

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

The Singareni Collieries Company Limited

3.1 Loss of interest income due to premature sale of bonds

Sale of high interest yielding bonds to discharge low interest bearing loans resulted in net loss of interest income of Rs.28.48 crore

In settlement of coal supply dues, AP Transco allotted (27 March 2000) to the Company, bonds valued at Rs.437 crore (face value: Rs.100 each) carrying interest rate of 13 *per cent* per annum. These bonds would be due for maturity on 26 March 2007.

The Company during the period between May 2002 to December 2002 sold bonds valued at Rs.163 crore prematurely at a premium of 1.30 to 1.91 *per cent*; out of the sale proceeds, Rs.116.66 crore were utilised to discharge prematurely the outstanding loans with Indian Bank (one loan) and Standard Chartered Bank (two loans) carrying interest at rates ranging from 11.125 to 9.5 *per cent* per annum. Audit observed that the disposal of bonds for premature discharge of bank loans was not a prudent decision as the bonds were carrying higher rate of interest and interest on bank loans was payable on diminishing balances. The premature discharge of outstanding loans carrying lower rate of interest by disposing bonds earning higher rate of interest resulted in loss of interest earnings of Rs.45.86 crore (over the period of the bonds), being the difference between interest receivable on bonds less premium earned and interest payable on loans as per repayment schedule with the banks.

Government while endorsing the reply of the Company stated (August 2004) that the sale of bonds had not caused any loss of revenue if the income tax benefit would be taken into account; the impact of tax was also considered while analysing the cost benefit of sale of bonds to repay the outstanding loans prematurely.

The reply is not tenable for the reasons that:

- no cost benefit analysis was carried out by the Company before taking a decision for sale of bonds to discharge outstanding loans prematurely,
- availability of tax rebate cannot be an excuse for disposing high rate of return earning bonds to discharge loans carrying low rate of interest, and
- even if the tax benefit (at 35.875 *per cent*) is considered, the net loss of interest revenue due to premature sale of bonds works out to Rs.28.48 crore.

Central Power Distribution Company of Andhra Pradesh Limited

3.2 Avoidable extra expenditure on procurement of energy meters

Purchase of 2.55 lakh meters on repeat order basis resulted in an avoidable extra expenditure of Rs.9.58 crore.

Transmission Corporation of Andhra Pradesh Limited (AP Transco) decided (July 2001) to include energy meters as one of the items to be procured centrally by them for all the four power distribution companies. Accordingly, AP Transco floated tenders in September 2001. Subsequently the Company had also invited (November 2001) tenders in two parts viz., technical bids and price bids for supply of six lakh LT high quality single-phase meters. The technical bids were opened on 22 December 2001. The price bids were opened on 29 August 2002 after receiving information that the tenders floated by AP Transco were cancelled. As per the purchase manual, the maximum time allowed for evaluation of bids was four weeks.

On the grounds of urgency, the Company placed six repeat orders in April 2002 and three repeat orders in May 2002 for supply of 2.25 lakh single phase meters (Rs.672.88 per meter) and 0.30 lakh three phase meters (Rs.4,108 per meter) respectively. The orders were placed on the firms which had supplied meters earlier in 2000-02. Audit observed that the lowest rate obtained in the bids called for in November 2001 and opened on 29 August 2002 for single and three phase meters was Rs.602.17 and Rs.1,445.62 respectively. The delay on Company's part in finalising the technical bids opened in December 2001 had therefore, resulted in avoidable extra expenditure of Rs.9.58 crore in the purchase of 2.55 lakh single and three phase meters.

Government stated (May/August 2004) that the Company waited for the outcome of the tenders floated by AP Transco in September 2001 and only after cancellation of tenders by AP Transco in June 2002 steps were taken for processing the tenders floated by it. The reply is not convincing as having

called tenders, the Company should have ascertained the stage of finalisation of tenders by AP Transco so as to advance the process of finalisation of tenders called by it. The Company placed the repeat orders in April/May 2002 while AP Transco cancelled the tenders called by it in June 2002 which indicated that it acted on its own without waiting for the outcome of the tenders called by AP Transco.

Northern Power Distribution Company of Andhra Pradesh Limited

3.3 Extra expenditure on purchase of three phase meters

The company purchased 12,500 meters at an extra expenditure of Rs.2.85 crore without following tendering process and ascertaining the rates from sister concerns.

The Company estimated (November 2002) the requirement of 18,000 high quality three phase meters for replacement of old and defective energy meters and for releasing of new services. In order to meet the urgent requirement, the Company placed (November 2002) a repeat order for supply of 5,500 meters at Rs.3,950 per meter on existing suppliers.

Without calling fresh tenders for procurement of balance 12,500 meters, Managing Director of the Company decided (June 2003) to purchase this quantity at Rs.3,722 per meter; being the rate contracted by a sister concern (EPDCL[@], Visakhapatnam). Accordingly, the Company released (August 2003) three orders on three firms for supply of 12,500 meters at a total value of Rs.4.65 crore. Audit observed that another sister concern of the Company (CPDCL[#], Hyderabad) during the same period had purchased (February–October 2003) the meters of same specifications at Rs.1,446 per meter. One of the suppliers (TTL Limited, Delhi), which was common for the Company as well as CPDCL, supplied 1,136 numbers of meters to the Company at the rate of Rs.3,722 per meter which were higher by Rs.2,586 per meter.

Thus, the Company should have either followed tendering process to obtain competitive rates or ascertained the purchase rates from the remaining two sister concerns (CPDCL & SPDCL[§]) also before deciding upon procurement of the balance quantity of 12,500 meters. Compared with the rate paid for the same type of meters by CPDCL, purchase of 12,500 meters by the Company at Rs.3,722 per meter resulted in an extra expenditure of Rs.2.85[♦] crore.

[@] Eastern Power Distribution Company of Andhra Pradesh Limited.

[#] Central Power Distribution Company of Andhra Pradesh Limited.

[§] Southern Power Distribution Company of Andhra Pradesh Limited.

[♦] (Rs.3722-Rs.1446)X12500.

Government stated (July 2004) that:

- even if tenders were floated the suppliers would have quoted the then prevailing market rates,
- supplies of TTL Limited were of superior quality, and
- consumption recorded by these meters was more by 10 *per cent* when compared to ordinary meters.

The reply is not tenable as:

- CPDCL was able to get very competitive rates in the tender floated by them,
- there was no difference in the quality and specification of supplies made to CPDCL and to the Company by TTL Limited,
- meters of same specifications were purchased from other two suppliers,
- meters supplied to CPDCL by TTL Limited were giving satisfactory service without any complaints on grounds of quality, and
- there was nothing on record to substantiate the recording of consumption more by 10 *per cent* when compared to conventional meters.

3.4 Loss of revenue due to incorrect application of tariff

The Company suffered loss of revenue of Rs.1.41 crore due to incorrect application of tariff. Further dues amounting to Rs.25.62 crore were written off without proper justification.

Guidelines for billing and collection are issued by Andhra Pradesh Electricity Regulatory Commission (APERC) from time to time. As on 31 March 2004, there were five categories of consumers under HT and eight categories of consumers under LT. As on 31 March 2003, the revenue earned by the Company was Rs.1,049.37 crore and the dues for recovery amounted to Rs.380.18 crore which represented 36.3 *per cent* of revenue earned for the year. Audit observed that the dues outstanding for the year ending 2002-03 was the highest in the Company when compared with three other power distribution companies. The main reasons for the accumulation of dues were lack of adequate pursuance and delay in disconnection of services for non-payment.

During the review of billing and collection in respect of HT and LT consumers, the following irregularities/deficiencies were noticed:

Incorrect application of tariff for HT consumer

3.4.1 As per tariff orders in vogue, railway stations fall under category of HT-II. Warangal circle office billed the Dornakal railway station under HT-II category up to 14 March 1993. Due to change in the categorisation of

HT consumers with effect from 15 March 1993, the Dornakal railway station was classified under HT-VI category for which the applicable tariff was less than that applicable to HT-II category of consumers. With effect from 1 January 1999, HT-VI category tariff was made applicable to consumers under HT-I to HT-V category and bulk domestic consumers who use high tension supply exclusively for townships, residential colonies, etc., on the condition that the connected load for such use was within 20 per cent of the total connected load.

Non-domestic/commercial load of the Dornakal railway station exceeded 20 per cent of the total connected load; but the classification of the service had not been changed to HT-II category. As a result the service continued under HT-VI category even after change of terms and conditions of supply with effect from 1 January 1999. This resulted in short collection of energy charges by Rs.1.04 crore for the period from January 1999 to March 2004.

Government replied (October 2004) that the connected load of the service would be verified once again and action would be taken to revise the bills.

Extension of low tension tariff to ineligible consumers

3.4.2 With effect from 1 January 1999, small scale industrial units drawing low tension supply were classified under two categories under LT-III(A) Industrial- normal and LT-III(B) Industrial-optional. All small scale industrial units whose connected load was above 75 HP were to be brought under HT-I category for the purpose of billing. However, industries with a connected load of above 75 HP and up to 150 HP were allowed the option of billing under LT category of tariff (LT-III(B)) subject to fulfillment of following main conditions:

- If the recorded demand exceeds connected load of 150 HP, such excess load shall be billed at HT-I category tariff.
- Consumer shall erect his own distribution transformer and take care of its maintenance.
- Consumer shall furnish a SSI registration certificate and a declaration on a stamp paper about connected demand.

The following observations are made:

3.4.3 In Warangal circle, 23 industrial services having connected load of 75 HP to 150 HP were being billed under LT-III(B) category without ensuring compliance with above conditions. In the absence of compliance with stipulated terms and conditions, the services should have been billed under HT-I category. Failure to do so resulted in short billing of revenue of Rs.36.70 lakh for the period from March 2000 to March 2004.

3.4.4 In Karimnagar circle, 109 industrial consumers having connected load of 75 HP to 150 HP were also being billed under LT-III(B) category. Audit observed that 100 out of 109 consumers have not fulfilled the stipulated conditions rendering them ineligible for the benefit of billing under LT-III(B)

category. The loss of revenue due to incorrect application is not readily quantifiable.

Management explained (October 2004) during the ARCPSE meeting that case to case study would be carried out and the outcome would be intimated to Audit.

Write off of sundry debtors

3.4.5 On the basis of verification reports received from field offices, the Board of Directors approved (September 2003) write off of Rs.108.85 crore being the dues outstanding against 2.22 lakh consumers. Audit observed that while carrying out adjustments for the amount approved for write off, the field offices under the jurisdiction of Karimnagar and Warangal circle offices committed number of irregularities; the details thereof are indicated in **Annexure-13**. The nature of irregularities committed were briefly as follows:

- Write off of dues without approval of competent authority (Rs.4.66 crore).
- Write off of dues recoverable from live services (Rs.16.82 crore).
- Write off of fictitious receivables (Rs.2.90 crore).
- Non-adjustment of security deposit against the arrears written off in accounts (Rs.0.97 crore).
- Write off of Government dues (Rs.27.04 lakh).

Non-reconciliation of ledger figures

3.4.6 Consumer ledger contains details of consumer-wise demand, collection and balance outstanding at the end of each month while financial ledger contains demand, collection and balance in a consolidated form. It was noticed that the reconciliation of figures appearing in these two ledgers was not regular and prompt. Check of balances appearing in consumer and financial ledger to the end of February 2004 revealed differences as shown below:

(Rupees in crore)			
Details	Balance as per consumer ledger	Balance as per financial ledger	Difference
Sundry debtors for sale of power	671.51	605.80	65.71
Sundry debtors of electricity duty	6.29	7.37	(1.08)

Thus, in the absence of reconciliation of figures at regular intervals, correctness of receivables booked in accounts was not susceptible to verification.

Management during ARCPSE meeting (October 2004) indicated that efforts were on to reconcile the differences and a report would be submitted in due course.

Non-revision of billing slabs

3.4.7 Slabs for determining monthly and bi-monthly billing fixed in July 1996 were not reviewed/refixed even though rates of tariff were increased year after year. A test check by Audit of bi-monthly billed services (Rs.950 and above per service) for the period from January 2003 to February 2004 revealed, that by billing these services under monthly billing system revenue of Rs.3.10 crore would have been realised in advance with a resulted saving of interest charges of Rs.30.60 lakh. Thus, in order to have the benefit of increased cash flow and also to reduce dependence on borrowings the slabs for billing needs to be revised/refixed.

Government agreed (October 2004) to examine the feasibility and economics of converting bi-monthly to monthly cycle of billing.

Transmission Corporation of Andhra Pradesh Limited

3.5 Purchase of power from co-generation plants
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Undue benefit of Rs.6.94 crore was extended to promoters of co-generation plants by purchasing surplus power without any contractual obligation.

AP Transco wheels power produced by co-generation plants and non-conventional energy sources either for captive consumption of the producer or for third party sales in terms of a Power Purchase Agreement (PPA) or Power Wheeling Agreement (PWA) entered into with them. As per provisions of the PPAs/PWAs, buy back of the power and banking* of power by the power generators (PGs) for future use is also allowed. Wheeling and banking charges were collected in kind at two *per cent* of the power wheeled or banked from the PGs. The Company had entered into 45 PPAs/PWAs with PGs of co-generation and biomass power plants. The purchase price of power generated by non-conventional energy sources was fixed (November 1994) by Government of India at Rs.2.25 per unit plus 5 *per cent* annual increase with 1994-95 as base year.

During the period from 1999-2000 to 2003-04 (up to December 2003) the Company purchased 825.5 million units of power at a cost of Rs.277.87 crore from 18 PGs. As against an average realisation of Rs.1.26 to Rs.2.06 per unit of energy sold during the period from 1999-2000 to 2003-04 the cost of purchase from co-generation ranged from Rs.2.87 to Rs.3.48 per unit for the same period. Compared with average realisation per unit of energy sold, the purchase of 825.5 million units resulted in a deficit of Rs.109.27 crore.

* means keeping in reserve.

A general review by audit of PPA/PWAs entered into with co-generation plants revealed the following deficiencies and shortcomings:

3.5.1 PPA (subsequently changed to Power purchase and wheeling agreement) entered into with Sudalagunta Sugars Limited (PG) in March 1998 was amended in January 2000 providing for banking of energy not allocated to any scheduled[#] consumer by the PG and/or the energy not used by scheduled consumers in a billing month. Such banking arrangement shall be valid for the tariff year i.e. one year from the commencement of commercial production. However, such banked^{##} energy would be wheeled during August to March of the succeeding tariff year in regard to third party sales and for all 12 months for captive consumption and any net banked energy not subjected to wheeling in succeeding tariff year shall lapse to AP Transco. There was no provision in Power Purchase and Wheeling Agreement (PPWA) for purchase of banked energy by AP Transco. Contrary to this, AP Transco purchased 1.47 crore units of banked energy (up to December 2003) from the PG at Rs.3.48 per unit (value: Rs.5.07 crore). The purchase of banked energy by the Company helped the PG to avoid lapsing of banked energy as per terms of PPWA. Thus, the purchase of banked energy from the PG resulted in showing undue favour to them, as there was no obligation on the part of the Company to purchase the same from them.

Management/Government stated (June/July 2004) that the PG had requested for change of scheduled consumers duly incorporating HT-II consumers and as such it took a conscious decision against incorporation of HT-II consumers for third party sales and purchased the banked energy thereby deriving the benefit of difference in tariff. The reply is not tenable as there was no evidence to show that the PG had requested for change of scheduled consumers to HT-II category and the authority to approve such changes in the list of scheduled consumers rests with Andhra Pradesh Electricity Regulatory Commission and not with AP Transco.

3.5.2 PWA with Jyothi Bio-energy Limited (JBEL) and Sree Rayalaseema Green Energy Limited (SRGEL) provided for banking of any part of unallocated and/or unutilised energy by scheduled consumers in a billing month. The allocated energy not consumed by any scheduled consumer, if any, in any month is allowed for banking for eventual wheeling in subsequent months. Contrary to this, the Company at the instance of PGs purchased 24.79 lakh units (from SRGEL) of such unutilised energy without any allocation in April and May 2002 and 0.63 lakh units in excess of actual allocation (from JBEL) in April and May 2003 at Rs.3.32/Rs.3.48 per unit. Thus, purchase of 25.42 lakh units of unallocated energy (value: Rs.0.87 crore) without any contractual obligation tantamounted to extension of undue benefit to the PGs.

[#] Consumers of AP Transco to whom wheeled energy is desired by the Developer to be wheeled by AP Transco.

^{##} Delivered energy in excess of energy required to be wheeled by AP Transco to the scheduled consumers in a billing month.

Management/Government stated (June/July 2004) that it had noticed the discrepancy in furnishing schedule of allocation by the PGs for wheeling to scheduled consumers and purchased the surplus power as per contractual obligation. The reply is not correct, as there was no contractual obligation as such under the terms of PWA to buy the surplus power.

Andhra Pradesh State Housing Corporation Limited

3.6 Borrowing for construction of Individual Sanitary Latrines

Reimbursement of Rs.30.15 crore being the housing scheme funds diverted for individual sanitary latrine project sponsored by State Government was not received.

With a view to facilitate implementation of Individual Sanitary Latrine (ISL) project (6.60 lakh latrines in rural areas) formulated by the State Government, the Company obtained (March 1999) sanction for a loan of Rs.98.96 crore from HUDCO repayable in seven years in quarterly instalments at 13.5 *per cent* interest per annum. The executing Agencies at the field level for implementation of the project were Panchayat Raj and Rural Development department. The overall supervision of the project in the district was done by District Collectors. As per Government Orders, funds for the project were to be placed at the disposal of executing agencies, viz., District Collectors by the Company.

During the period from March 1999 to February 2000, the Company drew Rs.74.22 crore from HUDCO. The balance amount of Rs.24.74 crore was not drawn due to short closure (June 2002) of the project. The Company released Rs.69.90 crore to the executing agencies, Rs.1.04 crore paid to HUDCO towards front-end fee and commitment charges and the balance Rs.3.28 crore was kept unutilized.

During the period from June 1999 to March 2004, the Company paid Rs.100.75 crore to HUDCO towards repayment of loan (Rs.74.22 crore) and interest (Rs.26.53 crore) in 20 quarterly instalments. Out of Rs.100.75 crore paid to HUDCO, the Company received Rs.66.69 crore from the Government and the balance Rs.34.06 crore representing seven quarterly instalments relating to June 1999 to March 2000 and September 2000 to March 2001 was not received so far (September 2004). Audit noticed that the Company had diverted the funds needed for making the payment of above seven instalments to HUDCO out of funds earmarked for execution of housing schemes. After adjusting unutilised loan of Rs.3.28 crore and Rs.0.63 crore being the refund of unspent balances by two, out of 22, district collectors, Rs.30.15 crore still remained (September 2004) to be received from State Government. The delay in receipt of this amount from Government resulted in loss of interest (at 10 *per cent* per annum, being the average rate of borrowing by the

Company) of Rs.10.55 crore for the period from April 2001 to September 2004.

Government replied (July 2004) that the reimbursement depends fully on the policy and fiscal position rather than the request of the Company. The reply is not tenable as the Company was a loan drawing agency and not implementing agency and repayment of HUDCO loan for the project by the Company out of borrowed funds was not justified.

3.7 Construction of housing colony

Construction of housing colony without financial tie up and commitment from sponsoring agency resulted in locking up of Rs.2.23 crore in unallotted/unfinished houses.

With a view to evacuate and rehabilitate encroachers from land belonging to Airport Authority of India (AAI), State Government sanctioned (1996-97) a scheme for construction of 2,958 houses at unit cost of Rs.30,000 per house at Kukatapally; the total outlay being Rs.8.87 crore. It was envisaged that the evacuation of encroachers would result in retrieving 65 acres of land. As per administrative sanction (March 1998) the scheme was to be completed by February 1999 with mobilization of funds from financial institutions (FI).

AAI released (September 1997) Rs.1.25 crore towards cost of civic amenity works. Since the unit cost of Rs.30,000 per house was found insufficient for completion of the house in all respects, Company/Government sent (February 1998) proposal to AAI seeking funds to the tune of Rs.10.12 crore. AAI did not evince further interest in the project since it was decided to build the airport elsewhere. The targeted beneficiaries were, therefore, not evacuated from the earmarked land.

Without any firm commitment from AAI and without mobilising loans from FI, the Company in 1998-99 took up the scheme with funds relating to other housing schemes. Since unit cost was insufficient, construction of only RCC frames without walling was taken up. Construction of frames for 2,076 houses, out of 2,958 houses sanctioned, was taken up, of which, frames for 1,823 houses were completed (May 2002) and frames for 253 houses were in-progress (March 2004). The total expenditure incurred on these framed structures and infrastructure was Rs.4.91 crore.

State Government, in the meantime, decided (July 2002) to rehabilitate about 450 families of a slum (Santh Nirankarinagar (SNN) Colony) who had occupied land meant for Metro Rail Project. In order to provide shelter to these displaced families, on instructions from State Government, the Company took up walling for 540, out of 1,823, houses (at Rs.20,000 per house) lying unfinished. The cost of civic amenity works was met out of funds provided by Metro Rail authorities. As a result of taking up walling work, the unit cost of the house was revised from Rs.30,000 to Rs.50,000.

The walling work of 540 houses was completed during 2002-03 departmentally at an additional expenditure of Rs.1.08 crore. As of March 2004, 502 of these houses were allotted to the displaced persons of SNN colony and other slums. No further developments were noticed for completion of construction and allotment of houses already completed to alternative beneficiaries (September 2004).

Thus, the execution of the scheme with inordinate delay, without any financial tie up and firm commitment from AAI for financial support, resulted in locking up of funds to the tune of Rs.2.23 crore (excluding Rs.1.25 crore received from AAI towards infrastructure) in 1,574 unallotted/unfinished houses.

Management confirmed (June 2004) the facts.

3.8 Extension of one time settlement scheme benefit to ineligible beneficiaries

One time settlement benefit was extended to ineligible beneficiaries resulting in forgoing interest revenue of Rs.15.02 lakh.

With a view to improving loan recoveries, the Company with the approval of State Government introduced (January 1999) one time settlement scheme (OTS) under which interest due is waived if the principal amount is paid in full by the beneficiaries. The scheme was initially allowed to beneficiaries of urban housing schemes executed by the erstwhile Andhra Pradesh Urban Development and Housing Corporation (APUD&HC), which was merged with the Company on 1 April 1997, and also to urban housing schemes taken up by the Company prior to the formation (August 1989) of APUD&HC. Later, the OTS was also extended (July 2001/September 2002) to beneficiaries of rural and special housing schemes completed up to 1997-98. The time for availing of the benefit under different housing schemes was extended from time to time up to March 2004.

Audit scrutiny of records of 10 district offices of the Company revealed that OTS benefit was extended to 434 beneficiaries of urban, rural and special housing schemes of 1998-99 to 2000-01 and shelter upgradation schemes which were not covered by OTS. As beneficiaries of urban housing schemes executed up to 1996-97 and other housing schemes executed up to 1997-98 were alone eligible for OTS benefit, extension of the same to beneficiaries of housing schemes executed beyond the cut off period was not correct. Thus, as a result of extension of OTS benefit to ineligible beneficiaries, the Company had forgone interest revenue of Rs.15.02 lakh.

The matter was reported to Company/Government in April 2004; their replies were awaited (September 2004).

3.9 Idle investment on construction of a model block at Bhimavaram

Construction of 32 flats by the Company without observing formalities rendered investment of Rs.43.65 lakh idle.

State Government accorded (August 1999) administrative sanction for construction of 912 LIG flats under township housing project at Bhimavaram at a unit cost of Rs.72,400 per flat and authorised the Managing Director of the Company to mobilise loan from HUDCO for implementation of the project. These flats were to be allotted to beneficiaries with an income limit of Rs.30,000 per annum. The main objective in taking up this project was to rehabilitate families affected by road widening programme.

The West Godavari District Office had forwarded (July 2001) the project report to the Head Office for approval. The project report envisaged revision of unit cost of each flat to Rs.1.31 lakh. Without waiting for the approval of the revised unit cost by the State Government, the West Godavari District Office of the Company started (June 2001) construction of one model block comprising 32 flats departmentally at an outlay of Rs.38.40 lakh. The District Office completed the construction of the model block of flats by March 2003 at a cost of Rs.43.65 lakh. Remaining 880 flats were not taken up for construction.

Audit observed that the expenditure on construction of these flats was met out of funds meant for other housing schemes, and no action was taken to mobilise funds from HUDCO. In view of reluctance of banks to extend loan facility to beneficiaries without guarantee either from Government or Company, beneficiaries of lower income group families did not come forward for allotment. The Company, therefore, approached (July 2003) the Andhra Pradesh Housing Board for taking over these flats for auctioning. There was no further development in this regard (July 2004). It would be observed that the construction of the model block by the District Office rendered investment of Rs.43.65 lakh idle without any return for over one year, besides frustrating the objective for which these flats were constructed.

Management stated (June 2004) that the matter was under correspondence with Housing Board for disposal of the flats already constructed.

The matter was reported to Government in April 2004; their replies had not been received (September 2004).

**Andhra Pradesh State Film, Television and Theatre
Development Corporation Limited**

3.10 Sale of land to an entrepreneur at a rate less than the market rate

Land was allotted to an entrepreneur without considering either market rate or the rate offered to another entrepreneur resulting in loss of revenue of Rs.7.25 crore.

The Company invited (April 1991) applications for allotment of land from entrepreneurs who desired to develop different infrastructure units for film industry. In response, the Company received 139 applications either for allotment of land and sanction of loan or for sanction of loan alone. Anand Cine Services (ACS) was one of the applicants who applied for allotment of 12 acres of land. When the Company offered (November 1997) land at Rs.700–Rs.800 per square yard, ACS requested the Company to consider the cost of land on the same lines of allotment given to other infrastructural units earlier.

The Board of Directors of the Company approved (June 1999) to allot an area not exceeding one acre (4,840 square yards) of land to ACS for setting up an outdoor unit. After a lapse of two years, Managing Director of the Company after discussions with State's Chief Minister, proposed (June 2001) allotment of five acres of land to ACS on the same conditions as the allotment of land made to Padmalaya Studios and Ramanaidu Studios earlier in November 1983 and March 1984 respectively i.e., at the rate of Rs.8,500 per acre. Justification for the proposal to offer five acres of land at Rs.8,500 per acre to ACS in deviation from the earlier decision to charge Rs.700-Rs.800 per square yard was not on record. The approval of Board of Directors was also not obtained.

On receipt of approval (August 2001) of State Government, the Company handed over (18 October 2001) possession of five acres of land to ACS after collecting Rs.42,500 towards cost of the land (at Rs.8,500 per acre) and Rs.72,931 towards development charges, for the purpose of construction of office, godowns for equipment, service facilities for generator vehicles, etc.

Audit observed that in February 2001, State Government approved allotment of five acres of land to Children's Film Society (CFS) in the same area at Rs.3,000 per square yard while the market value of land around the same period was Rs.3,500 per square yard. Thus, allotment of five acres of land to ACS without considering either the market rate or the latest rate offered to CFS, resulted in loss of revenue of Rs.7.25 crore to the Company.

Government replied (October 2004) that the possible reason for allotment of land at Rs.8,500 per acre plus proportionate expenses and maintenance charges could be its uneven, rocky and inhospitable nature requiring lot of investment to make it fit for construction. The fact, however, remains that the

undue favour was extended to ACS by allotting the land in October 2001 at rates which prevailed in March 1984.

Andhra Pradesh Beverages Corporation Limited

3.11 Wasteful expenditure on application software

Purchase of computer application software without examining its suitability and compatibility to the actual needs resulted in wasteful expenditure of Rs.1.51 crore.

TATA IBM (IBM) submitted (24 July 1998) a pilot scheme to State Government for computerisation of the entire supply chain of the Company in a phased manner using Mfg/Pro software package. The State Government studied the scheme and decided (July 1998) to implement it in 20 liquor outlets covered by two depots of the Company and to appoint CMC Limited for providing consultancy support. Managing Director of Andhra Pradesh Technology Services Limited (one of the members of the Committee) who studied the proposal of IBM, suggested (December 1998) for in-house software development as per the actual needs. This was not followed up.

On recommendations of the Committee constituted (August 1998) by the State Government, CMC were appointed (September 1998) as consultants at a fee of Rs.55 lakh. The Company entered into an agreement (June 1999) with IBM for implementation of Mfg/Pro Enterprise Resource Planning (ERP) package on pilot basis in corporate office and in two Indian Made Foreign Liquor (IMFL) depots at a fee of Rs.98.01 lakh.

IBM implemented the ERP package and the application system went live from January 2000 onwards. All the modules were live from May 2000 at corporate office and two IMFL depots. Only 16 modules, out of 36 modules of the ERP package were considered useful; of which three modules were customised to suit Company's requirements. During usage of the software, operational problems concerning ease of operation, size of data and speed of processing surfaced. As a result, the Company terminated (January 2003) the contract with IBM and claimed a refund of Rs.43 lakh by offering back deliverable items, viz., Mfg/Pro ERP package and connected CDs. State Government was also addressed in February 2003 for issuing notice to CMC for refund of consultancy fee of Rs.53 lakh paid to them. IBM refused (March 2003) to accept that the project had failed. Operation of the software was finally discontinued (April/July 2003) in the earmarked two IMFL depots. The Company shifted (April/June 2003) to another application software in Visual Basic and MS Access which was developed at a cost of Rs.1.36 lakh for running daily operations.

Acceptance of the voluntary offer of IBM for implementation of ERP package on pilot basis without examining its suitability and feasibility of its adoption to the actual needs and economics of development of in house software vis-à-vis customisation of third party software, lacked justification. This rendered the expenditure of Rs.1.51 crore incurred on consultancy and purchase of ERP package software a waste as the project was abandoned midway (March 2003).

Management stated (June 2004) that the response of the supplier was very poor in giving right solutions in time to rectify the problems, as a result replication of the package in the remaining depots had been stopped and action for breach of contract initiated. This is indicative of the fact that MFG/Pro ERP package was implemented without considering actual need and necessity and its cost effectiveness.

The above matter was reported to Government in May 2004; their reply had not been received (September 2004).

3.12 Non-recovery of funds

Company's funds aggregating Rs.14.50 crore were used for implementing Government's policy for purchase of black jaggery.

State Government decided (October 2002) to purchase black jaggery produced by the farmers in Chittoor, Nizamabad and Visakhapatnam districts through Andhra Pradesh Co-operative Marketing Federation Limited (AP Markfed). For purchase of black jaggery, Government constituted (October 2002) a Committee under the chairmanship of Joint Collector of the district concerned with District Manager of AP Markfed, Assistant Cane Commissioner and Secretary of the local agricultural market yard as the members. The Company was to make available funds for purchase of black jaggery and service charges at the rate of 2.5 *per cent* of value of black jaggery to meet incidental expenses like unloading, weighment and shifting charges, rentals of godowns, etc. AP Markfed was directed (November 2002) by the Government to open separate bank account for the amount advanced by the Company.

Accordingly, the Company during the period November 2002 to June 2003 advanced to AP Markfed Rs.14.50 crore to enable it to procure 17,793.293 tonne of black jaggery; out of this, 11,210.820 tonne was sold to Assam Markfed and another 800 tonne to National Co-operative Consumers Federation of India Limited, Kolkata and the balance quantity to various distilleries. In all, the Company received Rs.5.72 crore and an amount of Rs.40.10 lakh was due from various distilleries. Thus, as against Rs.14.50 crore advanced, the Company was expected to realise Rs.6.12 crore, leaving a balance of Rs.8.38 crore for recovery from Government/AP Markfed.

Audit further observed that out of Rs.40.10 lakh due from distilleries, Rs.36.45 lakh was due from Sri Bhavani distillery, to which black jaggery valued at Rs.48.91 lakh was supplied. Effective steps were not taken by the Company/AP Markfed/State Government for collection of the amount.

Government in its reply of August 2004 did not offer any specific remarks on the above. Management, however, stated (July/September 2004) that the Board of Directors of the Company had resolved to request the Government for issuing necessary orders to adjust the balance amount due against privilege fee payable to Government. The fact remains that the Company's funds were used for implementing Governments' policy without sanction of the expenditure by the State Legislature.

Andhra Pradesh State Seeds Development Corporation Limited

3.13 Avoidable expenditure on purchase of packing material

Injudicious decision to reject negotiated lowest offer for supply of tarpaulin bags resulted in avoidable expenditure of Rs.19.71 lakh.

The Company invited (September 2003) quotations for supply of 9.50 lakh double woven tarpaulin bags of 30 kg capacity. As per terms and conditions of tender, the rates quoted should be on FOR destination basis including all taxes. In response to tenders, the offer of Sandoz Merchants Pvt Ltd (SMP), Kolkatta and East India Commercial Company Ltd (EIC), Eluru who quoted Rs.14.68 and Rs.15.51 per bag (inclusive of taxes) respectively were found to be first and second lowest.

Subsequent to opening of tenders, the lowest tenderer (SMP) indicated (1 October 2003) that their quoted rate (Rs.14.68) was against issue of 'C' form. In this connection the purchase sub-committee (PSC) felt that the purchase of bags from the lowest tenderer against 'C' form would deprive the Government of India (GOI) of a revenue of six *per cent*. When the PSC called the lowest tenderer for negotiations on 30 October 2003 and informed about the non-availability of 'C' form, the latter revised the rate to Rs.15.30 per bag without 'C' form. In view of revision of rate by lowest tenderer, the PSC held negotiations with the second lowest tenderer who agreed to supply at Rs.15.36 per bag (inclusive of all taxes). The PSC decided to cancel and go for re-tender on the plea that the second lowest tenderer's negotiated rate of Rs.15.36 per bag was higher by Rs.0.68 per bag over the lowest rate of Rs.14.68 offered by SMP.

This was followed up by two tender calls without success. The Company issued a tender notice (February 2004) for the fourth time and accepted the negotiated rate of Rs.17.50 per bag (inclusive of all taxes) offered by Bajrang Jute Mills, Guntur and placed two-purchase orders in April and May 2004 for supply 8.96 lakh bags.

Audit observed that the rejection of the lowest offer of SMP was not justified as the negotiated rate even without 'C' form was lowest. Thus, the rejection of the negotiated lowest offer (Rs.15.30 per bag) of SMP had, therefore, resulted in purchase of 8.96 lakh bags (at Rs.17.50 per bag) at an extra expenditure of Rs.19.71 lakh.

The Company stated (September 2004) that the lowest quotation was not considered as the tenderer failed to comply with the tender conditions regarding requirement of 'C' or any other form. The reply is not tenable as the Company rejected the lowest offer on the misplaced assumption that the purchase of bags against 'C' form would deprive the GOI of a revenue of six *per cent* and in the negotiations with the tenderer it was also made clear about non-availability of 'C' form.

The matter was reported to Government in May 2004; their reply had not been received (September 2004).

STATUTORY CORPORATIONS

Andhra Pradesh State Road Transport Corporation

3.14 Hiring out of shops/stalls/space in commercial and bus station complexes

The Corporation suffered loss of revenue due to delay in calling tenders for hiring out vacant shops/stalls, exploitation of vacant space/built up area, and absence of system of periodical reporting of vacant space/built up area for taking appropriate action.

The Corporation in furtherance of its objective of operating buses for general public, constructs passenger amenities which inter-alia include shops and stalls and commercial complexes adjacent to bus station complexes at important places mainly to maximise its revenues by hiring them out. A review of hiring

out of shops/stalls/space in bus station and commercial complexes covering seven* regional offices carried out by Audit revealed the following.

Vacant stalls/shops

3.14.1 Out of 3,443 numbers of stalls/shops available as on 31 March 2003, 853 stalls/shops were vacant. The period of vacancy of 258, out of 853, stalls/shops ranged from 1 to 80 months. 147, out of 258, stalls/shops were vacant for more than one to five years. As a result of vacancy of these 258 stalls/shops, the Corporation suffered loss of revenue of Rs.2.78 crore.

Corporation stated (August 2004) that main reason for vacancy of shops/stalls was construction of bus stations in underdeveloped areas which have no commercial potential in pursuance of Government policy. Audit observed that other main reasons for high incidence of vacancy were lack of demand and delayed decision making by calling tenders repeatedly when offer received was less than the earlier licence fee.

Repeated tendering of stalls/ shops without considering loss of revenue

3.14.2 During the period from October 1999 to February 2004, the Corporation tendered repeatedly for 3-6, 7-10, 11-14 and 15-23 times for hiring out 126, 58, 29 and 17 stalls/shops respectively as the offers fell short of licence fee obtained previously. This was done without ascertaining the reasons for not obtaining comparative licence fee. Due to repeated tendering in respect of 50 stalls/shops, the Corporation suffered a loss of revenue of Rs.36.91 lakh (computed with reference to rates received in the first offer).

Delay in allotment of stalls/shops

3.14.3 As per prescribed procedure the process of calling tenders shall commence at least 3 months before expiry of existing licence period and the entire process including allotment shall be completed within one month from the date of publication of tender notification. Audit noticed delays in the process of finalisation of tenders and allotment of 141 stalls/shops to licencees ranging from five to 165 days leading to delay in allotment with consequential loss of revenue of Rs.23.13 lakh. The loss of revenue could have been avoided/minimised by curtailing administrative delays.

* Kurnool, Karimnagar, Ranga Reddy, Visakhapatnam, Vijayawada, Guntur and Tirupathi.

Un-exploited vacant site/built up area

3.14.4 The Corporation identified (March 2001) potential vacant ground space, vacant built up and terrace areas for commercial exploitation as indicated below:

(Area in Sq mtrs)			
Name of the Zone	Open ground space	Terrace area	Built up area
Karimnagar	3,173	-	-
Cuddapah	42,764	1,043	-
Hyderabad	2,01,342	-	-
Vizianagaram	1,24,574	3,374	2,230
Vijayawada	1,72,241	12,096	2,817
Nellore	95,769	24,765	357
Total	6,39,863	41,278	5,404

As a follow up it was decided (March 2001) to (i) construct shops in front of bus depot/stations under Deposit, Operate and Transfer (DOT) scheme (ii) appoint consultants/architects to develop vacant sites at highly commercial potential areas and (iii) call for expression of interest for utilisation of vacant sites in districts on long term lease basis. The following observations are made:

Deposit, Operate and Transfer (DOT) scheme

3.14.5 DOT scheme formulated in April 1998 and modified in September 2001 envisaged construction of shops in vacant land available in the bus station premises facing roadside by inviting bids and accepting deposits towards cost of construction of shops from bidders who offered highest monthly licence fee. The construction of shops was to be completed within nine months from the date of depositing the cost of shop and 20 years was the period of licence thereafter. As on 31 August 2004 the Corporation constructed 282 shops utilising 9,870 sq mtrs of ground space under DOT scheme leaving 27,840 sq mtrs of space identified for commercial exploitation. In Karimnagar Region tenders were called for only thrice over a period of five years while in Ranga Reddy Region tenders were called for after a delay of over three years in July 2003. In respect of 12, out of 135, shops identified in January 1999 in Kurnool Region, no tenders were called up to December 2003. Management did not take adequate efforts to exploit the utilisation of vacant space in order to generate revenue.

Build, Operate and Transfer (BOT) scheme

3.14.6 Tenders were called for in August 2003 under BOT scheme after a delay of 28 months from identification (March 2001) of open ground space for exploitation. As per BOT scheme the successful bidder has to pay non-refundable upfront amount at the time of agreement and annual ground licence fee calculated at six *per cent* of market value of the site with five *per cent* incremental increase besides annual commercial licence fee. The maximum licence period is 30 years.

As per tender document two and a half months' time was allotted for entering into agreement with successful bidders from the date of calling for tenders. Considering six months time as reasonable for preparation of modalities of the scheme, the whole process of allotment should have been completed within nine months from the date of identification of open ground space (March 2001) i.e., by the end of December 2001. Due to delay, the Corporation had forgone revenue of Rs.3.30 crore in respect of six sites (1,13,619 Sq mtrs) from January 2002 to August 2004, representing upfront amount and annual ground rent.

Corporation stated (August 2004) that BOT scheme itself was in its nascent state and in view of longer licence period of 30 years under BOT the Corporation was taking cautious approach about operational, financial and legal aspects. The reply is not tenable as even after lapse of three years, no concrete efforts were made to make the scheme attractive so as to yield the revenue.

Vacant built up area

3.14.7 The built up area of 2,817 sq.mtrs identified for commercial exploitation was lying unutilised at Vijayawada and Guntur from April 2001 onwards resulting in loss of revenue of Rs.40.32 lakh * up to August 2004. Audit observed that tenders were not called for at periodical intervals for commercial exploitation of the vacant built up area.

The above matters were referred to Government in May 2004; their reply had not been received (September 2004).

Andhra Pradesh State Financial Corporation

3.15 Acceptance of non-existent collateral security

Acceptance of collateral security from a borrower without proper verification rendered recovery of dues aggregating Rs.1.31 crore doubtful.

The Corporation sanctioned (February 1996) a term loan of Rs.90 lakh to Surya Teja Industries Private Limited for setting up a unit in Rangareddy district for manufacture of rigid PVC pipes. The term loan was secured by equitable mortgage of factory land and hypothecation of plant and machinery apart from collateral security of immovable property in the form of urban land admeasuring 7,000 square yards (valued at about Rs.45 lakh) located in Nizampet village, Rangareddy district. After accepting the collateral security offered, the Corporation during August 1996 to March 1997 released term loan of Rs.74.65 lakh, which was repayable in 19 quarterly instalments. The

* Calculated at the prescribed Government rate of Rs.3.50 per sft and Rs.2.75 per sft respectively.

rate of interest being 6.5 *per cent* above the bank rate subject to minimum of 18.5 *per cent* interest per annum plus interest tax as prevailing from time to time during tenure of loan. It was observed that after accepting the collateral security, there was no further inspection to ensure that the property offered as collateral security was intact. As per guidelines, zonal/branch officials were responsible for physical verification of collateral securities at regular intervals i.e., at least once in six months and taking action to fence and demarcate the property offered as collateral security. A six monthly return furnishing the details of value, existence of collateral security, etc., was also envisaged.

After commencement of commercial production in 1996-97, the unit started incurring losses due to heavy competition as a result of which it had not repaid even a single instalment of the loan. The unit stopped production in October 1999. As the entire principal had fallen due for recovery, the Corporation issued sale notices and finally seized the unit in October 2002. As the efforts made to dispose off the primary security were not successful, the Corporation decided to realise the dues by sale of collateral security. In response to advertisement (February 2003) for sale of collateral security, the Corporation received a highest bid for Rs.60.50 lakh, which was accepted. At this stage, the Corporation approached (March 2003) the Revenue authorities to survey and demarcate the land located in Survey No.89 so as to enable them to hand it over to the bidder. The Revenue authorities reported (April 2003) that the said land was not available in the given survey number. The RR district branch office of the Corporation had also not furnished the envisaged six monthly returns showing the existence of collateral security.

Thus, due to acceptance of collateral security without proper verification and non-saleability of primary security viz., factory land and plant and machinery, the recovery of dues aggregating to Rs.1.31 crore towards principal: (Rs.74.65 lakh), interest (Rs.55.48 lakh) and other expenses (Rs.0.95 lakh) was doubtful.

Management without offering any remarks on acceptance of non-existent collateral security indicated (July 2004) that it had approved a one time settlement (OTS) package in March 2003 for Rs.99.78 lakh and there was a possibility of collection during the current year. Audit observed the promoter had not so far (September 2004) come forward to settle the dues as per the approved OTS package.

The matter was reported to Government in May 2004; their reply had not been received (September 2004).

3.16 Doubtful recovery of a term loan

Action was not taken either to invoke the collateral security or to seize the unit which rendered recovery of dues aggregating Rs.0.76 crore doubtful.

The Corporation sanctioned (February 2000) a term loan of Rs.86.05 lakh to Sri Parandhama Fruit Products, Chittoor for setting up a mango pulp unit against the security of factory land, buildings and machinery and a collateral security for a sum not less than Rs.86.05 lakh in the form of urban immovable property. As the collateral securities offered in the form of land and buildings were valued at Rs.64.64 lakh, the Corporation restricted the release of loan to Rs.63.28 lakh. The loan carrying interest at 16 *per cent* per annum plus interest tax was disbursed during the period from March 2000 to March 2001 and was recoverable in 25 instalments commencing from 18 March 2002.

The firm was irregular in payment of interest accrued and loan instalments due for payment from the very beginning. Out of Rs.31.05 lakh fallen due for recovery towards loan instalments up to March 2004, Rs.1.06 lakh only was recovered by way of adjustment of State Investment subsidy due to the firm. The branch office of the Corporation reported (October 2003) that the unit was not working for the last one year and the promoters expressed their inability to pay the loan instalments and interest thereon due to disputes among themselves. As the arrears were more than two years old, the Corporation classified the dues as doubtful of recovery. Though the Corporation is vested with powers under the Andhra Pradesh Revenue Recovery Act and State Financial Corporations' Act to recover the dues from defaulting borrowers by seizure and sale of properties offered as security, no action was taken in this regard. Further action was not initiated to invoke collateral securities offered by the promoters. The recovery of the loan (Rs.62.22 lakh) and interest accrued (Rs.14.18 lakh) up to March 2004 aggregating Rs.76.40 lakh was doubtful.

Government stated (August 2004) that the promoter had paid Rs.2 lakh towards arrears of interest and promised to clear the entire interest dues by the end of August 2004 and as such action was not taken under RR Act at this juncture. There were no further developments (September 2004).

General

3.17 Implementation of Voluntary Retirement Scheme

Non-compliance of State Government guidelines by the PSUs in implementing VRS resulted in financial loss of Rs.3.07 crore.

As a part of on going economic reform programme, State Government decided (January 1996) to introduce Voluntary Retirement Scheme (VRS) in State

Level Public Sector Undertakings (PSUs) which were in the process of being restructured or wound up. The main objectives of VRS were to improve performance of PSUs, optimise level of man power, provide necessary adjustments in man power through redeployment and compensate man power rendered surplus. Based on experience gained, VRS guidelines were revised by the State Government and consolidated guidelines issued in March 2001.

During the period October 1994 to March 2004, 23 PSUs introduced VRS and relieved 21,065 employees who were found surplus on payment of consolidated amount of Rs.517.19 crore.

The matters relating to voluntary retirement of employees in 11* out of 23 PSUs where VRS was introduced were reviewed in Audit. As a result of implementation of VRS in these PSUs, 15,250 employees were retired after payment of Rs.433.44 crore towards terminal benefits. The entire expenditure of Rs.124.25 crore pertaining to five PSUs was financed by the State Government by way of loan/grant. The expenditure of Rs.309.19 crore pertaining to rest of six PSUs was arranged by them through internal/own sources.

Important deviations/irregularities noticed by Audit in the implementation of VRS are discussed in succeeding paragraphs.

Andhra Pradesh Industrial Development Corporation Limited (APIDC)

Non-recovery of outstanding advances

3.17.1 The Company allowed 103 employees to retire under VRS during July 2001 to May 2002 without recovering ex-gratia (in lieu of bonus) and incentive advance of Rs.40.36 lakh outstanding against them. The Company should have adjusted the outstanding advance out of the VRS benefits paid. Management stated (July 2004) that the amounts were secured by undertakings from VRS employees and surety from working employees. The fact, however, remains that the undertakings from retired employees and surety from working employees were not enforced so far (September 2004).

Andhra Pradesh State Financial Corporation (APSFC)

Payment of gratuity for left over service

3.17.2 Seventy two members of sub-staff (attenders, drivers and jamedars) of APSFC who retired during June 2001 to July 2002 under VRS were paid gratuity aggregating Rs.0.51 crore by considering notionally the left over service also in addition to completed years of service. This was done on the plea that the sub-staff require reasonable amounts to rehabilitate themselves

* 1. APMDC (Andhra Pradesh Meat Development Corporation Limited) 2. APIIC (Andhra Pradesh Industrial Infrastructure Corporation Limited) 3. APIDC (Andhra Pradesh Industrial Development Corporation Limited) 4. APSIDC (Andhra Pradesh State Irrigation Development Corporation Limited) 5. APFC (Andhra Pradesh Fisheries Corporation Limited) 6. APSAIDC (Andhra Pradesh State Agro Industries Development Corporation Limited) 7. APSTC (Andhra Pradesh State Trading Corporation Limited) 8. SCL (The Singareni Collieries Company Limited) 9. NSL (Nizam Sugars Limited) 10. APTRANSCO (Transmission Corporation of Andhra Pradesh Limited) and 11. APSFC (Andhra Pradesh State Financial Corporation).

and their case was to be treated on a different footing compared to other categories of staff. Left over service considered notionally for payment of gratuity ranged from four to 30 years. Payment of gratuity for left over service without approval of State Government was unauthorised and beyond the scope of VRS guidelines.

Corporation stated (July 2004) that considering the economic status and as a special gesture, the Board approved consideration of left over service notionally for the purpose of calculating gratuity benefit. The reply is not tenable as this was done without the approval of the State Government and in deviation from VRS guidelines.

Irregular payment of medical compensation for left-over service

3.17.3 The employees of APSFC who opted for special medical reimbursement scheme for self and dependants were entitled for reimbursement of medical expenses up to Rs. one lakh for the entire period of service. The VRS guidelines framed by State Government did not envisage payment of medical compensation. Contrary to this, APSFC during June 2001 to August 2003 paid medical compensation of Rs.1.48 crore for the left over service of 176 employees who retired under VRS. The payment of medical compensation in contravention of VRS guidelines and without approval of State Government was irregular and unauthorised.

Andhra Pradesh State Agro Industries Development Corporation Limited (APSAIDC)

Settlement of VRS claims of employees facing disciplinary proceedings

3.17.4 As per pre-revised guidelines issued (January 1996) by State Government, the employees against whom disciplinary proceedings were pending for unsatisfactory performance were not entitled for VRS. In deviation to these guidelines, the APSAIDC accepted (July to October 1997) the VRS applications of 13 employees against whom disciplinary cases for having caused loss of about Rs.2.82 crore to the Company were pending. The Company released Rs.49.30 lakh towards terminal benefits; out of this, Rs.35.39 lakh should have been withheld to recover the defalcated/misappropriated amounts till the disciplinary cases were finalised. Acceptance of VRS applications in spite of pending disciplinary cases was unauthorised and irregular. Clause relating to non-eligibility of employees against whom disciplinary cases are pending was omitted to be mentioned in the notice inviting applications for VRS.

Management replied (June 2004) that the payment was released on a writ filed by the employees in honourable High Court. This situation could have been avoided *ab-initio* if the clause relating to non-eligibility of employees against whom disciplinary action was pending was included in the VRS notice.

Andhra Pradesh Industrial Development Corporation Limited (APIDC)**Change of notice period pay without Government's approval**

3.17.5 Staff regulations of APIDC, APSFC and APIIC provide for payment of three months' notice period pay to Class-A employees (Class-I and II employees in the case of APIIC) and one month's notice period pay to other classes of employees in case of termination without notice in advance. Before introduction of VRS and after receipt of consolidated guidelines of March 2001 from State Government, the above PSUs, however, amended (August/September 2001) the staff regulations allowing three months' notice period pay to all employees irrespective of the cadre to which they belonged.

Approval of State Government was also not obtained for this amendment. As per this amendment an amount of Rs.32.40 lakh was paid (during July 2001 to October 2002) to 198 employees towards additional two months' notice period pay as detailed below:

Name of the PSU/Corporation	Period	No. of employees availed VRS	Category/Class	Notice period pay paid (Rs.in lakh)
APIDC	July 2001 (Phase I)	33	B & C	6.00
	May 2002 (Phase II)	39	B & C	8.22
APIIC	September/October 2002	40	III & IV	5.88
APSFC	July/August 2002	86	B & C	12.30
	Total	198		32.40

As the amendment was not in accordance with guidelines in force the payment of additional two months period pay was unauthorised and irregular.

APIDC, APSFC and APIIC replied (June/July 2004) that the notice period was amended as approved by the Board of Directors in order to maintain equity among the employees retired under VRS. The reply is not tenable as this was a deviation from the VRS guidelines communicated by the State Government.

Settlement of claims without pre-audit

3.17.6 VRS claims settled by four PSUs (APIIC, APIDC, AP Transco and APSFC) were not subjected to pre audit by the Director of Treasuries and Accounts (DTA) indicating deviation from the guidelines of the State Government.

APIIC, APIDC and APSFC stated (July 2004) that the pre-audit of VRS claims by DTA was not applicable as no financial support was received from the Government. The reply is not tenable, as the VRS guidelines did not distinguish between own funds and Government funds for the purpose of pre-audit of VRS claims by DTA.

3.18 Extension of financial support for State sponsored games

Financial contribution for State sponsored games by PSUs without examining the need and necessity for such contributions.

3.18.1 Andhra Pradesh State Warehousing Corporation received (20 December 2002), through fax, a circular letter dated 9 October 2002 signed by the State's Chief Minister seeking contributions for National Games scheduled from 13-22 December 2002. On the basis of this fax, the Managing Director of the Corporation, without prior approval of Board of Directors, issued a cheque for Rs. one crore on 21 December 2002 for the Games which were to be closed on 22 December 2002. The Board while subsequently ratifying the action of the MD recorded (May 2003) its unhappiness on the mode of payment made directly by the MD without bringing the matter to the notice of Board.

The Corporation replied (July 2004) that as the Chief Minister was specific about the date and time, Managing Director had given the cheque without anyone's sanction.

3.18.2 On the eve of holding Afro Asian Games by the State, Chief Secretary to State Government requested (October 2003) 15 Public Sector Undertakings (PSUs) to support the event by contributing Rs.4.39 crore. In response five PSUs* contributed Rs.3.32 crore for the event held during the period from 24 October to 1 November 2003. The expenditure of Rs.4.32 crore (including Rs. one crore for National Games) was booked as expenditure on advertisements in the accounts of the respective PSUs. Audit observed that the activities undertaken by the above PSUs by and large did not require any propaganda or advertisement. In view of this, contributions made for a State sponsored National Games and Afro-Asian Games event was unwarranted.

APSWC and SCCL replied (July 2004/August 2004) that the contribution was made at the instance of State Government and to avail of tax benefits available for such contributions. APIDC had also taken the stand (August 2004) that the contribution was made at the instance of State Government and in the hope of getting some business from industrialists/prospective entrepreneurs who would be attending the Games. Government endorsed (August 2004) the reply of the SCCL. The reply is not acceptable as these companies have made contributions at the instance of Government and not in the interest of organisation.

* The Singareni Collieries Company Limited (SCCL), AP Mineral Development Corporation Limited (APMDC), AP Industrial Development Corporation Limited (APIDC), AP Handicrafts Development Corporation Limited (APHDC), and APSWC.

3.19 Follow up action on Audit Reports

Outstanding Explanatory Notes

3.19.1 The process of scrutiny which begins with initial inspection of accounts and records maintained in the various offices and departments of Government culminates in the Audit Reports of the Comptroller and Auditor General of India. 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 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 2002-03 were presented to the State Legislature, nine departments which were commented upon did not submit explanatory notes on 129 out of 281 paragraphs/reviews as on September 2004 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	2
1993-94	28-4-1995	25	2
1994-95	7-12-1995	21	1
1995-96	19-3-1997	28	7
1996-97	19-3-1998	29	7
1997-98	11-3-1999	29	18
1998-99	3-4-2000	29	18
1999-2000	31-3-2001	24	18
2000-01	30-3-2002	21	18
2001-02	31-3-2003	23	22
2002-03	24-07-2004	16	16
Total		281	129

Department-wise analysis of reviews/paragraphs for which explanatory notes are awaited is given in **Annexure-14**. Majority of the cases of non-submission of explanatory notes related to the Departments of Energy and Industry and Commerce. Government did not even respond to reviews conducted on the working of key companies i.e., Andhra Pradesh Industrial Infrastructure Corporation Limited, The Singareni Collieries Company Limited and Andhra Pradesh Industrial Development Corporation Limited.

Outstanding compliance to Reports of Committee on Public Undertakings (COPU)

3.19.2 Replies to 657 recommendations pertaining to 32 Reports of the COPU presented to the State Legislature between April 1992 and March 2001 had not been received as on September 2004.

Year of COPU Report	Total number of Reports involved	No of Recommendations where replies were not received.
1992-93	8	282
1993-94	6	177
1995-96	1	30
1996-97	1	2
1997-98	2	38
1998-99	2	16
2000-01	12	112
Total:	32	657

Response to inspection reports, draft paragraphs and reviews

3.19.3 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of six weeks. A review of inspection reports issued up to March 2004 pertaining to 35 PSUs disclosed that 5,746 paragraphs relating to 1,751 inspection reports remained outstanding at the end of September 2004. Replies for these inspection reports had not been received for periods ranging from three to 20 years. Department-wise break-up of inspection reports and audit paragraphs outstanding as on 30 September 2004 is given in **Annexure-15**.

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 six draft paragraphs forwarded to the various departments during April to May 2004 as detailed in **Annexure-16** had not been replied to so far (September 2004).

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

Hyderabad.
The

(SUDARSHANA TALAPATRA)
Accountant General (Commercial & Receipt Audit)
Andhra Pradesh

Countersigned

New Delhi.
The

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India