ANDHRA PRADESH LEGISLATURE

(Ninth Legislative Assembly)

THIRTY FIFTH REPORT

OF

COMMITTEE ON PUBLIC UNDERTAKINGS

(1993-94)

ON

THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS OF THE COMMITTEE ON PUBLIC UNDERTAKINGS CONTAINED IN ITS 3RD REPORT OF 8TH LEGISLATIVE ASSEMBLY PERTAINING TO LEATHER INDUSTRIES DEVELOPMENT CORPORATION OF ANDHRA PRADESH LIMITED.

(Presented to the Legislature on 31st March 1994)

ANDHRA PRADESH LEGISLATURE (ASSEMBLY) SECRETARIAT

PUBLIC GARDENS, HYDERABAD - 500 486.

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J. 108-1

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. Keshava Rao, Assistant Secretary
4. Sri J.S.R. Murthy, Section Officer.

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*appointed as Minister w.e.f. 8.9.1993.

ACCOUNTANT GENERAL'S OFFICE

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

INTRODUCTION

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

The Committee held two sittings to record the oral evidence. The Committee met on 28.3.1994 considered and approved the Draft Report.

The Implementation Notes containing the action taken by the Government on the recommendations which have been accepted and no further action is found necessary by the Committee are appended to this Report vide Appendix-I.

The Implementation Notes containing the action taken by the Government on the recommendations which are not accepted by the Committee and are pursued are appended to this Report vide Appendix-II.

The Committee wishes to express their thanks to the Principal Secretary to Government, Industries & Commerce Department, the Managing Director and other Officials of the Leather Industries Development Corporation of Andhra Pradesh Limited for the cooperation 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 and also the Secretary to Legislature, the other Officers and Staff of Legislature Secretariat in the examination of the general working and audit paras relating to Leather Industries Development Corporation of Andhra Pradesh Limited and in preparation of this Report.

Hyderabad,
Dated: 28.3.1994

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

APPENDIX - I

REPORT OF THE GOVERNMENT ON THE RECOMMENDATIONS OF THE COMMITTEE ON PUBLIC UNDERTAKINGS THAT HAVE BEEN ACCEPTED AND NO FURTHER ACTION FOUND NECESSARY BY THE COMMITTEE

Sl. No.	Recommendations of the Committee	Action taken by the Corporation/Government	Further recommendations of the Committee
(1)	(2)	(3)	(4)
1.	It was pointed out in para 7.02 of the Audit Report that the Government entrusted (July 1979) to the Company a scheme to open 10 Training centres to impart training in the manufacture of hand gloves for 3 months to 600 literate unemployed women belonging to Scheduled Castes, Scheduled Tribes and other professional groups engaged in leather Industry. It was also envisaged in the scheme that after training, the Company was to provide work to the women so as to enable them to earn minimum wage of Rs. 10/- per day. (Para 2.1).	Based on the G.O.Ms.NO.46, dt. 6.7.79 the Corporation has authorised to implement the programme to meet the shortage of Hand Gloves and Leather Industrial Goods in the market and also to provide gainful employment to the literate unemployed women belonging to Scheduled Castes/Tribes and other professional groups engaged in leather works hence proposed to start 10 Training Centres at the following places: 1. Musheerabad 2. Maredpally 3. Ziaguda 4. Warangal 5. Kurnool 6. Vijayawada 7. Guntur 8. Ongole 9. Nellore and 10. Vijayanagaram.	

(1)	(2)	(3)	(4)
2.	Under the Scheme, the Company received Rs. 8.39 lakhs towards grant against which a sum of Rs. 11.37 lakhs was spent for imparting training to 690 women during July 1979 to June 1980. No training was, however, imparted thereafter. It was also brought out in the Report that the Company could not secure adequate orders for hand gloves and the demand assessed before sanctioning the Scheme was inadequate and that the Company was unable to provide gainful employment to trained candidates thus defeating the very objective of the Scheme. (Para 2.2).	In all the above 10 Training Centres 690 candidates were trained. After the completion of training the Corporation provided them with some work on commercial lines and helped them in earning their livelihood for some time. After that the Corporation finding it difficult to get the orders and provide them with continuous work in all the guilds closed gradually wherever viability was not there. Out of the ten guilds started 5 of them are working now and the Corporation is giving gainful employment to the workers (Trained women/men).	
3.	In a written reply, the Management stated that the scheme was not successful as the artisans were not able to stand in the competitive market with their traditional skills. During oral evidence, the Managing Director stated that steps were being taken to set up societies in order to provide employment to the trained artisans and that the Company was waiting for Santappa Committee Report. (Para 2.3).		

(1)	(2)	(3)	(4)
4.	The Committee would like to know the status of the 10 centres opened under the Scheme and the manner in which the 690 trained workers have been employed. The Committee also would like the Government to assess the demand for the products in which the training schemes are envisaged so that heavy expenditure incurred on such training schemes would become fruitful. (Para 2.4).		
5.	From para 7.05 of the Report, the Committee noted that the Company was incurring losses year after year (the accumulated loss to end of March, 1981 was about Rs. 109.61 lakhs) and could not utilise the plan funds released by Government (Rs. 55.42 lakhs) as loan carrying interest at the rate of 11 per cent per annum for modernisation/revitalisation of 2 tanneries, a commoon facility centre, a leather manufacturing unit, establishment of new raw-material depots and animal by-products centre. (Para 5.1).	Due to heavy establishment and other maintenance charges coupled with low productivity and not being able to work full capacity for want of adequate working capital the Corporation is bound to make losses every year. It is found all most impossible to reduce the establishment and other maintenance expenditure without prowning the size of the establishment, which is impossible in the present circumstances. Unless the Production Units of the LIDCAP are privatised with some kind of solution to retrench or absorb the surplus employees or the Government undertaken to subsidise the Salaries of the establishment of LIDCAP. The situation of diversion of plan funds towards establishment expenditure will have to be continued.	

(1)	(2)	(3)	(4)
6.	Due to diversion of funds the object for which the amounts were released by Government was not achieved. In a written reply and during oral evidence before the Committee the Management stated that due to difficult financial position of the Company it had no other go but to divert the funds. The Government to whom the matter was referred for ratification has not ratified the Company's action for diversion so far. During deposition, the representatives of the Government promised to expedite the ratification. (Para 5.2).		
7.	The Committee observed that the Company was habituated to divert the Plan funds for meeting losses and recommend to put an end to this recurring feature and make the unit viable. (Para 5.3).		

ANNEXURE - II

REPLIES OF THE GOVERNMENT ON THE RECOMMENDATIONS OF THE COMMITTEE ON PUBLIC UNDERTAKINGS THAT ARE NOT ACCEPTED AND ARE PURSUED

Sl. No.	Recommendations of the Committee	Action taken by the Corporation/Government	Remarks of the Committee
(1)	(2)	(3)	(4)
1.	The Committee noted from para 7.01 of the Audit Report (Commercial) for the year 1981-82 that at the instance of the Company, the Government ordered (January 1975) the transfer of a scheme for establishment of four Animal By-products Centres in Chittoor District, from Animal Husbandry Department to the Company. It was also noted that the Company utilised (February, 1982) Rs. 11.11 lakhs for civil works, machinery, establishment and administrative charges and delayed the implementation of the Scheme and diverted Rs. 3.17 lakhs for other needs/commitments. (Para 1.1).	The Government issued orders transferring the carcass utilisation scheme from Animal Husbandry Department to the Corporation during 1977. In pursuance of the policy decision the Corporation, proposed to implement the scheme with the main Centre at Tirupati and sub-centres at Pakala, Satyavedu and Madanapally in Chittoor District. The Civil works for the construction of main Centre at Tirupati was entrusted to the Panchayati Raj Department and incurred an expenditure of Rs. 3.60 lakhs. The total expenditure incurred on this scheme is as follows:	The Committee is not convinced of the reply of the Company. The Committee fails to understand how the Company could opine that the scheme was not in line with its activities, when the transfer itself was made at the Company's request. It is also not clear why the Company took 9 years (1977-86) to find out that the scheme was not in line with its function.

(1)	(2)	(3)	(4)
		1. Construction of buildings 3.60 lakhs 2. Fabrication of Machinery 4.82 lakhs 3. Jeep with Trailor 0.70 lakhs 4. Administrative charges. 3.50 lakhs 12.62 lakhs	
2.	The Company requested the Government to retransfer the scheme to the Animal Husbandry Department as the Company did not have the required organisation and sufficient funds for implementation of the scheme. This was accepted (June 1979) by the Director of Animal Husbandry and the decision of Government was awaited till November, 1982. (Para 1.2).		The Committee observed further that the Government has not decided even after 7 years, on the proposals submitted by the Company in 1986. Noticing that the Government has not offered its remarks on this, the Committee directs the Government to take a decision in the matter immediately and report compliance to the Committee.

(1)	(2)	(3)	(4)
3.	The Management in their written reply and the Managing Director of the Company during deposition (August 1986) before the Committee stated that the scheme was not in line with their activity and required some specialisation and technical knowhow and hence it was decided to implement the scheme either as a Joint Venture/Assisted Unit or to retransfer it to Government. (Para 1.3).	The matter about the implementation of the scheme was considered by the Board of the Company in its 66th meeting held on 10.4.86 and decided to drop the issue as this is not the main line of activity of the Corporation. Accordingly the decision of the Board was informed to the Government in Lr.No. LIDCAP/DO/2/ABP/78-79, dt. 27.2.86 and the decision of the Government is still awaited.	The fact remains that the scheme transferred to the Company for implementation was not implemented, despite incurring an expenditure of Rs. 12.62 lakhs. The Committee strongly feels and directs the Company to refund the amount of Rs. 12.62 lakhs, since the purpose for which the funds were provided by the Government was not at all served.
4.	The Committee was unhappy to note the inordinate delay in implementation of the Scheme and consequential locking up of funds. The Company was directed to furnish latest position regarding utilisation of the buildings constructed and machinery acquired for the Scheme. The Committee recommends to the Company to avoid diversion of funds in future. (Para 1.4).		

(1)	(2)	(3)	(4)
5.	The Committee would also like the Government to examine the organising capabilities of undertakings before transferring the schemes to them and also to review at periodical intervals about the implementation of the schemes after entrustment to the companies. (Para 1.5).		
6.	At the instance of Collector, Krishna District the Company arranged payment of first instalment of Rs. 0.50 lakhs to the Carcass Recovery Industrial Cooperative Society, Gudivada for construction of a modern slaughter house, a bone mill and a footwear unit and for meeting working capital requirements. The second instalment of Rs. 0.50 lakhs was to be paid on Production of evidence for utilisation of the first instalment. No terms and conditions regarding rate of interest period of repayment of loan etc., were prepared by the Company. (Para 3.1)	After payment of first instalment of Rs. 50,000/- the Society became dormant. After that the Corporation had continuous correspondance with the District Industries Centre, Machilipatnam and with the Society from 25.9.1986 to 10.12.1988 and written about 24 letters requesting the refund of the amount released to the Society. In this connection we kept the concerned file ready for verification by the Committee at any time.	The Committee observed that the Company has not furnished information regarding completion of audit of the accounts of the Society and assessment of the amounts that can be recovered. The Committee would like to have a report regarding the latest position of recovery of the loan from the Society.

(1)	(2)	(3)	(4)
7.	The Society neither furnished proof of utilisation of the first instalment of Loan of Rs. 0.50 Lakhs nor did it ask for the payment of the second instalment of the Loan. In the meanwhile, the Society became (August 1979) dormant. The amount could not be recovered even after contacting the Director of Industries who was the Administrative Officer of the Society. (Para 3.2).		The Committee further directs the Company to fix responsibility - (a) for releasing the loan without prescribing the terms and conditins about its repayment etc., (b) for releasing the loan without obtaining any security or surety to safeguard the interests of the Company and (c) for not taking any action to recover the loan before the Society became dormant in August 1979.
8.	In a written reply, the Management stated that they were pursuing the matter with the Asst. Director, who promised to take action on completion of Audit. During deposition		The Comittee desires to have compliance report from the Company at the earliest.

(1)	(2)	(3)	(4)
	the Managing Director stated that the Accounts of the dormant Society were under Audit, on completion of which it could be known as to how much could be recovered from it. The Committee was at a loss to understand how the loan was sanctioned without fixing any terms and conditions and guarantees and as to why no action was taken to recover the loan upto August 1979 when the Company became dormant. The Committee, therefore, desired to examine the issue and wanted the Company and Government to place before them all correspondence connected with the case.		
9.	The Committee also noted from para 7.04 of the Report that the Government intimated (January 1978) the Company that they need not render any financial assistance to the Leather	The matter will be placed in the next meeting of Board of Directors meeting for and to take a decision. The action will be communicated to the Committee in due course.	The Committee is unhappy to note that the Committee made its recommendations in August 1987 and only in May 1993 the Company was stating that the matter would be put up to the

(1)	(2)	(3)	(4)
	Artisans of Krishna and Guntur Districts effected by the Cyclone as the A.P. Khadi and Village Industries Board (APK VIB) was extending financial assistance to them. (Para 4.1)		
10.	However, the Board of Directors resolved (January 1978) to pay a sum of Rs. 1.00 lakh out of the funds received by them, under 'Self Employment Scheme' Programme at the rate of 200 per Artisan as interest free advance. Accordingly, the Company paid Rs. 0.50 Lakh as loan to 249 Artisans of Guntur District despite clear instructions of the Government to the Contrary, the reasons for which were not on record. The amount was repayable in 10 monthly equal instalments. The Artisans did not repay the loan to the Company. The efforts of the Company to get the amount reimbursed either from Government		Board in the next meeting. The Committee wonders what the Company has been doing all these six years. In fact, the Committee's direction to Government was to fix up responsibility on the Chairman and the other Directors of the Board. And it is the Government which has to take action on the recommendations. The Committee is pained to note the scant regard given to its recommendations by the Government. While taking a serious view of this failure on the part of the Government, the Committee directs that the Government may immediately take action to fix up responsibility on the then Directors and Chairman of the Board for recovering the loss sustained by the Company and submit

(1)	(2)	(3)	(4)
	or from A.P. Khadi & Village Industries Board did not materialise. The amount of interest payable by the Company to Government from the date of disbursement to end of July 1982 worked out to Rs. 0.17 lakh. The Management could not come up with any convincing reply either in writing or during desposition for the irregular payment. The Committee therefore, recommended that action be taken against the Chairman and the Members of Board of the Company who were responsible for violation of Government instructions and recover the amount from them. (Para 4.2)		compliance report to the Committee at the earliest.

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