

**CHAPTER –IV
MISCELLANEOUS TOPICS OF INTEREST RELATING
TO GOVERNMENT COMPANIES AND STATUTORY
CORPORATIONS**

GOVERNMENT COMPANIES

**Andhra Pradesh State Agro Industries Development Corporation
Limited**

4.1 Loss due to unauthorised procurement of harvesters

**Unauthorised procurement of five paddy combine harvesters and their
uneconomic operation resulted in loss of Rs.65.45 lakh.**

In view of huge accumulated losses, the expert committee constituted by State Government to examine the working of State Public Sector Undertakings had recommended (April 1995) closure of activities of the Company. Despite the recommendation, the Vice Chairman and Managing Director (VC & MD) of the Company, with a view to expand and diversify its activities, proposed (October 1996) to purchase 10 paddy combine harvesters at a cost of Rs.1.35 crore for custom hiring to agriculturists. This was expected to yield a cash surplus of Rs.1.69 crore in five years of their operation, if operated at 1200 hours per annum. The Board of Directors did not approve the purchase proposal, but authorized (October 1996) the VC & MD to approach State Government for sanction of 50 *per cent* of cost as grant-in-aid and commercial banks for sanction of remaining 50 *per cent* as loan. The Company approached (November 1996 and January 1997) the State Government for sanction of Rs.1.35 crore as grant-in-aid or interest free loan. State Government rejected (March 1997) the Company's request.

Meanwhile, without receipt of sanction from Government and without approval of Board of Directors, the VC & MD of the Company placed (November 1996) a purchase order on Escorts Limited, Secunderabad for supply of five harvesters at a total cost of Rs.66.39 lakh. The harvesters were supplied during December 1996/January 1997 and payment was made by availing overdraft facility. The Company started hiring out harvesters at Rs.1,000/Rs.1,100 per hour. The performance of harvesters was not economically viable due to frequent breakdown/huge cost of repairs. Against estimated 16,500 operating hours, the Company could hire out harvesters for 4,672 hours (January to September 1997) resulting in an average utilisation of

28 *per cent* only. On custom hiring, the Company earned a total income of Rs.50.27 lakh. The Company leased out (November 1999) four harvesters for 15-16 months and earned Rs.20.87 lakh towards lease rentals. Considering high cost of repairs and replacements, all five harvesters were disposed of (January to May 2002) for Rs.11.44 lakh with the approval (December 2001) of the Board of Directors.

An analysis of working of harvesters, in audit, revealed that from the date of procurement (December 1996/January 1997) to the date of disposal, the Company incurred a total operational expenditure of Rs.120.83 lakh including interest of Rs.49.79 lakh, while it earned an income of Rs.71.14 lakh. The operations thus resulted in a loss of Rs.49.69 lakh, besides loss of Rs.15.76 lakh on their sale (written down value Rs.27.20 lakh minus sale value Rs.11.44 lakh), as against an anticipated cash surplus of Rs.84 lakh (for five harvesters).

Thus, diversification of activities contrary to the recommendations of the expert committee, unauthorized procurement and uneconomic utilisation of harvesters resulted in a loss of Rs.65.45 lakh.

Government stated (August 2003) that five harvesters were purchased to diversify the activities as per the spirit of the directions of the Board of Directors and there was no loss of interest since the overdraft was paid back. The reply is not acceptable as procurement was not authorised by the Board. The investment of Rs.66.39 lakh could have been better utilised to pay off other borrowings with consequent savings in interest expenditure instead of purchasing the harvesters.

Andhra Pradesh Industrial Infrastructure Corporation Limited

4.2 Non-refund of deposit

Failure to claim refund of deposit for the land for which awards were not passed resulted in locking up of Rs.29.40 lakh and loss of interest of Rs.30.91 lakh.

The Company filed a requisition (September 1979) with Special Deputy Collector (SDC), Land Acquisition (LA), Visakhapatnam for acquisition of 203.13 acres of land in Chinagantyada village, Gajuwaka mandal for development of an industrial development area (IDA). Draft notification (DN)

and draft declaration (DD) were published in March 1981 and October 1982 respectively for 192.36 acres. The Hon'ble High Court of Andhra Pradesh, on the basis of writ petitions filed by pattadars quashed (1982) the DN and DD on technical grounds. The Company filed (August 1984) a revised requisition for acquisition of 190.43 acres of said land but DN and DD were published in October 1985 and November 1986 respectively for acquisition of 25.82 acres only. The Company deposited (November 1988) Rs.50.00 lakh with Land Acquisition Officer (LAO) towards compensation. Award was passed (November 1988) for 15.59 acres only, since the remaining area of 10.23 acres was covered by houses. As two pattadars filed writ petitions against the award, the total compensation of Rs.20.60 lakh for 15.59 acres was deposited (December 1989) in High Court by the LAO. As awards were not passed for 10.23 acres, balance deposit of Rs.29.40 lakh should have been claimed by the Company immediately. This was not done.

Even though the award was passed for 15.59 acres, the Special Deputy Collector (Land Acquisition) was not in a position to handover the land to the Company until April 1998, when the two writ petitions were dismissed. Meanwhile, as encroachments had spread into different parts of 15.59 acres, the SDC (LA) could not handover the possession of this land to the Company. The Company therefore decided (March 1999) to withdraw the entire acquisition and requested SDC(LA), Visakhapattanam for settlement of Company's accounts.

Thus, funds of the Company to the extent of Rs.29.40 lakh remained locked up from December 1988 to May 2003 i.e. for over 14 years. The Company would have earned an interest income of Rs.30.91 lakh at the rate of 7.5 *per cent* per annum if the money been invested in short term deposits. Further, Rs.20.60 lakh deposited in court also remained locked up for over four years (from April 1999 to March 2003) for want of approval for withdrawal of notification.

Government stated (July 2003) that action is being taken for withdrawal of entire 25.82 acres of land in question and deposit will be refunded after acceptance of withdrawal proposal by Chief Commissioner of Land Administration. The reply is not tenable, as Government did not clarify as to why the balance deposit of Rs.29.40 lakh was not claimed in time.

The Nizam Sugars Limited

4.3 Unauthorised sale of farm land

Unauthorised sale of farm land below the basic registered value resulted in loss of Rs.2.92 crore.

While reviewing the performance of the Company having accumulated losses of Rs.27.75 crore as on 31 March 1998, the Chief Minister, in order to mobilise funds desired (April 1998), inter alia, that the Company should explore the possibility of disposing of its land immediately and directed the Managing Director (MD) to come up with a plan of action with all possible alternatives.

Instead of submitting a plan of action to Government, the Managing Director without approval of Board of Directors constituted (July 1998) a committee with five General Managers and one Revenue Divisional Officer (RDO) for disposal of 535 acres of farm land identified at Shakarnagar and released advertisement (August 1998) for sale. An action plan for disposal of 535 acres of land was submitted to Government in August 1998. As the offers received were much below the basic registered value of the land, the committee rejected them.

The committee was reconstituted by MD in September 1998. Without receipt of approval from Government, the Committee negotiated and sold 632.12 acres of land below its basic registered value in four phases between 5 October and 9 December 1998 and realized Rs.2.04 crore. Meanwhile, Government reminded (November 1998) the Company to submit plan of action, but the same was submitted in May 1999. Approval of Government was not received. Meanwhile, the Board of Directors being unaware of reconstitution of committee and sale of land below their basic registered value, approved (December 1998) sale of 850 acres of land, including 632.12 acres already sold. Between 24 May and 9 June 1999, the committee negotiated and sold 410.35 acres in two more phases and realised Rs.1.31 crore. Thus, in all 1042.27 acres of farm land was sold at an aggregate value of Rs.3.35 crore without approval of Government/Board of Directors.

The audit committee constituted (March 2001) by the Company under section 292-A of the Companies Act, 1956 along with the assistance of internal audit wing conducted audit of irregularities in sale of the said farm land and reported (April 2002) that out of 1042.47 acres, 829.50 acres was sold below its basic registered value which resulted in loss of Rs.2.92 crore. The report of audit committee was placed before the Board in June and October 2002 and the Board directed the Managing Director to give his comments.

Meanwhile the officials involved in the sale of land took voluntary retirement by 31 October 2002. The Board of Directors did not ratify (February 2003) the sale of land but directed the Company to withhold terminal benefits (Rs.50.07 lakh) from the amounts payable to four committee members and to approach Government for an enquiry into the sale.

In this connection Audit observed that:-

- The committee constituted for sale of assets did not fix upset price of land in the first four auctions and failed to consider either basic registered value or market value of land.
- Land was sold below the basic registered value.
- Even three years after sale of lands, the fact was not reported to the Board of Directors and when the issue came to the notice of the Board, concerned officials had taken voluntary retirement.
- Both constitution of committee as well as sale of land were unauthorised and without the approval of the Government. Unauthorised sale of lands has thus resulted in loss of Rs.2.92 crore.

The Company stated (August 2003) that action against the concerned officials was already initiated and State Government was requested (March 2003) to conduct a detailed enquiry in this regard. The reply is not acceptable as the management at no point of time was serious in conducting an enquiry and despite knowing the facts of irregularities, relieved the officials under VRS. The sale of farm land without proper authority and sale below basic registered value is a serious lapse.

The matter was reported to Government (July 2003); their reply had not been received (December 2003).

Transmission Corporation of Andhra Pradesh Limited

4.4 Avoidable expenditure in procurement of energy meters

Procurement of energy meters at a higher rate than the latest procurement rates resulted in avoidable expenditure of Rs.3.50 crore.

In order to cater to the requirement of meters in the areas covered by four power distribution companies (DISCOMS), Transmission Corporation of Andhra Pradesh Limited (APTRANSCO) placed (November/December 2000) purchase orders on five firms for supply of five lakh single phase high quality electromagnetic energy meters (energy meters) at Rs.647/- per meter. As per the terms of purchase order, the quantity of meters to be supplied could be varied up to plus or minus twenty five percent during the period of supply (two months).

To meet further urgent requirement of DISCOMS, APTRANSCO decided (May 2001) to procure 1.60 lakh energy meters of the same specification and accordingly, directed the four DISCOMS to procure 40,000 meters each. The procurement was made by placing extension order to the purchase orders placed earlier in July 2000 on four suppliers at the rate of Rs.866/- per meter, instead of placing extension order to purchase orders placed in November/December 2000 at the rate of Rs.647/- per meter. Specific reasons for non extension of the orders placed in November/December 2000 at the rate of Rs.647/- per meter were not on record.

Further, it is interesting to note that one of the four DISCOMS i.e., Central Power Distribution Company of Andhra Pradesh Limited (CPDCL), after getting autonomy for purchases procured (April 2002) 2.25 lakh energy meters of the same specification at the rate of Rs.647/- per meter by extending purchase order placed in November/December 2000.

Thus, placement of extension order at the rate of Rs.866/- per meter instead of at the economical rate of Rs.647/- per meter resulted in an avoidable extra expenditure of Rs.3.50 crore on purchase of 1.60 lakh meters.

Government stated (July 2003) that extension order for 25 *per cent* of the quantities ordered in November/December 2000 was already placed. There was further urgent requirement for meters and procurement will be delayed if fresh tenders were invited. Hence orders for additional requirement were placed at Rs.866 per meter. The reply is not acceptable as the Company had already procured meters of same specification at lower rates (Rs.647 per meter) and these lower rates prevailed till April 2002, when CPDCL procured meters at Rs.647 per meter.

4.5 Incorrect fixation of fuel cost adjustment

Incorrect fixation of recovery rate of FCA for the years 1997-98 and 1998-99 resulted in loss of Rs.20.38 crore.

In order to avoid frequent revisions in tariff necessitated by escalation in the cost of fuels like coal and diesel, transport charges etc., the erstwhile Andhra Pradesh State Electricity Board (Board) introduced (1982) the concept of fuel cost adjustment (FCA) under which additional expenditure towards increase in cost of fuel is recovered by levy of fuel surcharge at fixed rate per unit. Initially the recovery of FCA was applicable only to consumers under high tension (HT) category, which was later extended (December 1991) to consumers under low tension (LT) category-III. From 1992-93, the Board introduced the system of recovery or refund of FCA at the end of the financial year on the basis of actual expenditure for the year as compared to the base rates indicated in the tariff notification.

FCA was not leviable on power sold to Rural Electric Co-operative Societies (RESCOS) and inter-state sales as they were treated as separate licensees and were not covered by tariff notifications. Accordingly, up to 1995-96 FCA was levied by the erstwhile Board on total power sold to H.T (excluding RESCOS and inter-state supplies) and L.T. category – III consumers. However, from the year 1996-97 to 1998-99 (31 January 1999) FCA was levied on the total power sold to H.T and L.T category – III consumers without excluding the units sold to RESCOS and inter-state supplies resulting in determination of lower recovery rate of FCA and consequent short recovery of Rs.20.38 crore.

Thus, due to incorrect fixation of recovery rate of FCA, the Company incurred a loss of Rs.20.38 crore.

The Government stated (June 2003) that the Company inadvertently spread over the FCA shortfall amount to all the units sold including RESCOS and inter-state supplies, which was advantageous to the (HT and LT-III) consumers. However, the fact remains that Company suffered a loss of Rs.20.38 crore due to not claiming FCA for 1997-99 pertaining to RESCOS and inter-state supplies.

4.6 Delay in recovery of fuel surcharge adjustment

Delay in levy of FSA on all non-agricultural consumers resulted in belated recovery of Rs.56.27 crore with consequent loss of interest of Rs.5.98 crore.

The Andhra Pradesh Electricity Regulatory Commission (Commission) was constituted (March 1999) to regulate and control all the issues relating to generation, transmission and distribution of power to the consumers within the State. Fuel Surcharge Adjustment (FSA) to be recovered from all non-agricultural consumers, is an important aspect being finalised by the Commission. For this purpose, company has to submit proposals quarterly with relevant data for approval of the Commission. On approval of such proposal the Commission directs the Company to notify the approved rates of FSA in two local news papers at least one week before raising bills and to recover FSA in three equal monthly instalments.

On first occasion the Commission approved (June 2001) recovery of Rs.39.22 crore for the 2nd quarter of 2000-01 at 10.398 paise per unit from all non-agricultural consumers. The orders of the Commission were notified and published in October 2001 with a delay of four months but adjustment bills were not raised. Though the implementation of orders of the Commission was mandatory, the company approached (November 2001) the State Government for its clearance. In the meantime, the Commission issued (December 2001) another order for recovery of FSA of Rs.17.05 crore for the 3rd quarter of 2000-01. Though a notification was published (December 2001) for recovery of FSA, the company directed the four power distribution companies (DISCOMs) not to raise FSA bills as clearance from Government was awaited.

The company did not take any action for recovery of FSA until Commission stated (July 2002) that "failure to comply with the directive by due date would be construed as licensees' willingness to absorb the loss and consequently there would be no adjustments on this account in future Annual Revenue Requirements". Based on this statement, the Company directed (July 2002) DISCOMS to raise bills and FSA bills were raised for the 2nd quarter of 2000-01 in August, September and October 2002 and for the 3rd quarter in November, December 2002 and January 2003. The bills for 4th quarter were raised as per scheduled dates.

Thus, there were abnormal delays in raising FSA bills for 2nd quarter by 12 months and for 3rd quarter by nine months. Audit observed that since the orders of Regulatory Commission were mandatory, company's action of not effecting FSA recovery for want of State Government's approval was unwarranted. The FSA bills could have been raised without delay and the realisation utilised to reduce borrowings to save interest to the extent of Rs.5.98 crore at the rate of 11.5 *per cent* per annum.

Government stated (August 2003) that as levy of FSA on domestic consumers was a sensitive matter, it was felt appropriate to obtain clearance from Government. The reply is not acceptable as orders of APERC were mandatory and should have been implemented without reference to Government.

4.7 Loss due to non-collection of rental charges

Non-implementation of orders by DISCOMS to recover rentals from cable TV operators for using Company's poles resulted in non-realisation of rentals to the extent of Rs.12.03 crore.

A reference is invited to paragraph 4B.1.2 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1998 (Commercial) wherein loss of potential revenue of Rs.5.21 crore for the period from April 1995 to March 1998 due to initial delay in regularising unauthorised use of poles, delay in finalising modalities in calling for tenders and further delay in finalising tender for hiring poles to cable TV operators was pointed out.

Consequent upon inclusion of para in the Audit Report, the Company issued (April 2001) orders for collection of charges from cable TV operators for use of electric poles at the following rates.

	Initial fixed charges (per pole)	Monthly recurring rentals (per pole)
	<u>Rs.</u>	<u>Rs.</u>
1. Twin cities of Hyderabad/ Secunderabad	100	20
2. Municipalities and towns	50	15
3. All others	30	10

Instructions were also issued (April 2001) to all the power distribution companies (DISCOMs) for identification of existing cable TV operators who were utilising the system and collect charges from them from the date of utilisation based on the poles utilised, by entering into agreements for an initial period of two years with the provision that the terms and conditions including the rates are subject to review after every year.

As per the data available in the records of the Company, 2,96,703 poles were being utilised by the cable TV operators in the State.

As against the rental charges of Rs.12.12 crore recoverable from cable TV operators for 2001-03 in respect of above mentioned poles, Rs.0.09 crore only could be realised up to August 2003 resulting in short recovery of Rs.12.03 crore.

Thus, due to non-implementation of orders of the Company by the DISCOMs there was loss of revenue to the extent of Rs.12.03 crore.

Government stated (September 2003) that the Company was constantly pursuing with the DISCOMs to enter into agreements with cable TV operators and collect rental charges.

4.8 Non-recovery of cost of shunt capacitors

Non-recovery of cost of LT shunt capacitors from agricultural consumers has resulted in locking up of Rs.20.51 crore and loss of interest of Rs.8.06 crore.

The terms and conditions of power supply by the Company stipulate that every low tension (LT) consumer using induction motors shall install shunt capacitors of specified rating to reduce power losses and improve power factor. On the request of consumers, the Company at its discretion, install the capacitors of required rating and recover the total expenditure incurred thereon by including the same in the monthly bill of charges.

With a view to improve power factor and reduce line losses the erstwhile Andhra Pradesh State Electricity Board (Board) decided (October 1995) to install 1 to 6 KVAR[#] shunt capacitors to all the then existing 14.84 lakh agricultural services using induction motors including eight lakh services which required 2 KVAR capacitors. However, the expected one-third cost subsidy promised by State Government was not received. The matter was not pursued with Government and the decision was not implemented.

In March 1997 the Board suo-moto decided to procure and install capacitors to the agricultural pump sets at consumers' cost subject to recovery of cost from consumers in convenient instalments and placed orders (November/December 1997) on seven firms for supply of 1,90,000 capacitors of 2 KVAR at a landed cost of Rs.920/- per capacitor. The capacitors were to be installed in 12 circles of Telangana and Rayalaseema areas. Separate orders were also placed (February 1998) for transportation of these capacitors from stores to places of erection, testing and commissioning at a cost of Rs.165 per unit. The firms supplied (up to December'2002) 1,89,981 capacitors valued at Rs.17.48 crore against which 1,83,684 capacitors valued at Rs.19.93 crore (including transportation and commissioning charges) were erected and commissioned during 1997-98 to 2002-03. The balance 6,297 capacitors valued at Rs.57.93 lakh were not erected (March 2003).

[#] Kilo Volt Ampere

Thus the expenditure of Rs.20.51 crore incurred on procurement and installation of 2 KVAR shunt capacitors with resultant loss of interest of Rs.8.06 crore (up to March 2003) was unwarranted as the primary responsibility for installation of shunt capacitors lies with the consumers as per the terms and conditions of power supply. Even though it was decided by the erstwhile Board to recover the cost from the consumers in convenient instalments, no recovery was made either by the erstwhile Board or by the Company till July 2003.

The Government stated (July 2003) that the Discoms have been addressed to recover cost of capacitors in 10 equal instalments from 1 August 2003 onwards.

Andhra Pradesh State Trading Corporation Limited

4.9 Loss on export of rice to Dammam

Non-conclusion of agreement with foreign buyer and the owners of chartered vessel with definite terms and conditions resulted in cash loss of Rs.17.75 lakh.

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

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

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

* Segregation of 5 *per cent* broken parboiled rice.

buyer further demanded (January 2002) US\$ 18,500 (Rs.8.88 lakh) towards stevedoring charges* and the Company agreed to pay the same.

As a formal agreement was not concluded, the Company had to accept the terms of the buyer from time to time, which were prejudicial to the interests of the Company. In this export contract, the Company incurred a total expenditure of Rs.2.63 crore but realised a revenue of Rs.2.16 crore only resulting in a loss of Rs.47 lakh. Even after taking into account miscellaneous income of Rs.29.25 lakh on export incentive, sweepings and gunny bags, there was a cash loss of Rs.17.75 lakh.

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

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

STATUTORY CORPORATIONS

Andhra Pradesh State Financial Corporation

4.10 Sanction/release of term loans without specific import licence

Irregular sanction and release of term loans of Rs.1.03 crore to a promoter not having specific import licence.

The promoters of Pallavi Graphics Limited approached (November 1998) the Corporation for sanction of term loan of Rs.1.15 crore for setting up an off-set printing and packing unit at industrial development area, Nacharam, Ranga Reddy district. The proposal to set up the unit included import of second hand colour printing machines from PSN Graphics, Victoria, Australia under open general licence (OGL) at an estimated cost of Rs.99 lakh including customs duty and clearing charges. While the loan application was under consideration of the Corporation, Government of India revised (31 March 1999) its EXIM Policy (1997-2002) with effect from 1 April 1999 restricting import of second hand machinery except under specific import licence. Without ensuring availability of specific import licence, the Corporation sanctioned (May 1999) a term loan of Rs.81 lakh and released (July 1999) Rs.48.10 lakh even though

* Loading and unloading charges.

the promoters did not open letter of credit (LC) in favour of foreign supplier which was a pre-requisite for sanction of loan.

Meanwhile, the machinery was shipped on 14 April 1999 and reached Bombay port on 12 May 1999. The promoters filed bill of entry on 29 June 1999, by altering the date of shipment from 14 April 1999 to 24 March 1999 with malafide intention to clear the goods under pre-revised EXIM Policy. In fact the promoters committed fraud in amending date of bill of lading through Crecent Shipping Agency, Australia. The custom authorities, on noticing the alteration, confiscated the machinery and levied (January 2000) a penalty of Rs.22 lakh. The shipment also incurred demurrage of Rs.14.72 lakh and warehousing charges of Rs.1.07 lakh. The promoters approached (January 2000) the Corporation for sanction of additional term loan of Rs.28 lakh to get released the confiscated machinery and pay penalty. To bail out the promoters, the Corporation further sanctioned and disbursed (June 2000) Rs.24.30 lakh as additional term loan and also disbursed (June 2000 to January 2001) Rs.30.42 lakh out of undisbursed first term loan of Rs.33 lakh. Thus, a total amount of Rs.1.03 crore was disbursed to the unit.

The unit approached the Corporation (March 2003) for permission to sell machinery and the Corporation agreed for the same subject to payment of Rs.51.50 lakh (excluding the value of collateral securities) before 31 March 2003. There was no response from the unit thereafter. The unit was irregular in payment of instalments and as on 31 July 2003, Rs.29.84 lakh (principal: Rs.9.45 lakh and interest: Rs.20.39 lakh) became overdue.

Thus, the irregular sanction and release of term loans without specific import licence and sanction of additional term loan for payment amongst other for penalties which were levied as a result of fraud, resulted in locking up of funds of Rs.1.03 crore. As the promoters defaulted in payment of instalments and proposed to sell the machinery, viability of the unit and repayment of loan to the Corporation together with interest was doubtful.

Government stated (December 2003) that loan was released without the knowledge of change in exim policy and additional term loan was sanctioned to ensure implementation of the unit. The reply is not acceptable as sanction of loan without ensuring specific import licence and without opening of LC was irregular. Further, sanction of additional loan to finance fines and penalties was also irregular and was to bail out the promoter who had committed fraud.

4.11 Irregular sanction of working capital term loan

Sanction of additional working capital loan to a defaulting unit and release of loan without adequate collateral security resulted in non recovery of dues of Rs.95.14 lakh.

The promoters of Avanti Kopp Electricals Private Limited (AKEPL), Medak district approached (March 1999) the Corporation for working capital term loan (WCTL) assistance of rupees one crore. The Project Screening Committee (PSC) reviewed the proposal (May 1999) and observed, inter alia, that the promoters did not comply with the eligibility criteria for sanction of WCTL, there was shortfall of Rs.1.17 crore in the value of collateral security. It was therefore, recommended to the Board not to sanction the WCTL of rupees one crore. The decision was deferred (May 1999) until the party explored for adequate and acceptable collateral security.

Even though PSC pointed out various adverse factors which included shortfall in the value of collateral security, failure to pay statutory dues like provident fund (PF) and employees state insurance (ESI) to the concerned authorities, etc., the Board of Directors sanctioned (February 2000) WCTL of Rs.70 lakh as a special case. As per special terms of sanction of loan, the promoters were to hypothecate land and buildings, plant & machinery, moulds & dyes and tools valued at Rs.47.55 lakh, besides offering collateral security for value of Rs.5.25 lakh in the form of 10.27 acres of land/mango orchard.

Audit observed that as against the norm of collateral security equivalent to 150 *per cent* of loan amount, i.e., Rs.1.05 crore in the form of immovable urban properties, the Corporation obtained agricultural land valued at Rs.5.25 lakh only as collateral security. After recovery of Rs.0.49 lakh towards dues against earlier loan, the Corporation released (August 2000) Rs.69.51 lakh. The promoters issued 12 post dated cheques valued at Rs.25.40 lakh towards repayment, commencing realisation from April 2001 but all the cheques were dishonoured. The Corporation did not take action under section 138 of Negotiable Instruments Act, 1881 but seized the unit in February 2002. During seizure, the officials of the Corporation found part of the machinery missing, but no police complaint was lodged against the promoters for the missing machinery.

Based on the assurance of the unit to regularise the payment with effect from May 2002, the then Executive Director lifted seizure (April 2002) by accepting a meagre amount of Rs.2.26 lakh as against the dues of Rs.41.55 lakh (principal: Rs.29.32 lakh; interest: Rs.12.23 lakh). Thereafter the promoters again failed to pay the dues. The Corporation once again seized the unit (September 2002). The officials of the Corporation observed that machinery valued at Rs.61.63 lakh (purchase value) was missing. A formal police complaint was lodged (December 2002). As on 31 January 2003, Rs.95.14 lakh (principal; Rs.70 lakh and interest: Rs.25.14 lakh) remained outstanding.

Audit observed that the Corporation extended undue favour to the promoter by sanction of WCTL against the recommendations of PSC; release of loans without adequate collateral security; non-filing a criminal case for dishonour of cheques; non-filing a police complaint for the missing machinery in February 2002 and lifting the seizure in April 2002 by accepting a meagre amount of Rs.2.26 lakh, as against Rs.41.55 lakh due.

In order to make the promoters eligible for WCTL, the Corporation without the approval of Board of Directors, waived/closed (March 1999) the earlier loan account, without receiving payment of Rs.1.89 lakh towards penal interest, which was highly irregular.

Thus, due to extension of undue favours to the unit, funds of the Corporation to the extent of Rs.95.14 lakh are locked up. As the collateral security offered was inadequate and the assets (whose value was less than the amount of loan) have not been valued after seizure, the chances of realisation of WCTL are doubtful.

Government stated (November 2003) that the stipulated terms and conditions with regard to collateral security were fulfilled by the promoters; enough opportunity was given to them for revival of unit by inducting a financial partner and the Corporation is taking steps for disposal of unit and collateral securities. The reply is not acceptable as the disbursement of loan was not adequately secured and was without fulfilment of eligibility criteria.

Andhra Pradesh State Road Transport Corporation

4.12 Non-commissioning of Penukonda bus depot

Non-commissioning of bus depot even after two years of completion has resulted in an idle investment of Rs.1.05 crore.

In view of the growing needs of the travelling public, and neighbouring depots having reached optimum level of buses, the Corporation proposed (April 1997) to construct a bus depot at Penukonda, Anantapur district. On completion of construction, the depot was to be made operational by transferring 51 buses from neighbouring depots viz., Dharmavaram, Hindupur, Kadiri, Anantapur and Kalyanadurg. For this purpose, the Corporation acquired (May 1998) 4.27 acres of land valued at Rs.8.23 lakh and the entire works were completed by February 2001 at a total cost of Rs.96.88 lakh. However, the operations wing of the Corporation did not take its possession till May 2003.

Thus, non-commissioning of depot even after two years of completion has rendered an investment of Rs.1.05 crore idle besides incurring loss of interest of Rs.28.35 lakh on borrowed funds (at the rate of 12 *per cent* per annum from March 2001 to May 2003).

Government stated (November 2003) that in view of stiff competition from private/illicit operations on intra-state routes, the Corporation felt that the operations would be uneconomical and hence decision to open this depot was kept in abeyance. It also felt that losses sustained would be more on operations than keeping the bus depot under closure. The reply is not acceptable as the construction of depot was undertaken to meet growing needs of travelling public and no documentary evidence was produced in support of losses to be suffered by the Corporation because of uneconomic operations.

4.13 Wasteful expenditure on renovation of bus depot

Renovation of bus depot without examining the viability of enhanced operations and its subsequent closure resulted in wasteful expenditure of Rs.27.08 lakh.

Consequent to construction of new bus depot (Depot-I) near collectorate in Mahbubnagar during 1988, operation of buses from the old bus depot situated near railway station was closed and the old depot (subsequently referred to as Depot-II) was kept idle. During the visit (September 1997) of Executive Director, Hyderabad zone, proposal to revive Depot-II was initiated as Depot-I was unable to maintain increased fleet strength. Separate administrative and technical sanctions were obtained for renovation of Depot-II and the entire renovation works were completed (February 2000) at a total cost of Rs.20.04 lakh including the cost of tools and plant (Rs.4.59 lakh) provided in the depot. One depot manager with minimal staff was also posted (June 2000) for Depot-II and the depot was stated to be officially commissioned during September 2000.

Audit observed that Depot-II was not being put to use since completion of renovation works and the fleet provided (3 owned and 14 hired) was actually operated and maintained at Depot-I. The staff meant for bus Depot-II worked from Depot-I. It was also found that separate accounts for Depot-II were not maintained and were clubbed with the accounts of Depot-I. Finally, Depot-II was merged (March 2002) with Depot-I. Audit further observed that an expenditure of Rs.7.04 lakh was incurred (September 2000 to March 2002) on salaries and wages, telephone and electricity charges etc. for Depot-II, which became wasteful.

Government stated (December 2003) that because of acute financial position it was not in a position to increase the fleet strength/schedules and hence a decision was taken to merge Depot-II with Depot-I. The reply is not tenable as renovation works were undertaken and executed without examining the viability of enhanced operations from Depot-II. The Corporation was also not able to divert the increased fleet to Depot-II which ultimately resulted in closure of Depot-II.

Thus, expenditure of Rs.27.08 lakh incurred on renovation works, etc., became

became unfruitful, as Depot-II has been closed. In the present circumstances the revival of Depot-II was uncertain.

**Hyderabad
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Countersigned

**New Delhi
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