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ANDHRA PRADESH LEGISLATURE
(Eleventh Legislative Assembly)

Third Report
of
The Committee on Public Undertakings
(2000 - 2001)
on

The Paragraph Appeared in the Report of
The Comptroller and Auditor General of India
for the year ended 31 March 1991 (*Commercial*)

The Review Appeared in the Report of
C & AG of India for the year ended
31 March 1993 (*Commercial*)

And

Action taken Report on the 3rd Report of
IX Legislative Assembly
(on the Audit Report (C) For the year 1986-87)
on

A.P. HANDICRAFTS DEVELOPMENT
CORPORATION LIMITED

(Presented to the Legislature on 6-9-2000)

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**A.P. HANDICRAFTS DEVELOPMENT
CORPORATION LIMITED**

(Presented to the Legislature on 6-9-2000)

COMMITTEE ON PUBLIC UNDERTAKINGS
(2000-2001)

(Constituted on the 3rd April, 2000)

CHAIRMAN :

1. Sri A.V. Suryanarayana Raju

MEMBERS :

2. Sri Anne Babu Rao
3. Sri Bali Durga Prasad Rao
4. Sri S.A. Khaleel Basha
5. Sri P. Mahender Reddy
6. Smt. P. Ananta Lakshmi
7. Sri B. Janardhan
8. Sri R. Prakash Reddy
9. Sri Kondabala Koteswara Rao
10. Sri Kanna Lakshminarayana
11. Sri Patil Venugopala Reddy
12. Sri T. Jeevan Reddy
13. Sri M. Narsimhulu
14. Sri Kandula Nagarajuna Reddy
15. Sri Akbaruddin Owaisi

SPECIAL INVITEES :

16. Sri Reddy Satyanarayana
17. Sri M. Dharma Rao

LEGISLATURE SECRETARIAT :

Sri K. Tuljanand Singh, Secretary
Sri R. Bhaskaran, Deputy Secretary
Sri B. Padma Reddy, Assistant Secretary
Sri A. Ram Reddy, Section Officer

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INTRODUCTION

I, the Chairman of the Committee on Public Undertakings (2000-2001) having been authorised by the Committee to present the Report on their behalf, present this THIRD REPORT on A.P. Handicrafts Development Corporation Limited.

The Committee on Public Undertakings (1998-99) have examined the Reports of the C & AG of India for the years ended 31 March 1991 and 1993 (Commercial), and Action Taken Report on the 3rd Report of IX Legislative Assembly but could not present a report on the same for want of time.

The Committee (2000-2001) have considered and approved this Report at their sitting held on 29-8-2000.

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

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

The Committee wishes to express their thanks to the principal Secretary to Government, Industries and Commerce Department, the Managing Director and other officials of A.P. Handicrafts Development Corporation Limited for the Co-operation they have extended and for placing the required information and material before the Committee.

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

The Committee also places on record their appreciation of the assistance rendered to the Committee by the Secretary to State Legislature

and the other Officers and staff of Legislature Secretariat in the examination of the general working and review relating to A.P. Handicrafts Development Corporation Limited and in preparation of this Report.

A.V. SURYANARAYANA RAJU,
Chairman,
Committee on Public
Undertakings.

Hyderabad,
Dated: 29-8-2000.

(*) one cyclostyled copy laid on the table of the House and one placed in the Legislature Library.

REPORT OF THE COMMITTEE ON PUBLIC UNDERTAKINGS
(1998-99) PERTAINING TO THE ANDHRA PRADESH
HANDICRAFTS DEVELOPMENT CORPORATION LIMITED.
[ON THE REPORTS OF THE C & AG OF INDIA (COMMERCIAL)
FOR THE YEARS 1990-91, 1992-93 AND ACTION TAKEN
REPORT ON THE THIRD REPORT OF IX LEGISLATIVE
ASSEMBLY].

AUDIT REPORT 1990 - 91

(a) Loss due to under insurance of stock and non-insurance of Lepakshi Emporium, Vijayawada. (Para No. 4A.6)

1.1 Despite clear instructions to insure stocks, furniture and buildings against risk of fire, burglary and malicious damages, the Company failed to insure its stocks, furniture buildings of Vijayawada unit, resulting in loss of Rs.12.85 lakhs.

1.2 The Company in its reply stated that strict instructions were issued to insure the buildings, stocks and assets to the extent of book value and it is being watched.

1.3 The Company in its oral evidence stated that by taking the profitability its existence into consideration, stocks and the assests are being insured from time to time.

1.4 The Committee desires to know the policy of the company in insuring the stock in trade, money in transit, buildings etc.. The company has to follow the laid down policy and there should not be any deviation. A detailed note on the matter may be submitted to the Committee immediately.

AUDIT REPORT - 1992 - 93

REVIEW:

(b) Organisational set-up (Para No. 2E. 2)

2.1 As per the Articles of Association of the Company, the Board should consist of, inter alia, a representative of handicrafts master craftsman/artisan or a specialist in the field. Further, despite the recommendation of the COPU, the State Government did not nominate such a representative on the Board.

2.2 The Company in its explanatory notes stated that the issue relates to the State Government.

2.3 The Government representative in his oral evidence stated that the matter was discussed in Cabinet Sub-Committee also and a final decision is yet to be taken by the Committee.

2.4 The Committee desired to know the final decision of the Government, as assured in nominating a specialist representative of handicrafts on the Board of the company after discussion by the cabinet sub-committee.

(c) Reconciliation of Assets/Liabilities (Para No. 2E.4.3)

3.1 As directed by the State Government in October 1981, the company took over in February 1982 from Andhra Pradesh State Trading Corporation (A.P.S.T.C.) eight Lepakshi Handicraft Emporia. The value of assets over liabilities of the units was to be treated as contribution of State Government in the equity of the Company. The value of assets over liabilities of the above units at the time of taking over either by A.P.S.T.C. in April 1976 from Government or by the company in February 1982 from A.P.S.T.C. has not yet been determined by the State Government.

3.2 The Company in its explanatory notes stated that the Company is yet to reconcile the assets over liabilities with the Government.

3.3 The Company in its oral evidence stated that work has to be completed with regard to Rs. 1.72 crore in between A.P.S.T.C. and the Corporation and certain other things have also to be sorted out in between Government and A.P.S.T.C.

3.4 The Committee recommends that the reconciliation work shall be completed immediately and the Report be submitted to the Committee immediately.

(d) Working results (Accounts) (Para No. 2E.5.2)

4.1 Though the statutory auditors were appointed upto 1997 - 98, the Company could compile its accounts upto 1992 - 93 only.

4.2 The Company in its oral evidence stated that efforts will be made to update the accounts upto 1992-93 only.

4.3 The Company in its oral evidence stated that efforts will be made to update the accounts as early as possible.

4.4 The Committee recommends that a time bound programme shall be chalked out by the company to update the compilation and audit of the accounts. The Committee is unhappy with the attitude of the administrative Departments for not over seeing and ensuring the finalisation and adoption of accounts in the annual general meeting within time schedule prescribed in the companies Act 1956, rendering the investment made by Government outside the purview of Audit and non-ensuring their accountability.

(e) Plan schemes (Para No. 2E.6.1)

Working Capital and Share Capital Loans :

5.1 The Company received Rs. 5.03 lakhs from the State Government and disbursed the same amongst the identified beneficiaries as working capital and share capital loan. The Company could recover only Rs. 1.16 lakhs. Further, the Company has no mechanism to ascertain whether the loans disbursed were utilised by the beneficiaries for the purpose for which they were sanctioned.

5.2 The Company in its reply stated that notices were issued for repayment of loans with interest.

5.3 The Company in its oral evidence stated that previously the organisation could not be able to keep both the working capital and development schemes separately. Staff salaries were first met from the combined account and then only the development schemes were thought of.

5.4 The Committee strongly feels that the working capital account and development scheme account should be kept separately and the money meant for development schemes should be utilised for the intended purpose only. The amounts due from the beneficiaries shall be collected by adopting effective mechanism. Compliance in the matter may be reported to the Committee immediately.

(f) Financial Assistance towards revenue expenditure for new emporia (Para No. 2E.6.4.)

6.1 Without the prior approval of the Government of India and conducting market survey, the Company opened 9 Emporia. Of them, 7 were closed due to uneconomic operations. Since, the Company opened emporia without approval of the Government of India, the Company failed to obtain the grant of Rs. 6.28 lakhs on operation of these emporia.

6.2 The Company in its reply stated that in view of the urgency, the Board resolved to open new emporia and the Company had borne the loss.

6.3 During the oral evidence, Principal Secretary (Industries) informed that even though the Government says 'no' for opening of new emporia, the Board of the Company is passing a resolution and permitting to open new emporia.

6.4 The Committee recommends that prior approval of the Government as well as adequate market assessment should be made before opening a new emporia.

(g) Welfare fund and Group insurance for artisans (Old age pensions) (para No. 2E.6.8)

7.1 Under the scheme, artisans aged over 60 years with maximum yearly income upto Rs. 3600 are

eligible for a monthly pension of Rs. 60 for a period of 5 years with renewable facility. The Committee had recommended in 1992 to increase the pension to Rs. 250 permonth.

7.2 The Company in its explanatory notes stated that the Company has so far sanctioned old age pension to 77 persons. The increase of pension amount to Rs. 200 is under active consideration. The Company is now sending old age pension applications to District Collector as amount is more under the Scheme.

7.3 The Company in its oral evidence stated that the Company is requesting the District Collectors to distribute the pensions. It is also proposed to give the pensions through banks also.

7.4 The Committee recommends that the scheme of sanctioning the pensions at the rate of Rs.60/- should be continued till decision is taken to enhance it to Rs. 200/- and till a scheme is evolved in this aspect.

(h) Development of new designs and prototypes
(Para No. 2E.7.1A)

8.1 The Company spent Rs. 32.18 lakhs out of funds received from the State Government to development new designs and prototypes during five years upto 1991-92. However, the Company does not have information as to their utility.

8.2 The Company in its oral evidence stated that 80% of the money is meant for salaries and administrative expenses.

8.3 The Principal Secretary (Industries) in his oral evidence stated that permanent designers system is not a viable system. These posts are being abolished.

8.4 The Committee recommends that no designers shall be appointed henceforth on permanent basis

(i) Central Assistance under drought relief scheme. (Para No. 2E.7.3)

9.1 During March 1988, the Central Government invited specific proposals and schemes for grant
J. 243-3

of Central assistance to provide relief to the drought affected handicraft artisans in the state. The schemes envisaged taking up the project by the Company for providing employment to them by supplying raw material and to collect back the finished products for sale. The Central Government provided financial assistance of Rs. 45 lakhs towards wage component and Rs. 6.75 lakhs towards margin money by the State Government (1.6.88 to 31.10.88). However the State Government release the funds during November 1988, covering wage component of Rs. 36.23 lakhs as loan (interest 9.25%) and margin money of Rs. 15.52 lakhs as grant. The Company used the funds for making Capital requirements instead of giving to the artisans.

9.2 The Company in its explanatory notes stated that the delay in release of the funds by the State Government has made the company to use the funds for other purposes.

9.3 The Company in its oral evidence stated that later on the amounts were converted into share capital and this was approved by the State Government.

9.4 The Committee observed that the purpose of providing grants and loans by the Government was defeated by diverting the funds by the company. The Committee recommends that in future diversion of funds shall be avoided in any case and the funds shall be used for the purpose for which they were granted/sanctioned.

(j) Inventory Management (Para No. 2E.8.2(a)).

10.1 Although physical verification of all the items lying in various emporia and units was being conducted by the Company at the end of each accounting year, the excesses and shortages noticed were not being investigated into with a view to fix responsibility. The aggregate shortages valued at Rs. 4.73 lakhs are awaiting adjustment/recovery.

10.2 The Company in its explanatory notes stated that action was already taken to recover the value of shortages noticed.

10.3 The Company in its oral evidence stated that same stocks were sent to outside places for exhibitions/sales and the Executive Director went to same places lands got back the remained stock but when the same was opened after coming back some of the stocks were missing.

10.4 The Committee desires to determine the value of the shortages of stocks and to fix responsibility for the shortages and intimate the same to the Committee immediately.

(k) Action taken Report on 3rd Report of IX Legislature Assembly.

11.1 The previous Committee noticed that cash purchase of terry towels from firm 'A' for credit sales to firm 'B' and repurchase of the same towels from firm 'B' at a higher rates, apart from generating loss to the Company resulting in part of dues from firm 'B' remaining unrecovered for a period of more than six years.

11.2 In its explanatory notes the Managing Director, in written reply stated that the findings of Anti Corruption Bureau were still awaited and that the records relating to the irregular procurement were being transferred to A.P. State Trading Corporation, Ltd. as advised by the Government.

11.3 The earlier Committee felt unhappy at the events and suggested that the case be finalised as early as possible.

11.4 The Managing Director of the Company in reply to the Action Taken Report stated that relevant files have been transferred to A.P. State Trading Corporation Limited. The Managing Director also stated that the Hon'ble High Court has ordered to conduct inquiry (January 1999) into the matter.

11.5 The Committee observed that the Corporation/Government is not attending the meetings with full details and suggest that the Government's representative and also the company shall attend the meetings with full details on the subject. The Committee recommends that the Company/Government shall submit a detailed note on/ACB/cases immediately.

(1) Transfer of cash balances in personal deposit account (item 11.1)

12.1 Out of Rs. 10.33 lakhs stated to have been available at the time of transfer of emporia at New Delhi, Hyderabad, Vijayawada and Vizag from A.P. State Trading Corporation Limited to the Company the amount so far received by the Company was only Rs. 6.60 lakhs. This amount was utilised by the Company for its working capital requirements and none of the old liabilities were cleared. (11.1).

12.2 The Company in its reply stated that the Company has maintained the accounts for the amounts received on transfer from A.P. State Trading Corporation Limited and the same will be finalised along with the finalisation of assets and liabilities as taken over from A.P. State Trading Corporation Limited.

12.3 The Managing Director of the Company in the reply stated that the amount pertains to the year 1973. The Company has received Rs. 6.60 lakhs and the same was accounted for.

12.4 Andhra Pradesh State Trading Corporation Limited has informed that a Committee was constituted nearly 15 years back to look into the matter it has also informed that Rs. 10.33 lakhs was transferred. The Committee recommends that the issue of reconciliation of Accounts shall be examined carefully and intimated to the Committee immediately.

SUMMARY OF RECOMMENDATIONS

(1) The Committee desires to know the policy of the company in insuring the stock in trade, money in transit, buildings etc. The Company has to follow the laid down policy and there should not be any deviation. A detailed note on the matter may be submitted to the committee.

(Paragraph No. 1.4).

(2) The Committee desired to know the final decision of the Government, as assured in nominating a specialist representative of Hand Crafts on the Board of the Company after discussion by the Cabinet Sub-Committee.

(Paragraph No. 2.4).

(3) The Committee recommends that the reconciliation work shall be completed immediately and the report be submitted to the Committee immediately.

(Paragraph No. 3.4).

(4) The Committee recommends that a time bound programme shall be chalked out by the company to update the compilation and audit of the accounts. The Committee is unhappy with the attitude of the Administrative Departments for not over seeing and ensuring the finalisation and adoption of accounts in the annual general meeting within time schedule prescribed in the companies Act 1956, rendering the investment made by Government outside the purview of audit and non-ensuring their accountability.

(Paragraph No. 4.4).

(5) The Committee strongly feels that the working capital account and Development scheme account should be kept separately and the money meant for Development schemes should be utilised for the intended purpose only. The amounts due from the beneficiaries shall be collected by adopting effective mechanism. compliance in the matter may be reported to the Committee.

(Paragraph No. 5.4).

(6) The Committee recommends that prior approval of the Government as well as adequate market assessment should be made before opening a new emporia.

(Paragraph No. 6.4).

(7) The Committee recommends that the scheme of sanctioning the pension at the rate of Rs. 60/- should be continued till decision is taken to enhance it to Rs. 200/- and till a scheme is evolved in this aspect.

(Paragraph No. 7.4)

(8) The Committee recommends that no designers shall be appointed henceforth on permanent basis.

(Paragraph No. 8.4)

(9) The Committee observed that the purpose of providing grants and loans by the Government was defeated by diverting the funds by the company. The Committee recommends that in future diversion of funds shall be avoided in any case and the funds shall be used for the purpose for which they were granted/sanctioned.

(Paragraph No. 9.4).

(10) The Committee desires to determine the value of the shortages of stocks and to fix responsibility for the shortages and intimate the same to the Committee.

(Paragraph No. 10.4).

(11) The Committee observed that the corporation/Government is not attending the meetings with full details and suggests that the Government's representative and also the Company shall attend the meetings with full details on the subject. The Committee recommends that the company/Government shall submit a detailed note on ACB cases.

(Paragraph No. 11.5)

(12) Andhra Pradesh State Trading Corporation Limited has informed that a committee was constituted nearly 15 years back to look into the matter it has also informed that Rs. 10.33 lakhs was transferred. The Committee recommends that the issue of reconciliation of accounts shall be examined carefully and intimated to the committee immediately.

(Paragraph No. 12.4)

* * *

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