with gall infestation (a type of pest) and took a decision to destroy the nursery plants belonging to the clone 10 variety and replace them with a pest resistant clonal variety in 2007. But the Company had started destroying/replanting the affected plantations only in 2011. Abnormal delay in replanting led to a loss of realisable revenue of ₹ 31.69 crore.

#### ***Non-conversion of seed origin plants to clonal plants***

At the beginning of 2009-10, an area of 27,350.37 ha was under seed origin eucalyptus plantations. During the period 2009-14, the Company had set a target for conversion of 14,367.85 ha of seed origin plants into high yielding clonal plants, against which it achieved 11,613.71 ha. The shortfall had far-reaching financial implications on the Company.

#### ***Non-upgradation to cost-effective harvesting methods***

The Company planned (July 2010) for procurement of harvester to minimize harvesting expenses. Non-procurement of harvesters resulted in avoidable harvesting expenditure of ₹ 5.95 crore during 2010-14.

#### ***Insufficient EMD adversely affected the Sales process***

The successful bidders had failed to enter into agreement because EMD was not fixed as a percentage of estimated sale value of pulpwood. The Company allotted these units to second highest bidders which resulted in a loss of ₹ 142.37 lakh.

### ***Performance Security***

Refund of Security Deposit along with interest in violation of tender conditions resulted in loss of revenue to the tune of ₹ 1.13 crore and undue favour to the contractors to that extent.

### ***Bamboo***

#### ***Poor yield due to delay in harvesting***

The yield obtained from bamboo plantations in Rajahmundry Division and Eluru Division was not up to the standard. The standard yield was 2500 number of Long Bamboos (LBs) per ha and 12 MT of Bamboo Industrial Cuts (BICs) per ha. During the period 2009-14 the number of LBs yielded in Rajahmundry division ranged between 404 and 1,461 and in Eluru Division it ranged between 1,750 and 2,509. In case of BICs, in Rajahmundry Division it ranged between 0.14 MT and 0.98 MT and in Eluru Division it ranged between 0.18 MT and 1.91 MT.

### ***Cashew nut***

#### ***Yield was low compared to standard yield***

The average number of yielding plants was very low due to poor survivals and ranged from 20 to 29 trees per hectare as against the standard number of 204 trees per hectare. There were no rectification proposals on record. The yields from these trees during 2009-14 ranged between 13.52 Kg and 26.42 Kg per ha as against national average yield of 778 Kg per ha, indicating poor performance.

#### ***Gap plantation-Poor survival plantation due to lack of cultural operations***

The Company raised 1,65,323 cashew grafts in gap plantations during 1993 to 2009 in 886.21 ha at 25 locations incurring an expenditure of ₹ 93.91 lakh. Of them, only 19 *per cent* survived due to lack of supervision and cultural operations. This resulted in unfruitful expenditure of ₹ 76.07 lakh.

### ***Pine and Pepper plantations***

#### ***Unjustified holding of pine plantations for 35 years***

The Rajahmundry Division had raised Pine plantations in Maredumilli during the period 1976-1981 over an extent of 135 ha on experimental basis to study the viability of the species to provide homogenous long fibre for paper-making. These plants were being continued without generating any revenue for over 35 years.

### ***Medicinal plants under Vanaspathi Van Programme***

#### ***Amla plantations-Failure to ensure cost-effective collection charges***

Vanaspathi Van Programme (VVP) was sponsored by GoI to promote Indian system of medicine and for development of medicinal plants. The Company raised amla plantations in Rajahmundry and Kadapa Divisions during the period 2001-04, at a cost of ₹ 5.81 crore including grant from GoI. During the 1<sup>st</sup> three years (2009-12) of harvesting, the Company earned an income of ₹ 8.22 lakh and did not take up harvesting from 2012-13 onwards on the

ground that the collection charges are more than the expected revenue. Thus the expenditure of ₹ 5.81 crore proved to be unfruitful.

***Development of eco-park without visitor amenities***

The Company envisaged (November 2006) to develop an eco-park along with base camp with visitors amenities with the objective of making available an access to rich variety of plants and animal life to the urban populace. The eco-park was developed (January 2009) at a cost of ₹ 3.71 crore in an area of 228.52 ha. The Company decided (October 2009) not to construct the base camp as it would be unviable. This had resulted in non-attraction of visitors and led to earning of an income of only ₹ 2.88 lakh up to 2014-15 as against the projected income of ₹ 63.13 lakh per annum.

***(Chapter II)***

### 3. 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 ₹ 1.98 crore in four cases due to non-compliance with rules, directives, procedures, terms and conditions of contracts.*

*(Paragraphs 3.4.1.2, 3.4.1.3, 3.4.1.4 and 3.4.2.1)*

*Loss of ₹ 6.44 crore in three cases due to non-safeguarding the financial interest of organization.*

*(Paragraphs 3.1.1, 3.1.2 and 3.4.1.4)*

*Loss of ₹ 7.84 crore in one case due to defective/ deficient planning.*

*(Paragraph 3.2)*

*Loss of ₹ 1.54 crore in one case due to inadequate/ deficient planning.*

*(Paragraphs 3.3)*

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

**Andhra Pradesh Power Generation Corporation Limited:** Due to under insurance of assets by Company, the insurance Company settled the claim for ₹ 0.91 crore against the insurance value of ₹ 6.00 crore resulting in foregoing an amount of ₹ 5.09 crore.

*(Paragraph 3.1.1)*

Failure of the Company in meeting the maintenance requirements of the policy resulted in rejection of the insurance claim and loss to the Company to the extent of ₹ 84.24 lakh.

*(Paragraph 3.1.2)*

**Infrastructure Corporation of Andhra Pradesh Limited:** Cancellation of a drinking water project, by Government, resulted in infructuous expenditure of ₹ 3.41 crore incurred on preparation of DPRs and ₹ 4.43 crore incurred on maintenance of Project Monitoring Unit and Project Implementation Unit and blocking up of ₹ 49.24 crore towards mobilisation advances to contractors.

*(Paragraph 3.2)*

**Andhra Pradesh Handicrafts Development Corporation Limited:** Due to non-utilisation of 93.93 MTs Red Sanders procured (May 2012) at a value of ₹ 1.54 crore at subsidised rates resulted in blocking up of funds and failure to provide benefits to the artisans and develop their skills.

*(Paragraph 3.3)*

**Andhra Pradesh State Road Transport Corporation:** Erstwhile Andhra Pradesh state, with a view to augment non-traffic revenue had contemplated commercial exploitation of vacant lands. Accordingly two schemes viz., Deposit, Operate and Transfer (DOT) and Build, Operate and Transfer (BOT)

were contemplated in 1998 and 2001 respectively. Under both the schemes, the land/constructed shop would be given on long term lease i.e. 20 and 30/33 years respectively.

Under BOT Scheme, audit observed that contrary to the terms and conditions of agreement, service tax amounting to ₹ 1.49 crore was not billed and collected during the periods 2007 to 2015 from the licensees and remitted to the appropriate authorities. The Corporation short levied interest to the extent of ₹ 19.41 lakh for the belated payment resulting in loss of revenue. The licensees built excess areas, but the Corporation collected license fee only for approved built up area resulting in short realization of license fee of ₹ 64.83 lakh up to 2014-15.

Under DOT scheme, audit observed that service tax amounting to ₹ 16.24 lakh was not collected from the licensees, for the period July 2012 to March 2014 in Tirupati and Visakhapatnam Divisions.

(Paragraph 3.4)

*(Chapter III)*