

(S)

L

ANDHRA PRADESH LEGISLATURE

(Twelfth Legislative Assembly)

**SIXTH REPORT
OF
THE COMMITTEE ON PUBLIC UNDERTAKINGS
(2004 - 05)**

ON

**THE AUDIT PARAGRAPHS CONTAINED IN THE REPORT
OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA
FOR THE YEARS 1998-1999 & 1999-2000 (Paras)
(Commercial)**

ON

A.P. BEVERAGES CORPORATION LIMITED

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

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

SNO:- 24

ANDHRA PRADESH LEGISLATURE

(Twelfth Legislative Assembly)

**SIXTH REPORT
OF
THE COMMITTEE ON PUBLIC UNDERTAKINGS
(2004 - 05)**

ON

**THE AUDIT PARAGRAPHS CONTAINED IN THE REPORT
OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA
FOR THE YEARS 1998-1999 & 1999-2000 (Paras)
(Commercial)**

ON

A.P. BEVERAGES CORPORATION LIMITED

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

REPORT
OF THE
COMMITTEE ON THE
MATTERS
ON

THE
MATTERS
ON

AT

IN

CONTENTS

	Page Nos.
1. Composition of the Committee	... i
2. Report	... 1
3. Summary of Recommendations	... 7

CONTENTS

Page No.

Composition of the Committee

1

Summary of Recommendations

2

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

CHAIRMAN :

1. Sri N. Uttam Kumar Reddy

MEMBERS :

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

SPECIAL INVITEES :

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

LEGISLATURE SECRETARIAT :

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

COMMITTEE ON PUBLIC AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
1954

- 1. Mr. [Name]
- 2. Mr. [Name]
- 3. Mr. [Name]
- 4. Mr. [Name]
- 5. Mr. [Name]
- 6. Mr. [Name]
- 7. Mr. [Name]
- 8. Mr. [Name]
- 9. Mr. [Name]
- 10. Mr. [Name]
- 11. Mr. [Name]
- 12. Mr. [Name]
- 13. Mr. [Name]
- 14. Mr. [Name]
- 15. Mr. [Name]
- 16. Mr. [Name]
- 17. Mr. [Name]
- 18. Mr. [Name]
- 19. Mr. [Name]
- 20. Mr. [Name]
- 21. Mr. [Name]
- 22. Mr. [Name]
- 23. Mr. [Name]
- 24. Mr. [Name]
- 25. Mr. [Name]
- 26. Mr. [Name]
- 27. Mr. [Name]
- 28. Mr. [Name]
- 29. Mr. [Name]
- 30. Mr. [Name]
- 31. Mr. [Name]
- 32. Mr. [Name]
- 33. Mr. [Name]
- 34. Mr. [Name]
- 35. Mr. [Name]
- 36. Mr. [Name]
- 37. Mr. [Name]
- 38. Mr. [Name]
- 39. Mr. [Name]
- 40. Mr. [Name]
- 41. Mr. [Name]
- 42. Mr. [Name]
- 43. Mr. [Name]
- 44. Mr. [Name]
- 45. Mr. [Name]
- 46. Mr. [Name]
- 47. Mr. [Name]
- 48. Mr. [Name]
- 49. Mr. [Name]
- 50. Mr. [Name]

INTRODUCTION

I, the Chairman of the Committee on Public Undertakings (2004-2005) having been authorised by the Committee to present the Report on their behalf, present this **Sixth Report** on the **Andhra Pradesh Beverages Corporation Limited**, on the audit paras contained in the Reports of the Comptroller and Auditor General of India (Commercial) for the years 1998-99 & 1999-2000.

The Committee on Public Undertakings (2003-2004) have examined the Reports of the Comptroller and Auditor General of India for the years ended 31st March, 1998-99 & 1999-2000 (Commercial), but could not present a report on the same due to the Dissolution of XI Legislative Assembly earlier than its original schedule.

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

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

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

The Committee wishes to express their thanks to the Principal Secretary to Government, Revenue Department, the M.D. and other Officials of the A.P. Beverages 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 Senior Deputy Accountant General (Commercial) and other Officers and staff of the Accountant General Office.

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

Hyderabad,
Dt. 13.12.2004

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

INTRODUCTION

The first of the two parts of the paper is devoted to a discussion of the general principles of the theory of the structure of the atom. The second part is devoted to a discussion of the application of these principles to the structure of the atom.

The first part of the paper is devoted to a discussion of the general principles of the theory of the structure of the atom. The second part is devoted to a discussion of the application of these principles to the structure of the atom.

The first part of the paper is devoted to a discussion of the general principles of the theory of the structure of the atom. The second part is devoted to a discussion of the application of these principles to the structure of the atom.

The first part of the paper is devoted to a discussion of the general principles of the theory of the structure of the atom. The second part is devoted to a discussion of the application of these principles to the structure of the atom.

The first part of the paper is devoted to a discussion of the general principles of the theory of the structure of the atom. The second part is devoted to a discussion of the application of these principles to the structure of the atom.

The first part of the paper is devoted to a discussion of the general principles of the theory of the structure of the atom. The second part is devoted to a discussion of the application of these principles to the structure of the atom.

**RECOMMENDATIONS ON THE PARAS APPEARED
IN THE REPORT OF C & AG OF INDIA FOR THE YEARS
1998-99 AND 1999-2000 (COMMERCIAL) PERTAINING
TO A.P. BEVERAGES CORPORATION LIMITED.**

Audit Report 1998-99 :

Short Collection of cash discount (Para 4A.2.1.) :

(i) As per the rate contract agreements for the excise year 1994 the Company was entitled to get cash discount at 1 and 1.5 per cent of landed cost of IMFL and Beer respectively for payments made on 15th day from the date of sale. It was noticed that in respect of beer sales the Company availed cash discount at 1 per cent instead of at the agreed rate of 1.5 per cent of the landed cost which resulted in short collection of cash discount of Rs.38.86 lakh (Government replied July 1999) that the beer suppliers have to submit bills once in a block period of 20 days and the payment is made on the 4th day after submission of the bill after availing 1 per cent cash discount. The reply is not correct as the Board (on 31-01-94) approved a rate of 1.5 per cent cash discount on payments made to beer suppliers.

In the explanatory notes the Company stated that the Board in its meeting held on 31-1-94 after detailed discussions approved for availing the cash discount on the invoice value and also the revised pattern of availing the cash discount keeping in view the guidelines approved by the Board subject to certain guidelines. The Company issued circulars to all suppliers of IML (dt. 3-2-94) and Beer (4-3-94) on the procurement for submission (15 days in respect of IML and 20 days in respect of Beer) and settlement of bills by availing cash discount @ 1% for IML and Beer. Accordingly the Company regulated the payments in respect of IML and Beer by releasing payments covering bills for the block period of 15 days in respect of IML and 20 days in respect of Beer select to sale of goods. The Company uniformly availed 1% cash discount on both the IML and Beer.

Hence, the AG Auditors wrongly presumed that the Board approved for availing the cash discount @ 1.5% for beer in the Board meeting held on 31-1-94. The AG Auditors have taken the figure of 1.5% under column "Recommended cash discount as % landed cost" The Company has informed in the 59th Board Meeting held on 25-6-1994 that the Company is availing cash discount of 1% of the invoice value for payments released in respect of both IML and Beer on the claims submitted for block period of 15 and 20 days for IML and Beer respectively. The Company can not discriminate the rates of cash discount for IML and Beer and the Company quoted the cash discount uniformly ie. 1% for both IML and Beer. The Principal Secretary (Revenue) in his oral evidence stated that the discount amounts were discussed in the Board as 1.5% on beer and 1% on IMFL. However, uniform discount of 1% on both the products were taken. Board is competent for this.

Recommendation :

The Committee felt that when ever there is contradiction in applying the Board's rulings, the same shall be got approved by the Board once again. Hence in future, the Company should take all care for getting approval of the Board, before taking any decision that lead to loss to the Company.

(ii) Claiming of cash discount on gross landed cost of the stocks sold :

The R.C. agreements covering the period from October 1994 to September 1995 provide that in case payment for supplies is released on the 15th day after sale of stocks, the Company is entitled to cash discount of 1% on gross landed cost of the stocks sold. It was noticed that the Company while releasing payments to some of suppliers on the 15th day after sale, availed cash discount on the net landed cost of the stocks sold (ie., after deducting sales tax at 29.15% of the landed cost) instead of on gross landed cost of the supplies resulting in short collection of cash discount to tune of Rs46.95 lakh. The

Government replied (July 99) that the suppliers were enjoying the sales tax amount for 2 to 3 weeks prior to the implementation of the policy of deduction of sales tax at source and as such it was not fair to deduct cash discount on the amount of sales tax which was never paid to them. The reply is not tenable as the practice followed for recovery of cash discount was a deviation from the agreed terms of agreement with the suppliers.

The Company in its explanatory notes stated that as per the directions of the Commissioner of Commercial taxes the Company deducting the sales tax at source while making the payments to the suppliers of IML and Beer and the tax amounts so deducted were immediately remitted to the Sales Tax Department though there is no clause with regard to TDS in the tender schedule. With this, the suppliers were denied the opportunity of utilizing the sales tax funds and Company had rightly deducted cash discount only on the net payments released directly to them. Hence the observation that the procedure resulted in short collection of cash discount of Rs.46.95 lakh is not correct.

The Principal Secretary (Revenue) in his oral evidence stated that the company being a government company and the order was received from the Government, it was implemented without any further discussion.

Recommendation :

The Committee opined that when any order is received from the Government it shall be discussed thoroughly by the Board of the Company as to whether the decision basing on the order would benefit the Company or not. Basing on this only, the final decision shall be taken, only when the order protects the interests of the company. Hence, the Committee recommends that, in future, the Company shall try to protect the interest of the Company first before implementing any orders from the Government.

Failure to invest surplus funds held in current account resulted in loss of interest Rs.0.58 crore. (4A. 2.2)

The Company has been maintaining a current account with State Bank of Hyderabad, Secretariat Branch, Hyderabad. The funds representing sale proceeds of liquor and beer transferred by the outstation sales depots of the Company are deposited in the account. During the period from June, 1997 to December 1998 the minimum balance held in the current account ranged from Rs. 15.20 crore to Rs. 3.01 crore while the maximum balance ranged from Rs.59.67 crore to Rs. 19.63 crore. Even if funds at a minimum of Rs.3 crore had been invested in term, deposits continuously, the Company could have earned an interest Rs.0.53 crore (at 11 per cent per annum for the period from June 1997 to December, 1998.

The Company in its explanatory notes stated that the Company is closely monitoring the credits and transferring the funds to SBH, Adarshnagar Branch regularly. However, on certain occasions huge balances may appear in the Bank statements if receipts from the deposits are more. But the same are transferred to Adarshnagar Branch (from Secretariat branch) immediately within next 2,3 days, from where day to day operations are being carried out.

The General Manager of the Company in his oral evidence stated that the main current account is maintained in the Secretariat branch because there is Telegraph Office near the Branch for the convenience of the Company. It was also stated that the balances are kept to meet the immediate requirement of the Company. However from subsequent years care was being taken to deposit money in short term desposit and earning interest.

Recommendation :

The Committee recommends that the financial prudence of the company shall be maintained in every transaction to protect the interest of the Company.

Avoidable payment of interest on advance payment of sales tax (4A.2.3)

At the instance of the State Government to improve its ways and means position, the Company paid Rs.40 crore in advance on 13 January 1999 against the tax payable by 20 February 1999 for the month January 1999. The payment was arranged by obtaining loan to the tune of Rs.39.15 crore from IDBI Bank and A.P. State Co-operative Bank against pledge of its fixed deposits and the balance out of its own resources. The Company had incurred Rs.36.87 lakh by way of interest on the loans and the Company had not claimed any reimbursement.

The Company in its explanatory notes stated that as per the Articles of Association, the Company being fully owned by Government, the Company has to comply with all the directions and instructions issued by the Government.

The Principal Secretary in his oral evidence stated that as per the direction given by the Government the money has been deposited. But during the time of requirement, if the FDRs were encashed there would be a heavy loss of interest. That was why loan was taken on the FDRs to protect the financial interest of the Company.

Recommendation :

The Committee opined that as financial loss occurred on account of this, action should have been initiated to avoid it by taking proper and timely steps by the company. The Committee recommends that the Company shall submit a detailed note by December 2004, on (i) the amount that would have accrued by way of interest on deposits (ii) Amount of interest paid on the loan taken on the FDRs.

Audit Report 1999-2000 :

Reduction in issue price of category 'A' liquor (NIPS) by the Managing Director without approval of the Board resulted in loss of Rs.0.68 crore to the Company apart from less realisation of sales tax of Rs. 0.48 crore (3A.1.1).

During the year 1997-98 the issue price of category liquor was fixed at Rs. 1010 per case of 48 nips. While the rate contracts for the procurement of beer and liquor for the year 1998-99 were under finalisation, on the oral instructions (4th April, 1998) of the Commissioner of Prohibition and Excise, the Managing Director of the Company without approval of the Board reduced the issue price of category 'A' nips from Rs. 1010 to Rs. 960 per case with effect from 6th April, 98 which resulted in reduction in profit margin to a time of Rs. 67.85 lakh on sale of category A liquor from 6 April 98 to 30 April 98 besides less realisation of sales tax of Rs. 47.52 lakh (70% of landed cost) to the State Government.

In the explanatory notes the Company stated that the Board resolved to restore the original margin and advised the Managing Director to revise the issue price with effect from 1-5-98 while making certain observations in fixing the price of Rs. 960 per case of nips by the Managing Director and also advised the Managing Director not to take such major decisions without taking approval of the Board.

The Principal Secretary, Revenue, Government of andhra Pradesh, in his oral evidence stated that the then Managing Director had changed the price hoping that the Board would approve the same. But the Board thought differently and took a decision to restore the old price. With the result, the price was restored from 1-5-1998.

Recommendation :

The Committee opined that the then Managing Director of the Company should have taken the Board into confidence before taking such a major decision which resulted in loss to the Company. Hence, the Committee recommends that action shall be initiated against the person by whom the decision was taken which has resulted in loss to the Company and the same shall be intimated to the Committee by December, 2004.

SUMMARY OF RECOMMENDATIONS

1. The Committee felt that whenever there is contradiction in applying the Board's rulings, the same shall be got approved by the Board once again. Hence, in future, the Company should take all care for getting approval of the Board, before taking any decision that lead to loss to the Company.

(Para No. 4A.2.1.i.)

2. The Committee opined that when any order is received from the Government it shall be discussed thoroughly by the Board of the Company as to whether the decision basing on the order would benefit the Company or not. Basing on this only, the final decision shall be taken, only when the order protects that interest of the Company. Hence, the Committee recommends that in future, the Company shall try to protect the interests of the Company first before implementing any orders from the Government.

(Para No.4A.2.1.ii.)

3. The Committee recommends that the financial prudence of the Company shall be maintained in every transaction to protect the interest of the Company.

(Para No.4A.2.2.)

4. The Committee opined that as financial loss occurred on account of this, action should have been initiated to avoid it by taking proper and timely steps, by the company. The Committee recommends that the Comapny shall submit a detailed note by December, 2004 on (i) the amount that would have accrued by way of interest on deposits (ii) amount of interest paid on the loan taken on the FDRs.

(Para No.4A.2.3.)

5. The Committee opined that the then Managing Director of the Company should have taken the Board into confidence before taking such a major decision which resulted in loss to the Company. Hence, the Committee recommends that

action shall be initiated against the person by whom the decision was taken which has resulted in loss to the Company and the same shall be intimated to the Committee by December, 2004.

(Para No.3A.1.1.)