

CHAPTER-III

Transaction Audit Observations

Important Audit findings noticed as a result of test check of transactions made by the State Government companies/corporations are included in this Chapter.

GOVERNMENT COMPANIES

Andhra Pradesh State Irrigation Development Corporation Limited

3.1 Irregular Refund of Earnest Money Deposit

Company refunded EMD of Rs.41.42 lakh in violation of the terms and condition of the tender.

With a view to prevent collusion or formation of a ring by the contractors, State Government issued (July 2003) tender procedures which, inter-alia, stipulated that if a contractor returns a tender schedule without tendering for the work, his Earnest Money Deposit (EMD) shall be forfeited.

The Company for taking up three lift irrigation schemes on foreshore of Priyadarshini Jurala Project in Mahbubnagar District called for tenders (April 2005). Three firms submitted tenders. One of the tenderers Bhooratnam Construction Company (BCC) submitted blank technical bid stating that due to pre-occupation he will be able to manufacture and supply only a part of requirement and as such he is forming a joint venture with Coromandal Prestcrete (CPP) who was also one of the three bidders for the same work and hence returned the tender. The above request was deliberated (May 2005) by the Tender Committee (TC). CPP did not disclose this fact to the TC and the bid submitted by them was considered. Thus on the date of opening and consideration of technical bids, two bids were considered and BCC bid treated as 'not tendering for the work'. The EMD of Rs.41.42 lakh was forfeited (August 2005) by the Company, hence, the contractor represented against the forfeiture. The BoD of the Company decided (September 2005) to consider the representation favourably and requested the State Government to accord approval to refund the EMD. The State Government contrary to its own directions granted (November 2005) approval for refund of EMD. Accordingly the Company released the EMD (November 2005) to the BCC.

Thus the purpose of State Government's order (July 2003) to prevent ganging up by contractors was defeated.

The Government contended (June 2007) that the tenderer submitted the tender along with the letter and did not return thereafter. Government's admission that the tenderer did not return thereafter is not correct as the tenderer asked for refund. There was nothing on record to show whether BoD or State Government checked JV between BCC and CPP.

Andhra Pradesh Tourism Development Corporation Limited

3.2 Overpayment of commission to agents

Contrary to terms of agreement the Company considered its own tour ticket sales as those of its tour promotion scheme agents resulting in over payment of commission by Rs.20.98 lakh.

The Company appoints tour promotion scheme (TPS) agents for booking tickets for tours package operated by it. The agreement entered into with each of the TPS agents is generally valid for a period of one year. The Company also sells tickets through its authorised agents and its four Central Reservation Offices located at Tirupathi, Visakhapatnam, Hyderabad and Kurnool. The salient features of the TPS agreement were as follows:

- TPS agent is responsible for booking minimum guaranteed tickets for each tour package fixed separately for peak and lean seasons and in case of failure to fulfill this condition, the agent is responsible for making good the loss for the shortfall in tickets.
- Commission at 15 *per cent* is payable for the minimum guaranteed tickets.
- Commission at 25 *per cent* for tickets sold over and above minimum guaranteed tickets.
- The authorised agents are paid commission at 10 *per cent* of the value of the tickets sold.
- On the tickets sold by the Company's Central Reservation Offices (CRO), no commission is payable to the agent. These tickets may, however, be considered for inclusion in the minimum guaranteed tickets.

Although the agreement conditions with TPS agents clearly prohibit computation of tickets sold by CRO for minimum guaranteed tickets for payment of commission and that these tickets shall be included in the minimum guaranteed tickets only when the Agent fails to sell the minimum guaranteed tickets, computation of commission payable to the TPS agents was done by considering the tickets sold by CROs even when there was no shortfall in minimum tickets guaranteed by the Agent. As a result, the Agents were given undue advantage of higher commission slab (from 15 to 25 *per cent*) resulting in overpayment of commission to them. Similarly, the tickets sold by authorised agents were being considered for the purpose of computation of commission payable to TPS agents resulting in payment of the differential commission (15-10 *per cent*) and pushing the Agent to higher commission slab simultaneously. This resulted in overpayment (April 2005 to October 2006) of commission by Rs.20.98 lakh.

Management replied (March 2007) that in view of ambiguity in agreement clauses the overpayment of commission arose and this has been rectified with effect from 1 November 2006.

The reply is not acceptable for the following reasons:

- The misinterpretation of agreement clauses leading to overpayment of commission was highlighted by Internal Auditors while conducting audit of CRO, Tank bund for the year 2002-03, but no action was taken on the internal audit findings, which led to overpayment of commission to TPS agents over the years.
- Also, there was no ambiguity in the agreement clause as it envisaged consideration of tickets sold by the Company when there was shortfall in the minimum guaranteed tickets from the TPS agent side. This does not imply that the tickets sold by the Company/authorized agents can be considered even when there was no shortfall in minimum guaranteed tickets from the TPS agents.

Thus, the consideration of the tickets sold by the CROs and authorised agents as tickets sold by the TPS agents in cases where there was no shortfall in minimum guaranteed tickets resulted in overpayment of commission by Rs.20.98 lakh for the period from April 2005 to October 2006. The Company has so far not taken any action to recover the amount.

The above matter was reported to Government/Management in April 2007; their reply is awaited (September 2007).

Andhra Pradesh State Trading Corporation Limited

3.3 Loss in sale of timber

Entering into a new trade without experience and without ascertaining market potential and depending only on the assurances of the Associates without adequate safeguards resulted in a loss of Rs.70 lakh.

Andhra Pradesh State Trading Corporation Limited (Company) is engaged in export of goods and commodities manufactured in the State and import of goods for actual users and Government Departments/Undertakings. With a view to entering into timber trade, the Company signed (February, 2003) a Memorandum of Understanding (MoU) with Anuradha Timber Estates, Hyderabad (Associates).

The Company concluded the MoU with the associate based on the assurance of a return of 20-30 *per cent* in the deal. The profits on the venture were to be shared equally by both the partners against an investment of 10 *per cent* only by the Associates in form of security deposit. The losses however, were to be borne entirely by the Associates.

A team of Company officials and Associates visited (March 2003) Myanmar to assess the market potential for imported timber, without conducting any market survey. An expenditure of Rs.4.19 lakh was borne by the Company. The Company imported (May 2003) 51,900.20 cubic feet (cu ft) of timber valued at Rs.4.32 crore excluding Rs.71 lakh incurred towards clearance and forwarding charges. The Associates deposited (March 2003) Rs.45 lakh towards their share of investment against the total investment of Rs.5.03 crore while the profit was to be distributed equally between the two.

The Associates themselves purchased (July 2003) the entire good quality timber of 22482.50 cu. ft. for Rs.2.64 crore. While accepting payment from the Associates against the above sale the Company allowed adjustment of Rs.45 lakh deposited by them as their share even though a quantity of 29417.70 cu. ft. (being 56.68 *per cent* of the total purchased quantity) was yet to be disposed of. The above decision lacked prudence and transparency and the Company was left with no security whatsoever from which the loss could be recovered from the Associates in terms of MoU. The Company could further sell 5142 cu. ft. of timber valued at Rs.64.51 lakh with the help of the Associates and thereafter they practically got themselves disassociated. The Company, however, with the assistance of Andhra Pradesh Forest Development Corporation Limited managed to sell 24147.08 cu. ft. of the balance quantity of 24,275.70 cu. ft. for Rs.1.87 crore (March to September 2005). 128.62 cu. ft. of timber had dried up. An amount of Rs.36 lakh was further spent during the period (April 2004 to June 2006) in effecting the above sale.

Thus due to entering into an unimaginative and nondescript MoU which was loaded in favour of the Associate, as well as bad handling of sales wherein the Associate was allowed to take good quality timber without competition and non holding back of Rs.45 lakh till all stock of wood was sold off resulted in loss of Rs.70 lakh to the Company.

The matter had been reported to Government/Management in April 2007; their replies are awaited (September 2007).

3.4 Nugatory expenditure

Lack of timely action for establishment of aseptic packing unit and change of location deprived funds resulting in nugatory expenditure of Rs.15.27 lakh.

In order to develop an Agri Export Zone (AEZ) for mango pulp and fresh vegetables at Chittoor District, State Government entered (January 2002) into a MoU with Agricultural and Processed Food Products Exports Development Authority (APEDA). The State Government nominated the Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC) as nodal agency responsible for project coordination with various organizations and also the main link between the Central and State agencies and the stakeholders and Andhra Pradesh State Trading Corporation Limited (Company) as executing agency.

The project, envisaged establishment of Aseptic packing unit and cold storage plant at a cost of Rs.2.61 crore to be fully funded by grant-in-aid from APEDA. The Detailed Project Report (DPR) prepared (May 2003) thereafter for Rs.0.70 lakh was discussed (May 2003) with APEDA and project cost was increased to Rs.5.86 crore with financing pattern – promoter's contribution Rs.1.46 crore as share capital and Rs.4.40 crore as APEDA grant. The DPR was got appraised from Andhra Pradesh State Financial Corporation for Rs 0.75 lakh. Thereafter APEDA approved (January 2004) the proposal and released (April 2004) Rs.1.76 crore being 40 *per cent* grant against equivalent bank guarantee (BG) submitted by the Company. The project was to start in January 2004 and to be completed by December 2004.

APIIC allotted (April 2004) three acres of land at Kuppam for Rs.8.49 lakh. Thereafter Company took no action except that it decided (November 2004) to relocate the project to Kalluripally village. The Company also proposed (March 2005) to the State Government that it be exempted from this project as it had no experience. Since the proposal was rejected the Company entrusted (September 2005) the project consultancy work relating to establishment of Aseptic Packing Unit at Kalluripally to Andhra Pradesh Industrial and Technical Consultancy Organisation (APITCO) and paid (May 2006) an amount of Rs.2.46 lakh to them towards advertisement charges for calling tenders. As regards land at Kalluripally, the Company also purchased (September 2005) four acres of land at the rate of Rupees one lakh an acre to be adjusted against Rs.8.49 lakh paid to APIIC.

Meanwhile as the project was a non-starter till April 2006, APEDA revoked (April 2006) the fund placement by encashing bank guarantee for Rs.1.75 crore. However, the Company incurred an expenditure of Rs.11.36 lakh towards interest on overdraft on establishment of bank guarantee and renewals, apart from the other expenditure amounting to Rs.3.91 lakh on consultancy and advertisement which proved nugatory.

The Management/Government while accepting the observation stated (October 2007) that Kuppam Food Park did not develop on expected lines as the response from the private sector to establish fruit processing units was poor. On repeated requests from Chittoor Mango Processors Association (CMPA) it was proposed to set up the unit near Kalluripally village and due to these delays APEDA had withdrawn the grant. Since the land at Kalluripally village was not sufficient, 13.76 acres of land was acquired (October 2007) at Kothapalli village and the CMPA agreed (December 2006) to contribute Rs.1 crore for establishment of unit and deposited (September 2007) Rs.25 lakh. As per Joint Venture agreement the land and assets will remain solely with the Company and the matter is being pursued with APEDA for release of funds with expected completion of project by June 2008, even though there was infructuous expenditure initially. However, fact remains that due to poor planning expenditure of Rs.15.27 lakh proved nugatory.

Thus due to arbitrary and forced decision of the State Government to entrust the execution of the project to an inept and unwilling agency (Company), the project could not take off so far (September 2007) and the people of the State, particularly the farmers were deprived of a promising project, a nugatory expenditure of Rs.15.27 lakh was also forced on the Company. Further the land costing Rs.8.49 lakh is unlikely to be utilized by the Company for its normal business activities.

Leather Industries Development Corporation of Andhra Pradesh Limited

3.5 Blocking up of funds Rs.5.92 crore

Leather Industries Development Corporation of Andhra Pradesh (Company) developed (2001-02) an Action Plan for the State Government which envisaged establishment of 94 leather industrial parks (72 mini, 16 medium and 6 mega) to create employment for the leather artisans in the leather field and impart training to them for improvement of their skills and to manufacture good quality of footwear and leather goods to earn more price for their products. The Plan also, inter alia, envisaged skill upgradation and technology development of leather artisans at a cost of Rs.139.85 crore and provision of common infrastructure at the Medium Leather Industrial Park which included waste water collection system and a common effluent treatment plant (CETP) of 550 Cum/day capacity at Rs.1.70 crore. The plan which was to develop leather industries over a period of five years was accordingly approved (November 2001) by the State Government and a sum of Rs.7.76 crore was released (November 2001 to March 2005). State Government nominated Company as Nodal Agency for implementation of Action Plan to set up 94 Leather Industrial parks. Expenditure incurred on training of artisans and establishment of mini and medium leather park was reviewed in audit and findings that emerged are discussed below:

Failure of Action Plan resulted in infrastructure of Rs.3.60 crore remaining unutilised

3.5.1 Establishment of mini parks envisaged skill upgradation among the leather artisans and infrastructure development. In each mini park the estimated number of leather artisans to be trained was around 6000. For 72 mini parks the number of artisans whose skills are to be upgraded works out to be 4.32 lakh. Every month 100 artisans in batches of 20 each was proposed to be sent to various leather institutes for training. On return these 100 artisans will be distributed among seven mini parks at the rate of 14 to 15 artisans per mini park to work as trainers for three months. Every batch of 14 artisans may leave the mini park, after three months, to set up/run his own enterprise inside or outside the park. The scheme was, however, silent on working capital requirement of artisans to establish their own industries.

The Company procured machinery valuing Rs.10.74 lakh for training of artisans and provided (2003-2005) common facility centre at 10 mini parks at a cost of Rs.77.73 lakh and also took possession (August 2003 and August 2006) of 17 mini leather parks constructed at a cost of Rs.2.71 crore by Andhra Pradesh Industrial Infrastructure Corporation Limited. As against the target of 4.32 lakh trainees envisaged, the Company could train (2003-07) only 12097 (2.80 *per cent*) out of which 1051 were trained as trainers by the Leather Institutes. The trained artisans have not established any units in the Mini parks, nor did any production activity take place from the date of installation of machinery, in any of the 17 mini industrial parks established in various parts of the State. Thus the infrastructure created at a cost of Rs.3.60

crore remained unutilised. Reasons for non-establishment of units were not investigated by the Company.

The Management stated (August 2007) that due to lack of funds from the State Government, the targets were not achieved. The reply is not acceptable as the persons trained also did not establish the units and no remedial measures were taken up for utilisation of the assets created.

Non-commissioning of Common Effluent Treatment Plant at Medium Leather Park Kunoor due to lack of enforcement clause in the agreement with the tanneries led to idling of infrastructure of Rs.2.32 crore.

3.5.2 In each Medium Park processing of semi finished leather to finished leather and to intermediate products take place. Company entered (April 2002) into an MoU with Small Tanners Co-operative Industrial Estate (STCIEL) to undertake tanning of leather and manufacture of leather goods and garments. The MoU did not contain any clause stipulating the timeframe within which the tanneries were to be established by the member tanners in the Medium park. A Special Purpose Company viz. Kunoor Leather Park Limited (KCPL) was formed (September 2002) by the Company and STCIEL to develop Medium Leather Industrial Park at Kunoor along with developing waste water collection system and a common effluent treatment plant (CETP) of 550 Cum/day capacity. Besides Rs.43.38 lakh spent on consultancy and laying of roads the contractor Ramky Infrastructure (RI) completed the construction of CETP in December 2005 at a cost of Rs.1.89 crore. The waste water collection system and CETP were not commissioned for want of effluents as none of the tanneries came up in the proposed leather park (July 2007), though the agreement with RI expired on 31 March 2006. Failure to incorporate timeframe within which the tanneries were to be commissioned by the member tanners so as to ensure that the commissioning of CETP synchronizes with the discharge of effluents from tanneries, resulted in investment on support infrastructure of CETP of Rs.2.32 crore idling since the date of creation.

The Management stated (August 2007) that as on 31 July 2007 one mega unit started production and another two mega units are ready to start production during August 2007. The fact, however, remains that the CETP has not been commissioned so far (September 2007).

The above matters were reported to the Government in July 2007; their reply is awaited (September 2007).

The Singareni Collieries Company Limited

3.6 Extra expenditure on procurement

Inordinate delay in finalisation of tenders and receipt of order by supplier after validity expiry date resulted in extra expenditure of Rs.30.25 lakh.

The Singareni Collieries Company Limited invited (October 2003) offers for supply of under carriage sets for D.155 (20 sets) and D.355 Dozers (14 sets). In response, it received four offers valid till 28 April 2004. The technical bids were opened in October 2003 while the price bids were opened in December 2003. The offer of WB Engineers Limited (WBE) at Rs.10,34,690 and Rs.13,93,548 per set respectively (D.155 dozers and D.355 dozers) was found the lowest. Offers of Dozco Private Limited (Dozco), Visakhapatnam and Bharat Earth Movers Limited (BEML), Kothagudem stood second and third lowest. The Company directed (January 2004) BEML (a PSU) to match their rates with the rates of the lowest tenderer, which agreed (February 2004) to supply the sets at the rates offered by WBE. Meanwhile Dozco (at the instance of the Company) submitted (January 2004) a revised offer of Rs.10,34,680 for D.155 dozers and Rs.13,93,532 for D.355 dozers.

The Company, however, held negotiations only with WBE and BEML and placed (28 April 2004) two orders; one on WBE for supply of 18 sets (D.155 dozers) valued at Rs.1.86 crore and 19 sets (D.355 dozers) valued at Rs.2.65 crore and another on BEML for supply of 12 sets (D155 dozers) valued at Rs.1.24 crore and 13 sets (D.355 dozers) valued at Rs.1.81 crore on FOR destination basis with the usual terms of supply viz., firm price during execution of order, penalty clause for delayed supplies and risk purchase clause in case of non-supply. Although it was recorded that all the quoted firms are previous and proven suppliers to the Company, reasons for not considering the offer of Dozco were not mentioned in the tender proceedings. While the requirements were stated to be critical, the Company took six months from the date of opening of technical bids to placement of orders.

The Company placed (28 April 2004) order within the validity period, but WBE received the same on 11 May 2004. WBE expressed (June 2004) its inability to supply the entire ordered quantity due to delayed receipt of letter of intent and firm order after expiry of the validity period (April 2004) due to increased prices of steel and increase in exchange rate. WBE sought reduction of ordered quantity to 14 sets of D.155 and 8 sets of D.355 dozers. BEML, however, supplied the entire ordered quantity. The Company accepted (July 2004) the request of the WBE for reduction in quantity. Simultaneously, the company approached (July 2004) BEML and Dozco for supplying the balance quantity (15 sets) at their previously ordered/quoted prices. The two firms refused to supply the sets at the same price due to increase in input costs. The Company again floated (July 2004) a limited tender enquiry for supply of the balance quantity of 15 sets. The offer of Dozco at Rs.11,93,032 for D.155 dozer set and the offer of BEML at Rs.16,10,924 for D.355 dozer set (landed

cost) was found lowest. Accordingly, the Company placed (November 2004) orders on these two firms for supply of balance quantity which was completed by them.

It was observed that:

- tender enquiry was floated (October 2003) and orders finalised and placed on 28 April 2004 validity expiring date, thus taking long time in spite of urgent requirements;
- no attempt was made to get offer revalidated, resulting in extra expenditure of Rs.30.25 lakh on the procurement of the balance 15 sets due to delayed finalisation of tenders and placement of order on expiry of validity date.

Government stated (July 2007) that as approval was taken to procure the items from two sources out of which one was PSU, the offer of Dozco was not considered. The reply is not tenable as this was against the very purpose of open tendering and principles of equality of opportunity. Thus, delay in finalisation of tender, not getting the rates revalidated before acceptance coupled with ignoring the rates offered by the second lowest tenderer while accepting the third lowest tenderer led to excess expenditure of Rs.30.25 lakh.

Andhra Pradesh Power Generation Corporation Limited

3.7 Excess payment of freight

APGENCO had to pay avoidable freight charges of Rs.11.04 crore being the difference between the freight for actual movement of rakes and the rate charged.

Andhra Pradesh Power Generation Corporation Limited (Company) entered (May 2003) into a fuel supply agreement with The Singareni Collieries Company Limited (SCCL) effective from 1 July 2003. As per the agreement the coal was to be supplied to the four power stations i.e., Kothagudem Thermal Power Station (KTPS), Rayalaseema Thermal Power Station (RTPP), Ramagundem-B Power House (RPH) and Nellore Power Station (NTS). Any coal supplies to other than these power houses shall have to be made with the approval of Standard linkage Committee (SLC), Union Ministry of Coal (MOC). The Company had another agreement with South Central Railway for transportation of coal, extended from time to time, the last being from 1 April 2006 for a period of one year.

Supply of coal to Vijayawada Thermal Power Station (VTPS) was totally limited to Mahanadhi Coal Fields Limited (MCL) by the SLC. As there was shortage of coal supply from MCL during the months of December to March of 2003-04, 2004-05 and 2005-06, the Company had to divert 20.56 lakh MTs of coal (592 rakes) meant for KTPS from Manuguru to VTPS, Vijayawada. It was noticed that though the coal had moved directly from Manuguru to VTPS (224 Km), the freight was paid from Manuguru to KTPS (56 Km) and then from KTPS to VTPS (183 Km). This resulted in extra expenditure of Rs.53.72

per MT (including surcharge) and hence a total extra expenditure of Rs.11.04 crore was incurred. It was further observed that the Company should have taken up with the Railways to charge freight on the basis of actual distance travelled whenever there was such diversion due to operational reasons.

The matter was reported to the Management/Government in July 2007; their reply is awaited (September 2007).

3.8 Avoidable expenditure

Undue benefit to certain employees to the tune of Rs.5.85 crore towards EPF contribution without approval of competent authority.

Andhra Pradesh Power Generation Corporation limited (Company) was incorporated under the Companies Act, 1956 (1 February 1999). The provisions of Employees Provident Fund and Miscellaneous Provisions Act 1952 (Act) and the Employees Provident Fund Scheme 1952 (Scheme) were made applicable to the employees who joined the Company on or after 1 February 1999. As per the provisions of these Acts / scheme, the employees drawing a salary (pay + DA) of Rs 5000 per month (from 1 June 2001 this was increased to Rs.6500) are eligible for a matching contribution @ 12 *per cent* of pay and dearness allowance towards Provident Fund in addition to the employees contribution. However in respect of employees drawing more than Rs.6500 the employees as well as employer's contribution should be restricted to the amount payable on a monthly salary of Rs.6500.

It was observed that the Company instead of restricting its share of contribution to a monthly salary Rs.6500, contributed on the basis of full salary in respect of employees drawing salary of more than Rs.6500 per month which resulted in undue benefit to those employees and loss of Rs.5.85 crore during the period February 1999 to March 2007 to the Company.

The matter was reported to the Management/Government in September 2007; their replies are awaited (October 2007).

Southern Power Distribution Company of Andhra Pradesh Limited

3.9 Extra expenditure in awarding conversion works

Extra expenditure of Rs.2.80 crore due to non-consideration of offer of L-1 tenderer without any justifiable reasons.

Southern Power Distribution Company of Andhra Pradesh Limited (Company) invited tenders (May 2005) for conversion of existing Low-tension network into High Voltage Distribution System in Puttur-I and II Divisions of Chittoor District (System Improvement Project Works) at an estimated cost of Rs.15.96 crore and Rs.29.99 crore respectively. The estimated rates for all items of work were indicated in the price bid appended to the specification and the contractor was supposed to quote in percentage terms either in excess or

less of the estimated cost or he must be prepared to execute the work at estimated value.

Out of 12 valid offers for Puttur I and 11 in respect of Puttur II, the offer of ICSA (India) Limited, Hyderabad at Rs.14.29 crore and Rs.26.00 crore for I and II Division respectively (which was 10.44 *per cent* and 13.30 *per cent* less than the estimates) was the lowest. The offer was rejected (September 2005) on the ground that though the contractor was supposed to express his willingness in percentage terms either in excess or less of the estimated cost for all items mentioned in the price bid appended to the specification, he had totally ignored these stipulations and appended an estimate copy with his own rates (with offers of discount). The order was placed (October 2005) on L-4 firm (Vijaya Electricals) for Puttur-I at Rs.15.96 crore and on L-2 firm (ICOMM Tele Ltd.) for Puttur-II at Rs.27.02 crore despite their refusal to match the price of L-1.

It was observed that:

- As per the tender condition, the tenderers were supposed to quote specific rates for each item in the schedule.
- The estimates in respect of three items out of five were lower than the Company's estimates taking into account the discount offered by L1 (ICSA India Ltd).
- Ignoring the L-1 tenderer on minor technical irregularities and placing orders on other than the lowest tenderer despite not matching L-1 rate was not justifiable. As held by the Hon'ble Supreme Court in its judgement dated 6 May 1991* that "the requirement in a tender notice can be classified in to two categories – those which lay down the essential conditions of eligibility and the others which are merely ancillary or subsidiary with the main object to be achieved by the condition. In the first case the authority issuing the tender may be required to enforce them rigidly. In the other cases it must be open to the authority to deviate from and not to insist upon the strict literal compliance of the condition in appropriate cases". Since the basic issue of economy was not compromise by representing the rates against each item by the tenderer the Company should have waived the minor technical irregularity in its own interest and thus avoided the extra expenditure of Rs.2.80 crore.

The Management stated (September 2007) that L-1 had wrongly quoted discount on his own estimates and not on Company's estimates and hence works were awarded to L 4 & L2 who were responsive bidders and were found to be best alternatives to complete the works in time. The reply is not tenable as after considering the discount offered by ICSA (India) Limited the estimates in respect of three out of five items were lower than the Company's estimates which involve 81.2 *per cent* of total bid value, reducing the risk in case of deviations in the sub items to that extent. Also as per clause 28.5 of the bid document, if the successful bidder is seriously unbalanced in relation to Engineer's estimate of the cost of work, the Company may require the

* Supreme Court judgment dated 6 May 1991 in Civil Appeal 2272 of 1991 – Poddar Steel Corporation V/s Ganesh Engineering Works.

bidder to produce price analysis for any or all items of bill of quantities to demonstrate the internal consistency of those prices with the construction methods and schedules proposed. No attempt was made to obtain the same, which would have facilitated calculation of payments on deviations.

The matter was reported to the Government in August 2007; their reply is awaited (September 2007).

3.10 Extra expenditure on cancellation of purchase order

Cancellation of initial order due to non supply of material and consequent extra expenditure of Rs.1.53 crore due to procurement at a higher rate.

The Company invited (September 2004) open tenders for procurement of 60 Nos. 5 MVA, 33/11 KV power transformers, and out of six bids received, the offer of Accurate Transformers Limited, Delhi (ATL), at the rate of Rs.19.60 lakh per transformer (inclusive of entry tax of Rs.2.10 lakh) was L1. Even though the L1 supplier offered to supply the entire quantity of 60 transformers, Management recommended to place order for 50 *per cent* quantity on L1 and to negotiate with the other firms to match the rate of L1. An order was placed (December 2004) on L1 for 35 Nos of five MVA power transformers as against 30 Nos being 50 *per cent* of tendered quantity and last date of delivery was 31 July 2005. No risk and cost clause was included in the contract to ensure the quantity and quality of supply within the due dates.

Out of other five bidders, only ECE Industries Ltd., Hyderabad (L4) (ECE) expressed willingness to supply five MVA transformers at the rate of Rs.19.60 lakh. As this rate was inclusive of entry tax, and the firm was a local firm, the company requested the firm to supply the transformers at the rate of Rs.16.22 lakh. The firm however agreed to supply at Rs.18.74 lakh per transformer which was agreed to by the Company in view of urgency and an order was placed (February 2005) for supply of 35 Nos. 5 MVA transformers for Rs.656.02 lakh .

ATL delivered (April 2005 and June 2005) all the 35 Nos. of transformers whereas ECE without supplying any unit requested (March 2005) to cancel the order in view of increase in the prices of raw material. The Company cancelled (April 2005) the order levying an arbitrary penalty of 25 *per cent* (Rs 62500) of bid security. However, due to absence of risk and cost clause in the terms and conditions of order no liability of ECE could be fixed by the Company.

Subsequently the Company invited (May 2005) tenders for procurement of 56 Nos. 5 MVA transformers (including additional requirement). ECE who offered Rs.24.24 lakh per unit was found L 1 and an order was placed (July 2005) for supply of 25 Nos. which was later amended (December 2005) to 28 Nos for a total value of Rs.678.66 lakh. The material was delivered during September 2005 to March 2006. For the balance 28 Nos, orders were placed on two firms at L-1 rates.

Thus it was observed that by cancelling the earlier purchase order and then procuring from the same firm against fresh tender resulted in granting undue favour to ECE at an extra expenditure of Rs.1.53 crore after duly taking into account the penalty imposed.

The matter was reported to the Management/Government in September 2007; their reply is awaited (October 2007).

3.11 Extra expenditure in procurement

Southern Power Distribution Company of AP Limited incurred extra expenditure of Rs.49.65 lakh due to placing purchase orders at a rate higher than the lowest rate.

Southern Power Distribution Company of Andhra Pradesh Limited (Company) invited tenders (September 2004) for procurement of 100 Nos. Low Voltage Control and 300 Nos. Feeder Control Vacuum Circuit Breakers (VCBs) for commissioning of 84 Nos. of 33KV substations programmed under Rural Electrification schemes before 31 March 2005 and for day-to-day requirements of 2004-05. The purchase orders placed (December 2004 and January 2005) for procurement of same are as under:

Sl.no.	Description of item	Quantity ordered and procured	No.of offers received	No.of parties on whom orders placed	Distribution of Quantities			
					Name of the firm	Qty. ordered	Rate	Extra expenditure
							(Rs.in lakh)	
1.	LV Control VCBs	100	4	3	G.R. Switchgears (L-1)	50	2.78	
					Stelmec (L-2)	30	3.09	9.31
					System Control (L-2)	20	3.09	6.21
					Total	100	--	15.52
2.	Feeder control VCBs	300	3	3	G.R.Switchgears (L-1)	150	2.16	
					Stelmec (L-2)	60	2.39	13.65
					System Control (L-2)	90	2.39	20.48
					Total	300	--	34.13
Grand Total								49.65

Source : Compiled from purchase orders placed by the Company

It was observed that

- There was lack of transparency as the number of parties on whom the orders were to be placed and quantities there against was not pre-decided and recorded prior to issue of Notice Inviting Tenders.
- The placement of orders on other than the lowest tenderer despite not matching L-1 rate lacked justification and resulted in extra expenditure of Rs.49.65 lakh to the Company.

The Management stated (March 2007) that performance of L-1 was to be assessed since they were new entrants and hence orders were placed on L-2

and L-3 at L-2 rates. The Management's reply is not tenable as L-1 firm had successfully executed an earlier order for 100 Nos. of 11 KV outdoor VCB's and in the absence of compulsion to match L-1, the potential bidders may not give competitive rates in future since they are assured of business despite not matching L-1. This is a case of procurement from multiple sources and the Company should have distributed the quantities on L-1, L-2 and L-3 firms at the same price as per its purchase manual in the ratio of 50:30:20 at the same prices.

The matter was reported to the Management/Government in July 2007; their replies are awaited (September 2007).

Eastern Power Distribution Company of Andhra Pradesh Limited

3.12 Avoidable expenditure due to short closure of purchase orders

Short closure of Purchase Orders instead of enforcing supplies and placing fresh PO's led to avoidable expenditure of Rs.1.63 crore.

All Aluminum Alloy Conductors (AAA Conductors) are used as power conductors to transmit power to and from sub-stations. Eastern Power Distribution Company of Andhra Pradesh Limited (Company) after inviting tenders, placed (August 2005) purchase orders (PO) on 13 firms for procurement of 7500 KM 55 sq mm AAA conductors at the rate of Rs.20505.28 per Km to be supplied (November 2005 to March 2006). While two of the firms supplied the ordered quantity (799 Kms), 11 firms supplied 2709 Kms against ordered quantity of 6682 Kms leaving a balance of 3973 Kms by December 2005. The Company requested (December 2005) the firms to defer supplies until further orders. The Company's request (June 2006) to resume the supplies from July 2006 was refused by the suppliers as it was not possible for them to supply the deferred quantity with 10 *per cent* price variation. The Company shortclosed (June 2006) the PO and went for re-tendering. Orders were split among 13 suppliers for procurement of the balance 3973 km conductor (55 sq mm) in November 2006 (at the rate of Rs.28477.45 per Km) at an extra expenditure of Rs.2.35 crore. It was observed that the Company without any concrete reasons deferred the supplies despite being aware of the rising price of aluminum, thus incurring an avoidable expenditure of Rs.1.63 crore even after taking into account interest saved on funds blocked for eight months (Rs.71.69 lakh).

The Management stated (October 2007) that the stock of 2726 Km in December 2005 was available in stores, hence thought fit not to receive further quantity of conductors, and the POs were shortclosed as per force majeure conditions of PO. The reply is not tenable as the Company itself projected an annual requirement of 9017 Km, thus making six months requirement to be 4508.5 Km whereas the stock of material at the time of deferment (December 2005) was only 2726 Km, sufficient only for 3.63 months (without any minimum stock level). Further, it was in the notice of the Company in January/February 2006 itself that aluminum prices were rising. Thus

unjustified decision to defer the supplies without conducting any cost benefit analysis had resulted in an avoidable expenditure of Rs.1.63 crore.

The matter was reported to the Government in August 2007, their reply is awaited (September 2007).

3.13 Avoidable expenditure due to foreclosure

Foreclosure of Purchase orders and placing fresh Purchase orders resulted in avoidable expenditure of Rs.86.98 lakh.

Eastern Power Distribution Company (Company) placed (December 2005) purchase orders on 24 firms for procurement of 9984 KMs of 34 sq mm All Aluminum Alloy conductors (AAA Conductors) at a rate of Rs.13,590 per Km to be supplied by October 2006. While 18 of the firms supplied the ordered quantity of 4896 Kms, six of the firms supplied only 1401 Kms against ordered quantity of 5088 KMs leaving a balance of 3687 KMs by March 2006. In view of steep rise in aluminum prices, these six firms protested (February / March 2006) against the restriction of price variation to 10 *per cent* as mentioned in the General Terms and Conditions of the Tender, but there was no such restriction in Specific price variation clause in the tender and insisted for price variation without any limit or alternatively foreclosure of the Purchase Order (PO). The Company without insisting for price variation of 10 *per cent* , foreclosed (June 2006) the purchase order and again procured (January 2007) the balance 3600 Kms (at the rate of Rs.17365) at an extra expenditure of Rs.86.98 lakh. It was observed that as the restriction of price variation to 10 *per cent* was one of the clauses in the General terms and conditions of the tender to be read with provisions of specific clause, tenderer was bound by the conditions of the PO. Hence non-enforcement of the same by the Company, not taking any penal action on the firms and foreclosure of the PO resulted in avoidable expenditure of Rs.86.98 lakh.

The Management while accepting the observation stated (October 2007) that the POs were short closed under force majeure condition as rise in prices of aluminium is an event which cannot be expected either by the supplier or purchaser. The reply is not tenable since the firms are bound by conditions of PO. Thus the foreclosure of POs, instead of enforcing supplies as per P.O terms and placing fresh purchase orders with different suppliers at an extra cost led to avoidable expenditure of Rs.86.98 lakh.

The matter was reported to the Government in August 2007; their reply is awaited (September 2007).

3.14 Non-recovery of liquidated damages and extra expenditure

Company failed to enforce relevant clauses in the agreement resulting in non-recovery of liquidated damages and extra expenditure.

Eastern Power Distribution Company (Company) entered (July 2003) into an agreement with IVRCL Infrastructure & Project Limited (IVRCL) for conversion of low voltage network into High Voltage Distribution System (HVDS) on 100 *per cent* turnkey basis for Rs.4.75 crore to be completed by

May 2004 which was extended up to 31 August 2004. No risk and cost clause for getting the work done through another contractor was included in the work order. IVRCL abandoned (August 2004) the work and left over work was entrusted (October 2004) on nomination basis to Shirdi Sai Electricals (SSE) at an extra expenditure of Rs.52.69 lakh.

The Company did not recover the liquidated damages. Extra expenditure incurred for completion of balance work could not be recovered as there was no risk and cost clause in the agreement.

It was noticed that the bank guarantee for Rs.23.76 lakh (valid up to January 2005) furnished by IVRCL was also not encashed by the Company. No action was taken against the officials responsible for the lapse. Though the payment due to IVRCL of Rs.11.34 lakh was withheld at the instance of audit, the Company still failed to recover Rs.41.35 lakh relating to extra expenditure incurred for completion of left over work apart from non-recovery of liquidated damages of Rs.47.70 lakh.

The Management stated (October 2007) that time extension was accorded to IVRCL up to 31 August 2004 without LD clause for completion of work and further work was not carried out by the contractor as the scheme provisions under APDRP were exhausted. The reply is not tenable since the Company had surplus funds to continue the works between the period of abandonment of work and award of new contract. It is a fact that IVRCL's execution of work was very unsatisfactory right from the beginning and in spite of granting extension, the firm could not complete the contract forcing the Company to entrust the work to SSE on nomination basis at higher rates. Non levy of Liquidated damages, not encashing the Bank Guarantee and non inclusion of risk and cost clause in the agreement resulted in showing undue favour to IVRCL.

The matter was reported to the Government in May 2007; their reply is awaited (September 2007).

Central Power Distribution Company of Andhra Pradesh Limited

3.15 Undue benefit to e-Seva centres

Company provided rent free accommodation to e-Seva centre resulting in loss of revenue of Rs.2.01 crore

The Central Power Distribution Company (Company) provided rent free accommodation of 16760.50 Sq.ft. to Electronically Deliverable Services (EDS), Department of IT & C, of the State Government without any agreement for collection of electricity bill payments in Hyderabad and Rangareddy Districts. EDS has a delivery channel viz., Urban e-Seva for collection of electricity bill payments. As per the direction (December 2003) of the State Government, the Company entrusted work of eSeva centres for collection of electricity bills on payment of service charges of Rs.5 per bill. The Company however, entered (April 2004) into agreement with e-Seva

centre operative retrospectively from August 2003. The agreement did not provide for giving rent free accommodation to the eSeva centre. Urban e-Seva also renders some other services like collection of Municipal property tax bills, water charges bills etc., on payment of service charges.

Though the agreement did not provide for providing any accommodation, the Company provided accommodation of 16760.50 Sq.ft. built in space, free of cost to nine Urban eSeva centres in the jurisdiction of Hyderabad (North, South and Central) and Ranga Reddy (North and South) circles. The average rent for the space provided to eSeva worked out to Rs.19.31 per Sq.ft. per month and the cost of such accommodation worked out to Rs.2.01 crore for the period from February 2002 to March 2007. Thus, providing rent-free accommodation tantamount to extension of undue benefit and resulted in loss of revenue.

Management/Government stated (July 2007) that the e-Seva centres have facilitated State Government's e-Governance initiatives and has also improved revenue collection and consumer satisfaction and these benefits far outweigh the concession of rent free accommodation. The reply is not relevant as audit did not question the establishment of e-Seva. The Company was already paying service charges for the facilities provided by eSeva and as per the agreement, there was no obligation on the Company to provide rent free space. Thus the Company has lost a revenue of Rs.2.01 crore in providing rent free accommodation to the nine e-Sevas.

State Level Public Sector Undertakings

3.16 Corporate Governance

Introduction

Through the system of Corporate Governance the Board of Directors (BoD) of Public Sector Undertakings (PSUs) direct and control their affairs in the best interest of the shareholders by ensuring greater transparency in operations and better timely and meaningful financial reporting.

The Companies Act, 1956 as amended (December 2000) provides *inter alia* that Directors' Responsibility Statement (DRS) under section 217 is to be attached to the Directors' Report for submission to shareholders. According to Sub section 2AA of Section 217 of the Act *ibid*, the BoD has to report to the shareholders that it had taken proper and sufficient care for safeguarding the assets of the company and preventing and detecting fraud and other irregularities.

Further, in terms of Section 292A of the Companies Act 1956, notified in December 2000, every Public Limited Company having paid up capital of not less than Rupees five crore shall constitute an Audit Committee, at the Board level. The Act also provides that the Statutory Auditors, Internal Auditors, if any, and the Director in charge of Finance should attend and participate in the meetings of the Audit Committee.

The main components of Corporate Governance are:

- Matters relating to the BoD
- Directors' report and
- Constitution of Audit Committee.

Scope of Audit

3.16.1 Out of 35 working State Government Companies, Audit reviewed matters relating to corporate governance of 28 companies (all unlisted) as detailed in **Annexure -31** covering the period 2004-05 to 2006-07. Audit findings are discussed in the succeeding paragraphs.

Board of Directors

3.16.2 The responsibility of good governance rests on the BoD, which has to ensure that principles of corporate governance both as stipulated by the law and those expected by the stakeholders' interests are kept at the highest level. In order to meet this responsibility, every Company should hold meeting of the BoD at regular intervals. Every director should attend these meetings to share the expertise and knowledge and to guide the affairs of the Company.

Meetings of BoD

3.16.3 Section 285 of the Companies Act 1956 provides that "in case of every Company a meeting of BoD shall be held at least once in every three months and at least four such meetings shall be held every year. It was noticed that seven[▼] PSUs in 2004-05, five[▲] and three^{*} PSUs in 2006-07 held only three meetings each indicating non-compliance with the provisions of the Companies Act, 1956. Further, the gap between two consecutive meetings of the Board was more than three calendar months in eight^{*} PSUs during 2004-05, seven¹ PSUs during 2005-06 and five² PSUs during 2006-07.

Attendance of Directors in Board meetings

3.16.4 It was observed that 21 Directors of 14³ PSUs, 19 Directors of 13⁴ PSUs and 17 Directors of 11⁵ PSUs did not attend any of the Board meetings held during their tenure for the years 2004-05 to 2006-07. This evidenced their lack of interest in managing the affairs of the PSUs in which they were involved. Further, in two⁶ PSUs no leave of absence was granted to Directors (in the meetings held in October 2004 and September 2005) who did not attend the meetings. AP Transco stated that non-attendance at the Boards Meetings was mainly on account of pre-scheduled meetings, conducting Board

[▼] APSAIDC, LIDCAP, APBCL, APSHC, APTDC, APFTTDC and APTS

[▲] LIDCAP, APBCL, APHDC, APFTTDC and APTS

^{*} NSF, APFTTDC and APTS

^{*} APSAIDC, APBCL, APSMFC, APTDC, EPDCL, SPDCL, NPDCL and APFTTDC

¹ LIDCAP, APBCL, APHDC, APFTTDC, NEDCAP, APTS and APSTC

² APSMFC, NSF, APTDC, APFTTDC and APTS

³ APSAIDC, APSIDC, APIIC, APHMEL, APHDC, APSPHC, APSHC, APGENCO, APTRANSCO, SPDCL, NPDCL, NEDCAP, APTS and, APSTC

⁴ APSIDC, APMDC, APIC, LIDCAP, APHMEL, APSPHC, APSHC, APSMFC, APTDC, APGENCO, APPFC, NEDCAP and APTS

⁵ APMDC, APIIC, APBCL, APHMEL, SCCL APSPHC, APSHC, APGENCO, APTRANSCO, NEDCAP and APTS

⁶ APHMEL and APTDC

meetings on the same day by the Discoms where Directors of AP Transco are Directors (non-whole time) and due to other official camps. SCCL stated that during the tenure of two of its Directors only one Board meeting was held, which they could not attend due to their preoccupations. NEDCAP stated that Government Officers nominated as Directors could not attend the meetings because of their otherwise engagement though agenda notes and notices were communicated regularly.

This indicates that thorough planning is essential for fixation of dates of meetings to avoid absence of Directors and consequential loss of benefits emanating from their participation to the management.

Preparation of minutes of meetings of Board of Directors

3.16.5 Section 193 of The Companies Act, 1956 stipulates that every company shall cause minutes of all proceedings of every meeting of its BoD to be kept by making entries within thirty days of conclusion of the meeting concerned, in books kept for that purpose. The pages of minutes book shall be consecutively numbered and each page of every such book shall be initialed or signed and the last page of the record of proceedings of each meeting shall be dated and signed by the Chairman of the meeting or the Chairman of the next succeeding meeting. The following observations were made:

- APTDC minutes of meeting were drawn in loose-leaves and the pages were also not numbered consecutively. Signatures/initials of the Chairman of the meetings were not found to be affixed on each page of the minutes as required by the Act *ibid*.
- The minutes book of Leather Industries Development Corporation of AP was not numbered consecutively and the minutes were not signed by the Chairman at the last page of the minutes. The pages of the minutes book were not initiated to lend authenticity.
- In CPDCL, the minutes were pasted in the book maintained for the purpose in violation of Act provisions.
- The minutes book maintained by APTS did not have the signatures/initials of the Chairman on each page.

Directors' Report to shareholders

3.16.6 Section 217(2AA) of the Companies Act, 1956 requires that a report of the BoD including DRS be attached to every balance sheet laid before the shareholders at the Annual General Meeting (AGM). The Directors' Report of APTS for the year 2004-05 did not include DRS. Similarly, in respect of APSHC and APSMFC the DRS was not enclosed to the balance sheet for the year 2000-01 placed before AGM during August 2006 and September 2006 respectively.

Addendum to directors' report

3.16.7 As per section 217(3) of the Companies Act, 1956 the Board is bound to give full information and explanation in an addendum to the Board's Report on every reservation, qualification or adverse remark contained in Auditors'

Report. It was noticed that Directors' Report of 11⁷ PSUs for the accounting years (2004-06*) did not include proper explanations to the qualifications made by the Statutory Auditors in their Auditors' Reports in contravention of the provisions of the Act cited above.

In reply AP Transco stated that for each objection/comment/qualification of the Auditors, replies were given by the Management which was reviewed by the Board and the Audit Committee before approving the audited Annual Accounts. Though replies were given, no proper explanations were furnished to qualifications given in the Auditors' Reports.

APSAIDC stated that audit observations are noted for compliance.

Audit committee

3.16.8 In terms of Section 292A of the Companies Act, 1956 which came into effect in December 2000 every public limited Company having paid up capital of not less than Rupees five crore shall constitute an Audit committee at the Board level. The Act also provides that the Statutory Auditors, Internal Auditors, if any, and the Director in charge of finance should attend and participate in the meetings of the Audit Committee. The main functions of Audit Committee are to review the financial reporting system to ensure that the financial statements are correct, sufficient and credible. It should interact with the auditors periodically about internal control systems, review half-yearly and annual financial statements before submission to the BoD and ensure compliance of internal control systems. This provision was applicable to 11⁸ PSUs out of 28 PSUs reviewed. There was delay in constitution of Audit Committee by the seven PSUs (APMDC, APGENCO, EPDCL, SPDCL, CPDCL, NPDCL, APPFC) ranging from eight to 42 months, after taking into account a quarter for Board approval.

AP Transco stated that constitution of audit committee took place in Board Meeting held in December 2001 after a year of the introduction of provisions of the Act. This was attributed by the Company to obtaining information on procedure being followed in NTPC and PGCIL and appraisal thereof.

Terms of reference

3.16.9 Terms of reference of Audit Committee were not specified by four⁹ PSUs with the result the duties and responsibilities of the Audit Committee remain undefined in writing contrary to the provisions of sub section 2 of section 292A of the Act. In reply APGENCO stated that Audit Committee was reconstituted with specific terms of reference in December 2004. Thus there was four year delay from the date of passing of the Act in giving specific terms of reference.

Meetings of the Audit Committee

3.16.10 The following observations are made:

⁷ APSAIDC, APIIC, APHMEL, APSCSC, APTDC, APTRANSCO, CPDCL, NPDCL, APPFC, NEDCAP and APSTC

* Accounts for most of the Companies were not finalised for the year 2006-07.

⁸ APMDC, APHMEL, SCCL, NSF, APGENCO, APTRANSCO, EPDCL, SPDCL, CPDCL, NPDCL and APPFC

⁹ APMDC, APHMEL, APGENCO and EPDCL

- The Audit Committee constituted by the BoDs of APMDC did not meet even once after its constitution in June 2004 defeating the very purpose of its constitution.
- The Audit Committee constituted by two PSUs viz., NSF and NPDCL met only once in a year during 2004-07 as against four and one meetings specified in the terms of the reference respectively. In AP Transco Audit Committee met twice in 2004-05 and once 2005-07 as against three meetings specified.
- Terms of reference of NPDCL specified for review of quarterly and half yearly financial statements while at the same time it envisaged holding of at least one meeting each year, which were contrary to each other. The Audit Committee should have met at least four times to review quarterly as well as half yearly results.

AP Transco stated that consequent to development of ERP system it is proposed to compile the Accounts on quarterly, half-yearly and yearly basis which will enable Audit Committee to meet thrice a year.

Discussions by the Audit Committee

3.16.11 As per the sub Section 6 of Section 292A of the Companies Act, 1956, Audit Committee should have discussions with auditors periodically about internal control systems, scope of audit including observations of the auditors and ensure compliance of internal control systems.

It was observed that:

In none of the years (2004-07) the Statutory Auditors were invited to the Audit committee meetings by APHMEL to review the internal control measures. Out of nine committee meetings held during 2004-07 the minutes of three meetings were only put up to the BoD.

The Statutory Auditors and the internal auditors were not invited to the meetings by NSF during 2004-07. The adequacy of internal control measures and observations of Statutory Auditors were not reviewed and sufficiency of financial policies followed was also not discussed.

In SPDCL and EPDCL the adequacy or otherwise of the internal control measures and financial policies followed were not reviewed with Statutory auditors.

Though the terms of reference to Audit Committee of SPDCL stipulated to have discussions with external auditors before commencement of audit, the auditors were not invited to the meetings frequently.

Though the Statutory Auditors of NPDCL attended Audit Committee meetings frequently, the nature and scope of audit and internal control systems were not discussed with them.

Attendance of Chairman of Audit Committee at Annual General Meetings (AGM)

3.16.12 As per sub Section 10 of Section 292A of the Companies Act, 1956, the Chairman of the Audit Committee shall attend the AGM of the Company to provide any clarifications on matters relating to audit. It was noticed that

the Chairman of Audit Committee of APHMEL, APPFC, SPDCL, NPDCL, and SCCL did not attend the AGMs conducted during 2004-07.

GENERAL

Maintenance of Statutory Registers/Books

3.16.13 Three PSUs viz. APTDC, LIDCAP and APHDC did not maintain the statutory books/registers stipulated by the Act like Register of Deposits, Register of Members, Register of charges, Register of Directors, Secretaries, etc., Register of contracts with Directors, Companies and firms in which the directors are interested, Register of share transfers etc., indicating the slackness on the part of the managements in complying with the provisions of the Act.

Appointment of Company Secretary

3.16.14 According to Section 383A of the Companies Act, 1956 all Companies having paid up share capital of Rupees 2 crore and above shall have a whole time Company Secretary. It was observed that out of the 23 PSUs having paid up capital of Rupees two crore or more, nine⁰ PSUs did not appoint whole time qualified Company Secretary.

Meetings of Annual General Meeting

3.16.15 On a combined reading of Sections 166 and 210 of the Companies Act, 1956 the AGMs are to be held on the earliest of the following dates:

- 15 months from the date of last AGM;
- The last day of the calendar year;
- Six months from the close of the financial year.

The earliest of the above happens to be six months from the close of the financial year. It was noticed that five¹, one² and two³ PSUs held the AGMs belatedly i.e. beyond six months from dates of close of financial years during 2004-05, 2005-06 and 2006-07 respectively.

To sum up

- The meetings of the Board were not held at regular intervals;
- The attendance of the directors at board meetings was low;
- Minutes book was not maintained as mandated;
- Directors' reports attached to Annual Reports were deficient;
- The frequency of Audit Committee meetings was low and
- The attendance of Chairman of Audit Committees at the AGMs was not regular.

⁰ APSAIDC, APSIDC, APMDC, LIDCAP, APBCL, APHDC, APFDC, APSMFC and APPFC

¹ APSAIDC, APSIDC, APMDC, APMDCL and APSTC

² APMDCL

³ APMDC and APMDCL

The above matters have been reported to Government in April 2007; their replies are awaited.

3.17 Delay in placement of Annual Reports before State Legislature

As per Section 619 A (3) of the Companies Act, 1956 where State Government is a member of a Company, the State Government shall cause an Annual Report on the working and affairs of the Company along with the Audit Report and comments of the Comptroller and Auditor General of India (C&AG) to be placed before State Legislature within three months from the date of Annual General Meeting (AGM) in which the accounts have been adopted. Annual Report consists of a report by the Board of Directors (BoD) on the working of the Company as required by Section 217 of the Companies Act, 1956, Annual Financial Statements for the year and Auditor's Report thereon with the comments/supplementary report of the C&AG. The placement of the Annual Report before the State Legislature gives it an opportunity to have important information regarding the performance of the Company in which the State Government is a major shareholder.

A review of the related records in respect of 28 working Public Sector Undertaking (PSUs) listed in **Annexure -31** revealed that the Annual Reports of most of the PSUs were either not placed or placed belatedly before State Legislature which was mainly due to delay in conducting AGMs. The delay in conducting AGMs was mainly due to delay in finalization of accounts.

It was observed that:

- *24 PSUs finalised their accounts for different periods during 2006-07. Out of these, the Annual Reports thereon of three Companies¹ duly adopted in AGMs were submitted to the Government during the period November 2006 to March 2007, but were not placed before Legislature. The Annual Reports adopted in AGMs of seven companies* were not submitted to the Government for placement before Legislature (March 2007).
- LIDCAP, APHDC, APTDC, APPFC, and NEDCAP did not submit the Annual Reports for the years 1997-98, 2000-04, 1996-05, 2002-04 and 1999-04 respectively to the State Government for eventual placement before the State Legislature.
- NEDCAP stated that due to delay in printing Annual Reports for the years 1999-2000 to 2003-04 were sent to State Government on 30 May 2007 for placement before the State legislature, though they were adopted on 27 April 2002, 22 July 2003, 22 July 2004, 28 January 2006 and 26 February 2007 respectively.
- APHDC stated that there was delay in adoption of Annual Accounts in AGMs due to administrative reasons and as such Annual Reports were not placed before the State legislature.

* except LIDCAP, NSF, APFTTDC and APSTC

¹ APIIC, APBCL and APHDC.

* APSIDC, APMDC, APMDCL, APPHC, APSCSC, APTDC and NEDCAP

There had been persistent delays in placement of the Annual Reports before the State legislature without any justifiable reasons.

- Though the accounts of APSCSC were finalised up to the year 2003-04, the Annual Reports for the period up to 2001-02 were only placed before the State legislature (February 2007). Though the accounts for the years 2002-03 and 2003-04 were adopted in AGM in March 2006 and September 2006 respectively, the printing of the Annual Reports was completed and forwarded to the State Government (September 2007) for placement before the legislature which were not placed so far (September 2007) even after a delay of 18 months from the date of adoption of accounts in AGM. Printing of the Annual Reports for 2003-04 was not completed (September 2007) and the same was not submitted to the State Government for placement before the legislature.
- APFTTDC adopted (March 2006) the accounts for the year 2004-05 but its Annual Reports were submitted to the Government in June 2007 and yet to be placed before the State Legislature (September 2007). The Annual Reports for the year 2003-04 were placed (May 2006) before the Legislature after a delay of six months from the date of adoption (August 2005) of accounts in AGM. Similarly APSPHC adopted (December 2005) the accounts for 2004-05 but submitted to the State Government for placement before Legislature after a delay of 10 months due to printing problem. The Annual Reports were placed before the Legislature on 27 November 2006 after a delay of 11 months from the date of adoption in AGM.
- APMDCL APSCSC and APSPHCL had placed their Annual Reports for the year 2000-02, 1999-02 and 2001-03 respectively after a delay of one year after adoption in the AGM.

The above matters have been reported to Government in April 2007; their replies are awaited.

Leather Industries Development Corporation of Andhra Pradesh Limited and Andhra Pradesh Heavy Machinery and Engineering Limited

3.18 Payment of penal damages and interest

Non-compliance with provisions of Employees Provident Fund & Miscellaneous Provisions Act, 1952 resulted in avoidable payment of interest and damages aggregating Rs.90.67 lakh.

Section 7 Q of the Employees Provident Fund and Miscellaneous Provisions (EPF&MP) Act, 1952 provides for charging interest for belated remittances from the employer for any delay in the deposit of employer and employees' share of contributions beyond the stipulated period of 15 days from the date of

closure of the month to which contribution relates. Section 14 B of the Act, envisages, recovery of damages as well.

A review of deposits in the provident fund (PF), pension fund, and deposit linked insurance subscriptions and contributions by two companies* revealed the following:

- APHMEL failed to deposit provident fund contributions, pension fund contributions and Employees Deposit Linked Insurance contributions relating to the period from April 1993 to December 2003 within the stipulated period, as a result of which, the Employees Provident Fund Commissioner (EPFC) from time to time demanded payment of Rs.1.05 crore by way of damages and Rs.31.10 lakh by way of interest. The Company had so far (December 2006) paid the interest in full and Rs.20.28 lakh towards damages. The request for waiver of balance amount of Rs.84.61 lakh towards damages is pending at EPF Commissionerate (March 2007).
- LIDCAP failed to deposit employees' subscriptions and employer's contribution aggregating Rs.31.03 lakh relating to the period 2001-04 within the stipulated period. As a result of this delay, the EPFC demanded payment of Rs.19.09 lakh towards damages (Rs.8.01 lakh) and interest (Rs.11.08 lakh). This was paid by the Company during the period 2004-06.

LIDCAP and APHMEL stated (September 2006/May 2007) that due to adverse financial position, the contributions could not be deposited in time.

The above two Public Sector Undertakings failed to comply with the provisions of EPF&MP Act, 1952 resulting in avoidable expenditure of Rs.90.67 lakh towards interest and damages for the belated deposit of PF dues.

The above matters have been reported to Government in April 2007; their replies are awaited.

Andhra Pradesh State Seeds Development Corporation Limited

3.19 Loss due to excess procurement

The Company procured groundnut seed for Kariff 2004 without considering the stock in hand. This led to procurement of excess quantity which was disposed at a loss of Rs.1.89 crore

The Andhra Pradesh State Seeds Development Corporation Limited (Company) deals in the sale of seeds of different kinds to farmers with or without subsidy. The State Government decided to procure and supply groundnut seed at subsidised rates during Kariff* 2004 mainly to tide over a situation where farmers could not retain their produce for seed purpose due to

• Andhra Pradesh Heavy Machinery and Engineering Limited (APHMEL) & Leather Industries Development Corporation of Andhra Pradesh Limited (LIDCAP).
• Kariff season starts from April to September

drought in Ananthapur, Kadapa and Chittoor districts. It directed (2 June 2004) the Company to procure 1,40,040 quintals of groundnut seed for sale to farmers taking into account the stock already available with the Corporation. In view of increasing demand for groundnut in Rayalaseema districts the State Government increased the allocation (7 June 2004) to 2,32,208 quintals.

The Company, instead of restricting the procurement to requirement taking into account the already available stock of 27,374 quintals of seeds, proceeded with ordering for a quantity of 2,32,540 quintals (May/June 2004). The Company procured (June/July 2004) 2,23,661 quintals of groundnut seed and together with its own stock of 27,374 quintals already in its sales depots, was able to position 2,51,035 quintals of groundnut seed for sale during Kariff 2004. Of this, 2,15,305 quintals of seed was sold (June/July 2004) to farmers on subsidy leaving a huge balance of 35,730 quintal groundnuts at the end of the season.

As the Company felt that maintenance of such huge quantities with viability and vigour involving storage and plant protection measures during storage period till the quantities are disposed of for seed purpose i.e. till Kharif 2005 (sales during May to July 2005) was a difficult task and financially unviable proposition, a quantity of 24,505 quintals of seed was sold as non-seed in auction held during December 2004 to March 2005 at a loss of Rs.1.89 crore. As the seed was sold as non-seed, the Company could not claim for the loss as subsidy from the State Government. It was observed that this loss could have been avoided *ab initio* if the Company had taken into account the stock of 27,374 quintals already in its sales depots, while making fresh procurement for the Kariff 2004 season.

The above matters have been reported to Government/Management in April 2007; their replies are awaited.

STATUTORY CORPORATION

Andhra Pradesh State Road Transport Corporation

3.20 Unfruitful investment

Wasteful expenditure of Rs.22.92 lakh on the construction of a new bus station.

Andhra Pradesh State Road Transport Corporation (Corporation) was operating its Bus Depot along with a Bus Station at Allagadda, Kurnool District, which was abutting National Highway on an existing land of 3.06 acres acquired by it in the year 1964. To meet further requirement of expansion of Bus Station and Depot, the Corporation acquired additional 1.75 acres and 3.25 acres of land in 1986 and 1989 respectively abutting the Bus Station. In August 1998 Corporation while considering the proposal of the then Member of Legislative Assembly (MLA) felt that the existing Bus Station with only three platforms was congested and decided to proceed with the establishment of a new Bus Station at Allagadda, in a separate land of two

acres donated by the MLA, which was around two kilometres away from the existing Bus Station. The construction of new Bus Station with four platforms was completed (April 2000) at a cost of Rs.12.65 lakh. However, the Bus Station so constructed was made operational only from October 2002, due to delay in receipt of permission from Corporation's Head Office. Subsequently, in February 2003 the Corporation went ahead with the construction of additional four platforms in new bus station at a cost of Rs.10.27 lakh. Construction of additional four platforms was completed (January 2004).

Later, on a direction (June 2004) from the State Government, which again was influenced by the representation of local MLA, Corporation shifted (June 2004) its operation from the new Bus Station to the old Bus Station.

Thus the decision of the Management to construct a new Bus Station based on extraneous considerations, delay in commencing the operations at new Bus Station and shifting back the operations from new Bus Station to old Bus Station again based on extraneous consideration has rendered the expenditure of Rs.22.92 lakh on the construction of new Bus Station wasteful.

The above matter was reported to Government/Management in December 2006; their reply is awaited (September 2007).

3.21 Loss due to non-utilisation of prime land

Land acquired for construction of a bus depot was kept vacant for over two decades and finally transferred back to the society without any compensation.

Andhra Pradesh State Road Transport Corporation (Corporation) acquired (September 1983) land measuring 4.45 cents in Jubilee Hills of Hyderabad city from Jubilee Hills Co-operative Society (Society) at a cost of Rs.2.85 lakh for construction of a Bus Depot.

The Corporation spent (between 1984 and 1995) Rs.12.80 lakh towards construction of compound wall, drilling bore well etc. Since 0.88 acre of land was covered by H.T Lines and 0.60 acre was under disputed ownership, the usable area left was reduced to 2.97 acres and considered too small for construction of a bus depot, prompting the Management to stop construction. The Corporation decided (September 1993) to utilize the site for a satellite depot or bus station at a later stage. The land was, however, kept vacant by the Corporation for twenty years (September 1983 to March 2003).

In the meanwhile, Andhra Pradesh Tourism Development Corporation Limited (APTDC) invited (August 2002) the Corporation to attend a meeting called by Chief Minister to resolve the issue of litigation between the Society and State Government since handing over of this land was part of the bargain to obtain land for the view tower proposed by APTDC. However, in the Nineteenth State Tourism Promotion Board meeting (November 2002), the Corporation was directed by the State Government to hand over the land to APTDC and the Government would pay the cost of the land together with interest to the Corporation but so far (September 2007) nothing has been paid by the Government. The Corporation handed over (March 2003) the land to

APTDC (at the instance of the Government), who in turn handed over (March 2003) the same to the Society.

Thus, due to Corporation's failure to utilize the land for over 20 years, the prime land valued Rs.12.92 crore (as at August 2005) had to be given back to the Society without receipt of any compensation either from the Government, APTDC or the Society.

The matter was reported to the Government/Management in May 2007; their reply is awaited (September 2007).

Andhra Pradesh State Warehousing Corporation

3.22 Avoidable loss

Loss of Rs.72.87 lakh due to erroneous fixation of handling and transportation rates

Andhra Pradesh State Warehousing Corporation (Corporation) acts as an agent of the State Government for storage of food grains on behalf of the Food Corporation of India (FCI) and transports them to the Public Distribution System nominated by FCI. Godowns for storing food grains are constructed under private/public partnership by allowing construction by private parties and entrusting the handling and transportation contract to those investor/godown owners at a discounted rate which is reimbursable by FCI. Under such private/public partnership the Corporation entered into an agreement (July 2002) with M/s. Avantika Contractors (Contractor) for Handling and Transportation Operations at Mancherial Investor godown for a period of two years. The rate agreed was 353.15 *per cent* above schedule of rates (ASOR). Erroneously assessing State Warehousing Corporation (SWC) godown at Peddapalli as the nearest godown in place of FCI Mancherial. The rates for FCI Mancherial was 660 *per cent* ASOR as compared to 353.15 *per cent* for SWC Peddapalli. The above rates were approved by FCI for reimbursement. Subsequently the Contractor contended (October 2002) that the nearest godown was taken erroneously as Peddapalli godown by the Corporation instead of FCI Mancherial and requested for revision of rates based on prevailing Mancherial rates.

The Corporation took up the matter (November 2002) with FCI for upward revision of rates to 660 *per cent* from 353.15 *per cent* ASOR. FCI turned down the increase in the rates stating that there was no scope for revision during the currency of the original contract. The payments were hence released to the contractor at the original rates. The contractor then filed writ petition (June 2003) in the High Court of Andhra Pradesh for revision of rate. The Honorable High court directed (July 2003) the Corporation to consider the request for payment at 660 *per cent* ASOR. Thus Corporation paid the differential amount of Rs.72.87 lakh for the period (July 2002 to December 2004), which was not reimbursed by FCI.

The Management while accepting the observation stated (October 2007) that the contractor godown was constructed for exclusive use of FCI stocks and the

Corporation was its Agent/facilitator for supervision only. Although FCI being a principal was required to support all legitimate actions of its Agent under the doctrine of vicarious liabilities, it did not come forward to endorse the isolated inadvertent action of the Corporation in finalising the negotiated rate of 660 *per cent* ASOR and thus driven Corporation to face the consequences which led to payment of difference of handling and transportation rate to the Contractor to the tune of Rs.72.87 lakh. The Management also stated that it had filed (2005) a writ appeal against FCI and the case is yet to come up for hearing. Management's reply confirms the audit observation.

Thus failure of the Corporation to conclude agreement considering the nearest FCI godown Mancherial instead of SWC godown at Pedappalli resulted in loss of Rs.72.87 lakh. No action has been initiated against officials responsible for the lapse.

The matter was reported to the Government in July 2007; their reply is awaited.

Andhra Pradesh State Financial Corporation

3.23 Information Technology Activities

Introduction

3.23.1 Andhra Pradesh State Financial Corporation (Corporation) was established in 1956 with the main objective of extending financial assistance to Tiny, Small Scale & Medium Scale sectors and service enterprises, in the form of term loans, working capital, equity participation etc for setting up industrial units.

IT activities in Corporation commenced in the year 1987 with the in-house development of application software in COBOL capable of capturing and batch processing of important data and generation of reports, centrally, for the end user. In the year 1995, the in-house team under Computer Services Department (CSD) developed a decentralised application package in FOXPRO, enabling branches to independently handle the accounting activities including processing and generation of reports. A pay bill package in FOXPRO was also developed and is being operated in Head office and all the 25 branches

The process of online computerisation in Corporation commenced in the year 1998 with the formation of a "Total online computerisation committee". The objectives of implementation of on-line computerisation were, inter alia, networking of all the branches, easy flow of information, data integrity, facility of easy monitoring of various operations like sanctions, disbursements and recoveries at each branch office, business analysis and quick decision making. Audit of IT activities in the Corporation with particular reference to 'Total online computerisation project revealed the following.

Improper selection of the vendor

3.23.2 The Corporation initially envisaged the on-line computerisation project based on a small branch centric database system on workgroup model with file transfers and batch updates to HO. The entire project was divided into three Phases A, B and C for expeditious implementation.

It was observed in audit that the Corporation had identified eleven consultants who had experience in computerisation of banks and financial institutions. Quotations were received (December 1998) from two consultants short-listed from the identified consultants. The cost quoted by these consultants was Rs.74.5 lakh (CMC) and Rs.41.5 lakh (TCS). As per the consultants, the work of development of software would be completed in 13 months.

In February 1999, Kensoft Infotech Ltd, (Kensoft) Bombay, who were not among the above eleven, were invited to present their strengths in developing software for Corporation. Subsequently, in March 1999, Kensoft quoted Rs.42.00 lakh for the work. Though the quotation of Kensoft was not received in the normal course and was also not the lowest, the contract was awarded to them, primarily because of the assurance made by the vendor that

- The project would be completed in eight months i.e., by December 1999 as against 13 months quoted by the other two
- Both hardware and software for information kiosk, website and video conferencing worth Rs.5 lakh would be provided free of cost

It was observed that contrary to the above assurance, the application software, which was to be completed by December 1999, was not completed and implemented as envisaged. Further, the cost of Rupees five lakh for information kiosk and video conferencing equipment was included in the quotation/total cost of the purchase order thus defeating both the justifications of awarding the contract to the vendor.

Enhancement of scope of the project with out feasibility study

3.23.3 Even before the project was implemented at the branches and based on the appreciation and encouragement received from the Chief Minister (November 2002) and as further development progressed, the Corporation envisaged that a revised strategy be implemented to evolve a centralised enterprise system. The scope of the project was diversified and the cost was revised from Rs.42 lakh to Rs.67 lakh. The justification for increase in the cost was stated to be increase in the number of programmes units under all the modules, which went up from initially envisaged 66 to 325. A revised agreement was entered into with the same vendor (December 2002) with the target date of completion as October 2003.

Audit observed that:

- The results of a feasibility study for development and possibility of implementation of the revised strategy/application software were not on record.
- The increase in the number of programme units in the Accounts module - the only module made operational (in April 2007) - was the

least. Other modules, wherein the increase in number of programme units was more, are yet to be implemented (September 2007).

- The large increase in the scope of work also point out that no estimation was done beforehand.

Non-achievement of the Objectives of on-line computerisation

3.23.4 Audit observed that though project was split into three phases even Phase A was not implemented completely as planned; in spite of eight years of planning and incurring of expenditure of Rs.5.81 crore (Rs.35 lakh towards development + {4.29 crore on Hardware and other Capital costs and Rs.1.17 crore towards Revenue Expenditure} up to 2003-04).

Though the TOC was constituted to oversee the online computerisation project, they were not effective in that they could not ensure the implementation of the project as originally envisaged. It was also observed that the teams constituted with specific tasks could not ensure implementation as per the revised schedule.

Absence of Corporate Policies on IT

3.23.5 Though the IT activities in the Corporation commenced in the year 1987, there were no formulated and documented IT Policies in place. Audit observed that the corporation does not have a documented Business continuity and Disaster recovery plan, IT security policy, password policy etc.

Incomplete Data porting

3.23.6 Audit observed that the data porting from the legacy FOXPRO package was not complete even to date and there were blanks in crucial information like transaction branch, sanction branch, consortium details, contact telephone number, contact person, factory location, borrowers category, loan purpose, required amount, sanctioned amount, disbursed amount, rate sanctioned, rate effect, period of loan (repayment), collateral security, total capital/Initial capital.

Inadequate validations and inconsistencies in data

3.23.7 Analysis of data revealed the following inconsistencies and inadequate validations.

- In 29 cases, the total disbursement of loan amount was more than required loan.
- Though loan would not be disbursed before appraisal, the data base indicated that in all the 18545 cases where loans were disbursed, appraisal was not completed.
- The data indicated that in 57 cases (between the period January 2006 and June 2007), the loan was sanctioned even before it was sought by the loanee i.e., the date of sanction of loan preceded the date of receipt of application from the loanee.
- Loan was sanctioned without any interest thereon in 195 cases relating to the year 2007.

- Though the maximum period of loan is eight years, in 839 cases the repayment period was indicated as more than eight years ranging between 9 and 98 years.
- Though loans are disbursed against a certain percentage of Collateral Security, in 17903 cases, it was not recorded at all.
- As per norms, loans are to be normally disbursed within seven days from the date of receipt of application. However, in 909 cases the process time (delays) was found to be abnormal ranging between 31 to 5397 days (time between date of receipt and date of sanction).
- In 1243 cases relating to general vouchers, the cheques were recorded as returned (dishonoured). However, in all the above cases the cheques were indicated as 'cleared', which is not possible.
- Further, out of the above 1243 cases, in 42 cases, it was indicated that appropriation to respective loan accounts was also done.
- To ensure security and avoid misuse, the user entering the voucher details should be different from the one authorising the transaction.

However, it was noticed that in respect of 85,762 the user entering the details and the user authorising the transaction were the same. Out of the above, amounts paid in 26,482 cases was appropriated to their loan accounts.

The matter was referred to the Government/Management in October 2007; their reply is awaited.

Conclusion

Though the corporation commenced automation in 1987, they have not yet formulated IT Plan/Strategy. Business Continuity and Disaster Recovery Plans are yet to be documented. Though a TOC committee was constituted to oversee the online computerisation project in 1998 and special teams for User Acceptance Testing in 2002 for expediting the online computerisation project, it could not implement the project. The selection of vendor was not as per procedures. The project was taken up without a proper feasibility study, cost benefit analysis and identifying the requirement of application software, commensurate with activities and size of the corporation. In the application software so far developed, there were inconsistencies in data captured. No documented plan exists on the target date by which the integrated package would be implemented. In spite of working on the project for eight years and spending Rs.5.81 crore, the Corporation could not achieve the desired benefits of implementing an IT system.

General**3.24 Follow up action on Audit Reports***Explanatory Notes Outstanding*

3.24.1 Audit Reports of the Comptroller and Auditor General of India represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various offices and departments of Government. It is, therefore, necessary that appropriate and timely response is elicited from the Executive on the Audit findings included in the Audit Reports. Finance Department, Government of Andhra Pradesh issued (June 2004) instructions to all Administrative Departments to submit explanatory notes indicating corrective/remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Though the Audit Reports for the years 1992-93 to 2005-06 were presented to the State Legislature between March 1994 and March 2007, 11 out of 14 Departments did not submit explanatory notes on 93 out of 327 paragraphs/reviews as on September 2007 as indicated below:

Year of the Audit Report (Commercial)	Date of presentation to State Legislature	Total Paragraphs/ Reviews in Audit Report	No of Paragraphs/ reviews for which explanatory notes were not received
1992-93	29-3-1994	36	1
1993-94	28-4-1995	25	2
1995-96	19-3-1997	28	7
1996-97	19-3-1998	29	2
1997-98	11-3-1999	29	10
1998-99	3-4-2000	29	8
1999-2000	31-3-2001	24	10
2000-01	30-3-2002	21	6
2001-02	31-3-2003	23	9
2002-03	24-7-2004	16	3
2003-04	31-3-2005	21	12
2004-05	27-3-2006	23	11
2005-06	31-03-2007	23	12
Total	--	327	93

Department-wise analysis of reviews/paragraphs for which explanatory notes are awaited is given in **Annexure -32**. Majority of the cases of non

submission of explanatory notes relate to PSUs under the Departments of Energy and Industries and Commerce.

Compliance to Reports of Committee on Public Undertakings (COPU)

3.24.2 Action taken Notes (ATNs) on recommendations of the Committee on Public Undertakings (COPU) are required to be furnished within six months from the date of presentation of the Report to the State Legislature. ATNs on 694 recommendations pertaining to 41 Reports of the COPU presented to the State Legislature between April 1991 and March 2007 had not been received as on September 2007 as indicated below:

Year of COPU Report	Total number of Reports involved	No of Recommendations where replies not received
1991-92	1	3
1992-93	7	279
1993-94	5	136
1995-96	1	30
1996-97	1	2
1997-98	2	38
1998-99	3	19
2000-01	13	118
2002-03	2	16
2004-05	4	36
2005-06	2	17
Total:	41	694

The replies to recommendations were required to be furnished within six months from the date of presentation of the Reports to the State Legislature.

Response to inspection reports, draft paragraphs and reviews

3.24.3 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and departments concerned 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 2007 pertaining to 35 PSUs disclosed that 3,560 paragraphs relating to 1,188 inspection reports remained outstanding at the end of September 2007. Of these 225 inspection reports containing 716 paragraphs had not been replied to for one to 13 years. Department wise break-up of Inspection reports and audit paragraphs outstanding as on 30 September 2007 is given in **Annexure -33**.

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 19 draft paragraphs and two reviews forwarded to the various departments during December 2006 to September 2007 as detailed in **Annexure -34** had not been replied to so far (October 2007).

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

Hyderabad
The

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The

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