ANDHRA PRADESH LEGISLATURE

(Twelfth Legislative Assembly)

ELEVENTH REPORT
OF
THE COMMITTEE ON PUBLIC UNDERTAKINGS
(2004-06)

ON

THE REVIEW (ONE TIME SETTLEMENT) AND TWO AUDIT PARAS APPEARED IN THE REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA FOR THE YEAR ENDED 31ST MARCH, 2003
(Commercial)

ON

ANDHRA PRADESH STATE FINANCIAL CORPORATION

(PRESENTED TO THE LEGISLATURE ON 28-3-2006)

ANDHRA PRADESH LEGISLATURE (P.U.C.) SECRETARIAT
Public Gardens, Hyderabad - 500 004.

J. 1

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ANDHRA PRADESH STATE FINANCIAL CORPORATION

(PRESENTED TO THE LEGISLATURE ON 28-3-2006)

J.No. 1-1

ANDHRA PRADESH LEGISLATIVE ASSEMBLY
COMMITTEE ON PUBLIC UNDERTAKINGS (2004-2006)
(CONSTITUTED ON 28TH JULY, 2004)

CHAIRMAN:

1. Sri N. Uttam Kumar Reddy

MEMBERS:

2. Sri Anam Vivekananda Reddy
3. Sri D. Sridhar Babu
   (Appointed as Govt. Whip w.e.f. 23.3.2005)
4. Sri Chanumolu Venkata Rao
5. Sri C. Damodar Rajanarasimha
6. Sri Gali Muddu Krishnama Naidu
7. Sri Katamareddy Vishnuvardhan Reddy
8. Smt. Konda Surekha
9. Sri M. Maheedhar Reddy
10. Sri Thota Gopalakrishna
11. Sri K. Lingaiah
12. Sri G. Syam Sunder Sivaji
13. Sri K. Harishwar Reddy
14. Sri P. Dora Babu
15. Sri Puli Veeranna

SPECIAL INVITEES:

16. Sri Yerram Venkateswar Reddy
17. Sri D. China Govinda Reddy
18. Sri N. Diwakar Rao
19. Sri Janga Krishna Murthy
20. Sri Gurunath Reddy
21. Smt. Padala Aruna
22. Sri P. Ranganayakulu
23. Sri Mumtaz Ahmad Khan
24. Dr. K. Nagesh
25. Sri K. Narayana Swamy

LEGISLATURE SECRETARIAT :

1. Sri K. Tuljanand Singh, Secretary to State Legislature
2. Sri S. Raja Sadaram, Deputy Secretary to State Legislature
3. Sri N. Anjaiah, Deputy Secretary (w.e.f. 14-2-2006) to to State Legislature
4. Sri D. Siva Rao, Assistant Secretary to State Legislature
5. Sri K. Satyanarayana Rao, P.S. to Secretary to State Legislature

OFFICE OF ACCOUNTANT - GENERAL, A.P.

1. Ms. Sudarshan Talapatra, A.G. (C.E.R.A.)
2. Mrs. Lata Mallikarjuna Sr. Dy. A.G.
3. Sri S. Nageswara Rao, Dy. A.G. (Comml. II)

INTRODUCTION

I, the Chairman of the Committee on Public Undertakings (2004-2006) having being authorized by the Committee to present the Report on their behalf, present this **Eleventh Report** on the **Andhra Pradesh State Financial Corporation,** on review (One Time Settlement) and two audit paras appeared in the Report of the C, & A.G. of India (Commercial) for the year ended 31st March, 2003.

The Committee on Public Undertakings (2004-2005) have examined the Report of the Comptroller and Auditor General of India for the year ended 31st March 2003.

The Committee (2004-2006) have considered and approved this Report at their sitting held on 25-3-2006.

A statement showing the summery of principal recommendations / observations of the Committee is appended to this Report.

A record of proceeding of the sitting of the Committee which has been maintained forms part of this Report.

A summary of the sittings held by the Committee is also appended to this Report.

The Committee wishes to express their thanks to the Principal Secretary to Government, Industries and Commerce Department, the Managing Director and other Officials of The Andhra Pradesh State Financial Corporation for the co-operation they have extended and for placing the required information and material before the Committee.

The Committee places on record their appreciation of the assistance rendered to the Committee by the Accountant General (C & RA), Andhra Pradesh, the Senior Deputy Accountant General (Commercial) and other Officers and staff of the Accountant General Office.

The Committee also places on record their appreciation of the assistance rendered to the Committee by the Secretary to State Legislature and the other Officers and Staff of Legislature Secretariat, in the examination of the general working and audit paras relating to the Andhra Pradesh State Financial Corporation and in preparation of this Report.

Hyderabad,
Date : 25-3-2006

N. UTTAM KUMAR REDDY,
CHAIRMAN,
Committee on Public Undertakings.

Recomendations on Review (One time Settlement Scheme) and two paras appeared in the Report of the C & AG of India, for the year ended 31 March, 2003 (Commercial), Government of Andhra Pradesh, in respect of Andhra Pradesh State Financial Corporation.

OTS Scheme:

i) The main objectives of OTS scheme are (3.4)

- to settle the sticky loan accounts and collect maximum possible amounts as early as possible so that these funds can be recycled to earn interest income;
- to improve th overall quality of asset portfolio of the Corporation
- to improve the recovery rate *vis-a-vis* demand, and
- to reduce non-performing assets

ii) Guidelines for one time settlement scheme (3.7)

The major eligibility criterion for being considered for OTS are as under:-

- One time settlement shall strictly be restricted to "Doubtful Assets" (i.e., arrears above two years) and "Loss Assets" (i.e., where primary assets are sold or fully missing), as per IDBI guidelines on asset classification, subject to the condition that (i) the unit has been incurring cash losses for the last two years eroding the net worth by 50 ***per cent*** or more rendering the unit sick in terms of RBI guidelines, (ii) the default in the loan account is not wilful, and (iii) the unit has not been able to generate adequate cash surplus to discharge institutional dues in comparison with similar units.

- The unit has been abandoned during implementation stage or has not been implemented completely.

- Any one who has obtained one time settlement shall be ineligible for sanction of any future loans from the Corporation and other financial institutions. The fact of settlement of any loan account under OTS scheme shall be intimated to The Andhra Pradesh Industrial Development Corporation (APIDEC) together with the names and addresses of all promoters of those units.

(iii) Deficiencies in guidelines (3.9)

A review of OTS guidelines revealed the following deficiencies:

- The guidelines did not indicate any cut-off date up to which the units were to be classified under doubtful/loss category of assets and considered for OTS.

- The guidelines did not mention the criteria for settlement of dues in respect of units from whom huge amounts were outstanding evenafter adjustment of proceeds of sale of seized assets.

After being pointedout by Audit, the Corporation revised the guidelines in September, 2003 duly indicating a cut-off date and fixing criteria in respect of cases where the sale proceeds were adjusted towards principal.

Write-off of principal (para No. 3.11)

The OTS guidelines have no povision for writing-off of principal amounts due. However, the Corporation had written off principal to the extent or Rs. 45 lakhs in respect of 80 loan accounts, out of which Rs. 15.36 lakh related to two loan accounts of Ramachandrapuram Branch. In all these 80 cases, loans given were not recovered for over 10 to 19 years.

Further, in resepct of five loan accounts, the Corporation adjusted interest of Rs. 61.12 lakh paid earlier by the loanees as principal. This was done so as to settle the loan accounts under OTS for principal plus other expenses without fully collecting the principal. This was not envisaged in the OTS guidelines as was also contrary to the accounting policies of the Corporation. This has resulted in giving undue benefit to the loanees by way of indirect writing off of principal without specific approval.

Government stated (November 2003) that the transfer of amounts received towards interest in earlier years to prncipal was approved by the Board. The reply is not tenable since, as per OTS guidelines, maximum possible amount was to be collected. The above transfer of amounts from interest to principal resulted in indirect writing-off of principal, which was against the prudent commercial principles.

The Corporation in its explanatory notes stated that in respect of the 2 companies the corporation has written off principal amounts due to different reasons.

The Corporation in its oral evidence stated that it was a fact that no such provision (waiver of interest) was used to exist prior to 1997-98 but after that it was thought of creating such a provision. Subsequently such a provision has been created. The Board felt that principal may be written-off in cases where it was Rs. 5 lakhs or less because, 11,000 such units were there and it was not worth monitoring and spending considerable amount for the sake of recovery. At that time, the Board took a decision to adjust the interest against the principal and to close the loan account. Over a period of five years, majority of cases were written-off and more than Rs. 40.00 lakhs have been collected.

To a query the Managing Director of the Corporation stated that SFCs have been created by an Act of Parliament. According to the provisions of the Act, Board is the supreme authority. It is empowered to take any decision. Apart from that, IDBI and SBI also hold some stake in the Organization. Hence, under these circumstances, there is no need to obtain approval from the Government for any of the Board's decisions.

Recommendation:

The Committee felt that Government is the major shareholder of the Corporation and the Managing Director is appointed by the Government. Therefore, the Corporation need not get the prior approval of the Government in its day to day affairs, Corporation while taking important decisions such as OTS, deviating from its original guidelines, should get approval of Government. The Committee desired the Government to examine the Board's authority in such cases.

The Committee opined that the Board seemed to be favour certain companies in writing-off principal loan amount in contravention of the provisions of the guidelines. It is recommended that whenever there is a deviation from its own approved guidelines, those deviations are required to be forwarded to Government for its prior approval before implementing them.

FULL WAIVER OF INTEREST (PARA NO. 3.12)

In respect of 1210 loan accounts, the Corporation waived fully total interest of Rs. 69.68 crore outstanding on the date of approval of OTS. The range of interest amount waived in individual cases was as under:

Range of waiver in individual cases	No. of loan accounts	Interest waived (Rs. in crore)
Above Rs. 50 lakhs	28	45.06
Rs. 10 to Rs. 50 lakhs	54	12.05
Rs. 5 to Rs. 10 lakhs	35	2.42
Less than Rs. 5 lakhs	1093	10.15
	1210	69.68

In its explanatory notes the corporation accepted the waiver of interest.

Partial waiver of interest (Para no. 3.13)

In respect of 1241 loan accounts the Corporation waived interest of Rs. 158.53 crore against interest of Rs. 212.01 crore outstanding on the date of approval of OTS. The range of interest amount waived in individual cases was as under.

Range of waiver in individual cases	No. of loan accounts	Interest waived (Rs. in crore)
Above Rs. 50 lakhs	76	94.67
Rs. 10 to Rs. 50 lakhs	180	38.32
Rs. 5 to Rs. 10 lakhs	160	11.68
Less than Rs. 5 lakhs	825	13.86
	1241	158.53

Thus out of total waiver of interest of Rs. 228.21 crore extended to 2,451 loanees, sizeable waiver of interest of Rs. 139.73 crore (61.23 **percent**) was extended to 104 loanees from whom huge amounts were outstanding.

In its explanatory notes the Corporation confirmed full waiver and partial waiver of interest.

The Corporation in its oral evidence stated that the interest waiver was very high. In most of the cases the principal amount was very low and interest amount was very high. Principal amount was less than 20 lakhs and interest was Rs. one crore. This situation was because of imposing of interest on interest amount. In 90 percent of the cases provisions in guidelines covered waivers. The reasons for not realizing the whole amount in respect of defunct units was that the value of the machinery was very little because of depreciated value of the assets of the defunct units.

In respect of collateral securities the Managing Director explained that there was no system of collecting collateral security till 1996. Regarding latest position of collection it was stated that

assets in respect of 32 loanees out of 104 were already disposed off and collateral security was not available in respect of these loanees as per the guidelines prevailing at that time. The Corporation also explained that even-today verification of assets was being done only in respect of primary security. Collateral security and solvency papers were not being veriified by the Corporation or by any other financial institutions.

Recommendation :

The Committee feels that the Corporation has no control over the solvency of the loanee and there was no system of accepting collateral security either. This would gives an impression that there was systemic lack of control with regard to recovery of loans.

Considering all the facts submitted by the Corporation, the Committee desired that the Corporation should obtain solvency certificate of the borrower, which shall be certified by Chartered Accountant. Besides, third party collateral security shall also be obtained from the loanees to protect the interest of the Corporation.

ABNORMAL DELAY IN FINALISATION OF OTS CASES (PARA NO. 3.21 TO 3.25)

As per pre-revised guidelines the loan accounts were to be settled under OTS for the amounts equal of NSR of interest alongwith principal or valuation of securities (both primary and collateral) whichever was higher.

Major change in guidelines were made in August 1999 according to which calculation of OTS amount was revised to principal plus other expenses plus NSR as a percentage (depending upon the value of the assets and solvency of the promoters subject to maximum of 103 percent)

Audit observed that this major change in guidelines was advantageious to the defaulters and in no way beneficial to the Corporation as the chances of the recovery of interest amount has

been restricted to 103 percent of NSR eventhough the value of assets and repaying capacity was higher.

In four cases though requests for OTS were received prior to revision of guidelines, the Corporation kept the cases pending till revision took place and settled the loan accounts under revised guidelines extending undue favour of Rs. 1.53 crore to the defaulting loanees viz., (i) Hotel Sai Mohan, Nadikudi, (ii) Meghana Foods Private Limited, (iii) Indotronix Computers Private Limited, Ranga Reddy and (iv) Dolphin Diagnostics Services Ltd, Vizag.

The Corporation in its explanatory notes stated that the it revised the guidelines in August 1999 to make the scheme more attractive to improve the health of these companies by pursuing the promoters to take appropriate steps. As the Corporation cannot act as pure money lender as the main objective of the Corporation is to promote industrial growth in the State. It caused delay in finalising their requests for OTS.

The Corporation in its oral evidence stated that the Corporation arrives at a formula to finalise OTS cases. Unless loanee companies accepted the formula, OTS would not be finalized.

Recommendation:

The Committee felt that it was not clear from the reply that whether revised guidelines have been advantageous to the Corporation in respect of the companies mentioned in the Audit Report.

Hence, the Committee desired that the Corporation should submit an analysis of the collections made before and after revision of guidelines in August 1999 to indicate whether or not position of collection has registered an improvement after the revision.

Settlement for value lesser than the value of securities (para no. 3.26)

The Corporation settled 393 loan accounts in 12 branches for amounts less than the value of securities available with it. In these cases, the total outstanding loan amount was Rs. 140.57 crore, while the total value of securities was Rs. 145.77 crore. The OTS amount as per guidelines worked out to Rs. 70.46 crore. However, the Corporation settled these accounts for Rs. 60.66 crore only. In respect of 70 OTS cases, the Corporation settled for principal amount only waiving total interest.

Audit observed that in respect of 180 OTS cases out of the above, the Corporation had violated guidelines and settlements were made for lesser amounts though there were chances of recovery of higher amounts.

Government stated (November 2003) that the course of action under section 29 of SFCs Act or APRR Act was a long drawn process and finally did not result in recovery in majority of cases. The reply was general in nature and not tenable as the Corporation instead of initiating action under the SFCs Act or APRR Act, settled the cases under OTS for amounts lower than that worked out as per guidelines. Government further stated that as per the guidelines revised in September 2003 it was decided not to extend OTS scheme to the units where the value of primary and collateral securities is more than 200 percent of amount payable at NSR (Net Simple Rate).

The Corporation in its explanatory notes stated that the Corporation cannot act as a pure lender as the main object of the Corporation is to promote industrialisation in the State.

The Managing Director during oral evidence stated that if units became totally sick and could not be revived, then only collateral securities would be sold to get back the amount. The Corporation would finalizes each case depending upon the circumstances in respect of each case. The Corporation also intimated that the cases mentioned in the Audit Report would be analyzed and case wise details would be submitted to the Committee.

Recomendation :

The Committee felt that finalisation of OTS cases did not give clear picture whether they were settled transparently or not. The Committee recommends that a detailed report may be made availabale regarding settlement of loan accounts for Rs. 60.66 crore only as against Rs. 70.46 crore OTS amount worked out as per guidelines. Committee also recommends that a proper and uniform procedure should be followed to make the system more transparent. In respect of extending exceptions to guidelines, if any decisions were taken by the Board, the proceedings shall more transparent, and memorandum should be very clear :

IMPROPER VERIFICATIOIN OF SOLVENCIES OF THE PROMOTERS/GUARANTORS (PARA NO. 3.27 TO 3.29)

According to approved guidelines, the Corporation after careful investigation, should ensure the solvencies of promoters / guarantors to the loan for considering OTS. The Corporation has to decide the solvency of promoters / guarantors by visiting one or two places where properties were situated. The basis for selection of the places to be visited was not on record. The Board of Directors of the Corporation approved (November 2001) the appointment of external agencies for undertaking enquiry relating to identification of promoters /guarantors for providing details along-with documentary proof. Audit observed that the decision of the Board was not implemented and the Corporation continued to decide OTS cases based on the limited survey conducted by it. In two cases such limited survey were noticed in audit viz., (i) Akruthi Dies and Tools Private Limited, Nalgonda and (ii) Vidhatha Plastics India Limited, Hyderabad.

The Corporation in its explanatory notes stated that on experimental basis the Corporation has entrusted a few cases to external agencies to gather information about the promoters. Corporation takes reasonable care in identifying the properties of promoters.

The Corporation in its oral evidence stated that one MRO from Revenue Department has been taken on deputation for this purpose. In respect of verification of collateral securities, Legal Officers have been taken on deputation for 25 branches of the Corporation. In respect of the specification of solvency verification, separate reply would be submitted to the Committee.

Recommendation :

The Committee felt verification of solvency of loanees was one of the major aspects of lending programmes, the Corporation has to take special care about this aspect. The Committee recommends that the process of verification of solvencies of promoters / guarantors should be tightened in order to safeguard the interest of the Corporation.

SANCTION OF LOAN IN ONE BRANCH FOR PAYMENT OF OTS IN ANOTHER BRANCH (PARA NO. 3.30)

As per the guidelines, the promoters or any of near relatives of proprietor / partner / director who took the benefit under the OTS scheme were in eligible for further loans.

The Ranga Reddy (East) branch of the Corporation disbursed (November 1992 to January 1997) Rs. 1.98 crore to Gulab Chand Silk Mills Private Limited, to set up a textile dying and processing unit. The unit started production in January 1994 and functioned till May 1997. The unit was irregular in repayment of loan. The Corporation seized the unit only in January, 2000.

The unit approached (March 1999) for OTS for Rs. 1.50 crore. The proposal was approved in February 2001 for Rs. 1.70 crore i.e., after a delay of two years. The OTS amount was neither worked out under pre-revised nor under revised guidelines. The unit did not make any payment against OTS. Instead Rs. 1.56 crore was adjusted (August 2001) from the disbursements made to Sweety Builders Private Limited against the term loan of Rs. 3.01 crore sanctioned (April 2001) by Hyderabad branch. Sweety Builders Private Limited was a constructioin concern promoted by the daughter of Mr. Gulab

Chand, the chief promoter of Gulab Chand Silk Mills. Sanction of one loan to finance another OTS settlement was thus irregular. Sweety Builders was also in default.

Government stated (November 2003) that though the sanction was not meant for repayment of OTS, the amount got adjusted towards OTS because of personal association of the OTS beneficiary and the loanee. The reply is not acceptable, as the diversion of major portion of loan sanctioned for a specific project would ultimately affect the implementation of that project.

The corporation accepted the audit objection.

The Managing Director in the oral evidence stated that the OTS amount was sanctioned by the Board but the adjustments might have been done at the level of other officials only. It was explained the case would, once again be reviewed.

Recommendation :

The Committee felt that it was a very serous lapse on the part of Corporation in sanctioning of one loan for clearance of another loan. The Committee viewed the situatiion very seriously and directed to review the case and fix responsibility on the officials who were responsible for flouting Board's own guidelines, and to submit the action taken to the Committee positively by 30-6-06.

RELIEVING OF PROMOTERS / GUARANTORS FROM GUARANTEE (PARA NO. 3.31 TO 3.33)

The repayments of term loans sanctioned by the Corporation are guaranteed by the promoters and third party guarantors in their individual capacities apart from equitable mortgage of primary assets and collateral securities. No data bank of promoters / guarantors was maintained by the Corporation. As per the revised OTS guidelines (August 1999), the Corporation can relieve the promoters/ guarantors from loan accounts by collecting proportionate share of principal, other expenses and NSR interest subject to a minimum of

principal plus other expenses, when one or more guarantors are coming forward to relieve themselves from the liability of loan guaranteed for the repayment.

Audit observed that during the years 1999-2003, in respect of 31 cases in 10 branches, the Corporation relieved 59 out of 126 guarantors by collecting Rs. 1.42 crore as against outstanding amount of Rs. 39.81 crore. Out of these 31 cases, the Corporation settled 10 cases violating the guidelines i.e. by not collecting even principal plus other expenses and relieved 13 out of 31 guarantors by collecting Rs. 57.83 lakh as against the collectable amount of Rs. 1.67 crore. Discharge of total loan libaility for which they had given guarantees in their individual capapcity was not insisted upon. The other promoters were either untraced or had not come foward for settlement. In respect of two cases, audit test checked, viz., (i) SVR enterprises limited, Khammam and (ii) M/s Hicomfort coir India private limited, Vijayawada, promoters / guarantors were relieved from their guarantee without collecting Principal + Other expenses and NSR Interest.

The Corporation in its explanatory notes stated that the decisions were taken by the Board judicially in only deserving cases.

The Corporation in its oral evidence stated that only proportional amount was being collected from guarantors as a general policy. Interest component is not being collected from guarantors. For further collectioin RR Act would be invoked.

It was also stated that when primary assets were sold then only enquiry would be made about the promoters and there was no system of periodical signing by the guarantors.

Recommendation :

Committee felt that the Corporation did not submit details in respect of all the cases mentioned in the objection. The Committee recommends that the Corporation should submit before 30/06/06 break up i.e., (i) break up of interest, principal and other expenses in respect of Rs. 39.81 crore and (ii) details in respect of 13 cases out of 31 cases where guranators were relieved by collecting lesser amounts against

collectable amounts as pointed out in audit, and the policy followed should be formalized for more transparency.

The Committee also recommends (i) maintenance of detailed database in respect of promoters / guarantors and its updation from time to time. (ii) The Corporation should make a study of other financial institutions to come up with a policy, in respect of promoters / guarantors, to safeguard the interest of the Corporation. The Corporation should not relieve guarantor till money is fully recovered and the Board has to discuss whether atleast principal itself is not repaid.

OTS CASES SETTLED AGAINST DEFECTIVE SECURITIES (PARA NOS. 3.34 TO 3.36)

The Corporation releases loan by accepting immovable properties as collateral securities whereever necessary. The Corporation has not maintained any register / data bank of these properties so as to conduct inspection periodically. It was decided only in April 2001 to create the data bank and to conduct inspection of all properties invariably by Branch Manager along with valuation team where the valuatiion of independent property was more than Rs. 50 lakhs. Particulars of maintenance of data bank and inspection whether conducted or not after April 2001 and findings thereon etc. were not on record. This resulted in non-identification of properties leading to distress settlements under OTS with consequent waiver/ loss of Rs. 8.49 crore in nine cases and 2 cases were discussed in audit viz., (i) Preethi Pharamaceuticals Private Limited, Nallabanda-gudem and (ii) Ultimo Chemicals Industries private limited, Sanathnagar.

The corporation in its explanatory notes stated that the securities mentioned in all 9 cases were solvency documents.

To query by the Hon'ble Committee the Corporation in its oral evidence stated that there was no system of collectiion of collateral security till 1996. To another query the Corporation intimated that in respect of production of defective securities by the loanees/ guarantors, before accepting any security the Corporation was giving advertisements in newspapers and Registrar office was also being consulted to ensure legality and originally of documents at least for

a period of 3 years. Copies of Bank cards and passports were also being collected. It was also informed that about 50 cases were pending in courts against production of fake documents.

Recommendation :

The Committee took a serious view regarding the method followed by the Corporatioin in verification of original documents, which were produced as collateral security by promoters / guarantors. The Committee felt that the system should be improved to curtail and weed out fake documents.

The Committee recommends that (i) data bank should be maintained and updated from time to time in respect of promoters and gurantors (ii) the Corporation should exchange information with other financial institutions and take defaulters list from RBI into account from time to time before finalizing any loan account and (iii) Stringent action should be taken against wilful defaulters. The Committee also directs the Corporation to furnish latest position in respect of nine cases pointed by audit positively by 30-6-06 to the Committee.

LOSS DUE TO NON-OBSERVANCE OF TIME FRAME (PARA NO. 3.37)

As per the approved guidelines, the OTS amount shall be paid within a maximum time frame of one year i.e., 35 percent within 60 days and the balance 65 percent in a maximum of 4 to 10 monthly instalments, together with interest at prevailing rate from the cut off date; which is decided in each case on the basis of OTS settlement date. If the payment was not made as per the scheme, the OTS should be cancelled and recovery action should be initiated under SFCs Act/AP Revenue Recovery Act.

Of 397 cases settled under OTS for crystallised amount of Rs. 37.80 crore in the four years ended 31st March 2002, Rs. 20.74 crore only was collected to the end of September 2003, leaving a balance of Rs. 17.06 crore. The age-wise break up of the cases is given below :

(Rupees in crore)

Year of approval of OTS	No. of cases	Crystalised OTS amount	Amount collected by 30 September 2003	Balance amount to be collected
1998-1999	12	2.76	1.75	1.01
1999-2000	47	4.82	3.04	1.78
2000-2001	167	19.70	10.63	9.07
2001-2002	171	10.52	5.32	5.20
Total	**397**	**37.80**	**20.74**	**17.06**

In spite of extending concessions such as waiver of interest, extension of time for payments, the amounts remained outstanding. The Corporation has neither cancelled the concession extended under OTS nor initiated recovery actioin under SFCs Act / AP Revenue Recovery Act. Delay in realisation of outstanding OTS amounts defeated the very objective of extending OTS.

Government stated (Novemebr 2003) that in spite of vigorous recovery follow up there were certain cases where part of OTS amounts remained unpaid. The reply is not tenable as the amount remained uncollected under OTS was more than 45 percent of crystalised OTS amounts in all the years from 1998-99 to 2002-03, though the maximum time allowed for collection of OTS amount was one year as per guidelines.

The corporation in its explanatory notes stated that the corporation has not cancelled the OTS in respect of cases where major portion of OTS amount has been received and the balance is likely to be paid by the party.

The Corporation in the oral evidence stated that during the period from 1998 to 2004, in respect of 527 cases, an amount of 73 percent was recovered i.e, Rs. 171.93 core was recovered. Regarding balance amount the Corporation was invoking RR Act to recover the amount. To a query it was also stated that the Corporation

would be revising the guidelines to make them more effective in such a way that if the crystalized OTS amount would not be paid with in 90 days from the date of finalizatiion of OTS, the OTS package would automatically be cancelled. This proposal would be submitted to the Board for approval within a short time.

Recommendation:

The Committee felt that even though details of recovery in general were furnished by the Corporation, specific details in respect of the items pointed out by audit had not been furnished by the Corporation. The Committee directs the Corporation to submit case wise details of latest position of collection in respect of Rs. 17.06 crore pointed out in audit for scrutiny, by 30-6-06, for further examination by the Committee.

FAILURE TO SELL THE UNIT FOR THE HIGHEST OFFER (PARA NOS 3.38 TO 3.39)

(i) Ranga Reddy (East) Branch of the Corporation released (February 1992 to July 1993) a term loan of Rs. 72.35 lakh to Essen Polymers Private Limited. Additional term loan of Rs. 10 lakhs was sanctioned (December 1993) out of which Rs. 5.82 lakh was adjusted (December 1993) against overdue instalments. The unit was seized in December 1994 as a result of default and advertised 12 times for sale. The officer received in February 1995 for Rs. 72 lakhs was not accepted as it was considered low. The Corporation subsequently sold (August 2002) the assets of the unit for Rs. 43.30 lakh. After selling the primary assets, the Corporation initiated action under AP RR Act against promoter/guarantors for the recovery of balance outstanding dues of Rs. 1.63 crore and issued notices. In spite of report (September 2002) from Special Deputy Tehasildar that the promoters possessed properties covering 100 percent of dues of Rs. 1.63 crore calculoated as per guidelines, loan account was settled (October 2002) for Rs. 42 lakh resulting in loss of Rs. 78.11 lakh (amount as per guidelines: Rs. 163.41 lakh minus amount recovered: Rs. 85.30 lakh).

Government stated (November 2003) that offer areceived for Rs. 72 lakhs for sale of assets in February 1995 was covering 80 percent of value of assets which was considered as lowest. It was,

further, stated that the assets were sole against an offer received in August 2002 for Rs. 43.30 lakh considering the offer was covering 70 per cent of the depreciated value of assets. The reply itself indicates the deficiencies in the procedure followed by the Corporation.

The corporationin its explanatory notes stated that the sale offer has been finalised taking the value and condition of assets at that point of time.

The Corporation in the oral evidence stated that even though good offers were received at initial time, those were considered as lowest at that time and ultimately the machinery was sold at Rs. 43 lakhs.

To a query the Corporation stated that there were about 300 assets lying in stores of the Corporation and the Corporation might not get even 10 percent of the original value of the assets as the value of these assets had been depreciated completely.

To another query the Corporation intimated that the auction procedure followed was that if amount was less than Rs. 20.00 lakhs, auction would be within the district and if the auction amount was more than 20.00 lakhs, the auction would be a state wide one.

Recommendation:

Committee recommends that a uniform policy of auctioning of assets should be followed to get good bids by considering on line bidding throughout the state. The Committee ordered the Corporation to submit present policy of the Corporation in respect of valuation, auction and sale of assets.

M/S PIONEER SILK MILLS PVT. LIMITED - RR DISTRICT (EAST) BRANCH (PARA. 3.41)

The Corporation (Ranga Reddy East branch) disbursed Rs. 29.22 lakh (March to October 93) to Pioneer Silk Mills Private Limited, based on the personal guarantee for Rs. 30 lakhs given by a promoter director. The primary security was only leaseholde land and the Corporation did not get the plant and machinery mortgaged as er terms of sanction. The Unit became sick in 1995 due to

recession and defaulted payments. The unit was seized in February 1999 and the loanee came forward (June 2000) for OTS with an offer of Rs. 45 lakhs and paid Rs. 3.75 lakh as down payment Pending approval of OTS the Corporation lifted (July 2000) the seizure. subsequent to lifting of seizure the promoter revised (Novermber 2000) his offer for OTS to Rs. 24 lakhs on the plea that the condition of the machinery was very bad. The MD of the Corporation negotiated with the promoter (Novermber 2000) and agreed to propose OTS for Rs. 37 lakhs. The promoter, however, agreed (Januatry 2001) for Rs. 30 lakhs only after discussing with the Chief General Manager and Branch Manager.

At this stage the MD directed to put up the proposal to the Board for Rs. 34 lakhs without considering the original proposal of the promoter or his counter-offer. The Board further reduced the OTS amount and apporved (March 2001) for only Rs. 32 lakhs as against loanee"s original offer of Rs. 45 lakh (February 1999). As per the OTS guidelines the amount collectable worked out to Rs. 43.38 lakh and the value of assets was Rs. 56.25 lakh. In spite of the undue favour extended by the Corporation by delaying and reducing the OTS amount payable wihout any basis by keeping aside all the prudential norms and its own guidelines, the loanee paid only Rs. 16 lakhs and the Corporation during inspection in December 2002 noticed that the entire mancinery, which was not hypothecated to the Corporation, was missing.

The Corporation in its explanatory notes stated that considereing the party's request and company's problems the Board has agreed for Rs. 32.00 lakhs as against amount recommended for settlement at Rs. 34.00 lakhs.

Thus, the Corporation has adopted a casual approach in safeguarding its interest and following the guidelines framed by it, which has resulted in extension of undue favour to willful defaulters.

Government did not give any specific reply to various deviations pointed out in the paragraph.

In the oral evidence in respect of hypothecation of the machinery to the Corporation, the managing Director of the Corporation stated that part of the value of the machinery was hypothecated to

the Corporation because it was also financed by the some other institutions also. It was also stated that the textile industry at that time was in recession and at the same time the government during 1997 has imposed sales tax on the capacity irrespective of production levels which has crippled the industry. It was also stated that in view of the conditions prevailed at that time, on 14-11-2000 the promoters informed that the machinery was not saleable beyond Rs. 24.00 lakhs and hence requested the Corporation to consider OTS for Rs. 24.00 lakhs. But with further persuasion the then Managing Director recommended to the Board to consider OTS for Rs. 34.00 lakhs. Finally the Board after examining all the facts, approved OTS for Rs. 32.00 lakhs. The Corporation in the process of recovering th loan amount identified land to the extent of 3071.44 square yards at Road No. 4, Banjara Hills, Hyderabad which was owned by 2 promoters and action would be taken to attach that property also.

Recommendation:

The Committee recommends to recover the amount early and directed to submit details of recovery to the Committee.

NON-RECOVERY OF LOANS DUE TO ALLEGED INTERVENTION OF CMO (PARA NOS. 3.42 TO 3.44)

(i) The Corporation sanctioned (July 1989) a term loan of Rs. 16.35 lakh and an additional term loan of Rs. 13.65 lakh (February 1991) and disbursed Rs. 16.33 lakh and Rs. 13.16 lakh respectively to **Krishnaveni Nursing Home,** Visakhapatnam after obtaining affidavit of solvency. The unit defaulted repayments since beginning. As the nursing home was running at low occupancy, the unit requested (April 1996) to close the loan account under OTS for Rs. 44.03 lakh. The Board of Directors approved (June 1996) the request of the unit and decided to close the loan account by accepting Rs. 44.03 lakh duly waiving interest amount of Rs. 3 lakh which was arrived at as per Guidelines i.e., principal plus other expenses plus 2 ***percent*** over NSR of interest. The amount was payable within three months. As the unit did not pay the OTS amount, the Corporation cancelled (September 1996) the OTS facility and issued RCS (recall-cum-sale) notice on 25 September 1996.

Thereafter the Corporation attempted (November 1996) to seize the unit but could not do so due to stiff resistance from the promoters. When the Corporation decided (January 1996) to seize the unit with police help, the Chief Minister's Office stayed further action against the unit till receipt of instructions from CM. Thereafter the Corporation rescheduled (September 1998) the loan period and funded interest dues after waiver of penal interest of Rs. 8.47 lakh. Even then the unit did not adhere to repayment schedule but requested (February 2002) to settle the loan account under OTS. The Board of Directors agree (February 2002) to close the loan account by accepting Rs. 29.42 lakh as against the outstanding amount of Rs. 38.62 lakh (principal: Rs. 29.41 lakh and interest: Rs. 9.21 lakh). An amount of Rs. 26.68 lakh was yet to be realised (February 2003).

Government stated (November 2003) that the unit approached for OTS in June 1996 for Rs. 44.03 lakh but it was cancelled in September 1996 due to non-payment of OTS amount. Subsequently Board approved OTS in February 2002 for Rs. 29.42 lakh. Reply is not tenable since the loanee failed to adhere to the OTS terms and conditions, the Corporation should have seized the unit and initiated recovery action under SFCs Act. Instead the Corporation settled the OTS in February 2002 for lesser amount by extending another OTS after six years, which lacked justification.

The Corporation in its oral evidence stated that the Board of Directors agreed to close the loan account for an amount Rs. 29.42 lakh as against the outstanding amount of Rs. 38.62 lakh. OUt of this, principal was Rs. 29.41 lakh and interest was Rs. 9.21 lakh. The first OTS was for Rs. 44.03 lakh. The Corporation would have got only Rs. 44.03 lakh if it were settled. But, presently, inspite of Government intervention, an amount of Rs. 1.03 crore is being collected and the Corporation continued with its recovery action and so far had collected Rs. 44.51 lakh towards interest.

Recommendation:

The Committee orders the Corporation to submit details of recovery made by the Corporation.

VIJAYACHANDRA REDDY POLY NURSING HOME (Para No 3.44)

The Corporation disbursed (February 1991 to December 1992) a team loan of Rs. 44.60 lakh to Vijayachandra Reddy Poly Nursing Home Private Limited, Proddutur. The Unit was irregular in repayment of loan from beginning though it was running very well. Several recall-cum-sale notices were issued, but the unit was not seized and arrears accumulated (October 1996) to Rs. 61.66 lakh (principal: Rs. 22.49 lakh and interest: Rs: 39.17 lakh). The Corporation without issue of seizure notce advertised (January 1997) for sale of assets of the unit but due to intervention of the CMO the sale was deferred after receiving a meagre payment (January 1997) of Rs. 0.50 lakh. The Croporation rescheduled (March 1997) jthe loan, on the assurance of promoters to pay Rs. 4 lakhs by 31 March 1997, which wa also not honoured by the promoters. The unit was finally seized in May 1999 when it was noticed the machinery worth Rs. 13.67 lakh was missing. The available assets were soled (June 2001) for Rs. 26.93 lakh leaving a balance of Rs. 1.14 crore un-recovered.

Thereafter, the Corporation initiated action against all the promoter directors under AP RR Act and issued notices under section 31(1) (aa) of SFCS Act. Three directors requestede (March 2003) to relieve them from the liability under OTS. The Board approved (March 2003) to relieve three promoters by accepting Rs. 10 lakh as against the dues of rs. 2.68 crore (principal: Rs. 18.68 lakh plus interest Rs. 2.49 crore) though as per guidelines OTS amount for relief of three promoters worked out to Rs. 86.40 lakh. No action was taken in respect of remaining promoters.

Government stated (November 2003) that keeping in view the local economic conditions, it extended several opportunities to revive the unit to pay the dues to the Corporation. The reply is not acceptable as the Corporation extended several favours to the promoters and failed to identify the properties of promoters / guarantors as disclosed and opted for a settlement for a meagre amount. The recovery of Rs. 2.68 crore thus remains uncertain / doubtful.

The Corporation in its explanatory notes stated that in respect of item para 3.42 amount due is Rs. 48.65 lakhs, in respect of para 3,43 adjustment of Rs. 8.50 lakh towards loan account was by

over site and the party has paid amount due under OTS scheme and requested to condone delay and in respect of para 3.33 corporation is not leaving any source untapped but is on the continuous vigil for recovring of dues.

The Corporation in oral evidence stated that the promoters did not honour their assurance to pay Rs. 4 lakh in 1999. Hence the unit was seized and the assets were sold. At the time of seizure panchananama was conducted and found that some assets were missing. On this a police complaint was registered and action was taken against four Directors and they were released after collecting an mount of Rs. 11 lakhs from them. Pursuance is being made to collect remaining amount also. Inspite of intervention by Government, so far an amount of Rs. 4.50 crore was collected.

Recommendation:

The Committee orders the Corporation to submit details of rccovery made by the Corporation.

INDIVIDUAL PARAS:

SANCTION/RELEASE OF LOAN WITHOUT IMPORT LICENSE (PARA NO.4.10):

M/sPallavi Graphics Ltd approached in Corporation for setting up of printing and packing unit at Nacharam. This includes importing of second hand printing machine from Australia under Open General License (OGL). But Government of India revised (March 1999) EXIM policy before the loan is sanctioned/released (Rs. 48.10 lakh).

i) The promoter committed fraud by altering date in the Bill of Lading to get concessions under old EXIM policy. By noticing the fraud the customs authorities confiscated the machinery and levied penalty of Rs. 22 lakhs and warehousing charges of Rs. 1.07 lakh.

ii) On approach by the promoters, the corporation disbursed the undisbursed amount (Rs. 30.42 lakh) during the period from June 2000 to January 2001 from the already sanctioned loan. In addition to that additional term loan (Rs. 24.30 lakh) was also sanctioned/released in June 2000 to help the promoter to release the confiscated machinery.

iii) Total amount of Rs. 1.03 cr. was disbursed to the unit.

The Corporation in its explanatory notes stated that they released the loan without konwing the manipulation made by the promoter in the EXIM documents. The Corporation having already released the first loan, additionl loan was released for implementation of the project. The company paid Rs. 21.50 lakh. The unit has been seized. During the time of seizure it was noticed major part of the machinery was missing. The promoter approached and paid Rs. 3.00 lakhs under OTS scheme and could not pay balance. The Corporation is pursuing to recover balance amount through RR Act. The Corporation is also pursuing a private complaint filed in High Court.

The Corporation in its oral evidence stated that by auctioning land and building the Corporation recovered an amount of RS. 49.65 lakh. This amount was received by the Corporation in addition to the amount of Rs. 65.13 lakh paid by the company. The Corporation also stated that the balance amount would be recovered under the provisions of RR. Act.

Recommendations:

The Committee expresses its surprise over the reply of the Corporation that the Corporation was 'not aware of changes made to EXIM policy document' and took a view that sanction of additional loan, basing on the forged documdnt, was unwarranted. The Committee recommends that the Corporation should adopt more professional approach before sanctioning of loans to units.

IRREGULAR SANCTION OF WROKING CAPITAL TERM LOAN (M/S AVANTI KOOP ELECTRICALS PVT., LIMITED, MEDAK) (PARA NO. 4.11):

Eventhough Project Screening Committee (PSC) pointed out that i) shortfall in the vaue of collecteral security, ii) failure to pay statuary dues like provident fund and employees state insurance to concerned authorities the corporation sanctioned Working Capital Term Loan (WCTL) of Rs. 70.00 lakhs to M/s Avanti Koop Electrical Pvt., Limited, Medak (February 2000). As per terms of sanction of

term loan the promiters were to hypothecate land and buildings, plant and machinery, mould and dyes and tools valued at Rs. 47.55 lakh, besides offering collateral security for value of Rs. 5.25 lakh in the form of 10.27 acres of land/mango orchard.

Audit observed that

i) Corporation accepted collaterial security in the form of agricultural land valued Rs. 5.25 lakh, as against of immovable urban property equivalent to 150 per cent of loan amount, ie., 1.05 crore.

ii) after recovery of Rs. 0.49 lakh towards dues aginst earlier loan, the corporation released Rs. 69.51 lakh.

iii) promoters issued post dated cheques valued Rs. 25.40 lakh towardes repayment were dishonoured and corporation did not take action against them under NI Act, but seized the units.

iv) During seizure in February 2002, the corporation found part of machinery missing but police complaint was not lodged.

v) The then ED lifted seizure by accepting meagre amount of Rs. 2.26 lakh, as against dues of Rs. 41.55 lakh.

vi) The promoter once again failed to pay dues and the corporation seized the unit in September 2002 and found that machinery valued Rs. 61.63 lakh was missing and lodged a police complant.

viii) As on 31 January 2004 dues were Rs. 95.14 lakh (Principal Rs. 70 lakh and interest Rs. 25.14 lakh)

Thus due to undue favour, funds of the corporation to the extent of Rs. 95.14 lakh were locked up.

Government in its reply stated that the promoters fulfilled stipulated terms and conditions with regard to collateral security, and corporation is taking steps to dispose of unit and collateral securities.

The Corporation in its explanatory notces stated that

i) The value of total collateral security provided by the company is Rs. 68.61 lakh along with personal guarantee by the directors. Not tenable as collateral security should have been to the extent of Rs. 1.05 crore in the shape of Urban Property as per norms.

ii) Pursuing under NI act in the case of dishonoured cheques is being exercised selectively as the process takes years together for settlement. Not tenable as a case for getting the signatory of the post date cheques arrested would have put more pressure for clearing the loans.

iii) At the firest instance seizure was lifted as the promoter informed that a financial partner is being inducted as partner to improve the business.

iv) The primary assets of the company were handed over to the purchaser on 10-3-2004 after sale on 100% down payment basis. Subsequently there were no payments in the loan account by the company. The collateral security was advertised for sale and there was no response.

The Corporation in the oral evidence stated that

i) regarding collateral security the primary assets worth Rs. 50.56 lakh including dies and moulds were available with the unit and additional collateral security of Rs. 2.24 lakh. Hence, the total collateral securty worked out to Rs. 52.80 lakh and the amount worked out to 75% of WCTL of Rs. 70,00 lakhs. As per the norms 150% security was required and the same worked out to Rs. 105 lakhs. This was considered by the Board and loan was sanctioned for the revival of the unit as a special case.

ii) Regarding action under NI Act, the loanee submitted post-dated cheques as repayment of loan amount. But, after wards when the cheques were presented it came to know that the accounts were closed in the bank. Hence, no action was taken under NI Act.

iii) Regarding sanction of additional loan, normally Corporation keeps some amount as balance to have first charge with the Corporation. To maintain this charge, as outstanding amount of Rs. 49.000 was kept pending and new loan was sanctioned.

iv) Regarding missing of machinery at the time of seizure it was found that machinery was missing and police complaint was lodged and the missing moulds were recovered.

Regarding recovery the Corporation stated that an amount of Rs. 46.30 lakh was recovered against sanctioned amount was Rs. 70.00 lakhs. Besides, the mango garden valuing Rs. 8.27 lakh was available was collecteral securty, the same was being advertised for sale and would be materialized with in a short period.

Recommendation:

The Committee observed, in this particular case, that many irregularities have been taken place at various stages viz.,

i) Time was allowed to sell off the machinery

ii) PSC recommendations were not followed

iii) At various stages it was found that sanction of loan itself was not regular

iv) Cheques presented by the company were dishonored and no action was taken under NI Act.

Besides all these irregularities the Committee observed that money has not been collected by the Corporation.

The Committee recommends to take a close look at each and every point while handling the case and suitable action shall be taken against all officials who were responsible for all these lapses committed by them at every point of time, and to report the action taken to the Committed by 30-6-06.

The Committee summed up the recommendations and directed the Corporation to follow the following guidelines while sanctioning loan/setting loan accounts under OTS scheme:

i) Strict guidelines shall be prepared and they should not be deviated from. It there is any deviation, the Corporation shall approach Government for approval

ii) Discretion at individual level shall be curtailed.

iii) OTS scheme shall be operated with in a fixed time frame in future.

Summary of Recommendations

1. The Committee felt that Government is the major shareholder of the Corporation and the Managing Director is appointed by the Government. Therefore, the Corporation need not get the prior approval of the Government in its day to day affairs, Corporation while taking important decisions such as OTS, deviating from its original guidelines, should get approval of Government. The Committee desired the Government to examine the Board's authority in such cases.

The Committee opined that the Board seemed to be favour certain companies in writing off principal loan amount in contravention of the provisions of the guidelines. It is recommended that when ever there is a deviation from its own approved guidelines, those deviations are required to be forwarded to Government for its prior approval before implementing them.

2. The Committee feels that the Corporation has no control over the solvency of the loanee and there was no system of accepting collateral security either. This would give an impression that there was systemic lack of control with regard to recovery of loans.

Considering all the facts submitted by the Corporation, the Committee desired that the Corporation should obtain solvency certificate of the borrower, which shall be certified by Chartered Accountant, Besides, third party collateral security shall be obtained from the loanees to protect the interest of the Corporation.

3. The Committee felt it was not clear from the reply that whether revised guidelines have been advantageous to the Corporation in respect of the companies mentioned in the Audit Report.

Hence, the Committee desired that the Corporation should submit an analysis of the collections made before and after revision of guidelines in August 1999 to indicate whether or not position of collection has registered an improvement after the revision.

4. The Committee felt that finalisation of OTS did not give clear picture whether they were settled transparently or not. The Committee recommendes that a detailed report may be made available regarding settlement of loan accounts for Rs.60.66 crore only as against Rs.70.46 crores OTS amount worked out as per guidelines. Committee also recommends that a proper and uniform procedure should be followed to make the system more transparent. In respect of extending exceptions to guidelines, if any decisions were taken by the Board, the proceedings shall be more transparent, and memorandum should be very clear.

5. The Committee felt verification of solvency of loanees was one of the major aspects of lending programmes, the Corporation has to take special care about this aspect. The Committee recommends that the process of verification of solvency of promoters/ guarantors should be tightened in order to safeguard the interest of the Corporation.

6. The Committee felt that it was very serious lapse on the part of the Corporation in sanctioning of one loan for clearance of another loan. The Committee viewed the situation very seriously and directed to review the case and fix responsibility on the officials who were responsible for flouting Board's own guidelines, and to submit the action taken to the Committee positively by 30.6.2006.

7. Committee felt that the Corporation did not submit details in respect of all the cases mentioned in the objection. The Committee recommends that the Corporation should submit before 30.6.2006 break up i.e., (i) break up of interest, principal and other expenses in respect of Rs.39.81 crore and (ii) details in respect of 13 cases out of 31 cases where guarantors were relieved by collecting lesser amounts against collectable amounts as pointed out in audit, and the policy followed should be formalized for more transparency.

The Committee also recommends (i) maintenance of detailed database in respect of promoters/ guarantors and its updation from time to time. (ii) The Corporation should make a study of other financial institutions to come up with a policy, in respect of promoters/guarantors, to safeguard the interest of the Corporation.

The Corporation should not relieve guarantor till money is fully recovered and the Board has to discuss whether atleast principal itself is not repaid.

8. The Committee took a serious view regarding the method followed by the Corporation in verification of original documents, which were produced as collateral security by promoters/guarantors. The Committee felt that the system should be improved to curtail and weed out fake documents.

The Committee recommends that (i) date bank should be maintained and updated from time to time in respect of promoters and guarantors (ii) the Corporation should exchange information with other financial institutions and take defaulters list from RBI into account from time to time before finalizing any loan account and (iii) Stringent action should be taken against willful defaulters. *The Committee also directs the Corporation to furnish latest position in respect of nine cases pointed by audit, positively by 30.6.2006 to the Committee.*

9. The Committee felt that even though details of recovery in general were furnished by the Corporation, specific details in respect of the items pointed out by audit had not been furnished by the Corporation. *The Committee directs that Corporation to submit case wise details of latest position of collection in respect of Rs.17.06 crore pointed out in audit for scrutiny, by 30.6.2006, for further examination by the Committee.*

10. Committee recommends that a uniform policy of auction of assets should be followed to get good bids by considering on line bidding throughout the state. *The Committee ordered the Corporation to submit present policy of the Corporation in respect of valuation, auction and sale of assets.*

11. The Committee recommends to recover the amount early and directed to submit details of recovery to the Committee.

12. The Committee orders the Corporation to submit details of recovery made by the Corporation.

13. The Committee expresses its surprise over the reply of the Corporation that the Corporation was "not aware of changes made to EXIM policy documents" and took a view that sanction of additional loan, basing on the forged document, was unwarranted. The Committee recommends that the Corporation should adopt more professional approach before sanctioning of loans to units.

14. The Committee observed, in the particular case, that many irregularities have been taken place at various stages viz.,

i) Time was allowed to sell off the machinery
ii) PSC recommendation were not followed
iii) At various stages it was found that sanction of loan itself was not regular.
iv) Cheques presented by the company were dishonored and no action was taken under NI Act.

Besides all these irregularities the Committee observed that money has not been collected by the Corporation.

The Committee recommended to take a close look at each and every point while handling the case and suitable action shall be taken against all officials who were responsible for all these lapses committed by them at every point of time, and the report the action taken to the Committee by 30.6.2006.

The Committee summed up the recommendations and directed the Corporation to follow the following guidelines while sanctioning loan/ setting laon accounts under OTS schemes:

i) *Strict guidelines shall be prepared and they should not be deviated from. If there is any deviation, the Corporation shall approach Government for approval.*

ii) *Discretion at individual level shall be curtailed.*

iii) *OTS scheme shall be operated with in a fixed time frame in future.*

Dates of the Meeting of the Committee during the year 2004-2005

SL. No.	Date of the Meeting	Department & Tours	Subject
1.	12-8-2004		Preliminary Meeting inaugurated by Hon'ble Speaker
2.	20-8-2004	First Meeting with Certain Corporations.	Discuss on functioning of certain Corporations.
3.	31-8-2005	Second Meeting with Certain Corporations.	Discuss on functioning of certain Corporations.
4.	10-9-2004	Third Meeting with Certain Corporations.	Discuss on functioning of certain Corporations.
5.	18-10-2004	Fourth Meeting with Certain Corporations.	Discuss on functioning of certain Corporations.
6.	04-11-2004	Fifth Meeting with Certain Corporations.	Discuss on functioning of certain Corporations.
7.	13-12-2004	Among the Members for adoption of draft report by the pervious Committee.	
8.	01-1-2005 to 5-1-2005	Tour to Tirupathi and Bangalore (4) days	Review of certain Corporations of Rayalaseema region and Meeting with sister Committee of Karnataka State at Bangalore and Meeting with the officials of Karnataka State.
9.	20-1-2005 to24-1-2005	Study tour to New Delhi and visit Rushikesh and Haridwar (5) days	Meeting with certain Corporations at New Delhi.

10.	5-3-2005	A.P. Transco	To review the Audit para20.4.7 contained in the report of the C.& A.G. of India (Comml.) for the year ended 31-3-2001 pertaining to Transco.
11.	1-4-2005	A.P. Mineral Development Corporation	To review the Audit paras contained in the report of the C.& A.G. of India (Comml.) for the years 1998-99, 2000-01 and 2001-2002 pertaining to A.P.M.D.C.
12.	1-4-2005 to 3-4-2005	Tour to Tirupathi (2) days	To review certain Corporations of Rayalaseema region.
13.	12-5-2005	A.P. Transco	Examination of Audit paras pertaining to A.P. Transco for the year 2000-2001 (mid term appraisal on execution of external aided projects)
14.	24-5-2005	A.P.S.R.T.C.	Examination of Audit paras pertaining to APSRTC for the year ended 2000-2001.
15.	30-5-2005 and 31-5-2005	Tour to Ramagundam, Godavari Khani visit to Singareni Collieries	Review of certain Corporation of Telangana region and visit of open cast mines of Singareni Collieries.
16.	21-6-2005	Power Finance Corporation	Examination of Audit paras contained in the report of the C.& A.G. of India (Comml.) for the year 2001-02 pertaining to Power Finance Corporation.

		A.P. Transco	Examination of Audit paras contained in the report of the C.& A.G. of India (Comml.) for the year 2002-03 pertaining to Transco.
17.	30-6-2005	A.P.S.R.T.C.	Examination of Audit paras contained in the report of the C.& A.G. of India (Comml.) for the years 2001-02 and 2002-03 pertaining to APSRTC.
18.	11-7-2005	A.P.S.F.C.	Comprehensive review of OTS (1997-98) of APSFC for year 2002-2003.
19.	15-7-2005	A.P. Civil Supplies Corporation	Comprehensive review of A.P. Civil Supplies Corporation for the year 2002-2003.
20.	22-7-2005 to 31-7-2005 (10) days	Tour to New Delhi, Himachal Pradesh, Punjab and Haryana States	Meeting with sister Committees in the States visited and with certain Corporations
21.	29-8-2005	A.P. Genco	Examination of Audit paras contained in the report of the C.& A.G. of India (Comml.) for the years 2000-01 and 2001-02 pertaining to AP Genco.
22.	30-8-2005	A.P. Heavy Machinery & Engg.	Comprehensive review of A.P. Heavy Machinery & Engg for the year 1994-1995.
23.	8-9-2005	A.P.S.F.C.	Comprehensive review of O.T.S.

24.	9-11-2005	A.P.I.I.C.	General functioning and activities especially land acquisition and allocation for the last (3) years.
25.	6-12-2005	NEDCAP	(a) Adoption of the Tenth Report of the Committee. (b) Review of accounts and pending paras etc.,
26.	26-12-2005 to 29-12-2005	Tour to West Bengal State	Meeting with sister Committee and with certain Corporations
27.	3-1-2006	A.P. State Irrigation Development Corporation	General functioning and activities of Corporation.
28.	16-1-06 11.00 a.m.	A.P. State Financial Corporation	Comprehensive review of OTS left over paras
29.	3.00 p.m.	A.P. Civil Supplies Corporation	Review of left over Audit paras
30.	18-1-06	Chief Secretary and Principal Secretaries and VC & MDs of various Corporation	Regarding Non-working PSUs and non sub-mission of Accounts to C&AG by various Corpns.
31.	30-1-2006	A.P. State Mineral Dev. Cropn.	Review of Audit paras
32.	14-2-2006	A.P. State Financial Corporation	Comprehensive review of OTS left over paras
33.	15-2-2006	A.P. Tourism Development Cropn.	Review of Action Taken On the Report of the PUC.

34.	15-2-2006	A.P. State Housing Corporation	Review of Audit paras
35.	27-2-2006	A.P. Civil Supplies Corporation	Review of left over Audit paras
36.	25-3-2006	Adoption of Eleventh Report	Review of OTS and two audit paras of A.P. State Financial Corporation.

'Assembly Buildings'
Hyderabad
March 25, 2006.

K. TULJANAND SINGH
Secretary to State Legislature.

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