CHAPTER-III
Transaction Audit Observations

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

GOVERNMENT COMPANIES

Andhra Pradesh State Trading Corporation Limited

The main activity of the company is to export all such goods and commodities as are manufactured in the State of Andhra Pradesh. The export trade is being undertaken either by the Company itself or through agents. Some of the irregularities noticed in the execution of export orders are discussed in paragraph No. 3.1 to 3.4.

3.1 Doubtful recovery of funds

Extension of export credit without adequate safeguards resulted in doubtful recovery of Rs.73.10 lakh and consequential loss of interest of Rs.33.55 lakh.

For export of 1000 tonnes of Soya bean meal (deoiled cakes), the Company entered (26 November 2003) into a Memorandum of Understanding (MoU) with Sapthagiri Traders, Hyderabad (Associates), which was valid for one year.

It was noticed in audit that the credentials of the Associates were not verified by the Company before entering into the MoU. Further, the MoU envisaged release of advances against invoices. The Company, however, in violation of the terms and conditions of the MoU, advanced Rs.60 lakh (November 2003) and Rs.25 lakh (December 2003) to the Associates without any invoice for purchase of raw material. In addition, the Company advanced (January/June 2004) Rs.2 lakh for payment of freight and insurance charges. Shipment of the consignment, however, did not take place as envisaged. The reason for this, as attributed by Associates, was scare of eruption of bird flu disease around the world. As the Company failed to take custody of hypothecated stocks for disposal, the Associates disposed of (August 2004) the stocks in the local market.

The Associates issued 15 post dated cheques (valid up to September - December 2004) in favour of the Company for refund of the amount advanced (Rs.87 lakh) to them. Out of these 15 cheques, 12 cheques for Rs.75 lakh bounced on presentation and three cheques amounting to Rs.12 lakh only were honoured. In addition, the Company received (February 2005) Rs. 1.90 lakh separately from the Associates. Thus, in all, the Company could recover Rs.13.90 lakh leaving balance of Rs.73.10 lakh as outstanding (September 2006). Upon an enquiry (December 2004) with the Registrar of Partnership Firms, it was found that the Associates was not a registered partnership firm. The Company filed (February to May 2005) 13 criminal cases against the Associates for dishonour of cheques, incurring legal expenses of Rs.1.94 lakh.

The Government/Company confirmed the facts and stated (August/July 2006) that a criminal case lodged against the Associates for recovery of the amount with interest was pending.

Thus, due to entering into a business deal with an entity without ascertaining its credentials and not taking over the godowns and custody of stocks awaiting export, funds amounting to Rs.73.10 lakh became doubtful of recovery with consequential loss of interest of Rs.33.55 lakh (computed at 16.5 *per cent* up to September 2006).

3.2 Doubtful recovery of dues

The Company opened a letter of credit in favour of the Associates without ensuring timely retirement of documents and clearance of consignments by them rendering recovery of dues aggregating Rs.63.49 lakh doubtful.

On a request (April 2003) from Western Industries Limited, Secunderabad (Associates), the Company agreed for providing a letter of credit (LC) as a part of strategic business alliance for importing raw material for manufacture of veterinary medicines. Accordingly, the Company entered (May 2003) into a Memorandum of Understanding (MOU) with the Associates.

After finalisation of import contracts by the Associates, the Company opened (between May 2003 and December 2003) seven LCs favouring foreign suppliers for supply of 86 tonnes of raw material valued at Rs.1.16 crore. As against the envisaged margin money of Rs.11.58 lakh, Rs.11.15 lakh only was received by the Company towards service charges.

Documents in respect of four consignments covering 26 tonnes of raw material valued at Rs.42.56 lakh were retired[*] by the Associates. As Associates did not come forward to retire the documents of the balance three consignments (60 tonnes of raw material) valued at Rs.73.20 lakh, the Company retired them from the bank and cleared (November 2004/March 2005) the material from the port after payment of Rs.43.50 lakh towards customs duty, port charges, etc. When attempts to induce the Associates to pay for 60 tonnes of imported raw material failed, the Company disposed of (March/May 2005) the material valued at Rs.116.70 lakh for Rs.57.98 lakh to the interested parties. In addition, the Company incurred an expenditure of Rs.13.21 lakh on payment of interest to the bank. After setting off the margin money of Rs.11.15 lakh, the amount recoverable from the Associates stood at

[*] Releasing of documents after payment.

Rs.60.78 lakh. This apart, the envisaged commitment charges of Rs.2.71 lakh were also not received from the Associates.

The Management/Government stated (July/August 2006) that:

- the Company opened LCs in advance on the oral assurance of the Associates that they would obtain advance licence for duty exemption to facilitate easy marketability of the product but it could not do so;
- Associates did not come forward to clear the consignment and the Company was left with no option but to clear the consignment to mitigate its losses; and
- An arbitrator was appointed (June 2006) to settle the case and the case was pending.

The reply is not acceptable as the Company had failed to safeguard its interests against possible default by the Associates in honouring their commitment for making payment before the international party commences LC negotiations with bankers and for clearance of imported consignments.

Thus, opening of LCs by the Company without adequate safeguards to ensure retirement of documents from the bank and clearance of consignments at port on arrival by the Associates led to locking up of Rs.63.49 lakh; the recovery of which was doubtful.

3.3 Avoidable loss

The Company suffered a loss of Rs.53.32 lakh due to acceptance of an order for export of rice with a meagre margin.

The Company through their business associates, viz., Jayalakshmi Associates, New Delhi, entered (May 2002) into a contract for export of 4,500 tonnes of raw rice to Singapore at $130 per tonne (equivalent to Rs.6370) for delivery free on board (FOB) at Kakinada port. It was estimated that the export deal would provide a profit margin of $2 per tonne after meeting all expenses. The consignment was scheduled for shipment during 15 June 2002 to 15 July 2002.

In order to meet the export commitment, the Company purchased (June 2002) 4,590 tonnes of rice at Rs.5800 per tonne from Food Corporation of India (FCI), Patiala. In the meantime, the Company signed (19 July 2002) two more contracts with the same buyer for supply of two consignments of 5,500 tonnes of rice each at $130 and $131 per tonne (equivalent to Rs.6370 and Rs.6419) respectively with shipment schedule in August/September 2002 without ascertaining/considering supply rates of FCI. The Company purchased (August-September 2002) 11,020 tonnes of rice at a price of Rs.5950 per tonne from FCI.

The Company shipped (September 2002 to April 2003) the entire contracted quantity of 15,500 tonnes of rice against the above three contracts and realised sale proceeds amounting to Rs.9.74 crore. In addition, the Company realised Rs.45.67 lakh by way of sale of empty gunny bags, rice sweepings, etc. Thus, on export of 15,500 tonnes of rice, the Company realised a total sale value of Rs.10.19 crore as against Rs.10.72 crore spent on the purchase and handling of rice, etc. Thus, acceptance of export order without ascertaining the prevailing rates of procurement from FCI resulted in a loss of Rs.53.32 lakh to the Company.

The Management attributed (July 2006) the loss to exchange fluctuations and increase in price of rice by FCI, which was not visualised by the Company.

The reply is not tenable, as the problems referred to above could have been overcome through adequate professional planning and administrative measures.

The matter was reported to the Government in November 2005; their reply is awaited (September 2006).

3.4 Loss in export of iron ore

The Company suffered financial loss of Rs.77.94 lakh due to release of share of profit of Rs. 1.50 crore to the agent without receiving the sale proceeds from the buyer. The company is also faced with a claim for repayment of Rs.11.28 crore with interest to the banker.

The Company entered (September 2003) into a Memorandum of Understanding (MOU) with Auro Logistics Limited (ALL), Chennai for one year for assisting the company in export of iron ore to Hong kong. As per MOU, the profits earned in the export deal were to be shared equally by the Company and ALL.

Audit scrutiny revealed that against the export order for supply of 45,000 tonnes of iron ore lumps, the Company shipped (March 2004) 41,950 tonnes of lumps (dry weight 41,593.425 tonnes) at US dollars 64 per tonne. The Company discounted the export bills with Syndicate Bank (SB) and received Rs.11.28 crore equivalent to 98 *per cent* of the value of the cargo. Out of this, the company paid (April 2004) Rs.1.50 crore to ALL towards advance payment of share of profit. The buyer's bankers (Standard Bank London, Hong Kong) did not honour the bill on presentation (15 April 2004) by SB on the plea that the Bill of Lading (BL) and other documents received by them were copies of originals. SB demanded (October 2004) from the Company the repayment of Rs.11.28 crore together with interest at 16 *per cent* per annum with effect from 25 April 2004.

In the meantime, the buyer after paying US $ 2,47,517.13 for various taxes and penalties to the custom authorities took possession of the cargo and sold (June 2004) the same at US $ 56 per tonne. Due to non-receipt of sale proceeds, the Company proceeded (July 2005) legally against the buyers, their bankers and ALL. The Company had so far spent Rs.46 lakh towards legal expenses with a further liability of Rs.21 lakh on the pending suit. The release of Rs.1.50 crore by way of share of profit to ALL without ensuring recovery of sale proceeds from the buyers or their bankers lacked justification.

It was further observed that The Company advanced (December 2003 to April 2004) Rs.11.84 crore to ALL to meet the export expenses. ALL rendered an account for Rs.11.06 crore leaving an unspent balance of Rs.77.94 lakh which was not returned by them. As the Company holds no security and the MOU with ALL has already expired, recovery of the unspent balance is doubtful.

The Government/Management stated (July/August 2006) that a suit was filed (July 2005) in the City Civil Court, Hyderabad for recovery of Rs.4.12 crore against the foreign buyer, SB and ALL towards the value of consignments, share of profit and unspent balance and the same was pending.

Hyderabad Information Technology Venture Enterprises Limited (HITVEL)

3.5 Investment of funds in Venture Capital Undertakings

The Company's investments of Rs.7.80 crore in Venture Capital Undertakings, without following investment guidelines fully, have remained dormant without any return.

Two State Government companies viz. Andhra Pradesh Industrial Development Corporation Limited (APIDC), Andhra Pradesh Industrial Infrastructure Corporation Limited(APIIC) and Small Industries Development Bank of India(SIDBI) jointly set up (December 2000) Hyderabad Information Technology Venture Enterprises(HIVE) fund with a corpus of Rs.15 crore with an objective to realise substantial long term capital appreciation by investing in equity, equity related instruments etc. in small and medium sized venture capital undertakings (VCU) engaged in the Information Technology (IT) industry. Another company by the name Cyberabad Trustee Company Private Limited was formed (December 1999) as a trust to manage the HIVE funds. The responsibility of investment of funds was entrusted to the Hyderabad Information Technology Venture Enterprises Limited (HITVEL) in terms of investment management agreement of January 2001 entered into by the Trustees and HITVEL.

As per investment guidelines, the Company was to conduct investigations and under take due diligence with regard to the risks involved in the investments before investing funds in a VCU. The investments were to be made with the approval of Investment Committee (IC)* and the Board of Directors (Board) in such units only which could yield a minimum return of 20-25 per cent per annum (with a ceiling of 10 *per cent* of Corpus funds which was subsequently raised (February 2005) to 20 *per cent).* The corpus fund as on 31 March 2006 was Rs 13.75♣ crore contributed by SIDBI (Rs 6.25 crore), APIDC (Rs 5.00 crore) and APIIC (Rs 2.50 crore) out of which the Company invested Rs 9.35 crore up to 3l March 2006 in the equity of seven VCUs.

Investment made in five out of seven VCUs was reviewed in audit and the audit findings that emerged are discussed below:

3.5.1. Unjustified investment at a premium in Catalytic Software Private Limited

Catalytic Software Limited (CSL) - a subsidiary of Catalytic Software Inc., (CSI), USA was incorporated in February 2000 with an authorised capital of Rs. five crore. The entire initial capital of Rs.70.69 lakh in CSL was contributed by the holding company. CSL during its first year of operations ended March 2001 earned a profit of Rs.1.87 crore. During the year 2001-02 the entire profit of Rs.1.87 crore earned in the first year of operations was capitalised by issue of bonus shares in favour of holding company.

On the basis of an investment proposal (August 2001) received from CSL, the Company made (November 2001) an investment of Rs. 1.50 crore in 24.15 lakh equity shares of Rs. one each at a premium of Rs.5.21 per share with the approval of IC and the Board, but without conducting due diligence studies. The operations of CSL from the second year onwards resulted in losses and the aggregate loss as of February 2005 stood at Rs.8.19 crore. In spite of being aware of CSL's poor performance, the Company made (April 2005) a second round of investment of Rs.1.50 crore in 53.76 lakh equity shares of Re. one each at a premium of Rs.1.79 per share. The premium payable was determined considering the networth of the holding company (CSI), the veracity of which was also not verified.

A review of the financial statements of CSL revealed that the book value of its share had declined from Rs.1.10 in 2001-02 to (-) Rs. 0.25 as of 2004-05 (up to February 2005) and the accumulated losses as at the end of 2003-04 had eroded the entire paid up capital and the networth had become negative by 2004-05. CSL during 2001-02 allotted 42.31 lakh equity shares at par to their holding company and others, 1.87 crore-bonus shares in favour of the holding company at par and 24.15 lakh shares in favour of the Company during the same period at a premium of Rs.5.21 per share. The second round of investment of Rs.1.50 crore including premium of Rs.1.79 per share was thus made when CSL was suffering continuous losses and its networth had become negative.

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* appointed by HITVEL and comprising five to 11 members from major investors and industry experts.

♣ Represents the amount actually received against the corpus fund of Rs.15 crore.

Evidently the investment in CSL was made without exercising proper care and diligence regarding financial projections of the VCU. Further, determination of premium payable on the equity held in CSL considering the networth of the holding company, that too without verification, was irregular. Considering the financial position of CSL and other circumstances, investment of Rs. three crore in 77.91 lakh equity shares of Re one each with a premium aggregating Rs.2.22 crore lacked justification and was tantamount to extension of an undue favour to CSL.

The Management/Government stated (May / November 2006) that investment was made on the basis of the valuation of the parent and Indian company after considering future potential growth.

The reply is not tenable as investment was made in the Indian company, not in the parent company. Further, the poor performance of CSL was known to the Company at the time of the second investment. The investment made in the unviable unit has resulted in the investment remaining dormant without any return for four years as the VCU has continued to incur losses.

3.5.2 Injudicious investment of funds with premium in DSR solutions Private Limited

DSR Solution Limited (DSR) a private venture started its business operations in January 2000. In the investment proposal submitted (April 2002) to the Company, DSR projected Rs.86.50 lakh as loss in 2001-02 and profits of Rs.5.39 crore in 2002-03, Rs.9.72 crore in 2003-04 and Rs.15.03 crore in 2004-05. The Board, on the recommendations of the IC approved (April 2002) investment of Rs.1.50 crore in one crore equity shares of Re. one per share at a premium of Rs.0.50 per share, which was equivalent to 25 per cent of the total shares of DSR. The Company paid Rs. one crore and Rs.50 lakh in May 2002 and October 2002 respectively.

It was observed in audit (July 2005) that the investment was made without carrying out due diligence as required by the Board. The investment was not based on proper scrutiny/assessment of the performance of DSR as it could not achieve the substantial profits projected in the proposal and earned only meager profits of Rs.5.88 lakh (2002-03), Rs.4.12 lakh (2003-04) and Rs.21.08 lakh (2004-05) during the three years 2002-05.

The Management stated (May 2006) that funds were invested in ventures based on potential for growth with high risk and high return.

The reply is not tenable as acquisition of shares at a premium is unwarranted in newly created high risk ventures without due diligence. In addition, all investigations required to be carried out as per the guidelines before taking investment decisions were not conducted, thereby leading to a situation where potential for growth could not have been judiciously assessed.

Thus purchase of shares at a premium without due diligence has resulted in avoidable loss of Rs.50 lakh on premium besides unfruitful investment of Rs.one crore.

3.5.3. Undue favour to promoters – Net India Private Limited

The Company received (July 2003) a proposal from Net India Private Limited (NPL), a software undertaking incorporated in February 2000, seeking investment of Rs.1.50 crore in equity (10 lakh shares at Rs.10 each with a premium of Rs.5 per share). The Investment Committee (IC) of the Company recommended (August 2003) consideration of funding in NPL after examining the proof of placement of orders by Wipro, Danhar, Bharati and Infotech on NPL. In response, NPL expressed (October 2003) its inability to produce the requisite proof, as the same was not available till then since they expected the projected business in due course of time. As per due diligence report (December 2003) of the Chartered Accountants, the order book position of NPL was not comfortable. This report was not placed before the Board of Directors. The administrative expenses incurred by NPL up to 2002-03 resulted in cumulative loss of Rs.73.56 lakh and the sales commenced only in April 2003.

Although the due diligence report was not encouraging, the Company entered (January 2004) into a subscription and shareholding (SSH) agreement which envisaged investment of Rs.1.50 crore in five lakh equity shares in NPL (Rs.75 lakh) and for purchase of another five lakh equity shares (Rs.75 lakh) from the promoters of NPL in two instalments. Without ensuring compliance with the IC's recommendations and in deviation of the terms of SSH agreement mentioned above, the Company released (January 2004) Rs.75 lakh to the promoters for transfer of five lakh equity shares. The transfer of shares took place in March 2005. The Company released the balance Rs.75 lakh in February 2004 in favour of NPL for allotment of five lakh equity shares. The working of NPL for the years 2003-04 and 2004-05 (up to January 2005) had resulted in losses and orders from Wipro, Danhar, Bharathi and Infotech had also not been received as yet. It would be observed that the acquisition of five lakh equity shares valued at Rs.75 lakh from the promoters had only helped them in offloading the shares of a loss making undertaking.

The Management stated (May 2006) that venture capital undertakings incur losses in the initial period and revenues flow in later when the potential is gradually exploited. Regarding purchase of shares at a premium, the Management stated that this was agreed to on the basis of potential for performance at the time of investment.

The reply is not tenable in view of the fact that the poor order book position and adverse working results of NPL were known at the time of taking the investment decision and there was no improvement in the working results in the subsequent period. This has resulted in blocking up of Rs.1.50 crore in an unfruitful investment without any return.

3.5.4. Loss of investment made in Indosoft Investment International Limited

On receipt of business plan and investment proposals from Indosoft International Limited (IIL) (January 2002), the IC recommended (March 2002) an investment of Rs.1.50 crore in the equity of IIL at Rs.10 per share at par which was approved (April 2002) by the Board without first obtaining a due diligence report.

The subscription and shareholders (SSH) agreement was entered into between the Company and IIL in May 2002 which inter-alia envisaged that the investment shall constitute 15 lakh equity shares (at Rs.10 each), for a consideration of Rs.1.50 crore, subject to amendment of the Articles of Association (AOA) of IIL to incorporate the terms of the SSH agreement.

The Company invested (May 2002) the first instalment of Rs.one crore for which IIL delivered (September 2002) ten lakh shares and stated (December 2002) that the SSH agreement is enforceable only after completion of total funding and refused to amend AOA for incorporation of the terms of SSH agreement. Even though IIL had initially accepted the Company's nominee on its Board in terms of the SSH agreement, subsequent change of nomination was not accepted on the ground that SSH agreement was not enforceable. IIL proposed (December 2002) for disinvestment of Company's investment in IIL at Rs.two per share stating that they had secured alternate source of capital and funding of balance Rs.50 lakh by the Company was not needed.

It was observed in audit that the Company had released the first round of investment of Rs. one crore ignoring the adverse comments in the due diligence report (dated 02 May 2002) on improper capitalisation of revenue expenditure by ILL for the years 1996-97 to 2001-02 and on issue of bonus shares out of reserves generated. IIL's performance was not satisfactory as it incurred an aggregate loss of Rs.2.20 crore by the end of 31 March 2004.

The Management/Government stated (May/November 2006) that funds were invested based on potential for growth coupled with high risk and high return concept. It was further stated that disinvestment proposals were under negotiation as IIL's performance was not as envisaged in the project report.

The reply is not tenable as the Company had not considered the importance of the adverse remarks in the due diligence report before release of funds for investment in equity of IIL and its assumptions about potential for growth were unfounded.

The investment of Rs one crore in equity of IIL has remained unproductive.

3.5.5. Unfruitful Investment

Siva Consulting Limited (SCL) renamed (March 2004) as Ipertex Technologies Limited submitted (February 2001) a proposal to the Company for equity participation. Based on the recommendations (March 2001) of IC, the Board approved (March 2001) investment of Rs.1.50 crore in SCL towards 15 lakh equity shares of Rs.10 per share at par. The Company released Rs.80 lakh in April 2001 as first phase of funding and the balance of Rs.70 lakh has not been released so far (October 2006).

It was observed in audit that SCL utilised Rs.30 lakh towards its working capital in violation of the conditions stipulated in the subscription and shareholding agreement (April 2001). No penal/legal action was taken by the Company against SCL. Further, SCL incurred continuous losses from 2001-02 and the accumulated losses stood at Rs.1.83 crore as on 31 March 2005. In the due diligence report obtained (November 2004) for further funding it was observed that there was potential risk of revenue stream not being created or sustained business growth not taking place.

Thus the investment decision taken without first carrying out due diligence as required under the investment guidelines and without proper scrutiny/assessment of the past performance of SCL resulted in unfruitful investment of Rs.80 lakh.

The Company/Government stated (November 2006) that the unit incurred losses due to narrow market base and lack of infrastructure and further stated that the amount spent on human resources form part of the capital expenditure for generation of revenues.

The reply is not tenable as the unit has continued to incur losses for the last five years.

The above findings were reported to the Government in April/ September 2006; replies to paragraphs 3.5.2 and 3.5.3 are awaited.

Andhra Pradesh Beverages Corporation Limited

3.6 Loss of revenue

Sale of liquor and beer after the announcement of new excise policy at old rates resulted in loss of revenue of Rs.32.78 crore and extension of undue benefit of Rs.10.64 crore by way of higher profit margin to retailers.

The Company has 32 depots throughout the State for sale of Indian Made Liquor (IML) and beer which form a network of retail licensees appointed as per excise policy of the State. In terms of the new excise policy, the Company's margin on sale of Indian Made Liquor (IML) and beer as well as margin payable to retailers were revised from 1 April 2005. Further, as per

Andhra Pradesh Value Added Tax (APVAT) Act, 2005 which came into force from 1 April 2005, the rate of sales tax (ST) was also revised and fixed in slabs at maximum of 90 *per cent* of sales value as against earlier flat rate of 70 *per cent.*

In response to the Company's request (24 March 2005) seeking clarification on applicability of revised rates on old stock, the Government (Revenue Department) directed (31 March 2005) the Company to sell all the stock in hand and stock despatched on or before 31 March 2005 but which reached depots on or after 1 April 2005 at old rates prevailing as on 31 March 2005.

As on the date of commencement of new excise policy (1 April 2005) the Company had an old stock of liquor and beer valued at Rs.151.80 crore. In addition, stock of liquor and beer despatched on or before 31 March 2005 but received after 1 April 2005 to 15 June 2005 was valued at Rs.20.35 crore. Out of this, stock valued at Rs.160.18 crore was sold during 1 April 2005 to 15 June 2005 at old rates, i.e., rates prevailing as on 31 March 2005. It was noticed in audit that sale of old stock at old rates and collection of ST at pre-revised rates, resulted in a loss of revenue of Rs.32.78 crore to the Government/Company on account of ST (Rs.18.57 crore) and its own margin (Rs.14.21 crore).

It was noticed that the Company had collected ST at two different rates on sale of old and new stock during April - June 2005, i.e, at pre-revised rates on old stock and at revised (higher) rates on new stock. This was irregular and discriminatory as the ST was to be collected at uniform rates applicable on the date of sale.

It was further observed by audit that the retailers were allowed margin at old (higher) rates instead of at revised (reduced) rates resulting in extension of undue benefit of Rs.10.64 crore (to retailers) on sales made from 1 April 2005 to 15 June 2005.

The Government stated (July 2006) that in view of huge volume of work involved in affixing revised MRP stickers on each bottle/case and possible breakage due to opening of cartons, the old stock was sold at old rates.

The reply is not tenable as the rates should have been revised as per the new Excise policy and the plea of huge volume of work involved cannot be accepted.

Thus, the sale of previous year's (old) stock in disregard of the new excise policy at old rates resulted in loss of revenue of Rs.18.57 crore to the exchequer by way of sales tax and loss of revenue of Rs.14.21 crore to the Company on account of profit margin besides undue benefit of Rs.10.64 crore to the retailers by way of higher profit margin.

3.7 Avoidable payment of interest

The Company on the directions of the State Government deposited its sales proceeds in the Government personal deposit account which necessitated the Company availing bank overdraft involving interest burden of Rs.3.72 crore.

The sale depots of the Company collect the sale proceeds of beer and liquor from dealers through demand drafts/pay orders and the same are to be deposited into collection account maintained with branches of the State Bank of Hyderabad (SBH) on daily basis. Accumulations in these collection accounts are to be transferred to the credit of the principal account maintained at Hyderabad by way of telegraphic transfers. As a result of this arrangement, the Company always had surplus funds and no cash credit/overdraft facility was ever required.

However, as per the directions (6 May 2005) of the State Government effective from 9 May 2005, the Company started depositing the sale proceeds directly into the Government Personal Deposit (PD) account operated by the Director of Distilleries and Breweries (DDB), Hyderabad. The State Government also permitted the Company to operate a bank account on overdraft basis with SBH subject to a maximum limit of Rs.100 crore for making payment to the suppliers, employees, etc. The funds for payment of suppliers' bills, taxes, etc., were provided by DDB to the Company as and when required through cheques by operating PD account.

At the instance of the State Government, the Company obtained an overdraft limit of Rs.100 crore carrying interest at 9.5 *per cent* (12 *per cent* up to 13 December 2005). The monthly sale proceeds realised by the Company during May to March 2006 ranged from Rs.370.19 crore to Rs.509.39 crore which were more than sufficient to meet the monthly payments to suppliers, employees and others. In spite of availability of sufficient funds through sales, the releases from PD account were not always adequate to discharge the liabilities against suppliers' bills etc. In order to meet the shortfall in receipt of funds from the Government to discharge its accrued liabilities, the Company has been availing overdraft facility. It was noticed in audit that monthly minimum and maximum overdraft availed during the above period ranged from Rs.0.11 crore to Rs.30.26 crore and Rs.53.71 crore to Rs.115.60 crore respectively. Due to availing of overdraft the Company had to bear an interest burden of Rs.3.72 crore for the period from May 2005 to March 2006, which was avoidable in view of sufficient generation of internal funds. Thus, the directions of the State Government for deposit of sale proceeds into the Government's PD account had not only deprived the Company of its control over funds generated by it through sales, but also rendered it liable for payment of interest on overdraft. The directions of the Government were thus detrimental to the financial interests of the Company.

The Government stated (June 2006) that new procedure was adopted to improve the liquidity position of the State Government. The reply is not tenable as the practice adopted was not only irregular but also had jeopardized the financial interest of the Company.

3.8 Locking up of funds

Delay in replenishment of funds advanced to Prohibition and Excise department resulted in locking up of funds with consequential loss of interest of Rs.61 lakh.

Excise labels are affixed on liquor bottles before their release into the market for sale. These labels are supplied to the manufacturers of liquor by the Prohibition and Excise (PE) department on collection of user charges at 10 paise per label. The Company used to undertake the printing and supply of these labels for PE department up to August 2002. As per the directions (May 2002) of the State Government, the job of printing of labels was taken over by PE department from the Company. The directions stipulated that the expenditure on printing of the labels should be met out of the user charges received by the Government.

Due to absence of budget provision and delay in release of funds by the Government, the PE department was meeting the expenditure on printing of labels out of cash advances drawn from the Company from time to time. During 2002-03 to 2005-06 (up to January 2006), the Company advanced Rs.15.90 crore to the PE department, out of which a balance of Rs.5.07 crore was outstanding as at 31 March 2006. The funds advanced to PE Department also included Rs.3.39 crore drawn (May 2005 – January 2006) out of cash credit, carrying an interest at 9.5 *per cent* per annum.

Thus, the delay in replenishing funds drawn by way of advances by the PE department had not only resulted in locking up of working capital funds of the Company, but also in loss of interest of Rs.61 lakh (calculated at 6 *per cent* per annum on own funds and at 9.5 *per cent* on borrowed funds). Drawal of advances from the Company resulted in expenditure on printing being incurred by the PE department without the sanction of Legislature.

The Government stated (August 2006) that funds were advanced with a view to avoid shortage of Excise adhesive labels which may adversely affect IML sales and revenue.

The reply is not tenable as the directions of the Government specifically stipulated that expenditure on printing of labels was to be met from funds provided by the Government. Further, the expenditure on printing of labels was incurred without the approval of the State Legislature.

Andhra Pradesh Forest Development Corporation Limited

3.9 Loss in exports sales

Sale of coffee in international market on fixed price ignoring the upward trend of coffee prices in the domestic market resulted in loss of revenue of Rs. 2.83 crore.

The Company, up to the 2002-03 harvest season, was selling the entire coffee produced in the domestic market through open auction at Bangalore and Vijayawada. With a view to explore the export market, the Company obtained (April 2003) an export permit from the Coffee Board.

There are two types of trading in coffee exports, viz., fixed price* (FP), and price to be fixed** (PTBF). The FP method is resorted to where the shipment period is short and the market has no potential to move up. The PTBF method is followed by traders who are confident that the market would move up.

As the Company had no experience in export trade, it approached (February 2004) Adam & Company, Bangalore (Agent) who agreed to procure export orders. The agency commission payable to them was Rs.500 per tonne of the coffee exported. The Company neither entered into any formal agreement with the agent laying down detailed terms and conditions, nor obtained approval of the Board of Directors for nomination of the above agent for procuring export orders. The approval of the State Government required under Andhra Pradesh Forest Contract (Disposal of Forest Produce) Rules, 1977 for sales at rates negotiated by the Agent in lieu of tender rates was also not obtained.

The Company proposed (July 2004) to export 750 tonnes of coffee out of the produce of the 2004-05 season. It was noticed in audit that the Company received through the Agent (July-September 2004) ten contracts for exporting 441.60 tonnes of coffee to Switzerland during March-June 2005 on “fixed price” basis. In addition, ten more orders were received (November-December 2004) through the Agent for export of 364.8 tonnes of coffee during February-May 2005. Thus, in all the Company received and accepted 20 forward contracts for export of 806.40 tonnes of coffee from the produce of the 2004-05 season on fixed price basis.

It was observed in audit that the Company effected the sales on fixed prices basis instead on PTFB basis despite being aware of the upward trend of the prices of coffee due to low Brazillian crop in 2004-05. The entire quantity (806.40 tonne) was shipped (February-June 2005) and sale proceeds of Rs.6.19 crore were realised. Contract-wise realisation from these exports

* All variables are fixed irrespective of market fluctuations.
** Price is kept open and fixed before shipment by way of a formula linking to terminal market, viz., New York Board of Trade**.**

ranged from Rs.36.46 to Rs.94.96 per kilogram for various grades of coffee. During the same period (February-June 2005) the Company conducted six open auctions in the domestic market for the same grades of coffee as exported and 377 tonnes of coffee of the 2004-05 season was disposed of at prices ranging from Rs.54.20 to Rs.118.75 per kilogram. The Company thus suffered a loss of Rs.2.83 crore[*] on the export of coffee as compared to the prices at which coffee was sold in the domestic market. The loss could have been avoided if the Company had either adopted the PTBF rates or sold the entire produce locally in view of the known upward trend in the prices of coffee.

The Government / Management, while accepting the facts, stated (July 2006) that the matter was put up to the Board (for discussion in the meeting on 18 July 2005) indicating present export rates vis-à-vis earlier year's domestic rates obtained in June 2005, but it was deferred due to initiation of investigation by the Vigilance and Enforcement Department of the State Government.

Andhra Pradesh Industrial Infrastructure Corporation Limited

3.10 Undue favour to a private party

Allotment of alternate plot at the behest of the Government at original allotment rate instead of prevailing rate resulted in loss of Rs.78.52 lakh.

The Company allotted (August 1988) a plot of land measuring 1,428.70 Sqm (valued at Rs.48,485[*]) at Industrial Estate (IE), Kattedan in favour of Siddartha Entrepreneurs (promoters) for setting up a unit for manufacture of wire nails and wire drawings. The promoters failed to start the unit within the permissible period of two years. The Company, therefore, cancelled (February 1994) the allotment and resumed (September 1995) the plot. On a request from the promoters, the Company agreed (July 2000) for restoration of the plot on payment of restoration charges at 10 *per cent* on the then prevailing cost of the land. As the promoters failed to pay restoration charges fully, the Company withdrew (April 2004) its offer for restoration of the plot.

When the promoters made a request (July 2004) for allotment of alternate plot in IE at Uppal, the Company did not accede to their request (September 2004) on the ground that their line of activity would be detrimental to the units existing in that area. The Company, however, offered an alternate plot in Industrial Developmental Area (IDA), Cherlapally subject to payment of cost of land at rates prevailing on the date of release of allotment letter. Meanwhile, the State Government directed (January 2005) the Company to

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[*] Being the difference between the export sale proceeds plus expenses and comparable sale proceeds computed with reference to rates obtained in auction sales.

[*] Rs.85,722 (1,428.70 Sqm at Rs.60 per Sqm) minus discount of Rs.37,237 allowed due to unevenness of the plot.

consider the request of the promoters for allotment of a plot of land in IE, Uppal "on site to site basis" and collect the cost of land at rates prevailing in the year 1988.

In compliance with the directions of the Government, the Company, without obtaining approval of its Board allotted (April 2005) a plot of land measuring 2,604 Sqm in IE, Uppal after collecting Rs.85,722 for 1,428.70 Sqm and Rs.1,46,912 for the land area of 1,175.30 Sqm (at Rs.125 per Sqm). Audit scrutiny revealed that the rate prevailing in IE, Uppal at the time of allotment of 2,604 Sqm of land was Rs.3,105 per Sqm. Computed on the basis of the prevailing rate of land in IE, Uppal, the allotment of 2,604 Sqm of land resulted in loss of Rs.78.52 lakh[π] with corresponding undue benefit to the promoters. Besides, the allotment of the alternate plot at the rates prevailing in the year 1988 was also contrary to the Company's Allotment Regulations, 1998 which provide that if there is any increase in land rate between the date of original allotment and date of allotment of alternate plot, the cost of land at the rates prevailing as on the date of allotment of the alternate plot should be levied for the entire plot.

The Management stated (July 2006) that the directions of State Government were complied with in this case. The reply is not tenable as the directions of the State Government in this regard were detrimental to the financial interest of the Company.

The matter was reported to the Government in April 2006; their reply is awaited (September 2006).

Andhra Pradesh State Housing Corporation Limited

3.11 Avoidable interest burden

Failure to exercise option against deduction of Rs.1.04 crore towards R&D fund resulted in reduced availability of loan funds from HUDCO by an equal amount with a corresponding avoidable interest burden of Rs.62.91 lakh.

The Company avails term loans from HUDCO for implementation of housing programme for weaker section in the State. HUDCO, while releasing the first instalment of sanctioned loans, deducts an additional front-end fee of 0.25 *per cent* (of the sanctioned loan) and transfers the same to the Research and Development (R&D) fund maintained by it. The R&D fund is being made available to the borrowing agency for incurring expenditure on upgrading organisational capabilities and capacity building of its professionals. The balance in the R&D fund, if not utilised by the borrowing agency within five years from the date of credit to the fund, will be transferred to HUDCO's R&D fund and the borrowing agency will have no claim on this. As per the

[π] Rs.80.85 lakh (at Rs.3,105 per Sqm for 2,604 Sqm of land) minus Rs.2.33 lakh.

revised guidelines, HUDCO made (17 March 2004) it optional for the borrowing agency for deduction towards the additional front-end fee.

The first instalment of two loans of Rs.300 crore and Rs.117 crore sanctioned (December 2003 and March 2005) by HUDCO was released on 31 March 2004 and 5 April 2005 at floating interest rate of eight *per cent* and 6.5 *per cent* respectively. As the Company had not exercised the option for non- levy of additional front-end fee of 0.25 *per cent* towards the R&D fund, HUDCO, while releasing first instalment of the above two loans, deducted Rs.75 lakh and Rs.29.25 lakh towards the R&D fund. On this contribution of Rs.104.25 lakh to the fund, the Company would bear an interest burden of Rs.62.91 lakh over the tenure of both the loans (14½ years). It was noticed in audit that the contribution by the Company to the R&D fund maintained by HUDCO would not earn any interest while the Company had to pay interest at the borrowing rate on the same as this formed part of sanctioned loan. No specific benefit would accrue to the Company on account of making contribution to the R&D fund.

The Government stated (July 2006) that R&D funds would be utilised for training programmes.

The reply is not tenable as it was noticed that an amount of Rs.41.51 lakh available in the R&D fund from earlier contributions was not utilised by the company and the amount was transferred by HUDCO to its own R & D fund in April 2004.

Thus, due to failure to exercise the available option for not making contribution to the R&D Fund, the Company ended up with reduced availability of loan funds by Rs.1.04 crore with a corresponding avoidable interest liability of Rs.62.91 lakh over the tenure of the loans.

The Singareni Collieries Company Limited

3.12 Undue benefit to supplier

Acceptance of price increase in contravention of the agreed terms resulted in extension of undue benefit of Rs.24.64 lakh to supplier

For supply of tubeless radial/cross ply tyres with service and repairs for use on 85 tonne dumpers, the Company placed (May 2004) an order on the lowest tenderer viz., Goodyear India Limited (suppliers), Chennai at a firm price of Rs.1,27,797 per tyre (radial) plus excise duty at 24 *per cent* subject to actuals, for delivery at destination. As per the standard terms and conditions of the supply orders (of the Company), supplies were to be accepted subject to penalty clause for delayed supplies and risk purchase clause in case of non-supply. It was, however, noticed that in the supply order placed on the above suppliers for supply of 524 tyres valued at Rs.6.70 crore, the standard penalty and risk purchase clauses were not included. Further, the prices agreed upon were firm and the entire supplies were to be completed by the end of May 2005.

Against the ordered quantity of 524 tyres, the supplier delivered 283 tyres up to April 2005. In the annual budget for the year 2005-06 the excise duty on tyres was reduced to 16 *per cent* from 24 *per cent*. The supplier instead of passing on the benefit of reduced excise duty, requested (May 2005) the Company for a price increase of eight *per cent* on the basic price (Rs.1,27,797) on the plea that there was increase in the cost of production due to increase in the cost of raw materials. Further, the supplier also requested the Company for extension of delivery period up to January 2006 for supplying the balance quantity of 241 tyres on order. Although the rates agreed upon as per the supply order were firm and the excise duty was payable as per actuals, the Company accepted (May 2005) the request of the supplier for the increase in price by eight *per cent* and extension of delivery period up to January 2006.

Acceptance of the price increase by eight *per cent* in contravention of agreed terms lacked justification and also resulted in extension of undue benefit of Rs.24.64 lakh to the supplier on 241 tyres delivered during the extended delivery period.

The Management/Government stated (May/June 2006) that due to increased demand for tyres coupled with increase in prices, the tyre manufacturers could not adhere to the delivery schedule.

The reply is not acceptable as the

- prices agreed upon were firm and any escalation thereon was unjustified;

- standard penalty and risk purchase clauses were not included in the supply order which rendered the Company vulnerable to acceptance of price increase on delayed supplies; and

- the plea of increased demand for tyres was not a valid excuse for extension of delivery schedule.

Transmission Corporation of Andhra Pradesh Limited

3.13 Undue benefit to an Independent Power Producer

The Company extended undue benefit of Rs.8.28 crore to an independent power producer by way of reimbursement of insurance charges not covered by the Power Purchase Agreement.

In terms of the power purchase agreement (PPA) entered into on 23 January 1997 by the erstwhile Andhra Pradesh State Electricity Board (APSEB) the Company (successors to APSEB) is purchasing power from 208 MW gas based thermal power plant owned and operated by Spectrum Power Generation Limited (IPP). As per Article 3 of the PPA, tariff comprising fixed and variable charges, payable for the power supplied by IPP are determined for each tariff year. One of the elements of fixed charge is insurance premia which is payable at actuals subject to a maximum of 20 *per cent* of the operation and maintenance charges.

Further, as per the provisions of the PPA, the IPP was to maintain insurance policy cover for (i) Workers compensation and employers liability, (ii) General liability insurance, (iii) Builders all risk insurance and (iv) All risk property/comprehensive boiler and machinery insurance. During the period from 2002-03 to 2005-06, the Company reimbursed Rs.13.96 crore by way of insurance charges to the IPP. Audit scrutiny of the insurance claims revealed that out of Rs.13.96 crore, Rs.8.28 crore related to the insurance cover for "Loss of gross profit due to business interruptions". As there was no provision in the PPA for reimbursement of insurance charges for "Loss of gross profit due to business interruptions", reimbursement of Rs.8.28 crore by way of insurance charges on this account was unauthorised and amounted to extension of undue benefit to the IPP.

The Government/Management stated (July 2006) that the IPP insisted to obtain Business Interruption policy and so it was included in the fixed cost.

The reply is not tenable as the provisions of the PPA did not provide for such payment.

Central Power Distribution Company of Andhra Pradesh Limited (CPDCL)

Eastern Power Distribution Company of Andhra Pradesh Limited (EPDCL)

3.14 Non-collection of Electricity Duty

Failure of two power distribution companies to collect electricity duty from Ferro alloy manufacturing units resulted in loss of Rs 13.55 crore to the State exchequer.

The State Government, in exercise of powers under sub-section (1) of Section 7 of the Andhra Pradesh Electricity Duty Act, 1939 permitted (December 1994) erstwhile Andhra Pradesh State Electricity Board (Board) (presently the power distribution companies) to recover electricity duty (ED) at the rate of six paise per unit (from 1 December 1993) from all consumers or class of consumers for the energy sold. ED recoverable from such consumers or class of consumers shall not be a part of the price charged for energy sold and will be a first charge on the amounts recoverable by the Board / power distribution companies. The duty so collected shall be remitted to the State Government - a debt due by the Board/Power distribution companies to the State Government. The State Government granted (October 2003) exemption to ferro alloy units from payment of ED in respect of power generated from their captive plants and utilized by them.

There were two and five Ferro alloy manufacturing companies (consumers) under the jurisdiction of CPDCL and EPDCL respectively. It was observed in audit that the power distribution companies neither claimed nor collected electricity duty on the power supplied by them to the above units on the plea that these units were exempt from payment of ED. Since the Government orders exempted the ferro alloy units from payment of ED on the power produced and utilised by them from their capitive sources, non-collection of ED by the distribution companies from the above ferro alloys units was not correct. Thus, the failure to claim, collect and remit the ED on the power drawn from CPDCL and EPDCL by the above mentioned units for the period November 2002 to April 2006 resulted in loss of revenue of Rs. 13.55 crore to the State exchequer.

The Management/Government stated (September 2006) that the Company had approached the State Government for instructions for collection of ED from the ferro alloy units. It further stated that pending orders from the Government, working instructions of AP Transco against collection of ED from ferro alloy units were being followed.

The reply is not tenable as the State Government did not exempt the ferro alloy units from payment of electricity duty on the power purchased by them from electricity companies.

Power Distribution Companies

3.15 Overpayment of service charge to e-Seva

Payment of service charges on current consumption bills collected in non-urban areas at the rate applicable to urban areas resulted in over payment of services charges by Rs.1.76 crore.

As per orders issued (December 2003) by the Information Technology and Communications Department, Government of Andhra Pradesh, the power distributing companies (DISCOMs) were required to pay a service charge of Rs.five and Rs.3.50 per current consumption (CC) bill collected by the service provider viz., e-Seva, in urban and other than urban areas respectively. It was, however, observed in audit that in disregard of the Government instructions, DISCOMs continued to pay service charge at Rs.five instead of Rs.3.50 per CC bill collected by the service provider in areas other than urban areas**.**

Thus, the payment of service charges in contravention of the Government instructions by the three distribution companies* resulted in over payment of Rs.1.76 crore (being the difference between Rs.5 and Rs.3.50 per CC bills) to the service provider for the period from December 2003 to August 2006.

The Government stated (December 2006) that the rate notified in the said Government Order was applicable only for Andhra Pradesh on line and not for the e-seva centres. The reply is not tenable since the rate as prescribed in the Government Order were applicable to e-seva centres also.

Andhra Pradesh Power Generation Corporation Limited (APGENCO)

3.16 Avoidable expenditure

Non enhancement of cash credit facility to avoid penalty for payment of lease rentals resulted in avoidable payment of penalty of Rs 1.57 crore.

The erstwhile Andhra Pradesh State Electricity Board (presently APGENCO) entered (21 March 1996) into a lease (loan) agreement with Power Finance Corporation Limited for Rs.280 crore towards value of equipment for Kothagudem Thermal Power Station (KTPS) – V Stage installed at KTPS, Paloncha whereby the repayment at agreed rates (with interest) was to be

* Central Power Distribution Company of Andhra Pradesh Limited (CPDCL), Northern Power Distribution Company of Andhra Pradesh Limited (MPDCL) and Eastern Power Distribution Company of Andhra Pradesh Limited (EPDCL). In respect of Southern Power Distribution Company of Andhra Pradesh Limited (SPDCL) this aspect has been covered in paragraph number 2.2.31 of the Report

completed in 10 years. As per the terms of agreement, payments were to be made on the first day of every quarter, failing which late charges at 20 *per cent* per annum were leviable for delayed payment.

It was observed in audit that the Company had paid penal charges of Rs 4.53 crore as a matter of routine from the third quarter of 2001-02 to the fourth quarter of 2003-04. Had the Company prioritised its commitments and resorted to availing cash credit to pay the quarterly lease rentals on time, penalty would have been avoided and a saving of Rs. 1.57 crore could have accrued, being the difference between the rate of penal charges (20 per cent) and the average cost of cash credit borrowings in the respective years (ranging between 11.25 to 14.7 per cent).

The Management/Government stated (January 2006 / July 2006) that due to delay in payment of energy bills by Transmission Corporation of Andhra Pradesh Limited (APTRANSCO), the payment of penal interest became inevitable and since the entire finance charges were admissible to be passed on to APTRANSCO, there was no loss to APGENCO. Further, the cash credits available were not sufficient to meet the monthly commitments.

The contention of the Management is not tenable as, though the amount was passed on to APTRANSCO, it still constitutes avoidable expenditure and a burden on the State exchequer in the shape of subsidy. In view of this the Company should have explored the possibility of borrowing funds from banks/ financial institutions to mitigate the shortage of funds.

STATUTORY CORPORATION

Andhra Pradesh State Road Transport Corporation

3.17 Unproductive expenditure

Implementation of Real Time Passenger Information System(RTPIS) project without proper study resulted in an unproductive expenditure of Rs.1.26 crore

The Corporation took up (December 2001) a pilot project called "Real Time Passenger Information System" (RTPIS) with the assistance of the Ministry of Information Technology, Government of India and CMC Limited, Hyderabad to provide real time information regarding arrival and departure of buses and availability of seats.

The project was implemented (June 2003) by installing 75 vehicle mounted units on 75 buses for two routes viz., (i) Hyderabad – Vijayawada – Eluru (49 Hi-tech/Volvo buses) and (ii) Dilsukhnagar-Patancheru (26 Veera buses) at a cost of Rs.1.49 crore.

Since the staff deployed on Hi-tech buses were to be provided with cell phones, the Corporation decided (October 2004) to dismantle RTPIS equipment from all 49 inter city buses and to install them in Veera buses being operated in Hyderabad city region. The dismantled equipment were, however, not installed for want of repairs, compatibility of sign boards and modifications required for software and firmware*. The Corporation finally shelved (December 2004) the project on the ground that Rs.11 lakh was required for repairs in addition to Rs.9 lakh towards annual maintenance contract (AMC) and poor response from public. Out of 75 RTPIS units installed initially, only 16 units were effectively working as of April 2006. Thus, the expenditure of Rs.1.26 crore incurred on 59 (including 10 city units under repair) RTPIS units proved wasteful.

The Management stated (April 2006) that the information provided by the RTPIS project was not of much use to the passengers due to increased frequency of buses, use of cell phones by the staff and high repairing cost. As such, the system was withdrawn.

It was further stated (July 2006) that the project was conceived with GPS and GSM technologies which became outdated subsequently due to evolution of GPRS and CDMA technologies. The reply is indicative of the fact that the Corporation had not studied in detail the feasibility of the project and the technological changes on the anvil. The implementation of the RTPIS project was, therefore, ill conceived.

The matter was reported to the Government in June 2006; their reply is awaited (September 2006).

3.18 Idle investment

Implementation of electronic Attendance Monitoring System (e-AMS) without studying its feasibility at Depots rendered investment of Rs.38.17 lakh idle.

The Corporation introduced (2003) Electronic Attendance Monitoring System (e-AMS) for improvement of punctuality, attendance, reduction in work load, generation of monthly musters and interface with pay rolls, etc. The e-AMS consists of four components viz., (i) PC with software and application (ii) Reader (main equipment) (iii) Power unit and (iv) Smart cards supplied to the employees. All the employees have to flash their smart cards on the Reader at the time of entering and leaving the office. The Reader records the data i.e., time of arrival/departure. The data stored by the Reader is to be downloaded in the PC by the Personnel department i.e., daily, weekly, fortnightly, monthly and yearly. In the first phase, the system was to be

* A software loaded in GPS mounted to bus which contains a programme for route number and other bus details

introduced at 50 locations in Hyderabad (Head Office and units/depots) besides depots in Kurnool region.

The e-AMS equipment was procured from Radiant Info Systems, Bangalore at a cost of Rs.48.93 lakh. The system was installed during April 2003 to May 2004. The warranty period of one year from the date of installation of the equipment in different units expired during April 2004 -May 2005.
It was noticed in audit that:

- Out of 50 locations where the equipment was installed, it was working only at 11 locations (four in Corporate office, one in Tarnaka Hospital and two in Bus Body Building unit, Miyapur, two in Zonal workshop, Uppal and two in Central Bus station, Hyderabad). In the remaining locations, the equipment was not working due to problems surfaced in the system from the date of installation.

- The Management did not enter into any agreement with the supplier for annual maintenance for seven e-AMS in use. The problems in the equipment were being attended to by the suppliers on call rate basis.

- Though smart cards were supplied, some of the employees were not flashing the card and attendance in the concerned sections is being maintained manually. Further, e-AMS were not linked to pay roll of employees.

- The utility of the e-AMS in depots was limited, due to change over points of certain crew (drivers and conductors) being outside the depots and these employees did not touch the depots resulting in non-availability of data regarding punctuality of such crew.

The Management stated (July 2006) that due to change over of duties of bus crew outside the depot premises, recording of attendance and generation of required reports under e-AMS cannot be applied to these staff and as such it was now being considered for implementation for the staff confined to unit premises only. It was further stated that employees' resistance was also faced as the punctuality was monitored by this system.

The reply is not tenable as the difficulties on account of mobile crew were well known to the Management before introduction of the system. The project could have been conceived after consultations with the Staff Unions to prevent resistance from the employees. Thus, failure to plan properly and evaluate the feasibility of the project rendered the investment of Rs.38.17 lakh on the installation of equipment unfruitful in 39 out of 50 locations.

The matter was reported to the Government in June 2006; their reply is awaited (September 2006).

General

3.19 Follow up action on Audit Reports

Explanatory Notes Outstanding

3.19.1 Audit Reports of The Comptroller and Auditor General of India's Audit Reports represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various offices and departments of the Government. It is, therefore, necessary that appropriate and timely response is elicited from the Executive on the Audit findings included in the Audit Reports. The Finance Department, Government of Andhra Pradesh issued (June 2004) instructions to all the 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 2004-05 were presented to the State Legislature, between March 1994 and March 2006, 11 out of 14 departments did not submit explanatory notes on 96 out of 304 paragraphs/reviews as on September 2006 as indicated below:

Year of the Audit Report (Commercial)	Date of presentation to State Legislature	Total Paragraphs/ Reviews in Audit Report	No of Paragraphs/ reviews for which explanatory notes were not received
1992-93	29-3-1994	36	1
1993-94	28-4-1995	25	2
1995-96	19-3-1997	28	7
1996-97	19-3-1998	29	2
1997-98	11-3-1999	29	9
1998-99	3-4-2000	29	10
1999-2000	31-3-2001	24	10
2000-01	30-3-2002	21	6
2001-02	31-3-2003	23	9
2002-03	24-7-2004	16	3
2003-04	31-3-2005	21	14
2004-05	27-3-2006	23	23
Total	**--**	**304**	**96**

Departmentwise analysis of reviews/paragraphs for which explanatory notes are awaited is given in **Annexur**e**14**. Majority of the cases of non-submission of explanatory notes relate to PSUs under the Departments of Energy and Industries & Commerce.

Compliance to Reports of Committee on Public Undertakings (COPU)

3.19.2 Action taken Notes (ATNs) on recommendations of the Committee on Public Undertakings (COPU) are required to be furnished within six months from the date of presentation of the Report to the State Legislature. ATNs on 734 recommendations pertaining to 39 Reports of the COPU presented to the State Legislature between April 1991 and March 2006 had not been received as on September 2006 as indicated below:

Year of COPU Report	Total number of Reports involved	No of Recommendations where replies not received
1991-92	1	3
1992-93	7	279
1993-94	6	177
1995-96	1	30
1996-97	1	2
1997-98	2	38
1998-99	2	16
2000-01	12	112
2002-03	1	24
2004-05	4	36
2005-06	2	17
Total:	**39**	**734**

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 the State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of six weeks. Inspection reports issued up to March 2006 pertaining to 35 PSUs disclosed that 3,793 paragraphs relating to 1,273 inspection reports remained outstanding at the end of September 2006; of these 222 inspection reports containing 937 paragraphs had not been replied to for one to 13 years. Department-wise details of inspection reports and audit paragraphs outstanding as on 30 September 2006 is given in **Annexure-15**.

Similarly, draft paragraphs and reviews are forwarded to the Principal Secretary/Secretary of the administrative department concerned demiofficially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that six draft paragraphs and two performance reviews forwarded to the various departments during November 2005 to September 2006 as detailed in **Annexure-16** had not been replied so far (October 2006).

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

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

Countersigned

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The **Comptroller and Auditor General of India**