

ANDHRA PRADESH LEGISLATURE

(Twelfth Legislative Assembly)

THIRTEENTH REPORT
OF
THE COMMITTEE ON PUBLIC UNDERTAKINGS
(2006 - 2007)

ON

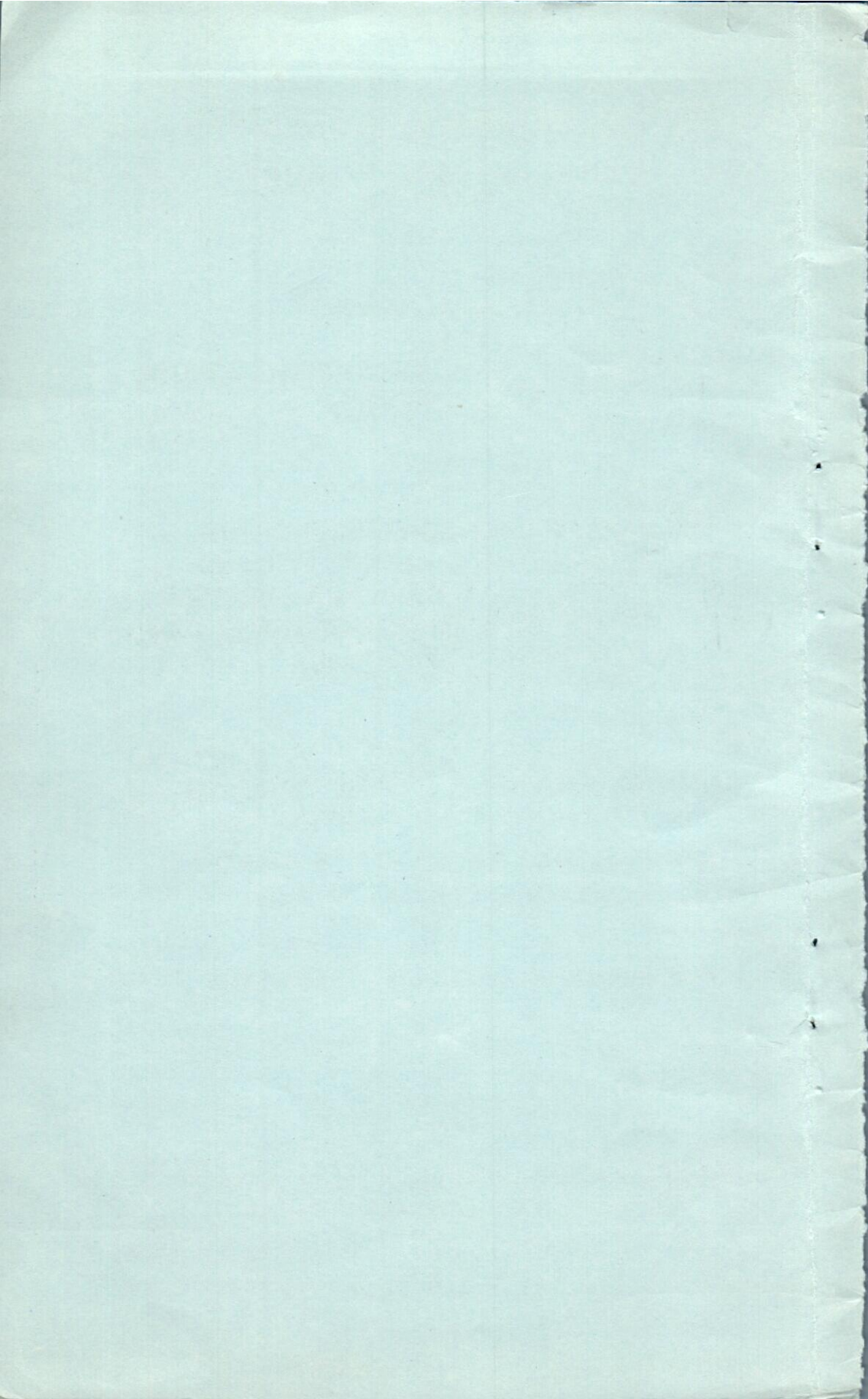
THE AUDIT PARAS CONTAINED IN THE
REPORTS OF THE COMPTROLLER AND
AUDITOR GENERAL OF INDIA FOR THE YEAR
ENDED 31ST MARCH, 2002 (2 PARAS) AND 2003
(1 PARA) (Commercial)

ON

ANDHRA PRADESH STATE TRADING
CORPORATION LIMITED

(Presented to the Legislature on 31-08-2006)

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



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ANDHRA PRADESH STATE TRADING
CORPORATION LIMITED

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(The Legislative Assembly)

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THE COMMITTEE ON PUBLIC UNDERTAKINGS

(2002-2003)

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REPORTS OF THE COMPTROLLER AND
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ENDED 31 MARCH 2002 (2 PARAS) AND 2003
(1 PARA) (Commercial)

ON

ON

ANDHRA PRADESH STATE TRADING
CORPORATION LIMITED

(Presented to the Legislature on 21-04-2003)

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ANDHRA PRADESH LEGISLATIVE ASSEMBLY
COMMITTEE ON PUBLIC UNDERTAKINGS (2006-2007)
(CONSTITUTED ON 28TH MARCH, 2006)

CHAIRMAN:

1. Sri N. Uttam Kumar Reddy

MEMBERS:

2. Sri Chanumolu Venkata Rao
3. Sri K. Vishnuvardhan Reddy
4. Sri V. Venkaiah
5. Sri M. Maheedhar Reddy
6. Sri Thota Gopalakrishna
7. Sri Jalagam Venkat Rao
8. Sri Chitturi Ravindra
9. Sri J. Ratnakar Rao
10. Sri P. Ravindra Reddy
11. Sri Puli Veeranna
12. Sri D. Uma Maheswara Rao
13. Smt. A. Uma Madhava Reddy
14. Sri E. Rajender
15. Sri Palla Venkat Reddy

LEGISLATURE SECRETARIAT:

1. Sri K. Tuljanand Singh, Secretary to State Legislature
2. Sri N. Anjaiah, Deputy Secretary to State Legislature
3. Sri K. Tulasi Ram, Assistant Secretary to State Legislature
4. Sri K. Satyanarayana Rao, Section Officer

COMMITTEE ON PUBLIC INTERESTS (2002-03)

CONSTITUTED ON 27 MARCH 2002

CHAIRMAN:

Shri M. K. ...
3

MEMBERS:

1. Shri ...

2. Shri ...

3. Shri ...

4. Shri ...

5. Shri ...

6. Shri ...

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10. Shri ...

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14. Shri ...

LEGISLATIVE SECRETARY

1. Shri ...

2. Shri ...

3. Shri ...

4. Shri ...

INTRODUCTION

I, the Chairman of the Committee on Public Undertakings (2006-2007) having being authorized by the Committee to present the Report on their behalf, present this **Thirteenth Report** on the **Andhra Pradesh State Trading Corporation Limited**, on the audit paras contained in the Reports of the C, & A.G. of India (Commercial) for the year ended 31st March, 2002 (2 Paras) and also 31st March, 2003 (1 Para).

The Committee on Public Undertakings (2006-2007) have examined the Report of the Comptroller and Auditor General of India for the years ended 31st March 2002 and 31st March 2003.

The Committee (2006-2007) have considered and approved this Report at their sitting held on 28-08-2006.

A statement showing the summery of principal recommendations / observations of the Committee is appended to this Report.

A record of proceeding 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 & Commerce Department, the Managing Director and other Officials of the A.P. State Trading Corporation Ltd., 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 (C&RA), Andhra Pradesh, the Senior Deputy Accountant General (Commercial) and other Officers and staff of the Accountant General 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 audit paras relating to the A.P. State Trading Corporation Ltd., and in preparation of this Report.

Hyderabad,

Date: 25-08-2006.

N. UTTAM KUMAR REDDY,
CHAIRMAN,
Committee on Public Undertakings.

INTRODUCTION

The Chairman of the Committee on Public Lands and Forests (PLF) having been authorized by the Committee on the Interior and Natural Resources of the House of Representatives to conduct a study of the public lands and forests of the United States, and to report thereon to the House of Representatives at the end of the session of 1957, the Committee on Public Lands and Forests has the honor to submit herewith its report.

The Committee on Public Lands and Forests was organized on July 1, 1957, and has since that time been engaged in a study of the public lands and forests of the United States. The Committee has held numerous public hearings and has received many suggestions from interested parties.

A statement showing the manner of planning and conducting the study of the public lands and forests of the United States is set forth in the report. The Committee has endeavored to present a comprehensive and objective study of the public lands and forests of the United States.

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W. BYRAN KENNEDY, Chairman
Committee on Public Lands and Forests
Date: 12-15-57

Recommendations on paras appeared in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2002 (2 paras) and 2003(1 para), (Commercial), Government of Andhra Pradesh, pertaining to A P S Trading Corporation Limited.

Audit Report 2001-02

Extension of undue favour by releasing bank guarantee (para No. 3A.7.1):

The Company entered into an agreement (July 1995) with Ministry of Food, Government of Bangladesh for supply of 50000 MTs of rice at a price of US \$ 266 per metric tonne (MT) on C&F (FOB) basis to Chittagong and Mongla ports. As per terms of agreement, the Company deposited (July 1995) US \$ 665000 (i.e. Rs.2.88 crore) towards 5 per cent of C&F value as performance guarantee (PG).

The Company entered (November 1995) into agreements with three sub-contractors viz., M/s Afro Asian Exports, Hyderabad (AAE), M/s Himabindu Chemicals Private Limited, Hyderabad (HBC) and M/s P.K Arunachalam & Sons, Hyderabad (PKA) for supply of rice to the extent of 25000 MT, 12500 MT and 12500 MT respectively at Rs.8611.25 per MT on C&F (FOB) to Bangladesh. The Company obtained performance/ bank guarantees (PGs/BGs) to the extent of Rs.2.16 crore (AAE-Rs 1.08 crore, HBC - Rs.0.56 crore and PKA - Rs.0.52 crore) which were to be revalidated till receipt of "No claim certificate" from the foreign buyer. The Company delivered a quantity of 50329.70 MTs up to 31 March 1996. Ministry of Food, Government of Bangladesh instituted

claims (November 1995 to March 1996) aggregating US \$ 4.97 lakh against the Company for short-supply/damaged and low quality rice. The claim for shortages/damages (1702 MT) was finally settled (November 1998) by the Settlement Committee (comprising members from Government of Bangladesh), to US \$ 4.13 lakh i.e. Rs. 1.93 crore (1 US \$ = Rs.46.64) and paid (February 2001).

(a) Despite knowing the liability of sub-contractors for shortages/damages, the Company, without approval of Board of Directors, released (February 1997) BG worth Rs.0.54 crore, by accepting two cheques (February/March 1997) amounting to Rs.0.54 crore, in favour of AAE on the condition that the cheques would be replaced by equivalent amount of BG within 90 days. Although these cheques were replaced with fresh cheques from time to time, M/s AAE failed to replace them by BG. The cheques, when finally presented (May 1998) to the bank, were dishonoured due to "stop payment" instructions by the party. The Company filed (1998) a criminal case in a court of law which was sub judice (May 2002).

Proportionate claim against three sub-contractors viz., HBC, PKA and AAE worked out to Rs.0.42 crore, Rs.0.50 crore and Rs.1.01 crore respectively. While claims against HBC and PKA were adequately covered by their BG amounts, claim of AAE fell short by Rs.0.47 crore which was borne by the Company. Release of BGs by accepting of cheques before receipt of "No Claim Certificate" from the buyer resulted in extension of undue favour to the sub-contractor.

(b) The Company also concluded (February 1996) with sub-contractors a supplemental deed of agreement to recover incidental expenses like interest on packing credit and overdraft, ocean freight, bank charges etc. However, no claim was preferred on the three sub-contractors towards reimbursement of incidental expenses of Rs.0.78 crore. Legal action was initiated (2000) against the three sub-contractors for recovery of incidental expenses.

Thus, release of BG in lieu of cheques and non-claiming of incidental charges had resulted in locking up of Rs.1.25 crore.

The matter was reported to Government (May 2002); their replies had not been received (October 2002).

In the explanatory notes the Company stated that action would be initiated, as per law, to recover the amount from M/s AAE.

No claim was preferred towards reimbursement of incidentals from these subcontractors as per the supplemental agreement amounting to Rs. 0.78 crore.

It is also stated in the latest explanatory notes that the Arbitration Tribunal in the case related to Afro Asian Exports has passed already an award for Rs. 1.24 crore along with interest in favour of the company (APSTC). M/s Global Detective Agency was appointed for tracing properties of the accused and also a complaint was lodged with Police Station and the Commissioner of Police.

As per the advice of Vigilance Commission regarding fixing the responsibility on the persons for entering into agreement with the defaulters proclaimed offenders the case has been referred to the General Administration Department for their advice on further action to be taken.

The Managing Director in the oral evidence stated that in respect of release of Bank Guarantee given by the guarantor a police complaint was lodged against the guarantor and police was trying to get the person through Interpol and the police also informed that they were in touch with Government of Bangladesh also. Loss suffered was Rs. 35.5 lakh. A lawyer was appointed in Bangladesh to look into this, with a fee of Rs.2.12 lakh. Regarding taking of action against the person in the company (APSTC) the file concerned was under circulation in GAD, AP Secretariat. Appropriate action would be taken basing on the recommendation by the GAD.

Recommendation :

The Committee feels that it is sheer negligence on the part of the Company regarding release of Bank Guarantee in lieu of cheques.

The Committee recommends that the Company should get the guarantee amount from the company concerned (M/s AEE) and Responsibility shall be fixed on the officers for accepting cheques in lieu of Bank Guarantee.

Avoidable loss on hire purchase scheme (para No. 3A.7.2)

The Company, as part of one of its activities, supplied consumer durables under Hire Purchase (HP) Scheme to Government employees on instalments at specified rates of interest. The Company had branches in 18 districts of the state and it used to provide funds to these branches through overdraft (OD) account as well as out of its own funds. HP Scheme was meant for employees of Government of Andhra Pradesh, State and Central Government undertakings. The guidelines of the scheme, *inter alia*, provided that the hirer and guarantor should not stand mutual guarantee to buy articles under hire purchase, to avoid difficulty in recovery of instalments in case of default. When hirer failed to pay instalments for more than three months, legal notices were to be issued and if no response was received, suits were to be filed to recover instalments due from the hirer/guarantor. Further, as per orders issued by State Government from time to time, the Drawing and Disbursing Officer (DDO) who drew the salary of hirer/guarantor, were personally responsible for recovery of instalments which had fallen due.

A test check in audit of implementation of HP scheme by branch offices at Cuddapah, Kurnool, Mahaboobnagar and Nellore revealed that HP scheme was sanctioned in cases where hirer and guarantor extended

mutual guarantees. Further, recovery of dues from defaulters/guarantors was not pursued effectively with DDOs who were personally responsible for recovery. Legal action was not initiated against chronic defaulters/guarantors. As a result, the Company failed to recover Rs.1.48 crore up to 31 March 2001, out of which, amounts due for four years and more were Rs.0.78 crore against which 100 *per cent* provision was made in the accounts for the year ended 31 March 2001. During the period 1995-2002, the Company availed of OD to the extent of Rs.8.46 crore per annum on an average. Had loans been realised in time, the Company could have also reduced its OD and avoided payment of interest to the extent of Rs.47.02 lakh (on Rs.0.78 crore at the rate of 15 *per cent* per annum).

The matter was reported to Government/Company (July 2002); their replies had not been received (October 2002).

The company in its explanatory notes stated that the defaulters position was reducing every month. An amount of Rs. 0.31 crore was to be recovered as on December 2005.

The Managing Director in the oral evidence stated that only Rs. 0.30 lakh to be recovered in respect of Hire purchase scheme. This is only a 0.15 % of the total disbursement made under the head.

Recommendation :

The Committee recommends that action should be taken against the persons who were responsible for flouting rules (accepting mutual guarantee) in sanctioning loan under hire purchase scheme.

AUDIT REPORT 2002-03

Loss on export of rice to Dammam (Para no. 4.9)

The Company quoted (July 2001) a price of US\$ 193 per MT cost and freight (C&F) for supply of 2000 metric tonnes (MT) of 5 *per cent* broken sortexed parboiled rice packed in 45 kilograms (Kgs) to Dammam (Saudi Arabia). The Company expected to earn a profit of US\$ 4 per MT on this export.

After negotiations, the Company finally accepted (September 2001) an order for export of 2500 MT rice at a price of US\$ 190.50 per MT C&F Dammam although at this price, the export contract would result in a nominal profit of US\$ 1.50 per MT, as against a profit of US\$ 4/MT estimated earlier. Without entering into an agreement with the buyer specifying the terms and conditions of sale, the Company raised (15 September 2001) a proforma invoice for US\$ 476,250 (2,500 MT at the rate of US\$ 190.50 per MT) and the buyer opened a Letter of Credit (LC) with 31 October 2001 as the last date of shipment.

Though the consignment was ready for shipment by second week of November 2001, the vessel, chartered through agent without concluding agreement of charter, did not arrive at Kakinada port as it was undergoing mechanical repairs at Visakhapatnam. The buyer extended the LC up to 31 December 2001 but reduced the sale price from US\$ 190.50 per MT to US\$ 180.50 per MT. The Company accepted the reduction in sale price without protest and shipped the rice on 18 December 2001 from Kakinada port. The buyer further demanded (January 2002) US\$ 18,500 (Rs.8.88 lakh) towards stevedoring charges and the Company agreed to pay the same.

As a formal agreement was not concluded, the Company had to accept the terms of the buyer from time to time, which were prejudicial to the interests of the Company. In this export contract, the Company incurred a total expenditure of Rs.2.63 crore but realised revenue of Rs.2.16 crore

only resulting in a loss of Rs.47 lakh. Even after taking into account miscellaneous income of Rs.29.25 lakh on export incentive, sweepings and gunny bags, there was a cash loss of Rs.17.75 lakh.

Thus acceptance of offer with a nominal profit margin and non-conclusion of agreement for export with definite terms and conditions with the buyer and owners of the chartered vessel, resulted in cash loss of Rs.17.75 lakh to the Company.

The matter was reported to Government / Company (May 2003); their replies had not been received (December 2003).

The Company in its explanatory notes stated that actually the Company earned a profit of Rs. 5.08 lakh but not loss as pointed out by audit. This was due to that the audit has not taken, 'despatch money claim' amounting to Rs. 22.71 lakh into consideration while computing the final results of the transaction. Suit filed for recovery of despatch money was for Rs. 10.61 lakh only.

The Managing Director in his oral evidence stated that out of Rs. 22.71 lakh there was a short fall of s. 12.10 lakh (as claim preferred for Rs. 10.61 lakh at Addl. District Judge Court, Kakinada). As this was time barred claim it could not be recovered. Regarding action on the person responsible for the lapse a charge sheet was issued.

The Committee observed that as a formal agreement was not concluded, the Company had to accept the terms of the buyer from time to time, which were prejudicial to the interests of the Company.

The Committee recommends that Government shall take action to fix responsibility on the persons for causing loss to the Company and intimate the Committee.

Summary of Recommendations

1. The Committee feels that it is sheer negligence on the part of the Company regarding release of Bank Guarantee in lieu of cheques.

The Committee recommends that the Company should get the guarantee amount from the company concerned (M/s AEE) and Responsibility shall be fixed on the officers for accepting cheques in lieu of Bank Guarantee.

2. The Committee recommends that action should be taken against the persons who were responsible for flouting rules (accepting mutual guarantee) in sanctioning loan under hire purchase scheme.

3. The Committee observed that as a formal agreement was not concluded, the Company had to accept the terms of the buyer from time to time, which were prejudicial to the interests of the Company.

The Committee recommends that Government shall take action to fix responsibility on the persons for causing loss to the Company and intimate the Committee.