

LIST OF AUTHORISED AGENTS OF LOK SABHA SECRETARIAT

- ANDHRA PRADESH**
1. G. R. Lakshminpathy Chetty and Sons, General Merchants & News Agents, Newpet, Chandragiri, Chittoor District (Andhra Pradesh).
- BIHAR**
2. 'Jagriti', Bhagalpur-2.
- GUJARAT**
3. Lok Milap District Court Road, Bhavnagar.
4. The New Order Book Company, Ellis Bridge, Ahmedabad-6.
- MADHYA PRADESH**
5. The National Law House, Near Indore Library, Opp. Old High Court Building, Indore.
6. Modern Book House, 286, Jawahar Ganj, Jabalpur-1.
- MADRAS**
7. The Kalpana Publishers, Booksellers, Trinchinopoly-3.
- MAHARASHTRA**
8. The Imperial Book Depot, 266, Mahatma Gandhi Road, Poona.
9. The Popular Book Depot (Registered), Lamington Road, Bombay-7.
10. The International Book House, Private Ltd., 9, Ashi Lane, Mahatma Gandhi Road, Bombay-1.
11. The International Book Service, Deccan Gymkhana, Poona-4.
12. Charles Lambert & Company, 101, Mahatma Gandhi Road, Opp. Clock Tower, Fort, Bombay.
13. The Good Companions, Raspura, Baroda.
14. The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-1.
15. Deccan Book Stall, Fergusson College Road, Poona-4.
16. The New Book Company (P), Limited, Kitab Mahal, 188-90, Dr. Dadabhai Naoroji Road, Bombay.
- MYSORE**
17. Makkalapustaka Press, Balamandira, Gandhi Nagar, Bangalore-9.
18. People's Book House, Opp. Jagannohan Palace, Mysore-1.
19. Pervate's Book House, Koppikar Road, Hubli.
- ORISSA**
20. The Cuttack Law Times Office, Cuttack-2.
21. Ekamra Vidvabhavan, Eastern Tower Room No. 3, Bhuvaneshwar-1.
- PUNJAB**
22. The English Book Depot, 7th Jhoke Road, Ferozepore Cantt.
- RAJASTHAN**
23. Information Centre, Govt. of Rajasthan, Tripolia, Jaipur City, Rajasthan.
24. K. M. Agarwal & Sons, Railway Book Stall, Udaipur.
- UTTAR PRADESH**
25. Swastik Industrial Works, 59, Holi Street, Meerut City (U.P.).
26. A. H. Wheeler & Company, Private Limited, 15, Elgin Road, Allahabad.
27. Law Book Company, Sardar Patel Marg, Allahabad.
28. Goel Traders, 100-C, New Mandi, Muzaffarnagar.
29. B. S. Jain & Company, 71, Abupura, Muzaffarnagar.
- WEST BENGAL**
30. M. C. Sarkar & Sons (Private) Limited, 14, Bankim Chatterjee Street, Calcutta-12.
31. W. Newman & Company Limited, 3, Old Court House Street, Calcutta.
32. Thacker Spink & Company (1933) Private Ltd., 3, Esplanade East, Calcutta-1.
33. Firma K. L. Mukhopadhyay, 61A, Bannacharam Akkur Lane, Calcutta-12.
- DELHI**
34. Jain Book Agency, Connaught Place, New Delhi.
35. M/s. Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.
36. Atma Ram & Sons, Kashmir Gate, Delhi-6.
37. J. M. Jaina & Brothers, Mori Gate, Delhi-6.
38. The Central News Agency, 2390, Connaught Circus, New Delhi.
39. The English Book Stall, 7-L, Connaught Circus, New Delhi.
40. Rama Krishna & Sons, 16-B, Connaught Place, New Delhi.
41. Lakshmi Book Stores, 47, M. M. Jangpath, New Delhi.
42. Kitab Mahal (W.D.) Private Ltd., 28, Faiz Bazar, Delhi.
43. Bhatti Brothers, 188, Lajpat Rai Market, Delhi-6.

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*Not printed. One cyclostyled copy to be laid on the Table along with the Eighth Report on Appropriation Accounts (Civil), 1960-61 and Audit Report, 1962 and five copies placed in the Parliament Library.

PUBLIC ACCOUNTS COMMITTEE
(1962-63)

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Shri Mahavir Tyagi

MEMBERS

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3. Shri Bhakt Darshan
4. Shri Gajraj Singh Rao
5. Shri Hem Raj
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19. Shri Sonusing Dhansing Patil
20. Shri Lalji Pendse
21. Shri Rajeshwar Prasad Narain Sinha
22. Shri Jai Narain Vyas.

SECRETARIAT

Shri H. N. Trivedi—Deputy Secretary.
Shri Y. P. Passi—Under Secretary.

INTRODUCTION

As authorised by the Public Accounts Committee, I hereby present this Seventh Report on the Statutory Corporations, Government Companies, etc., dealt with in chapters VIII and IX of the Audit Report (Civil), 1962, which was laid on the Table of the House on the 4th June, 1962.

2. In this Report the Committee have dealt with matters incorporated in chapters VIII and IX of the Audit Report relating to Statutory Corporations, Government Companies and Government Commercial and Quasi-Commercial Departments/Undertakings and Autonomous Bodies.

3. The Committee examined the relevant chapters of the Audit Report (Civil), 1962 at their sittings held on the 17th, 18th, 20th, 21st, 24th, 25th and 26th September, 11th and 17th October, 1962 and 11th and 16th January, 1963.

4. This Report was considered and approved by the Committee at their sitting held on the 15th February, 1963.

5. A brief record of the proceedings of these sittings has been maintained and forms part of the Committee's Report on Appropriation Accounts (Civil), 1960-61 and Audit Report (Civil), 1962.*

6. A statement showing the summary of the principal conclusions/recommendations of the Committee is given in Appendix III. For facility of reference, these have been printed in thick type in the body of the Report.

7. The Committee place on record their appreciation of the assistance rendered to them in their examination of these accounts, etc., by the Comptroller & Auditor General of India.

8. The Committee would also like to express their thanks to the officers of the various Ministries concerned as also to the officers of the concerned Corporations, Companies, Undertakings, etc. for the co-operation extended by them in giving information to the Committee during the course of evidence.

NEW DELHI:

The 20th February, 1963.
Phalgun 1. 1884 (Saka).

MAHAVIR TYAGI,

Chairman,
Public Accounts Committee.

* Eighth Report (1962-63).

EVOLUTION OF PUBLIC SECTOR IN INDIA

In India the Second World War witnessed a notable expansion in many of the industries. The conception of a Welfare State was also beginning to take shape in the planning schemes formulated by several parties in the country. The government of the day sought to put to an effective use the planning consciousness of the people by setting up a Department of Planning and Development. In a statement on Industrial Policy issued by that Department in April 1945 an attempt was made for the first time on the part of the government to formulate a clear-cut policy regarding the role of government and private enterprises in the future development of the country.

The Industries Conference which met in December, 1947, recommended that a clear-cut statement about the demarcation of the roles of government and private enterprise was essential if proper development were to take place in the country.

The Government issued a statement regarding its ~~Small~~ Industrial Policy in April, 1948, indicating *inter alia* the role of Government in the economic life of the country.

While indicating that the State must play a "progressively active role in the development of industries", the Government felt that, for some time to come, "the State could contribute more speedily to the increase of national wealth by expanding its present activities wherever it is already operating and by concentrating on new units of production in other fields, rather than on acquiring and running all other existing units"

Thus, the principle of Government ownership and control was made applicable to a segment of the economy comprising arms and ammunition, atomic energy, and railway transport. In regard to certain key industries like coal, iron and steel, aircraft manufacture, shipbuilding, manufacture of telephone, telegraph and wireless apparatus, etc., the State was made responsible for further expansion except to the extent where it considered the co-operation of the private enterprise necessary for the purpose

The Government set up in March, 1950 a Planning Commission which was required explicitly to formulate plans in conformity with /1 the Constitutional provisions and the Industrial Policy Resolution of

1948. The Commission observed that a rapid expansion of the economic and social responsibilities of the State was necessary if the objective aimed at was to be realised. This need not involve complete nationalisation, the Commission said, of the means of production or elimination of private enterprise, but it does mean a progressive widening of the public sector and a reorientation of the private sector to the needs of a planned economy.

In December, 1954, a further step was taken when Parliament accepted a 'socialistic pattern of society' as the objective of the country's economic policy, where the principal means of production would be under social ownership or control.

In view of the changed circumstances, the Government decided to review their Industrial Policy "which must be governed by the principles laid down in the Constitution, the objectives of socialism, and the experience gained during these years."

According to the revised Industrial Policy Statement, which was announced on April 30, 1956, "the State will progressively assume a predominant and direct responsibility for setting up new industrial undertakings and for developing transport facilities. It will also undertake State trading on an increasing scale."

In accordance with the above policy the programme of public sector projects in the Second Five Year Plan was substantially expanded with a capital outlay of Rs. 2,400 crores which was half of the total outlay envisaged in that Plan.

Audit of Statutory Corporations and Government Companies.

2. The question of parliamentary control over statutory corporations, Government companies, etc., had been engaging the attention of the Public Accounts Committee for some time past. In para 8 of their Report on Accounts of 1947-48 (Post Partition) the Committee suggested that the Comptroller and Auditor General should be empowered to conduct a test audit of the accounts of the Rehabilitation Finance Administration and the Industrial Finance Corporation. In para 24 of their First Report, the Public Accounts Committee (1951-52) observed that "if such concerns (Corporations) are run independent of the control of Government or Parliament there is a danger that public money might be frittered away in frivolous investments." The Committee therefore considered that "..... State sponsored Corporations should be regulated by statutes of Parliament and their finances subjected to audit by the Comptroller and Auditor General and scrutiny of the Public Accounts Committee." The Committee of 1952-53 while considering

the working and audit of Private Limited Companies for the management of Government industrial undertakings suggested that "the Comptroller and Auditor General should have the unquestioned right to audit the expenditure of these concerns, by whatever name they may be called, because they are financed from the 'Consolidated Fund.'" (Para 5, Third Report). The legal provisions regarding the audit of accounts of Government companies are contained in the Companies Act, 1956.

With the progressive participation of the State in the field of industrial and social development the working of the Corporations and Government Companies is gaining importance from the point of view of their financial results and matters of policy in regard to their constructions, terms of contracts and foreign collaborations. The Comptroller and Auditor General was considering in what manner the Public Accounts Committee might be assisted in their examination of the Accounts of the Corporations and Companies with due regard to the time available to the Committee. He proposed in 1961 that he would prepare a review on the working of these undertakings and include it in the body of the conventional Audit Reports, along with the comments on irregularities, losses, etc., which are normally included in those Reports. The reviews would generally deal with the following matters:—

- (i) Important changes introduced in the working of the concerns;
- (ii) Important agreements concluded by these concerns with foreign collaboration;
- (iii) Targets of production and actual achievements;
- (iv) Cost of production of the articles manufactured as compared to the market prices;
- (v) The pricing policy of these concerns;
- (vi) The borrowing policy of the concerns; and
- (vii) The financial results of the working of the concerns together with comments on the efficiency of these concerns. If possible, comparative figures of private undertakings in similar fields will be added.

In view, however, of the fact that it might not be possible to review the working of every undertaking every year because of the large number of Corporations and Companies, and there might not be anything of interest every year in the case of every undertaking, the Comptroller and Auditor General thought that ordinarily, the Corporations and Companies to be selected for review would be those in which there were matters of interest to be reported to the

Public Accounts Committee. These suggestions have been given effect to for the first time in the Audit Report (Civil), 1962.

At a sitting of the Public Accounts Committee held on the 12th July, 1962, the powers of the Comptroller and Auditor General with regard to audit of accounts of Government Companies were considered. It was pointed out by the Comptroller and Auditor General that the normal manner in which the Auditors of Government Companies—private Chartered Accountants—perform their functions was laid down in the Companies Act. These are generally confined to their checking the correctness of the balance sheets and profit and loss accounts. The Comptroller and Auditor General had felt that, however important these might be for commercial organisations, from the point of view of the public and the government these accounts did not give a correct and complete picture of these organisations. He had therefore decided to issue direction to the chartered accountants auditing the accounts of these companies to give him information on certain matters which would be of interest to Parliament and would enable them to judge whether from the financial point of view these organisations were run properly. The Committee are glad to note that government have welcomed the step taken by the Comptroller and Auditor General. In this connection a detailed note furnished to the Committee by the Comptroller and Auditor General regarding the position of audit of the accounts of government companies is appended to the Report (Appendix I).

The Committee welcome the improvements made by the Comptroller and Auditor General both as regards the method and scope of audit of Companies and the manner in which he proposes to present his findings in his Audit Reports. They are satisfied that, on the basis of the report received from the professional Auditors with reference to the directions issued to them by the Comptroller and Auditor General from time to time and on the results of his own supplementary test audit, he will be able to present a broad and objective review of a number of Companies in each Audit Report, so that all of them come within the scope of such review in a few years time. This will enable the Committee to make the necessary appreciation of the financial working and achievements of these Companies.

Audit Report (Civil), 1962, pp. 114-115, para 94.

3. The Government commercial concerns, the accounts of which are subject to the audit of the Comptroller and Auditor General, fall under the following categories:—

(1) Statutory Corporations

(2) Government Companies.

(3) Departmentally managed Government Commercial Undertakings.

In the case of Statutory Corporations like Air India International, Indian Airlines Corporation, the Comptroller and Auditor General is the sole auditor, while in other cases he conducts audit scrutiny over and above the audit carried out by Professional Auditors.

The accounts of Government Companies are audited by the Professional Auditors appointed by the Central Government on the advice of the Comptroller and Auditor General. He also conducts a supplementary or test audit of these accounts and gives his comments upon or supplements the reports submitted by the Professional Auditors. The Companies Act has also empowered the Comptroller and Auditor General to issue directions to the auditors in regard to the performance of their functions. In order to make their audit more fruitful and furnish useful data for a correct appreciation of the financial operation of these Companies specific directions under Section 619(3)(a) of the Companies Act, have been issued to them in March, 1962, as already mentioned earlier.

The Statutory Corporations and Government Companies enjoy considerable autonomy in day to day working subject to the relevant statutes and Memoranda and Articles of Association respectively. But departmentally managed Undertakings are governed by rules and regulations framed by Government. Since their receipts and expenditure are transactions relating to the Consolidated Fund of India, the Comptroller and Auditor General is statutorily responsible for their audit.

The Committee have dealt with the various categories of Government commercial concerns etc. in the following chapters.

II

STATUTORY CORPORATIONS

Page 115, para 95 of Audit Report (Civil), 1962

4. The following five Central Government Commercial Corporations were in existence on the 31st March 1961 :

1. Air India International
2. Indian Airlines Corporation
3. Central Warehousing Corporation
4. Industrial Finance Corporation
5. Oil and Natural Gas Commission.

Their financial position on the 31st March 1961 has been given in Annexure 'A' of the Audit Report (Civil), 1962 at page 116. The statement does not include figures pertaining to the Oil and Natural Gas Commission as its accounts for 1960-61 were not ready till the printing of the Audit Report.

Besides making investment in the form of Capital and advancing loans to these Corporations, the Government have also—

- (i) granted a subsidy of Rs. 5.89 crores to the Indian Airlines Corporation in 1959-60 to meet their accumulated losses;
- (ii) waived interest upto 1st October 1966 on loans amounting to Rs. 847.76 lakhs and Rs. 912.89 lakhs respectively in the case of Indian Airlines Corporation and Air India International;
- (ii) guaranteed minimum dividend of 2½% and 3½% respectively in the case of Industrial Finance Corporation and Central Warehousing Corporation; and
- (iv) guaranteed loans of Rs. 6.97 crores and Rs. 22.24 crores raised by the Air India International and Industrial Finance Corporation respectively.

Out of the four Corporations three have earned a profit of Rs. 212 lakhs and one has suffered a loss of Rs. 2.20 lakhs. The total return for the year 1960-61 was Rs. 394.79 lakhs. The return includes not only the net profits and losses as shown in the balance sheets but also interest paid or provided for by these concerns on loans given

to them by the Government or raised elsewhere except in certain cases. This gives a yield of 4.4% on the total amount of Rs. 8,869.23 lakhs employed as Capital in these four Corporations.

The Committee will now proceed to deal with the Indian Airlines Corporation and the Rehabilitation Finance Administration in the following paragraphs.

MINISTRY OF TRANSPORT AND COMMUNICATIONS

INDIAN AIRLINES CORPORATION

Indian Airlines Corporation—Pages 118-123, para 96

5. The Indian Airlines Corporation set up under the Air Corporation Act 1953 took over the undertakings of eight Air Transport Companies with effect from 1st August 1953. The total amount of compensation paid to the seven companies was Rs. 319.45 lakhs, while no compensation was payable to one company as its liabilities exceeded the assets.

(i) Financial Results

The Corporation started with an initial capital of Rs. 4.16 crores. The Government advanced various amounts from time to time for the acquisition of assets, for working capital and for discharging the liabilities of the Corporation. The total amount invested by the Government (including advances) upto 31st March 1961 was Rs. 16.96 crores. According to a decision taken by Government in October 1959 the total amount advanced upto 31st March 1961 had been divided into Equity Capital and Loan of Rs. 8.48 crores each.

The financial results of the Corporation during the last five years were as follows:—

	(Rs. in lakhs)				
	1956-57	1957-58	1958-59	1959-60	1960-61
Operating Revenue	861.35	926.07	1082.49	1190.23	1306.27
Operating Expenditure	961.78	1024.29	117.15	1187.8	1288.5
Operating Profit (+) Loss (—)	—100.43	—98.22	—87.66	+3.05	+7.32
Non-operating Income	1.97	5.94	3.52	4.87	17.18
Non-operating expenditure	10.33	10.79	7.05	.11	19.82

	19 -57	19	1958-59	1959-60	1960-61
Profit (+) Loss(-)	-108.79	-103.07	-91.19	+7.81	+4.68
Interest on loan which has been waived	14.92	18.25	35.82	47.80	40.60
TOTAL—Loss	-123.71	-121.32	-127.01	-39.99	-35.92

In the published Profit and Loss Accounts of the Corporation, interest payable to the Government each year on the loans advanced was not taken into account as the Government had waived the interest on the debenture Capital and Loans upto 1st October, 1966. Due to the revision of pay and allowances the Corporation would have to pay Rs. 92 lakhs towards arrears of pay and allowances. Against this liability of Rs. 92 lakhs, the Corporation had provided for only Rs. 43 lakhs in 1960-61 in arriving at the net profit during the year. Had the entire liability been provided for the result would have been a net loss of Rs. 44.32 lakhs without taking into account the interest liability of Rs. 40.60 lakhs which has been waived by Government.

During the course of evidence the Committee were informed that the bulk of the fleet with the Corporation consisted of Dakotas, which were very old and gradually becoming uneconomic to operate. Besides, the Corporation was also required to operate on certain uneconomic routes. A hope was, however, expressed by the representatives of the Corporation that with the adoption of their proposed schemes for replacement of aircraft the Corporation would be able to make a fair return on the capital advanced by Government.

In October 1959, when the Public Accounts Committee (1959-60) examined the Accounts of the Corporation for the years 1956-57 and 1957-58, similar reasons were advanced in extenuation for the losses incurred by the Undertaking from year to year. The Committee then expressed the hope that an all out effort would be made to minimise the working expenses of the Corporation (c/f paras 91 and 92 of Report and 175 of Proceedings of 25th Report of PAC—Vol. II). The Committee now regret to observe from the Table given on the previous page that in the year 1960-61 expenditure (both operating and non-operating) had registered an increase as compared to the earlier years. The Committee would once again urge upon the Corporation to review the position and take effective measures to reduce their overheads and other working expenses so

that the Undertaking may not continue to be a liability on the Exchequer. They would watch the results of the action taken in this regard through subsequent Audit Reports.

(ii) Fleet

6. The following table gives the position of fleet as on 31-3-1961:—

	Dakotas	Sky mas- ters	Vik- ings	Her- ons	Vis- co- unts	Other small Air- craft	Total
No. of Aircraft taken over on 1-8-1953	74	3	12	..	..	10	99
Purchased after nationa- lisation	5	3	..	8	10	..	26
	79	6	12	8	10	10	125
<i>Less</i>							
(i) Written off or sold by the Corporation	25	1	..	1	..	10	37
(ii) Grounded fleet	..	..	12	7	..	..	19
Active fleet as on 31-3- 1961	54	5	..	..	10	..	69

As part of its programme for the replacement of the Dakotas fleet, the Corporation purchased 5 Fokker Friendship Aircraft in 1961. Since the new aircraft were put into service, seven Dakotas had become surplus.

The question of selling the grounded Viking aircraft was considered by the Corporation in 1955. In March, 1957, two parties offered to buy two aircraft at £25,000 and £22,500 per aircraft respectively. The sanction of the Government for the sale of aircraft was received on May 8, 1957 but permission for export was not accorded till August, 1957. The Public Accounts Committee (1961-62), who dealt with this case had desired that the matter should be thoroughly investigated and responsibility fixed for the various lapses. The action taken on the Committee's recommendation has not yet been intimated. The Committee would like to be informed of the action taken in this regard at an early date.

7. Eight Herons were purchased in 1955 at a capital expenditure of Rs. 60.66 lakhs. These were, however, found uneconomical in operation and in March, 1957 the Board decided to sell two of these aircraft. Only one aircraft could be sold to Messrs Hindustan Steel

Limited for Rs. 5,20,000. The remaining 7 having a depreciated value of Rs. 22.04 lakhs did not find a market and were ultimately grounded by 1960-61. It was admitted in evidence that the initial purchase of Herons was a mistake but it was considered to be a bonafide error of judgment on the part of management for which no one could be blamed. Although the aircraft had run only 2 to 3 thousand hours as against the normal life of 30 thousand hours, they had been grounded as they proved uneconomic and failed to attract passengers. The Committee feel concerned to note such lapses on the part of a commercial organisation. They trust that due care will be exercised in the disposal of the aircraft since they are practically new. Further in the context of the emergent situation the Committee hope that best possible use would be made of all the serviceable aircraft.

(iii) Operating cost

8. The operating cost per revenue flying hour for various types of aircraft operated by the Corporation is given below:—

	1958-59	1959-60	1960-61
	Rs.	Rs.	Rs.
Dakota	724.60	733.80	775.20
Skymaster	1805.10	1620.50	1663.00
Viscount	1651.90	1596.20*	1762.60

Although there had been some improvement in the operating cost per revenue flying hour in the case of Skymaster, the cost of operation of Dakotas had been steadily increasing from 1958-59 to 1960-61. The position was examined by the Cost Structure Committee in the year 1959, which had made certain recommendations with a view to controlling the high costs of overhauls. In evidence, the General Manager of the Corporation urged before the Committee that there had been an upward revision in the scales of pay of the employees of the Corporation and the cost of equipment had also gone up by 50 to 60 per cent. In para 94 of their Twenty-fifth Report (2nd Lok Sabha) the Committee had impressed upon the Corporation the need for fixation of norms of output for various categories of workers. In a note by the Ministry indicating action taken on the above recommendation, it has been stated that while norms for certain major operations in the Engineering Department had been laid down, Staff Assessment Committee had been appointed

in other Departments to reassess the requirements on the basis of actual work load. It has been added that the nature of Corporation's operation is such that it is not possible to lay down rigid norms in all spheres. The Committee have also been informed that with a view to obtaining greater productivity the Corporation have recently entered into agreements with the various Unions/Associations and the Corporation are seeking their cooperation in removing wasteful practices. It is also the intention of the Government to pursue this question further by annual reviews of the costs of operation with reference to standard cost of operation. **The Committee suggest that the results of these Annual Reviews should be published in the Annual Reports of the Ministry.**

(iv) *Spare Parts, consumable stores and tools*

9. According to the Audit Report the yearly purchase of spare parts, consumable stores and tools by the Corporation had been in excess of their annual consumption resulting in cumulative increase of stock every year as indicated in the statement below:—

(Figures in lakhs)

	Opening Balance	Receipt	Consump- tion	Closing Balance
	Rs.	Rs.	Rs.	Rs.
1958-59	410	127	102	435
1959-60	435	106	88	453
1960-61	453	128	114	467

The balance on 31st March 1961 included obsolete/redundant stores. The value of stores relating to Vikings and Herons which have been grounded, amounted to Rs. 67.58 lakhs and in respect of Dakotas the value of redundant stores was estimated at about Rs. 50 lakhs. Thus the total value of obsolete and redundant stores in respect of these aircraft came to Rs. 117.58 lakhs against which the Corporation had provided an obsolescence reserve of Rs. 76.74 lakhs for all types of aircraft including the Viscount and the Sky-master. The General Manager, I.A.C., informed the Committee in evidence that a list of surplus stores had been prepared and circulated to the Air Force, the Navy and certain private operators. The Corporation expected to sell in this manner stores worth one lakh of rupees. The balance would be disposed of as scrap. In

extenuation of the reasons for the accumulations it was urged that the stores were acquired by the private Airlines before the I.A.C. was formed. Since then the Corporation was engaged in sorting them out and assessing their utility. The Committee feel that the time taken by the Corporation in the disposal of the obsolete spare parts etc. has been rather excessive. They would now urge expedition in this work.

While commenting on the unsatisfactory state of stores and equipment accounts, the P.A.C. (1959-60) had urged upon the Corporation to give serious attention to the work of reconstitution of accounts and regularisation of discrepancies. They regret to ~~serve~~ that the work is still incomplete.

MINISTRY OF FINANCE

REHABILITATION FINANCE ADMINISTRATION

Rehabilitation Finance Administration—Pages 123-124, para 97

10. The Rehabilitation Finance Administration was established in June, 1948 under the Rehabilitation Finance Administration Act, 1948 for the purpose of giving financial assistance on reasonable terms to displaced persons to enable them to settle in business or industry. Under Section 11 of the Act, the funds of the Administration were to be provided by the Central Government and carry interest at 3 per cent per annum.

The Administration was placed in liquidation at the close of business on the 30th June, 1960 and was dissolved on 31st December, 1960. Thereafter, the assets of the Administration vested in the Central Government and the Ministry of Finance have been entrusted with all the powers of the Administration in recovering the loans remaining unpaid.

Out of a sum of Rs. 10.40 crores advanced under Section 11 of the Act by Government as loans to the Administration from time to time, an amount of Rs. 5.12 crores was repaid upto 31st December, 1960. No interest was, however, paid by the Administration to the Government at any time, as a decision was taken by Government in November, 1951 that the payment of interest might be deferred until such time as the Administration showed sufficient profits. The accumulated amount of interest which stood remitted on the dissolution of the Administration amounted to Rs. 2.24 crores.

The Administration during its existence advanced loans to displaced persons of East and West Pakistan, amounting to Rs. 11.22

crores charging interest at 6 per cent. The rate of interest was reduced to 4½ per cent. with effect from 1st April, 1954 upto a loan of Rs. 20,000 with 1 per cent. rebate for timely repayments. As the margin between the lending and borrowing rates of interest was not adequate to cover the administrative expenses, the Administration incurred losses totalling Rs. 78.84 lakhs after setting off the reserve for bad and doubtful debts amounting to Rs. 1.17 crores.

The outstanding balance of loans and interest due from the borrowers as on 31st December, 1960 amounted to Rs. 5.95 crores and Rs. 1.35 crores respectively, which include Rs. 4.04 crores and Rs. 1.24 crores representing overdue amounts of principal and interest respectively.

Explaining the present position regarding realisation of outstanding loans, the representatives of the Ministry of Finance stated in evidence that the total amount including interest, outstanding on 30-11-1962 was about Rs. 6.1 crores—Rs. 1.89 crores in the Western Region and Rs. 4.12 crores in the Eastern region. Out of this a sum of about Rs. 2.5 crores was likely to prove as bad and doubtful debt and therefore the amount expected to be recovered was about Rs. 3.5 crores only. Out of this, about Rs. 1 crore were likely to be realised through adjustment of compensation claims. The total number of cases outstanding at present was 9938 out of which in 3,837 cases the entire loan has been recalled and certificates issued through the collectors for their recovery. However, the collectors had not been able to effect more recoveries because of non-availability of attachable properties etc.

As regards establishment expenditure on the recovery of these loans, the representative of the Ministry stated that the total strength of staff in the Rehabilitation Finance Administration unit as on 30-11-62 was 157 as against 215 on 1-1-1961 when the work of the Administration was taken over by the Ministry of Finance. The total establishment expenditure was about Rs. 51,000 per month whereas the recoveries per month were of the order of Rs. 4.54 lakhs. Asked whether in view of the large expenditure incurred on the realisation of these loans, it was not possible to transfer these loans to the State Governments and entrust them with their recovery, the witness stated that the question of the recovery of these loans was taken up with the Government of West Bengal and Assam etc. but the State Governments did not agree to the proposal unless the doubtful debts were written off. Further the State Governments also might require additional staff for realising these loans and might

ask for reimbursement of expenditure incurred thereon. In view of large number of cases, the collectors might not be able to handle the work with their existing machinery.

The Committee regret to note that, even according to the Ministry's own assessment, out of total loans advanced to the displaced persons by the Rehabilitation Finance Administration amounting to Rs. 11.22 crores, the bad and doubtful debts were likely to be of the order of Rs. 2.5 crores or 22% of the total loans advanced. It is apparent from the high percentage of doubtful debts that the handling of loans by the R.F.A. had not been satisfactory. The Public Accounts Committee (1958-59) in their 18th Report had examined in some detail various irregularities committed by the Administration in the grant of these loans and their recovery. The Audit Report on the Accounts of the Administration for the years 1958 and 1959 also, considered by the present Committee, did not indicate any improvement in its working. They came across several cases in which the officials of the Administration failed to make proper verification of the guarantees etc. resulting in loans having been advanced against the security of fictitious guarantors. In one case a loan of Rs. 20,000 was sanctioned to a loanee even without taking any security or guarantee. The administration also failed to take up recovery proceedings immediately after the borrowers had defaulted to pay the due instalments of principal and interest. These irregularities present a dismal picture of the manner in which the Administration was conducting its affairs resulting in avoidable loss of public money.

The Committee also observe that even after entrusting the work of recovering the outstanding loans to the Ministry of Finance, the total recoveries of both principal and interest had been only about Rs. 1.2 crores during the period of nearly two years. They are not satisfied with the progress made in this regard especially in view of the fact that most of these loans are now overdue. In view of the fact that the establishment charges incurred on the realisation of these loans come to nearly 10% of the recoveries, the Committee would urge that vigorous and effective steps should be taken to expedite the recovery of outstanding loans.

The Committee also desire that with a view to ensuring an economical working of the Rehabilitation Finance Administration Unit, its establishment charges should be periodically reviewed in the light of the outstanding cases, and suitable economies effected.

III

GOVERNMENT COMPANIES

Pages 124-125, para 98 of Audit Report (Civil), 1962

11. There were 43 Central Government Companies on the 31st March, 1961 under the administrative control of ten Ministries. Financial position of these companies, as on 31st March, 1961 is given at Annexure B of the Audit Report (Civil), 1962, at page 126. Out of the 43 Companies, 31 are fully owned by the Central Government and the remaining 12 are owned in conjunction with State Governments and private parties. The total paid up capital of the companies on the 31st March, 1961 was Rs. 536·94 crores of which the Central Government contributed Rs. 530·37 crores. The balance of Rs. 6·57 crores was contributed by State Governments and private parties.

Some of these companies have also raised long term loans at varied rates of interests, mainly from the Government of India. The loans as on the 31st March, 1961 totalled Rs. 372·28 crores raised by 24 companies.

The Government of India in June, 1961, prescribed that all Government Companies should maintain a ratio of 50 : 50 between equity capital and loans.

In addition to making investment in the form of equity capital and grant of loans the Government have also—

- (i) granted moratorium to the payment of interest on loan upto 31st March, 1962 in the case of Hindustan Steel;
- (ii) granted annual subsidies to meet their operational deficits in the case of Hindustan Shipyard Ltd., Indian Handicrafts Development Corporation Ltd. and National Industrial Development Corporation Ltd.; and
- (iii) guaranteed loans amounting to Rs. 20·17 crores raised by 7 companies.

26 companies (paid up Capital Rs. 147·94 crores) earned profits amounting to Rs. 9·89 crores while 17 companies (paid up capital Rs. 389 crores) showed a total loss of Rs. 3·56 crores. The total capital employed in 43 companies was Rs. 920·42 crores and the total

return for the year was Rs. 8.52 crores. The return includes not only the net profits and losses but also interest paid or provided for by the concerns on loans given to them by Government or raised elsewhere except in certain cases. This gives a yield of 0.93 per cent on the capital employed.

The Committee now proceed to deal with some of the individual Government Companies in the subsequent paragraphs.

MINISTRY OF TRANSPORT & COMMUNICATIONS

HINDUSTAN SHIPYARD LIMITED

Pages 134—138, Para 99 of Audit Report (Civil), 1962

12. The construction of the Shipyards at Visakhapatnam was originally started by Scindia Steam Navigation Company Limited in 1941. The construction of ocean going ships commenced from 1946. On 21st January 1952, a Private Limited Company known as Hindustan Shipyards Limited was registered. On the 31st March, 1961 the paid up capital of the Company was Rs. 559.67 lakhs out of which the share of Messrs. Scindia Steam Navigation Company Limited was Rs. 104.25 lakhs. This share was acquired by the Government of India for Rs. 80.38 lakhs. The Government of India also granted loans and advances to the extent of Rs. 21.26 lakhs on account of (i) Dry Dock Project; (ii) Yard Development Scheme.

Financial Results

Apart from the Government investment of Rs. 455.42 lakhs towards share capital of the Company, the Government of India have paid Rs. 509.18 lakhs as subsidy to the Shipyards on account of the difference between the sale price and their own cost.

In respect of works undertaken for which no subsidy is payable by the Government, the Company had upto 31st March, 1961, incurred an accumulated loss of Rs. 8.49 lakhs.

The following table indicates the performance of the Company during the past five years:—

Year	Subsidy	Net Profit/ Loss
	(Rupees in lakhs)	
1956-57	62	(—)3.69
1957-58	97	(—)4.75
1958-59	45	(—)0.05
1959-60	115	(+)0.69
1960-61	54	(+)0.64

The position of continuous losses incurred by the Company was examined by the Public Accounts Committee (1958-59) in their 18th Report. They had desired that early measures should be taken up to reduce over-heads and step-up production. In the subsequent year the Committee were informed of the action taken in this regard, and they decided to watch the results through subsequent audit reports. (cf. para 83 of 25th Report). From the table set forth above, the Committee note that the Shipyard had started earning profits since 1959-60. While they welcome this change, the Committee feel that the performance of the Shipyard still leaves much to be desired, as the profit during 1960-61 works out to only 0.2% of the total capital employed on the undertaking. Further, the fact that the construction of ships is still being subsidised by Government indicates that the Shipyard has not yet become fully self-supporting, total subsidy paid upto 31st March, 1961 being Rs. 509.18 lakhs. The Committee trust that no effort will be spared in planning and organisation with a view to improving the working of the Shipyard.

(ii) *Construction of Ships*

13. The Shipyard had a capacity of 15-18 thousand D.W.T. upto August 1960, which was further raised to 25-30 D.W.T. The Second Five Year Plan envisaged the construction of 1 lakh D.W.T. of which the keel of six ships was laid during the First Five Year Plan. Against this target, the Shipyard had delivered 11 ocean going ships of 68,600 D.W.T. in addition to one Survey Vessel one Tug and one Steam Launch of approximately 700 D.W.T. Seven ships were under construction on 31st March, 1961. The foreign exchange content in each ship construction was about 53 per cent. of the total cost. The progress of construction was, therefore, dependent upon the availability of essential imported machinery and materials. The Shipyard had not been able in the past to adhere to the original scheduled delivery dates. According to the Audit para the construction and delivery of eight ships was delayed for various periods ranging from eight to twenty months. As a result of these delays the Shipyard had to agree to special payment facilities being given to purchasers. During the course of evidence the Committee were informed that the principal items in the construction of ships which required foreign exchange were (i) engines and (ii) steel plates. It was hoped that steel plates would now be available within the country. It was also proposed to set up a marine engine manufacturing plant in India. In the opinion of the Committee, strict adherence to the time schedule is of prime importance in a commercial organisation like

the Shipyard specially in the background of the general shortage of Indian ships. Any complacency shown in this regard was bound to have an adverse effect on the prospective purchasers. The Committee would like to be informed of the progress made from year to year in reducing the foreign exchange ^{expend} ~~ement~~ in the construction of ships.

The Committee had desired to be furnished with a note stating the installed capacity of the Shipyard and the extent to which it was being utilised. The Committee regret to observe that the information is still awaited.

(iii) Pricing Policy

14. The Government prescribed in 1953 that the Shipyard should quote price of a ship related to U.K. cost of a similar ship. Simultaneously the Shipyard was required to supply the Government an estimate of its own cost. The difference between the U.K. parity price and the estimated cost of construction of a ship in the Shipyard was to be the maximum subsidy payable by the Government. In actual practice, however, the cost of construction of a ship in U.K. as ascertained by the Shipyard was disputed by the purchasers and the actual sale price was decided by negotiations by the Pricing Committee of the Shipyard with the purchasers, who always managed to get a lower quotation than that originally obtained by the Shipyard. Thus Government had to pay a higher amount of subsidy viz. the difference between the price as settled between the purchaser and the Shipyard and the actual cost of construction. In evidence, the Director-General, Shipping informed the Committee that the price of a similar ship constructed in U.K. (Germany and Japan in the case of later types of ships) formed the basis for negotiations. The actual price however depended on the position of demand and supply. **The Committee feel that the existing procedure is far from being satisfactory.** As the entire extra margin between the sale price and the actual cost of production is paid by the Government as subsidy (total subsidy paid upto 31st March, 1961 being Rs. 509.18 lakhs), there is little incentive left with the Shipyard either to obtain a higher price for the ships or to reduce the cost of construction. They were informed in the course of evidence that a formula in consultation with the ship-owners was being devised which would provide incentive to the Shipyard to reduce the cost of construction. **The Committee would urge that the matter may be expedited, as it is long overdue.**

MINISTRY OF STEEL & HEAVY INDUSTRIES

(Department of Heavy Industries)

FERTILIZER CORPORATION OF INDIA LTD.

(Sindri Unit)

15. The Sindri Fertilizers and Chemicals Ltd., a Government owned Company was set up on 16th January, 1952. Prior to the formation of this Company, the project was managed by the Government of India, Ministry of Production from 1947 to 1951. The net assets transferred to the Company were valued at Rs. 2,449.57 lakhs out of which Rs. 1,700 lakhs were treated as paid up capital and the balance of Rs. 749.57 lakhs as loan bearing interest at the rate of 4½% per annum. Since then, further loans have been given to the Corporation by Government and the net amount of secured and unsecured loans advanced by Government on the 31st March 1961 was Rs. 1,094.93 lakhs.

Upto December 1960, the Sindri Fertilizers and Chemicals Ltd. functioned as an independent Company. On 1st January, 1961 it was dissolved and amalgamated with the Hindustan Chemicals and Fertilizers Limited and thereafter became a constituent unit of the Fertilizer Corporation of India Limited.

The main business of the Sindri Unit is the production of chemical fertilizers, viz. ammonium sulphate, ammonium sulphate nitrate (also called double salt) and urea. It also produces coke required for the process of manufacture of fertilizers. Of these, ammonium sulphate is the most important.

Ammonium Sulphate—Targets and Actual Production—pages 138-39, para 100(II) (a)

16. The guaranteed capacity for the ammonium sulphate plant is 3,50,000 long tons per annum. However, the actual production during the 9 years ending 1960-61 indicated that although 95% of the rated capacity was achieved in 1956-57 and this percentage was more or less maintained until 1958-59, there was a sharp fall in production in 1959-60, when it went down to 81.3% of the rated capacity. It recovered only slightly in the following year (85.83%). The following table gives the position in this regard:—

Year	Production in long tons	Percentage of rated capacity
1	2	3
1953-53	2,19,340	62.7
1953-54	2,49,953	71.4

1	2	3
1954-55	2,99,983	85.7
1955-56	3,26,062	93.2
1956-57	3,33,706	95.06
1957-58	3,32,031	94.9
1958-59	3,30,122	94.3
1959-60	2,85,248*	81.3
1960-61	3,00,395	85.83

(*This includes 45,000 tons of ammonium sulphate from ammonia which was diverted from going to the Ammonium Sulphate Nitrate Plant).

The Committee were informed during evidence that two main difficulties in achieving the rated capacity was non-availability of proper type of coal and gypsum. It was with great difficulty that the Corporation was getting supplies of Dishergarh Coal. Lately, the mine which had been supplying this type of coal had been declared to be unsafe by the Chief Mining Inspector and might be closed shortly. Experiments were being made with other types of coal, to keep up the production targets. The gypsum available was also only about 85% pure whereas the plant was designed to use 91-93% purity gypsum available (from sources now in Pakistan). Steps were being taken to exploit two good reserves of gypsum at Manglod and at Mohangarh. As regards sharp shortfall in production in 1959-60, the representative of the Ministry admitted that the main reason was utilisation of all the gas generators during 1956-58, without providing for any stand-by unit as prescribed by the manufacturers which resulted in serious break-down due to inadequate maintenance of the gas plant. Steps had been taken to improve the position and the old plant had been brought back to normalcy. In 1961-62 the production of ammonia was 89,375 m. tons as against 84,194 m. tons in 1960-61 and 73,797 m. tons in 1959-60.

The Committee observe that although the production during the years 1960-61 and 1961-62 has shown some improvement over the low production during 1959-60, it is still far from satisfactory. In pursuance of their earlier recommendation in paras 27-28 of the 25th Report (1959-60) the Committee were informed that the fall in production had been engaging the earnest attention of the Company and the Government. They trust that effective measures would be taken by the Corporation to ensure that the rated capacity of the plant is achieved early.

The Committee would also invite attention in this connection to the recommendation of the Tariff Commission in December 1959 that Government should ask the Coal Controller to take immediate steps to make available to Sindri Fertilizers and Chemicals Limited such grades of coal as would enable it to obtain the right blend for its coke production regularly and in adequate quantities from nearby collieries. They desire that the matter should be pursued with the Coal Controller.

Cost of Production—pages 141-142, para 100 (III) (b)

17. While the landed cost of imported ammonium sulphate is going down from year to year, the cost of production of ammonium sulphate at Sindri has been going up and had increased from Rs. 226.50 per long ton in 1957-58 to Rs. 280.96 (approx.) in 1960-61, as would be evident from the figures given below:—

Year	Cost of Production	Unit Average		—Long tons— landed cost
		Rs.	Rs.	
1957-58	226.50	219	CIF	USSR
		302	C&F	Italy
		307	C&F	W. Germany
1958-59	234.57	247	C&F	Italy
		252	C&F	Japan
1959-60	272.60	202	C&F	Italy & W. Germany
		205	CIF	USSR
		229	C&F	Japan
1960-61	280.96 (approx.)	217	(Average cost per m. ton)	

Along with the increase in the cost, the retention price has also gone up from Rs. 270 per ton in December 1956 to Rs. 300 per ton. In December 1959, the Tariff Commission recommended retention price of Rs. 282 per long ton for period of three years, i.e., for 1959-60, 1960-61 and 1961-62. In October 1960, the management represented that as the estimated output at Sindri during 1959-62 was not likely to be more than 285,000 tons per year as against 320,000 tons assumed by the Commission and as considerable difficulties were being encountered in connection with production of urea and ammonium sulphate nitrate from the new plants, the rates should be revised. The Tariff Commission re-examined the matter in

November 1960 and recommended the retention price of Rs. 300 per long ton from 1st April 1959 for three years.

Explaining the reasons for higher cost of production of ammonium sulphate as compared with that in other countries, the representative of the Ministry stated in evidence that comparison of the cost of production in India and other countries should be viewed in the light of various factors such as raw materials, manufacturing processes and plant size etc. Although formerly the indigenous cost of production compared favourably with that in other countries, the cost of production had gone down in other countries as the industry had switched over from coal to oil. Further in most of the countries the fertilizer industry was a part of complex chemical industry with the result that after taking into consideration various by-products the cost of main products was low. Quite often the export of fertilizer was also subsidised by other countries.

As regards steps taken to bring down the cost of production, the representative of the Ministry stated that it was proposed to convert these fertilizers factories as complex chemical factories to obtain more by-products. It was also proposed to switch over part of the production of ammonium sulphate by direct neutralisation of ammonia with sulphate with a view to reducing the cost of production in the long run. The Planning and Development Wing at Sindri was engaged in research work for achieving economy in the use of raw materials and avoiding wastes in various processes, etc.

The Committee also learnt that despite high cost of production of fertilizers at Sindri, the price payable by the cultivators was higher still. The entire production of ammonium sulphate in the factory was being distributed through the Central Fertilizer Pool administered by the Ministry of Food and Agriculture. The factory was allowed a retention price as fixed from time to time by the Tariff Commission which generally included 10% return on total capital employed. The Pool issue price was fixed by the Fertilizers Pool taking into account the purchase price of indigenous products from various units and of imported material including various other expenses. The Committee were informed by Audit that the pool's average price was about Rs. 60/- per ton more than the retention price allowed to the factory. In addition, the State Governments, through whom the fertilizers were distributed to the consumers, were also allowed some margin for meeting various expenses. The Committee, therefore, desired to be furnished with a note showing the (a) actual cost of production, (b) price charged from consumers, (c) details about the difference between (a) and (b). This note is still awaited.

The Committee need hardly emphasise the imperative need of extensive use of fertilisers to step up the out-put of food and commercial crops. In order to attract the agriculturists, it is necessary that the final price of fertilizers payable by the consumers should be kept as low as possible by effecting economies both in the cost of production and in the expenses incurred by various intermediary agencies. (In this connection attention is invited to paras 27—30 and 39—42 of the 120th Report of the Estimates Committee—(1960-61).

Ammonium Sulphate Nitrate (Double Salt) and Urea—pages 139-40 and 142, para 100-II (b) and III (c)

18. Apart from Coke, the Coke Oven Plant produced 10 million cft. of gas per day. In order fully to utilise this gas for the production of different types of fertilizers, a lump sum contract for Rs. 7.02 crores was entered into by the Sindri Unit in January 1955 with an Italian firm for the supply and complete erection of (i) nitric acid plant, (ii) ammonium sulphate nitrate plant, (iii) gass reforming plant and (iv) urea plant. These plants were completed on 18th October 1958 and taken over by the Sindri Unit on 28th September 1959. There was delay of 11 months and 17 days in setting up of the plants by the contractors. The penalty assessed for delay in erection and commissioning of the plants, was Rs. 34.73 lakhs but the Company could recover Rs. 19.50 lakhs only as part of the delay was caused by the Suez Crisis, and certain other factors for which the contractors could not be held liable.

According to the terms of the contract the daily out-put of the ammonium nitrate and urea plants was to be 400 and 70 long tons respectively. The rated capacity and the actual production of these two types of fertilizers are as follows:—

Name of the Plant	Rated Annual out-put (Long tons)	Actual production from Oct., 1959 to Sept. 1960 (Long tons)	Actual production from Oct., 1960 to Sept. 1961 (Long tons)
Ammonium Sulphate Nitrate	1,38,000	29,188	46,081
Urea	24,150	6,626	12,759

The shortfall in production was stated to be due to the unsatisfactory performance of the foreign collaborators, lack of sufficient small size coke and Dishergarh coal and defect in the plants. At the time of the guarantee test the contractors could achieve the average production of only 342 long tons of ammonium sulphate nitrate per day against the guaranteed capacity of 400 long tons. Although for this failure a penalty of Rs. 4.87 lakhs was recovered from the contractors as per the terms of the contract, this will not adequately compensate the Company for the recurring loss on account of the lower productive capacity of the plant. It had been stated that steps were being taken to remedy the other deficiencies as far as possible and to increase production. During the period from October 1960 to September 1961, the actual production had, however, been on an average about 50% of the rated capacity.

The retention price fixed for ammonium sulphate nitrate and urea as against their landed cost was as follows:—

	Cost of Production				Units long tons			
	1959-60		1960-61		Landed cost of imported items		Retention price	
					1959-60		1960-61	
	(Oct. 59 to Mar. 60)	(April 60 to Mar. 61)	(April 61 to Oct. 61)					
	Rs. nP.	Rs. nP.	Rs. nP.	Rs. nP.	Rs. nP.	Rs. nP.	Rs. nP.	Rs. nP.
Ammonium Sulphate Nitrate	484.56 (p. tonne)	414.55 (p. tonne)	394.82 (p. tonne)	293.00 (p. long ton)	279.00 (m. ton)	400.00 (p. long ton)	400.32 (Rs. 394 per M. tonne)	
Urea	664.76 (p. tonne)	501.41 (p. tonne)	515.42 (p. tonne)	468.00 (p. long ton)	479.00 (m. ton)	650.00 (p. long ton)	656.37 (Rs. 646 per M. ton)	

The Committee were informed during evidence that with the provision of some additional stand-by equipment costing about Rs. 38 lakhs, it would be possible to achieve total production of 60,000 tons of ammonia (equivalent to about 45,750 tons of nitrogen) from the ammonium sulphate nitrate plant which would be about 10% less than the estimated production. It was explained by the witness that the assumed stream efficiency—which meant the total period during the year when the plant could operate at full capacity—was never guaranteed by the suppliers and as against the original expectations of 345 days' stream efficiency it would be possible to

achieve the stream efficiency of 322 days only. As regards the total cost of the plant it was stated that after adjustment of the claims of the Company and counter claims of the contractors for price variation total cost would be about Rs. 8.94 crores.

The Committee were also informed that although the execution of work was defective in this case the consultants and suppliers of the plant were internationally reputed firms having long experience in the line. They were no longer collaborators for the Corporation.

Explaining the reasons for the high cost of production of urea the witness stated that it was because of low production at the factory. When pointed out that the retention price of urea was much higher than even the cost of production, it was explained that the retention price was fixed on an *ad hoc* basis taking into consideration the production at the factory. It was, however, agreed that as the cost of production had now come down, the matter required review.

The Committee are surprised to note that despite an additional expenditure of over Rs. 1 crore the actual production capacity of the plant would still be about 10% less than the original targets. They trust that all out efforts would be made to attain the optimum capacity of the plant soon. The Committee are also of the view that constant and vigorous efforts are necessary to reduce the costs of production so that these are less than the landed costs of the imported items.

The Committee also desire that the question of reducing the retention price of urea should be reviewed without any further delay.

Cost of Production of Coke, pages 140-141, para 100-III(a)

19. To effect economy in the cost of production of fertilizers by getting cheaper coke and to conserve metallurgical coal by using 100% low grade coal, a coke oven plant was installed at Sindri in September 1954. According to audit the cost of production had, however, always been more than the controlled price. Besides, the cost had increased disproportionately as compared with the controlled price.

The Committee were given to understand that at the instance of the Public Accounts Committee (1960-61) the Ministry has submitted a Draft Note regarding the Cost of Production of Coke and the same is under examination by the Audit in consultation with the Ministry. The Committee, would, therefore, reserve their comments in the matter.

Financial Results—page 143, para 100—V

20. During 1959-60, the net profit of the Company, before appropriation, was only Rs. 25.5 lakhs. However, a sum of Rs. 147 lakhs was transferred from the General Reserve leaving a balance there of only Rs. 17 lakhs. This amount was utilised for the following purposes:—

- (a) Rs. 25.7 lakhs for writing down the value of coke overstated in the previous year's accounts;
- (b) Rs. 53.3 lakhs for transfer to the Development Rebate Reserve; and
- (c) Rs. 68 lakhs for payment of dividend.

According to Audit, considering the financial position of the Company, the wisdom of the transfer of Rs. 68 lakhs for purpose of payment of dividend was rather doubtful

The representative of the Ministry stated during the course of evidence that the Sindri being an entirely public undertaking, it was only a matter of accounting as the dividend declared was also credited to Government account. It was, however, pointed out by the Comptroller & Auditor General that the object of creating a general reserve fund was to provide funds for depreciation, obsolescence and development purposes. This object was defeated in case the funds were diverted for paying dividends as the Company would have to seek funds from Government even for normal development purposes. The witness assured the Committee that if there was objection from the Audit to declaring dividend in such a manner it would not be repeated in future.

The Committee agree with the views of the Comptroller & Auditor General in this regard and recommend that the practice of declaring dividend from the general reserve fund in similar circumstances should be discontinued forthwith. (In this connection attention is also invited to para 24 of the 120th Report of the Estimates Committee—1960-61).

*Loss due to increased percentage of breeze in the coke produced—
pages 143-44, para 100—VI(a)*

21. Because of wrong designing of the coke oven plant, the coke from the coke oven plant which was initially crushed to 40-100mm size had to be crushed a second time and screened to 16-75mm size for feeding the gas generators. As a result of double crushing 2,56,339 tonnes of coke breeze was formed between 1st September

1954 to 31st March 1961 which is equal to 25.28% of the entire coke fed into the gas generators as against 6% which was considered to be reasonable at the time of test runs. The excess coke breeze of 1,95,491 tonnes upto 31st March 1961 (which is burnt in the boilers as the equivalent of Grade H coal) resulted in the total loss of Rs. 61.43 lakhs.

The Committee were informed that the mistake was due to lack of experience in designing the coke oven plant. However, the system of coal handling had been completely changed and double crushing had been given up. To overcome such difficulties, an order had also been placed for new plants.

The Committee regret to note that the Company had been put to a heavy loss due to lack of proper planning and defective designing of the plant. They desire that the matter should be reviewed with a view to fixing the responsibility for the defective designing of the plant.

Infructuous expenditure on the purchase of coke oven using stamping process, page 144, para 100-V¹(b)

22. To conserve the limited resources of metallurgical coal the coke oven plant was designed to operate on the stamping process using low grade Dishbarrh coal and to resort to top charging process only in emergencies. The plant was purchased at Rs. 235 lakhs (in preference to the plant to be operated on top charging method costing Rs. 191 lakhs approximately) and was commissioned in September 1954.

During the guarantee test conducted in January 1955 by the contractors on stamping process, they were able to operate 81-83 ovens per day with one machine as against the maximum of 90 ovens per day. The operating personnel of the Company were, however, unable to operate more than 50-65 ovens per day and another stamping machine-cum-ram car had to be provided in 1956 at a cost of Rs. 14.48 lakhs to keep up the level of production. The production of coke by stamping process was, however, done on 168 days out of 912 days between January 1955 to June 1957 after which it was abandoned as the coke produced was not found suitable for proper gas production in the Gas Plant.

The representative of the Ministry stated during evidence that the stamping process could be more economical while using lower grade of coal. It was apprehended that the type of coal which was available to the factory at present might not be available in future as the mine from which the factory was getting its supplies was

likely to be closed for safety reasons. In that case, with the availability of only lower grade of coal, the machine might have to be put to use.

It is apparent that before installing the coke oven plant the question of the quality of coke needed for proper gas production did not receive due attention of the management. The Committee would also like to point out that as the use of inferior grade of coal adversely affects the production of ammonium sulphate, the prospects of utilising the machine in future appear to be limited. As such, the extra expenditure of Rs. 44 lakhs incurred in the initial procurement of the coke oven plant and Rs. 7.24 lakhs (approx.) representing 50% of the cost of the second stamping machine-cum-ram car which would be now put to restricted uses has proved infructuous.

MINISTRY OF COMMERCE & INDUSTRY

HINDUSTAN ANTIBIOTICS LIMITED—PIMPRI

Introductory. page 145, para 101

23. The Government of India entered into a tripartite agreement with WHO and UNICEF in 1951 for production of Penicillin at Pimpri with an initial capacity of 3.6 million mega units rising to 9 million mega units per annum, with 6 fermentation tanks of 5 thousand gallons capacity each. The value of machinery supplied by these two bodies amounts to Rs. 42 lakhs. The control and management of the Penicillin Factory was transferred to the Government company, Hindustan Antibiotics Ltd., incorporated on 30th March, 1954 with an authorised capital of Rs. 4 crores. The paid up capital of the Company as on 31st March, 1961 was Rs. 247.26 lakhs. The Company obtained a loan of Rs. 70 lakhs in 1955-56 from the Government of India which was repaid by 31st March, 1960.

The summarised financial result of the undertaking for 1960-61 is as under :—

(Figures in Thousands)					
Date of incorporation	Paid up Capital	Loans	Free Reserves (as on 31-3-60)	Total Capital Employed	Block Assets (Net)
1	2	3	4	5	6
	Rs.	Rs.	Rs.	Rs.	Rs.
30-3-1954	247.26	..	1,90.49	4,37.75	1,95.10

Depreciation	Profit	Interest on loans	Total Return	Percentage of total return on capital employed	Remarks
7	8	9	10	11	12
Rs.	Rs.	Rs.	Rs.	Rs.	
82,20	*1,46,24	..	1,46, 4	33.4	*Includes Development Rebate Reserve Rs. 2,00 and provision for taxation Rs. 65,00.

Production, page 145, para 101(a)

Penicillin--The factory, after some trial operations commencing from March, 1955, went into regular production from August, 1955 with ten fermenters of 5,000 gallons capacity each instead of six as originally stipulated. Subsequently, the capacity was further increased by the addition of six similar fermenters in 1959.

In 1951 when the scheme was envisaged it was stated in the Project estimate that the final yield of penicillin would be 1,000 units per millilitre. The Expert Committee of Scientists appointed by the Government of India in their report submitted in December, 1956 stated that the production capacity of the plant in 1956-57 when there were 10 fermenters should be taken in the neighbourhood of 30 million mega units. Since the factory has now 16 fermenters, the production capacity should on that basis be equal to 48 million mega units without taking into account any further technological advance that may have been made since the Expert Committee reported. The actual production during 1960-61 was, however, 40.24 million mega units.

The Company has also been importing first crystals for the last three years as shown below:—

1958-59	9.1 m.m.u.
1959-60	6.8 m.m.u.
1960-61	11.2 m.m.u.

The entire quantity of imported crystals is processed into final penicillin at the Pimpri Factory.

The Committee desired to know as to why the production of penicillin by the Hindustan Antibiotics Ltd., at Pimpri was low. The Managing Director of the factory stated that right from the time the factory went into production viz., from 1955-56 the production had

been exceeding the targets. In the beginning there were 6 fermenters and now there were 16 fermenters and it had also been possible to improve upon the quality of the micro-organism which was used in the first stage fermentation. The Comptroller and Auditor-General, however, intervened to say that according to the Report of the Expert Committee of Scientists presided over by Colonel Ram Nath Chopra, the targets should have been much higher than what they were fixed. The witness stated that the actual production depended upon the capacity of the strain or of the micro-organism. There were strains outside India which yielded 10,000 units whereas in Pimpri, originally, the capacity of the strain was only about 1,000 to 1,500. According to the Managing Director, the figure of 30 million mega units envisaged by the Expert Committee in 1956 could have been achieved only with a strain which could yield 4,000 units and not with a strain yielding about 1,500 units. But now at Pimpri they were producing a strain which had a yield of 6,500 units and on that basis they could go upto 8,000 units. It was further stated that there had been a series of changes in the strains and the latest of the strains called HA-10 was in use from March, 1962. The present production, as against the 48 million mega units expected was 50 million mega units. The Factory would make efforts to reach the strain yielding 10,000 units but it was not easy to put a time-limit on research work. The Pimpri factory stood second in comparison with other such firms in the world with regard to the yield of strains. **The Committee feel that with the increase in the yield between, 6,000—8,000 units per millilitre, the total target should increase correspondingly (to about 80 to 96 million mega units).**

To a question as to whether higher production could not be achieved earlier because of bad administration at the factory in the past, the Secretary of the Ministry of Commerce and Industry replied that there was nothing seriously wrong with the administration as such, whatever other defects there might have been. In this connection the following extract from paragraph 20 of the Report of the third meeting of the Expert Committee of Scientists held at Pimpri on 12th, 13th and 14th November, 1956, was then brought to the notice of the Secretary for the comments of Government thereon:—

“The working of the plant since the Committee met last has brought out clearly the directions in which the control and the functioning of the plant requires to be tightened up. The Plant is not in a healthy state at present technically, administratively and financially. The penicillin products being produced do not comply with even the minimum requirements of quality laid

down in the Indian Pharmacopoeia, the total production is not even one-tenth of the rated capacity of the Plant and the Plant is heavily overstaffed leading to high overhead charges beyond the capacity of the Plant to bear."

The Secretary informed the Committee that the recommendations of the Expert Committee were brought to the notice of the Government who instructed the management of the factory to do its best to remove the defects pointed out by the Expert Committee. He added that as a result thereof considerable improvement had been achieved. **The Committee would like to have a detailed note indicating *inter alia* the concrete steps taken by the Management to improve the quality of the products as also to tone up the organisation 'technically, administratively and financially' so that it could be of maximum benefit to the people.**

Cost of production of Penicillin. page 146

24. (a) *First Crystals*.—The cost of production of first crystals which require one or more crystallisation processes for final use as finished products has gone down from 19 nP in 1958-59, 17 nP in 1959-60 to 15 nP in 1960-61 per m.u. The reduction has been attributed to increased production and overall control of cost. Against this the prices of imported crystals were 16 nP in 1958-59, 14 nP in 1959-60 and 9 nP in 1960-61 per m.u.

(b) *Bulk Penicillin*.—The cost of such Penicillin produced by the factory is 21·14 nP per mega unit while the imported price of the products is only 12 nP per mega unit. It has been stated by the Ministry that the imported price is considerably lower as penicillin is being dumped into India at an uneconomic price. According to the report of the Committee on the Judiciary, United States Senate, appointed to investigate into the price of drugs in that country, the selling price of bulk penicillin of 10 mega unit in June, 1960 was 21 cents. On that basis the sale price of the drug in U.S.A. would be 10 nP per mega unit and this price includes a large element of net profit after taxes (approximate 10 per cent).

In reply to a question, the Secretary of the Ministry of Commerce and Industry stated that it was not correct to say that on account of heavy overhead charges the prices at this factory were five times higher than in U.S.A. He, however, accepted that the cost of production at Pimpri was higher than the cost of production in U.S.A. But according to the present information, the cost of production in U.S.A. was 15 nP as against 18 nP in Pimpri. Enquired about the relative competitive position of this factory and private enterprise, the Managing Director of the Factory stated that the cost of production at Pimpri had steadily gone down from 27·5 nP per mega unit in 1958-59 to about 19 nP in 1961-62. The same was true of vialling costs

which had also gone down from 24 nP to 18 nP in three successive years. Although the figures of the cost of production of private enterprise were not available, there was no doubt that prices at Pimpri would compare favourably with theirs.

While noting that progressive reduction has been achieved in the cost of first crystals at Pimpri due to increase of production and overall control of cost, the Committee would like to observe that the cost of production of first crystals as well as bulk penicillin was still considerably higher in 1960-61 when compared to the prices of imported products. The Committee hope that steps would be taken by Government to reduce the cost of production further both in the case of first crystals and bulk penicillin.

Pricing Policy, page 147

25. The cost price and the sale price for some units of production of the Factory are as follows:—

Sl. No.	Quantity	Production cost	Bottling cost	Total cost	Sale price
		Rs. nP.	Rs. nP.	Rs. nP.	Rs. nP.
1	1 mega unit bulk penicillin	21.14	..	21.14	50
2	2 lac unit (1/5 of M.U.)	5.00	18	23	42
3	5 lac Unit (1/2 M.U.)	10.00	18	28	61
4	Streptomycin bulk 1 gram	14.9	18	32.9	58

The Company allows a discount on the selling price to Government, semi-Government and to charitable hospitals and institutions. The rate of discount has been increased from 5 per cent to 10 per cent from the 1st April, 1959 and to 15 per cent from the 1st May, 1960. It has been stated by the management that it is their policy to pass on the benefits of economies and savings effected in the cost of production to the ultimate consumers, while at the same time, earning a reasonable and fair return on their capital so as to retain sufficient funds for future expansion and development. The policy followed by the Company in fixing its prices has an important effect on profits of private importers.

To meet the country's demand, private parties have also been permitted to import bulk penicillin for bottling and sale in India. As the market price of this imported penicillin is fixed with reference

to the sale price of the Hindustan Antibiotics Ltd., the higher the latter, the greater the profit of importers (cost price 12 nP per mega unit plus 18 nP approximate bottling cost is equal to 30 nP). From the information available, it appears that import licence to the extent of Rs. 1 crore has been allowed to private bottlers during 1958—61.

When asked about the percentage of profit earned on bulk sale by the Factory, the Managing Director of the Factory stated that it was 32 nP per mega unit (selling price 50 nP and cost of production 18 nP). It was further stated that the price was fixed after Government approval and a very handsome rebate was given in respect of supplies to hospitals and charitable institutions. It was stated in reply to a question that if penicillin was sold at a lower price, it would not really benefit anybody except the middleman in the private sector who did the vialling, and the doctors. The profit at present earned really went to the Exchequer. With regard to controlling the prices of penicillin imported in bulk, the witness stated that the quantum of imports was decided after taking into consideration the expected production in the Factory during the next twelve months and in consultation with the Ministry of Health. The private parties were allowed to import one part against every two parts purchased by them from the Hindustan Antibiotics Ltd., which meant that their pooled price for the quantities bottled came to 32 nP or 34 nP. The vial prices for various units were all fixed by the Company in consultation with bottlers so that they could not make an excessive profit on the whole. The Committee, however, desired to have a note from the Ministry of Commerce and Industry giving the present pricing policy regarding penicillin indicating (i) the cost of production which should separately show the contributing factors: (a) the cost of vials, (b) the cost of raw material, (c) wages and (d) overheads; (ii) the element of profit; (iii) the quantity allowed to be imported during each of the last three financial years, the price at which they were imported and the profit made thereon. The note is still awaited. (February, 1963).

The Committee are not happy with the present pricing policy of the Hindustan Antibiotics Ltd., Pimpri. In this connection, it would be worthwhile to mention the following observation of the Committee on the Judiciary, U.S. Senate, appointed to investigate the price of drugs in that country.

"...in drugs generally, India ranks amongst the highest priced nations of the world—a case of inverse relationship between the per capita income and the level of drug prices."

If such an anomalous position is to be rectified, it could be done in the opinion of this Committee, by making available to the people

drugs and medicines at the lowest economic price. The Committee are unable to accept the contention that if prices of penicillin are reduced, the profit will go to middlemen in the private sector. They are sure that if armed with sufficient powers to check profiteering in drugs, the Government exercised their powers properly and sought the co-operation of the medical profession, the benefit of cheaper drugs could certainly be extended to the poorest section of the people. The Committee are of the view that such a wide margin of profit as indicated by the figures quoted above is not justified in the case of such commonly used and essential drugs as penicillin. The Committee are of the view that in a welfare state the Undertakings manufacturing drugs and medicines of common use should not be run on profit motive. Their aim should be to render service to the common man by selling their products at the cheapest rate. They therefore suggest that the question of fixing the sale price of penicillin should be referred by Government to the Tariff Commission vide Section 12(d) of the Tariff Commission Act, 1951.

Purchase of indigenous phosphoric^{ic} acid at higher rates, pages 148 and 149

26. Tenders were invited in August, 1960 for the purchase of 41 M. tons of phosphoric acid. Against the lowest quotation of Rs. 70,695 for the imported material, order was placed on 20th September, 1960 for indigenously produced material at Rs. 1,08,650 for delivery at site, i.e., 54 per cent higher than the price of the imported material, though Government had prescribed generally a price preference for indigenous products of 15 per cent. This resulted in an avoidable extra expenditure of Rs. 38,000 approximately.

While admitting that the production which was supposed to be indigenous, contained bulk of raw material which came from abroad, the Secretary, Ministry of Commerce and Industry, stated that the reason for purchasing phosphoric acid produced indigenously at 54 per cent higher than the price of imported material, was that an imported product involved foreign exchange and to avoid that, preference was given to indigenously produced material. In the present case the indigenous producer of phosphoric acid himself had to import the raw material which probably accounted for 60 to 70 per cent of his own cost. Since then, the firm, which was making acid from phosphorous pentoxide, had changed over to the use of white phosphorus as raw material which would reduce the foreign exchange element in the total cost from 77 to about 35 to 40 per cent. Besides, it was a general policy of Government to

encourage setting up of ancillary industries near about places where major production factories were located. This was one such unit set up near Pimpri which was one of the principal government concerns. As such it was considered worthwhile to give it some encouragement particularly in the earlier stages.

The Committee feel that the very purpose of encouraging indigenous production was largely defeated in this case, where a higher tender involving extra expenditure of Rs. 38,000 for the supply of phosphoric acid was, accepted inasmuch as the indigenously manufactured product itself contained imported raw material which formed 60 to 70 per cent. of the total cost. They hope that such cases will not recur.

MINISTRY OF MINES & FUEL

NATIONAL COAL DEVELOPMENT CORPORATION

NATIONAL COAL DEVELOPMENT CORPORATION

Purchase of two walking draglines, pages 149-50, para 102

27. In response to a request from the National Coal Development Corporation, an order was placed by the India Supply Mission, Washington, in April, 1960, on a U.S.A. firm for the supply of two walking draglines at a cost of 34,37,395.00 dollars (Rs. 1.64 crores approximately). These were to be installed at Bistrampur Colliery where they were to be taken by a railway line which was under construction and scheduled to be completed by October, 1960. The purchase was financed from the foreign exchange made available under a U.S. Export-Import Bank credit.

In terms of the contract, the delivery of the first dragline was to be completed by February, 1961 and that of the second by April, 1961. In June, 1960, the National Coal Development Corporation came to know that the railway line to Bistrampur Colliery would not be ready until June, 1961 but they did not advise the India Supply Mission until 5 months later in November, 1960, to withhold shipments. The suppliers agreed to postpone the delivery of the second dragline from April, 1961 to September, 1961 and subsequently upto 7th February, 1962 but they could not agree to the postponement of the shipment of the first dragline as it had already been manufactured (by October, 1960) and was, by that time, on its way to the port of loading. The packages of the first dragline were received at Barbaspore in several consignments (the last of which was received in the middle of October, 1961) and were being stored at a site near the Barbaspore Railway Station, pending the

completion of the railway line to the Birsampur Colliery. The total expenditure on account of storage charges has yet to be determined. The expenditure on account of payment of interest charges to the Export-Import Bank amounted to Rs. 60,880.

It was stated by the Secretary, Ministry of Mines and Fuel, during the course of evidence that the Corporation had initially learnt about the delay in the completion of the railway line only informally. The Corporation, thereupon, sent for the Indian agents of the foreign suppliers and requested them to approach their principals to extend the delivery dates of the two draglines. The local agents promised to do so, but later on regretted their inability to persuade their principals. Subsequently, when the Railways officially informed the Corporation regarding the delay in the completion of said railway line, the Corporation advised the India Supply Mission, Washington to take the question of postponement of the delivery of the two draglines with the suppliers. As the first dragline had already been manufactured and was in the process of shipment, the suppliers expressed their inability to withhold its shipment. They, however, agreed to the postponement of the delivery of the second dragline. The Comptroller and Auditor-General, however, pointed out that according to the minutes of a meeting held between the Railways and the Colliery in June 1960, the delay in the completion of the said railway line was one of the subjects discussed. As such, the knowledge of the Corporation in June, 1960 regarding the delay in the completion of the said railway line could not be said to have been based on informal information. **In the light of this, the Committee find it difficult to accept the above explanation of the Ministry of Mines and Fuel. They feel that, as soon as the Corporation had learnt about the delay in the completion of the Railway line, it should have advised the India Supply Mission, Washington to approach the suppliers for postponement of the shipment of the two draglines. The Committee regret that this failure of the Corporation had resulted in avoidable payment of interest charges amounting to Rs. 60,880 to the Export-Import Bank, in addition to storage charges payable to the Railways.**

Loss of about Rs. 3.70 lakhs due to short-fall of output, page 150 para 103

28. The monthly average production of Bokaro Colliery prior to October, 1959 was one lakh tons approximately. A little over 50 per cent of this production was being utilised by the Coal Washery Plant at Kargali and the balance was being despatched to outside-
~~amounting to Rs. 60,880 to the Export-Import Bank in~~
 to stop all outside despatches of coal from the Colliery and to divert

the entire production to the Coal Washing Plant at Kargali. The Kargali Washery was, however, unable to consume the entire production of the Colliery. As this resulted in accumulation at the pitheads, production in the Colliery was stepped down from 1 lakh tons to 81,000 tons (approximately). In December, 1959, the management again decided to restore the normal production of the Colliery by resuming the outside despatches. Taking the average profit per ton at Rs. 6.50 nP on the basis of rated capacity of production of the Colliery (i.e.) a lakh tons, the loss sustained on account of the above decision of stopping all outside despatches, works out to above Rs. 3.25 lakhs for a period of about 2½ months, commencing from October, 1959, to about the middle of December, 1959. In addition, about Rs. 45,000 was also paid during this period as lay-off compensation for forced idleness of the workers concerned.

In extenuation, the representative of the Ministry of Mines and Fuel stated that in terms of the Corporation's agreement with the foreign suppliers of the Kargali Washery Plant, the suppliers were to give a monthly through-put of 1 lakh tons. To enable the suppliers to give this through-put, the Washery was to be provided with adequate supplies of Bokaro Coal. The actual through-put of the Kargali Washery was considerably short of the stipulated quantity. The reason given by the foreign contractors for this was that adequate quantities of Bokaro Coal were not being supplied to the Washery. It was, therefore, decided that the entire output of the Bokaro Colliery should be earmarked for the Kargali Washery. Due to certain defects, however, the Washery could not wash the entire earmarked quantity, resulting in heavy accumulation of stocks at pitheads. All this took about 2½ months whereafter it was decided to resume outside despatches of coal.

The Committee are not happy over the manner in which the Corporation had handled this case. They observe that the decision of the Corporation to stop all outside despatches from the Bokaro Colliery resulted in not only a shortfall in the output of the Colliery to the extent of about half a lakh tons but also an infructuous expenditure of Rs. 45,000 on account of lay-off compensation paid to labour for forced idleness. The Committee understand from Audit that the local technical authorities had fore-warned that it would not be possible for the Kargali Washery to take the entire output of the Bokaro Colliery. If so, the Committee consider the above decision of the Corporation as highly ill-conceived. The Committee grant that adequate quantities of Bokaro Coal should have been supplied to the Kargali Washery for enabling the foreign contractor to give the stipulated

throughput of washed coal. This, the Committee feel, should have been done, not by stopping outside despatches, but by according the Washery over-riding priority in the matter of coal supply from Bokaro. Even if initial error had been committed in anticipating that the Washery will be able to utilise the entire output of coal, the Corporation should have rescinded its decision as soon as large stocks started accumulating at the pitheads, and resumed outside despatches instead of curtailing production.

KARGALI WASHERY

Fall in through-put, page 9 of Annual Report of N.C.D.C., 1960-61, para vi

29. From the Annual Report of the Corporation for the year 1960-61, the Committee observed that the through-put of the Kargali Washery during August, 1961 was 72,752 tons, as against the nominal capacity of 1,35,000 tons per month.

Explaining the reasons for the shortfall in through-put, the representative of the National Coal Development Corporation stated that the tender notice of the Washery issued in 1954, on the basis of tests of Kargali and Bokaro coals, provided for fines (slag coal) for the Baum Jig to the extent of 20% and bigger size (steam coal) for the Heavy media to the extent of 80%. It was, however, found that in the process of conveyance from the colliery to the Washery, some reduction in size of coal was taking place, resulting in the Baum Jig being overloaded and Heavy Media underloaded. The Corporation had gone into the matter with the help of a German Engineer. This Engineer was now supervising the operations. It was hoped that the defects in the plant would be rectified, and the through-put of the Washery increased from 90,000 tons to one lakh tons per month during the next 18 months. The through-put was expected to go up still further after April, 1963. **The Committee trust that determined efforts will be made by the Washery authorities to attain the rated capacity at the earliest possible date.**

MINISTRY OF STEEL AND HEAVY INDUSTRIES (DEPARTMENT OF IRON AND STEEL)

HINDUSTAN STEEL LIMITED

Infructuous expenditure on the purchase of power capacitors, pages 150—52, para 104

30. In January, 1959, owing to the delay in supply of electricity from the Korba Thermal Station of the Madhya Pradesh State

Electricity Board, the Bhilai Steel Plant authorities placed a provisional order, subject to procurement of import licence, for 18 power capacitors at a cost of Rs. 86,000 in order to enhance the power factor of their diesel station. The power supply from the Korba Thermal Station became available shortly thereafter, i.e. from the 4th March, 1959. The provisional order for power capacitors was not, however, cancelled. It was, in fact, confirmed in September, 1959, when the import licence was obtained. The stores which were received in December, 1959 were lying unutilised and were proposed to be disposed of after exploring the possibility of utilising them gainfully.

In extenuation, the Director (Construction), Hindustan Steel Limited stated that the blast furnace at Bhilai was commissioned on the 4th February, 1959. The Korba Thermal Power Station was commissioned on the 4th March, 1959, with only one generator. The transmission line had also been completed only a few months before, and its working during the first monsoon was yet to be watched. The project authorities thought it risky to rely solely on the power from the Korba Thermal Station. It was, therefore, decided to place an order for the capacitors to augment the power factor of the diesel power station at Bhilai to serve as a stand-by. Subsequently, when the two other generators also started functioning at Korba, the capacitors were considered to be surplus. The Committee desired to know the dates on which the second and third generators of the Korba Thermal Station were commissioned, and whether the probable time of their commissioning was taken into account while placing the order for the power capacitors. The representative of the Company promised to furnish the requisite information later. This information is still awaited. However, on the basis of the facts mentioned above, it is apparent that the order for procurement of 18 power capacitors at a cost of Rs. 86,000 was placed without properly assessing the requirements.

As regards the disposal of surplus capacitors, it was stated that the eight capacitors (100 KVA each) had since been sold out for Rs. 62,130. The remaining ten (50 KVA) capacitors had been committed for sale for Rs. 39,869, subject to the issue of clearance certificate by the Chief Controller of Imports.

The Committee desire that the matter should be expedited.

Additional expenditure of Rs. 11.85 lakhs on an emergency purchase of iron ore, page 151, para 105

31. Towards the end of July, 1959, due to breaches in the railway tracks on account of heavy monsoon rains, it became impossible to

move iron ore to the Bhilai Steel Project site from the Departmentally-owned Rajhara Iron Ore Mines. The stock of ore available with the project as on 1st August, 1959 was estimated to be 10,000 tons—a little less than a week's requirement for the Blast Furnace. Out of this, only 1,200 tons were readily available; the rest, being in water-logged trenches, could be available only after the water was pumped out and arrangement made to set right the grab buckets. The Project authorities, therefore, made an emergency purchase of 64,095 tons of ore from the State Trading Corporation and, thereby, incurred an extra expenditure of Rs. 11.85 lakhs although from 1st April, 1959 to the end of July, the stock of iron ore was at no time less than 1,50,000 tons at the pithead and railhead of the Company's own mines.

It was urged during the course of evidence that the stock of ore available with the Project as on 1st August, 1959 was about 20,000 tons—roughly for a fortnight's requirements, and not 10,000 tons. This was considered to be sufficient stock in the normal course. Two monsoons had already passed after the construction of the railway line, and the breach of the track during the present monsoon was not anticipated. Further, the ore crane at the project was not in working order. As to the circumstances leading to the emergent purchase of ore, it was stated that due to heavy rains, the trenches became water-logged. The ore crane not being in working order, grab bucket's had to pick up the ore. These could take only about 1,200 tons. The supplies from Rajhara Mines not being available due to breaches in the rail track, it became necessary to place an immediate order on the State Trading Corporation. Asked why the Project authorities had ordered for more than 40 days' requirements at a time, it was stated that the duration of the breach was not certain, and the project would have suffered heavily if the ore supply had run out.

The Committee are not satisfied with the above explanation of the Hindustan Steel. They feel that, while 20,000 tons of ore might have been considered as adequate stock in the normal course, larger reserves should have been built up from the departmentally-owned Rajhara Mines, as a precaution against the impending monsoon. The failure of the project authorities to do this as also their inability to utilise the existing stock had entailed an additional expenditure of Rs. 11.85 lakhs to the Company. One of the reasons mentioned in evidence for not using the existing stocks was that the ore crane was not in working order. If so, the Committee feel that all-out efforts should have been made to set the crane right at the earliest possible date; or failing this, other suitable arrangements should have been made for the built-up stocks being readily usable. Moreover, since

the additional stock obtained through State Trading Corporation was at much higher cost, it would have been advisable to place the orders in instalments of say 10 days' supply at a time, instead of the bulk supply of 40 days. (The breach lasted for a period of fortnight). The Committee trust that the project authorities will benefit from their experience in the present case, and, in the interests of both economy and uninterrupted tempo of production, make adequate provision against the rainy season in future.

Avoidable expenditure on account of demurrage charges—pages 151-152, para 106

32. Mention was made in para 53(b) of the Civil Audit Report, 1958 and para 66 of the Twenty-fifth Report of the Public Accounts Committee (Second Lok Sabha) of the payment of heavy demurrage charges by the Rourkela Steel Plant to Railways.

The total demurrage charges paid to the Railways upto 31st March, 1961 amounted to Rs. 55.71 lakhs as detailed below:—

	(Rs. in lakhs)
1. 12. 56 to 31. 3. 58	8.10
1. 4.58 to 30. 4. 59	9. 63
1. 5. 59 to 31. 3. 60	18. 71
1. 4. 60 to 31. 3. 61	19. 27
	<hr/>
	55. 71
	<hr/>

Out of this, an amount of Rs. 1.52 lakhs was attributed to failure on the part of certain contractors to clear the goods in accordance with the terms of their contracts but only a sum of Rs. 86,725 had been recovered.

An Enquiry Committee was constituted in February, 1961 to investigate the circumstances in which such heavy demurrage charges had been incurred.

During the course of evidence, the Director (Construction), Hindustan Steel stated that one of the reasons for heavy demurrage charges was unregulated exchange of traffic by the Railways. Because of the trains coming in bunches, there was delay in releasing wagons after unloading. The Enquiry Committee appointed by the Company, which had already submitted its report, had, *inter alia*, observed that the free time allowed by the Railways was inadequate. To study this aspect, the Railways had appointed another committee. The report of this Committee was awaited.

Another reason for heavy demurrage charges was single line link between the railway yard and the place of loading. There were difficulties in shunting of empty wagons as the line was occupied by loaded wagons. The double rail link was likely to be provided shortly. Part of increase in demurrage charges was occasioned by the Railways switching over to a different type of wagons for which mechanical facilities were not available. Manual handling had, therefore, to be done for some time. Tipplers had, however, since been provided for this type. It had also been observed by the Enquiry Committee that the loco power for shunting was inadequate. The management had ordered for more diesel locomotives.

As to the latest position, it was stated that the charges were still high, and, that during the year 1961-62 Rs. 18.5 lakhs had been paid to the Railways on this account.

The Committee feel concerned that despite their repeated exhortations since 1958-59 the amount of demurrage charges payable from year to year has been persistently increasing, instead of getting altogether eliminated. (The total demurrage paid from 1st December, 1956 to 31st March, 1962 amounts to as high a figure as Rs. 74.21 lakhs). This state of affairs, deplorable as it is, would not only push up the cost of end-product at the Project but also impede the optimum utilisation of the wagon-capacity of the country. The Committee were informed that both the Hindustan Steel Limited and the Railways were now seized of the matter. They trust that effective steps will be taken by them, in close collaboration with each other, with a view to ensuring that the demurrage charges are reduced to the barest minimum, if not eliminated altogether.

As regards recoveries from the contractors for failure to clear the goods in accordance with the terms of contracts, the Committee were informed that, out of a total sum Rs. 1.52 lakhs due on this account, Rs. 1.1 lakhs had since been recovered. The Committee desire that effective steps should be taken by the Project authorities to recover the balance amounting to Rs. 51,000 from the contractors at an early date.

Avoidable expenditure in the purchase of spares for locos—pages 152-53, para 108

33. An agreement entered into in December, 1956 by the Hindustan Steel Limited, Rourkela for the purchase of locos costing Rs. 113.69 lakhs provided for the supply of the renewal spare parts

to the extent of 10 per cent of the cost of the locos at prices which would not include an element of profit higher than that included in the prices of the locos. The list of spares required was not, however, drawn up immediately and was finalised only in October, 1957—ten months after the original agreement. The amended imported licence including the value of the spares was obtained after six months in April, 1958. In the meantime, with effect from 1st February, 1958, the suppliers increased their prices for spares by 6 per cent in accordance with the escalation clause which resulted in an additional claim of Rs. 41,600. This was finally settled at Rs. 17,240 (\$3448.15). The delayed execution of the contract also necessitated an additional expenditure of Rs. 36,800 in airlifting certain items which were urgently required. The total additional expenditure which could have been avoided if orders for spares had been placed along with that for the locos thus amounted to Rs. 54,040.

During the course of evidence, the Director (Finance), Hindustan Steel Limited admitted that it was not a very defensible case. There had been an omission to detect early enough that the escalation clause would be attracted. There had also been delays in various offices. These delays were, however, mainly, procedural ones, and could not be ascribed to failure on the part of any particular individual. With a view to the elimination of delays, an organisational and method study of various organisations concerned had been carried out. The study revealed that out of 14 authorities concerned with the grant of import licences, six did not make any contribution. These had since been eliminated. As regards the remaining eight authorities, the main delay took place in the Development Wing, and in the projects. The projects had been asked to furnish their requirements for import licences in advance quarterly or half-yearly. As regards delays in the Development Wing, a circular had been issued revising the existing procedure regarding import of stores by public undertakings, semi-Government projects and Government departments. From a copy of the circular, the Committee observe that it would now not be necessary for the Project authorities, etc., to obtain clearance from indigenous angle from the Development Wing in respect of operational and maintenance stores and spares. For the facility of projects, Handbooks of Indigenous Manufactures had been brought out by the Development Wing, with reference to which the project authorities would scrutinise their indents.

The Committee note that the representative of the Hindustan Steel Ltd. could not justify the delay in placing order for spares.

However, the Department of Iron & Steel and the Development Wing of the Ministry of Commerce and Industry have now addressed themselves to the problem, and have already initiated measures to obviate delays in procurement of materials from abroad. The Committee trust that the introduction of these measures will result in elimination of the cases of the present type.

Unnecessary purchase of materials for sanitary fittings—page 153, para 109

34. Sanitary fittings costing Rs. 4.15 lakhs were purchased by the Durgapur Steel Project in 1957. After taking into account the utilisation of these fittings in the houses under construction or those sanctioned for construction, the total value of stores which was surplus to present requirements, as reported by the Ministry in October, 1961, was Rs. 1.93 lakhs. The authorities hoped to utilise stores worth Rs. 1.25 lakhs for the houses and public buildings likely to be constructed under the Expansion Scheme, etc. in future, while in respect of stores (C.P. shower fittings) worth Rs. 68,000 which were purchased in connection with the proposed Project of construction of 300-room Hotel the prospect for utilisation was remote as the idea of constructing the hotel had been abandoned.

In extenuation, the Director (Construction), Hindustan Steel Limited stated that the materials purchased by the Project authorities were common fittings required for houses, Hotels, etc. These were acquired early in 1957, when the Durgapur Steel Project had started. Orders for the materials were placed in advance as there were difficulties in their procurement; the delivery period for some of the fittings, which were indigenously manufactured, was even longer than the time required for the completion of the buildings. Due to changes in standards later on, some of the materials became surplus. These were expected to be utilised in houses and public buildings to be constructed under the Expansion Scheme.

While the Committee note the Hindustan Steel's hope that the surplus sanitary fittings (costing Rs. 1.93 lakhs) would be utilised in houses and public buildings to be constructed under the Expansion Scheme, they cannot help observing that, before placing the order for the materials, the Project authorities had failed to make a proper assessment of their requirements. The Committee trust that the Project authorities will be more careful, while making such purchases in future. They would like to be informed of the disposal of the surplus material.

Infructuous expenditure on the purchase of machinery, page 153, para 110.

35. In connection with the construction of a Township, the Durgapur Project authorities purchased in March-April, 1957 from the Defence Disposals, 3 stonecrushers, 3 concrete mixers, 1 steam road roller and 1 tar boiler at a cost of Rs. 41,700. The purchase was made on an "as is where is" basis.

Out of these items of machinery, one concrete mixer was used only for 78 hours during March-April, 1958, after some minor repairs, and had been lying idle since then. All other items could not be used at all for want of spares which had to be obtained from abroad.

The Ministry stated in November, 1961 that steps were being taken to procure spares and that if these were not available, action might be taken for their disposal.

It was urged in evidence that the machines, in question were purchased from Defence disposals. In some of these, a large number of parts were missing. Although road rollers and one concrete mixer had been utilised, others could not be utilised for want of spares. It was not considered worthwhile to spend foreign exchange on importing spare parts to make them serviceable. It was now proposed to dispose them of.

The Committee regret to observe that, before purchasing the machines from the Defence disposals, the Project authorities had not made a proper assessment of the usability of the machines. The Committee also fail to understand why the project authorities had taken more than five years in coming to a decision regarding the disposal of the machines when, as was stated in evidence, it was not considered worthwhile to spend foreign exchange on importing spare parts to make them serviceable. The Committee desire that the matter should be expedited.

Non-settlement of insurance claims—pages 153-54, para 111.

36. The Durgapur Steel Project took an open policy for £ 100 million with INSPOOL to cover the risk of loss or damage to materials during transit from U.K. to the plant site at Durgapur.

Between ^{1st} January, 1957 to December, 1961, the Project authorities preferred 402 claims amounting to £2.99 lakhs, out of which 338 claims had been settled and a sum of £2.28 lakhs had been realised. Another 861 claims, 30 per cent of which were more than 2½ years old, could not be finally preferred due either to discrepancies

in the tallies or failure to collect correct particulars of short landings, etc. at the port. The amount involved in these cases also could not, therefore, be worked out.

Explaining the procedure regarding preferring insurance claims, the representative of the Company stated that, to save the period of limitation, as soon as an item of stores, for which a policy had been taken, was found missing, a pre-claim was lodged mentioning only the missing item. Thereafter, final claim was lodged in terms of the policy which was required to be authenticated by a large number of documents. There were two more requirements to be fulfilled, viz., joint inspection by the representatives of the Consulting Engineer and the Company and checking with the original tally sheet. Before the final claim was lodged, a number of other documents had also to be consulted to ensure that the items shown as missing had not been received subsequently with other consignments. It was a tedious affair and required large staff to finish the work. As a result of such examination, about 50% of the pre-claims had to be withdrawn as the stores shown as missing had been found subsequently.

As regards the present position, the witness stated that out of 1,457 claims in all, 338 claims had been settled. 273 claims were ready and had been or were being preferred. The rest of them were in various stages of preparation. In some cases, all the requisite documents were not traceable. Some of these claims might have to be withdrawn as the material had since been received. In reply to a question, it was stated that all the claims were expected to be finalised during the next 6 to 8 months.

In the opinion of the Committee, the time taken by the Project authorities in preferring most of the final claims had been on the high side, even after making due allowance for the procedural requirements to be fulfilled. The Committee were, however, assured that all the claims would be finalised during the next 6 to 8 months. They would like to be furnished with a further report in the matter.

IV

DEPARTMENTALLY MANAGED GOVERNMENT COMMERCIAL UNDERTAKINGS

Page 154, para 112 of Audit Report (Civil), 1962

37. There are 42 Undertakings of a Commercial or Quasi-commercial nature which are operated by Government Departments. The financial results of the working of these Undertakings are ascertained annually by preparing statements of accounts on a *pro forma* basis outside the General Accounts of Government. In respect of some, the departments do not prepare regular *pro forma* annual accounts, viz., Trading and Profit and Loss Account and Balance Sheet, but only prepare a Stores Account or an Income and Expenditure Account. Financial position of these Undertakings as on the 31st March, 1961 is given at Annexure C of the Audit Report (Civil), 1962, at page 155.

The Committee have dealt with some of the Departmentally-managed Commercial Undertakings in the paragraphs following.

MINISTRY OF FINANCE

Government Opium Factories at Ghazipur and Neemuch—pp. 159-160, para 112.

38. Government Opium Factories at Ghazipur and Neemuch are under the administrative control of the Narcotics Department. The main functions of Factories at Ghazipur and Neemuch are confined to—

- (i) manufacture of opium for Excise purposes and for Export, and
- (ii) manufacture of Alkaloids for internal consumption and for export. (Alkaloids include morphine, codeine, narcotine, etc.).

The Committee considered the Production Accounts relating to the Ghazipur Factory. The output and production cost of the year ended 30th September, 1960 and of the previous year relating to

Indian Medical Opium Powder and Indian Medical Opium Cake are indicated below:—

Indian Medical Opium	Output in Maunds		Production cost per maund in rupees	
	1959-60	1958-59	1959-60	1958-59
Powder	62.91	64.52	3006.73	3302.31
Cake	21.29	27.08	2442.25	2167.41

The increase in the production cost of Indian Medical Opium Cakes during the year 1959-60 as compared to the year 1958-59 was stated to be due to the following reasons:—

- (i) the manufacture of both Indian Medical Opium Powder and cake is carried out by the same labour and chemical staff in the same building of the Alkaloid works and as such while distributing the labour in daily time sheets, more labour was shown to be employed for the manufacture of Indian Medical Opium Cake, which resulted in increase of cost of manufacture of Indian Medical Opium Cake and reduction in the cost of manufacture of Indian Medical Opium Powder.
- (ii) In the year 1958-59 the issue rate of Malwa Opium was less than that of Banaras Opium, hence Malwa Opium was used in the manufacture of Indian Medical Opium cakes. But its average issue rate worked out higher than Banaras Opium when the production accounts were prepared at the close of the year.

In evidence, the representative of the Ministry of Finance (Department of Revenue) stated that so far as the issue price was concerned, it was the same whether it was Malwa Opium or Banaras Opium. But the cost of raw Opium varied slightly depending on whether more bonus was earned in one part of the country or another. It was further explained that, in regard to fixing of bonus there was a sliding scale, and a cultivator having better yield and surrendering over nine seers per bigha would get a higher price for the entire quantity than the other surrendering five seers per bigha. This method would also discourage illicit disposal of opium.

As to the variation in labour charges, the witness stated that these should not really vary. The bulk of the transaction pertained to export opium and for purposes of proforma account, such charges were shown as common.

The Committee are not satisfied with this explanation. To have an effective control over the cost of various products, it is essential that the apportionment of the labour charges is made on a rational basis. The Committee desire that a suitable procedure should be evolved to ensure that the accounts depict a true picture of the cost of various products.

MINISTRY OF FOOD AND AGRICULTURE (DEPARTMENT OF AGRICULTURE)

Forest Department, Andamans, pages 162-163, para 114

39. Established in 1883, the Forest Department, Andamans was intended to supply valuable timber for commercial purposes. The activities were mainly confined to the extraction of timber, feeding the saw mills installed in 1929 and sale of timber. In 1950, two Sales Depots were opened at Calcutta and Madras. The Department was reorganised in 1951 into four divisions viz., (i) Middle Andamans, (ii) South Andamans, (iii) North Andamans, and (iv) Saw Mill Division. In 1951, North Andamans forests were leased to Messrs. P. C. Ray & Company for a period of 25 years. The South and Middle Andamans forests are still departmentally worked. A small quantity of timber in the latter two divisions is also being extracted by petty contractors. A working plan was prepared during the Second Five Year Plan for operation in North, Middle and South Andamans between October 1960 to September 1970. The plan was approved by the Government of India in June 1961 except for that of North Andamans.

The actual extractions during 1958—61 as compared to the targets fixed in the approved plan were—

Name of the Division	Target	Quantity extracted		
	Tons	1958-59	1959-60	1960-61
South Andamans	27,000	46,216	46,461	54,318
Middle Andamans	27,000			

The Committee desired to know the reasons for less extraction of timber in 1958-59 and 1959-60. The Secretary of the Ministry stated in extenuation that at that time the Forest Department was building up the organisation and setting up labour which had to be imported into Andamans and there were difficulties of shipping also. Moreover, although the Forest Department was established in 1883, they were not working to any plan except for extracting something for which there was a market. Plans were drawn up only after 1956-57 and it took them two-three years to reach the fixed target. To a question it was explained that the plan was prepared by the Forest Officer on the knowledge of the existence of timber of different categories which could be extracted and on

that basis the target was worked out. The Committee trust that by now the initial difficulties have been over-come and it would be possible for the Forests Department not only to achieve the targets fixed but also to work upto higher targets.

40. *Saw Mills.*—The Department is working three saw mills. The intake and out-turn of these saw mills for the last three years are detailed below:—

	(In tons)		
	1958-59	1959-60	1960-61
Intake	23,348	22,935	19,675
Out-turn (Squares and Scantlings)	12,553	13,148	10,481
Cost of Swan Timber (In Rs. per ton)	279.49	264.22	279.46
Wastage	46.19%	42.68%	46.73%

The percentage of wastage has increased by about 4.05 per cent during 1960-61 as compared to the previous year. The Administration have stated that the logs that are fed into the saw mills are mainly defective ones with knots, bends, cracks, etc. as better logs are sold in the market as ply, match and hard-wood logs. Further, the sizes that are cut mainly depend upon the demand. In view of these conditions, it has not been possible to fix any definite standard percentage of wastage for all these saw mills.

To a question, as to why the output of the saw mills had gone down, the witness stated that the best of logs extracted in Andamans were usually exported to Calcutta market. Only the left-overs went to the saw mills to ensure the maximum utilisation of the extracted timber. The intake of the saw mills depended upon the quantity which could not be sold as logs and would, therefore, vary from year to year. The percentage of wastage would also change as the mills worked on rejected logs only with many knots and cuts.

Even granting that the saw mills are utilised for operating on logs which are left-overs, the Committee feel that the percentage of wastage is unduly high. They hope that with higher extractions from South and Middle Andamans, it would be possible to increase the intake of the saw mills and also to reduce the percentage of wastage.

41. *Seasoning Kiln.*—The seasoning kiln was installed in 1956 at a cost of Rs. 2.06 lakhs to arrest the deterioration of timber and to meet the increased demand of local Public Works Department for seasoned timber. The low utilisation of the capacity of the kiln

and the accumulation of the large stock of unsold timber had already been brought to notice in para 23 of Audit Report, 1961— [Paras 91—93 of P.A.C's 42nd Report (1961-62)—Vol. I]. As against the installed capacity of 850 tons per annum, the quantity seasoned during five years from 1956-57 to 1960-61 was only 781 tons. Out of this seasoned quantity, 494 tons had so far been disposed of and the balance quantity of 287 tons valued at Rs. 1,08,875 remained to be disposed of.

To a question as to why the seasoning kiln was installed with a very much higher capacity than what was really needed, the Secretary of the Ministry informed the Committee that at the time when the proposal was formulated, the estimated requirement of the seasoned timber by the P.W.D. was 3,000 tons; but the kiln which had a capacity of 850 tons could not reach the maximum in the absence of a boiler. It was further stated that steam was being taken from the boiler of another saw mill and that is why it was working below capacity. According to the latest information, however, there were no accumulation of seasoned timber. With regard to sale of timber, the Committee were informed that it was hoped that the demand from P.W.D. would increase. Sometimes P.W.D. preferred a better type of wood unseasoned which was costlier than seasoned timber. With regard to a question whether there was an open market for seasoned timber in Andamans, the witness replied in the negative. The question of export of timber could be considered provided the boiler functioned. He added that the boiler had been installed, but it was not functioning as the chimney had not been fitted yet. The Committee desired to be furnished with a note stating therein (i) what was the position with regard to fitting of the chimney of the boiler, and (ii) when was the order for the chimney placed; but the same is still awaited. (February, 1963).

The Committee of 1961-62 were informed that although the seasoning kiln was installed at the instance of the local P.W.D. who had estimated their monthly requirements of seasoned timber at 200 tons, the off-take by the P.W.D. had been very much less. It is surprising that the local P.W.D. should now be preferring unseasoned wood, when at their instance and at some cost the seasoning kiln had been set up. The Committee desire that the chimney of the boiler should be obtained and fitted without further delay and the plant worked to its full capacity. Thereafter efforts should be made to export the seasoned timber, which cannot be taken by the local P.W.D. or sold in the local market, to the mainland. The Committee would like to be informed of the outcome of these efforts.

42. *Creosoting Plant and Ascu-treatment Plant.*—The installed capacity and the quantity treated by the Creosoting and the Ascu-treatment Plants during the last three years are as below:

Year	Installed capacity for each of the two plants	Actual quantity treated	
		Creosoting Plant	Ascu-treatment Plant
	(Tons)	(Tons)	(Tons)
1958-59	1,200	461	33
1959-60	1,200	498	245
1960-61	1,200	607	468

Actual cost of creosoting is Rs. 3:19 nP. per cft. as against the rate of Re. 1 per cft. fixed from the year 1956-57 to 1959-60. The rate of Re. 1 per cft. was initially fixed to popularise the creosoted timber. The adequacy or otherwise of ascu-treatment rates, which vary from Rs. 1·63 to Rs. 2·71 per cft. for various categories could not be determined as no separate working accounts had been prepared. The Committee feel that proper accounts for various categories of ascu-treated timber should be kept so that their rates might be correctly worked out.

43. The management have explained that like the seasoning kiln units, the creosoting plant and the ascu-treatment plant are also in the process of being initiated in these islands and demand of the products from these plants is likely to increase during the Third Five Year Plan.

The Committee observed that the installed capacity of each of the two plants was, 1,200 tons but the actual quantity treated was very much less and desired to know the reasons therefor. The Secretary of the Ministry stated that there was not much local demand for this and therefore the quantity treated was less than the installed capacity. It was further stated that in this case also the treated timber would have to be brought to mainland in order to get the market but the main difficulty was that of shipping. To a further question whether the timber was being sold at a loss, the witness stated that the present cost of production was estimated at Rs. 3:08 per cft. and that the full cost was being recovered.

With a view to seeing whether this project was wasteful or it would become a paying proposition in the long run, the Committee desired to be furnished with a note stating the latest position with regard to (i) the total quantity of timber produced, (ii) the total quantity of timber sold at a loss and (iii) the total quantity of timber, creosote and ascu-treated, which remained in stock. The note in question is still awaited. (February, 1963).

From the facts brought to their notice, the Committee are unable to escape the conclusion that at the time these projects were considered initially, a proper market survey of demand for the treated timber in the Andamans or in the mainland and the availability of ships etc. for transport thereof was not made. They recommend that all these aspects may now be reviewed by the Ministry and remedial measures taken immediately to set things right. In the opinion of the Committee, efforts to popularise the products might prove fruitful resulting in greater demands for the creosoted and ascu-treated timber.

44. *Stores.*—The value of stores as on the 31st March 1961 was Rs. 9,80,905. This included surplus stores amounting to Rs. 92,469.

In reply to a question it was stated by the Secretary of the Ministry that efforts were being made to dispose of the surplus stores locally and stores worth Rs. 13,799 had so far been sold. To a question whether there was any further accumulation of surplus stores, the witness replied in the negative. With regard to the latest position, it was stated that the stock-taking was in progress.

The Committee hope that every effort would be made to dispose of the surplus stores as early as possible and physical verification of stores conducted at regular intervals.

45. In the course of evidence, the Committee were informed that the large accumulation of timber in the Andamans was a very great source of anxiety to Government. They enquired what efforts had been made to procure ships for transportation of timber. The representative of the Ministry stated that there was great difficulty in procuring ships for transport of timber from Andamans to mainland as shipping companies were not very anxious to take up this kind of work. However, due to efforts made to get more ships through the Ministry of Transport, the Shipping Corporation would arrange three more ships, in addition to the one already working, and the timber accumulated would be transported to mainland. Since there is a great demand for timber in the mainland specially from the plywood manufacturers in Calcutta, the Committee urge that early steps be taken to reinforce shipping arrangements in consultation with the Ministry of Transport so that the accumulated timber could be cleared early and no further accumulation allowed to take place, to avoid possibility of deterioration of timber involving financial loss.

46. *Outstandings against North Andaman Licensee.*—The defective working of the contract with the Licensee in North Andaman had been brought to the notice of the Public Accounts Committee

in para 38 of the Audit Report, 1960 and para 20 of Audit Report, 1961. On the 31st March 1961, a sum of Rs. 2.10 crores was outstanding against the licensee on account of royalty charges payable to the Government. The licensee had also put in a counter claim of about Rs. 2 crores and the matter was stated to be *sub judice* before the arbitration.

Asked about the latest position in this regard, the Secretary of the Ministry stated that the arbitration was in progress. The latest position was that issues had been framed and the documents had been disclosed to both parties. The case was awaiting hearing, taking of evidence, arguments etc. The arbitration was expected to be finalised within the next three or four months. The Committee, however, invited attention to their earlier recommendation (para 90, 42nd Report, 1961-62, Vol. I) that the opinion of the Attorney General should be obtained in this matter regarding the further course of action. The Secretary of the Ministry stated that necessary material for obtaining the view of the Attorney-General was being collected by the Ministry of Law.

When questioned whether the licensee had disputed the rate of royalty itself, the witness replied in the affirmative. At this stage his attention was invited to clause 18 of the North Andamans Agreement of Licensee reproduced below which made it obligatory on the licensee to submit a statement quarterly on the basis of which the royalty was to be decided:—

“At the end of every quarter of the financial year, viz., first July, first October, first January, first April, subsequent to the execution of the agreement, the licensee shall submit a statement of the Chief Conservator showing the quantity of marketable round logs exported from the licensee's depots by categories outlined under clause 12(i) in that quarter duly certified by the Chief Conservator, or his nominee, allowing export. A statement showing the quantity of timber (hardwoods and ornamental wood) sold during the same period at the depots at Calcutta failing which at such other depots as approved by the Chief Conservator, and the rates at which it was sold, shall be submitted by the Officer in-charge of the Government Timber Depot at Calcutta to the Chief Conservator. On the basis of these statements royalty will be calculated as indicated in clauses 14 and 15. The royalty for a given quarter shall be payable within 30 days of the receipt of the bill to the licensee's address at Calcutta. Failure to pay royalty,

when the same falls due, would entitle the Government to charge interest at 12 per cent per annum on unpaid balance, and to the stoppage of further export. If the balance with interest is not paid within a year the agreement of licence is liable to cancellation."

The Committee were informed that the licensee had not been submitting the required statements every quarter and, therefore the rate of royalty had to be fixed under clause 14 of the Agreement. In reply to a question whether the Government of India held sufficient deposits of the firm in question to cover the royalty charges, the Committee were informed that the Government held a sum of Rs. 10 lakhs as deposit.

The Committee regret to note that the firm had failed to furnish the quarterly statements required under clause 18 of the Agreement and that on one or two occasions Government had to hold back their funds in order to make payments of wages of labour in Andamans not paid by the Company. They consider it unfortunate that no action was taken when statements were not furnished by the firm. They are sorry to learn that despite their recommendation made last year (1961-62), the Ministry of Law were still busy collecting necessary material for obtaining the view of the Attorney General.

The Committee urge that in cases involving high stakes, all pros and cons should be considered before entering into an agreement; validity of contractual documents should be ensured beforehand, and effective administrative machinery should be set up to keep a vigil on the performance of the parties concerned. They would also like the Ministries concerned to take prompt action on the recommendations of the Committee. In a case where a Ministry is unable to implement any recommendation, the reasons therefor should be communicated to the Committee at an early date.

The Committee desire further that the arbitration proceedings in this case should be expedited and the Committee informed of the results.

HIMACHAL ROSIN & TURPENTINE FACTORY, NAHAN

Himachal Rosin and Turpentine Factory, Nahan, pages 164-165, para 116.

47. *Sundry Debtors*.—Outstandings on Sundry Debtors account increased to Rs. 5,95,103 on 31st March 1961 as against Rs. 5,08,763 as on 31st March 1960. A provision of Rs. 3,03,504 has been made in the accounts, as reserve for doubtful debts.

The Committee enquired about the reasons for the increase in the outstandings on Sundry Debtors account and they were informed that out of the outstandings which related to the period before 1958-59, Rs. 2 lakhs had been recovered. Out of the provision of Rs. 3,03,504 some recovery had been made and continued efforts, in consultation with the Ministry of Law, were being made to realise the balance. The Committee, however desired to be furnished with a note giving the latest information in regard to the recovery of the balance of doubtful debts which had been outstanding since April 1952 which is still awaited (February, 1963).

The Committee recommend that suitable steps be taken to settle the outstanding accounts, expeditiously.

48. *Resin Royalty payable to Forest Department.*—Amount to be paid to the Forest Department had been reduced to Rs. 8,62,729 as compared to Rs. 13,55,906 payable on 31st March 1960. This payment could not be made in 1959-60 due to lack of budget provision.

Stock Verification.—According to the information available with Audit, verification of the stock was not conducted during the years 1959-60 and 1960-61.

Fire in the Factory.—A fire broke out in the factory at Nahan on the 29th December 1961. The main distillery and the entire Resin in stock, good part of Rosin and Turpentine had been burnt down. The loss is estimated to be Rs. 6 to Rs. 7 lakhs approximately.

During evidence, at the outset the Secretary of the Ministry admitted that the payment of Rs. 8,62,729 as royalty to the Forest Department could not be made due to lack of budget provision which should have been done. With regard to stock verification, the Committee were informed that the stock verifications were made in 1959-60 and 1960-61 and that the Audit had been informed about it in February 1962.

To a question whether the cause of the fire in the factory had been investigated, the Committee were informed that the cause of the fire which resulted in a loss of Rs. 6 to Rs. 7 lakhs was under investigation by the police since December, 1961. It was further stated that as a result of the fire the work in the factory had stopped for three months.

The Committee are not happy with the present state of affairs at the Himachal Rosin and Turpentine Factory, Nahan and hope that steps will be taken to improve the position as early as possible.

In their opinion, verification of stock should essentially be done at the appropriate time.

The Committee also do not feel happy over the delay (about nine months) in concluding police investigations into the causes of fire in the factory at Nahan, which took place in December 1961. They would like to be informed of the result of the investigation and remedial action taken in the matter.

MINISTRY OF COMMERCE & INDUSTRY

MANDI SALT SOURCES (HIMACHAL PRADESH)

Mandi Salt Sources (Himachal Pradesh) pages 167-168, para. 119

49. The salt sources at Kharagoda (Bombay), Sambhar Lake, Didwana and Pachbhadra (Rajasthan) and Mandi (Himachal Pradesh) were under the administrative control of the Salt Department upto 31st December 1958. Consequent upon the formation of the Hindustan Salt Company, a Government of India undertaking, on 1st January 1959, the salt sources at Sambhar Lake, Didwana and Kharagoda were taken over by this Company. Pachbhadra Salt Sources on the expiry of lease on 25th January 1960 were transferred to the Rajasthan Government with effect from 1st April 1960. Thus only Mandi Salt mines were left with the Salt Department as from 1st April 1960.

Working Results

As regards 'Working Results' of the Mandi Salt Mines the loss for the year 1960-61 amounted to Rs. 34.550 as compared to Rs. 83.161 for the year 1959-60. The percentage of loss on turnover worked out to 17.7 as compared to 39.9 during the previous year. The decrease in the loss is assigned to decrease in the cost of production. The average cost of production of Rock Salt and Pan Salt during 1959-60 and 1960-61 is indicated below:—

	1959-60	1960-61
	Rs.	Rs.
Rock Salt per quintal ..	6.6168	6.09925
Pan Salt per quintal ..	10.2059	8.75125

The decrease in the average cost of production has been stated to be mainly due to increased production of salt during the year 1960-61.

Asked about the progress of the contract given long ago to a Swiss firm to work the Mines, the representative of the Ministry of Commerce and Industry stated that the Swiss firm had submitted a report as far back as 1951-52, recommending setting up of wet mining and converting it into table salt at Jogendernagar. There were certain differences of opinion in the matter which was being dealt with in the then Ministry of Works, Production and Supply and the matter dragged on till 1956. In 1957 a decision was taken to start at least with the sinking of the shafts and continue with dry mining and, if successful, then to implement the original recommendation of the Swiss Firm. It was in 1956-57 that tenders were invited by the then Ministry of Production, and the Technical Committee scrutinised the tenders and the contract was placed with an Indian firm for sinking two shafts, one main and the other auxiliary. On account of the terrain the Indian firm experienced some difficulties and it was later on decided that further drilling operations must be carried out by the Indian Bureau of Mines, who were going ahead with further drilling operations. Since difficulties were experienced, the Bureau of Mines and experts of the Geological Survey of India recommended further drilling operations to see whether the project would be profitable. The work was expected to be completed by June or July 1963.

It was further stated that as soon as some useful information was available about the depth and trend of the deposits, the Swiss firm would be consulted again and by the time the Report of the Bureau was available the project report would also be ready and the work on the new scheme could be started. The Swiss firm had not been given any contract for the project. They were only given certain expenses for sending their men for on-the-spot investigation. When it was pointed out that the Hindustan Salt Company who were experts and doing the same job, could have been entrusted with the working of these salt mines as well, the Secretary, Ministry of Commerce and Industry informed the Committee that it had been accepted in principle that the salt mines should be transferred to that Company who were agreeable to it. The Committee would like to be informed when this transfer is effected and consequential savings effected therefrom.

The Committee trust that in view of the fact that this is the only rock salt mine in the country, Government would take special steps to expedite the experiments now in progress so that the mines could be exploited to the fullest extent. They hope that with the increase in production, the losses would be wiped out and the Mines would become a self-supporting unit. They would like to be apprised of the progress made in this regard.

Evasion of payment of Salt Cess, page 230, Appendix XV, Part I

50. 2,19,664 mds. of salt were removed by a private salt licensee without payment of cess amounting to Rs. 25,887 during the period 1953 to August 1960. The officials suspected to be responsible for the loss had been placed under suspension. A criminal case initiated by the Special Police Establishment in September 1961 was dismissed by the Court in November 1961 as the case was not lodged before the expiry of 6 months from the date of commission of offence as required under Central Excise and Salt Act, 1944.

The Committee desired to know the reasons for delay involved in this case. The Salt Commissioner stated that the case was detected in August 1960 and in December of the same year it was handed over to the Police for investigation. It normally took two or three months to find out precisely how much the loss was and who were the persons responsible etc. and all this naturally entailed some time in initiating departmental proceedings. The officers concerned had, however, been placed under suspension simultaneously with the handing over of the case to the Special Police Establishment. The Police also took some time to go through certain documents and to collect all the data before they could file the case in the court in September 1961. The case was dismissed, because it was time-barred, towards the end of 1961. Departmental enquiries had, however, been started.

When questioned as to the feasibility of holding departmental enquiry first before handing over the case to the court, the Secretary of the Ministry assured the Committee that he would take up the matter with the Ministry of Home Affairs for discussion with a view to seeing whether the existing rules regarding departmental enquiries could be revised. Regarding the loss involved, the witness stated that it would be recouped because the assesseees were still within the control of departmental discipline.

To a question as to why photostat copies of the relevant papers were not kept to facilitate departmental action before they were handed over to the Police, the witness stated that orders had since been issued that departmental action could be taken simultaneously with the police investigation. Previously that was not the case.

The Committee would like to be informed about the recovery of the cess amounting to Rs. 25,887, and the result of the discussion with the Ministry of Home Affairs with regard to change in the rules for taking departmental action before handing over the case to the court. The result of departmental enquiries should also be communicated to the Committee at an early date.

▼ AUTONOMOUS BODIES

The Committee have dealt with the following autonomous bodies in this chapter:—

- (1) Shipping Development Fund.
- (2) Khadi and Village Industries Commission.
- (3) Tea Board.
- (4) Coal Board.
- (5) Indian Central Arecanut Committee.

MINISTRY OF TRANSPORT AND COMMUNICATIONS

SHIPPING DEVELOPMENT FUND

Shipping Development Fund—page 169, para 120.

51. In March, 1959, a Shipping Development Fund was constituted by the Central Government with an initial loan of Rs. 1 crore. The Fund is vested in a corporate body, viz. the Shipping Development Fund Committee. Loans are advanced by the Committee to Shipping Companies for the acquisition and maintenance of ships. The loans bear interest at 8 per cent per annum, subject to a reduced rate of 3 per cent being charged if the instalments of principal and interest are paid on due dates. The para in the Audit Report referred to the following main features of the working of the Shipping Development Fund Committee:

- (i) The amount of loans granted to the Fund by Government and the amounts disbursed to the Shipping Companies during the three years period was as under:

	Loans advanced by Government.	Loans disbursed to the Shipping Companies
	(Figures in crores of Rupees)	
1958-59	1.00	—
1959-60	5.06	2.87
1960-61	3.00	0.26

During the course of evidence the Committee were informed that the undisbursed amounts in the Fund were rebanked with the Government and that interest on the sums was payable to Government when they were actually withdrawn. **The Committee feel that instead of blocking large sums of money in this manner the loans to the Fund should have been advanced on a realistic basis.**

52. (ii) Out of eight Shipping Companies who were advanced loans during the three years period one private company had defaulted in the payment of its first instalment. The Committee were informed that the Company had since paid the interest charges at the concessional rate of 3 per cent and had also promised to repay the principal amount. The Committee are surprised as to how interest at the concessional rate was charged from the Company when it failed to repay the instalment of loan on the due date. They would like to be informed of the progress made in the recovery of loan and the interest charges at the normal rate of 8 per cent.

53. (iii) The loan agreements executed between the Shipping Development Fund Committee and the borrowing companies did not provide for the approval of the Committee being obtained if the borrowing companies operated on trade routes other than those mentioned in their application for loan. It was urged in the course of evidence that it would not be proper to impose such restrictions which could mean interference in the activities of the Companies and undermine their basic incentive to operate on the most commercial and profitable routes. Besides, the Director General Shipping had powers to license each voyage of a ship and if such a condition was imposed it would mean division of responsibilities. While the Committee do not wish to impose any curbs on the activities and operations of the Shipping Companies, they nevertheless feel that adequate safeguards should be provided to ensure that undue risks are not undertaken and the Companies do not embark upon new routes which may not be profitable. Since at the time of granting the loans the Shipping Development Fund Committee acts on certain assumptions about the routes on which the ships should operate, it is but appropriate that its prior approval should be obtained if any deviations are ever made in this regard. The Committee, therefore, suggest that this aspect may be further examined.

54. (iv) There was no provision in the loan agreements enabling the Shipping Development Fund Committee to enter into possession in the event of default by the shipowners in making payments to the Committee as and when they fell due. Also no powers had been secured either for that Committee or the Government's nominee on the Board of Directors of the borrowing Company to issue directives to the Company or take other appropriate steps to ensure fulfilment of the terms and conditions of the contract. It was stated in evidence that it had since been decided to incorporate a suitable clause in the agreements to enable the Shipping Development Fund Committee to take possession of ships in the event of the borrower defaulting the repayment of loan. As for the second condition viz. empowering the

Government's nominee on the Board of Directors to issue directives etc., it was considered that such a course would amount to interference in the working of the concerns. The Committee are not satisfied with this explanation. In their opinion, it should be made incumbent on borrowing Companies to furnish such detailed information of their working to the Government representative on their Board of Directors as would enable the Shipping Development Fund Committee to keep a watch over the financial position of the borrower and ensure fulfilment of the terms of the contract in the long run. If necessary, the present agreement form may be suitably amended for the purposes.

55. (v) Rules were made by the Central Government prescribing that applications from Shipping Companies seeking financial assistance from the Fund should be submitted to Director General (Shipping) giving details of the financial status of the companies and other relevant particulars. These Rules also provided that every loan granted would be on the terms and conditions prescribed by the Central Government from time to time. Notwithstanding these provisions the Government entertained an application direct from the promotor of a private company even in advance of its registration, and later directed by means of an executive order that the procedure envisaged in the Rules would not apply to that case. By the same order the Shipping Development Fund Committee was directed to grant a loan to the Company on terms and conditions set out in a special agreement prescribed by Government. The Audit para cited some of the important features of the special agreement including a concession which would have the effect of reducing below the prescribed level the margin of security available to Government in the event of default and a commitment to the grant of a loan not only in respect of 8 ships proposed to be purchased in the near future from a Japanese firm but also in respect of 5 more ships which may be purchased at some indefinite future date. In the course of evidence it was urged that Government had powers to prescribe such terms and conditions under the Merchant Shipping Act, 1958. It was added that the opinion of the Attorney General had been obtained on the subject who had confirmed that Government was competent to specify terms and conditions for the grant of loans not only generally but also with reference to an individual or a Company separately. While the Committee do not question the competence of Government to issue such directions to the Shipping Development Fund Committee or to prescribe alter Rules or terms and conditions for the grant of loans, they are not happy at the manner in which this application was dealt with on a special footing which is apt to create an impression that exceptional treatment was given to this particular

firm. If any deviation from the existing rules is considered necessary, the same should be duly notified and made applicable to all similar cases.

In extenuation of the circumstances in which a deviation from the normal terms and conditions was made in this case the Committee were informed that—

- (a) the applicant proposed to acquire tramp vessels which fulfilled the requirements of merchant shipping;
- (b) the acquisition of ships was envisaged on a large scale;
- (c) normally about 30 per cent of the price was required to be paid before the ship was delivered but in this case no such payment was involved.

In view of these factors, the offer was considered to be favourable. It was added that on earlier occasions private companies had not shown any interest in the acquisition of tramp vessels.

The Committee would like to be furnished with a note about the progress made in the implementation of the conditions of the agreement by both parties.

56. To a question whether the possibility of the public sector taking over the enterprise was examined, since most of the capital was being advanced by the Government, the witness stated that, in the first place, only 90 per cent of the capital was to be advanced by the Shipping Development Fund Committee, and the remaining 10 per cent together with the interest on loans advanced from time to time (which came to approximately 22 per cent) had to come from some one else. Moreover, the public sector corporations, the Western and Eastern Shipping Corporations (which later on, became one corporation) were formed for a specific purpose and had grown much bigger than was visualised at the time of starting. The Shipping Corporation of India had become the second biggest public sector unit in India, and having regard to the type of operations in this case, namely, tramping, it was felt that it would not be possible or convenient or even prudent for the Shipping Corporation to undertake this task, and thus to diversify its activities.

The Committee are not quite convinced of these arguments. While the need for augmenting Indian Shipping is no doubt imperative, the Committee feel that instead of advancing such large amounts (to the extent of 90 per cent of the capital cost of the ships to be purchased and upto four times the amount of the share capital of Rs. 5 crores expected to be raised by the Company in future) to a private party

Government would be well advised in such cases either to undertake the work in the public sector or float a public company for the purpose reserving majority of shares with them.

MINISTRY OF COMMERCE AND INDUSTRY
KHADI AND VILLAGE INDUSTRIES COMMISSION

General—pages 173—176, para 121.

57. *Utilisation Certificates.*—The funds received from the Government of India by the All India Khadi and Village Industries Board, during the period April, 1953 to March, 1957 and thereafter by the Khadi and Village Industries Commission upto March, 1961 were mostly utilised for the disbursement of loans/grants to the registered institutions/State Boards with a view to enabling them to carry out their development programmes in accordance with the pattern of assistance approved by Government. The position in regard to the receipt of certificates of utilisation of these funds is given below:

(in lakhs of Rs.)

Year	Amount disbursed by the Board Commission			Amount utilised as per certificates	Balance for which utilisation certificates are awaited
	Loans	Grants	Total		
1953—57	1081.69	863.50	1945.19	1718.61	226.58
1957—58	795.72	630.03	1425.75	1031.59	394.16
1958—59	1116.95	731.53	1848.48	1004.16	844.32
1959—60	1123.62	797.33	1923.95	Certificates due by Octo- ber 1961 not yet received.	1923.58
1960—61	1359.95	737.72	2097.67	Certificates not yet due	

From the above table it will be seen that utilisation certificates in respect of Rs. 33,89,04,000 out of loans and grants disbursed by the Commission during 1953—57 to 1959—60 had been outstanding till March 1962.

The position of unutilised balances recoverable from the institutions as per the utilisation certificates received in respect of the funds disbursed upto 1958—59 and the refunds actually received there-against, is given below:

(in lakhs of Rs.)

Year	Amount recoverable	Refunds received amounts regularised	Balance
1953—57	244.27	66.82	177.45
1957—58	127.30	23.90	103.40
1958—59	127.92	Not known	127.92

The above figures indicate that a sum of Rs. 4,06,77,000 is refundable by the institutions concerned, which has not yet been realised.

Asked about the latest position in this regard, the Chairman, Khadi and Village Industries Commission stated that the assistance had been given to (i) State Governments, (ii) State Boards and (iii) Institutions which had been working with the All India Spinners Association and continued, alongwith their off-shoots, to have direct dealings with the Commission. The position with regard to receipt of utilisation certificates from such institutions was satisfactory. The audit parties of the Commission for these institutions had also been strengthened, and arrangements had been devised by which it would be insisted that their accounts should be audited by Chartered Accountants. The position with regard to State Governments and State Boards was not, however, satisfactory. With a view to arriving at a satisfactory solution in their case the matter was being discussed by the Commission with the Ministry of Commerce and Industry, the Comptroller and Auditor General of India, State Governments and State Boards. One of the suggestions under consideration was to attach with every State Board a Financial Adviser who might assist in furnishing the utilisation certificates expeditiously. Some State Governments and State Boards had agreed to this suggestion while others had not. The State Boards were statutory corporations established under enactments of State Legislatures and therefore, it was difficult for the Commission to exercise 'organic control' over them. With regard to State Governments, the view taken was that to the extent this assistance formed part of the Consolidated Fund which was audited by the Accountant General of the State concerned, no specific certificate was necessary. The assistance to State Governments had been given before the State Boards were established. It was not in vogue now.

The Committee desired to be furnished with a list of those organisations which had not furnished the utilisation certificates so far and the amount which had not been certified by them, but the list is still awaited (February, 1963).

The Committee are perturbed at the huge amount of about Rs. 34 crores for which utilisation certificates are over due and are still awaited from various State Boards/institutions as also at the delay in recovering a sum of about Rs. 4 crores which is refundable to the Commission. It is disturbing to note that no effective steps have been taken by the Commission so far against the parties for their failure to furnish the certificates. They wonder if the failure to furnish the utilisation certificates for such long periods does not indicate that the amounts had not been utilised in all cases for the purpose for

which they had been sanctioned. In the absence of any concerted and sustained efforts on the part of the Commission to improve matters all these years, the Committee cannot help feeling that there has been a lack of planning and supervision which is regrettable. To improve this state of affairs the Committee suggest that the following steps be taken urgently:—

- (1) The whole question of the grant of loans etc. be reviewed so as to restrict the assistance to genuine institutions after a thorough verification of their antecedents through State agencies.
- (2) Further grants/loans should not be granted to those organisations which have not furnished utilisation certificates in respect of earlier grants in time. This condition should be made clear also to those organisations who apply for loans for the first time.
- (3) It may also be suggested to the State Governments to impose the conditions stated at (1) and (2) in respect of the loans granted by them to State Boards. The State Governments might be advised to amend the present legislation, in consultation with the Commission, so as to introduce essential provisions necessary to avoid misuse of funds, delay in submitting statements on disbursements and utilisation, audit of the accounts etc. of the State Boards.
- (4) The Ministry of Home Affairs should adopt procedures, similar to those to be adopted in the case of State Boards, in respect of Centrally Administered Territories.
- (5) Suitable provisions in the Societies Registration Act, Co-operative Societies Act and the Rules etc. framed thereunder should be made in regard to advance of loans/grants to Co-operative Societies and other Registered Societies.
- (6) The Commission and the State Boards should keep record of institutions which default in respect of one or more requirements prescribed for grant, disbursement etc. of loans and grants. For serious or repeated lapses, institutions should be black-listed.
- (7) The procedure now under consideration for expediting submission of utilisation certificates by State Governments should be finalised early and the arrears cleared off.

(6) In the case of amounts refundable by institutions, the feasibility of realising the dues as 'arrears of land revenue' might be considered.

58. Loans.—Normally, loans for* working capital for the Khadi Industry given by the Commission were renewable every year if 1/10th of the loans had been repaid by the loanee. In most cases, however, the Commission renewed 90 per cent. of the loan after treating 10 per cent. as repaid and reissued as part of further loans granted to the institutions. In reply to a question whether the Government considered this arrangement as satisfactory, the Secretary, Ministry of Commerce and Industry replied in the negative. He further stated that that was an old practice in vogue from the time the Khadi and Village Industries Commission came into existence and assured the Committee that he would suggest to the Commission to examine this aspect of the matter and change the rules accordingly.

In the opinion of the Committee the procedure adopted by the Commission in advancing further loans to enable the loanees to repay their instalment of 10 per cent and thus renewing the loans violates the very meaning and spirit of the rules. In accounting matters, such transactions are the least expected from a missionary organisation like the Khadi Commission. The Committee suggest that this practice should be put a stop to immediately, and if necessary, the rules may be suitably clarified to prevent such a practice being resorted to in future.

59. Out of the loans disbursed by the Board/Commission upto 31st March 1961, repayments amounting to Rs. 320.26 lakhs were overdue from the institutions in respect of which the loans had not been renewed by the Commission either because the institutions had ceased functioning or for other special reasons. These consisted of Rs. 108.62 lakhs due from Khadi Industries and Rs. 211.64 lakhs due from Village Industries. An analysis of the amounts due from Khadi Industries is given below:—

Khadi Industries

1958-59 and earlier years	Rs. 1.10 lakhs.
1959-60	Rs. 3.18 lakhs.
1960-61	Rs. 74.00 lakhs.
1961-62 (30th June 1961)	Rs. 30.34 lakhs.
Total	Rs. 108.62 lakhs.

*In this connection, attention is also invited to para 23 of the 167th Report of the Estimates (1961-62).

Indicating the latest position with regard to the loans disbursed by the Commission to the Khadi Industries, the Chairman, Khadi and Village Industries Commission stated that out of Rs. 108.62 lakhs overdue, Rs. 85.53 lakhs had since been recovered leaving a balance of about Rs. 23 lakhs. The Committee suggest that vigorous efforts should be made to realise the balance payments of loans which are overdue.

60. Loans to Village Industries.—Year-wise analysis of overdue loans amounting to Rs. 211.64 lakhs was not available. In regard to loans aggregating Rs. 6.64 lakhs, legal proceedings had been instituted or were proposed to be instituted by the Commission against 36 institutions which had gone into liquidation.

Explaining the position, the Chairman, Khadi & Village Industries Commission informed the Committee that most of the small cooperative societies were organised by the various occupations or groups like tanning industry, oil industry etc., and it was on the basis of their own resources that the assistance was given. Sometimes they failed to function properly on account of circumstances beyond their control and the Co-operative Department finding that they had no future ordered those societies to be dissolved. In reply to a question it was further stated that some instances had come to the notice of the Commission where people had organised cooperatives simply to get loans. It was, however, ensured that a certificate of soundness from the Registrar of Cooperative Societies or other Authorities was obtained before the loan was granted but in those cases where the societies were allowed by the Registrar to borrow from outside, such a certificate was not insisted upon. The Committee feel that even in such cases, the certificate of soundness should invariably be obtained from the Registrar.

In the Committee's opinion such a state of affairs indicated that assistance was given to institutions without proper assessment of their capacity to make use of the loans. They feel therefore that the procedure for grant of loans grants and for keeping a watch over the working of these institutions needs tightening up.

The Committee feel that failing other means, legal action should be taken in such cases against the members of the cooperative societies under the Cooperative Societies Act for realising the dues. They hope that the proceedings against the defaulting societies would be expedited. In cases where it is found that the Registrar or the Inspector of Co-operative Societies had given certificates not based on

a proper appreciation of the financial position of the Societies, the Commission should bring such facts to the notice of the State Governments concerned for taking suitable action against the officials.

61. In relaxation of the normal rules, Government granted extension to the period of utilisation upto the 31st March 1960 in respect of funds disbursed upto the 31st March, 1958. Even after the extended period, utilisation certificates were not submitted and were still awaited (March 1962) in respect of grant for Rs. 249.51 lakhs disbursed 4 to 8 years ago.

The Committee desired to know as to why the normal rules were relaxed and under whose authority it was done. The Chairman, Khadi & Village Industries Commission stated that the rules were relaxed by the Ministry of Commerce & Industry at the request of the Commission. **The Committee would like to stress that relaxation of rules should be an exception and not a rule and therefore relaxation should be allowed only after Government is fully satisfied about its necessity. The Committee consider it unfortunate that the utilisation certificates were not submitted even after the extended period. In their opinion, this calls for strong measures against the defaulting parties.**

62. The expenditure on the administration of the Commission has increased from Rs. 66.26 lakhs in 1957-58 to Rs. 112.63 lakhs in 1960-61 i.e. there has been an increase of about 70 per cent. during the last 4 years. Against this, there has been an increase in the total expenditure of the Commission on loans and grants by about 47 per cent. and percentage of such grants and loans distributed through the State Boards has increased from 26 per cent. to 42 per cent. over the same period.

With regard to increase in the expenditure on the administration of the Commission in relation to the increase in the turn over, it was stated that the main reasons were (i) expenditure incurred on the strengthening of the audit parties under the Directorate of Inspections, (ii) expenditure incurred on the introduction of the contributory provident fund, and (iii) revision of pay scales. It was stated in reply to a question that a special committee appointed to examine the workload in each section had submitted a report and as a result there had been some reduction in staff. **The fact that the percentage of increase in the expenditure on the administration of the Commission is disproportionately higher when compared to the percentage of increase in the total expenditure of the Commission on loans and grants for the corresponding period, indicates that there is further**

scope for economy. The Committee, therefore, suggest that a further review of the work load in various sections be made and reduction in expenditure effected to the maximum extent possible.

63. To a question as to why the expenditure incurred on the salaries of the staff employed at the various production centres in different parts of the country was not debited to the Khadi account although these production centres received rebates and subsidies at the same rates as institutions, (as mentioned in para 29, pages 89-90 of the Report of the Khadi Evaluation Committee 1960), the Chairman, Khadi & Village Industries Commission, stated that the cost of production of khadi was higher than the cost of production of other varieties of cloth. If the total establishment charges of the staff engaged in the production and sale activities were put on the Khadi budget, the cost of production would increase very much making it extremely difficult for the Khadi to be marketed. The Committee, however, desired to be furnished with a statement showing the break-up of the expenditure on production and sale of khadi for all the units working under the Commission indicating separately the amount paid to the producer and the amount spent on other items but the same is still awaited (February, 1963).

In this connection, the Committee would like to draw special attention of the Commission to the following observations made in para 4, Chapter 23 of the Khadi Evaluation Committee Report of 1960, with which they are in general agreement:—

“It is, therefore, a matter of primary importance that costs and prices of Khadi should be materially reduced; and, at the same time, wages and earnings of all, who make their living from Khadi, materially increased. Khadi, therefore, has to be placed on a sound basis and assigned a place of its own in our economy, owing to its intrinsic merit, and in a position to realise the dual object of simultaneous reduction of costs and prices and rise in the level of wages. This, of course, means that increase in productivity and reduction of costs has to be adequate enough to provide the surplus needed for raising the level of wages. The community can assume the continued obligation of paying a part of the high cost, as we have said, only if there is a reasonable prospect of this object being realised in practice.”

The Committee suggest that keeping in view the above observations, the question of reducing the cost of production of Khadi and its sale price should be carefully examined and necessary measures taken to achieve this end.

Utilisation of loans and grants—pages 176-177, para 122.

64. During the period 1954-55 to 1957-58, a Saghan Kshetra Vikas Samiti (Intensive Area Cultivation Committee) received Rs. 6.57 lakhs as loans and Rs. 5.30 lakhs as grants, for the implementation of certain schemes. The internal auditors of the Commission, who audited the accounts of the Samiti, pointed out that the Samiti had diverted a large portion of the funds to unauthorised objects. Nevertheless, further loans and grants aggregating Rs. 3.09 lakhs and Rs. 1.66 lakhs respectively were released to the Samiti during 1958-59 for the continuance of the schemes originally sanctioned. An investigation into the affairs of the Samiti, undertaken in December 1960 by the Director of Inspection of the Commission revealed a number of irregularities e.g., loss of cash book and ledger, non-refund of amounts unutilised, spending large sums on activities outside the scope of assistance, irregular payments and borrowings, doubtful transactions, shortage of Ambar sets, etc.

The Committee desired to know why was this Samiti patronised and whether the functions of the Samiti came under the scope of the Khadi Commission. The Chairman, Khadi & Village Industries Commission informed the Committee that it was part of the intensive area programme which was undertaken by the old Khadi & Village Industries Board with the approval of the Planning Commission and the Ministry of Commerce & Industry. The Samiti was expected to see that all the development of the intensive area was integrated with the development of the rural economy. This work was not to be done by the Commission but through some institution or cooperative society. In most of the places Saghan Kshetra Samitis were started which were registered under the Societies Registration Act. There were about 8 or 9 such intensive area centres and all the audit objections related to a particular group of three units. The Committee desired to know whether, in view of the Auditor's Report that the funds were being diverted by the Samiti, the Commission took any special steps to ensure that further loans and grants aggregating Rs. 3.09 lakhs and Rs. 1.66 lakhs respectively would not be misused by the Samiti. The Chairman, Khadi & Village Industries Commission stated that he would look into the matter.

To a question whether the Government permitted the Commission to undertake activities like pipe boring and tube wells, co-operative farming, construction of buildings, etc., the Chairman, Khadi and Village Industries Commission replied in the negative. With regard to instance where certain officials of the Commission had themselves been authorising payments on behalf of the Samiti

or had borrowed monies of the Samiti aggregating Rs. 5,524 for private purposes, which had not been repaid till December, 1960, the Chairman, Khadi and Village Industries Commission accepted the position as correct and stated that before the findings of the Directorate of Inspection were made known, most of the persons concerned had left, but part of the amount had been realised.

During discussion it was also revealed that a secondhand jeep purchased by the Samiti for Rs. 5,684 and on which an expenditure of about Rs. 2715 was incurred on repairs, was sold for Rs. 500 to the Doctor-in-charge of the hospital at that centre.

Loans amounting to Rs. 10.06 lakhs were outstanding against the Samiti on 1st April, 1961. Against this a sum of Rs. 2.33 lakhs were overdue for repayment on that date, of which a sum of Rs. 1.53 lakhs had been refunded by 31st March, 1962. The Chairman, Khadi and Village Industries Commission giving the latest position stated that the amount had since been reduced to Rs. 2.78 lakhs and out of this a sum of Rs. 1.10 lakhs had been refunded before 31st March, leaving a balance of Rs. 1.68 lakhs. It was further stated that steps were being taken to recover the balance also.

The disclosures made in this case make a dismal reading. The extent of irregularities indulged in by the office bearers of the Samiti and the malpractices that went on unchecked only confirm that there has been a total failure on the part of the Commission to safeguard the interests of the Public Exchequer. It is all the more unfortunate that in spite of the fact that the Samiti had been diverting funds for activities which could not be said to fall within the scope of assistance given by the Commission, further loans and grants aggregating more than 4½ lakhs of rupees were given to the Samiti for the continuance of the schemes originally sanctioned. The Committee urge that a thorough investigation be started by the Ministry of Commerce and Industry immediately in this case to ascertain the responsibility of the officers of the Commission through whose negligence public funds were improperly utilised. The question of taking legal action against the ex-office bearers and staff of the Samiti should also be considered; steps should be taken to recover the unutilised grants and amounts spent on unauthorised objects and preventive action taken forthwith to stop further waste of funds through this Samiti.

Irregularities in the disbursement of loans and grants—pages 177-78, para 12s.

65. During the period March, 1954 to June, 1957 loans and grants aggregating Rs. 93,817 and Rs. 91,526 respectively were disbursed to a registered institution, Sagan Kahetra Yojana Samiti, Zariawadi,

for the production of khadi and the development of village industries. In July, 1957, the professional Auditors of the institution commented adversely on the heavy losses and on the unsatisfactory state of accounts in the institution.

Further grants aggregating Rs. 19,111 were disbursed to this institution during the period October 1957 to April 1958. The internal auditors of the Commission, who audited the accounts of the institution in September 1958 reported that the state of accounts of the institution was bad and that unspent balances to the extent of about Rs. 72,000 had not been refunded by the institution. Instead of obtaining refunds of these unspent balances, further loans and grants aggregating Rs. 5,000 and Rs. 13,554 respectively were disbursed during 1958-59 to 1960-61.

The institution was finally closed down in January, 1961. Final audit of its accounts by the Commission's internal auditors in January, 1961 showed that there had been diversion of funds to the extent of about Rs. 38,600 and that, out of the loans and grants amounting to Rs. 98,817 and Rs. 1,24,191, sums of Rs. 52,178 and Rs. 28,738 respectively were due for refund by the institution. A sum of Rs. 5,000 had been recovered till March, 1962.

The Committee desired to know as to why responsibility was not being fixed on the officers responsible for the irregularities and losses referred to in the audit para. Accepting that there was inefficient working or negligence on the part of some officers, the Chairman, Khadi and Village Industries Commission stated that their integrity could not, however, be questioned. With regard to recovery of outstanding loans, it was stated that documents relating to some assets, as immovable property, etc. were taken over as sureties before the loans were actually given but the society went into liquidation and the property had depreciated in value. It was further stated that some changes in the Societies Registration Act 1860 to meet the present requirements were being suggested to States at the instance of the Commission to enable the Registrars to exercise better control over the maintenance and submission of annual accounts and annual reports etc. by such institutions.

This is yet another case where financial assistance to another Samiti continued to be given even after the receipt of adverse comments of auditors in 1957 and despite the comments of the Commission's own internal auditors regarding the bad state of accounts in 1958. Such 'negligence' or 'inefficiency' on the part of officials in financial matters deserves serious action. This case discloses another instance of the failure of the Commission to verify the financial position or standing of the parties before granting loans. They recommend that the Commission might evolve a procedure whereby

better safeguards for the repayment of loans are introduced. If the present provisions in the Act and the Rules/Regulations are considered to be inadequate.

Rajasthan Khadi and Village Industries Board, pages 178-179, para. 125.

66. The Commission sanctioned loans amounting to Rs. 198.45 lakhs and grants amounting to Rs. 62.92 lakhs to the Rajasthan Khadi and Village Industries Board during the period 1955-56 to 1960-61.

Utilisation certificates amounting to Rs. 26.28 lakhs in respect of loans and Rs. 26.25 lakhs for grants disbursed by the State Boards upto 1959-60 to different institutions, had not been received by June 1961. Against these, Rs. 7.56 lakhs in respect of loans and Rs. 7.51 lakhs in respect of grants pertained to the years 1955-56 to 1957-58.

Against an amount of Rs. 17.06 lakhs due for repayment by the end of 1960-61 in respect of loans advanced upto the end of 1959-60, a sum of Rs. 8.92 lakhs only was repaid upto 15th May, 1961.

Monthly statement of accounts and the periodical progress reports as prescribed by the Board were not furnished regularly by several of the institutions.

It was noticed in local audit that in the centres run by the State Board from the funds made available by the Commission—

- (i) purchases of wool worth about Rs. 9.31 lakhs had been made during the three years ending 1959-60 on the basis of negotiations without any written orders specifying the quality and quantity of stores, rates, etc. Certificates of receipts of stores were also not on record;
- (ii) a proper account of the cash memo and receipt books was not maintained;
- (iii) cash books did not contain any certificate regarding physical verification of cash balance at the end of the month; and
- (iv) proper records to account for the receipt and utilisation of raw material issued, and for the production and sale of finished goods had not been maintained.

In reply to a question, the Chairman, Khadi and Village Industries Commission stated that the unsatisfactory position with regard to furnishing of utilisation certificates was almost the same in Rajasthan as in other States. In extenuation of the failure of the Commission to have a proper supervision over these State Boards, the Secretary, Ministry of Commerce and Industry stated that there was no provision in the Statute, which governed these Boards, about

allowing any kind of supervisory control of the Khadi and Village Industries Commission over them. The Comptroller and Auditor General, however, suggested that with a view to overcome this difficulty the Commission could make it a condition of the grant that there would be a certain amount of audit by the Commission. The witness stated that he would examine this proposal as also other possible remedies.

The Committee understand that some remedial measures have since been taken in this case. They are however anxious to ensure that preventive measures are taken in such cases so that such irregularities do not recur. It is essential for this purpose, in the opinion of the Committee, to have a better and stricter control by the Commission over the activities of the State Boards. They trust that the Ministry, in consultation with the Commission and the Comptroller and Auditor General, would be able to evolve a suitable procedure early to meet this end.

Exhibitions, pages 179-180, para. 126.

67. The Commission has been holding exhibitions annually at the time of plenary sessions of the Indian National Congress. The main points noticed in the local audit of the expenditure incurred by the Commission are indicated below:—

1. Nagpur (1958-59).

A. Main Exhibition Accounts.—A sum of Rs. 3·0 lakhs was granted to the Khadi Mandal, Nagpur for making arrangements.

- (i) Although one of the specific conditions attached to the grant was that articles of permanent nature, obtained by the institution, which could be utilised in future exhibitions should be preserved and entered in a stock register and that a list of such articles should be furnished to the Commission, no such register was maintained nor was any list sent to the Commission.
- (ii) Charges for services in connection with the construction of sheds, water supply, sanitation and electric supply were settled by lump sum payment of nearly Rs. 2 lakhs without an agreement specifying the item of work to be done and the rates for each.
- (iii) Against an expenditure of Rs. 56,568 incurred on mess and restaurants, the recoveries amounted to Rs. 15,307 only.

B. Accounts of a joint stall—

- (i) No cash book was maintained at a joint stall set up by some of the trading units of the Commission. The cash transactions amounted to about Rs. 1.75 lakhs. Out of a thousand bill books, which were printed, 611 were not accounted for.
- (ii) Proper quantitative stock accounts were not maintained.
- (iii) Although a period of about 3 years has elapsed since the closure of the exhibition, the accounts have not been finalised till December, 1961.

2. Bangalore (1959-60).

A sum of Rs. 3 lakhs was paid by the Commission as a grant and a sum of Rs. 1 lakh as loans to the Mysore Khadi and Village Industries Board:

- (i) A sum of Rs. 25,000 out of the loan of Rs. 1 lakh has not yet been repaid (February 1962).
- (ii) Six bill books have been found missing. The State Board have, however, promised to prepare a stock account and to furnish proof of the entire receipts having been credited.
- (iii) No account of the stock purchased or disposed of, or of the transport charges incurred had been maintained. The State Board have, however, agreed to reconstruct the accounts with reference to the original vouchers, to authenticate the entries and to draw up a statement of deficiencies.

Nagpur

The Committee desired to know the facts of the case. Explaining the position, the Chairman, Khadi and Village Industries Commission stated that a list of articles consisting of 14 items viz., motor car, cushions, vessels, furniture, water tanks, durries, tables etc. maintained by the institutions had been submitted to the Commission. These articles of permanent nature were not used for any other exhibition because of change of places of exhibitions. With regard to charges for services in connection with the construction of sheds etc., it was stated that these items had been entrusted to one of the Secretaries of the Session of the Congress, and a bill for Rs. 1,99,000 prepared by a body of engineers who supervised the construction etc. under the Construction Committee was received from him. It was only after certification by the body of engineers that the payment was made.

When it was pointed out that such *en bloc* entrusting of work to one person could have been justified only in an emergency and not in the present case under consideration, the Chairman, Khadi and Village Industries Commission agreed with the view. The Comptroller and Auditor General of India brought to the notice of the Committee that the Maharashtra Government who had decided to give Rs. 1 lakh to the Khadi Mandal, gave only Rs. 50,000 and cancelled the rest conveying their displeasure about the irregular manner in which the Mandal had handled their grant.

In regard to recoveries of Rs. 15,307, against an expenditure of Rs. 56,568, the witness stated that the bulk of the payment was in respect of certain adivasi labourers who had to be recruited from outside and brought to Nagpur. With regard to the audit objection relating to the accounts of a joint stall, the Chairman, Khadi and Village Industries Commission informed the Committee that the accounts had been maintained but the manner in which they were kept did not satisfy the audit, and after reconciliation of the accounts with the exhibition authorities, there was no outstanding amount. It was further stated that the accounts had since been finalised.

Regarding the missing bill books, the Member-Secretary, Khadi and Village Industries Commission informed the Committee that they were meant for that exhibition only and accounts relating to that exhibition had been tallied and as such there was no question of misuse of the missing bill books. To a question, the Chairman, Khadi and Village Industries Commission replied that the Khadi Mandal, Nagpur was a registered body and it was one of the oldest institutions engaged in Khadi work.

The Committee are sorry to learn of the irregularities disclosed. In dealing with the Khadi Mandal, it is not understood why action similar to the one taken by the Maharashtra Government in giving assistance was not taken by the Commission also. The best course in such cases would be in their opinion to give grants in instalments so that till the accounts were satisfactorily rendered, the final instalment would not be paid.

The unusual procedure adopted in entrusting construction and other work *en bloc* without a proper agreement and ignoring the quotations already received is also objectionable, as such action runs counter to well-known financial principles. The Committee desire the Commission to take serious notice of such disregard of financial rules and ensure that such cases do not recur.

Banglore

68. To a question whether the sum of Rs. 25,000 outstanding repayment could not be recovered from further grants being paid to the Mysore Khadi and Village Industries Board, the Member-Secretary, Khadi and Village Industries Commission informed the Committee that actually that Board had asked for a grant of Rs. 4 lakhs but it was decided by the Commission that a grant of Rs. 3 lakhs and a loan of Rs. 1 lakh might be given. The Board, however, insisted that the whole amount should be treated as a grant. The Commission was trying to recover the balance of Rs. 25,000 from the Board but if it could not be recovered, it might have to be treated as a grant. It was further brought to the notice of the Committee that office-bearers who were in charge were no longer there and their successors did not want to accept responsibility.

With regard to the missing bill books and non-maintenance of accounts of stock purchased or disposed of etc., it was stated that the bill books had since been accounted for and the relevant accounts relating to stocks had since been reconstructed.

The Committee are unhappy to note that the Commission have not been able to make much headway in recovering the balance of the loan. As already suggested earlier, they feel that failure to utilise loans and grants for purposes for which these are granted and to render proper accounts, etc., should be treated as serious lapses and the question of black-listing such organisations should be considered.

In view of the irregularities disclosed in these cases of exhibitions, the Committee desire that a review should be made of the procedure followed in organising such exhibitions and giving financial assistance therefor. It should also be seen whether the grant of financial assistance by the Commission for holding such exhibitions has in any way resulted in stepping up the sale of the products or in making them popular. If the amounts spent are not commensurate with the results achieved, the question of discontinuance of the practice of giving loans/grants to such exhibitions should be seriously considered.

69. The unsatisfactory working of the Khadi and Village Industries Commission had been adversely commented upon by the Public Accounts Committee in paras. 15—40 of their 34th Report (1960-61) and in paras. 21—27 of their 42nd Report (1961-62).

The Committee are unhappy to note that the facts brought to light in the course of this year's examination of the accounts, including the transactions of loans/grants, etc., dealt with by the Commission

show that despite earlier recommendations, the position seems to have deteriorated further. Despite specific provisions in the Loan Rules of the Commission, the Committee regret to observe that the loans were given without duly verifying the standing and capacity of the recipients. The Commission has persistently failed to exercise checks over the manner in which the money given by them was spent, and to obtain necessary utilisation certificates or to get refunded the amounts not utilised. All this leads the Committee to the conclusion that these aspects of the working of the Commission need a special looking into, so that proper action may be taken against defaulters. It is also necessary to consider to what extent the various activities of the Commission which have not proved fruitful need curtailment.

MINISTRY OF COMMERCE AND INDUSTRY

TEA BOARD

General—pages 180-181, para 127.

70. Under the Tea Act, 1953, the proceeds of the cess on all teas exported or taken outside India are credited to the Consolidated Fund of India. The Act provides that Government may, from time to time, pay to the Tea Board from and out of such proceeds such sums of money as it may think fit after deducting the expenses on collection. The amounts originally provided in the Budget Estimates for payment to the Tea Board and the amounts actually paid during the five years ending 1960-61 are given below:

Year	(In Lakhs of rupees)	
	Amount originally budgeted	Amount finally paid to the Board
1956-57	113	105
1957-58	138	94
1958-59	153	114
1959-60	139	74
1960-61	120	65

These figures indicate that there has been considerable over budgeting from year to year. In this connection, the Committee were informed that the savings during the year 1960-61 were due to (a) revision on the basis of contribution to the three Tea Councils abroad (Rs. 20 lakhs); (b) saving under "Tea Promotion in India" by adoption of certain measures (Rs. 15 lakhs); (c) slow progress of certain development schemes (Rs. 12 lakhs) and (d) postponement of certain research schemes (Rs. 8 lakhs).

In evidence, the Special Secretary, Ministry of Commerce and Industry, while admitting that large amounts were over-budgeted, urged in extenuation that there were more than half a dozen items in respect of which from year to year, the anticipated expenditure could not be incurred for some reasons or the other. With regard to the basis for the revision of formula for contribution to the three Tea Councils viz., (i) the United States Tea Council; (ii) the Tea Council of Canada; and (iii) the West German Tea Council, the Chairman, Tea Board, informed the Committee that it was considered that instead of having a uniform basis, the contribution should be on the basis of actual exports made to those countries in proportion to the total volume of imports into those countries. This revision of the formula resulted in the savings under this item.

In regard to savings of Rs. 15 lakhs under "Tea Promotion in India" and internal publicity, the Special Secretary stated that this saving occurred against the broad background of Government's anxiety not to spend too much money on internal propaganda because they would like to have larger surpluses for export.

Whatever be the reasons for the shortfalls, the Committee are not happy about the persistent shortfalls against the budgetary provisions year after year, as they are clearly indicative of a tendency to provide for larger funds than what could be usefully spent. The Committee feel that the grants made to the Tea Board should have been limited to their capacity to spend. The Committee suggest that the Ministry should restrict the allotment of funds to the Tea Board in the light of past performances, specially in view of the present emergency.

71. The amounts shown above as finally paid to the Board were utilised by them broadly as under:

(In lakhs of rupees)

Year	Admi- nistra- tion	Propaganda		Capital	Sta- tics	Tea	Labour	Mis- cellan- eous	Cash in hand
		In India	Abroad	expen- diture		Licenc- ing	Welfare		
1956-57	7.10	23.44	48.08	1.24	1.65	4.04	4.36	0.27	40.62
1957-58	8.92	26.79	52.25	1.96	2.03	4.40	6.26	1.51	38.13
1958-59	9.36	32.21	43.26	6.01	2.09	4.44	6.46	1.11	57.90
1959-60	9.27	24.01	45.73	4.10	1.98	4.78	7.42	2.88	42.21
1960-61	8.72	18.23	30.11	2.60	2.12	4.60	5.00	6.47	40.05

In regard to the amounts spent on propaganda in India, while noting that the figures have been progressively reduced, the Committee are of the view that the figures are still on the high side.

With regard to expenditure amounting to Rs. 18.23 lakhs incurred in 1960-61 on propaganda in India, the Chairman, Tea Board stated that out of this amount a sum of Rs. 4 lakhs had been spent on cars, press publicity, special publicity, etc. and the rest on administration i.e., tea centres, including rent, as well as contingent expenditure and staff etc. He further stated that as much as possible, the staff was being diverted for external publicity. The Committee are unable to appreciate the reason why the Government while they desire to have more and more quantities of tea for export to foreign countries should spend heavy amounts for propagating consumption of tea internally which is already being done by the private trade themselves. Nor do they see any justification for spending any sums of moneys (about Rs. 14 lakhs) on staff and establishment for internal propagation which could be much better utilised for propagating the promotion of tea sales abroad, which is stated to be the avowed policy of Government and which is now so essential in view of the heavy drop in the export of tea during 1961 as compared to the year 1956.

In respect of the propaganda for tea promotion abroad, the Committee feel that the present policy needs reorientation. In their opinion, propaganda work should be concentrated more in those countries where consumption of tea was appreciably less, while some work should continue in the countries where the rate of tea consumption was quite high in order to ensure that there was no fall in the level of consumption.

72. When the Committee desired to know why the cash balance with the Tea Board had been so heavy from year to year, the witness stated that the main reason for such heavy balances was that the grants were made twice a year and the grant made in February-March, could not be spent by the end of March as it was meant for the next six months. The Tea Board was now investing surplus cash balances in excess of Rs. 10 lakhs in interest bearing deposits with the State Bank of India.

The Committee do not consider it proper that money should be taken out of the Consolidated Fund and placed at the disposal of the autonomous bodies to be invested in a Bank in their accounts, and particularly when there have been heavy cash balances year after year as has been the case with the Tea Board. Moreover, it is wrong in principle to allot and advance funds to autonomous bodies whose ever they may be much in excess of their requirements. The Committee suggest that steps should be taken to keep the cash balances to a minimum figure.

The Committee also suggest that a system of personal ledger account might be introduced in such cases to enable the autonomous bodies concerned to draw the money as and when needed. This system may be introduced straightaway in the case of Tea Board.

Development of Tea Growing Areas

73. When the question regarding the saving of Rs. 12 lakhs on account of slow progress of certain developmental schemes came up for discussion, the tea problem of Kangra Valley was raised. The Committee were informed by the Chairman, Tea Board, that there were certain uneconomic areas like Cachar and Tripura where there was chronic failure of crop and in order to keep up the economic cost, schemes of giving fertilizers and offering them transport subsidy had been sanctioned. With regard to Kangra Valley, the Punjab Government were distributing fertilizers at a cheaper rate.

The Committee were informed that green tea was grown in the Kangra Valley and in Dehra Dun and that price of green tea was much higher than the price of black tea. The representative of the Ministry conceded that not much had been done by the Tea Board for development schemes for these areas. The Committee are, therefore, unable to find any justification for such large saving on development schemes (to the tune of Rs. 12 lakhs) on the one hand and on the other the failure to improve the production of green tea which has a good export market. They trust that proper attention to this aspect would be given in future.

Infructuous expenditure—page 181, para 128.

74. The Board hired accommodation in Cairo with effect from the 1st February, 1959 at a monthly rental of £ (E) 378 (Rs. 5,040) plus municipal taxes, in connection with the setting up of an office-cum-tea centre in Egypt. The Tea Adviser-designate, however, joined his post at Cairo about seven months later on the 10th September, 1959. The decoration and furnishing, and other preliminaries took another year and eight months thereafter and the Tea Centre was formally inaugurated on the 14th May, 1961.

The Ministry explained that the formalities connected with the selection of the officer and the terms and conditions of the appointment took some time after the premises had been rented in February, 1959, that the officer had to undergo a preliminary training in tea tasting, blending, etc. and that the work of decoration and furnishing was taken up after the officer had reached Cairo (September, 1959).

The hire charges for the accommodation amounted to Rs. 60,000 per year and the expenditure on the pay and allowances of the Tea Adviser and his establishment after September, 1959, amounted to Rs. 44,000 per year.

In evidence, the Special Secretary, Ministry of Commerce and Industry accepting that this delay was most unfortunate, stated that appointment of an officer and renting of premises simultaneously was actually not possible. The normal procedure was that a decision to establish a centre was taken first and appointment of an officer followed later. Sometimes, it so happened that an opportunity for securing premises could not be missed in order to avoid difficulties that might otherwise arise. In the present case, the building was to be used as a Tea Centre and for that the Architects had to be consulted, quotations had to be invited, etc. The witness, however, added that the delay that took place subsequent to the appointment of the officer could have been avoided by delegating more authority to the Ambassador there.

Regarding the question of loss referred to in the Audit para and fixing responsibility in the matter, the witness stated that it was difficult to pin down responsibility on any single officer as it was an unfortunate combination of circumstances that led to this loss.

The Committee feel unhappy over the inordinate delay and the resultant loss (about Rs. 2 lakhs) that had occurred in this case. In their opinion, with a better planning and coordination with the Indian Embassy in Egypt and a sense of urgency, the Tea Centre could have started functioning much earlier. Moreover, in the absence of the Tea Adviser designate, the Centre could have been started under the guidance of someone else with some knowledge of catering, etc. during the interim period. They hope that such cases will not recur.

*Irregularities in a contract for the supply and installation of lifts—
page 182, para 129.*

75. The Board, with the approval of the Ministry of Commerce and Industry, placed a contract on the 29th June, 1959 for Rs. 3.87 lakhs on a firm for the supply and installation of imported lifts in their new building in Calcutta. A lower offer of Rs. 3.57 lakhs from another firm using mostly indigenous components and involving a saving of foreign exchange of Rs. 1.96 lakhs was ignored on the advice of the Board's Architects on the ground that the firm whose offer was proposed to be accepted was excellent both in respect of the execution of the contract as well as from the maintenance point of view. The Ministry of Finance, who were approached for the release of foreign exchange on the 26th November, 1959 after the contract had been finalised, held that the rejection of the lower offer was unjustified and gave their concurrence under protest with the observation that there had been a failure to devote proper attention to the necessity of conserving foreign exchange.

Explaining the reasons for rejecting the lower offer and thereby incurring a loss of foreign exchange and an extra expenditure of Rs. 30,000, the Chairman, Tea Board stated that there was an *ad hoc* technical building committee with which the consulting engineer of the West Bengal Government was also associated, and this Committee examined in detail the merits of various tenders and selected the GEC, as the tender was according to the specifications, besides the past performance of the company. This decision was ratified by the Tea Board and the matter was referred to the Government of India who in turn consulted the C.P.W.D. and they also endorsed the recommendation of the Tea Board. With regard to the obtaining of prior consent of the Ministry of Finance for the release of foreign exchange, it was stated that before the finalisation of the contract it was not feasible to do so.

The Committee are not convinced of the reasons justifying the rejection of the lower offer. They are unhappy to note that in these days of foreign exchange difficulties, the Tea Board failed to realise the utmost need to conserve foreign exchange, and in the process incurred an additional expenditure of Rs. 30,000 which could have been easily avoided. They hope that the Ministry of Commerce & Industry would issue strict instructions in the matter to all concerned so that such cases do not recur.

Delay in the publication of the Annual Report of the Tea Board.

76. Mention was made, incidentally, of the delay in the publication of the Annual Report of the Tea Board, in the course of the evidence. The Committee desired to know why the Annual Report for the year 1957-58 was published late, in 1959. It was admitted that there had been some delay in this regard but the witness assured the Committee that the annual reports would be brought upto date.

The Committee understand that the Annual Reports of the Tea Board for the years upto 1960-61 have since been published. They desire that a provision be made in the Rules fixing a time-limit within which the Annual Administration Reports of the Tea Board should be published so that the latest position showing the correct picture of the Board is available. Similar provision should be made in the case of other autonomous bodies also, wherever it does not exist already.

MINISTRY OF MINES & FUEL

COAL BOARD

Arrears in recovery of cess—page 183, para 131.

77. The excise duty on coal, levied under section 8 of the Coal Mines (Conservation and Safety) Act, 1952, in the case of despatches

by means other than rail, is required to be remitted by the collieries to Government on or before the last day of the month following the month for which the payment is due.

It had been noticed that a sum of about Rs. 3.95 lakhs, representing the duty in respect of coal and coke despatched by means other than rail during the period 1954-55 to 1960-61, was awaiting recovery from different collieries as in April, 1962. Out of this, sums totalling Rs. 76,483 had been outstanding for 3 to 7 years. Government have stated that the Coal Board had been advised on 9th November, 1961 to pursue the matter vigorously for the recovery of the unpaid cess through the respective State Governments as arrears of land revenue.

With effect from 24th July, 1961, the Coal Controller had introduced a coupon system requiring prepayment of excise duty.

During the course of evidence, the Committee desired to know the reasons for delay in realisation of cess in respect of despatches by means other than rail, resulting in heavy accumulation of arrears. The Secretary, Ministry of Mines & Fuel ascribed it mainly to "lethargy" on the part of both the collieries and the collecting staff. In some cases, the delay was also occasioned by disputes regarding transfer of proprietary rights in collieries; but the number of such cases was not large.

As regards the measures taken for the expeditious recovery of arrears, the Secretary, Ministry of Mines & Fuel stated that pursuant to the suggestion of the Ministry, the State Governments had issued instructions to Collectors to recover these dues, as arrears of land revenue. This had, however, not resulted in any satisfactory improvement in the position. The Committee desired to know the reaction of the Ministry to a suggestion not to issue further permits for despatch of coal to defaulting collieries unless they had paid up the dues. The Secretary of the Ministry agreed that this could be done and might help in expeditious recovery of outstandings.

The Committee regret to observe that due to 'lethargy' on the part of both the collieries and the cess collecting staff, heavy arrears of cess had accumulated in respect of despatches by means other than rail. They also observe that instructions issued by State Governments to Collectors to recover the dues, as arrears of land revenue, had not brought any satisfactory improvement in the position. The Committee, therefore, desire the Ministry of Mines & Fuel to examine the feasibility of directing the Coal Controller not to issue further permits to defaulting collieries for despatch of coal unless they have paid up the cess arrears. The Committee hope that with the introduction of the coupon system, arrears would not accumulate in future.

MINISTRY OF FOOD & AGRICULTURE
INDIAN CENTRAL ARECANUT COMMITTEE

Indian Central Arecanut Committee—Import of Arecanuts—page 184, para. 133.

78. During the local audit of the accounts of the Indian Central Arecanut Committee, Kozhikode in November-December 1960 it was noticed that 4-5 lakhs maunds of arecanuts were imported annually at a cost varying from Rs. 113 to Rs. 116 per maund inclusive of customs duty, freight and other incidental expenses. The market price of arecanut at different centres in India, however, varied from Rs. 185 to Rs. 195 per maund and it thus became possible for the importers to make a profit of the order of Rs. 3 to 4 crores a year, in all. The Resolution of Government of India constituting the Arecanut Committee in May 1949 (Vide Appendix II) provided for the import of arecanut by the Committee, but this had not been implemented. A suggestion was, therefore, made by Audit to the Arecanut Committee in January 1961 that the import of arecanut might be arranged by the Committee or through an institution like the State Trading Corporation of India in order to avoid the accrual of an undue increase of profits to importers.

The Ministry stated (in January 1962) that the question of import of arecanut by the Committee had been considered and that it was decided that the Committee should not handle imports of this commodity. If the work was to be entrusted to a Government agency, the State Trading Corporation would, in their opinion, be the appropriate organisation for it and a decision had accordingly been taken to make some import allocations of betel-nuts and other spices to that Corporation.

At the outset the Special Secretary, Ministry of Food and Agriculture (Department of Agriculture), informed the Committee that the functions of the Arecanut Committee were to assist the Government in improving and developing the production and marketing of arecanuts and to recommend maximum and minimum prices to be fixed, as also to control the purchase and distribution of imported arecanuts.

To a question as to why the import of this profitable commodity was not entrusted to the State Trading Corporation if the Indian Central Arecanut Committee did not do it, the witness stated that the State Trading Corporation had been given import allocation. A ceiling of Rs. 8 lakhs for each of the licensing periods April to September 1961, October 1961 to March 1962 and April to September, 1962 had been allocated to the State Trading Corporation. In view of the huge margin of profit in this business the Committee desired

to know as to why such a small quantity was assigned to the State Trading Corporation. The witness stated that the Ministry of Food & Agriculture (Department of Agriculture) had recommended to the Ministry of Commerce & Industry that the whole of the import should be made through the State Trading Corporation.

In a note furnished at the instance of the Committee, the Ministry of Commerce and Industry have stated that "the import of arecanuts was entrusted to the State Trading Corporation to a very large extent and out of a total ceiling of Rs. 14.55 lakhs allocated for import of arecanuts, the State Trading Corporation was granted import licences in the licensing period April—September, 1961 for Rs. 8.05 lakhs and the normal trade for Rs. 6.5 lakhs. These allocations were continued in the subsequent licensing periods. However, in the current licensing period October 1962—March 1963 a cut of 50 per cent. has been made in the established importers licences. An *ad hoc* cut has also been proposed for actual users licences".

While the Committee are glad to learn that the major portion of the import of arecanut has now been entrusted to the State Trading Corporation, they feel that this action should have been initiated much earlier when unduly heavy margin of profit was going into the hands of private importers. In fact, as stated in the Audit para the resolution of the Government of India constituting the Arecanut Committee in May 1949 had already authorised that Committee to handle the import of arecanut themselves.

In regard to a question as to what action had been taken to see that the consumers got arecanuts at a reasonable price, the Secretary of the Ministry stated that the Arecanut Committee had no statutory power to fix the prices but they could only recommend the maximum and minimum prices to be fixed for arecanut; control purchase and distribution of imported arecanut and adopt such other measures or perform such other duties as might be required by the Government of India but the Arecanut Committee was not equipped to perform all these functions. If at any time Government desired that these functions should be carried out by Arecanut Committee, then they would have to equip themselves with the necessary staff, distribution agents, machinery for control etc.

It was stated further that the Arecanut Committee had not recommended the maximum and the minimum prices of arecanut.

With the taking over of a major portion of the import of arecanut by the State Trading Corporation, the Committee hope that the market price in India will come down. They would desire the Indian Central Arecanut Committee to recommend the maximum and the minimum prices for this commodity in consultation with the State Trading Corporation.

The Committee would also like to invite attention to para 2(13) of the Resolution of the Government of India dated the 21st May 1949, which laid down certain functions of the Indian Central Arecanut Committee. The Ministry should review the position in order to see what duties are required to be performed by the Arecanut Committee to be of real benefit to the actual consumers of arecanut in this country.

VI

GENERAL

79. The Committee in the course of their examination of the working of the various public undertakings had noticed that the Annual Reports of some of these undertakings were lavishly produced, with high quality paper, coloured charts and graphs and photographs. In view of the great need for economy in the present emergency so as to strengthen the sinews of defence, the Committee feel that large amounts could be saved if the Annual Reports of all Public Undertakings were produced in the simple manner of the Annual Reports of the various Ministries of the Government of India. The Committee trust that Government will issue necessary instructions to all concerned in this matter.

80. The Committee also came across a case where a lower offer for installation of lifts using mostly indigenous components and involving a saving of foreign exchange of Rs. 1.96 lakhs was ignored and an additional expenditure of Rs. 30,000 was incurred. In another case, while order was placed for indigenously produced material, the indigenous producer himself had to import raw-material which accounted for the major portion of his own cost, thus defeating the very purpose of placing orders for indigenous material. The Committee would therefore like Government to impress upon the Ministries/Undertakings the imperative need for conserving foreign exchange in all possible ways in the present juncture, so that it might be utilised more fruitfully for the more pressing needs of the country.

81. The Committee observed that in one case, the expenditure on administration and establishment was disproportionately higher when compared to the total expenditure of the Undertaking. They desire that efforts should be made to reduce the expenditure on administration and establishment in the Public Undertakings to the extent possible without in any way impairing the efficiency.

NEW DELHI,
The February 20th, 1963.
Phalgun 1, 1884 (Saka).

MAHAVIR TYAGI,
Chairman,
Public Accounts Committee

APPENDIX I

(See para. 2 of Report)

AUDIT OF THE ACCOUNTS OF GOVERNMENT COMPANIES

The legal provisions regarding the audit of accounts of Government Companies are stated in the Companies Act. Briefly it provides that the auditor of the company shall be appointed on the advice of the Comptroller and Auditor General. The latter has authority to issue directions to the auditor in regard to the manner in which the company's accounts shall be audited and to give such auditors instructions in regard to the performance of his functions. A copy of the report of the auditor has to be submitted to the Comptroller and Auditor General who has the right to comment upon or supplement the report. For this purpose, he has to review the work of the professional auditors by applying a broad check of the Balance Sheet, Profits & Loss Account etc. This is done under Section 619(4) of the Companies Act. In order to ensure that the professional auditors perform their functions adequately and their audit throws up useful data and information for a better appreciation of the financial working of the concerns, directions can be issued to them under Section 619(3) (a) of the Companies Act. In addition, the Comptroller and Auditor General has authority under Section 619(3) (b) of the Companies Act to conduct a supplementary or test audit of the accounts of these concerns. This audit does not involve redoing the work of the professional auditors but is efficiency-cum-propriety audit.

2. Until lately, the manner in which the provisions of the law relating to the Companies were implemented was as follows:—

- (i) As regards the appointment of Auditors, the practice was for the Companies themselves to recommend either a name or a panel of names to Government. The latter then sent their recommendations to the Comptroller and Auditor General for acceptance. In other words, the Comptroller and Auditor General's function was limited to an approval of the proposal made by Government with or without the recommendation of the Company itself.
- (ii) No directions had been issued to these Auditors in pursuance of Section 619(3) (a) of the Companies Act relating to the performance of their functions as Auditors.

(iii) The review of the reports of the Auditors under Section 619(4) of the Companies Act used to be done in each and every case.

(iv) Separate audit parties, resident or otherwise, used to do an efficiency-cum-propriety audit in addition to the Statutory audit conducted by the professional Auditors.

3. Certain changes have been recently made in the various procedures outlined above and these are indicated below:—

(i) As regards the appointment of Auditors, Section 619(2) of the Companies Act requires that the Auditor of a Government Company shall be appointed or re-appointed by the Central Government on the advice of the Comptroller & Auditor General. It was felt that the practice followed till lately goes directly against the spirit and letter of this provision; the intention obviously is that the matter of selection of Auditors neither the Companies, whose accounts are audited nor Government should have a direct say. The Companies themselves are interested in having favourable reports and the fact that an Auditor knows that his appointment or re-appointment depends, to some extent, on the wishes of the Company itself, is likely to affect his independence. It is also important that the Comptroller and Auditor-General himself should give his advice unaffected by the views of the Company or the Government. It has therefore been laid down that, in future, Government will ask for the advice of the Comptroller and Auditor General for the appointment of an Auditor sufficiently in advance. No name or names of Auditors are to be recommended and if any recommendation of the Company concerned has been received, such recommendation is also not to be forwarded. For purposes of selection of Auditors, the Comptroller and Auditor General has framed a panel based generally on the qualified staff available to each of these Auditors' firms and the work load at present with them. This panel will be reviewed periodically to see if any of the firms is to be deleted from the panel on the basis of their performance and new names included. In future, selections will be made from among this panel without reference to the wishes of the Company or of Government.

(ii) As stated above, no directions had so far been issued in pursuance of Section 619(3) (a) of the Companies Act.

One of the reasons was that most of the Companies were in stages of construction and it is only recently that most of them have established production. The normal certificate of professional Auditors as given under Section 227 of the Companies Act, relates only to the correctness of the balance sheet and the profit and loss account. Whatever the utility of such certificate in the case of private Companies, the Comptroller and Auditor General considers that so far as Government Companies are concerned, it is impossible to form a judgement of the efficiency of these Government Companies only from the balance sheet and the profit and loss account. The Capital structure, the pricing policy, production standards, labour relations, etc. of Government Companies differ materially from those of their counterparts in the Private Sector. Quite often concessions are given to these Companies in the form of interest free loans which an ordinary commercial concern is not in a position to get. Unlike private Companies the maximisation of profits is neither the primary motive nor is the only index of success of Government Companies. Dealing largely as they do with commodities of public utility such as Penicillin, D.D.T., Telephone equipment etc. or with the basic industrial products such as Steel, Electrical equipment etc., the maximisation of profits cannot obviously be the over-riding motive in operating them.

If, then, the balance-sheet and the profit and loss account are not a true measure of their success, there must be other ways of satisfying Parliament that they are being run efficiently. It is necessary, therefore, to prescribe some tests by which it may be possible to have a more correct appreciation of their financial working. Partly, some idea can be obtained from the efficiency-cum-propriety audit conducted by the Comptroller and Auditor General. This, however, is only a test audit and is not comprehensive. The Comptroller & Auditor General has therefore now issued directions to all professional Auditors that they must answer queries in particular matters which will give an indication of their efficient working. A copy of the directions so issued is enclosed. (Annexure).

There is no doubt that the professional Auditors will claim some extra fee for the additional work involved. It is considered, however, that in the interest of Parliamen-

tary control such extra fee is more than justified. In fact Government welcomed the step taken by the Comptroller & Auditor General.

- (iii) As regards the review of the balance-sheet and profit and loss account as certified by the professional Auditors, experience has shown that no great purpose is served by a mere review of these accounts as such. In order that the staff available to the Comptroller & Auditor General may be deployed on more useful work as stated in the subsequent paragraph, it has therefore been decided that such review can be conducted annually only in the case of Companies with a paid-up capital of Rs. five crores and above and companies in the process of construction or operating for one or two years after construction. In the case of smaller Companies this will be done periodically, say once in three years.
- (iv) As regards efficiency-cum-propriety audit, this is outside the normal functions of professional Auditors and the Comptroller & Auditor General attaches the greatest importance to this. He considers that the existing staff available to him is not adequate for the purpose and that he must not only strengthen it but relieve it from such work as is not essential for the purpose. With this aim in view, he has reduced the extent of review conducted under Section 619(4) of the Act and also upgraded some of the posts in this Organisation. It is hoped that in course of time it may be possible to have adequate staff to deal with the work in those Statutory Corporations and Companies on which Government have invested very nearly Rs. 1,000 crores upto date.

4. As regards reporting to Parliament on the operations of Government Commercial Undertakings, the practice so far is for the Comptroller & Auditor General to comment on the technical aspect of the balance-sheet and the profit and loss account as certified by the professional Auditors, and the conventional Audit Reports contained only points of interest arising from the efficiency-cum-propriety audit conducted by him. It is considered that in view of the great importance attached by Parliament to the working of Government Commercial Undertakings, the Comptroller & Auditor General should issue a more comprehensive annual report on these Undertakings. He has decided that such annual review should broadly take the following form:—

- (a) The overall review of the financial working of the Undertakings run as Government Companies.

- (b) A broad summary of the results obtained by professional Auditors in pursuance of the directions given to them as referred to in para 3(ii) above.
- (c) A detailed review of the working of some of these Undertakings from their very inception. Each year as many Companies will be selected for such review as the limitations of staff permit and the endeavour will be to see that each important Undertaking comes within the scope of review at least once in five years.
- (d) Points that emerge from the efficiency-cum-propriety audit conducted by the Comptroller & Auditor General.

(5) It may be worthwhile to examine the practice that is followed in this matter in some other countries. In U.S.A. there is no institution of Government Companies as we have in our country but the Government Corporations in the industrial and commercial field have started operation in that country from the thirties of this century. Gradually, legislative control over these Corporations increased resulting in the enactment of the Government Corporation Control Act of 1945. Under this Act, the Corporations were divided into wholly owned Government Corporations and mixed ownership Government Corporations. The former has to submit their annual budget to the Bureau of Budget and the budget programmes as modified by the President are included in the budget estimates presented to the Congress for provision for funds or other financial resources. The Act made the Comptroller General of U.S.A. responsible for the audit of these Corporations in accordance with the principles and procedure applicable to Commercial Corporation transactions and under such rules and regulations as may be prescribed by the Comptroller General. In the case of mixed ownership Corporation, the approval of budgets was dispensed with but the audit by the Comptroller General was retained.

6. In U.K. there are no Government Companies, but there are Public Corporations established by Acts of Parliament or by Charter. When coal and transport were nationalised, Public Corporations were set up. The Public Corporations obtain their funds by the issue of interest bearing stock having Treasury Guarantee, advances from the Treasury and Treasury Grants. The audit of their accounts in the majority of cases is not conducted by the Comptroller and Auditor General of U.K. Where a Public Corporation is wholly or mainly dependent on money voted by Parliament as in the cases of New Towns Development Corporation or the Atomic Energy Authority, the Comptroller and Auditor General is usually given the power either to audit or to examine and certify the accounts. The Public Accounts Committee can no doubt examine

all financial reports, including those of the Public Corporations, which are placed before the House. The Public Accounts Committee in U.K. have examined the accounts of some of the Nationalised Industries. The professional Auditors appointed by Government are summoned by the Committee but their work does not extend to anything in the nature of an efficiency-cum-propriety audit or even to reporting upon extravagant expenditure. Such an examination was hardly satisfactory. The reason for this is obvious and has been succinctly stated in Bradshaw's 'Parliament and the Nationalised Industries' as follows:—

"It is certain that without the detailed examination of the Departmental Accounts conducted by the Comptroller and Auditor General and the continuous assistance that he gives the Committee during their scrutiny of the accounts, the achievement of the Committee would be less effective than at present But it is precisely this detailed examination and this continuous assistance which are effectively denied to the Committee when the accounts of the Nationalised Industries are considered."

7. To remedy this lacunae in the matter of Parliamentary control a special Standing Committee of Parliament has been appointed to go into the reports of the Public Corporations dealing with Nationalised Industries. It was hoped that the members of the Committee would be able to give intensive study to the problem, interrogate witnesses and investigate papers. This Committee have produced a few reports but here also the results are far from satisfactory. And the reason is not far to seek. Without a detailed examination of the accounts by an expert agency like the Comptroller and Auditor General and his assistance in the matter of examination and investigation, the Committee are unable to concentrate attention on matters where such concentration and probing are needed. The Select Committee of Parliament which recommended the setting up of the Special Standing Committee for examination of the reports of Nationalised Industries specifically recommended that "The staff of the Committee should include an officer of the status of the Comptroller and Auditor General who should be an officer of the House of Commons with high administrative experience". The House while accepting the recommendation to set up the Special Standing Committee did not accept the recommendation to create an officer of the status of the Comptroller and Auditor General.

8. Management of Public Undertakings by the formation of Companies is a new experiment. Technique of audit, of assessing their efficiency and of Parliamentary Control will have to be developed

and perfected on the basis of experience. The first step taken towards this end are reported to Public Accounts Committee for information and such comments as the Committee may wish to make.

ANNEXURE

A. K. Mukherji,

D.O. No. 501-Admn. III/19-62

Addl. Dy. Compt. & Auditor
General of India (H).

Office of the Comptroller & Auditor
General of India, Mathura Road,

New Delhi-1, Dated the 26th March, 1962.

Dear Sir,

By virtue of the powers vested in him under Section 619(3) (a) of the Companies Act, the Comptroller and Auditor General has been pleased to direct that in respect of the Central Government Company/Companies of which you are appointed as auditor under Section 619 of the Companies Act, you will audit the Company's accounts in a manner so as to enable you to answer the questions as in the enclosure. These directions are supplementary to all other duties laid upon you by the various provisions of the Companies Act.

These directions become effective from the accounts of 1961-62 onwards; that is to say, you are to be guided by these directions in regard to the audit of the accounts for the year ending 31st March, 1962 and subsequent years.

2. Your answers to the various matters specified in the directions should be prepared in the form of a report in addition to the report furnished under Section 227 of the Companies Act. This report should be submitted to the Company along with the certified copy of the Balance Sheet and Profit and Loss Account or as soon as possible thereafter within a period not exceeding two months. Two copies of this report should also be sent to this office. However, in regard to the accounts of 1961-62, the report may be sent to the Company and this office within four months of the submission of the Balance Sheet and Profit and Loss Account or by 30th September, 1962, in case it is not possible for you to furnish the report along with the certified Balance Sheet and Profit and Loss Account of the Company

3. The receipt of this letter may kindly be acknowledged.

Yours faithfully,

Sd/-

(A. K. Mukherji).

Enclosure

Directions issued under Section 619(3) (a) of the Companies Act.

I. System of accounts and book-keeping --

(1) Has the Company issued appropriate instructions laying down the respective duties and responsibilities of various officers in regard to the maintenance of accounts? Does the Auditor consider, on the basis of test checks exercised, that the accounting system is adequate for purpose of preparation of final accounts as well as for purpose of "auditing in depth" which involves tracing a transaction through its initial to final stage? If not, what are the main deficiencies?

(2) Are the books of account and the accounts records properly maintained up-to-date? If not, the deficiencies may be pointed out.

The auditor may indicate when the final draft of the accounts is given for audit.

(3) In regard to a Company with subsidiary units or branches, does the Head Office maintain proper control accounts of branches? Is there any drawback in the system of control accounts maintained?

(4) Is the allocation of expenditure during construction between Capital and Revenue properly done so that the cost of an identifiable unit of plant (e.g., Coke Oven in Steel Plant) can be ascertained? If not, the defective cases should be indicated.

II. Internal Control

(1) Has the Company issued adequate instructions indicating the financial powers of heads of branches and their subordinates? Does the procedure provide for adequate financial checks and safeguards?

(2) Is there an internal audit system? Are you satisfied that the important points thrown up by the internal audit have been considered by the Administration and necessary action taken? If not, indicate the more important points on which consideration action is outstanding. Have any drawbacks in the system come to your notice?

(3) Does the Company prepare the budget for a financial year with adequate details sufficiently in advance? If so, the actual performance in regard to control over revenue and expenditure in relation to budget provision may be indicated.

III. *Manufacturing and Production Accounts*

(1) Does the Company maintain periodical quantity accounts of production of the major products? How do these compare with the periodical targets fixed?

(2) Does the Company prepare accounts indicating the cost of a unit of its major products? Have you any general comments to make on the effectiveness of the system of cost accounting?

(3) Are records maintained for determining the rejections in production? Have you noticed any abnormal variations?

IV. *Profit & Loss Account*

(1) On what basis are the selling prices of various products of the Company fixed? How do they compare with the cost of production?

(2) Has adequate financial provision been made for maintenance of plants and machinery? Are there standby plants? If so, how far are they worked during the year as ascertained from the records of the Company?

(3) Has the Company obtained any waiver or moratorium of interest on loans obtained by it from Government or others? To what extent has the Profit and Loss Account of the year been affected by such a concession?

V. *Balance Sheet*

(1) What are the total volume of books debts during the last four years as on the dates of the respective balance sheets? What are the amounts of debts outstanding for more than one year?

(2) Does the system of procurement and disposal of stores ensure that (i) stores much in excess of the reasonable requirements of maintenance and production are not accumulated; (ii) the amount of (a) surplus and (b) unserviceable stores are periodically determined; and (iii) surplus and unserviceable stores are disposed of without undue delay? Have you any comments on the operation of the system?

VI. *General Review*

(1) What is the ratio of long term loans advanced to the Company to the paid up Capital?

(2) What is the return on Capital invested (Share Capital, long term loans and free reserves) during the last four years?

(3) What is the (i) ratio of closing stock to net sales, (ii) ratio of net profit to net sales, (iii) ratio of cost of sales (goods) to net sales (iv) ratio of current assets to current liabilities, over the four years ending with the year's amounts which are audited?

(4) What are the subsidies/grants paid during the last 5 years by Government to the Company?

(5) What is the trend of maintenance cost of Service units for the benefit of the staff during the last four years? Are *proforma* accounts maintained in respect of their operation? If so, what are the results?

VII. General

Have you any other observations to make in regard to the accounts of the Company or their financial working?

APPENDIX II
(See para 78 of Report)
INDIAN CENTRAL ARECANUT COMMITTEE
GOVERNMENT OF INDIA
MINISTRY OF AGRICULTURE
RESOLUTION
New Delhi, the 21st May, 1949

No. F.43-11/48-Comm.—During the summer of 1945 representations were made to the Government of India by individual producers as well as Arecanut Associations in South India regarding the deplorable plight of the Arecanut Industry, of the heavy cost of cultivation and poor returns to them mainly due to the absence of scientific research to improve cultivation and augment production, the ravages wrought by the Mahali disease and the ill-developed method of marketing in vogue. The possibilities of cheap and heavy imports of arecanut from the Strait Settlements, Ceylon, etc. and their effect on the local price were also stressed upon them. They demanded some control with a view to regulate the marketing of local and imported nuts.

The Government of India decided that the annual grant to the extent of expenditure, but not exceeding Rs. 5 lakhs required by the Committee, be given to the Indian Council of Agricultural Research for financing measures for improving and developing the production and marketing of arecanut in the country. The Government of India also set up an *Ad hoc* Committee under the Indian Council of Agricultural Research to consider preliminary measures for effecting improvements in the arecanut industry and formulate a coordinated scheme for the purpose. This *Ad hoc* Committee recommended that a Central Arecanut Committee should be set up and that for the present the secretariat work of the committee should be entrusted to the secretariat of Indian Central Coconut Committee. The Government of India have accepted this recommendation in principle and have decided to set up a Central Arecanut Committee which will be a body corporate registered as a Society under the Registration of Societies Act (XXI of 1860) with headquarters at Ernakulam or such other place as the Committee may decide.

2. The functions of the Indian Central Arecanut Committee will be to assist the Government in the improvement and development

of the production and marketing of arecanut and arecanut products and all matters incidental thereto by—

- (1) undertaking, assisting or encouraging agricultural, industrial, technological and economic research;
- (2) producing, testing and distributing improved varieties of seed;
- (3) encouraging and assisting the adoption of improved methods in cultivation so as to increase yield and improve quality;
- (4) assisting in the control of parasites and insect pests and fungal diseases which affect arecanut in the field, in storage or during transport;
- (5) carrying on such propaganda in the interests of the arecanut industry as may be necessary;
- (6) encouraging the adoption of improved measures for the marketing of arecanut, fixing and adoption of grade standards for arecanut and its products;
- (7) encouraging the purchase, curing, grading and marketing of arecanut and its products through co-operative or other agencies and undertaking enquiries and making recommendation relating to storage, transport facilities, etc.;
- (8) giving financial and technical assistance to organisations engaged in growing, curing, processing, grading, marketing and manufacture of arecanut and its products;
- (9) maintaining such institutes, farms stations, curing arrangements, ware-houses, conditioning and processing plants as may be necessary;
- (10) collecting statistics from growers, traders and manufacturers on all relevant matters connected with arecanut and distribution of such statistics and information to the interests concerned, and establish a market Intelligence Service;
- (11) (a) making advice available on all matters essential to the development of the arecanut industry;
- (b) advising on such matters as fall within the functions of the Committee which are referred to it by Government;

- (12) employing such staff as may be necessary for the proper performance of any or all of these functions;
- (13) recommending the maximum and minimum prices to be fixed for arecanut and the controlled purchase and distribution of imported arecanut and adopting any other measure of performing any other duties which may be required by the Government of India to adopt or perform or which the Committee may consider necessary or advisable in order to carry out the purposes for which it is constituted.

3. It is desirable that the growers, manufacturers and traders should be represented on the Committee, subject to a reserve power of nomination by the Government of India so as to permit of appointments to the Committee to meet special requirements which may vary from time to time.

The committee will be constituted as follows:—

- (i) The President of the Committee shall be the person so nominated by the Central Government.
- (ii) Agricultural Commissioner to the Government of India.
- †(iii) Agricultural Marketing Adviser to the Government of India.
- (iv) Two representatives of the Ministry of Finance (one from the Revenue Division and the other from the Expenditure Division) to be nominated by the Central Government.
- (v) A representative of the Ministry of Commerce and Industry to be nominated by the Central Government.
- * (vi) Four members who are neither growers of nor traders in arecanut to represent consumers; of whom three shall be elected from among themselves by the members of the Lok Sabha and one shall be elected from among themselves by the members of the Rajya Sabha.
- ‡ (vii) Sixteen persons representing the growers of arecanut in India of whom six shall be nominated by the Government of Madras, three by the Government of Travancore-Cochin, two each by the Governments of Mysore,

*Amended as per resolution No. F. 2-4/55—Com. I dated 27th July 1955 of the Government of India, Ministry of Food and Agriculture.

†Inserted as per Resolution No. 2-5/56—Com. I dated 21st November 1956 of the Government of India, Ministry of Agriculture (I. C. A. R.)

‡Amended as per Resolution No. 1-91/56—Com. I dated 6th December, 1956 of the Government of India, Ministry of Agriculture (I. C. A.)

Assam and Bombay and one by the Government of West Bengal.

‡(viii) Eight persons representing the Department of Agriculture respectively of Madras, Bombay, West Bengal, Assam, Coorg, Mysore, Andhra and Travancore-Cochin (one only) appointed in each case by the Government concerned.

‡(ix) Seven persons representing the trade in arecanut, one each being nominated by the Governments of Madras, Mysore, Travancore-Cochin (one only), the All India Supari (Betelnut) Federation, the Federation of the Indian Chambers of Commerce and Industry, the Palghat Chamber of Commerce and the Kanara Chamber of Commerce.

†3. The tenure of appointment of the members of the Committee other than those who are appointed by reason of the office or appointment that they hold, will be three years with effect from the 1st April of the year in which they are appointed, or such lesser period as may be specified in the notification of appointment

4. The Government of India will appoint a Secretary and a Co-operative Arecanut Marketing Officer to assist the Committee in its work. Until a separate wholetime Secretary is appointed, the Secretary of the Indian Central Coconut Committee will also act as the Secretary of the Arecanut Committee. The expenditure over the pay and allowance of these officers will be met by the Committee from its funds.

*5. The Government of India will finance the Committee by placing at its disposal the unspent balance from the grant made to the Indian Council of Agricultural Research in 1946-47 and by making available to the Committee each year the amount actually spent by the Committee but not exceeding Rupees five lakhs.

6. The Committee will submit its budget annually to the Government of India for sanction.

7. The Committee shall continue their present arrangements made, if any, by the Indian Council of Agricultural Research with the various Provincial Governments in respect of lands, sites and buildings for its various laboratories, research stations and the housing of the staff and matters ancillary thereto with such modifica-

‡Amended as per Resolution No. 1—93/56—Com. I dated 6th December 1956 of the Government of India, Ministry of Agriculture (I.C.A.R.)

†Amended as per Resolution No. F. 2(4)/59—Com. I, dated 18th April 1960 of the Government of India, Ministry of Food and Agriculture.

*Amended as per Resolution No. F. 1(13)/61—Com. I dated 5th March 1962 of the Government of India, Ministry of Food and Agriculture.

tions as may be mutually agreed upon. It shall also take over any liabilities and assets which may exist with the Indian Council of Agricultural Research on the date when the Committee starts functioning.

8. A meeting of those, who constitute the Committee, will be convened as soon as possible after preliminary arrangements have been made to consider the terms of the Memorandum of Association and the Rules and Regulations which have to be filed with the Registrar of Joint Stock Companies. These Rules and Regulations and any modifications which may be subsequently made therein shall be subject to the approval of the Government of India.

K. L. PANJABI,
Secretary.

APPENDIX III

Summary of main conclusions/recommendations

Serial No.	Para No.	Ministries/ Departments concerned	Conclusions/recommendations
1	2	3	4
1	5	Transport and Communications (Communications & Civil Aviation).	The Committee regret to observe that in the year 1960-61 expenditure (both operating and non-operating had registered an increase as compared to the earlier years. The Committee would once again urge upon the Indian Airlines Corporation to review the position and take effective measures to reduce their overheads and other working expenses so that the Undertaking may not continue to be a liability on the Exchequer. They would watch the results of the action taken in this regard through subsequent Audit Reports.
2	6	Do.	The action taken on the Committee's (1961-62) recommendations regarding sale of aircraft has not yet been intimated. The Committee would like to be informed of the action taken in this regard at an early date.
3	7	Do.	The Committee feel concerned to note such lapses on the part of a commercial organisation. They trust that due care will be exercised in the disposal of the aircraft since they are practically new. Further in the context of the emergent situation the Committee hope that best possible use would be made of all the serviceable aircraft.
4	8	Do.	The Committee suggest that the results of the Annual Reviews of the cost of operation should be published in the Annual Reports of the Ministry.

1	2	3	4
5	9	Transport and Communications (Communications & Civil Aviation)	<p>(i) The Committee feel that the time taken by the Corporation in the disposal of the obsolete spare parts, etc. has been rather excessive. They would now urge expedition in this work.</p> <p>(ii) While commenting on the unsatisfactory state of stores and equipment accounts, the P.A.C. (1959-60) had urged upon the Corporation to give serious attention to the work of reconstitution of accounts and regularisation of discrepancies.</p> <p>They regret to observe that the work is still incomplete.</p>
6	10	Finance	<p>(i) The Committee regret to note that even according to the Ministry's own assessment, out of total loans advanced to the displaced persons by the Rehabilitation Finance Administration amounting to Rs.11.22 crores, the bad and doubtful debts were likely to be of the order of Rs.2.5 crores or 22% of the total loans advanced. It is apparent from the high percentage of doubtful debts that the handling of loans by the R.F.A. had not been satisfactory.</p> <p>ii) The irregularities disclosed in the Audit Report on the Accounts of the Administration for the years 1958 and 1959 present a dismal picture of the manner in which the Administration was conducting its affairs resulting in avoidable loss of public money.</p> <p>(iii) The Committee also observe that even after entrusting the work of recovering the outstanding loans to the Ministry of Finance, the total recoveries of both principal and interest had been only about Rs. 1.2 crores during the period of nearly</p>

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two years. They are not satisfied with the progress made in this regard especially in view of the fact that most of these loans are now overdue. In view of the fact that the establishment charges incurred on the realisation of these loans come to nearly 10% of the recoveries, the Committee would urge that vigorous and effective steps should be taken to expedite the recovery of outstanding loans.

(iv) The Committee also desire that with a view to ensuring an economical working of the Rehabilitation Finance Administration Unit, its establishment charges should be periodically reviewed in the light of the outstanding cases and suitable economies effected.

7 12 Transport and Communications (Department of Transport)

The Committee feel that the performance of the Shipyard still leaves much to be desired, as the profit during 1960-61 worked out to only 0.2% of the total capital employed on the undertaking. Further, the fact that the construction of ship is still being subsidised by Government indicates that the Shipyard has not yet become fully self-supporting, total subsidy paid upto 31st March, 1961 being Rs. 509.18 lakhs. The Committee trust that no effort will be spared in planning and organisation with a view to improving the working of the Shipyard.

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Do.

(i) In the opinion of the Committee, strict adherence to the time schedule is of prime importance in a commercial organisation like the Shipyard specially in the background of the general shortage of Indian ships. Any complacency shown in this regard was bound to have an adverse effect on the prospective purchasers. The Committee would like to be informed of the progress made from year to year in

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			reducing the foreign exchange element in the construction of ships.
			(ii) The Committee had desired to be furnished with a note stating the installed capacity of the Shipyard and the extent to which it was being utilised. The Committee regret to observe that the information is still awaited.
9	14	Transport & Communications (Department of Transport)	The Committee feel that the existing procedure regarding fixation of price of ships is far from being satisfactory. The Committee would urge that the formula which was being devised in consultation with the ship-owners to provide incentive to the Shipyard to reduce the cost of construction may be expedited as it is long overdue.
10	16	Steel & Heavy Industries (Heavy Industries)	<p>(i) The Committee observe that although the production during the year 1960-61 and 1961-62 has shown some improvement over the low production during 1959-60, it is still far from satisfactory. In pursuance of their earlier recommendation in paras 27-28 of the 25th Report (1959-60) the Committee were informed that the fall in production had been engaging the earnest attention of the Company and the Government. They trust that effective measures would be taken by the Corporation to ensure that the rated capacity of the plant is achieved early.</p> <p>(ii) The Committee would also invite attention in this connection to the recommendation of the Tariff Commission in December 1959 that Government should ask the Coal Controller to take immediate steps to make available to Sindri Fertilizers and Chemicals Limited such grades of coal as would enable it to obtain the right blend for its coke production regularly and in adequate quantities from nearby collieries. They desire that the matter should be pursued with the Coal Controller.</p>

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11	17	Steel & Heavy Industries (Heavy Industries)	The Committee need hardly emphasise the imperative need of extensive use of fertilizers to step up the output of food and commercial crops. In order to attract the agriculturists, it is necessary that the final price of fertilizers payable by the consumers should be kept as low as possible by effecting economies both in the cost of production and in the expenses incurred by various intermediary agencies.
12	18	Do.	(i) The Committee are surprised to note that despite an additional expenditure of over Rs. 1 crore the actual production capacity of the plant would still be about 10% less than the original targets. They trust that all-out efforts would be made to attain the optimum capacity of the plant soon. The Committee are also of the view that constant and vigorous efforts are necessary to reduce the costs of production so that these are less than the landed cost of the imported items. (ii) The Committee also desire that the question of reducing the retention price of urea should be reviewed without any further delay.
13	19	Do.	The Committee would, reserve their comments in the matter as the final report regarding the cost of production of coke is still awaited.
14	20	Do. <hr/> Finance	The Committee agree with the views of the Comptroller and Auditor-General and recommend that the practice of declaring dividend from the general reserve fund in circumstances disclosed in this case should be discontinued forthwith.
15	21	Steel and Heavy Industries <hr/> (Department of Heavy Industries)	The Committee regret to note that the Company had been put to a heavy loss due to lack of proper planning and defective designing of the plant. They desire that the matter should be reviewed with a view to fixing the responsibility for the defective designing of the plant.

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16	22	Steel and Heavy Industries (Heavy Industries).	It is apparent that before installing the coke oven plant the question of the quality of coke needed for proper gas production did not receive due attention of the management. The Committee would also like to point out that as the use of inferior grade of coal adversely affects the production of ammonium sulphate, the prospects of utilising the machine in future appear to be limited. As such, the extra expenditure of Rs. 44 lakhs incurred in the initial procurement of the coke oven plant and Rs. 7.24 lakhs (approx.) representing 50% of the cost of the second stamping machine-cum-ram car which would be now put to restricted uses has proved infructuous.
17	23	Commerce & Industry	<p>(i) The Committee feel that with the increase in the yield between 6,000-8,000 units per millilitre, the total target should increase correspondingly (to about 80 to 96 million mega units).</p> <p>(ii) The Committee would like to have a detailed note indicating <i>inter alia</i> the concrete steps taken by the management to improve the quality of the products as also to tone up the organisation 'technically, administratively and financially' so that it could be of maximum benefit to the people.</p>
18	24	Do.	While noting that progressive reduction has been achieved in the cost of first crystals at Pimpro due to increase of production and overall control of cost, the Committee would like to observe that the cost of production of first crystals as well as bulk penicillin was still considerably higher in 1960-61 when compared to the price of imported products. The Committee hope that steps would be taken by Government to reduce the cost of production further both in the case of first crystals and bulk penicillin.

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19 25 Commerce & Industry The Committee are not happy with the present pricing policy of the Hindustan Antibiotics Ltd., Pimpri. In this connection, it would be worthwhile to mention the following observation of the Committee on the Judiciary U.S. Senate, appointed to investigate the price of drugs in that country.

“...in drugs generally, India, rank amongst the highest priced nations of the world—a case of inverse relationship between the *per capita* income and the level of drug price”.

If such an anomalous position is to be rectified, it could be done, in the opinion of this Committee, by making available to the people drugs and medicines at the lowest economic price. The Committee are unable to accept the contention that if prices of penicillin are reduced, the profit will go to middlemen in the private sector. They are sure that if armed with sufficient powers to check profiteering in drugs, the Government exercised their powers properly and sought the co-operation of the medical profession, the benefit of cheaper drugs could certainly be extended to the poorest section of the people. The Committee are of the view that such a wide margin of profit as indicated by the figures is not justified in the case of such commonly used and essential drugs as penicillin. The Committee are of the view that in a welfare state the Undertaking manufacturing drugs and medicine of common use should not be run on profit motive. Their aim should be to render service to the commonmen by selling their products at the ~~lowest~~ ^{lowest} rate. They therefore suggest that the question of fixing the sale price of penicillin should be referred by Government to

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the Tariff Commission *vide* Section 12(d) of the Tariff Commission Act, 1951.

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| 20 | 26 | Commerce & Industry
<hr style="width: 100%;"/> Finance | The Committee feel that the very purpose of encouraging indigenous production was largely defeated in this case, where a higher tender involving extra expenditure of Rs. 38,000 for the supply of phosphoric acid was accepted in as much as the indigenously manufactured product itself contained imported raw material which formed 60 to 70 per cent of the total cost. They hope that such cases will not recur. |
| 21 | 27 | Mines & Fuel | In the light of the facts disclosed the Committee find it difficult to accept the above explanation of the Ministry of Mines & Fuel. They feel that, as soon as the Corporation had learnt about the delay in the completion of the Railway line, it should have advised the India Supply Mission, Washington to approach the suppliers for postponement of the shipment of the two drag-lines. The Committee regret that this failure of the Corporation had resulted in avoidable payment of interest charges amounting to Rs. 60,880 to the Export Import Bank, in addition to storage charges payable to the Railways. |
| 22 | 28 | Do. | The Committee are not happy over the manner in which the Corporation had handled this case. They observe that the decision of the Corporation to stop all outside despatches from the Bokaro Colliery resulted in not only a shortfall in the output of the Colliery to the extent of about half a lakh tons but also an infructuous expenditure of Rs. 45,000 on account of lay-off compensation paid to labour for forced idleness. The Committee understand from Audit that the local technical authorities had fore-warned |

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that it would not be possible for the Kargali Washery to take the entire output of the Bokaro Colliery. If so, the Committee consider the above decision of the Corporation as highly ill conceived. The Committee grant that adequate quantities of Bokaro Coal should have been supplied to the Kargali Washery for enabling the foreign contractor to give the stipulated throughput of washed coal.

This, the Committee feel, should have been done, not by stopping outside despatches, but by according the Washery overriding priority in the matter of coal supply from Bokaro. Even if initial error had been committed in anticipating that the washery will be able to utilise the entire output of coal the Corporation should have rescinded its decision as soon as large stocks started accumulating at the pitheads, and resumed outside despatches instead of curtailing production.

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| 23 | 29 | Mines & Fuel | The Committee trust that determined efforts will be made by the Washery authorities to attain the rated capacity at the earliest possible date. |
| 24 | 30 | Steel & Heavy Industries (Iron & Steel) | <p>(i) On the basis of the facts mentioned, it is apparent that the order for procurement of 18 power capacitors at a cost of Rs. 86,000 was placed without properly assessing the requirements.</p> <p>(ii) The Committee desire that the disposal of surplus capacitors should be expedited.</p> |
| 25 | 31 | Do. | The Committee are not satisfied with the explanation of the Hindustan Steel. They feel that, while 20,000 tons of ore might have been considered as adequate stock in the normal course, larger reserves should have |

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			<p>been built up from the departmentally-owned Rajhara Mines, as a precaution against the impending moonsoon. The failure of the project authorities to do this as also their inability to utilise the existing stock had entailed an additional expenditure of Rs.11.85 lakhs to the Company. One of the reasons mentioned in evidence for not using the existing stocks was that the ore crane was not in working order. If so, the Committee feel that all-out efforts should have been made to set the crane right at the earliest possible date; or failing this, other suitable arrangement should have been made for built-up stocks being readily usable. Moreover, since the additional stock obtained through State Trading Corporation was at much higher cost, it would have been advisable to place the orders in instalments of say 10 days supply at a time, instead of bulk supply of 40 days. (The breach lasted for a period of fortnight). The Committee trust that the project authorities will benefit from their experience in the present case, and in the interests of both economy and uninterrupted tempo of production, make adequate provision against the rainy season in future.</p>
26	32	<p>Steel & Heavy Industries (Iron & Steel)</p> <hr/> <p>Railways</p>	<p>(i) The Committee feel concerned that despite their repeated exhortations since 1958-59 the amount of demurrage charges payable from year to year has been persistently increasing, instead of getting altogether eliminated. (The total demurrage paid from 1-12-56 to 31-3-62 amounts to as high a figure as Rs. 74.21 lakhs). This state of affairs, deplorable as it is, would not only push up the cost of end-product at the Project but also impede the optimum utilisation of the wagon capacity of the country. The Committee were informed that both the Hindustan Steel Limited and the Railways</p>

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were now seized of the matter. They trust that effective steps will be taken by them, in close collaboration with each other, with a view to ensuring that the demurrage charges are reduced to the barest minimum, if not eliminated altogether.

(ii) The Committee desire that effective steps should be taken by the Project authorities to recover the balance amounting to Rs.51,000 from the contractors at an early date.

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| 27 | 33 | Steel and Heavy Industries (Iron & Steel) | The Committee note that the representative of the Hindustan Steel Ltd., could not justify the delay in placing order for spares. However, the Department of Iron and Steel and the Development Wing of the Ministry of Commerce & Industry have now addressed themselves to the problem, and have already initiated measures to obviate delays in procurement of materials from abroad. The Committee trust that the introduction of these measures will result in elimination of the cases of the present type. |
| | | Commerce & Industry. | |
| 28 | 34 | Steel and Heavy Industries (Iron & Steel). | While the Committee note the Hindustan Steel's hope that surplus sanitary fittings (costing Rs.1.93 lakhs) would be utilised in houses and public buildings to be constructed under the Expansion Scheme, they cannot help observing that, before placing the order for the materials, the Project authorities had failed to make a proper assessment of their requirements. The Committee trust that the Project authorities will be more careful, while making such purchases in future. They would like to be informed of the disposal of the surplus material. |
| 29 | 35 | Do. | The Committee regret to observe that, before purchasing the machines from Defence disposals, the Project authorities had not made a proper assessment |
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			of the usability of the machines. The Committee also fail to understand why the Project authorities had taken more than five years in coming to a decision regarding the disposal of the machines, when, as was stated in evidence, it was not considered worthwhile to spend foreign exchange on importing spare parts to make them serviceable. The Committee desire that the matter should be expedited.
30	36	Steel and Heavy Industries (Iron & Steel).	In the opinion of the Committee, the time taken by the Project authorities in preferring most of the final claims had been on the highside, even after making due allowance for the procedural requirements to be fulfilled. The Committee were, however, assured that all the claims would be finalised during the next 6 to 8 months. They would like to be furnished with a further report in the matter.
31	38	Finance	The Committee are not satisfied with this explanation. To have an effective control over the cost of various products, it is essential that the apportionment of the labour charges is made on a rational basis. The Committee desire that a suitable procedure should be evolved to ensure that the accounts depict a true picture of the cost of various products.
32	39	Food & Agriculture (Agriculture)	The Committee trust that by now the initial difficulties have been overcome and it would be possible for the Forests Department not only to achieve the target fixed but also to work upto higher targets.
33	40	Do.	Even granting that the saw mills are utilised for operating on logs which are left-overs, the Committee feel that the Percentage of wastage is unduly high. They hope that with higher extractions from South and Middle Andamans, it would be possible to

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- increase the intake of the saw mills and also to reduce the percentage of wastage.
- 34 41 Food & Agriculture
 (Agriculture) The Committee of 1961-62 were informed that although the seasoning kiln was installed at the instance of the local P.W.D. who had estimated their monthly requirements of seasoned timber at 200 tons, the off-take by the P.W.D. had been very much less. It is surprising that the local P.W.D. should now be preferring unseasoned wood, when at their instance and at some cost the seasoning kiln had been set up. The Committee desire that the chimney of the boiler should be obtained and fitted without further delay and the plant worked to its full capacity. Thereafter efforts should be made to export the seasoned timber, which cannot be taken by the local P.W.D. or sold in the local market to the mainland. The Committee would like to be informed of the outcome of these efforts.
- 35 42 Do. The Committee feel that proper accounts for various categories of ascu-treated timber should be kept so that their rates might be correctly worked out.
- 36 43 Do- From the facts brought to their notice, the Committee are unable to escape the conclusion that at the time these projects were considered initially, a proper market survey of demand for the treated timber in the Andamans or in the mainland and the availability of ships etc. for transport thereof was not made. They recommended that all these aspects may now be reviewed by the Ministry and remedial measures taken immediately to set things right. In the opinion of the Committee, efforts to popularise the products might prove fruitful resulting in greater demands for the creosoted and ascu-treated timber.
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37	44	Food & Agriculture (Agriculture)	The Committee hope that every effort would be made to dispose of the surplus stores as early as possible and physical verification of stores conducted at regular intervals.
38	45	Food & Agriculture (Agriculture) <hr/> Transport and Com- munications (Deptt. of Transport)	Since there is a great demand for timber in the mainland specially from the plywood manufacturers in Calcutta the Committee urge that early steps be taken to reinforce shipping arrangements in consiltation with the Ministry of transport so that the accumulated timber could be cleared early and no further accumulation allowed to take place, to avoid possibility of deterioration of timber involving financial loss.
39	46	Food & Agriculture (Agriculture) <hr/> Law <hr/> Finance <hr/> All other Ministries	The Committee regret to note that the firm had failed to furnish the quarterly statements required under clause 18 of the Agreement and that on one or two occasions Government had to hold back their funds in order to make payments of wages of labour in Andamans not paid by the Company. They consider it unfortunate that no action was taken when statements were not furnished by the firm. They are sorry to learn that despite their recommendation made last year (1961-62), the Ministry of Law were still busy collecting necessary material for obtaining the view of the Attorney-General. The Committee urge that in cases involving high stakes, all pros and cons should be considered before entering into an agreement; validity of contractual documents should be ensured beforehand, and effective administrative machinery should be set up to keep a vigil on the performance of the parties concerned. They would also like the Ministries concerned to take prompt action on the recommendations of the Committee. In a case where a Ministry is unable to imple-

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			ment any recommendation, the reasons therefor should be communicated to the Committee at an early date.
			The Committee desire further that the arbitration proceedings in this case should be expedited and the Committee informed of the results.
40	47	Food & (Agriculture) (Agriculture)	The Committee recommend that suitable steps be taken to settle the outstanding accounts, expeditiously.
41	48	Food & Agriculture (Agriculture)	(i) The Committee are not happy with the present state of affairs at the Himachal Rosin and Turpentine Factory, Nahan and hope that steps will be taken to improve the position as early as possible. (ii) In their opinion, verification of stock should essentially be done at the appropriate time. (iii) The Committee also do not feel happy over the delay (about nine months) in concluding police investigations into the causes of fire in the factory at Nahan, which took place in December 1961. They would like to be informed of the result of the investigation and remedial action taken in the matter.
42	49	Commerce & Industry	(1) The Committee would like to be informed of the fact that this is the only rock salt mine in the country. Government would take special steps to expedite the experiments now in progress so that the mines could be exploited to the fullest extent. They hope that with the increase in production, the losses would be wiped out and the Mines would become a self-supporting unit. They would like to be apprised of the progress made in this regard.
43	50	Commerce & Industry <u>Home Affairs</u>	The Committee would like to be informed about the recovery of the cess amounting to Rs. 25,887 and the result of the

The Committee would like to be informed of the fact that this is the only rock salt mine in the country. Government would take special steps to expedite the experiments now in progress so that the mines could be exploited to the fullest extent. They hope that with the increase in production, the losses would be wiped out and the Mines would become a self-supporting unit. They would like to be apprised of the progress made in this regard.

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			discussion with the Ministry of Home Affairs with regard to change in the rules for taking departmental action before handing over the case to the court. The result of departmental enquiries should also be communicated to the Committee at an early date.
44	51	Transport & Communications (Transport)	The Committee feel that instead of blocking large sums of money in this manner the loans to the Fund should have been advanced on a realistic basis.
45	52	Transport & Communications (Transport)	The Committee are surprised as to how interest at the concessional rate was charged from the Company when it failed to repay the instalment of loan on the due date. They would like to be informed of the progress made in the recovery of loans and interest charges at normal rate of 8 per cent.
46	53	Transport & Communications (Transport)	While the Committee do not wish to impose any curbs on the activities and operations of the Shipping Companies, they nevertheless feel that adequate safeguards should be provided to ensure that undue risks are not undertaken and the Companies do not embark upon new routes which may not be profitable. Since at the time of granting the loans the Shipping Development Fund Committee acts on certain assumptions about the routes on which the ships should operate, it is but appropriate that its prior approval should be obtained if any deviations are ever made in this regard. The Committee, therefore, suggest that this aspect may be further examined.
47	54	Transport & Communications (Transport)	The Committee are not satisfied with the explanation given in this case. In their opinion it should be made incumbent on borrowing Companies to furnish such detailed information of their working to the Government

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representative on their Board of Directors as would enable the Shipping Development Fund Committee to keep a watch over the financial position of the borrower and ensure fulfilment of the terms of the contract in the long run. If necessary, the present agreement form may be suitably amended for the purpose.

48 55 Transport & Com-
 munications
 (Transport)

(i) While the Committee do not question the competence of Government to issue such directions to the Shipping Development Fund Committee or to prescribe/alter Rules or terms and conditions for the grant of loans, they are not happy at the manner in which this application was dealt with on a special footing which is apt to create an impression that exceptional treatment was given to this particular firm. If any deviation from the existing rules is considered necessary, the same should be duly notified and made applicable to all similar cases.

(ii) The Committee would like to be furnished with a note about the progress made in the implementation of the conditions of the agreement by both parties.

49 56 Transport & Com-
 munications
 (Transport)

While the need for augmenting Indian Shipping is no doubt imperative the Committee feel that instead of advancing such large amounts (to the extent of 90 per cent of the capital cost of the ships to be purchased and upto four times the amount of the share Capital of Rs. 5 crores expected to be raised by the Company in future) to a private party Government would be well advised in such cases either to undertake the work in the public sector or float a public company for the purpose reserving majority of shares with them.

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50	57 Commerce & Industry <hr/> Home Affairs	<p>The Committee are perturbed at the huge amount of about Rs. 34 crores for which utilisation certificates are over due and are still awaited from various State Boards/Institutions as also at the delay in recovering a sum of about Rs. 4 crores which is refundable to the Commission. It is disturbing to note that no effective steps have been taken by the Commission so far against the parties for their failure to furnish the certificates. They wonder if the failure to furnish the utilisation certificates for such long periods does not indicate that the amounts had not been utilised in all cases for the purpose for which they had been sanctioned. In the absence of any concerted and sustained efforts on the part of the Commission to improve matters all these years, the Committee cannot help feeling that there has been a lack of planning and supervision which is regrettable. To improve this state of affairs the Committee suggest that the following steps be taken urgently:</p>	<ol style="list-style-type: none"> <li data-bbox="545 1099 1052 1271">(1) The whole question of the grant of loans etc. be reviewed so as to restrict the assistance to genuine institutions after a thorough verification of their antecedents through State Agencies. <li data-bbox="545 1300 1052 1525">(2) Further grants/loans should not be granted to those organisations which have not furnished utilisation certificates in respect of earlier grants in time. This condition should be made clear also to those organisations who apply for loans for the first time. <li data-bbox="545 1553 1052 1692">(3) It may also be suggested to the State Governments to impose the conditions stated at (1) and (2) in respect of the loans granted by them to State Boards. The State

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Governments might be advised to amend the present legislation, in consultation with the Commission, so as to introduce essential provisions necessary to avoid misuse of funds, delay in submitting statements on disbursements and utilisation, audit of the accounts etc. of the State Boards.

- (4) The Ministry of Home Affairs should adopt procedures, similar to those to be adopted in the case of State Boards in respect of Centrally Administered Territories.
- (5) Suitable provisions in the Societies Registration Act, Cooperative Societies Act and the Rules etc. framed thereunder should be made in regard to advance of loans/grants to Cooperative Societies and other Registered Societies.
- (6) The Commission and the State Boards should keep record of institutions which default in respect of one or more requirements prescribed for grant, disbursement etc. of loans and grants. For serious or repeated lapses, institutions should be black-listed.
- (7) The procedure now under consideration for expediting submission of utilisation certificates by State Governments should be finalised early and the arrears cleared off.
- (8) In the case of amounts refundable by institutions, the feasibility of realising the dues as 'arrears of land revenue' might be considered.

51 58 Commerce & Industry.

In the opinion of the Committee the procedure adopted by the Commission in advancing further loans to enable

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			<p>the loanees to re-pay their instalment of 10% and thus renewing the loans violates the very meaning and spirit of the rules. In accounting matters, such transactions are the least expected from a missionary organisation like the Khadi Commission. The Committee suggest that this practice should be put a stop to immediately, and if necessary, the rules may be suitably clarified to prevent such a practice being resorted to in future.</p>
52	59	Commerce & Industry.	<p>The Committee suggest that vigorous efforts should be made to realise the balance payments of loans which are overdue.</p>
53	60	Commerce & Industry.	<p>(i) The Committee feel that even in such cases, the certificate of soundness should invariably be obtained from the Registrar.</p> <p>(ii) In the Committee's opinion such a state of affairs indicated that assistance was given to institutions without proper assessment of their capacity to make use of the loans. They feel therefore that the procedure for grant of loans/grants and for keeping a watch over the working of these institutions, needs tightening up.</p> <p>The Committee feel that failing other means, legal action should be taken in such cases against the members of the cooperative societies under the Cooperative Societies Act for realising the dues. They hope that the proceedings against the defaulting societies would be expedited. In cases where it is found that the Registrar or the Inspector of Co-operative Societies had given certificates not based on a proper appreciation of the financial position of the Societies, the Commission should bring such facts to the notice of the State Governments concerned for taking suitable action against the officials.</p>

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54	61	Commerce & Industry.	The Committee would like to stress that relaxation of rules should be an exception and not a rule and therefore relaxation should be allowed only after Government is fully satisfied about its necessity. The Committee consider it unfortunate that the utilisation certificates were not submitted even after the extended period. In their opinion, this calls for strong measures against the defaulting parties.
55	62	Commerce & Industry.	The fact that the percentage of increase in the expenditure on the administration of the Commission is disproportionately higher when compared to the percentage of increase in the total expenditure of the Commission on loans and grants for the corresponding period, indicates that there is further scope for economy. The Committee, therefore, suggest that a further review of the work load in various sections be made and reduction in expenditure effected to the maximum extent possible.
56	63	Commerce & Industry.	The Committee suggest that keeping in view the observations of the Khadi Evaluation Committee in para 4, Chapter 23 of their Report (1960), the question of reducing the cost of production of Khadi and its sale price should be carefully examined and necessary measures taken to achieve this end.
57	64	Commerce & Industry.	The disclosures made in this case make a dismal reading. The extent of irregularities indulged in by the office bearers of the Samiti and the malpractices that went on unchecked only confirm that there has been a total failure on the part of the Commission to safeguard the interests of the Public Exchequer. It is all the more unfortunate that inspite of the fact that the Samiti had been diverting funds for activities which could not be said to fall within

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the scope of assistance given by the Commission, further loans and grants aggregating more than 4½ lakhs of rupees were given to the Samiti for the continuance of the schemes originally sanctioned. The Committee urge that a thorough investigation be started by the Ministry of Commerce and Industry immediately in this case to ascertain the responsibility of the officers of the Commission through whose negligence public funds were improperly utilised. The question of taking legal action against the ex-office bearers and staff of the Samiti should also be considered; steps should be taken to recover the unutilised grants and amounts spent on unauthorised objects and preventive action taken forthwith to stop further waste of funds through this Samiti.

- 58 05 Commerce & Industry. This is yet another case where financial assistance to another Samiti continued to be given even after the receipt of adverse comments of auditors in 1957 and despite the comments of the Commission's own internal auditors regarding the bad state of accounts in 1958. Such 'negligence or inefficiency' on the part of officials in financial matters deserves serious action. This case discloses another instance of the failure of the Commission to verify the financial position or standing of the parties before granting loans. They recommend that the Commission might evolve a procedure whereby better safeguards for the repayment of loans are introduced, if the present provisions in the Act and the Rules/Regulations are considered to be inadequate.

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59	66	Commerce & Industry	The Committee are anxious to ensure that preventive measures are taken in such cases so that such irregularities do not recur. It is essential for this purpose, in the opinion of the Committee, to have a better and stricter control by the Commission over the activities of the State Boards. They trust that the Ministry, in consultation with the Commission and the Comptroller and Auditor General, would be able to evolve a suitable procedure early to meet this end.
60	67	Commerce & Industry.	The Committee are sorry to learn of the irregularities disclosed. In dealing with the Khadi Mandal it is not understood why action similar to the one taken by the Maharashtra Government in giving assistance was not taken by the Commission also. The best course in such cases would be in their opinion to give grants in instalments so that till the accounts were satisfactorily rendered, the final instalment would not be paid. The unusual procedure adopted in entrusting construction and other work <i>en bloc</i> without a proper agreement and ignoring the quotations already received is also objectionable, as such action runs counter to well-known financial principles. The Committee desire the Commission to take serious notice of such disregard of financial rules and ensure that such cases do not recur.
61	68	Commerce & Industry	(1) The Committee are unhappy to note that the Commission have not been able to make much headway in recovering the balance of the loan

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As already suggested earlier, they feel that failure to utilise loans and grants for purposes for which these are granted and to render proper accounts, etc., should be treated as serious lapses and the question of blacklisting such organisations should be considered.

- (ii) In view of the irregularities disclosed in these cases of exhibitions, the Committee desire that a review should be made of the procedure followed in organising such exhibitions and giving financial assistance therefor. It should also be seen whether the grant of financial assistance by the Commission for holding such exhibitions has in any way resulted in stepping up the sale of the products or in making them popular. If the amounts spent are not commensurate with the results achieved, the question of discontinuance of the practice of giving loans grants to such exhibitions should be seriously considered.

62 69 Commerce &
Industry

The Committee are unhappy to note that the facts brought to light in the course of this year's examination of the Accounts, including the transactions of loans grants, etc. dealt with by the Commission show that despite their earlier recommendations, the position seems to have deteriorated further. Despite specific provisions in the Loan Rules of the Commission, the Committee regret to observe that the loans were given without duly verifying the standing and capacity of the recipients. The Commission has persistently failed to exercise checks over the manner in which the money given by them was spent, and to obtain necessary utilisation certificates or to get refunded the amounts not utilised. All this leads the Committee to the conclusion that these aspects of the working of

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			<p>the Commission need a special looking into, so that proper action may be taken against defaulters. It is also necessary to consider to what extent the various activities of the Commission which have not proved fruitful need curtailment.</p>
63	70	Commerce & Industry	<p>Whatever be the reasons for the shortfalls, the Committee are not happy about the persistent shortfalls against the budgetary provisions year after year, as they are clearly indicative of a tendency to provide for larger funds than what could be usefully spent. The Committee feel that the grants made to the Tea Board should have been limited to their capacity to spend. The Committee suggest that the Ministry should restrict the allotment of funds to the Tea Board in the light of past performances, specially in view of the present emergency.</p>
64	71	Commerce & Industry	<p>(i) In regard to the amounts spent on propaganda in India, while noting that the figures have been progressively reduced, the Committee are of the view that the figures are still on the high side.</p> <p>(ii) The Committee are unable to appreciate the reason why the Government while they desire to have more and more quantities of tea for export to foreign countries should spend heavy amounts for propagating consumption of tea internally which is already being done by the private trade themselves. Nor do they see any justification for spending any sums of moneys (about Rs. 14 lakhs) on staff and establishment for internal propagation which could be much better utilised for propagating the promotion of tea sales abroad, which is stated to be the avowed policy of Government and which is now so essential in view of the heavy drop in the export of tea during 1961 as compared to the year 1956.</p>

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In respect of the propaganda for tea promotion abroad, the Committee feel that the present policy needs reorientation. In their opinion, propaganda work should be concentrated more in those countries where consumption of tea was appreciably less, while some work should continue in the countries where the rate of tea consumption was quite high in order to ensure that there was no fall in the level of consumption.

65 72 Commerce & Industry
Finance

The Committee do not consider it proper that money should be taken out of the Consolidated Fund and placed at the disposal of the autonomous bodies to be invested in a Bank in their accounts and particularly when there have been heavy cash balances year after year as has been the case with Tea Board. Moreover, it is wrong in principle to allot and advance funds to autonomous bodies whosever they may be much in excess of their requirements. The Committee suggest that steps should be taken to keep the cash balances to a minimum figure.

The Committee also suggest that a system of personal ledger account might be introduced in such cases to enable the autonomous bodies concerned to draw the money as and when needed. This system may be introduced straightaway in the case of Tea Board.

66 73 Commerce & Industry

The Committee are unable to find any justification for such large saving on development schemes (to the tune of Rs. 12 lakhs) on the one hand and on the other the failure to improve the production of green tea which has a good export Market. They trust that proper attention to this aspect would be given in future.

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67	74 Commerce & Industry	The Committee feel unhappy over the inordinate delay and the resultant loss (about Rs. 2 lakhs) that had occurred in this case. In their opinion, with a better planning and coordination with the Indian Embassy in Egypt and a sense of urgency, the Tea Centre could have started functioning much earlier. Moreover, in the absence of the Tea Adviser designate, the Centre could have been started under the guidance of someone else with some knowledge of catering, etc. during the interim period. They hope that such cases will not recur.	
68	75 <u>Commerce & Industry</u> <u>Finance</u>	The Committee are not convinced of the reasons justifying the rejection of the lower offer. They are unhappy to note that in these days of foreign exchange difficulties, the Tea Board failed to realise the utmost need to conserve foreign exchange, and in the process incurred an additional expenditure of Rs.30,000 which could have been easily avoided. They hope that the Ministry of Commerce & Industry would issue strict instructions in the matter to all concerned so that such cases do not recur.	
69	76 <u>Commerce & Industry</u> <u>All Ministries</u>	The Committee desire that a provision be made in the Rules fixing a time-limit within which the Annual Administration Reports of the Tea Board should be published so that the latest position showing the correct picture of the Board is available. Similar provision should be made in the case of other autonomous bodies, wherever does not exist already.	
70	77 Mines & Fuel	The Committee regret to observe that due to 'lethargy' on the part of both the collieries and the cess collecting staff, heavy arrears of cess had accumulated in respect of despatches by	

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means other than rail. They also observe that instructions issued by State Governments to Collectors to recover the dues, as arrears of land revenue, had not brought any satisfactory improvement in the position. The Committee therefore, desire the Ministry of Mines & Fuel to examine the feasibility of directing the Coal Controller not to issue further permits to defaulting collieries for dispatch of coal unless they have paid up the cess arrears. The Committee hope that with the introduction of the coupon system arrears would not accumulate in future.

71 78 Food & Agriculture
(Agriculture)

(i) While the Committee are glad to learn that the major portion of the import of arecanut has now been entrusted to the State Trading Corporation, they feel that this action should have been initiated much earlier when unduly heavy margin of profit was going into the hands of private importers. In fact, as stated in the Audit para the resolution of the Government of India constituting the Arecanut Committee in May 1949 had already authorised that Committee to handle the import of arecanut themselves.

(ii) With the taking over of a major portion of the import of arecanut by the State Trading Corporation, the Committee hope that the market price in India will come down. They would desire the Indian Central Arecanut Committee to recommend the maximum and the minimum prices for this commodity in consultation with the State Trading Corporation.

(iii) The Committee would also like to invite attention to para 2(13) of the Resolution of the Government

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			of India dated the 21st May 1949, which laid down certain functions of the Indian Central Arecanut Committee. The Ministry should review the position in order to see what duties are required to be performed by the Arecanut Committee to be of real benefit in the actual consumers of arecanut in this country.
72	79	All Ministries <hr/> Finance	In view of the great need for economy in the present emergency so as to strengthen the sinews of defence, the Committee feel that large amounts could be saved if the Annual Reports of all Public Undertakings were produced in the simple manner of the Annual Reports of the various Ministries of the Government of India. The Committee trust that Government will issue necessary instructions to all concerned in this matter.
73	80	Finance <hr/> All Ministries	The Committee would like Government to impress upon the Ministries Undertakings the imperative need for conserving foreign exchange in all possible ways in the present juncture, so that it might be utilised more fruitfully for the more pressing needs of the country.
74	81	All Ministries <hr/> Finance	The Committee desire that efforts should be made to reduce the expenditure on administration and establishment in the Public Undertakings to the extent possible without in any way impairing the efficiency.

44. Jayans Book Depot, 48. Dhanwantra Medical
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Karol Bagh, New Delhi. 1522, Leipoz Rai Mar-
ket, Delhi-6.
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MANIPUR

52. Shri N. Chaoba Singh,
Newspaper Agent,
Ramalal Paul High
School Annex, Imphal,
Manipur.

AGENTS IN FOREIGN COUNTRIES

U.K.

53. The Secretary, Establish-
ment Department, The
High Commission
of India, India House
Aldwych LONDON,
W.C.-2.



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<u>Page</u>	<u>Column</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
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	S.No. 7.1	7	shlp	ships
	0.7	9	India, rank	India Parks
111	4	14	price	prices
117	4	9	recommended	recommend
118	4	6	consultation	consultation
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119	4		add (1) The Committee would like to be informed when the Mandi Salt Sources' transfer to Hindustan Salt Company is effected and consequential savings effected therefrom.	
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125	4	last line	of	not
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C O R R I G E N D A

SEVENTH REPORT OF P.A.C. 1962-63)

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