CHAPTER-II
REVIEWS RELATING TO GOVERNMENT COMPANIES

2.1 ANDHRA PRADESH STATE HOUSING CORPORATION LIMITED

Highlights

Andhra Pradesh State Housing Corporation Limited was incorporated in July 1979 as a wholly owned State Government company mainly to formulate and undertake housing schemes for rural poor and weaker sections of society and create other infrastructure facilities required for housing schemes.

(Paragraph 2.1.1)

Funds were borrowed on the basis of sanction of the housing programme without considering availability of unutilsed funds out of earlier loans, pace of utilisation of funds, etc. This rendered mobilisation of funds in excess of actual requirement by Rs.104.08 crore over the period of five years up to 2002-03.

(Paragraph 2.1.7)

Funds of Rs.452.23 crore transferred by head office to district units remained unreconciled at the end of 2002-03.

(Paragraph 2.1.12)

None of the housing schemes were completed in the year in which they were sanctioned. Out of 16.55 lakh houses taken up for construction during 1998-2003, 3.86 lakh houses remained incomplete up to March 2003.

(Paragraph 2.1.14)

Due to delay in selection of beneficiaries, 426 flats constructed at a cost of Rs.5.38 crore are lying unoccupied for over one year with a resultant loss of interest charges of Rs.80.70 lakh.

(Paragraph 2.1.23)

In three district units of the Company bank reconciliation was in arrears for periods ranging from four to nine years and discrepancies remained unrectified.

(Paragraph 2.1.29)

Funds aggregating Rs.90 lakh were invested in cooperative banks, not notified by State Government. Similarly four district offices invested funds aggregating Rs.22.71 crore in FDRs without the approval of the competent authority. Whereabouts of FDRs aggregating Rs.23 lakh invested during 1991-1997 by one district office were not known till date.

(Paragraph 2.1.30)

There was a difference of Rs.33.06 crore between loan collections reported by district offices and actually remitted to head office. This was due to retention of collections by field staff/retention of funds by collecting banks.

(Paragraph 2.1.33)

Absence of adequate internal control mechanism and proper monitoring of activities led to mis-utilisation and misappropriation of funds and materials, retention of loan recoveries, etc. aggregating Rs.11.74 crore.

(Paragraph 2.1.41)

Introduction

2.1.1 Andhra Pradesh State Housing Corporation Limited (Company) was incorporated in July 1979 as a wholly owned State Government company with the main objectives to:

- formulate, promote, execute and implement housing schemes for the people in general and weaker sections in particular or the persons living in rural areas;
- undertake construction of buildings and create other infrastructure facilities required for the housing schemes; and
- take up research and development activities in the field of building construction and material management.

A company viz., Andhra Pradesh Urban Development and Housing Corporation Limited (APUD&HC) formed in August 1989 to implement urban housing schemes was merged with the Company with effect from 1 April 1997 as per directions of State Government mainly to avoid duplication of activities. Presently the Company is acting as a facilitator for

Note: Abbreviations used in the review are explained in the Glossary.

implementation of housing schemes formulated by State and Central Governments for the benefit of rural and urban poor and weaker sections of the society.

Scope of Audit

2.1.2 The working of the Company was last reviewed in the Report of Comptroller and Auditor General of India for the year ended 31 March 1998 (Commercial), Government of Andhra Pradesh. Committee on Public Undertakings (COPU) discussed the Audit Report. Recommendations of COPU contained in its ninth report were presented to the Legislature on 29 March 2001. The following were the major recommendations of COPU:

- To update beneficiary ledgers and bifurcate principal and interest collected.
- Periodical assessment of funds released and utilised in district offices.
- Preparation of beneficiary-wise loan ledgers and informing the position of outstanding to beneficiaries.
- Not to collect administrative charges as the beneficiaries were very poor.
- Evolving a mechanism to prevent cases of malpractices.
- Evolving a strong internal audit wing/revitalising the existing one for making it more efficient.

Action taken report of management/Government was yet to be received (September 2003). Similar irregularities still persisted as discussed in paragraphs 2.1.12,2.1.28, 2.1.32, 2.1.40 and 2.1.41.

The working of the Company covering transactions at head office and seven[*] out of 23 district offices for a period of five years up to 2002-03 was reviewed during March to June 2003 and the points emanated therefrom are contained in the succeeding paragraphs.

2.1.3 The meeting of Audit Review Committee for State Public Enterprises was held on 9 October 2003 to discuss the draft review on the working of the company. In the meeting, the State Government was represented by the Principal Secretary to Government (Housing) and the company by the Managing Director. The review has been finalised after taking into consideration the views of the Government and the Company.

[*] Visakhapatnam, Krishna, Chittoor, Medak, Khammam, Warangal and Ranga Reddy districts

Organisational set up

2.1.4 The management of the Company is vested in a Board of Directors (Board). As on 31 March 2003, there were 12 directors including Chairman and Managing Director on the Board of the company. The Managing Director (MD) is the chief executive of the Company who is assisted by functional heads at head office for finance, administration and engineering.

At field level, each district had an office headed by a District Manager who reports to the District Collector who is the ex-officio Executive Director (ED) at district level. The District Manager is supported by Deputy Executive Engineers (Dy.EE), Assistant Engineers (AE) and Work Inspectors (WI) for implementation of housing schemes.

The post of Chief Engineer remained vacant from August 1998 to July 2003. Similarly, the posts of Secretary cum Senior General Manager (Audit) and General Manager (Finance) had been lying vacant since January 2001 and January 2002 respectively.

Capital structure and borrowings

Capital structure

2.1.5 The authorised and paid-up share capital of the Company as on 31 March 2003 was Rs.25 lakh divided into 2,500 equity shares of Rs.1,000 each fully subscribed by the State Government.

Borrowings

2.1.6 The Company obtains loans at differential rate of interest (DRI)[#] and non-DRI[♣] from commercial banks, Housing and Urban Development Corporation (HUDCO) and financial institutions (FI) for implementation of various housing schemes sponsored by State and Central Governments. The loan funds are utilised for extension of loan assistance to the beneficiaries for construction of houses. Apart from this, the State Government obtains loans from Life Insurance Corporation of India (LIC) and General Insurance Corporation (GIC) and transfers the same to the Company for implementation of housing schemes.

[#] Differential rate of interest loans are meant for the benefit of below poverty line (BPL) families and carry interest at 4 ***per cent***

[♣] Non-differential rate of interest loans are meant for housing schemes for category other than below poverty line.

The details of loans mobilised, repayments made for five years up to 2002-03 were as follows:

(Rs. in crore)

Name of the lending institution	Opening balance	Receipts	Total	Repayment	Closing balance	Rate of interest
HUDCO	421.99	963.11	1385.10	489.78	895.32	7 ***to*** 16.5 ***per cent***
Banks	211.89	126.00	337.89	146.75	191.14	4 to 13 ***per cent***
Financial institutions	28.78	22.50	51.28	20.51	30.77	8 to 14 ***per cent***
Total	**662.66**	**1111.61**	**1774.27**	**657.04**	**1117.23**	

With a view to make repayment of loans on due dates together with interest accrued thereon to the banks and financial institutions, State Government extended term loans (including LIC and GIC loan) aggregating Rs.2578.73 crore up to 2002-03. The loans carry interest at 15 ***per cent*** per annum with a provision for penal interest at one and half times of interest payable. None of these loans along with interest of Rs.108.48 crore accrued thereon as at the end of 1997-98 (the period up to which accounts were finalised) were repaid so far (March 2003). The management replied (September 2003) that the State Government recovered a total amount of Rs.490.84 crore from various amounts payable to the Company and adjusted the same against the loans payable to it.

Audit observed that loan ledgers were not properly maintained showing the details of loan instalments due, interest payable, due date for repayment, with the result there was no reconciliation of demand and outstanding loan with reference to the demand of lending institutions. The Company replied (September 2003) that reconciliation of loans from banks and HUDCO had been taken up and the same was in progress.

Loans mobilised without regard to actual expenditure

2.1.7 Mobilisation of loan funds for execution of rural housing schemes is made on the basis of Government's annual programme of construction. The company during 1998-2003 mobilised loan funds of Rs.1,111.61 crore from HUDCO and financial institutions mainly for implementation of rural housing schemes. This amount was sufficient to extend loan assistance of Rs.10,000 each to 11.12 lakh beneficiaries of Rural Permanent Housing (RPH) programme. As against this, 7.75 lakh houses were completed during the above period and 0.91 lakh houses were in progress. The fund needed for disbursement of loans to these beneficiaries was Rs.866 crore. Thus, the loan funds mobilised were in excess of actual need by Rs.245.61 crore.

The surplus loan funds were either invested in term deposits or kept in current account with banks without earning interest. The funds held in bank deposits ranged from Rs.533.98 crore to Rs.726.12 crore during five years ended 2002-03. If the mobilisation of loan funds has been need-based, there would have been substantial savings on borrowing costs. Thus, there is an imperative need to introduce a system of review of interest bearing borrowings with reference to actual utilisation and availability of unutilised balances at regular intervals.

During the period of five years up to 2002-03 loans were mobilised in excess of actual requirement rendering excess drawal of Rs.104.08 crore.

The management replied (September 2003) that the funds were also utilised to the extent of Rs.141.53 crore for execution of urban housing schemes. The fact, however, remains that even after considering the urban housing requirements, there was still excess drawal of loans to the tune of Rs.104.08 crore.

Loan drawn in excess of requirement

2.1.8 In respect of urban housing schemes, HUDCO releases 25 ***per cent*** of the sanctioned loan after completion of the documentation. With a view to finance 20,000 urban permanent houses allocated for the year 2000-01 by the State Government, the company obtained (March 2002) sanction for a term loan (interest at 10 ***per cent*** per annum) of Rs.41 crore from HUDCO, which was valid for one year from the date of sanction. This was intended to lend at Rs.20,000 to 18,000 (normal) and at Rs.25,000 to 2,000 (special) urban housing beneficiaries. The first instalment of the loan of Rs.11 crore was drawn on 31 March 2003.

As against the allocation of 20,000 houses, the number of houses taken up for construction as of 31 March 2003 were only 300 (Rs.60 lakh being the loan component). Of them 164 were only completed with funds diverted from other schemes at district level. The management replied (September 2003) that so far 3,750 normal urban houses were sanctioned and another 1,000 houses were going to be sanctioned for which a loan component of Rs.9.50 crore was required and the balance Rs.1.50 crore would be utilised for 2003-04 programme. It is evident from the above that loan was drawn far in advance of actual need. Audit further observed that in spite of according administrative sanction for 3,750 houses, no release was made from the head office to the district offices out of the borrowings. The funds mostly remained in bank deposits at head office. Thus, the drawal of the first instalment of the loan was not need-based entailing in avoidable financing costs.

Loan from Housing Development Finance Corporation (HDFC)

2.1.9 On the basis of voluntary offer made by HDFC (August 1998), the Company decided (October 1999) to borrow Rs.50 crore at an interest rate of 14 ***per cent*** per annum for implementation of housing programme for 1999-2000. Loan processing fee of Rs.25 lakh (at the rate of half ***per cent*** of the loan) was paid on the entire amount proposed for borrowing. The loan agreement was executed in February 2001.

Out of the sanctioned loan of Rs.50 crore, the company had drawn Rs.12.50 crore in February 2001 and the balance Rs.37.50 crore was not drawn on the plea that the rate of interest was high. In view of non-drawal of balance loan, the processing fee of Rs.18.75 lakh already paid was rendered wasteful. The Company had so far (December 2002) paid interest aggregating

Rs.2.54 crore and discharged the principal to the extent of Rs.96.84 lakh. It was observed that the borrowing of Rs.12.50 crore from HDFC ab initio was un-warranted for the following reasons:

- Loan tie up arrangements already existed with HUDCO and commercial banks for the programme year 1999-2000.
- Substantial funds were also available in current and term deposit account.
- The loan drawn from HDFC was kept in term deposit immediately indicating absence of urgency for the loan.

As per terms of agreement the interest rate of 14 ***per cent*** was subject to revision with reference to State Bank of India medium term lending rate (SBIMTLR) which was 13 ***per cent***. The Company continued to pay interest at 14 ***per cent*** without seeking revision of rate in line with SBIMTLR from time to time. The extent of over-payment of interest for the period from February 2001 to December 2002 was not readily quantifiable.

Thus, due to reduction in the housing programme, arrangements already made for loan tie up for construction of the balance houses with HUDCO and availability of sufficient unutilised bank balances, the Company could have shown restraint in drawing the loan from HDFC. After having drawn the loan the Company could have alternatively advanced the payment of loan instalments to save on interest liability.

Delay in claiming refund of overpaid interest and interest tax

2.1.10 As there were differences in outstanding principal as worked out by HUDCO, the company appointed (June 2001) a chartered accountant (CA) for reconciliation of loan account. The CA reconciled (September 2001) the outstanding loan and arrived at principal paid in advance at Rs.5.76 crore and principal short paid at Rs.74 lakh for the quarter ended 31 March 2001. Audit observed that the company has been making payment of quarterly interest without considering the principal already paid in advance or short resulting in over/under payment of interest.

Subsequently, HUDCO had forwarded (June 2002) to the Company a statement showing principal outstanding at Rs.912.49 crore as on 31 March 2002, principal paid in advance (Rs.2.85 crore), principal short paid (Rs.0.99 crore), and interest tax overpaid (Rs.21.96 lakh) for confirmation. The Company had confirmed the principal outstanding at Rs.912.49 crore. As a result HUDCO recovered the short paid principal of Rs.0.99 crore with simple interest of Rs.5.43 crore.

While HUDCO recovered the principal short paid and interest dues from the company, it did not refund the confirmed overpaid interest tax of Rs.21.96 lakh. There was no pursuance from the company for recovery of the same from HUDCO. Further, the company did not pursue with HUDCO for retrospective adjustment of confirmed principal of Rs.2.85 crore paid in advance so as to get credit for interest retrospectively. The management replied (September 2003) that it did not suffer any loss as HUDCO had waived penal charges, loss of rebate and cumulative interest on short payments. The reply is not acceptable as it was not relevant to the audit observation. Thus, due to the failure to seek credit for the interest on the principal paid in advance and overpaid interest tax from HUDCO the company suffered substantial financial loss.

Delayed payment of interest

Failure to arrange payment of demand on due date resulted in avoidable payment of interest of Rs.53.80 lakh.

2.1.11 An amount of Rs.57.03 crore payable by way of interest to HUDCO for the quarter ended 30 June 2002 was paid on 1 July 2002 by way of cheque which was credited to HUDCO account on 2 July 2002. As a result, the company paid additional interest of Rs.53.80 lakh (at 7 to 16.5 ***per cent***) for two days' delay. The delay in payment was due to delay in mobilisation of funds from State Government. The payment of interest for the delay of two days could have been avoided if the liability to HUDCO was discharged on due date i.e., by 30 June 2002.

Financial position and working results

2.1.12 The company had so far (March 2003) finalised accounts up to 1997-98 and compiled accounts for the years 1998-99 to 2002-03 on provisional basis. The summarised financial position and working results of the Company at the end of each of the last five years up to 2002-03 are given in **Annexures 11 and 12.**

The following observations are made:

- Fixed asset register showing the location, date of purchase, depreciation provided, etc., were neither maintained nor the fixed assets subjected to physical verification at periodical intervals.
- Subsidiary ledgers for recoverable advances were neither maintained/updated nor the age-wise analysis of outstanding balances (except miscellaneous advances) was done.
- Bifurcation of loan recoveries made from beneficiaries into principal and interest was not attempted since inception with the consequence that loan collections aggregating Rs.219.41 crore remained unadjusted to respective heads of account (sundry debtors and interest).

Funds of Rs.452.23 crore transferred to units remained unreconciled.

- Funds to be reconciled between district offices and head office increased from Rs.1.32 crore at the beginning of 1998-99 to Rs.452.23 crore (provisional) at the end of 2002-03. Management stated (September 2003) that this was due to non-adjustment of subsidy amount to the releases made by head office for which details were not available and efforts were on to reconcile the same.
- According to guidelines issued under Indira Awas Yojana (IAY), interest accrued on the deposit of the IAY funds was to be treated as a part of the IAY resources. In deviation of this, entire interest earned on bank deposits (including IAY deposits) was being treated as income in the accounts of the Company.

- The accumulated loss of Rs.555.42 crore to the end of March 2003 had eroded the paid up capital completely.

Implementation of housing schemes

2.1.13 The Company implements various housing schemes sponsored by State and Central Governments. Housing schemes viz., Rural Permanent Housing (RPH), Semi-permanent Rural (SPR) Housing, Urban Permanent Housing (UPH) and special housing schemes for artisans and beedi workers are sponsored by State Government while schemes viz. Indira Awas Yojana (IAY), Pradhan Mantri Gramodaya Yojana (PMGY), Credit cum Subsidy Scheme (CCSS) and Valmiki Ambedkar Yojana (VAMBAY) are sponsored by Government of India.

The housing schemes are mainly meant for people of weaker sections of the society living in rural areas and below the poverty line. The unit cost of each house varies from scheme to scheme and the same is funded with full or part subsidy, part loan and contribution from beneficiaries. The details of unit cost for each housing scheme are given in **Annexure-13.**

The MLA of the area and District Development Review Committee (DDRC) make the selection of beneficiaries of state schemes. In the case of central schemes, the selection of beneficiaries is made in grama sabhas. Administrative sanction for commencement of the schemes is accorded by the respective District Collectors.

The unit cost of each house is disbursed to the beneficiaries by the field officers in four or more instalments in the form of cash and materials on the basis of progress of construction. The funds needed for this purpose are provided to the district offices by the head office on the basis of requisitions received from them. The respective beneficiaries on self-help and mutual-help basis construct these houses. Neither the State nor the Central Government prescribed any time limit for completion of construction of the sanctioned house. As the Central funds were to be utilised to the extent of 75-85 ***per cent*** in the year of release with carried forward balance of 25-15 ***per cent*** from previous year, construction of houses was to be completed in the year of sanction. The company has, however, prescribed a time limit of 90 days for completion of construction of houses.

Physical progress of State and Central sponsored schemes

2.1.14 The table below indicates the number of houses allocated, sanctioned, taken up for construction and completed during 1998-2003 and balance at the end of 31 March 2003 under different schemes:

Out of 16.55 lakh houses taken up for construction, 3.86 lakh houses still remained incomplete.

Sl. No.	Name of the scheme	No. of houses (in lakh)					Percentage of houses completed to houses taken up
		Allocated	Sanctioned	Taken up	Completed	Balance	
a.	RPH	12.80	10.26	9.97	7.75	2.22	78
b.	UPH	1.80	0.87	0.86	0.55	0.31	64
c.	(i) IAY(regular)	3.33	3.33	3.33	2.82	0.51	85
	(ii) IAY (upgradation)	1.62	1.62	1.62	1.10	0.52	68
	(iii) Flood victims housing (IAY)[1]	0.25	0.25	0.25	0.13	0.12	52
d.	Special/other schemes	0.58	0.58	0.52	0.34	0.18	65
	Total	**20.38**	**16.91**	**16.55**	**12.69**	**3.86**	**77**

The following observations are made:

- None of the housing schemes were completed in the year in which they were sanctioned. The percentage of houses completed to houses taken up ranged between 52 and 85 in respect of the programmes undertaken during 1998-2003 indicating unsatisfactory pace of implementation.
- In respect of special schemes it was observed that schemes sanctioned for the year 1998-99 were still in progress though the stipulated period of construction was six months.
- Fisherman housing scheme for the year 2001-02 was sanctioned for 2,954 beneficiaries and central subsidy of Rs.1.39 crore was received but the scheme was not grounded, as the loan component was not tied up with financial institutions. This resulted in delay in the extension of housing to the intended beneficiaries.
- The progress achieved in respect of IAY (upgradation) was partly due to substitution of 55,766 houses already constructed under RPH scheme as IAY scheme homes without carrying out necessary financial adjustments.

[1] Represent figures for 2001-02 only.

Rural Permanent Housing (RPH) programme

2.1.15 The particulars of houses allocated, sanctioned, taken up for construction and completed during 1998-2003 under RPH programme and year-wise break up of completed houses for each programme year are given in **Annexure-14.**

- The Government orders specify the selection of beneficiaries by fixed dates and completion of construction within a period of one year. The percentage of actual number of houses completed to the houses taken up in the programme year was to the extent of 75.7, 28.8 and 1.5 for the years 1998-2001. The percentage of houses not completed up to March 2003 for the programme years of 1998-99 to 2000-01 was 3.5, 16.7 and 36.3 respectively.

Delay in completion of selection process rendered cancellation of 1.55 lakh houses.

- Due to non-selection of beneficiaries in time and review of housing policy by Government, the programme for the year 1999-2000 was restricted to 2.84 lakh houses out of five lakh houses sanctioned; 0.61 lakh houses were carried forward for adjustment against 2000-01 programme and the balance 1.55 lakh houses were cancelled. The State Government directed (April 1998) completion of selection of beneficiaries by July 1999, but the same could not be completed and the election code had come into force by then. This indicates lack of seriousness in selection of beneficiaries by the agencies involved in the process.
- Similarly, out of 4.62 lakh houses sanctioned for 2000-01, only 2.94 lakh houses were completed till March 2003.
- The Company converted 0.02 lakh houses from 1998-99, 0.45 lakh houses from 1999-2000 and 1.04 lakh houses from 2000-01 totalling 1.51 lakh houses into other scheme houses viz., CCSS, PMGY & IAY (upgradation). These converted houses were not removed from the progress reports and accounting adjustments were not carried out to exhibit the factual position.

Non-adherence to norms of allotment

2.1.16 The details of houses allocated and sanctioned under RPH programme for the years 1998-2001 for the identified categories of beneficiaries was as shown below:

(No. in lakh)

Sl. No.	Category		1998-99		1999-2000		2000-01		Total	
			No.	*Per-cent*	No.	*Per-cent*	No.	*Per-cent*	No.	*Per-cent*
(i)	Scheduled castes/scheduled tribes (SC/ST)	A	1.40	50	2.50	50	2.50	50	6.40	50
		S*	1.24	46	1.23	48	2.18	48	4.66	47
(ii)	Backward class (BC)	A	0.85	30	1.65	33	1.65	33	4.15	32
		S	1.01	37	0.93	36	1.64	36	3.58	36

* Sanction figures are subject to reconciliation with those given in Annexure-14.

(iii)	Economically backward class (EBC)	A	0.28	10	0.50	10	0.50	10	1.28	10
		S	0.30	11	0.26	10	0.49	11	1.04	11
(iv)	Minorities	A	0.27	10	0.35	7	0.35	7	0.97	8
		S	0.17	6	0.16	6	0.20	4	0.53	5
	Total	**A**	**2.80**	**100**	**5.00**	**100**	**5.00**	**100**	**12.80**	**100**
		S	**2.72**	**100**	**2.58**	**100**	**4.51**	**100**	**9.81**	**100**

A: Allocated; S: Sanctioned

It would be observed from the above that the houses sanctioned for the SC/ST and minority category of beneficiaries were not in accordance with the allocation for all the three programme years. The main reasons for the shortfall were: non-adherence to norm by selection authority and insufficient unit cost. This resulted in depriving of 1.74 lakh houses for SC/ST beneficiaries and 0.44 lakh houses for beneficiaries of minority. The Company directed (November 2002) the District Collectors to take steps to make up the short-fall while according administrative sanctions.

Construction of houses with mud mortar and tiled roofing

2.1.17 The guidelines issued (December 1998) by the State Government envisaged construction of houses with cement or lime mortar and roofing with RCC mainly to withstand all natural calamities. Contrary to this, the Medak district office reported (May 2002) that 6,166 beneficiaries of IAY and RPH schemes constructed 2,908 houses with mud mortar and 3,258 houses with tiled roofing during 1998-2001. Of these, 804 and 5,362 houses were covered under IAY and RPH schemes respectively.

Besides, of Rs.10.99 crore due to 6,166 beneficiaries, only Rs.84.69 lakh was disbursed so far.

In view of the deviations in construction of the houses, the district office approached (May 2002) the head office for permission to release the balance amount (Rs.10.14 crore) due to the beneficiaries. The following points emerged:

- the district office allowed construction of the above houses in deviation from guidelines in vogue and that too without the prior knowledge of head office.
- the matter was placed before the Board of Directors without highlighting the financial implications involved.
- the proposal for releasing balance payment of Rs.10.14 crore to the beneficiaries was still (September 2003) under consideration of the head office.

Indira Awas Yojana (IAY) scheme

2.1.18 The Company is the nodal agency for implementation of IAY programme for housing. Under the programme the cost of each house i.e., Rs.20,000 is fully subsidised by the Central and State Governments in the ratio of 75:25 (80:20 up to 1998-99). With effect from 1999-2000, Central

Government earmarked 20 ***per cent*** of the total funds allocated for upgradation of unserviceable kutcha houses to pucca/semi pucca houses and the balance 80 ***per cent*** for construction of new houses. **Annexure-15** indicates the year-wise position of houses allocated and the number of houses completed thereagainst for five years ending 2002-03.

Houses were not completed in the year of sanction resulting in retention of unutilised subsidy of Rs.177 crore.

It would be observed from the **Annexure-15** that the backlog in completion of houses in the year of sanction was significant for the years 2001-02 and 2002-03. As many as 1.15 lakh (20.1 ***per cent***) out of 5.21 lakh houses allocated for 1998-99 to 2002-03 for which subsidy of Rs.177 crore was already received from State and Central Governments still (March 2003) remained incomplete. Audit observed that:

- District Collectors made selection of beneficiaries without conducting gram sabhas and houses continued to be allotted in the name of male member of the family,
- Beneficiaries were not selected in advance of allocation of the houses as suggested by GOI leading to delay,
- Out of 25,000 houses sanctioned to flood victims of seven test checked districts for 2001-02, 48 ***per cent*** of the houses still (March 2003) remained incomplete.
- IAY guidelines do not contemplate collection of admission fee from beneficiaries. Contrary to this, the Company recovered Rs.5.06 crore by way of admission fee on 5.06 lakh IAY houses sanctioned for the years 1998-2003. This resulted in reduced disbursement of unit cost to the beneficiaries, which was unauthorised and irregular. The Company admitted (September 2003) that there were no clear instructions of Government for collection of admission fee from beneficiaries of IAY.

Collection of admission fee of Rs.5.06 crore from beneficiaries was unauthorised.

Pradhan Mantri Gramodaya Yojana (PMGY)

2.1.19 Government of India has been allocating funds under PMGY scheme for construction of houses benefiting the people who are living below poverty line in rural areas belonging to SC/ST, freed bonded labourers and non-SC/ST categories. Under the scheme the unit cost of each house is Rs.20,000 in plain areas and Rs.22,000 in difficult areas with a plinth area of 20 sqm., fully subsidised by GOI. The Company had received Rs.63.93 crore for the year 2000-03 towards subsidy for disbursement among the targeted group for construction of 31,964 dwelling units on self-help and mutual-help basis.

Audit observed that the Company did not utilise the earmarked funds for the intended purpose. Instead it converted 73,562 houses already constructed under the state sponsored RPH scheme into PMGY scheme houses and accordingly furnished the utilisation certificates. The conversion of RPH houses for the PMGY programme was irregular. The following observations are made:

- The unit cost of RPH scheme house was Rs.17,500 comprising subsidy of Rs.7,000, loan component of Rs.10,000 and beneficiary contribution of Rs.500; whereas the unit cost of PMGY scheme house was Rs.20,000 fully subsidised. In view of variation in the unit cost the conversion of RPH programme houses was irregular and unauthorised.
- Conversion of RPH houses into PMGY houses was made without indicating the RPH programme year from which these were actually

drawn for conversion. Financial adjustments necessitated as a result of conversion were not carried out in accounts.

- The utilisation certificates furnished to GOI did not indicate the fact of substitution of RPH houses into PMGY houses thereby giving false statement about the utilisation of the subsidy for the intended purpose.

Valmiki Ambedkar Awas Yojana (VAMBAY)

2.1.20 Government of India launched Valmiki Ambedkar Awas Yojana (VAMBAY) in December 2001 to provide shelter or upgrade the existing shelter for the people living below the poverty line in urban slums with a goal of slum less cities. According to guidelines 50 ***per cent*** of the unit cost is provided as subsidy by GOI and the balance 50 ***per cent*** is to be mobilized by state out of its own sources or from banks.

GOI had sanctioned 4,000 and 22,268 houses for 2001-02 and 2002-03 respectively and released Rs.66.77 crore as its share of 50 ***per cent*** subsidy. Of 26,268 houses, only 972 houses were completed till March 2003, 1,516 houses were at various stages of construction and 23,780 houses (91 ***per cent***) were not taken up at all. This resulted in keeping subsidy of Rs.54.84 crore in bank deposits without utilising the same for the intended purpose. Of 972 completed houses, 762 houses were taken up for construction under township housing project prior to the launch of VAMBAY scheme. Even in respect of these completed houses, the selection of beneficiaries was not complete with the result these houses were also lying un-allotted.

The tardy progress in the implementation of the scheme was mainly due to delay in selection of beneficiaries, delay in mobilisation of loan funds from banks, dis-interest of beneficiaries to pay their share of contribution, migration of beneficiaries, etc.

Irregular use of Food For Work (FFW) rice for housing schemes

Food for work rice meant for employment generation programme was used for housing schemes.

2.1.21 Government of India has been allotting rice to State Government free of cost since 2001-02 for organising various employment generation programmes called food for work (FFW) in drought affected areas. Although housing schemes do not fall under employment generation programme, FFW rice was used for implementing housing schemes in the State. As per State Government's guidelines, 400 kg of rice (at the rate of Rs.5.65 per kg) is released in three instalments and Rs.2,260 (equivalent to cost of 400 Kg. rice) is deducted from the unit cost payable to the beneficiaries.

The Company had so far (March 2003) utilised 80,788 tonnes of rice for distribution among the beneficiaries and deducted Rs.45.65 crore (equivalent to cost of rice) from the unit cost payable to the beneficiaries. Thus, the use of FFW rice for housing programme was a deviation from the housing as well as FFW guidelines as it did not result in any employment generation. This had only helped the State Government and the Company in turn to ward off outflow of cash to the extent of Rs.45.65 crore. The Company has not furnished any remarks on the observation.

Execution of township housing projects

2.1.22 The Company undertook implementation of eight township housing (TSH) projects during 2000-02 without making arrangements for funds with financial institutions. Head office diverted Rs.8.67 crore from other schemes as advances for execution of these projects. Out of eight projects, three projects were completed by 2002-03 and the remaining five projects (Rs.1.50 crore) were in progress/stopped for want of funding. Two of these schemes examined are discussed hereunder:

Housing project at Uppal

2.1.23 On a proposal (March 1999) from the Company, the State Government accorded (June 1999) sanction for construction of TSH project at Uppal comprising 400 houses in an area of 4.23 acres on ground plus one pattern at an outlay of Rs.2.49 crore. Uppal municipality released the entire land free of cost for the project. It was also agreed by Uppal municipality to provide civic amenities at their cost.

The unit cost of the house, initially fixed (March 1999) at Rs 62,300 was subsequently (October 2000) revised to Rs 1,06,000. Number of units proposed for construction was also revised to 486 from 400. As a result, the project cost escalated to Rs.5.15 crore. This had no approval of the State Government. At the instance of Minister for Housing, Minister for Home and senior officers of State Government, the Company revised the plinth area of the proposed houses, changed pattern of construction from single storey (ground plus one) to multi storey (ground plus three) of three types and included civic amenities, community hall, school, etc. Resultently the unit cost was revised (July 2001) upward to Rs.1,06,000, Rs.1,05,800 and Rs.1,15,800 for A, B and C type of houses respectively and again revised to Rs.1,26,500, Rs.1,31,000 and Rs.1,48,500 respectively. The construction of houses with modifications was taken up without any approved plan or drawings and estimates.

Delay in selection of beneficiaries for completed houses rendered investment of Rs.5.38 crore idle.

The construction of these houses taken up in November 2000 was completed in March 2002 at a cost of Rs.5.38 crore including cost of development and civic amenities. The cost of civic amenities was borne by the Company without waiting for funds from Uppal municipality which had earlier agreed to bear this expenditure.

Though the construction of 426 out of 486 units was completed in March 2002, selection of beneficiaries had not taken place (September 2003) with the result all the houses were lying un-allotted and unoccupied. This resulted in locking up of Rs.5.38 crore with resultant loss of interest of Rs.80.70 lakh (at the rate of 10 ***per cent***) for the period from April 2002 to September 2003.

Housing project at Mangalam

2.1.24 State Government approved (June 1999) a proposal of the Company for construction of 5,000 independent urban houses at Mangalam at an outlay of Rs.36.05 crore with a unit cost of Rs.72,100 per house. The Company entrusted the execution of the project to HABTECH* without any specific terms and conditions and without entering into any agreement or MOU.

Even before grounding the project, the unit cost was revised to Rupees one lakh per house and the housing pattern was revised to ground plus two comprising 12 blocks of 684 units. The project was grounded in December 2001 without the approval of the State Government for the revised project cost, making arrangements for financial tie up and identifying the beneficiaries, The Company by diversion of funds borrowed for other schemes so far released Rs.91 lakh for the project. No detailed statement of expenditure was received from HABTECH for the funds placed at its disposal (September 2003).

Expenditure of Rs.90 lakh incurred on an abandoned project was rendered unfruitful.

The work on nine out of 12 blocks commenced in December 2001 was stopped in May 2002 for want of funds. The expenditure incurred on the project so far was Rs.90 lakh. The project was taken up without proper approval and planning as a result of which the expenditure of Rs.90 lakh so far incurred was rendered unfruitful. The Company replied (September 2003) that the AP Housing Board has been addressed to take over the units for recouping the amount invested.

Other departmental works

2.1.25 The various district offices of the Company undertake civil works on behalf of other departments of State Government on deposit of funds at the estimated cost. The district offices accepted these works without observing any uniformity in collection of supervision charges. There was no system of closing the accounts of these works and adjustment of advances collected. Records revealed that the district offices referred 473 other departmental works valued at Rs.21.52 crore for 1999-2000 and 2000-01 for technical sanction to head office. The details of works accepted at district office level without seeking approval of head office were not known.

It was observed that the Assistant Engineer/Deputy Executive Engineer of the Company were executing these works in their individual capacity without engaging any contractors and without calling for any tenders. They were incurring the expenditure without any limits on these works after collecting funds in advance from the district offices. As the AE/Dy.EE concerned were not delegated financial powers to incur expenditure on such works that too without following the approved procedure of tendering, the practices followed in this regard were irregular and contrary to canons of financial propriety. The works were also not covered by any guarantee as the employees acted as contractors. Further the expenditure incurred on these works was not entering the books of the Company and the advances given to AE/Dy.EE remained unadjusted. The Company did not offer any remarks on this observation.

* Habitat Technology Centre

Extension of housing benefit to Self Help Groups (SHGs)

2.1.26 The MD of the Company without the approval of the Board of Directors sanctioned (November 2000) disbursal of Rs.50 lakh (Rs.20 lakh subsidy and Rs.30 lakh loan at an interest of 3 ***per cent*** per annum) equally to two SHGs viz., Sneha Mutually Aided Cooperative Thrift and Credit Society Ltd., Medchal and Keesera for eventual disbursement among 200 beneficiaries (at the rate of Rs.25,000 per house) for constructing 200 dwelling units. No criteria was followed while selecting the above two SHGs for the financial assistance. Though the construction of the 200 houses was to be completed by June 2001, only 138 houses were completed at a cost of Rs.34.50 lakh and the balance 62 houses were not taken up for construction so far (May 2003). Thus, the SHGs, were left with un-disbursed funds of Rs.15.50 lakh. The disbursement of entire project cost in lumpsum was a deviation from the normal practice of disbursing the unit cost in four instalments and also extension of undue favour to SHGs. It was replied (September 2003) that efforts were on to get the refund of unspent balance.

Utilisation of earmarked funds

2.1.27 The general funds of Zilla Parishad (ZP) and Mandal Parishads (MP) to the extent of one third of 15 and six ***per cent*** are earmarked for civic amenities in the housing colonies of SCs and STs respectively. The Company undertakes the respective works. State Government also provides a matching contribution for the same purpose. The funds from ZP and MPs are received at district office for utilisation on civic amenities. The following observations are made:

- A test check of records of six out of 23 district offices revealed mobilisation of earmarked funds of Rs.4.52 crore up to the end of 2002-03. Out of this, Rs.2.55 crore only was utilised leaving a balance of Rs.1.97 crore unutilised for over five years.
- The State Government released matching grant of Rs.1.25 crore for the year 1998-99 by way of credit to Personal Deposit (PD) account. This amount was taken back by the Government in September 2001 on the plea that the same was lying un-utilised. Similarly Rs.1.25 crore sanctioned by the State Government for 1999-2000 was not allowed to be drawn by the Treasury department on the ground that the claim did not fit in the prevailing instructions of the Government.
- Substantial funds were either lying un-utilised or lapsed to Government with the result the beneficiaries were deprived of civic amenities.
- A review of expenditure for 1991-92 to 2002-03 on civic amenities revealed that utilisation certificates/statement of expenditure were not received for Rs.95 lakh from the Dy.EEs (Visakhapatnam, Krishna, and Khammam districts) at whose disposal the funds were placed for utilisation.

- Rs.23.90 lakh was utilised (2002-03) for reimbursement of expenditure incurred by other departments and on works not connected with civic amenities (viz., construction of school buildings, repairs to houses etc).

Fund management

2.1.28 The head office receives funds in the form of subsidy from State and Central Governments and loans from financing institutions. The district offices also receive funds from head office, subsidy from District Rural Development Agency for execution of IAY schemes, earmarked funds from local bodies for civic amenity works and funds from other departments for execution of civil works. During 1998-2003, the head office and district offices of the Company obtained Rs.3,096.59 crore by way of term loans, subsidy and funds from other departments. The funds, which are not required immediately are invested in short term deposits to earn interest by the district offices as well as by head office.

The following observations are made:

There was no control over funds due to absence of cash flow statements.

- The Company does not prepare cash flow statements with the result there was no control over inflow and outflow of funds.
- Reconciliation of funds transferred from head office to district offices was in arrears since 1998-99.
- The head office has no control over the funds obtained by district offices. There was no system of reporting to head office about the funds obtained at district office level.
- Loans from banks/financial institutions are being mobilised without considering the availability of unutilised funds with district offices and head office.

Bank reconciliation

Bank reconciliation was in arrears for 4-9 years in three districts.

2.1.29 Reconciliation of bank accounts was not up to date. Head office maintains 53 bank accounts, the reconciliation of which was in arrears for four years up to 2002-03. Management stated (September 2003) that reconciliation of 19 out of 53 accounts was in progress and the reconciliation of remaining accounts had been updated. The relevant bank reconciliation statements in respect of these accounts were, however, not made available to Audit.

A test check of seven out of 23 district offices revealed that bank reconciliation was in arrears for periods ranging from four to nine years in three districts (Krishna, Chittoor and Medak). Audit observed that:

- the Hyderabad District Co-operative Central Bank debited Ranga Reddy district office account by Rs.19.85 lakh in June 2000 for which no details were available. No action was taken so far (September 2003) to address the bank seeking details with the result the amount was lying unadjusted for more than three years;

- payment advices given by Ranga Reddy district office were debited twice or thrice by the banks resulting in excess debit to bank account by Rs.9.10 lakh;
- twenty-seven demand drafts/cheques valued at Rs.3.14 lakh deposited in savings bank account during 1999 to May 2002 by Khammam district office were not credited so far (April 2003); and
- during February 2001 to December 2002 State Bank of Hyderabad (SBH) and Nagarjuna Grameena Bank (NGB) debited the Khammam district office by Rs.21.12 lakh for which no details were available. It was replied (September 2003) that teams were constituted for attending to this work. Further developments were awaited.

Investment of funds in fixed deposit receipts (FDRs)

2.1.30 The funds which are not required for immediate use are invested in fixed deposits receipts (FDRs) with banks to earn interest. As per delegation of powers the MD at head office and District Collectors at district offices are competent to invest funds in FDRs. The State Government notified (June to August and December 2002) the names of the banks where the funds were to be kept in deposit by the Government departments/companies and laid down certain guidelines viz., calling deposit rates, participation in priority schemes etc. Audit observed that the Company had been investing funds in FDRs without observing the guidelines envisaged by State Government.

A test check of investments made by seven district offices revealed the following:

Funds aggregating Rs.22.71 crore were invested in FDRs without approval of competent authority.

- The District Managers' of four district offices (Visakhapatnam, Krishna, Warangal and Chittoor), invested funds of Rs.22.71 crore (as of 31 March 2003) in FDRs without the approval of District Collectors who have been delegated with authority to invest funds in FDRs. It was replied (September 2003) that the District Collectors authorised the District Managers to invest funds in FDRs. The reply is not tenable as the delegated authority can not be further sub-delegated.

Whereabouts of seven FDRs of Rs.23 lakh were not known.

- On pointing out (November 2002) by Audit, the Ranga Reddy district office attempted reconciliation of funds invested in FDRs and noticed non-availability of 16 FDRs (invested during June 1991 to May 1997) aggregating Rs.53.50 lakh. The Company replied (September 2003) that the amount as on date was reconciled/tallied. The reply was factually incorrect as adjustments in cash book for three encashed FDRs of Rs.13 lakh were not so far carried out while verification to find out the whereabouts of seven FDRs of Rs.23 lakh was still in progress (September 2003).

Funds to the tune of Rs.90 lakh were invested in banks not notified by the Government.

- The District Co-operative Central Banks (DCCBs) at Machilipatnam and Sangareddy were not in the list of banks approved by State Government for investment of surplus funds in FDRs. Contrary to this, the Krishna and Medak district offices invested (August 2001 to March 2003) Rs.90 lakh in FDRs with these DCCBs. On this being pointed out by Audit, the Krishna District Office withdrew the FDRs of Rs.25 lakh. The Company promised (September 2003) to withdraw the two FDRs of Rs.65 lakh lying with Medak DCCB for periods ranging from eight to 21 months.

- The bank balances held in current account by Khammam district office for 2000-01 to 2002-03 ranged from Rs.1.48 crore to Rs.5.74 crore, Rs.1.62 crore to Rs.8.69 crore and Rs.2.88 crore to Rs.6.11 crore respectively. If at least Rs.1.40 crore, Rs.1.60 crore and Rs.2.80 crore for the year 2000-01 to 2002-03 respectively were invested in FDRs, the Company could have earned an interest of Rs.34.80 lakh (at 6 ***per cent*** per annum) for three years up to 2002-03.

Diversion of scheme funds

2.1.31 The Company was not maintaining scheme-wise bank accounts with the result that there was no control over utilisation of scheme funds. These funds were quite often diverted for other purposes or kept in deposit with banks. Some instances of diversion of funds of Rs.15.59 crore noticed in audit are enumerated below:

Scheme funds of Rs 15.59 crore were diverted for other purposes without authorisation.

Amount (Rs.in crore)	Purpose for which diverted
8.67	Advanced (2000-02) for implementation of township housing project
1.50	Kept (March 2003) in Post Office saving bank account to help mobilisation of small savings
4.63	Construction (1997-98) of rehabilitation colony for airport evacuees due to non receipt of funds from sponsoring agency
0.10	Advanced (June 1994) to a milk producers union to mitigate their financial problems
0.19	Transfererred (February 2003) to meet shortfall for construction of a rehabilitation colony
0.50	Advanced (November 2000) to self help groups for housing

The above diversions took place without the approval of the Board of Directors. Out of Rs.15.59 crore diverted for other purposes, Rs.1.66 crore only was replenished so far (September 2003). This shows lack of financial discipline and deviation from the guidelines in force for utilisation of the funds mobilised by way of loans and subsidy/grant.

Recovery of loans from beneficiaries

2.1.32 The Company gives loans to beneficiaries for construction of dwelling units at an interest rate of 7 ***per cent*** per annum in rural areas and at 11 ***per cent*** per annum in urban areas.

The table below shows the details of cumulative demand, cumulative collections and balance of loans outstanding for recovery from the beneficiaries to the end of 1998-99 to 2002-03:

(Rupees in crore)

Year	Cumulative demand	Cumulative collection*	Collections for the year	Percentage of collection to demand	Balance
1998-99	785.79	58.81(7.5)	17.75	2.26	726.98
1999-2000	967.41	73.35(7.6)	14.54	1.50	894.06
2000-01	1160.57	96.12(8.3)	22.77	1.96	1064.45
2001-02	1362.21	136.34(10.0)	40.22	2.95	1225.87
2002-03	1536.96	193.17(12.6)	56.83	3.70	1343.78

* Figures in bracket indicate percentage of collection to demand.

It would be observed from the above table that the overall percentage of collections increased from 7.5 in 1998-99 to 12.6 in 2002-03, which was mainly due to implementation of one time settlement (OTS) scheme.

The following observations are made:

Extent of loans disbursed to beneficiaries was not readily known.

- The extent of loans disbursed to beneficiaries was not readily known, as the Company does not record loans disbursed to individual beneficiary account. Financial ledgers were not maintained either at the head office (HO) or at district office (DO) where the accounting records are maintained so as to know the details of loans disbursed under various schemes and amount due for recovery.
- As per instructions, beneficiary-wise loan ledgers were to be maintained at field unit level to facilitate pursuance for collection of instalments fallen due. The maintenance of these ledgers at field level was not up to date. The entries of collections were seldom posted in the ledger. The Company has not devised MIS to know about the maintenance of these ledgers.
- As per guidelines, the loan recoveries shall commence from the month of April in the case of houses completed within the programme year and from the month following the month of completion of construction in the case of backlog houses. There was, however, no watch on raising demand in respect of completed houses as per guidelines in force by the field staff. There was also no watch on preparation of house completion reports.

Retention of loan collections

There was a difference of Rs.33.06 crore between loan collections reported and actually remitted.

2.1.33 Reconciliation of loan collections at HO carried out by the Company revealed that out of Rs.170.48 crore collected by the DOs up to the end of November 2002, the amount actually remitted to HO was Rs.137.42 crore indicating a difference of Rs.33.06 crore. The matter was also brought to the notice of the Board. This was mainly due to retention of collections by the field staff without remittance or due to retention of funds by collecting banks or for both the reasons.

Undue delay in transfer of loan recoveries

Absence of promptness to transfer loan recoveries caused loss of interest of Rs.40.91 lakh.

2.1.34 Visakhapatnam district office was not prompt and regular in transfer of loan collections to head office account on monthly basis. The monthly balances held in bank account ranged between Rs.0.53 crore and Rs.3.02 crore for the year 2001-02 and between Rs.38.20 lakh and Rs.6.60 crore for the year 2002-03. Thus, due to the delay in transfer of funds to HO account, the Company suffered a loss of interest of Rs.40.91 lakh (at the rate of 10 ***per cent***) for the years 2001-02 and 2002-03. The Company accepted the observation and assured that the delay will not be repeated in future.

Procurement of materials

2.1.35 The Company purchases materials like cement, steel, latrine pans, etc., for supply to beneficiaries. The cost of materials supplied is recovered by way of adjustment against unit cost payable to beneficiaries. The following irregularities/deficiencies were noticed:

- neither priced stores ledgers were maintained nor guidelines existed for determining the issue price of materials other than cement.
- instruction provides for passing the cement bills for payment, only if test certificates accompany each consignment. During 2000-03, the Warangal district office accepted supplies to the tune of 32,150 tonnes of cement valued at Rs.6.54 crore without insisting for test certificates for all the supplies and without getting the samples tested for quality independently.
- as per guidelines, cement bags are to be embossed with the name of the Company free of cost by the cement suppliers. Failure to do so attracts levy of penalty at Rs.2 per bag. The purchase orders released by Warangal and Khammam district offices did not stipulate embossing of the cement bags with the name of the Company. As a result, penalty aggregating Rs.39.26 lakh recoverable in respect of 98,160 tonnes of cement purchased during 2000-03 was not recovered.

Purchase of pans

2.1.36 Under IAY and RPH programme, the unit cost of each house includes cost of construction of latrines. Head office of the Company instructed district offices from time to time to procure and supply 18” water closet ceramic pans (with attached foot rest along with p-trap) having ISI mark, after obtaining concurrence of beneficiaries and quotations from registered manufacturers.

It was observed that purchases of pans were made without obtaining concurrence of beneficiaries and without following the tender procedure. Orders were placed on various firms for supply of ceramic pans without insisting on samples, stipulating penalty clause for delayed supplies and collection of security deposit to ensure proper supplies. The pans purchased were of non-ISI quality. Head office instructed (October 2000) all district offices not to purchase any pans in future and cancel immediately the pending orders, if any.

Purchase of pans at uneconomic rate and without following proper purchase procedure resulted in extra expenditure of Rs.96.75 lakh.

A further review of purchase of ceramic pans made during 1998-99 revealed that in 10 district offices 74,693 pans were purchased from dealers at rates ranging from Rs.260 to Rs.285 each. The State Vigilance Department which conducted an enquiry into the purchase of pans by Kurnool district office, observed (March 2001) that the prevailing market rate of ceramic 18" Madura pans per set at that time (November 1999) was Rs.140 which was inclusive of foot rest (pair) with "P trap". It is evident from the above facts that district offices of the Company purchased pans at much higher rates than those prevailing in the market. This resulted in an additional expenditure of Rs.96.75 lakh. Vigilance department suggested (March 2001) action against District Manager, Kurnool for purchase of 13,553 pans at an extra expenditure of Rs.16.26 lakh. No responsibility was fixed so far (September 2003).

Purchase of computers without system software

2.1.37 With a view to accelerate loan collections, the Company decided (July 2000) to computerise loan ledgers and demand collection and balance (DCB) statements at division office level. It was also envisaged to provide access to computers to all Assistant Engineers and Work Inspectors for feeding the loan recovery data. Accordingly the Company purchased 77 computer systems attached with printers and UPS at a cost of Rs.60.80 lakh, which were installed during March-May 2001, but application software was not developed. The staff was also trained in the operation of systems at an expenditure of Rs.25.57 lakh. Thus, the purchase of computer systems without developing application software rendered the expenditure of Rs.86.37 lakh unfruitful. The management replied (September 2003) that the work on development of software for loan ledgers and DCB statements was in progress.

Manpower

2.1.38 As against the sanctioned strength of 3,114, the actual men in position as at the end of 31 March 2003 were 3,493. The men in position include 40 personnel drawn on deputation basis from different Government departments. Review of staff position cadre-wise revealed existence of surplus manpower of 568 in the cadre of assistant engineers (54), typists (9), attenders (28), office watchmen (20), sweepers (8), work inspectors (150) and godown watchmen (299). The management replied (September 2003) that the men in position in excess of cadre strength were 185 excluding 298 godown watchmen who are not part and parcel of the staffing strength. Audit noted the men in excess of sanctioned strength from a note put up to Board in March 2003. Though the watchmen do not form part of sanctioned strength, the Company itself categorized them as surplus in a note put up to Board. This is indicative of misrepresentation of facts to the Board about the existence of surplus staff.

Action to ease out surplus manpower was absent.

The State Government directed (December 2001) the Company to introduce voluntary retirement scheme (VRS) in view of existence of excess staff beyond the cadre strength in certain categories. The Company did not take any action so far (September 2003) in this regard and continues to incur idle establishment charges. It was replied that unless Government fixes cadre strength, VRS scheme for surplus employees keeping in view right sizing of the Company, couldn't be taken. The reply is not tenable as the Government itself concluded about the existence of excess staff in the Company and directed for introduction of VRS.

Management information system

2.1.39 Management information system (MIS) is a systematic collection of data relating to the working of an organisation so as to facilitate data based decision.

The HO of the Company has a MIS wing, which did not generate regular MIS reports. The respective sections at HO prepare quarterly MIS reports with respect to progress of housing schemes, loan recoveries and men-in-position. In regard to matters relating to documentation, mobilisation of earmarked funds, monthly or quarterly income and expenditure statements, mobilisation of loan funds, utilisation of scheme funds, cases of misappropriation, etc., the reports were either not received or received inconsistently from field offices with the result MIS reports were not prepared on regular basis for submission to the Board of Directors. No system of review of these reports and communication of review remarks to field offices existed with the result the shortcomings and deficiencies in the functioning were not known to them.

Internal audit and internal control

Internal audit

2.1.40 At the initiative of the State Government, an internal audit (IA) wing was formed in April 2000 for the first time at HO with staff of three employees headed by a Manager. Prior to that, the IA was got conducted through the firm of Chartered Accountants.

Internal audit wing is understaffed and the coverage was not adequate.

The IA wing has no fixed time table for covering the transactions originated at HO and at district offices. Over a period of three years, the IA had covered transactions of 1999-2000 to 2001-02 in 10 out of 23 district offices. The IA did not cover the remaining 13 district offices and HO mainly due to inadequate staff. The staff was also diverted for other works quite often. Thus, the IA wing in the present form was not in a position to play its role in an effective and useful manner. It was also noticed that the important findings of the IA were not brought to the notice of the Board of Directors. The Statutory Auditors' have also been observing time and again about the absence/inadequacy of internal audit keeping in view the size of the organisation.

Internal control

2.1.41 Inadequate internal control measures and supervision over field staff gives scope for misappropriation of funds/materials, delays in rendering of accounts for advances received, falsification of stock records, retention of loan collections without remittance, uneconomic purchases, non-verification of stocks at regular intervals, etc. Monitoring of malpractice and misappropriation cases noticed was very lax and casual as there was no regularity in reporting the status of the pending cases by the district offices. The following observations are made:

- In the books of head office Rs.14.59 lakh was outstanding against 119 employees at the end of 2000-01. Of Rs.14.59 lakh, Rs.13.57 lakh was outstanding for over one to 15 years. Fifty out of 119 employees against whom the above advances were outstanding were not working in head office as they were either repatriated to their parent departments or transferred to district offices. The Company without furnishing details of outstanding advances cleared so far, replied (September 2003) that notices were issued to working employees and action was being taken for regularisation of the advances pending.

About 13 *per cent* of the staff were involved in misappropriation and malpractice cases.

Absence of adequate internal control mechanism led to misutilisation/mis-apropriation of funds, materials etc aggregating Rs.11.74 crore in some cases.

- At the end of 2001-02, out of 266 cases of misappropriation and malpractices inquiries were not completed in 104 cases. As many as 398 employees (13 ***per cent*** of total strength) were involved in these cases. Age-wise analysis of these cases revealed that 88 cases were pending for more than three years, 95 cases for one to three years and balance 83 cases for less than one year. The amount involved in these cases was not readily known as in a number of cases the same was not assessed by the management. The Company replied (September 2003) that during April 2002 to August 2003, 37 fresh cases were registered, 125 cases were disposed and cases pending were 178. The management did not furnish the manner of disposal of 125 cases. Inordinate delays were noticed in initiating action after completion of enquiry. A few such cases of significance involving misutilisation/misappropriation of funds, materials etc., aggregating Rs.11.74 crore are discussed in **Annexure-16.**

The above matters were reported to Government in July 2003; their reply is awaited (September 2003).

Conclusion

Allocation of houses was made by the State and Central Governments without considering the organisational strengths and weaknesses resulting in substantial backlog in the execution of the housing schemes. Borrowings were not linked to the need and necessity with the result substantial funds were kept in banks with little or no interest. Deficiencies in fund management coupled with diversions and misappropriations affected the implementation of housing schemes severely besides causing

avoidable burden of interest on funds borrowed for replenishment. Reconciliation of funds held with banks was not regular and prompt and the discrepancies noticed remained unattended for long period.

Absence of proper control and supervision over field staff and inadequate internal control mechanism led to occurrence of several types of irregularities in the disbursement of funds and materials, delay in rendition of account for the advances already drawn, and non-adjustment of materials already issued. Absence of proper monitoring and timely reconciliation of loan collections led to retention of collections without transfer to head office, and delays in transfer of funds by field offices as well as by banks.

Problems arising in the implementation of the housing schemes need to be studied in detail to curtail delays. Existing systems need to be strengthened and loopholes plugged to eliminate the scope for malpractices and irregularities. Observance of financial discipline to avoid wastage and economic use of resources is necessary to reduce the cost of execution of the schemes. Revamping of the existing monitoring mechanism and increased surveillance is essential to improve recovery performance and to ensure timely reconciliation and transfer of collections without delay.