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ANDHRA PRADESH LEGISLATURE
(Twelfth Legislative Assembly)

EIGHTH REPORT
OF
THE COMMITTEE ON PUBLIC UNDERTAKINGS
(2004 - 2005)

ON

THE AUDIT PARAGRAPHS CONTAINED IN THE REPORT
OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA
FOR THE YEAR
1999-2000 (Paras)
(Commercial)

ON

A.P. STATE FINANCIAL CORPORATION

(Presented to the Legislature on 17-12-2004)

ANDHRA PRADESH LEGISLATURE (P.U.C.) SECRETARIAT
PUBLIC GARDENS, HYDERABAD - 500 004.

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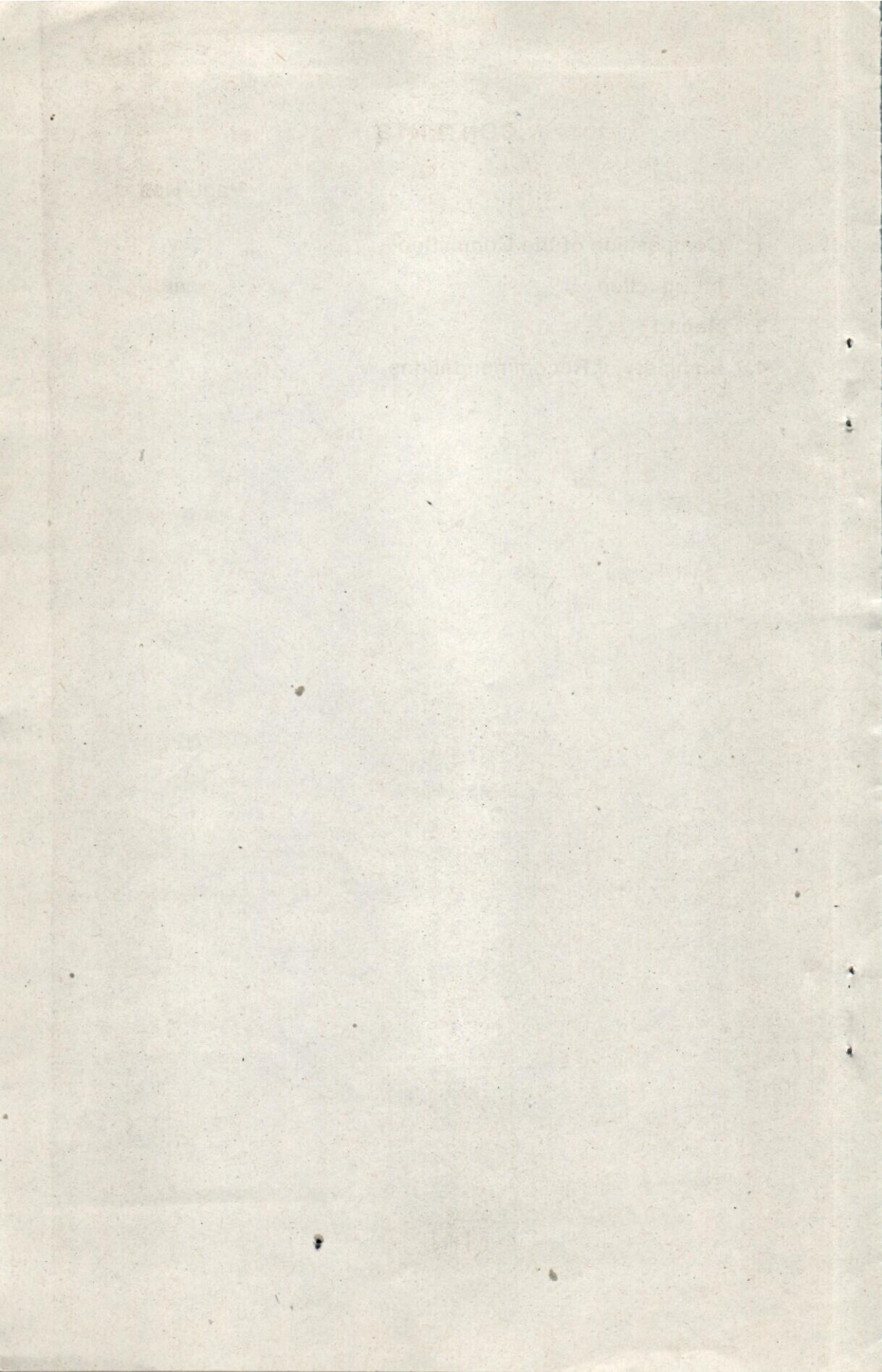
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A.P. STATE FINANCIAL CORPORATION

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ANDHRA PRADESH LEGISLATIVE ASSEMBLY
COMMITTEE ON PUBLIC UNDERTAKINGS (2004-2005)
(CONSTITUTED ON 28TH JULY, 2004)

CHAIRMAN :

1. Sri N. Uttam Kumar Reddy

MEMBERS :

2. Sri Anam Vivekananda Reddy
3. Sri D. Sridhar Babu
4. Sri Chanumolu Venkata Rao
5. Sri C. Damodar Rajanarasimha
6. Sri Gali Muddu Krishnama Naidu
7. Sri Katamareddy Vishnuvardhan Reddy
8. Smt. Konda Surekha
9. Sri M. Maheedhar Reddy
10. Sri Thota Gopalakrishna
11. Sri K. Lingaiah
12. Sri G. Syam Sunder Sivaji
13. Sri K. Harishwar Reddy
14. Sri P. Dora Babu
15. Sri Puli Veeranna

SPECIAL INVITEES :

16. Sri Yeerram Veenkateswar Reddy
17. Sri D. China Govinda Reddy
18. Sri N. Diwakar Rao
19. Sri Janga Krishna Murthy
20. Sri Gurunath Reddy
21. Smt. Padala Aruna
22. Sri P. Ranganayakulu
23. Sri Mumtaz Ahmad Khan
24. Dr. K. Nagesh

LEGISLATURE SECRETARIAT :

1. Sri K. Tuljanand Singh, Secretary
2. Smt. V. Jayakumari, Joint Secretary
3. Sri D. Siva Rao, Asst. Secretary
4. Sri K. Satyanarayana Rao, P.S. to Secretary

INTRODUCTION

I, the Chairman of the Committee on Public Undertakings (2004-2005) having been authorised by the Committee to present the Report on their behalf, present this Eighth Report on the Andhra Pradesh State Financial Corporation, on the audit paras contained in the Reports of the Comptroller and Auditor General of India (Commercial) for the year 1999-2000.

The Committee on Public Undertakings (2003-2004) have examined the Reports of the Comptroller and Auditor General of India for the years ended 31st March, 2000 (Commercial), but could not present a report on the same due to the Dissolution of XI Legislative Assembly earlier than its original schedule.

The Committee (2004-2005) have considered and approved this Report at their sitting held on 13-12-2004.

A Statement showing the summary of principal recommendations/ observations of the Committee is appended to this Report.

A record of proceedings of the sitting of the Committee which has been maintained forms part of this Report.

The Committee wishes to express their thanks to the Principal Secretary to Government, Industries and Commerce Department, the M.D. and other Officials of the A.P. State Financial Corporation for the co-operation they have extended and for placing the required information and material before the Committee.

The Committee places on record their appreciation of the assistance rendered to the Committee by the Accountant General (Audit) - II, Andhra Pradesh, the Senior Deputy Accountant General (Commercial) and other Officers and staff of the Accountant General Office.

The Committee also places on the record their appreciation of the assistance rendered to the Committee by the Secretary to State Legislature and the other Officers and Staff of Legislature Secretariat, in the examination of the general working and audit paras relating to the Andhra Pradesh State Financial Corporation and in preparation of this Report.

Hyderabad,
Dt. 13.12.2004

N. Uttam Kumar Reddy,
CHAIRMAN,
Committee on Public Undertakings.

INTRODUCTION

The Commission on the Status of Women was established in 1946 by the United Nations. Its mandate was to study the position of women in all countries and to make recommendations for their improvement. The Commission has since held several sessions, and its work has been carried out through various committees and working groups. The Commission's reports have been submitted to the United Nations General Assembly, which has adopted resolutions in support of its work. The Commission's work has been instrumental in the development of international law and practice relating to the status of women.

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**RECOMMENDATIONS ON THE 3 PARAS APPEARED
IN THE REPORT OF C & AG OF INDIA FOR THE YEAR
ENDED 31st MARCH 2000 (COMMERCIAL), GOVERNMENT
OF ANDHRA PRADESH PERTAINING TO A.P. STATE
FINANCIAL CORPORATION**

Unauthorised payment of ex-gratia and incentive in violation of Government orders (Para No. 3B. 2.1)

The payment of Bonus Act 1965, exempts Financial Corporations established under Section 3 of the State Financial Corporations Act 1951, from payment of bonus to their employees. The Corporation, therefore, introduced payment of ex-gratia to its employees from the financial year 1967-68 and continued such payments up to the financial year 1991-92 with Government approval. As per section 39 of the State Financial Corporations Act 1951, the Corporation has to be guided by the policy instructions given by the State Government and such instructions shall be final.

The State Government instructed (September 1991 and October 1993) the Corporation that ex-gratia should not be paid without its prior approval. Flouting the specific instruction of the Government, the Corporation deliberately decided in May 1995 to release advances to the extent of 5/6th of ex-gratia otherwise admissible for 1992-93 but for Government instructions. Subsequently however when the Corporation approached (April 1996) the Government for approval to the payment of ex-gratia for the financial year 1992-93 the Government rejected (December 1996) the request. Pending approval of Government for payment of ex-gratia for 1992-93, the Corporation introduced (March 1994) an 'Incentive Scheme' in lieu of ex-gratia for 1993-94 and paid Rs. 1.72 crore (September 94) without Government approval. The Corporation also decided (March 96, June 97 and March 98) to pay non interest bearing advances against the incentive payable for the years 1994-95 to 1996-97. The payments were released in April 1996, June 1997 and April 1998 respectively.

Reacting to the decision of the Board of Directors (March 1998) Government observed (April 1998) that the decision was contrary to its instructions and directed the Corporation not to implement the decision until further orders. The Corporation however released the payment for the financial year 1996-97 also before receipt of Government directions. Finally, the Corporation suspended the incentive scheme (November 1998) and requested Government to treat the payments made as its gestures of

good will to the employees. The decision of the Government was awaited (December 1999).

The Corporation thus made irregular payments of ex-gratia/incentive amounting to Rs. 6.18 crore for five years from 1992-93 to 1996-97 in violation of Government directions.

The Corporation in its explanatory notes stated that the Government ratified the action taken by the Corporation for the payments made towards ex-gratia/incentives to the employees of APSFC and levied a token penalty by recovering 15% of the payments made during 1995-96 and 1996-97 vide GO Rt. No. 356 dt. 24-4-2001.

The Managing Director in his oral evidence stated that the employees have made a representation to the Board to consider their case for payment of ex-gratia and the Board has taken a decision to pay exgratia to the employees. The Government later ratified this with 15% cut.

Recommendation :

The Committee observed that the cited G.O. indicated that the Government decided to levy a token penalty by recovering 15% of the payments made during 1995-96 and 1996-97 (viz., payments made (exgratia/incentive) for the years 1992-93 and 1994-95). But, the G.O. does not speak about the payments made for 1993-94 (paid during 9/1994), 1995-96 (Paid during 6/97) and 1996-97 (paid during 4/98) which are not covered under the above 2 years period. The Committee recommends that the payments made for the above three years shall be verified with reference to the cited G.O. No. 356 dt. 24-4-2001 and a detailed note on this shall be submitted. Also, details in respect of recovery of 15% of the payments made during 1995-96 and 1996-97 as mentioned above shall be submitted to the Committee.

Financial assistance to a unit despite adverse marketing conditions (Para No. 3B. 2.2.) :

The Corporation sanctioned (February 1990) a term loan of Rs. 60 lakh to M/s. Pooja Chemicals Pvt. Ltd. (PCL) Vemavaram (Krishna district) for setting up a sodium chlorate plant in Guntur district. In April 1990 the Principal Secretary to the Government of Andhra Pradesh, Industries and Commerce Department, and nominee Chairman of M/s. Nagarjuna Chlorates, who came to know of the new chlorate units being set up in Andhra Pradesh with financial assistance of the Corporation informed the Corporation that even the existing units in the State were hard pressed to market their products and retain margins and that the promotion of new units would lead to further depression in prices with prolonged sickness of

both the old and new units. He accordingly suggested, that proliferation of such units be avoided. His advice was not considered and Rs. 6.40 lakh were disbursed (November 1990) to the Unit on adhoc basis. Instead of setting up a new unit PCL purchased (February 1991) M/s. Greenland Chemicals Pvt. Ltd. (GCL) a sick unit in Krishna District from the Corporation for Rs. 12 lakh against a down payment of Rs. 3 lakh with the balance of Rs. 9 lakh being treated (May 1991) as loan. The Corporation also agreed (May 1991) to a change in location of the unit from Guntur district to Krishna district. During the period from November 1990 to May 1993 the Corporation disbursed Rs. 35.14 lakh to PCL including Rs. 9 lakh adjusted towards sale proceeds of M/s. Greenland Chemicals Pvt. Ltd. (GCDL). The loan was released without any collateral security. PCL became sick during the implementation stage itself, and defaulted in payment of loan instalments and interest (February 1991). Despite such default, the unit was seized belatedly only in January 1997 when machinery valued at Rs. 29.64 lakh (including machinery valued at Rs. 16 lakh financed by the Corporation) was found missing and allegedly to have been shifted by the Directors of PCL in January 1997 to an unknown place. The Corporation lodged a criminal complaint (July 1997) with the police authorities after a further lapse of 6 months. As of March 1999 Rs. 1.03 crore was due from PCL. The Corporation sold the unit in December 1998 for Rs. 12.90 lakh against the assessed value of assets of Rs. 21.32 lakh. The amount still due from PCL as on 31 March 1999 was Rs. 90.16 lakh.

The Government stated (November 2000) that the suggestion of the principal Secretary was considered before the release of loan and the delay of 5 years in seizing the unit was due to opportunity provided to the promoters to revive the unit. The reply is not tenable as the marketing conditions were not reassessed despite advice of the Principal Secretary before release of the loan. Thus, sanction of loan to PCL without examining the prevailing market conditions for its product, release of loan disregarding the suggestions of Principal Secretary to review the decision and delay in seizing the unit by over five years has resulted in loss of Rs. 90.16 lakh.

The Corporation in its explanatory notes stated that the letter dated 26-4-90 received from the Principal Secretary Government of Andhra Pradesh was subsequent development after the loan was sanctioned. At the time of sanctioning of the loan the performance of both the units (already available in Andhra Pradesh) was satisfactory. However, the Company could not implement the scheme fully and also not obtained power. As the Company could not commence the commercial production it could not repay the amounts and thus the arrears had accumulated. The promoters abandoned the unit and the same was seized by the Corporation

on 25-1-97 and advertised for sale. The Corporation had insisted on the personal guarantee of the promoters and not insisted for collateral security as per the then existing norms. As the loan was sanctioned and the same was communicated to the party and as per the advice of the legal department the Corporation has disbursed the loan to the party. The Corporation served notices to all the directors of the Company under APRR Act for recovery of the balance dues, and is pursuing the matter. The Corporation is pursuing to sell the land by giving advertisements in news papers (6/2000, 12/2000). The loan outstanding was Rs. 90.20 lakh (principal - Rs. 23.22 lakh, interest - 66.94 lakh and other expenses - Rs.0.04 lakh).

The Managing Director of the Corporation in his oral evidence confirmed the replies submitted in the explanatory notes.

Recommendation :

The Committee opined that there was every opportunity not to accept the original sanction as there was deviation from the original sanction (i.e., purchase of a sick unit instead of establishing a new unit), and there was delay in lodging police complaint. The Committee recommends that a detailed note on the entire process shall be submitted viz., whether the loanee has applied in writing to obtain permission for purchase of a sick unit in place of establishing a new unit, details of market study conducted for establishment of a new unit in this line of activity in the light of the negative remarks offered by the then Principal Secretary (Industries & Commerce, Government of Andhra Pradesh) before release of the loan sanctioned. The Committee also recommends that the process of recovery of amounts from the loanee shall be hastened. The Committee further recommends that responsibility shall be fixed on the official(s) who were responsible for the lapses in processing/finalising loan account, releasing installments without conducting inspections as required, delay in seizure of unit and delay in lodging police complaint etc..

Loss due to sanction of loan without inspection of site (3B. 2.3) :

The Corporation sanctioned (March 1988) a term loan of Rs. 55.35 lakh to M/s. Ranga Salts Pvt. Ltd. (RSPL), Vijayawada for setting up a unit to manufacture iodized salt and free flow table salt at Thalagam Village (Srikakulam district). The unit was expected to commence commercial production from June 1989. The project appraisal submitted to the Board (March 1988) did not indicate whether the promoter directors of the RSPL possessed any knowledge and experience to run this kind of unit. The Corporation which had already extended financial assistance to three other similar units decided not to encourage more such units till the performance

of these three units was assessed. The Corporation released (August 1988, January 1989 and March 1989) three adhoc instalments of term loan aggregating to Rs. 27.63 lakh to RSPL, based on the certificate given by a firm of Chartered Accountant and the records produced by the promoter - director of RSPL. The Corporation did not undertake inspection of site at any stage despite location of one of its branch offices at Srikakulam.

When the Corporation raised its claims (September 1989) for repayment of instalments with RSPL the latter requested for extension of time up to November 1989. The Srikakulam branch office of the Corporation reported (November 1989) that RSPL had executed the work only for Rs. 7.27 lakh against the disbursement of Rs. 27.63 lakh and the whereabouts of the promoter-directors were not known. The Corporation after issuing several reminders to RSPL finally lodged a criminal complaint against the promoter of RSPL with police in December 1992, after a delay of 37 months. It seized (November 1993) the assets of RSPL, but could recover only Rs. 6.50 lakh as sale proceeds in October 1997.

Audit observed that because of its failure to undertake any inspection of the site at any stages during the implementation of the project and release of loan instalments merely on the basis of a certificate from Chartered Accountants and fraudulent records of the RSPL the Corporation lost an aggregate amount of Rs. 25.02 lakh (principal - Rs. 27.63 lakh interest - Rs. 3.74 lakh) other expenses Rs. 0.15 lakh less sale proceeds of Rs. 6.50 lakh).

The Corporation in its explanatory notes stated that though the promoter has no relevant experience in this line, unit proposed to obtain required technical know how from a graduate in electrical engineering, who has experience in implementing of projects (MD of Joswa Salts Pvt. Ltd.) and basing on other conditions prevailing at that time. The Branch civil engineer of Vizianagaram branch inspected the unit on 29-11-89. He once again visited the unit on 23-3-91 and given valuation report on the assets created by the Company. The Corporation released 3 adhoc instalments out of the term loan aggregating to Rs. 27.63 lakh based on the certificate issued by Chartered Accountant and basing on the records produced by the promoters. The Corporation lodged a criminal complaint against the promoters on 11-12-92 as they have misappropriated the funds given to them. As there was no response from the Directors, the unit was seized on 9-11-93 and sold for Rs. 6.50 lakh. Upon persuasion the promoters approached the Corporation for One Time Settlement (OTS) of account and paid Rs. 3.24 lakh and the Corporation is pursuing the promoters for payment of balance amount of Rs. 21.58 lakh for final settlement and closure of loan account.

The MD of the Corporation in his oral evidence stated that an amount of Rs. 6.50 lakh has been recovered from the loanee. After lodging a police complaint the party has come and paid the amount under OTS (One Time Settlement). It is sure that the remaining amount would be recovered by invoking RR Act. The MD also stated that an inquiry officer has been appointed to look into the entire issue, inquiry is under progress and the inquiry officer is to submit interim report. As soon as the report is received appropriate action will be taken on the concerned. To a query the MD of the Corporation stated that he would look into the records to serve notice on the Chartered Accountant who has wrongly certified the Accounts of the Company basing on which the instalments were released.

Recommendation :

The Committee recommends that the Corporation shall bring all the facts to the notice of the inquiry officer viz. i) whether inspections as required under the rules, have been conducted by the Corporation's Officials from time to time, if they were not conducted reasons for not conducting the required inspections. ii) submission of utilisation certificate by the loanee from time to time as required under the provisions concerned. iii) whether the Branch Manager concerned has visited the site and dates thereof, to hasten the finalisation of inquiry report. On submission of the report a copy of the same and action taken thereon shall be submitted to the Committee for scrutiny.

SUMMARY OF RECOMMENDATIONS

1. The Committee observed that the cited G.O. indicated that the Government decided to levy a token penalty by recovering 15% of the payments made during 1995-96 and 1996-97 (viz. payments made (exgratia/incentive) for the years 1992-93 and 1994-95. But, the G.O. does not speak about the payments made for 1993-94 (paid during 9/1994), 1995-96) (paid during 6/97) and 1996-97 (Paid during 4/98) which are not covered under the above 2 years period. The Committee recommends that the payments made for the above three years shall be verified with reference to the cited G.O.No. 356 dt. 24.4.2001 and a detailed note on this shall be submitted. Also, details in respect of recovery of 15% of the payments made during 1995-96 and 1996-97 as mentioned above shall be submitted to the Committee. (paragraph No. 3B.2.1)

2. The Committee opined that there was every opportunity not to accept the original sanction as there was deviation from the original sanction (i.e. purchase of a sick unit instead of establishing a new unit), and there was delay in lodging police complaint. The Committee recommends that a detailed note on the entire process shall be submitted viz., whether the loanee has applied in writing to obtain permission for purchase of a sick unit in place of establishing a new unit, details of market study conducted for establishment of a new unit in this line of activity in the light of the negative remarks offered by the then Principal Secretary (Industries & Commerce, Government of Andhr Pradesh) before release of the loan sanctioned. The Committee also recommends that the process of recovery of amounts from the loanee shall be hastened. The Committee further recommends that responsibility shall be fixed on the official(s) who were responsible for the lapses in processing/finalising loan account, releasing installments without conducting inspections as required, delay in seizure of unit and delay in lodging police complaint etc.,

(paragraph No. 3B 2.2)

3. The Committee recommends that the Corporation shall bring all the facts to the notice of the Inquiry Officer viz. i) whether inspections as required under the rules, have been conducted by the Corporation's Officials from time to time, if they were not conducted reasons for not conducting the required inspections, ii) submission of utilisation certificate by the loanee from time to time as required under the provisions concerned, iii) whether the Branch Manager concerned has visited the site and dates thereof, to hasten the finalisation of inquiry report. On submission of the report a copy of the same and action taken thereon shall be submitted to the Committee for scrutiny. (paragraph No. 3B 2.3)

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