ANDHRA PRADESH LEGISLATURE

(Ninth Legislative Assembly)

THIRTY FIRST REPORT

OF

COMMITTEE ON PUBLIC UNDERTAKINGS

(1993-94)

ON

THE AUDIT PARAGRAPHS CONTAINED IN THE REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA FOR THE YEAR ENDED 31ST MARCH, 1991 (COMMERCIAL) ON ANDHRA PRADESH ELECTRONICS DEVELOPMENT CORPORATION LIMITED.

(Presented to the Legislature on 31st March, 1994)

ANDHRA PRADESH LEGISLATURE (ASSEMBLY) SECRETARIAT

PUBLIC GARDENS, HYDERABAD - 500 486.

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COMMITTEE ON PUBLIC UNDERTAKINGS

(1993-94)

(Constituted on the 26th March, 1993)

Chairman :

1. Sri P. Narasimha Reddy

Members :

2. Sri P.V. Raghavulu
3. Sri P. Ravindra Reddy
4. Sri Thota Venkatachalam
5. Sri N. Venkataratnam Naidu
6. Sri P. Purushotham Rao
7. Smt. Eti Vijayalakshmi
8. Dr. G. Chinna Reddy
9. Sri M.K. Baig*

   Sri G. Atchuta Kumar (w.e.f. 27-12-1993)
10. Sri N.K. Ramakrishna Reddy
11. Sri N. Ramakishan Rao
12. Sri N. Sivaramakrishna Prasad
13. Sri P. Kanaka Sundara Rao
14. Sri S. Venkateswara Rao
15. Sri. Ibrahim Bin Abdullah Masquathi

Legislature Secretariat :

1. Sri A.V.G. Krishnamurthy, Secretary
2. Sri A.D. Bhaskara Reddy, Deputy Secretary
3. Sri M.H. Kesava Rao, Assistant Secretary
4. Sri J.S.R. Murthy, Section Officer.

Accountant General's Office :

1. Smt. Sabita Gopal, Accountant General (Audit)II
2. Sri B. Narayana, Deputy Accountant General
3. Sri V. Balakrishna Murty, Sr. Audit Officer
4. Sri V.V. Leeladhar, Asst. Audit Officer.

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* Appointed as Minister w.e.f. 8-9-1993.

INTRODUCTION

I, the Chairman of the Committee on Public Undertakings (1993-94) having been authorised by the Committee present this Report on the Andhra Pradesh Electronics Development Corporation Limited.

The Committee held four sittings to record the oral evidence and visited Sulakhana Circuits Limited and KL-Hitech Secure Print Systems Limited established in Bolaram Industrial Estate and also the Software Technology Park at Ameerpet developed by the Company.

The Committee met on 28th March, 1994, considered and approved the Draft Report.

The Committee wishes to express their thanks to the Secretaries to Government, Education and Industries Departments, the Managing Director and other officials of the A.P. Electronics Development Corporation Limited for the co-operation they have extended.

The Committee places on record their appreciation of the assistance rendered to the Committee by the Accountant General (Audit) II, Andhra Pradesh, the Deputy Accountant General and other officers and staff of the Accountant General's office.

The Committee also places on record their appreciation of the assistance rendered to the Committee by the Secretary to Legislature, the other officers and staff of Legislature Secretariat in the examination of the general working and audit paras relating to Andhra Pradesh Electronics Development Corporation Limited and in preparation of this Report.

Hyderabad,

Date : 28-3-1994.

P. NARASIMHA REDDY,
Chairman,
Committee on Public Undertakings.

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RECOMMENDATIONS OF THE COMMITTEE ON PUBLIC UNDERTAKINGS

(9th Legislative Assembly)

ANDHRA PRADESH ELECTRONICS DEVELOPMENT CORPORATION LIMITED

Report of the Comptroller and Auditor General of India for the year ended 31st March, 1991 (Commercial)

1. Introduction :

The Andhra Pradesh Electronics Development Corporation Limited was incorporated on 28th November, 1980 as a wholly-owned subsidiary of the Andhra Pradesh Industrial Development Corporation Limited (APIDC) with the main object of accelerating the promotion and development of electronic industry in the State and helping the development and broadening of the entrepreneurial base for integrated, balanced and healthy growth of electronic units in the State. Keeping in view the need to have a greater pace of progress in the development of electronic industry in the State, it was made an independent company in April, 1984.

2. Financial position:

2.1 The Company was yet to finalise its accounts for the years 1989-90 and 1990-91 (December, 1991).

(Paragraph 2A.6)

2.2 In its explanatory notes, the Company stated that the accounts for 1989-90 were completed in all respects and that the accounts for the year 1990-91 were finalised and were ready for approval by the Board in its next meeting.

2.3 The Committee was informed that the accounts of the Company for 1990-91 have since been finalised in December 1993. The Committee, however, observed that there was about one year's time lag between the adoption of a year's accounts in Annual General Meeting and approval of accounts for the next year by the Board in respect of the accounts for the years 1988-89 and 1989-90. This time gap can be reduced to the extent that three years accounts can be finalised in about two years' time and thus the arrears in the accounts can be cleared early.

2.4 *The Committee, therefore, recommends that the Company should make allout efforts to reduce the time gap at every stage of finalisation of accounts, so that atleast three years accounts can be finalised in two years*

and thus arrears can be cleared. The Committee further recommends that the Company may fix up a time schedule for finalisation of accounts upto 1993-94 and adhere to the same.

2.5 *The Committee recommends also that the Public Enterprises Management Board (PEMB) may keep a close watch on the time schedule so fixed by the Company and monitor the clearance of arrears in finalisation of accounts.*

2.6 *The Committee would like to be informed of further progress made by the Company in this regard.*

3. Working results :

3.1 The working of the Company for the year 1988-89 resulted in a loss of Rs. 70.99 lakhs, while that for the year 1989-90 as per the privisional accounts was Rs. 69.92 lakhs. The accumulated losses as on 31st March 1990 was Rs. 224.55 lakhs (provisional). The losses, as analysed by Audit, were mainly due to poor return on investments made in assisted units, unproductive expenditure on industrial estates, high incidence of administrative overheads and decline in sales effected through marketing units.

(Paragraph 2A.7)

3.2 In its explanatory notes, the Company stated, *inter-alia;* "As many of the assisted units are first of their kind in our country and due to frequent changes in policies of Government of India in respect of electronic industry, the assisted units are taking longer time to stabilise and go into full commercial production. Normally, these units take 5 to 6 years to stabilise and thereafter only can make substantial profits enabling payment of dividends. Hence comparison in initial years of operation and the statement that the return on investments is poor may not be appropriate at this stage."

3.3 The Committee observed that in most of the cases of assistance, a gestation period of only 2 to 3 years is projected in the Project Reports, while the Company is puttingforth that stabilisation period is 5 to 6 years. The Committee, however, feels that the gestation period of 5 to 6 years is too long and the same should be projected at not more than 3 years.

3.4 *The Committee, therefore, recommends that the Company should, in future, allow a gestation period of not more than 3 years for any unit to go into commercial production and commence repayment of loan/ assistance from that year onwards.*

3.5 The Company further explained: "Inspite of the efforts of the Corporation, the tendency of the industry is to get located in and around cities/towns like Hyderabad in view of readily available highly skilled man-power and other infrastrfucture facilities like communications.

Considering the scenario, the Company regulated the expenditure on these industrial estates, keeping the demand in view. Now, the Company is planning to utilise these estates for attracting industries by working with A.P. Industrial Infrastructure Corporation Ltd., and/or other agencies."

3.6 *The Committee would like to be kept informed of the modalities of this working with APIIC/other agencies and also Government viewpoint in introducing the proposed scheme.*

4. Project promotion :

4.1 The activity under project promotion comprises identification of projects, developing project profiles, obtaining letters of intent, initiating action for project implementation, extending financial assistance by way of equity participation, helping entrepreneurs in obtaining Government clearance, providing infrastructure facilities, arranging financial assistance from financial institutions etc.

Upto the end of July 1991, the Company had accorded final investment approvals for 82 projects with a capital outlay of Rs. 13,136.72 lakhs, of which the Company had committed to invest in share capital to the extent of Rs. 791.59 lakhs and released (up to June 1991) Rs. 559.87 lakhs. Of the 82 projects assisted, only 49 units (company's investment: Rs. 300.83 lakhs) had commenced production, while 18 units (company's investment: Rs. 108.07 lakhs) scheduled for commissioning during the period from April 1987 to November 1990 have not yet commenced commercial production due to various managerial and financial problems. The balance 15 units (Company's investment: Rs. 150.97 lakhs) scheduled for commissioning during the period from July 1984 to April 1989 have commenced their activities only partially (December 1991). Thus, the investment of the Company to the extent of Rs. 259.04 lakhs in 33 projects had not served any fruitful purpose, due to abnormal delays (ranging from one year to seven years) in commencement of commercial production in those units. Majority of the 49 units which commenced commercial production so far, have not been working on profitable lines. Consequently, the return on the above investment of the Company was negligible even in comparison with the envisaged minimum return of 12 per cent. The poor return on investment was attributed mainly to non-commencement of commercial operations as per schedule by many of the assisted units, caused by time overrun in the implementation schedule and sickness of the units due to finanical, managerial, marketing and technical problems. The Company, despite having the nominee directors on the Boards of the assisted units, was unable to take timely action to ensure implementation of projects as projected in the feasibility reports.

(Paragraph 2A.9.1)

4.2 In its explanatory notes, the Company stated that it promoted 85 units with a capital outlay of Rs. 132 crores with its commitment of Rs. 7 .97 crores and released Rs. 5.81 crores as on 31st March 1993, of which 65 units went into commercial production, 12 units were in partial production, while only 8 units were yet to go into commercial production. The Company further stated that the electronic industry is import intensive and due to continuous unprecedented global changes and policy changes of Government of India, the units are taking longer time for stabilisation and adjustment to the changed circumstances and going into full commercial production. The Company further stated that since many of these units are in various stages of implementation due to various circumstances beyond their control, return on investment during this period may not be the apt tool to assess the performance, instead the consideration of value of production contributed by these units appears to be a better tool to assess the investment and that during the year 1991-92 alone, these units produced goods valued more than Rs. 100 crores leading to considerable revenue to Government by way of taxes etc.

4.3 *Regarding the gestation period of 5 years, the Committee reiterates its earlier recommendation that the Company should allow only 3 years as gestation period. This limitation is all the more necessary in respect of electronic industry in particular, because of the fast changing technology.*

4.4 The Committee observed from the Audit Report that dividend received in the last seven years was very insignificant and thus dividend income on the investment was poor even after allowing the gestation period of 5 years contended by the Company.

4.5 *The Committee, therefore, desires to have the year-wise break-up of the commencement of commercial production by the 65 units stated by the Company to have gone into commercial production, howmany of these units have completed 5 years of production and the return received from these units.*

4.6 The Committee observed that in many cases, there was delay in completion of the projects and consequently the technology adopted by the units became outdated.

4.7 *The Committee, therefore, recommends that the Company should ensure the completion of the projects by the scheduled dates of completion by keeping close watch and properly monitoring the implementation of the projects.*

5. Disinvestment of equity in assisted units :

5.1 As per the declared policy and as per the equity assistance agreement entrered into with each of the assisted units, the Company is

to disinvest its equity holdings in the assisted units within three years of investment or of commencement of commercial production by the units whichever is earlier. Out of Rs. 559.87 lakhs disbursed to 82 units by way of equity, the Company disinvested an equity of Rs. 15.81 lakhs in six units only and 55 units with equity assistance of Rs. 303.56 lakhs were due for disinvestment to end of June 1991. Due to non-implementation of the disinvestment policy, huge amounts continue to be locked up in assisted units. The Company, thus, could not recycle the funds for encouraging new units and consequently could not achieve the prime objective of rendering assistance to a number of new units.

(Paragraph 2A.9.2)

5.2 In its explanatory notes, the Company, *inter-alia*, stated: "Most of the units for which identification of entrepreneur and promotion of units is being done for a period of 3 to 5 years. As already stated earlier, during this period, the policy of Government of India, particularly, the Department of Telecommunications, was not crystalised and was in continuous change . . . . . Even in these circumstances, the Company made a beginning in disinvestment and it may not be in the interest of the Company to go in for disinvestment strictly on a time scale without ensuring steady growth of the units, where the Company may not get adequate return on investment, as most of the units are yet to stabilise and show growth of the units into three categories, *viz.* (a) good units - units doing well and the Company does not wish to make immediate disinvestment, but await capital appreciation, so that better return on investment is ensured, (b) moderate units - the Company is trying to disinvest more in this category of industries and (c) units not doing well - the Company is trying to revive these units, so that better results can be expected and prospects for disinvestment improve".

5.3 *The Committee feels that the explanation of the Company is not to the point and opines that the Company could have explained better with statistical data in support of its various arguments. The Committee would like to have a detailed report with relevant data, covering the following aspects and for the period up to 31st March 1994:*

(a) Break-up of the 85 assisted units under these three categories namely good, moderate and units not doing well.

(b) Under moderate units category, in how many units disinvestment took place and in how many units disinvestment is yet to be done and what are the reasons for delay in disinvestment in these units.

(c) What is the Company's investment in the units not doing well, the stage of their revival as also the prospects of getting back the investment in this category of units.

6. Sick units :

6.1 The Company had not analysed the performance of the various units assisted by it till October 1990 to identify the sick units and take timely action to revive them. A study and analysis of the performance of 65 units conducted by the Company in October 1990 in order to furnish information to the Government revealed that working of 12 units with Company's investment aggregating Rs. 72.49 lakhs resulted in accumulated losses to the tune of Rs. 1345.67 lakhs (up to 1989-90). The units had a negative net worth aggregating Rs. 332.41 lakhs and fell sick due to various problems *viz.* management (five units), marketing (two units), financial (two units) and technical (three units). The Company had not taken any action to revive the above sick units.

(Paragraph 2A.9.5)

6.2 In its explanatory notes, the Company stated: "The Company is monitoring and analysing the performance of the units promoted by it from time to time. Here it may be stated, that, revival of the sick units needs the concerted efforts of various organisations including term lending financial institutions and commercial banks. On its own, the Company can do little except in cases of sickness due to management/ technical failures. The Company is putting all efforts to change managements where the sickness is due to management failure, by finding alternative entrepreneurs, which have shown some success. The Company is also liaisoning with other financial institutions for rehabilitation of these sick units."

6.3 *The Committee regrets to note the helplessness expressed by an organisation created and established for a particular purpose. The Committee is not prepared to accept the plea put forth by it in support of its helplessness.*

6.4 *If it is the Company's experience that it cannot help the revival of sick units, it should take responsibility to see that no unit becomes sick. For this purpose, the Company should be vigilant right from the pre-project appraisal stage till the unit goes into commercial production and the assistance is repaid. The Committee strongly feels that here, the Company's performance is not satisfactory and a much more competent and independent appraisal of the project reports and a vigilant and continuous monitoring is needed, as is evident from various observations made by Audit in the Report on implementation of various projects. There is no justification on the part of the Company in putting forth any kind of excuses after the units have become sick. The Committee therefore recomends that the Company should strive to ensure that no unit assisted by it becomes sick, by taking appropriate measures, instead of expressing at a later stage its helplessness to revive a unit after it has become sick.*

6.5 No doubt revival of sick units needs the concerted efforts of various organisations including term lending financial institutions and commercial banks. The Committee, however, feels that the Company can help the sick units which are facing marketing and financial problems also, apart from management/technical failures and help them to overcome such difficulites. As may be seen from the Audit para, 2 units faced marketing problems immediately after going into production. This is indicative of the fact that the demand for the products was not adequately surveyed by the entrepreneurs before selecting the product. At the same time, the Company also, on its part, has neither pointed out the lack of proper survey in support of the demand projected by the entrepreneur in his project report, nor conducted such a market survey adequately and independently to ensure the correctness of the demand projections made in the project report. Further, even the Company is not the lead financial institution, it is not prevented or prohibited from conducting an independent scrutiny of various projections made by the entrepreneur, before the investment decision is taken by the Company.

6.6 *The Committee, therefore, recommends that the Company may, in future, pay the required attention to the pre-project appraisals and ensure that assistance is given only to those units which willnot certainly become sick. In this connection, the Committee would like to have a report from the Company detailing the number of units which became sick, reason-wise analysis for their becoming sick, action taken by the Company to revive them, number of units working well after revival, number of units which became sick again after extending revival assistance and reasons therefor etc.*

7. Projection Television Systems Project:

7.1 The Company obtained a letter of intent in the year 1986 for manufacture of 10,000 sets of Projection Television System (PTS) per annum. The Company decided to set up the PTS Project at an estimated cost of Rs. 186.50 lakhs departmentally within one year at its Audio Visual Complex, Gannavaram initially with a capacity of 3,000 sets per annuam. When the proposal did not materialise, the Company initiated action in November, 1988 to identify a co-promoter after incurring an expenditure of Rs. 29.30 lakhs. Without inviting tenders, the Company selected in December, 1988 Sinclaire Televisions Private Limited (STPL) Hyderabad - one of its assisted units - whose financial position indicated negative net worth, for implementation of the project and decided to participate in equity to the extent of Rs. 29.30 lakhs. The firm envisagged the project cost in 1989 at Rs. 37 lakhs and as such the maximum equity participation of the Company amounted to Rs. 3 lakhs only. The Company did not enter into any MOU with the firm for the transfer of assets, it, however, issued (April, 1990) demand notice claiming a sum of Rs. 80.93 lakhs

from the firm towards value of assets transferred and pre- operative expenses incurred. The firm pointed out that some of the materials and equipment supplied by the Company were not useful to them as the PTV model had changed by then and refused acceptance of payment of pre-operative expenses of Rs. 9.19 lakhs incurred by the Company prior to transfer and also sought waiver of interest charges (Rs. 8.91 lakhs), letter of intent transfer fee (Rs. 0.37 lakh) etc. After prolonged discussions the firm accepted the claim for Rs. 46.17 lakhs. The Company had not taken any decision on the matter which was still under correspondence (July, 1991.)

Thus due to inadequate appraisal of the financial capability of the co- promoter and failure to enter into MOU before transfer of project for deciding the amount, mode and time of payment of consideration for transferring the project, the amount of Rs. 80.93 lakhs could not be recovered from the copromoter (July, 1991) resulting in locking up of capital for two and half years and an interest loss of Rs. 36. 41 lakhs at the rate of 18 per cent per annum.

(Paragraph 2A.9.7.2)

7.2 In its explanatory notes, the Company stated, interalia, that the subject matter between the co-promoter and the Company was settled and that Rs. 41.37 lakhs was recovered from the unit up to June, 1993.

7.3 The Committee observed that as per the letter of intent the project was tobe set up in a notified backward area, whereas the Company proposed to set up the project at Gannavaram.

7.4 *The Committee would like to know how Gannavaram was considered to be a notified backward area.*

7.5 As against the demand of Rs. 80.93 lakhs, the unit agreed to pay only Rs. 46.17 lakhs.

7.6 *The Committee desires tobe appraised of the details of the settlement reached between the Company and co-promoter and the present status of recovery of the dues from the unit. The commitee would also like to know whether the Company was put to any loss in this transaction and whether interest is also being recovered from the unit.*

8. Cordless Telephones Project :

8.1 The Company obtained in August 1984, a letter of intent for manufacture of Cordless Telephones and formed (March, 1986) a joint venture unit under the name APEL Pran Limited, with co-partner Lucky Goldstar Electronics Pvt. Ltd. for implementation of the project, estimated to cost Rs. 179 lakhs, by arranging foreign collaboration, to be completed by June, 1986 and commencing commercial production

before April, 1987. The Company released Rs. 12.50 lakhs in March, 1988 as 26 per cent of share of total equity. The firm incurred an expenditure of Rs. 26.60 lakhs towards preliminary and other expenses till end of June, 1988 and on account of lack of proper management and lack of response from foreign collaborators, it ceased functioning from then. Meanwhile the project cost increased to Rs. 225 lakhs. The Company transferred (September, 1989) the letter of intent free of cost to a new co-promoter in view of interest shown by him in the project. The Co-promoter entered into a tie-up agreement with a Korean firm ony in October, 1990 for transfer of technology.

Inadequate appraisal of the managerial capacity of the original co-promoter and poor monitoring of the project after selection of co-promoter thus, resulted in execution of the project after 7 years of issue of letter of intent apart from escalation in project cost by Rs. 46 lakhs.)

(Paragraph 2A.9.7.5)

8.2 In its explanatory notes, the Company stated, inter-alia: "Apart from the policy change of Government of India. the Department of Telecommunications also could not firm up the specifications of the Cordless Telephone. The Wireless Planning and Co-ordination Wing of DoT revised the frequency range allotted to Cordless Telephones 3 times, because of which the co-promoter selected for implementing the project could not firm up the design. ..... The Company identified a new co-promoter Rajvebh Electronics Ltd. represented by an NRI in September, 1992 to implement the project. The co-promoter is taking effective steps for implementation of the project. The Company is closely monitoring the progress and envisages that the project will be fully implemented in a year".

8.3 *While appreciating the efforts made by the Company in identifying a new co-promoter for implementation of the projet, the Committee would like to hav a report from the Company regarding the status of APEL Pran Limited promoted by the Company and its investment of Rs. 12.50 lakhs. The Committee hopes that the Company has got the letter of intent revalidated, since it is already about 10 year old. The Committee would like to be appraised of the present status of implementation of the project.*

9. Marketing assistance :

9.1 The Company opened sales service centres at Hyderabad, Vijayawada, Visakhapatnam and Tirupathi. The marketing assistance was extended through institutional market cover and open market sales through a network of dealers. However, the Company had neither conducted any marketing research nor developed a marketing strategy. Also, no sales target has been fixed. Audit further observed that there

was a steep fall in the marketing activity from 1988-89 onwards. The main reasons attributable to low sales performance were lack of suitable marketing organisation structure and personnel, network dealers' indifference towards marketing of company's products, lack of standardisation of the design of the products to push up sales and the image of the Company, poor quality control norms despite the fact that product range is very limited for open market sales and locking up of financial resources due to holding of heavy stocks even at branches level.

(Paragraph 2A.10.1)

9.2 In its explanatory notes, the Company stated, inter-alia,: "Keeping in view the changes in the industrial policy of Government, the Company is evolving a better market strategy and plans to cover diversified electronic goods as also area of operations. It is envisaged that these efforts will bear fruits and the sales turnover will go up from current year onwards. As a part of new strategy, the Company is taking effective steps for better quality control and customer service, with minimum level of stocks. Here it may be stated that the Company has taken action for disposal of all defective/non-moving stocks at all places including branches".

9.3 *The Committee would like to have a report from the Company explaining further the better marketing strategy etc which is being evolved by it. The Company desires that the report may also contain the targets of marketing assistance for 1993-94* vis-a-vis *achievement.*

9.4 The Company stated that action has been taken for disposal of all defective/non-moving stocks lying at all places including branches.

9.5 *The Committee may be appraised of the value of such stocks disposed off during the last three years up to 1993-94 and loss, if any, sustained in such disposal.*

10. Amounts due from dealers :

10.1 As at the end of March, 1990, a sum of Rs. 39.91 lakhs was outstanding from dealers of the Company. This includes Rs. 18.74 lakhs outstanding from 32 dealers who stopped business with the Company. While appointing the dealers. The branch offices of the Company did not ascertain the financial soundness of the parties. As per the terms and conditions of dealership agreement, there is no scope for entertaining sales returns under any circumstances by the Company. However, sales returns amounting to Rs. 51.83 lakhs were allowed on a large scale during 1988-89 by three branch offices. In a majority of the cases, the dealers returned the sets after 60 to 252 days from the date of invoice. As the Company was rendering marketiing assistance by availing cash credit facility with banks, the return of the items by the dealers after

retaining the sets with them for long periods, thus, resulted in locking up of Company's funds for long periods and consequential loss of interest to the extent of Rs. 2.53 lakhs. (Paragraph 2A.10.3)

10.2 In its explanatory notes, the Company stated : "As submitted earlier, the open market sales are effected through the network of dealers developed by the Company. From 1989 onwards there is a recession in electronic industry and in particular consumer electronic goods. Even the brand leaders could effect sales with much publicity only, which the low priced product of the Company could not afford. In the circumstances, many dealers of the Company could not push the sales of these products and in order to protect its interests and to avoid losses, the Company had to get back these goods, necessitating sales returns. The amount outstanding as on 31st March, 1992 was Rs. 36.17 lakhs".

10.3 The Company stated that to protect its interests and to avoid losses, the Company had to get back the goods necessitating sales returns. This contention can be accepted to a certain extent but not to the extent of 252 days. This amounted to extending undue advantage to the dealers by way of interest-free credit for more than 8 months.

10.4 *The Committee, therefore, recommends that the Company may evolve a suitable credit policy prescribing a maximum time limit for sales returns.*

10.5 *The Committee would like to have a report detailing the year-wise break-up of the dues from the dealers as on 31st March, 1994 and in particular the amount outstanding as on that date from the 32 former dealers, as also steps taken by the Company to recover these dues.*

10.6 In his oral evidence, the MD explained : "At the time when the Company started dealing with consumer items particularly TV sets, big companies like Videocon, BPL etc. have also entered the market and started giving large scale credit. Since the market became difficult, the Company also started giving credits. Credit worthiness of those dealers was not really examined then very closely, with the result, suddenly the Company found large outstandings and some of them became difficult to collect ..... In a number of cases we have no idea whether the defaulted dealers have any money or whether they can pay the amount or not. I requested my officers to analyse individual cases to find out whether the amount could be collected before settlement of cases. If a man is in business, we try to bring indirect pressure through other Government agencies such as Sales Tax etc. ..... About 36 Court cases involving about Rs. 30 lakhs are there. We may get about Rs. 15 lakhs and the rest has to be written off".

10.7 *The Committee is pained to note that the Company extended credit to the dealers without examining their credit worthiness and consequently it is resorting to write off irrecoverable debts. This is a serious lapse on the part of the Company and the Committee recommends that responsibility may be fixed on the concerned officials and recover the loss sustained by the Company.*

11. Locking up of funds in defective stock :

11.1 The marketing division was holding stocks of defective/old sets valued Rs. 20.83 lakhs for more than three years, as on 31st March, 1991. Due to non-disposal of the defective/non-moving sets, the Company's funds were locked up to that extent. (Paragraph 2A. 10.5)

11.2 In its explanatory notes, the Company stated that effective steps have since been taken for disposal of all defective/non-moving stocks wherever there was no alternate use, by open tenders etc. and disposed off.

11.3 *The Committeee desires to have a detailed report from the Company explaining the value of stocks disposed off, loss if any sustained by the Company on such sale, as also the value of such stocks held by it as on 31 st March, 1994.*

11.4 The Committee observed that the Company has not been analysing the reasons for their becoming defective/non-moving, whether the stocks were defective at the time of procurement or otherwise how did they become defective at a later stage.

11.5 *The Committee, therefore, recommends that the Company may analyse the reasons for the stocks becoming defective/non-moving and fix responsibility for puchasing defective items or allowing the items to become defective.*

12. Development of Industrial Estate at Cherlapally :

12.1 With a view to set up departmental units and to make available requisite infrastructure for electronic based industries, the Company was initially allotted (August, 1983 - March, 1986) 35 acres of land at Cherlapally by Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC) at a total cost of Rs. 16.53 lakhs. The Company could not carry out any developmental activity on the land as it could take possession of land only in June, 1987. Later the Company surrendered the land in October, 1989 due to encroachment by local villagers and other disputes and also in view of its unsuitability and took alternative land from APIIC in October, 1989 to the extent of 22.4 acres valuing Rs. 10. 84 lakhs.

APIIC adjusted an amount of Rs. 4.91 lakhs (in October, 1989) towards interest charges due to delayed payment and belated possession of the land by the Company. The Company sold 15 acres to C-MET for Rs. 21.09 lakhs in March, 1990, while the remaining land of 7.4 acres valued at Rs. 5.20 lakhs continues to remain idle till date (July, 1991).

(Paragraph 2A.11.1)

12.2 In its explanatory notes, the Company stated, inter-alia, that regarding the balance 7.4 acres, the Company was actively pursuing to attract major electronic industries to be set up there, which was expected to be completed in a year.

12.3 *The Committee observed that the Company has not offered its explanation to various important aspects observed by Audit and, therefore, desires to have a detailed report from the Company covering the following aspects :*

(i) Whether the unsuitability status of the 35 acres of land at Cherlapally was not known to the Company before accepting the land and whether there was any failure on the part of the Company in properly assessing its requirement of land.

(ii) Whether the encroachment took place before taking possession or if there was no encroachment at the time of taking possession whether the Company failed to protect its land by putting fencing/compound wall etc. to prevent encroachment.

(iii) Whether the loss of Rs. 4.91 lakhs sustained by the Company was due to the failure of the Company on the above two counts and if so, whether responsibility has been fixed.

(iv) whether the Company analysed the reasons for the disinclination on the part of the entrepreneurs to take the land in Cherlapally which is an urban area and if so, what are they.

(v) What is the present status of developing electronic industry in the remaining 7.4 acres of land.

12.4 The Committee desires to have the report from the Company as early as possible.

13. Consumer Electronics Division, Gannavaram :

13.1 To house the Projection Television Project (PTV) and to create infrastructure for production of other consumer electronic products contemplated by it, the Company constructed in July 1987 an Audio Visual Complex at Gannavaram at a total cost of Rs. 47.58 lakhs. The additional space (13,314 Sft.) in the complex after meeting the above requirement was earmarked for utilisation under the Electronic Nursery

concept, wherein entrepreneurs interested in locating their production units at the Company's nearby Industrial Estate Growth Centre would be housed in this complex for an initial period of six to nine months. However, the Growth Centre attracted no entrepreneur and the Company also did not work out any long term programme for operation of its Consumer Electronics Division. Consequently, majority of the additional infrastructure created for the purpose remained idle since its inception.

During the period from September, 1987 to July, 1989, the Company could assemble only 25 PTV sets as against the targeted 3000 sets per annum and stopped further assembly in view of its abrupt decision to hand over the project to a private party. As the Company had not worked alternative plans to utilise the complex, the entrie complex constructed at a cost of Rs. 47.58 lakhs remained idle for the last 2 years, excpet for a short spell of 2 to 4 months when a very small part of the complex was used as a focal point for Audio Visual Programme being executed by the Company.

(Paragraph 2A.11.2)

13.2 In its explanatory notes, the Company stated : "The Company selected Gannavaram area considering the following :

(a) it is centrally located to all parts of State,

(b) it has good Air, Road and Rail services to all parts of the country.

(c) relatively undeveloped and hence pollution free.

(d) availability of skilled man power in view of professional institutions and ITIs in and around the area in large numbers.

(e) the colour TV Picture Tube project was expected to be located near Kondapali APIIC's Industrial Estate, which when set up was expected to give a boost for small/medium scale industries. In fact the co-promoter requested utilisation of Audio Visual Complex for their initial work till their plant is set up at Kondapalli.

The Government advised the Company to divest itself of all manufacturing activities and concentrate on promotion only and consequently the project which was still in initial stages of implementation was transferred. Further, keeping in view the changes world over, and liberalisation of industrial policy by Government of India, the Company is examining the issue of putting the Complex for alternative use/disposal to other public institutions".

13.3 The fact remains that the complex constructed in July, 1987 at a cost of Rs. 47.58 lakhs has been lying unutilised even now and

the Company is still examining the prospects of its utilisation. On the capital so locked up for six and half years, interest burden at 18 per cent per annum works out to Rs. 55.67 lakhs which is a clear loss to the Company.

13.4 The Committee gains the impression that the Company did not take adequate action to put the complex for alternative use for the last 6 years and even now it is only examining the issue of putting the complex to alternative use.

13.5 In his oral evidence, the MD stated : "The building has been used only for assembling of TVs when we were assembling the TV sets. For more than two and half years, the building is not under use. We have two persons posted as watchmen also there. I have written to all the Secretaries to the State Government requesting them to see whether this building could be used so that it could be given to them either on hire basis or on outright sale. We are not seeing any worthwhile use of this building. Recently, there was a proposal for starting a Z.P.P. High School around the same area. We have already advertised for sale, but there was no response mainly because it is located next to the Gannavaram Airport, where there is no commercial activity.

13.6 The Committee observed that the reason put forth by the MD for the poor response to the advertisement was that there is no commercial activity in that area. The Committee fails to understand how the place was selected initially when there was no commercial activity and to this extent there was a clear lapse on the part of the Company in selection of place.

13.7 *While expressing its unhappiness over the inaction on the part of the Company all these six years, the Committee directs the Company that at least now it may take the issue seriously and utilise the complex for an alternative use or else it may dispose off the complex and stop further accumulation of interest burden on the idle building.*

13.8 *The Committee directs the Government also to give a serious thought to this building constructed at a cost of Rs. 47.58 lakhs and lying idle for the last about 6 years and ensure that the building is put to some use or the other by one department or the other, as expeditiously as possible.*

14. Purchase of land at Gannavaram :

14.1 In order to construct the Audio Visual Complex, the Company took possession (May, 1986) of 1780 Sq. yards of land in S.No. 16 of Kesarapally area gifted by one Dr. C.K. Rayudu. It also purchased 3982.5 Sq. yards in the same plot and agreed to pay the owner for the land at a rate to be decided by the Government in accordance

with the rules and regulations of Revenue Department in vogue. The Company signed an agreement in May, 1986 with Dr. C.K. Rayudu to this effect pending compliance of all legal formalities. Though the Company completed construction of the building in July, 1987 (cost : Rs. 47.58 lakhs), it could not arrive at the transfer value till date as stipulated in the agreement. One party not privy to the above agreement claimed ownership of 0.75 acre of the above land of 3982.5 Sq. yards on which the building was constructed and demanded payment of Rs. 6 lakhs towards cost of the land. The party also contested that Dr. C.K. Rayudu with whom the Company entered into an agreement earlier was not the bonafide owner of the land. The Company agreed for a transfer value of Rs. 1 lakh per acre as intimated by Collector of Krishna District. The above party filed a suit in June, 1990 for fixation of land price either through negotiation or by way of an award of Land Acquisition Officer which was still pending finalisation (December, 1991).

Thus, failure of the Company to ensure bonafide of the owner of the land resulted in a potential liability of Rs. 5.25 lakhs.

(Paragraph 2A.11.3)

14.2 In its explanatory notes, the Company stated : "Since Dr., C.K. Rayudu is a respectable resident of the area, who also showed keen interest in the development of Growth Centre, there was no reason to doubt his bonafides. .... The matter has been submitted for legal process and the final disposal is awaited as also the claim of the other party who claimed ownership and contested by the Company."

14.3 *Although the site was given as gift and although Dr. C.K. Rayudu is a respectable resident of the area, the Company should have verified the titles before accepting the gift. Being a Government organisation, this was a failure on its part and the Committee recommends that responsibility should be fixed for this lapse. The Committee desires to have a compliance report and also a report detailing further developments in the cases.*

15. Implementation of Audio Visual Scheme :

15.1 With a view to improving the quality of education through Audio Visual Education, Government introduced in 1986-87, on pilot basis, the Audio Visual Scheme in primary schools in Krishna, Chittoor and Nalgonda districts by distributing 600 TV sets in 1986-87 and 400 sets in 1987-88 through the Company. In August 1988, the Government issued orders sanctioning purchase of 4163 TV sets and also for supply of 7342 Radio-cum-Casette players for supply to the primary schools under the Scheme by the Company. In October 1988, Government revised the orders to introduce Audio Visual Education technique in 10,000 primary schools instead of 4163 primary schools during the year 1988-89 under the centrally sponsored scheme of Government of India

to be completed in a span of four years in a phased manner.

As the range of Low Power TV transmitters was limited and as the Tele school programme of State Institute of Educational Technology was non- thematic, the Government decided in October 1988 to have syllabus related video lessons prepared for primary classes and to use them in class room instruction through supply of TVs, VCPs and Video cassettes.

In October 1988, Government sanctioned an amount of Rs. 21.29 crores for supply of 10,000 VCPs and 5837 TVs to the primary schools in the State in order to implement Audio Visual Education scheme of State Government in 10,000 schools in addition to Rs. 2.70 crores sanctioned in August 1988 for 4163 TV sets.

As per the orders issued by the Government, the Company had to complete the installation of 10,000 Audio Visual units at the primary schools by 31st March 1989. However, the Company distributed 9796 CTVs and 6093 VCPs and installed 9356 CTVs, only by 15th May 1991 (commencing from Novemner 1989). Of the 9,356 schools covered under the programme so far, only 1000 schools were situated in the normal Zone which were capable of receiving TV signal. Around 5000 sets were installed in far off schools where no television transmission could be relayed. Thus, having installed 9356 CTVs, as against 10,000 contemplated in the scheme ad having installed only 1,000 sets in the normal zone capable of receiving TV signals, the remaining 8356 TV sets already installed required VCPs for utilisation. However, since the Company had distributed only 6093 VCPs, the remaining 2263 TV sets (cost : Rs. 158.41 lakhs) already installed have remained unutilised. Thus, the scheme had, abinitio, not been effectively planned for implementation in 2263 schools, apart from keeping 2263 TV sets installed in these schools at a cost of Rs. 158.41 lakhs (approximately) idle. (Paragraphs 2A.12.1 and 12.2)

15.2 In its explanatory notes, the Comapny stated : "At the outset it is submitted that the role of the Company as an extended arm of Government in implementation of the massive Audio Visual Education Scheme, is that of procurer and supplier of the hardware consisting of CTV, VCP, Stabilizer, an integrated cabinet to house these equipments and RCCP only. The selection of primary schools to which these equipments are to be supplied is decided by the Government and the Company has no role to play there. ..... Further, the electrification - both internal and extrnal - is being done by AP State Electricity Board and the disrict administration of the district concerned. As such the installation of the equipment is largely dependent on the readiness of these infrastructure facilities. ..... Though the Company has taken immediate steps for procurement and distribution of these equipments, the intervening general elections

had an effect on its distribution as most of the district administration was busy with the conducting of general elections. ..... The delay if any is mainly due to delay in electrification of these primary schools".

15.3 According to a written statement filed before the Committee by the Secretary of Education Department in March 1994, against 11,000 CTVs sancitoned under the scheme, the Department received and installed 10,912 CTVs up to February 1994, of which only 3,801 CTVs are functioning and the remaining 7,111 CTVs are not functioning due to repair, non- availability of electricity, non-reception zone etc.

15.4 *The Committee is pained to note that only 3801 CTVs representing about 35 per cent of the CTVs are in working condition and the remaining 65 per cent of the CTVs installed by the department are not functioning for various reasons. When the Committee desired to know the further break-up of the 7,111 CTVs not working, the Secretary, Education Department, in his deposition before the Committee in March 1994, could give break up to the extent of only 6714 TVs not working due to non-receptive zone (2225), no electricity (1316), under repairs (3000) and stolen (173). The Secretary could not give the information in respect of the remaining 397 TVs not functioning. The Committee directs the Education Department in the Government to collect the details of the CTVs which are not functioning awaiting repairs, and take immediate action to get the defective sets repaired. The Committee directs the Department further to ascertain the details of the CTVs whcih are not functioning for want of electricity and take immediate action to get the electrification work done in the school if electricity is available in the village or shift the CTVs from the schools/villages where power is not available in the village itself, to other schools where power is available. Similarly, the Department should either shift the TVs installed in non-reception zone to reception zones or ensure supply of VCPs to such CTVs, so that the CTVs could be put to use.*

15.5 In his deposition before the Committee, the Secretary, Education Department, further stated : "Before the commencement of the next academic year, we will ensure that except in the cases where they are stolen, all the TVs are brought and kept in the schools. The Upper Primary Schools have better infrastructure facilities than ordinary primary schools. They are located by and large nearer the towns. They should be given preferential treatment for the supply of TV sets. We will also ensure that whenever they are not in order, they are brought to order before 31st May. We will have to launch investigation into the cases where they are stolen and ensure that at least in future no TV set is stolen".

15.6 The Committee desires that the department takes action on the lines opined by the Secretary and report compliance to the Committee by June 1994.

15.7 When the Committee desired to know the circumstances under which TVs were proposed to be supplied to non-receptive zones and that too without VCPs and also on what basis such villages were selected, the Secretary, Education Department, in his deposition before the Committee in March 1994 promised that the required information would be collected from five or six districts, on a sample study basis, where there was high degree of non-functioning and higher non-receptive zone and furnish to the Committee before 20th of this month positively.

15.8 *The Committee, however, observed that the information promised to by the Secretary, Education Department has not so far been received. The Committee would like to have the report immediately.*

15.9 *The Committee was informed that the Department has not yet decided on the proposal of the Company for after sales service. It is pitiable that although the first set of CTVs were installed and commissioned in Novemeber 1989, no arrangements have been made so far (March 1994) for their after sales service.*

15.10 In this connection, the MD, in his deposition before the Committee in March 1994, informed that the Company's guarantee was one year from the date of supply and that if the machine was not utilised for one year, the guarantee period would expire and the Company would not be responsible.

15.11 *Now that the period of guarantee given by the Company expired in respect of all the TVs, the Committee directs the Department to take a decision on the issue of after sales service on priority and get all the CTVs serviced and repaired by 31st May 1994 as promised to by the Secretary by 31st May 1994 and report compliance to the Committee.*

15.12 *The Committee directs the Department further to conduct physical verification to ensure the existence of all these CTVs, VCPs RCCPs, Cabinets and cassettes and also their on-job utilisation. The Committee desires to be kept informed of the results of such physical verification.*

15.13 *According to the Company, it stopped further procurement of VCPs as it was understood that the Government decided to evaluate the Audio Visual Education technique in the schools so far implemented. The Committee directs the Department to conduct such an evaluation, if not already done, and decide future course of action. The Committee desires to have a compliance report by June, 1994.*

16. Procurement of VCPs :

16.1 The Company floated tenders in October 1988 for purchase of VCPs and received 28 offers. The Company evaluated the offers and its evaluation report was also considered by a Committee constituted by

Government. Based on the report of the Committee, the Government accorded permission in January 1989 for procurement of 10,000 VCPs of Funai VIP 2500 model by the Company at the rate of Rs. 7575 per VCP inclusive of spares by placing orders on adequate number of parties with schedule for completion of supplies by 26th February 1989.

The Company placed orders on 3 firms in February 1989 and May 1989 for supply of 10,000 VCPs but could procure only 6177 VCPs by end of December 1990 at a cost of Rs. 467.90 lakhs. The terms and conditions of the purchase order did not include penalty clause and as such the Company could not levy penalty for belated supply or non-supply by the firms. The Company approached the Government in December 1990 expressing difficulty to procure the Funai sets of VIP 2500 model in view of a change in import and export policy and sought permission to go in for procurement of alternative models like Goldstar which would be costlier. The Government did not, however, accept the proposal and suggested to stop further procurement.

(Paragraph 2A.12.3)

16.2 In its explanatory notes, the Company stated that when proposals for alternate models were submitted by the Company to the Government, it was understood that the Government decided to evaluate the Audio Visual Education Techniques in the schools so far implemented and a decision on further implementation with VCPs is to be considered on completion of such review.

16.3 *The Committee would like the Government to keep the Committee appraised of the decision when taken.*

16.4 *From the written statement filed before the Committee by the Secretary, Education Department, the Committee observed that as many as 2598 VCPs were not functioning, out of 7,000 VCPs received and installed. The Secretary could not give a satisfactory explanation for their not functioning. The Committee, therefore, directs the Department to analyse the reasons for their non-functioning and take suitable action in order to bring the VCPs into use. The Committee would like to have a compliance report by June 1994.*

16.5 *The Committee further observed from the written statements filed by the Secretary, Education Department that while 4,402 VCPs are in working condition, only 3,801 TVs are in working condition, which means that 601 VCPs which are in working condition are not being put to use. The Committee directs the Department that, in such circumstances, the Department should arrange to get back the VCPs from the schools and keep them in safe custody, in order to avoid misutilisation of VCPs in the Schools.*

17. Procurement of VCPs from Continental Systems (P) Ltd., New Delhi - Deposit of moneys in trust :

17.1 According to the terms and conditions of the purchase order, the payment for the supplies was to be made only after the sets were accepted by the Company. At the instance of the firm, the Company agreed (August 1989) to deposit moneys in the bank account of the firm maintained at Indian Bank, New Delhi with an understanding that the bank would hold the amount under trust and release payments to the firm only on receipt of certified delivery challans from the Company. The Company deposited an amount of Rs. 68.17 lakhs in April 1989 in the bank towards 90 per cent of value of 1000 sets and further remitted an aggregate sum of Rs. 2.38 crores on five occasions during the period May to October 1989. The firm supplied only 4700 sets by June 1990 and stopped further supplies by which time an amount of Rs. 34.55 lakhs was rendered surplus in the non-interest bearing account opened at Indian Bank, New Delhi. The Company could obtain refund from the bank only in February 1991 after a lapse of nearly 8 months as the bank refused to refund in view of certain objections raised by the firm. The surplus balance held with the bank under trust during the period May 1989 to February 1991 ranged from Rs. 6.06 lakhs to Rs. 112.87 lakhs and the consequential loss of interest thereon during the period worked out to Rs. 15.97 lakhs at 18 per cent per annum.

Thus, the action of the Company in making payments through money deposits in favour of the firm tantamounted to making advance payments which was never contemplated in the conditions stipulated in the purchase order resulting in locking of capital and consequential loss of interest of Rs. 15.97 lakhs.

(Paragraph 2A.12.4(b)

17.2 In its explanatory notes, the Company stated: "The directions to release moneys were made only on inspecting and accepting goods. As per the conditions of the purchase order, the payent has to be made on acceptance of goods. The mode and time of payment is at the conveniene of the parties. As such no condition of the purchase order was contravened".

17.3 *The fact remained that the Company placed funds at the disposal of the firm much in advance and without reference to actual supplies. This amounted to extending unintended benefit to the firm and the loss of interest sustained by the Company was Rs. 15.97 lakhs. The Committee recommends that the Company may enquire into the case and fix responsibility for the loss of Rs. 15.97 lakhs.*

17.4 The Company also stated that the amounts were utilised out of

the mobilisation advances received from State Government for speeding up the supplies. Hence, the concept of notional interest cannot be applied in the circumstances of the case and there was neither locking up of capital nor consequential loss of interest.

17.5 *Since the money is Government money, it is all the more necessary for the Company to be extra cautious and financially prudent. The Company cannot excuse itself that is not its funds and hence no loss of interest.*

18. Procurement of VCPs from Gayatri Marketing Agencies, Hyderabad :

18.1 The Company placed an order in October 1988 on Gayatri Marketing Agencies. Hyderabad for supply of 2500 VCPs at the rate of Rs. 7575 per VCP including taxes and duties by 26th February 1989. The firm commenced supplies only in September 1989 and supplied 447 sets upto November 1989. However, on receipt of the sets the Company neither ensured that the VCPs were legally imported by the supplier nor obtained any documentary proof from them to establish that the VCPs were obtained through legal channels. The Customs and Central Excise seized (October 1989) 211 VCPs valued at Rs. 15.98 lakhs treating them as unauthorised/illicit imports as the Company could not produce any documents confirming payment of statutory levies. The Company executed (February 1990) bond for Rs. 25.40 lakhs and got released provisionally 141 VCPs and balance 70 Nos., Valued at Rs. 5.30 lakhs had not been got released (June 1991) resulting in locking up of funds to that extent. The Collector of Customs and Central Excise Department finally ordered (June 1991) confiscation of 133 VCPs giving an option to the Company to redeem them on payment of a fine of Rs. 1 lakh with a direction that the redemption fee and duty on VCPs already released provisionally be realised by enforcing the bond. The Collector also imposed a fine of Rs. 0.50 lakh.

An appeal was filed by the Company in July 1991 for quashing the order of confiscation of VCPs and levy of penalty. In view of the failure of the firm to comply with the terms of contract regarding supply of VCPs, the Company approached (March, 1990) the Indian Bank to invoke the Bank guarantee but the bank refused in view of interim injunction already obtained in January 1990 by the firm restraining from paying any amount on invocation of bank guarantee by the Company. The Company filed (March, 1991) a petition for vacation of injunction order which was still pending (July, 1991).

The failure on the part of the Company to ensure bonafides of the source of supply and payment of statutory levies on the imported sets, thus, resulted in locking up of funds to the extent of Rs. 5.30 lakhs in

espect of 70 VCPs still under seizure in addition to possible liability of . 24.68 lakhs towards payment of fines and customs duty on the value 133 VCPs confiscated.

(Paragraph 2A.12.5)

18.2 In its explanatory notes, the Company stated: "As per purchase contract terms, the Company is not required to provide any import licence and the party is free to supply either by manufacturing the VCPs from imported components, CKD/SKD kits and/or by procuring from such units. Since the party declared that he is a trader obtaining of documentary proof that the VCPs were legally imported did not arise. However, documentary certification as advised by our Central Excise consultant was ensured by the Company. The seizure of VCPs by the Customs and Central Excise Department was a consequential action of seizure of certain goods of the supplier at Calcutta and the Company is in no way connected with these transactions. The bonafides of the Company's procurement was explained to the Customs and Central Excise Department. However, due to the failure of this particular supplier (M/s Mack Overseas, Madras) to come forward and satisfy the requirements of the Customs and Central Excise Department and since the VCPs were in possession of the Company, the Department seized them. The Company after consulting Customs and Central Excise consultants preferred appeals before the appellate authority and the Special Committee constituted by the Government of India for settling disputes between the Departments and PSUs and the same are pending for disposal.

In order to see that the implementation of the AVE scheme is not badly affected and since the Company was holding a Bank Guarantee for Rs. 20 lakhs furnished by the supplier and after consulting Customs and Central Excise consultants, executed bond for Rs. 25.40 lakhs and got released provisionally 141 Nos. VCPs from the Customs and Central Excise Collectorate, Hyderabad. However, the remaining 70 Nos. could not be got released as the Departments at Guntur insisted for deposit of part of duties in addition to bonds for provisional release of these VCPs. As the Company decided to prefer the appeals it was decided to get these VCPs released on disposal of the appeals by the appellate authority.

Regarding invoking the bank guarantee and realising the guaranteed amount of Rs. 20 lakhs from Indian Bank, Madras, it is submitted that the supplier, without the knowledge of the Company, filed a civil suit in the City Civil Court at Madras and obtained injunction order, restraining the bank from paying the guaranteed amount, though the bank guarantees specifically provides for payment of the guaranteed amount on demand by the Company, without demur and notwithstanding any dispute in any court. The Company is proposing to file an appeal in the Honourable

High Court of Madras against the orders of the City Civil Court, Madras on receipt of the copy of the judgment which is awaited. Though the Company has taken adequate care in procurement of VCPs, the circumstances and happenings were beyond the control of the Company and the Company is trying to get these VCPs released without any loss to itself, by appeals preferred before the appellate authority, Madras and the Special Committee constituted by Government of India for settlement of such issues."

18.3 The contention of the Company that since the firm declared that it was a trader, obtaining documentary proof that the VCPs were legally imported did not arise, is not acceptable. Since the firm was not a manufacturer but only a trader, it is all the more necessary that the Company should have ascertained the source and ensured valid documentation etc.

18.4 The fact remained that the Company did not ascertain the source from which the firm was to obtain VCPs, that the Company could not make the firm to produce adequate documentary evidence to get all the VCPs released (70 VCPs seized in December 1989 valued Rs. 5.30 lakhs were still in the custody of Customs department) and that there is a possible liability of Rs. 24.68 lakhs.

18.5 *The Committee desires to be informed of the grounds on which the supplier obtained injunction from the Court against invoking Bank guarantee.*

18.6 *The Committee observed that the Company was still proposing to file an appeal in the High Court at Madras against the injunction order. The Committee is astonished to note that the Company has taken more than three years to decide for filing an appeal. The Company has not explained the reasons for the delay. The Committee, therefore, recommends that the Company may examine the case and fix responsibility for the delay. The Committee recommends further that if the Company is serious of getting the cases settled expeditiously, it should give proper advice and guidelines to its legal counsel to expedite the matters.*

18.7 *According to the Company, the appeal filed in July 1991 has not been finalised even by June 1993. The Committee desires to know whether it has not come up for hearing even once in these two years and whether the Company's legal counsel could not expedite the matters.*

19. Surplus stocks :

19.1 Despite having adequate infrastructure facilities for assembling the kits into CTVs at its Consumer Electronics Division, Gannavaram, the Company got 9,500 kits assembled into CTVs by engaging outside firms paying assembly charges at the rate of Rs. 200 per kit. In addition, the

Company purchased from two firms 1203 finished CTVs at a cost of Rs. 77.61 lakhs in March 1989 with a view to making available the targeted 10,000 CTVs by 31st March 1989. The purchase of Kits/CTVs had not been restricted to the targeted requirement of 10,000 by planning the purchases properly. Due to lack of properplanning in the purchase of the kits/CTVs a quantity of 225 fully assembled CTVs valued at Rs. 13.05 lakhs remained surplus resulting in locking up of funds since October 1990. The Company had no commitments in future to utilise the surplus sets under the programme.

(Paragraph 2A.12.8)

19.2 In its explanatory notes, the Company stated, inter-alia, that few of the 225 CTVs are required and utilised for warranty service/ replacement and that the balance are proposed to be utilised for executing the current year order.

19.3 *The Committee would like to know the status of the CTVs used as replacement under warranty etc. and number of CTVs still lying in the stores as on 31st March 1994. The Committee further desires that the Company should ensure the physical availability as also the usability of these sets.*

20. Delay in procurement and supply of Recorded Video Cassettes:

20.1 The State Government entrusted to the Company in June 1989 the task of procurement and supply of educational software i.e., recorded video casettes to the schools where the scheme was being implemented. After inviting open tenders and evaluating them and after obtaining approval of Government, the Company placed the order only in June 1990 on Media Video, New Delhi for supply of 1,70,000 recorded casettes at a negotiated rate of Rs. 48.68 per casette. The firm did not supply the casettes till date (August 1991) as the Company failed to supply the *Master-U-Matic* casettes for recording, although the Master Casettes for Classes I to III were ready even by December 1990. Meanwhile, all the Audio Visual equipment costing Rs. 12.37 crores installed by the Company in the schools continue to remain unutilised for want of educational software mainly due to inability on the part of the Company/Government in identifying a suitable supplier of a particular type of software.

(Paragraph 2A.12.9)

20.2 In its explanatory notes, the Company stated in June 1993 that the work of procuring these video casettes has since been completed by awarding the contract to alternative supplier who has supplied these casettes with TDK magnetic tape without any increase in the rate.

20.3 In a written statement, the Secretary, Education Department

stated in March 1994, *inter-alia*, that the work of duplication and supply of the video lesson casettes is nearly completed.

20.4 The fact remains that initially there was delay of one year from June 1989 to July 1990 in placing the order due to delay in selecting the supplier and the quality. There was further delay on the part of the supplier in supplying the recorded video casettes. As pointed out by Audit, this delay resulted in delay in implementation of the project and consequential locking up of funds of Rs. 12.37 crores in the equipments lying unutilised for the period of delay.

20.5 *Expressing its unhappiness over the delay of one year on the part of the Company and the Government in placing the order, the Committee desires to be appraised of the present status of supply of video casettes to the schools.*

20.6 *The Committee is surprised to note that according to the information furnished by the Secretary, Education Department, as on 28th February 1994 only 3801 TVs are in working condition, while only 4402 VCPs are in working condition, out of the 10,000 TVs and 7,000 VCPs supplied and installed in the schools. This indicates that only 64,617 (at the rate of 17 cassettes per school in respect of the schools in which 3801 TV sets with VCPs are working well) casettes are in use, leaving the balance 1,05,383 casettes are lying unutilised in the absence of good working TVs/VCPs.*

20.7 *The Committee desires to have a note on the present status of the utilisation of the 1,70,000 casettes and reasons for their non- utilisation, if any.*

SUMMARY OF RECOMMENDATIONS

1. The Committee, therefore, recommends that the Company should make all out efforts to reduce the time gap at every stage of finalisation of accounts, so that at least three years accounts can be finalised in two years and thus arrears can be cleared. The Committee further recommends that the Company may fix up a time schedule for finalisation of accounts upto 1993-94 and adhere to the same.

(Paragraph 2.4)

2. The Committee recommends also that the Public Enterprises Management Board (PEMB) may keep a close watch on the time schedule so fixed by the Company and monitor the clearance of arrears in finalisation of accounts.

(Paragraph 2.5)

3. The Committee would like to be informed of further progress made by the Company in this regard.

(Paragraph 2.6)

4. The Committee, therefore, recommends that the Company should, in future, allow a gestation period of not more than 3 years for any unit to go into commercial production and commence repayment of loan/assistance from that year onwards.

(Paragraph 3.4)

5. The Committee would like to be kept informed of the modalities of this working with APIIC/other agencies and also Government view point in introducing the proposed scheme.

(Paragraph 3.6)

6. Regarding the gestation period of 5 years, the Committee reiterates its earlier recommendation that the Company should allow only 3 years as gestation period. This limitation is all the more necessary in respect of electronic industry in particular, because of the fast changing technology.

(Paragraph 4.3)

7. The Committee, therefore, desires to have the yearwise break-up of the commencement of commercial production by the 65 units stated by the Company to have gone into commercial production, how many of these units have completed 5 years of production and the return received from these units.

(Paragraph 4.5)

8. The Committee, therefore, recommends that the Company should ensure the completion of the projects by the scheduled dates of completion by keeping close watch and properly monitoring the implementation of the projects.

(Paragraph 4.7)

9. The Committee feels that the explanation of the Company is not to the point and opines that the Company could have explained better with statistical data in support of its various arguments. The Committee would like to have a detailed report with relevant data, covering the following aspects and for the period up to 31st March 1994:

(a) Break-up of the 85 assisted units under these three categories namely good, moderate and units not doing well.

(b) Under moderate units category, in how many units disinvestment took place and in how many units disinvestment is yet to be done and what are the reasons for delay in disinvestment in these units.

(c) What is the Company's investment in the units not doing well, the stage of their revival as also the prospects of getting back the investment in this category of units.

(Paragraph 5.3)

10. The Committee regrets to note the helplessness expressed by an organisation created and established for a particular purpose. The Committee is not prepared to accept the plea put forth by it in support of its helplessness.

(Paragraph 6.3)

11. If it is the Company's experience that it cannot help the revival of sick units, it should take responsibility to see that no unit becomes sick. For this purpose, the Company should be vigilant right from the pre-project appraisal stage till the unit goes into commercial production and the assistance is repaid. The Committee strongly feels that here, the Company's performance is not satisfactory and a much more competent and independent appraisal of the project reports and a vigilant and continuous monitoring is needed, as is evident from various observations made by Audit in the Report on implementation of various projects. There is no justification on the part of the Company in putting forth any kind of excuses after the units have become sick. The Committee therefore recommends that the Company should strive to ensure that no unit assisted by it becomes sick, by taking appropriate measures, instead of expressing at a later stage its helplessness to revive a unit after it has become sick.

(Paragraph 6.4)

12. The Committee, therefore, recommends that the Company may, in future, pay the required attention to the pre-project appraisals to ensure that assistance is given only to those units which will not certainly become sick. In this connection, the Committee would like to have a report from the Company detailing the number of units which became sick, reason-wise analysis for their becoming sick, action taken by the Company to revive them, number of units working well after revival, number of units which became sick again after extending revival assistance and reasons therefor etc.

(Paragraph 6.6)

13. The Committee would like to know how Gannavaram was considered tobe a notified backward area.

(Paragraph 7.4)

14. The Committee desires to be appraised of the details of the settlement reached between the Company and co-promoter and the present status of recovery of the dues from the unit. The Committee would also like to know whether the Company was put to any loss in this transaction and whether interest is also being recovered from the unit.

(Paragraph 7.6)

15. While appreciating the efforts made by the Company in identifying a new co-promoter for implementation of the project, the Committee would like to have a report from the Company regarding the status of APEL Pran Limited promoted by the Company and its investment of Rs. 12.50 lakhs. The Committee hopes tha the Company has got the letter of intent revalidated, since it is already about 10 years old. The Committee would like to be appraised of the present status of implementation of the project.

(Paragraph 8.3)

16. The Committee would like to have a report from the Company explaining further the better marketing strategy etc., which is being evolved by it. The Company desires that the report may also contain the targets of marketing assistance for 1993-94 *vis-a-vis* achievement.

(Paragraph 9.3)

17. The Committee may be appraised of the value of such stocks disposed off during the last three years up to 1993-94 and loss, if any, sustained in such disposal.

(Paragraph 9.5)

18. The Committee, therefore, recommends that the Company may evolve a suitable credit policy prescribing a maximum time limit for sales returns.

(Paragraph 10.4)

19. The Committee would like to have a report detailing the year-wise break-up of the dues from the dealers as on 31st March 1994 in particular the amount outstanding as on that date from the 32 former dealers, as also steps taken by the Company to recover these dues.

(Paragraph 10.5)

20. The Committee is pained to note that the Company extended credit to the dealers without examining their credit worthiness and consequently it is resorting to write off irrecoverable debts. This is a serious lapse on the part of the Company and the Committee recommends that responsibility may be fixed on the concerned officials and recover the loss sustained by the Company.

(Paragraph 10.7)

21. The Committee desires to have a detailed report from the Company explaining the value of stocks disposed off, loss if any sustained by the Company on such sale, as also the value of such stocks held by it as on 31 st March 1994.

(Paragraph 11.3)

22. The Committee, therefore, recommends that the Company may analyse the reasons for the stocks becoming defective/non-moving and fix responsibility for purchasing defective items or allowing the item to become defective.

(Paragraph 11.5)

23. The Committee observed that the Company has not offered its explanation to various important aspects observed by Audit and, therefore, desires to have a detailed report from the Company covering the following aspects:

(i) Whether the unsuitability status of the 35 acres of land at Cherlapally was not known to the Company before accepting the land and whether there was any failure on the part of the Company in properly assessing its requirement of land.

(ii) Whether the encroachment took place before taking possession or if there was no encroachment at the time of taking possession whether the Company filed to protect its land by putting fencing/compound wall etc. to prevent encroachment.

(iii) Whether the loss of Rs. 4.91 lakhs sustained by the Company was due to the failure of the Company on the above two counts and if so, whether responsibility has been fixed.

(iv) Whether the Company analysed the reasons for the disinclination on the part of the entrepreneurs to take the land in Cherlapally which is urban area and if so, what are they.

(v) What is the present status of developing electronic industry in the remaining 7.4 acres of land.

(Paragraph 12.3)

24. The Committee desires to have the report from the Company as early as possible.

(Paragraph 12.4)

25. While expressing its unhappiness over the inaction on the part of the Company all these six years, the Committee directs the Company that at least now it may take the issue seriously and utilise the complex for an alternative use or else it may dispose off the complex and stop further accumulation of interest burden on the idle building.

(Paragraph 13.7)

26. The Committee directs the Government also to give a serious thought to this building constructed at a cost of Rs. 47.58 lakhs and lying idle for the last about 6 years and ensure that the building is put to some use or the other by one department or the other, as expeditiously as possible.

(Paragraph 13.8)

27. Although the site was given as gift and although Dr. C.K. Rayudu is a respectable resident of the area, the Company should have verified the titles before accepting the gift. Being a Government organisation, this was a failure on its part and the Committee recommends that responsibility should be fixed for this lapse. The Committee desires to have a compliance report and also a report detailing further developments in the cases.

(Paragraph 14.3)

28. The Committee is pained to note that only 3801 CTVs representing about 35 per cent of the CTVs are in working condition and the remaining 65 per cent of the CTVs installed by the department are not functioning for various reasons. When the Committee desired to know the further break-up of the 7,111 CTVs not working, the Secretary, Education Department, in his deposition before the Committee in March 1994, could give break up to the extent of only 6714 TVs not working due to non- receptive zone (2225), no electricity (1316), under repairs (3000) and stolen (173). The Secretary could not give the information in respect of the remaining 397 TVs not functioning. The Committee directs the Education Department in the Government to collect the

details of the CTVs which are not functioning awaiting repairs, and take immediate action to get the defective sets repaired. The Committee directs the Department further to ascertain the details of the CTVs which are not functioning for want of electricity and take immediate action to get the electrification work done in the school if electricity is available in the village or shift the CTVs from the schools/villages where power is not available in the village itself, to other schools where power is available. Similarly, the Department should either shfit the TVs installed in non-reception zone to reception zones or ensure supply of VCPs to such CTVs, so that the CTVs could be put to sue.

(Paragraph 15.4)

29. In his deposition before the Committee, the Secretary, Education Department, further stated: "Before the commencement of the next academic year, we will ensure that except in the cases where they are stolen, all the TVs are brought and kept in the schools. The Upper Primary Schools have better infrastructure facilities than ordinary primary schools. They are located by and large nearer the towns. They should be given preferential treatment for the supply of TV sets. We will also ensure that whenever they are not in order, they are brought to order before 31st May. We will have to launch investigation into the cases where they are stolen and ensure that at least in future no TV set is stolen".

(Paragraph 15.5)

30. The Committee desires that the department takes action on the lines opined by the Secretary and report compliance to the Committee by June 1994.

(Paragraph 15.6)

31. The Committee, however, observed that the information promised to by the Secretary, Education Department has not so far been received. The Committee would like to have the report immediately.

(Paragraph 15.8)

32. The Committee was informed that the Department has not yet decided on the proposal of the Company for after sales service. It is pitiable that although the first set of CTVs were installed and commissioned in November 1989, no arrangements have been made so far (March 1994) for their after sales service.

(Paragraph 15.9)

33. The Committee directs the Department further to conduct physical verification to ensure the existence of all these CTVs, VCPs RCCPs, Cabinets and cassettes and also their on-job utilisation. The

Committee desires to be kept informed of the results of such physical verification.

(Paragraph 15.12)

34. According to the Company, it stopped further procurement of VCPs as it was understood that the Government decided to evaluate the Audio Visual Education technique in the schools so far implemented. The Committee directs the Department to conduct such an evaluation, if not already done, and decide future course of action. The Committee desires to have a compliance report by June 1994.

(Paragraph 15.13)

35. The Committee would like the Government to keep the Committee appraised of the decision when taken.

(Paragraph 16.3)

36. From the written statement filed before the Committee by the Secretary, Education Department, the Committee observed that as many as 2598 VCPs were not functioning, out of 7,000 VCPs received and installed. The Secretary could not give a satisfactory explanation for their not functioning. The Committee, therefore, directs the Department to analyse the reasons for their non-functioning and take suitable action in order to bring the VCPs into use. The Committee would like to have a compliance report by June 1994.

(Paragraph 16.4)

37. The Committee further observed from the written statements failed by the Secretary, Education department that while 4,402 VCPs are in working condition, only 3,801 TVs are in working condition, which means that 601 VCPs which are in working condition are not being put to use. The Committee directs the Department that, in such circumstances, the Department should arrange to get back the VCPs from the schools and keep them in safe custody, in order to avoid misutilisation of VCPs in the schools.

(Paragraph 16.5)

38. The fact remained that the Company placed funds at the disposal of the firm much in advance and without reference to actual supplies. This amounted to extending unintended benefit to the firm and the loss of interest sustained by the Company was Rs. 15.97 lakhs. The Committee recommends that the Company may enquire into the case and fix responsibility for the loss of Rs. 15.97 lakhs.

(Paragraph 17.3)

39. Since the money is Government money, it is all the more necessary for the Company to be extra cautious and financially prudent.

The Company cannot excuse itself that is not its funds and hence no loss of interest.

(Paragraph 17.5)

40. The Committee desires to be informed of the grounds on which the supplier obtained injunction from the Court against invoking Bank guarantee.

(Paragraph 18.5)

41. The Committee observed that the Company was still proposing to file an appeal in the High Court at Madras against the injunction order. The Committee is astonished to note that the Company has taken more than three years to decide for filing an appeal. The Company has not explained the reasons for the delay. The Committtee, therefore, recommends that the Company may examine the case and fix responsibility for the delay. The Committee recommends further that if the Company is serious of getting the cases settled expeditiously, it should give proper advice and guidelines to its legal counsel to expedite the matters.

(Paragraph 18.6)

42. According to the Company, the appeal filed in July 1991 has not been finalised even by June 1993. The Committee desires to know whether it has not come up for hearing even once in these two years and whether the Company's legal counsel could not expedite the matters?

(Paragraph 18.7)

43. The Committee would like to know the status of the CTVs used as replacement under warranty etc, and number of CTVs still lying in the stores as on 31st March 1994. The Committee further desires that the Company should ensure the physical availability as also the usability of these sets.

(Paragraph 19.3)

44. Expressing its unhappiness over the delay of one year on the part of the Company and the Government in placing the order, the Committee desires to be appraised of the present status of supply of video casettes to the schools.

(Paragraph 20.5)

45. The Committee is surprised to note that according to the information furnished by the Secretary, Education Department, as on 28th February 1994 only 3801 TVs are in working condition, while only 4402 VCPs are in working condition, out of the 10,000 TVs and 7,000 VCPs supplied and installed in the schools. This indicates that only 64,617 (at the rate of 17 casettes per school in respect of the schools in which 3801 TV sets with VCPs are working well) casettes are in use,

leaving the balance 1,05,383 casettes are lying unutilised in the absence of good working TVs/VCPs.

(Paragraph 20.6)

46. The Committee desires to have a note on the present status of the utilisation of the 1,70,000 casettes and reasons for their non-utilisation, if any.

(Paragraph 20.7)

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