P.A.C. 99

PUBLIC ACCOUNTS COMMITTEE 1963-64

TWENTY-THIRD REPORT

(THIRD LOK SABHA)

[Audit Report (Commercial), 1963]

LOK SABHA SECRETARIAT
NEW DELHI

March, 1964/Phalguna, 1885 (Saka)

Price : *Rs.* 2.35

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(1963-64)

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11		7	level	levels
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PUBLIC ACCOUNTS COMMITTEE
(1963-64)

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SECRETARIAT

Shri H. N. Trivedi—*Deputy Secretary.*

Shri Y. P. Passi—*Under Secretary.*

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*Declared elected on the 29th November, 1963 *vice* Shri Bhakt Darshan ceased to be a member of the Committee on his appointment as Deputy Minister.

**Declared elected on the 29th August, 1963 *vice* Shri Nawab Singh Chauhan.

2447(Aii) LS—1

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Twenty-third Report on the Audit Report (Commercial), 1963.

2. Audit Report (Commercial), 1963 was laid on the Table of the House on the 18th April, 1963. The Committee welcome the first separate volume prepared by the Comptroller and Auditor General presenting the audit comments relating to Commercial Undertakings. The Committee examined the Report at their sittings held on the 8th August, 1963, 23rd (forenoon), 24th (afternoon), 28th September, 12th, 13th, 22nd and 23rd November, 1963, 22nd, 23rd (forenoon), 23rd (afternoon) January and 4th February, 1964. A brief record of the proceedings of each sitting of the Committee had been maintained and forms part (Part II*) of the Report.

3. In an informal sitting of the Public Accounts Committee held on 22nd November, 1963, the Committee decided that in the case of the following Organisations located far off from Delhi about which the points included in the Audit Report were of minor nature, only written notes might be called for:

(1) Praga Tools Corporation .. Para XII

(2) Heavy Electricals Ltd. .. Para XIII

(3) Government Mints .. Para XIX

(4) Government of India Security Press .. Para XX

The information called for is still awaited.

4. With the formation of the Legislative Assembly of Himachal Pradesh, the Chairman, Public Accounts Committee (Himachal Pradesh) desired to take up the examination of Para XVIII—Himachal Pradesh Government Transport Service. The Committee have no objection to Public Accounts Committee, Himachal Pradesh, taking up for examination this paragraph in accordance with their Rules.

5. The Committee approved and finalised this Report at their sitting held on the 17th March, 1964.

6. A statement showing the summary of the main conclusions/ recommendations of the Committee is appended to the Report

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*Not printed. (One copy laid on the Table of the House, and five copies placed in the Parliament Library).

(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 the examination of this Audit Report by the Comptroller & Auditor General of India.

They would also like to express their thanks to the officers of the Ministries and Undertakings concerned for the co-operation in giving detailed information asked for by the Committee during the course of their evidence.

NEW DELHI;

The 18*th March*, 1964.
Phalguna, 28, 1885 (*Saka*).

MAHAVIR TYAGI,
Chairman,
Public Accounts Committee.

I

AUDIT OF GOVERNMENT COMMERCIAL CONCERNS

Government Commercial concerns, the accounts of which are subject to audit by the Comptroller and Auditor General, fall under the following categories:

(i) Statutory Corporations

(ii) Government Companies

(iii) Departmentally managed Commercial Undertakings

The funds of the Corporations and Companies are separate from the Consolidated Fund of the Government of India. However, under the relevant provisions in the respective Acts of the Corporation or under the Indian Companies Act, their accounts are subject to the scrutiny of the Comptroller and Auditor General.

Thus in respect of the Air India and the Indian Airlines Corporation, the Comptroller and Auditor General is the sole auditor, while in other cases like the Industrial Finance Corporation he has the right to conduct the audit of the concern independently of the audit conducted by the professional auditors appointed under the Act.

2. In the case of Government Companies he conducts audit scrutiny over and above the audit conducted by professional auditors, appointed by the Central Government on his advice. The Comptroller and Auditor General carries out a supplementary or test-audit of these accounts and gives his comments upon or supplements the report submitted by the professional auditors. The Companies Act also empowers the Comptroller and Auditor General to issue directives to the Auditors in regard to the performance of their functions. In March 1962, such directives were issued by him to the private auditors for looking into certain specific aspects of the working of Government Companies. In this connection the Committee would like to refer to Appendix I to their 7th Report (Third Lok Sabha).

3. The receipts and expenditure and transactions relating to Departmental Undertakings, form part of the Consolidated Fund of India, and the Comptroller and Auditor General is responsible for their audit.

II

STATUTORY CORPORATIONS

4. There were five Central Government Commercial Corporations on 31st March, 1962.

Compared with the previous year, the paid up capital of the four Corporations (excluding Oil and Natural Gas Commission) increased from Rs. 24·98 crores to Rs. 32·18 crores. Loans given also increased from Rs. 62·07 crores to Rs. 70·99 crores. The maximum amount of loan given was to the Industrial Finance Corporation amounting to Rs. 42·25 crores upto 30th June, 1962. The Corporations showed a total return of Rs. 3·66 crores during the year. The percentage of return on total capital employed went down from 4·4 per cent to 3·5 per cent during this year.

5. The financial results of the working of the two Air Corporations during 1961-62 were as under:

Air India

The Corporation made a profit of Rs. 38·86 lakhs as against Rs. 67·97 lakhs in the previous year.

Indian Airlines Corporation

During 1961-62, the Corporation showed a net profit of Rs. 7·88 lakhs as against Rs. 4·68 lakhs in 1960-61 as worked out without charging any interest on loan capital as stated in para below. If this is taken into account the profit would be turned into a loss of Rs. 32·88 lakhs.

6. Besides making the investment in the form of capital and granting loans, the Government have also given the following facilities to these Corporations:

(i) Waived interest upto 1st October, 1966 on loans amounting to Rs. 9·61 crores and Rs. 12·60 crores in the case of Indian Airlines Corporation and Air India respectively. The total amount of interest so waived upto 31st March, 1962 in the case of Air India was Rs. 136·57 lakhs and that in the case of Indian Airlines Corporation was Rs. 216·76 lakhs.

(ii) Guaranteed loan of Rs. 6·53 crores raised by the Air India.

The Committee have dealt with these two Corporations in the paragraphs following.

(i) AIR INDIA

Para III, pp. 6—9.

Capacity utilised, Page 7, *Para III* (3)

7. The following table indicates the available capacity, capacity utilised and the operating cost during the last four years.

Particulars	1958-59	1959-60	1960-61	1961-62
(1) Available Tonne-Kilometres (in Millions) .	87·995	93·486	161·447	216·640
(2) Revenue Tonne-Kilometres performed (in Millions)	49·853	54·241	76·299	94·519
(3) Overall load factor .	56·8%	58·2%	47·3%	43·7%
(4) Operating cost per R.T. Km.	Rs. 2·29	2·29	2·40	2·21
(5) Operating Revenue per R.T.Km. . . .	Rs. 2·31	2·32	2·51	2·28
(6) Operating cost per A.T.Km. . . .	Rs. 1·30	1·33	1·13	0·96
(7) Operating Revenue earned per A.T.Km. (including receipts from pool partners wherever the Corporation had entered into revenue pooling arrangements with other operators)	Rs. 1·31	1·35	1·19	1·00

NOTE :

Available Tonne Kilometres . . Product obtained by multiplying the capacity in metric tonnes (2205 lbs) available for passengers, mails and cargo by the distance in kilometres flown by the aircraft.

Revenue Tonne-Kilometres . . Revenue earning load of passengers, mail and cargo in metric Tonnes—multiplied by the distance flown in kilometres.

Overall Load Factor . . . . Ratio of revenue Tonne-Kilometres to available tonne kilometres usually expressed as percentage.

The overall load factor had steadily declined from 58.2 per cent achieved in 1959-60 to 47·3 per cent. and 43·7 per cent. in 1960-61 and 1961-62 respectively. This had been attributed by the Corporation to the increase in the capacity due to the introduction of Boeings and intense international competition on account of which the industry as a whole was suffering. The present operating revenue was only slightly above the operating cost.

Of all the routes operated by the Corporation, the load factor on the New York-London service which started in 1960 was the lowest in 1961-62 being only 28 per cent. as against the break-even load factor of 37·2 per cent (*i.e.* the load factor as which cost of operation is just balanced by the revenue) for Boeings which operated on this route.

Explaining the basic reasons for decrease in the overall load factor during the period 1960-61 and 1961-62, the Secretary of the Ministry stated that under-utilisation of capacity had taken place all over the world because of the change over to big capacity Boeings. It was added that in earlier years the capacity was better utilised in terms of percentage because the air-crafts were smaller. With regard to some internal service where Dakotas were operating, the capacity utilised was about 80 per cent. to 90 per cent. but the financial results were not satisfactory. It was also stated that 1961-62 was a particularly bad year for airlines all over the world. Air India started operating the London-New York sector in addition to the Bombay-London route that year. Besides, the Air India being a new comer and having 3 frequencies in summer and 2 in winter had to compete with a greater number of established airlines having more frequencies over the Atlantic. The frequencies had, however, been increased by Air India now to 7 in summer and 4 in winter. It was further added that in the case of large aircraft the break-even point was much lower *i.e.*, about 42 or 43 percent. In respect of financial results (in terms of operating cost and operating revenue earned per Available Tonne-Kilometres) there had been a steady improvement.

In reply to a question, the Secretary of the Ministry stated that the break-even point would be between 37 per cent and 41 per cent and may vary from year to year and also differ from one airlines to another airlines as it depended on the scale of salaries, cost of duty payable on aviation spirit etc. which were flexible items. When enquired about the capacity utilisation in 1962-63 and 1963-64, the General Manager of the Air India stated that the load factor 1962-63 was 45·3 per cent and for the eight months ending November, 1963 was 49·9 *i.e.*, nearly 50 per cent on India-USA Sector alone. The Committee, however, desired to be informed about the load factor reached during the same period over other sectors operated by Air India. The information is still awaited (February, 1964).

The Committee recommend that the Air India should continue to endeavour to improve the utilisation of the available capacity.

Major Projects: Administrative Building Project, Pages 7 and 8 para III (4).

8. As the Administrative Offices of the Corporation were scattered over a number of places in Bombay, the Management submitted a project for constructing a building with a view to bringing all the Administrative Offices under a single roof. The Corporation at its meeting held in March, 1958 approved the project and sanctioned a sum of Rs. 57 lakhs for its execution. The land for this building was acquired on lease in February, 1961, and according to the terms of the lease, the building was to be completed within a period of 3 years from the date of acquisition (*i.e.* by February 1964). But till August, 1962, even the appointment of an architect for drawing up the plans, etc. was stated to be under consideration of the Corporation. From the date of taking over the plot no ground rent was payable for the first year but for the succeeding four years rent was payable at Rs. 1,34,775 per annum.

It may be added that the rent paid for the various offices located in hired buildings which were to be accommodated in the new building was Rs. 1·78 lakhs per annum. The rent paid upto the date of starting of the work will be of an infructuous nature.

The General Manager, Air India while giving the details of the case stated that the original plot which was taken over from the Government of Maharashtra in February, 1961, was an L-shaped plot. The adjacent L-shaped plot was reserved for the Atomic Energy Commission who did not take it. This plot was ultimately taken over by the Express Newspapers Ltd. With a view to obtaining a reasonably square plot on which a good building could be built, attempts were made to negotiate with the other party.

This could be achieved by about July, 1961. Since this was a reclaimed area and originally meant for residential purposes, the matter had to be referred to the Municipal Engineers, who said that it was not permissible to construct an office building on that plot and even if that was permitted the "floor space index" could not be more that 2·5 which meant only a small building. With a view to fully exploiting the plot and to construct an office building, the Maharashtra Government was requested to remove both these restrictions, in this particular case. The Chief Minister of that State relaxed these conditions in March, 1962. Until this was done, the General Manager emphasised that there was no question of appointing any architect. The general Manager further added that only after completing all the formalities, the management was in a position to appreciate the size of the plot, its location in the area called Nariman point at the Marine Drive end, its importance as a commercial plot and value thereof. It was then tentatively decided to construct a very large building as it was felt that whatever money would be spent on the building would be realised in three or four years' time. It was, therefore, considered desirable to seek the advice of an American Architect as far as preliminary drawings were concerned. For that too, permission from the Government had to be taken. It was only in July, 1963 that the Architect came from America. He prepared the preliminary data and the scheme was put up to the Board in November, 1963. During January, 1964, he was expected to submit four sets of complete drawings which would be submitted to the municipality for their approval and construction was expected to start immediately after the monsoon.

In reply to a question, it was stated that the plot belonged to the Maharashtra Government and was given on 99 years lease, valued at Rs. 400 per sq. yd. for which Rs. 20 per year was charged as lease money. It was further added that the price of other plots had increased considerably (Rs. 550 per sq. yd. charged from the Express Newspapers Ltd. and Rs. 800 p. sq. yd. and onwards from others) and that was why the Corporation took the land in question at Rs. 400 per sq. yard earlier.

To a question as to why it was considered necessary to employ an American Architect, the General Manager stated that one of the considerations was that the building was to be of 14 or 18 storeys which would be the tallest in Bombay. The other factor was that it was a reclaimed area and there would have to be subterranean floors for garages which constituted a special problem. Besides, keeping in view the airline requirements and ground floor where there would be the booking offices, passenger collection centres and so on, it was felt that it should be of the highest international standard in our country. It was added that the American Architect would get 150,000 dollars in all for preliminary drawings. The rest of the work will be done by the Indian Architects at a cost of about 4½ to 5 per cent of the scheme.

The Committee note that the land for this building was acquired on lease in February, 1961, and according to the terms of their lease, the building was to be completed within a period of 3 years from the date of acquisition (*i.e.* by February, 1964). The Committee, however, learned during evidence that the construction of the building was expected to commence only after the monsoon of 1964. While noting the various reasons enumerated during evidence the Committee regret the abnormal delay that has occurred in starting construction specially in view of the fact that the Air India has been paying a high rent of Rs. 1·78 lakhs per annum for the various offices that are to be accommodated in the new building.

The Committee are of the opinion that expenditure incurred on construction of such buildings should be commensurate with the economic conditions in India and attempts should be made to economise wherever possible.

It was admitted before the Committee that Indian Architects could have built such buildings. As such, the Committee fail to understand why the work of preliminary drawings involving an expenditure of 150,000 dollars was not entrusted to an Indian Architect to save the foreign exchange involved.

Increase in the amounts due to the Corporation on account of passage freight etc. Page 9, Para III (5) (e).

9. The amounts due to the Corporation on account of passage, freight, etc had been progressively increasing as shown below:—

Date	*Amount*
31-3-1959	Rs. 2·80 crores
31-3-1960	Rs. 2·81 crores
31-3-1961	Rs. 4·83 crores
31-3-1962	Rs. 6·42 crores

Out of the amount of Rs. 6·42 crores outstanding on 31st March, 1962 a sum of Rs. 2·68 lakhs had been outstanding for more than three years. The outstandings against passenger tickets on 31st

March, 1962 from private parties amounted to as much as Rs. 1·71 crores. Of the balance outstanding, the bulk was due from Government Departments and Indian Missions abroad.

The General Manager while explaining the background of the case, stated that almost the whole business was transacted by agents who had under regulations 45 days credit. As such money for 45 days was always outstanding against the agents. This was the reason for the outstanding amount of about Rs. 3 crores out of Rs. 4 crores in 1962-63. It was further stated that about Rs. 2½ crores were outstanding from the Ministry of Defence who had purchased Super Constellations. The General Manager, however, added that most of it had been settled now.

The Committee were informed that the figure of outstandings as on 31st March, 1963 was Rs. 7·86 crores, out of which dues outstanding for more than 3 years amounted to Rs. 2,89,000. Out of this amount a sum of Rs. 1,29,000 had been recovered upto 1-12-1963 and the balance remaining was Rs. 1,60,000. The amounts due from private parties were casual credits.

The Committee feel concerned about the huge amount of Rs. 7·86 crores outstanding as on 31-3-1963 out of which the dues outstanding for more than 3 years amounted to Rs. 2,89,000. Out of this amount a balance of Rs. 1,60,000 remained still outstanding on 1-12-1963. The Committee are of the view that the Corporation should take special measures to ensure that the outstanding dues are collected within a maximum period of six months.

AUDIT REPORT ON THE ANNUAL ACCOUNTS OF THE AIR-INDIA FOR 1961-62

Grant of loans to staff for building or acquiring housing property, page 3, para 4

10. Loans were granted to the employees of the Corporation for building|acquiring housing properties in India, at the discretion of the General Manager, in accordance with the regulations approved by the Board in their 19th meeting held on 14-12-1956. The regulations framed by the Corporation were submitted to Government for approval in the year 1958, but the approval was awaited. In the meantime, however, the Corporation sanctioned loans amounting to Rs. 4,43,317 by 31-3-1962 of which a total sum of Rs. 3,66,967 had already been disbursed. According to the regulations framed by the Corporation and submitted to Government

for their approval, loans could be granted for constructing or acquiring housing property only in India upto a maximum of Rs. 50,000 in each case. In three cases, however, the Corporation sanctioned loans for constructing houses abroad, to the extent of Rs. 66,700; Rs. 3,26,000 and Rs. 8,000 respectively out of which the first and third loans had already been paid.

Replying to a question the Secretary of the Ministry stated that the regulations were first framed in 1956 and were submitted to Government for approval. The Ministry of Transport consulted the Ministries of Works, Housing and Supply, etc. and also compared them with the regulations of the Indian Airlines Corporation. In the meanwhile, as a result of their activities spreading to various countries, they had certain problems to face. The regulations made in 1956, however, had not become formal yet. It was added that the Air India had in the meanwhile to consider sanctioning loans for housing purposes in India and abroad based on commercial considerations. The General Manager, Air India informed the Committee, in extenuation, that majority of the staff of Air India lived in Bombay where an ordinary person could not afford to buy a plot of land and build a house. For this purpose it was necessary to form a co-operative society which could acquire land and build houses or buy ownership flats. With a view to safeguarding the interests of the Corporation, the matter was referred to the Solicitors who took a good deal of time to put the formal rules into shape. Normally, Air India did not give loans for house-building abroad, but in a place like London, Indians who were posted for three or four years, found it difficult to get accommodation. The land-lords there do not like to sublet to the people with children. Some Indians, posted to London, therefore, sometimes tried to buy property through the help of mortgage banks and while coming back to India, sold it, without any loss of money. The amount involved would almost be the rent which they would have had to pay.

With regard to the three cases referred to in the Audit Report, the General Manager stated that one of the cases related to a loan of Rs. 8,000—miscellaneous loan—to enable the officer to complete construction of a house. The other case was of a loan of Rs. 66,700 given to the Regional Manager in London who needed a representational house. In this case, the officer concerned would build his house and not claim any house rent from the Corporation. He was not expected to be posted back and he had 15—18 years more to serve and, therefore, he would be in a position to repay the loan before retiring. The General Manager added that the third loan of Rs. 3·26 lakhs had not been disbursed though it had been sanctioned.

If the officer concerned took the loan he would not have been entitled to house-rent. He worked out that it was cheaper for him to get house-rent than this loan and he, therefore, politely refused to accept the loan.

Replying to a question whether house building loans were admissible to low-paid staff also, the General Manager replied in the affirmative.

The Committee do not appreciate the abnormal delay involved in finalising the formal regulations regarding grant of loans. The Committee hope that the draft regulations will be finalised without delay and strictly adhered to in future.

Loss on account of obsolete route maps, 3, *para* 5

11. In 1958, the Corporation placed an order for 300,000 maps on a firm in London. In the terms of the purchase order provision was made to effect changes after each lot of 50,000 copies were printed to meet any alterations in the subsequent route pattern including the then impending Boeing Operations. The first 100,000 maps were printed by February, 1959 but could not be used till November' December, 1959 on account of certain defects noticed by Government in these maps.

Although it was definitely known that the Corporation was to operate Boeings from 1960, yet the Firm was asked to print another 50,000 maps for Super Constellation routes in the revised edition in September, 1959. Thus out of 1,50,000 copies received by the Corporation only 27,744 maps were actually used. The balance quantity valued at Rs. 92,914 had to be written off as the Super-Constellation route maps had become obsolete on account of the introduction of Boeings. The management, however, explained that they were then not sure about the date by which they would be able to sell the Super-Constellations. Had the Corporation estimated its requirements properly, the order for 50,000 maps, printing of which was undertaken in September, 1959 could have been amended so as to conform to the route pattern for Boeings and the expenditure amounting to Rs. 38,000 could have been avoided.

The General Manager stated that in September, 1959, they were not aware of the actual position as till then it was not decided who would do the over-printing. That source was decided in October after the order was released on Philips. It was admitted by the General Manager that all those maps could have been used because super-constellations were going to the east for more than a year after that but the department concerned thought that since Boeings were there, Super-constellation maps should not be put to use at all.

It was added that all these things did not come to the management, for consideration but were decided at lower levels, in good faith.

The Committee are surprised to note that such important decisions are left to be decided at lower level without being brought to the notice of the higher authorities at any stage. They recommend that suitable instructions should be issued in this regard to avoid the incurring of such infructuous expenditure in future.

AUDIT REPORT ON THE ANNUAL ACCOUNTS OF THE AIR-INDIA FOR 1962-63

Call and fixed deposits in Banks, page 2 para 6

12. A sum of Rs. 493·44 lakhs was in fixed and call deposits with Banks as on 31st March, 1963 as against the limit of Rs. 325 lakhs, prescribed by the Government of India, Ministry of Transport and Communications. [*Vide* their letter No. 6-CA(19)|59 of 8-1-1960].

Ex-post-facto approval of the Government for the excess investment is being obtained by the Management.

The General Manager stated that the sanction of the Government for the excess investment had been received. It was added that these were free balances and nothing could be done about them. The loans could not be repaid in advance as these were the loans in foreign countries and were to be paid only after the date of their maturity because of the foreign exchange shortage. The management had also requested the Government to deposit with them about Rs. 3 to Rs. 4 crores and the matter was under consideration. When asked in which banks and on what basis the surplus funds were deposited, the General Manager stated that as on 10th January, 1964 the position with regard to fixed deposits was as follows:

(i) State Bank of India	Rs. 3·20 crores
(ii) Central Bank of India	Rs. 1·90 crores
(iii) Bank of India	Rs. 2·05 crores
(iv) Bank of Baroda	Rs. 1·95 crores
TOTAL	Rs. 9·10 crores

It was added that money was deposited with the three commercial banks in equal proportions because they were giving a rate of interest which the State Bank of India was not giving. Since last year, the State Bank of India was also giving the same rate of interest for the fixed deposits as scheduled banks.

Replying to a question with regard to utilisation of surplus funds, the General Manager stated that an offer was made to Government for payment of interest from last year i.e. 1963. Although there was a moratorium, yet the earnings of Air India justified payment of interest. The matter was under consideration of Government and it was hoped that they would agree. If that be so about Rs. 70 lakhs would be paid as interest on Government loans. It was also proposed to pay dividend on the other half of the Capital. Then there was a scheme for building Corporation's own buildings. In view of the resources available it was also proposed to join the Government of India 'Hotel Scheme' in Bombay, Delhi and Calcutta.

The Committee are glad to note the sound financial position of the Air India. They hope that Government will take an early decision with regard to the proposals of the Corporation to start paying interest on Government loans and to deposit about Rs. 3 to Rs. 4 crores with the Government. The Committee also hope that Government will take care to see that handsome profits earned by the Air India do not lead to extravagance.

Loans to Staff Members, page 3, para 7

13. Loans amounting to Rs 90,050/- had been sanctioned to the employees for various reasons such as for the purchase of furniture, repair of car, purchase of clothes, payment of arrears of income tax, payment of entrance fee for becoming a member of a Club, distressing financial circumstances, medical treatment etc., some of which did not fall within the scope of welfare activity or emergency relief. Out of the above sum, loans amounting to Rs. 25,675/- had been sanctioned free of interest and the balance, on interest ranging between 3 per cent to 4½ per cent. No rules had been framed for grant of such loans.

The General Manager stated that as already mentioned in the Audit para, the cases related to two or three kinds of loans given by the Corporation. He felt that these loans were of such a mixed and miscellaneous category that to make rules so as to provide for all of them was really an extraordinarily difficult task. Generally, these cases were looked at from the welfare angle or commercial requirements of the Corporation. As an example, the case of clothing loan amounting to Rs. 600/- given to a low-paid officer who was to be sent to a very cold country in the month of January, was cited. The officer concerned asked for clothing because he had no money to buy them, instead the Corporation offered to lend him the required money without interest. It was added that there was no rule to solve this problem but in a contingency like this something had to be done. Another instance of payment of club fee to Manager in Tokyo was mentioned. It was reported that unless the Manager became a member of the Golf Country Club, he could not meet the top people because nobody would meet anybody except in the Golf Club in Tokyo. The Corporation was prepared to pay Rs. 10,000/- from their resources to make him a company member so that when he was transferred his successor could continue as a member. The Manager concerned who was a Japanese speaking man, was not likely to be transferred from there for 10 or 15 years, and, therefore, it was decided to advance him an interest free loan of Rs. 10,000/- which he would refund in 2, 3 or 4 years. It was added that the Corporation had accepted it as a policy to pay the fees where the joining of a club by its senior officials abroad or outside Bombay was a matter of commercial interest to the Corporation. The Committee were informed that rules were being framed. A welfare fund was also being set up from 1964 to meet medical expenses, etc.

The Committee are of the view that the Air India should expedite framing of rules laying down suitable criteria according to which loan should be sanctioned and interest charged thereon. Setting up of the Welfare Fund and framing of rules for its utilisation should also be expedited.

Loss of revenue to delay in revision of man hour rates levied for execution of private and accident jobs consequent on revision of pay scales—page 3, para 8

14. Although the arbitrator's award regarding revision of pay scales of the employees of the Corporation was published in November 1960, the man hour rates levied for the execution of private jobs and accident jobs recoverable from Insurance Companies were not revised till the end of March, 1963. The man hour rate for the execution of private jobs was revised from Rs. 9/ per hour to Rs. 15/- per hour and became effective from 1st April, 1963 and the same for the execution of accident jobs was revised from Rs. 7/- per hour plus 22 per cent. for overheads to Rs. 9.80 per hour plus 34 per cent. for overheads effective from 1st January, 1963, the latter increase being subject to the concurrence of the Insurance Company. Due to the continuance of the old rates there was a short recovery of about Rs. 15,500 (Approx.) during the years 1961-62 and 1962-63.

The Committee desired to know why the revision of the man hour rates was not done in time. The General Manager accepted that the arbitrator's award regarding revision of pay scales of the employees of the Corporation was published in November, 1960 but it was almost till the end of 1961 that all pending matters relating to the staff were settled. He, however, admitted that in spite of all that the man hour rates could have been revised in November, 1960 itself.

The Committee are surprised at the lethargy shown in settling the pending matters relating to the staff till the end of 1961 resulting in the loss of about Rs. 15,500. As admitted by the General Manager, an increase could have been made in the man hour rates in November, 1960 itself and the sum of Rs. 15,500 could have been collected. The Committee hope that such delays will be avoided in future.

ANNUAL ACCOUNTS OF AIR INDIA FOR 1961-62 AND 1962-63

Economy in Publicity and Sales Promotion

15. In reply to a Supplementary to Starred Question No. 199, the Deputy Minister of Transport and Communications informed the Lok Sabha on the 2nd March, 1963 that as far as advertisements were concerned the Air India had been informed of the need for economy in expenditure. He added that advertisement was also necessary for attracting traffic and a large amount was spent by foreign airlines on advertisement.

The Committee had desired to know the total expenditure incurred by the Air India on publicity (including advertisements) during the years 1960-61 and 1961-62. The Ministry of Transport and Communications (now Ministry of Transport) furnished the following statement:

(Rupees in lakhs)

Particulars	1960-61	1961-62
1. Sales promotion	24·01	26·99
2. Press advertisement and Radio	52·76	60·75
3. Photographs	2·06	2·84
4. Giveways	5·08	11·19
5. Display	17·07	19·96
6. Direct mails	4·95	10·27
TOTAL COST	105·93	132·00
Less : *Quid Pro Quo* cost	7·79	11·89
Cash Cost	98·14	120·11

It is observed from the summary of Budget Estimates for revenue and expenditure for the year 1963-64 relating to the Air India that the estimated expenditure on Publicity and sales promotion of the Air India during 1962-63 and 1963-64 was as follows:

(Rupees in lakhs)

Revised Estimates 1962-63	Budget Estimates, 1963-64
131·00	131·00

In evidence, the Committee were informed that the expenditure incurred by the Air India on publicity and Sales Promotion during 1962-63 was Rs. 120·43 lakhs as in the year 1961-62.

In 1961-62 the revenue was Rs. 20·13 crores; in 1962-63 the revenue was Rs. 22·58 crores and, therefore, the percentage fell from 6 per cent. in 1961-62 to about 5·38 per cent. in 1962-63. As the revenue was expected to be about Rs. 25 crores in the current year, the percentage would also fall slightly; but not beyond a certain limit because these expenses (sales promotion, publicity, press advertisements etc.) promote revenue. To a question as to what items were included in the Sales promotion, the General Manager stated that it included a variety of items *viz.*, Tour of Agents, Tour of Sales Staff, Press Advertisements and radio. The expenditure on this account in India was about Rs. 9 lakhs and the rest abroad.

The Committee, however, desired to be furnished with the break-up of expenditure under the heading 'sales promotion' with special reference to agents' tours and publicity for the year 1962-63. The information is awaited.

The Committee are of the opinion that there is some scope for reduction in the expenditure incurred by the Air India on Publicity and Sales Promotion which comes to Rs. 1·20 crores and they hope that due economy will be effected wherever possible. The Committee also recommend that publicity, advertisement and entertainment etc. may be shown under a separate head and not mixed up with sales promotion or commissions paid to agents.

(II) INDIAN AIR LINES CORPORATION

Para IV, pp. 9-10

Loss due to Corporation's not bargaining in the disposal of unwanted Heron Aircraft, pages 9-10, para IV

16. Eight Heron MK. II Aircraft acquired by the Indian Airlines Corporation in 1955 at a cost of approximately £60,000 (Rs. 8 lakhs)

each were found uneconomical to operate. The Board in their meeting held on the 21st March, 1957 decided to sell two Herons provided the price obtained was not much below the cost. The asking price (Reserve price) was fixed at £45,000 (Rs. 6 lakhs) per aircraft against the depreciated value of £48,000 (Rs. 6·40 lakhs) each. The highest offer received from U.K. in June, 1957 was £25,000 (Rs. 3·33 lakhs) per aircraft. According to the reports received from various firms of air brokers there were clear indications that Herons had a buyers' market. Even then a confirmed offer of $1,15,000 (Rs. 5·52 lakhs) for one Heron received on 19th July, 1957 from U.S.A. through an air broker of New York was not accepted. The permission sought by the Corporation from the Government for the export of two Herons, was received on 17th August, 1957 but the above deal fell through, as the Corporation was not prepared to accept less than the asking price (Rs. 6 lakhs).

In October, 1957 particulars of two Herons were again advertised for sale at the asking price of £44640 (Rs. 5·95 lakhs) each. By November, 1957 the Corporation had decided to dispose of the entire fleet of their Heron Aircraft. On 13th January, 1958 a foreign air agent enquired if the Corporation was interested to sell two Herons at £30,000/33,000 (Rs. 4 lakhs/4·4 lakhs) each, which they stated was the then current market price. The few offers received by the Corporation also confirmed the downward trend of the market for Herons. The Corporation, however, stuck to the policy of not accepting offers much below the asking price and rejected all the offers. The asking price was, however, subsequently reduced from time to time (to £20,000 in July, 1960), but it was then apparently too late to attract any customer.

One Heron was sold to a Government Company in April, 1958 for Rs. 5,19,870. For the remaining seven, an offer of Rs. 17·5 lakhs was received on 12th May, 1960 as part of a package deal for the disposal of Vikings and Herons and purchase of two Viscounts which was under negotiation with a local firm. This offer was subsequently reduced to Rs. 9·31 lakhs on 16th September, 1960 (Rs. 1·33 lakhs each) due to the changed market situation, and the contract was finalised accordingly. This contract has also fallen through, and the Corporation has decided to make renewed effort for the disposal of the Herons.

From the offers received after March, 1957 it can be said that even on the basis of the last contracted sale price of Rs. 1·33 lakhs per aircraft, the Corporation would have lost about Rs. 14 lakhs with reference to the price offered in the package deal. Now that even this deal is off, the ultimate loss on the sale of the grounded Herons may be still heavier.

The Corporation had been losing heavily on the operation of Herons. The losses for the years 1957-58 to 1960 were as follows:—

Year	Cost of operation	Revenue	Loss
		(Rupees in lakhs)	
1957-58	26·64	6·18	20·46
1958-59	20·33	4·85	15·48
1959-60	18·69	4·62	14·07
1960-61	8·26	2·28	5·98
TOTAL	73·92	17·93	55·99

The Secretary of the Ministry, while explaining the general background of the case, stated that the decision to acquire Heron Aircraft was taken in 1954. These were received in 1955-56. At that time the policy of the Indian Airlines Corporation was to operate as many of the feeder routes as possible. It was thought that the 14 seater, four engined Heron was the best possible choice because it was fairly in wide-spread use at that time in various parts of the Commonwealth. When it was found, after about two years, that Herons were not suitable on feeder routes, a decision was taken by the Board to sell them, and an asking price of roughly Rs. 6 lakhs was fixed. It was accepted that the asking price which the Indian Airlines Corporation demanded was not realised from time to time, with the result that while the market price kept falling, the asking price was slightly ahead of it all the time.

Replying to a question, the Secretary of the Ministry stated that the price of a Heron was Rs. 8 lakhs. The General Manager, Indian Airlines Corporation added that the cost of spare parts originally acquired in 1954-55 was about Rs. 20 lakhs. Afterwards, more spare parts were purchased and they began to be consumed. Eventually spare parts worth Rs. 17·88 lakhs were left with the Indian Airlines Corporation. **The Committee wanted to know the expenditure incurred on the grounded Herons during the year 1962-63. The witness promised to furnish the information later. The information is awaited. (March, 1964).**

In regard to the amount of loss suffered by the Corporation in the disposal of 7 Herons, the Committee were informed that the loss on the sale of Herons alongwith spares was estimated at Rs. 16 lakhs. The depreciated value of an aircraft was worked out on the basis of the ten-year life of the aircraft. The way in which this loss of Rs. 16 lakhs was computed was that the depreciated value of the aircraft on the date of sale was worked out and this was deducted from the amount realised, the balance being treated as loss. To a question whether the offer of Rs. 5·52 lakhs which was very near to the asking price (of Rs. 6 lakhs) was considered by the Board, the General Manager stated that before the matter could be referred to the Board the offer was withdrawn. It was added that that being the first occasion on which aeroplanes that had not been used much were to be sold, the Board was particular that the aeroplane should not be sold below a certain price. But since then the latitude had been given to the administration to dispose of the aeroplanes at the best price available. The Committee enquired whether the purchase offers received from U.K. in June, 1957 for Rs. 3·33 lakhs and from America in July, 1957 for Rs. 5·52 lakhs (with a request to make a counter offer if this figure was not acceptable) were considered by the Board, the witness replied in the negative. (He, however, added that it was precisely within this period that the aircraft had undergone the certificate of airworthiness). It was, however, added that it was at the meeting of the Board held in October, 1957 that the decision to slash the price was taken.

The Committee are unhappy to note the failure on the part of the administration in referring the offers received from U.K. in June, 1957 for Rs. 3·33 lakhs and from America in July, 1957 for Rs. 5·52 lakhs to the Board for their consideration. Had the Board been properly apprised of the falling market price of the Heron aircraft, the Board might have fixed a more realistic sale price of the seven Herons, thereby minimising the loss of Rs. 16 lakhs. The Committee cannot help observing that the question of the disposal of unwanted Heron Aircraft was handled in an unbusiness like manner and the downward trend of the market for Heron Aircraft was not given due weight. The Committee trust that the Corporation will benefit from this experience and avoid such erroneous judgements in future.

AUDIT REPORT ON THE ANNUAL ACCOUNTS OF THE INDIAN AIRLINES CORPORATION FOR 1960-61

Subsidised Routes, para 3, page 1

17. During 1960-61 the Corporation operated the following services which were not remunerative and could not be commercially

justified but for the subsidy which the Central/State Governments had agreed to give (except in the case of item 1).

1. Delhi-Gwalior-Bhopal-Indore-Bombay
2. Delhi-Jaipur-Jodhpur-Udaipur-Ahmedabad
3. Delhi-Chandigarh-Kulu
4. Delhi-Panna
5. Hyderabad-Vizag
6. Calcutta-Rangoon-Port Blair.

The Hyderabad-Vizag Service was being operated at the request of the Andhra Pradesh Government. The *ad hoc* subsidy receivable for the half year from 1st October, 1960 to 31st March, 1961 was Rs. 20,000 against a loss of Rs. 75,000 for 1960-61.

Replying to a question whether the balance amount of loss had since been recovered from the Andhra Pradesh Government, the General Manager stated that with a view to finding out traffic potential, the I.A.C. experimented on new routes practically every year. This service was also being utilised as a training flight for air hostesses and pilots. In view of this position, the help given by the Andhra Pradesh Government was considered to be an additional help and it was only an *ad hoc* arrangement. As such, the question of realisation of any further amount from the Andhra Pradesh Government did not arise. It was further added that from 1st April, 1961, a new arrangement, on a shortfall guarantee basis, had been made with the Andhra Pradesh Government. In the year 1961-62, the shortfall payment made by the Andhra Pradesh Government amounted to Rs. 2,16,540.

The Committee are glad to learn that the operation of Hydrabad-Vizag Service at the request of the Andhra Pradesh Government has now been continued on a shortfall guarantee basis. The Committee are of the view that whenever the Corporation is asked to operate a commercially non-profitable route at the request of a State Government, it should invariably be on a shortfall guarantee basis.

18. The Delhi-Gwalior-Bhopal-Indore-Bombay Service was being operated in accordance with the directive issued by the Government of India under section 34(2) of the Air Corporations Act. The period of its operation expired in November, 1962. The loss incurred by the Corporation in operating this service during 1960-61 was Rs. 6·61 lakhs. The loss had not been reimbursed to the Corporation as Government held that under Section 34(2) they were liable to reimburse the loss only when there was an overall loss in respect of the opera-

tion of all its air transport services. However, if the sum of Rs. 49 lakhs short provided by the Corporation in 1960-61 for increased salaries and allowances as per the agreements with the employees association is taken into account, the profit of Rs. 4·68 lakhs would turn into a loss of Rs. 44·32 lakhs in which case the loss of Rs. 6·61 lakhs on this service would be recoverable from the Government.

In respect of the other services, the subsidy receivable was equivalent to the loss incurred in operation.

The Committee desired to know why full provision was not made in the accounts in respect of the increased pay and allowances of the employees when it was definitely known that this pay would have to be made by the Corporation. The General Manager stated that according to the Air Corporations Act, there were certain decisions which the Board of Management could not take without the approval by the Government of India. The question of increased wages had to be referred to the Government of India, and until the approval of the Government was received, the Indian Airlines Corporation could neither incur this expenditure nor treat it as having accrued. The approval of the Government of India was received in July, 1961 when the accounts had been closed as on the 31st of March, 1961. So, which the Government had asked the Corporation to operate the it was thought that it would be more appropriate to account for the sum of Rs. 49 lakhs into the accounts of the next year. When it was pointed out by the Audit that, as a usual practice, if year's accounts had not been completely closed and settled, provision for liability pertaining to that year was made on accrual basis, the General Manager, Indian Airlines Corporation agreed that in this case this was not done.

Replying to a question whether the period of operation of this service was extended by Government, the General Manager stated that this service was extended under the same conditions under service under Section 34(2) of the Air Corporations Act, but it was discontinued with effect from 1st April, 1963. When asked why this service was running in a loss, the General Manager stated that one of the reasons for its discontinuance was that it passed through a part of India, where among other things, the cost of petrol was extraordinarily high. Besides, Dakotas were used on this route in the afternoon which was most inconvenient for people to travel.

In view of the fact that the Corporation had actually incurred a loss in the year 1960-61, the Committee would like the Government to re-examine whether the loss suffered by the Corporation on this route, which was being operated in accordance with the directive issued by the Government of India is re-imbursable under Section 34(2) of the Air Corporations Act, in the present case.

Loss of Revenue, para 4, pages 1-2

19. The Corporation staff had been allowing a rebate of 50% instead of 25% on consignments of newspapers on the India/Pakistan Sector since December, 1959. The mistake was detected in January, 1961, and from February, 1961 the rebate of 25% was being allowed. The loss of revenue on this account from December, 1959 to January, 1961 had amounted to Rs. 12,500 app. in Delhi and Bombay Area. The loss in Calcutta area was not known. The management had stated that the matter was under investigation.

The General Manager, at the outset, accepted that the rate of rebate of 50% offered was not absolutely correct and a lower rate of 25% could have been insisted upon. This happened because the Managers in the respective places, particularly in Karachi, did not interpret the International Airlines Transport Association's circular correctly. The Secretary of the Ministry further explained the position that the International Airlines Transport Association regulation provided that newspaper consignments were entitled to 50 per cent rebate subject to a minimum weight of 5 kgs. There was no definite idea about consignments below 5 kgs. Many airlines followed 25 per cent rebate in such cases. It so happened that in the centre, in question, a large number of consignments were below 5 kgs. and Pakistan Airlines were giving a rebate of 50%, and Indian Airlines Corporation also gave that rebate. The General Manager added that there was competition with the Pakistan International Airways who were offering a rebate of 50 per cent, and as such, it would not have been wise for Indian Airlines Corporation to have withdrawn the same rebate which had already been offered. It was added that eventually it was withdrawn.

The following extract from a letter from the Indian Airlines Corporation was brought to the notice of the Committee:

> "According to the circular the minimum charge was fixed at 50 per cent of the full cargo rate, for 5 kilos, whereas voluntary rebate was restricted to 25 per cent only for consignment weighing over 5 kilos with the fitment to the lower slab. Ultimately HQ decided to fall in line with all the other international airlines and increased the voluntary rebate of 25 per cent also to 50 per cent making it universal for all newspaper consignments, more so as PIAC did not agree to 25 per cent rebate. During this interim period discrepancy arose, by applying 50 per cent rebate to all newspaper consignments, irrespective of the weight, on account of staff erroneous-

ly referring to the working of examples cited for application of minimum charges. We admit it was an interpretational error. But we should not overlook the fact that it has also proved to the advantage of IAC, as otherwise all the newspaper traffic would have been diverted to our competitors."

The General Manager stated that it was not so much a question of acting rightly or wrongly, as of not following precisely what was laid down.

The Committee are of the view that such "interpretational errors" should be avoided, and that suitable procedure should be devised to ensure that the HQ is in a position to promptly detect and rectify such errors if they do occur at all.

Irregular promotion and appointments with retrospective effect, para 5, page 2

20. In pursuance of the Tribunal Award in 1958, the standard force of the Corporation was reviewed and an increase of 463 posts was approved by the Board on 30th June, 1960. Besides the overall increase in the number of posts, there was also a revision of the staff strength required in different grades and trades. Such posts were to be filled either by Departmental promotions or by direct recruitment. The employees of the Corporation considered fit for promotion were given benefits of increased pay and allowance for October, 1960 in the case of promotions upto grade IX and from 1st November, 1960 in the case of others. As promotion orders or interviews took place in April, 1961 the grant of benefits with retrospective effect had resulted in officials drawing the pay of higher posts while actually not performing the duties of the post for which they drew the pay. The grant of retrospective effect had resulted in an extra expenditure of over a lakh of rupees by way of increased pay and allowances.

The Government of India objected to promotions/appointments with retrospective effect and held that the question should be put up to the Board to set right the irregularity and thereafter the matter referred to Government for approval. The Corporation had since explained to the Board that in order to avoid dissatisfaction among the affected staff (many of whom were actually shouldering duties and responsibilities of higher posts while being paid at the lower rates), it was necessary to give retrospective effect to their appointments. The Board in their 43rd Meeting held on the 6th October, 1961 approved the action already taken by the Management. The Government in August, 1962 while pointing out that the appointments and promotions were within the competence of the Board, nevertheless regretted the action of the Corporation in having given retrospective effect to these appointments when the employees were not actually performing the duties of the post. The statement made by the Management that the officials were actually performing duties in a higher grade, however, could not be verified in audit.

The General Manager stated that this was not the case for the entire staff. In extenuation, he explained that the staff assessment boards took a long time to review the cases and come to a final decision, but the men who were actually working there from October onwards were more or less the men who were eventually selected for those posts.

In this connection, the following extract from a letter dated 20th August, 1962 from Government of India to IAC was brought to the notice of the Committee:

> "Although it was pointed out that the reasons advanced by the management for giving retrospective effect to certain appointments when the employees had not actually performed the duties of the posts would not be acceptable to the audit and such a practice was likely to give rise to embarrassing precedents, Government note that the board has approved of the arrangements. The appointments and promotions referred to are within the competence of the board and Government's approval is not required. Nonetheless, Government regret the action of the Corporation in having given retrospective effect to these appointments when the employees were not actually performing the duties of the posts."

The Secretary of the Ministry explained that subsequent to the above communication, the IAC reported that, though not in all cases, in some cases people had been performing the duties of higher posts with reference to the earlier date. The General Manager of the Corporation while explaining the grade system in the IAC stated that when a supervisor in Grade VII was promoted to Grade IX, he did very nearly the same amount of work with a little more responsibility and "it would not be very distinctly observed that he is performing the duties of the higher post, but in fact he is."

To a question whether, after the attention of the Corporation was drawn to this irregularity, any action was taken to recover the excess amount paid to the employees, the General Manager replied in the negative. The Committee, however, desired to receive further information in regard to the number of officials who were actually working in the lower grade but were given the pay and allowances of the higher grade. The witness promised to furnish this information later. The information is awaited. (March, 1964).

While the Committee agree that the Corporation is competent to decide administrative questions of promotions etc., they are not happy about the decision to give retrospective effect to those appointments when the employees were not actually performing the duties attached to the posts. The Committee hope that the Corporation will scrupulously avoid such irregular procedures in future.

Increase in overtime allowance, page 3, para. 7 (v)

21. The overtime allowance paid to the staff had been increasing considerably from year to year in almost all the departments of the Indian Airlines Corporation irrespective of the increase in the strength of the staff. The overtime payments in the past three years were:

	(Rs. in lakhs)
1958-59	22·07
1959-60	26·79
1960-61	46·66

The management had stated that every effort was being made to reduce the expenditure on overtime.

The Committee desired to know the reasons for the increase in the overtime allowance and the steps that were being taken by the Corporation to reduce this burden. The General Manager, IAC informed the Committee that the question of overtime allowance which was rising every year had been engaging the Corporation's attention all the time and attempts were being made to control it whenever possible. The General Manager explained, in extenuation, that the Corporation had to maintain the flights all the 365 days of the year irrespective of Sundays, holidays or even days like the Republic Day. Hundreds of men were kept working even on these days. Another factor was the increase in the wages of workers resulting in corresponding rise in overtime allowance. Sometimes the overtime will be 50 per cent or more as it was calculated on the basis of the wages earned by an individual. With a view to assessing the problem more realistically, it was now proposed to break up the figure under this head—(i) relating to work done on Sundays and holidays and (ii) overtime as such.

To a suggestion that the holidays may be staggered, the General Manager stated that the full complement had to be kept on holidays as well as working days. Sometimes a substitute off-day was given, but it was not possible to do so in all cases. With regard to the category of persons who were entitled to get overtime allowance, it was stated that the category included those persons who had to do field work, *i.e.*, line crew, engineering staff, junior officers upto a certain grade and other general employees etc.

It was further added as another reason for the increase of overtime allowance, that the scale of operations had also increased considerably.

It was pointed out that with the increase in the staff, the overtime problem should have been solved. The General Manager explained that for experimental routes it was not wise to recruit men on permanent basis and that after 1960-61 staff assessment based on entire activities of the Corporation had not been made. When asked how the overtime allowance paid by IAC compared with that paid by the Railways, the General Manager stated that the substantial part of the overtime allowance paid by IAC was to the flying crew which were not comparable with any other service. Out of Rs. 64.14 lakhs paid in 1962-63 about 12 lakhs were given to pilots. These payments were governed by the Factories Act and the Payment of Wages Act. The Committee desired to be furnished with a statement showing (i) the number of persons, category-wise, recruited during the years 1960-61, 1961-62 and 1962-63; (ii) the amount of overtime allowance paid to the staff, category-wise, during the period referred to at (i) above, separately for Sundays and other Holidays as also normal working days; (iii) comparative figures showing increase in the load of work. The witness promised to furnish the information later. The information is still awaited. (March, 1964).

In the absence of the information asked for by the Committee, they are unable to appreciate the increase in payment of overtime allowance when the staff strength was also increasing. The Committee would like the Corporation to analyse carefully the various factors that have caused the increase in overtime allowance and take steps to reduce the same. The Committee would like to watch the outcome.

AUDIT REPORT ON THE ACCOUNTS OF IAC FOR THE YEAR 1961-62

Ex-gratia payment of Rs. 33,337 to a Radio Officer who left service at his own request, page 1, para 3.

22. In pursuance of its policy of progressively entrusting all Air/Ground Radio Communication duties to Pilots, the Corporation entered into an agreement on 23rd November, 1961 with the All India

Radio Officers Association, which provided that as and when the pilot Operated R/T was introduced, the Radio Officers rendered surplus would be absorbed in permanent alternative employment in the Corporation and in case the services of a Radio Officer were to be terminated or a Radio Officer opted to leave service either as a result of being declared redundant or by reason or having been passed over in order of seniority for appointment to a ground job, the Radio Officer would be paid compensation in lieu of the loss of service. The Pilot Operated R/T had not been introduced in the Indian Airlines Corporation so far. But a Radio Officer who left service on 1st January, 1962 at his own request had been paid a retrenchment compensation of Rs. 33,337. The Corporation had stated that the Radio Officer was granted compensation in accordance with the provisions of the scheme and permitted to retire owing to compelling domestic reasons, which necessitated the officer's early departure from the country, and that there was no ground job available against which he could have been absorbed. Since the scheme of Pilot Operated R/T had not yet been implemented none of the conditions stipulated in the agreement for payment of retrenchment compensation were fulfilled. The payment of Rs. 33,337 was, threfore, *ex-gratia*.

The Committee desired to know why such a payment was made when the Radio Officer left the service at his own request. The General Manager, IAC stated that the Corporation had entered into an agreement with the All India Radio Officers Association on the 23rd November, 1961 that whenever the modern pilot operated RT System was introduced, the Radio Officers (who were 110) would be kept on ground duty. If all of them were to be kept on ground duty that would have created many problems. To avoid that situation, an alternative proposal was made to them that in case no ground jobs could be found, a certain amount of compensation would be given to them. The Secretary of the Ministry added that this agreement was approved by the Board but the implementation was left to the management. In the present case the management took various factors into consideration besides the agreement *i.e.*, 15 years service, last pay drawn—Rs. 1,400 to 1,450 etc., and the compensation was paid accordingly. The Committee enquired whether it was a fact that the agreement in question was to come into force only with the introduction of the Pilot operated R.T. Scheme which had not been introduced till 1st February, 1964. The General Manager replied in the affirmative. He further added that the said agreement was entered into on 23rd November, 1961 and on the same date there was a proposal to withdraw the Radio Officers from the Fokker Friendship Air-crafts; but the pilots who operated the air-crafts insisted that they would like to keep Radio Officers till they got accustomed to operating the RT system themselves.

Since the General Manager accepted that (i) the agreement entered into with the A.I.R.O.A. was to come into force only with the introduction of the Pilot operated RT Scheme and (ii) that the RT Scheme itself had not been introduced till the 1st of February, 1964, the Committee are of the view that the *ex-gratia* payment of Rs. 33,337 to the Radio Officer who left service on the 1st January, 1962 at his own request, was not warranted.

In this connection the Committee would like to refer to the decision of the Government of India, Ministry of Finance (Department of Co-ordination) contained in their D.O. No. 837-SCDN/63, dated 18th November, 1963 regarding directions to be given by the Government to their representatives on the Boards of Directors of public undertakings. The Committee feel that the Government representatives should look into such financial irregularities of the Corporation and report them promptly to Government.

Revision of pay scales of officers, page 2, *para* 5.

23. The pay scale of Rs. 2,000—125—2,250 for grade 19 officers had been replaced by a fixed salary of Rs. 2,250 per month with effect from 1st April, 1960. However, in order to prevent stagnation on a pay of Rs. 2,250 for a long time, it was decided with the approval of the Board and Government of India that officers in grade 19 who rendered satisfactory service in that grade for four years might be given a fixed pay of Rs. 2,500 per month.

The intention of giving a fixed pay of Rs. 2,500 per month was to prevent stagnation to those who had rendered satisfactory service on a pay of Rs. 2,250 per month for four years. The Corporation had, however, counted the entire service including the service rendered in the old scale of grade 19 (2,000—125—2,250) for the payment of fixed pay of Rs. 2,500 per month. This had resulted in overpayment of Rs. 18,000 approximately upto 31st March, 1962.

The Corporation had since decided that the pay of the officers who had been allowed to draw Rs. 2,500 before rendering four years service on a pay of Rs. 2,250 should be refixed at Rs. 2,250. No recovery of the excess payment already made in this regard was, however, contemplated.

The Committee enquired about the circumstances under which the wrong fixation of pay was made and why the recovery of the amount overpaid had been waived. The General Manager, IAC stated that the resolution of the Board, duly agreed to by the Government, had not been correctly interpreted by the management. The decision was that an officer who had put in four year's service in the maximum of the grade *i.e.*, Rs. 2,250, should be given Rs. 2,500, while the management interpreted it to mean that an officer who had put in four years' satisfactory service in the grade (Heads of Department—there were four or five persons in this Grade) should be given the revised pay of Rs. 2,500. The Secretary of the Ministry stated that this was a case of misinterpretation of the four-year rule. This was *clarified* by Government on 16th August, 1962 on a reference from Audit. The Committee desired to know (i) whether the question of misinterpretation of the four years rule as classified by Government on 16th August 1962 and (ii) the question of recovering excess payments were considered by the Board. The General Manager informed the Committee that the Government of India had informed the IAC on the 16th August, 1962, that the four year rule had not been correctly interpreted. This communication was considered by the Board of Directors of the IAC and the Board *inter-alia* resolved that no recovery on account of excess payment should be made. The Committee. desired to be furnished with a copy of the Board's Resolution to this effect.

The Committee are sorry to note that there was misinterpretation of a simple 'four year rule' resulting in over payments to the tune of Rs. 18,000. In the absence of a copy of the Board's Resolution to the effect that the excess payments that had been made need not be recovered, the Committee are not in a position to appreciate the circumstances under which this decision was taken. The Committee were informed by the Secretary of the Ministry of Transport that the Corporation had not come to Government for a formal sanction to waive recovery of excess payment. The Committee would like Government to examine whether there is any justification for waiving recovery of excess payments.

Physical verification of Stores, page 2, para 6 (iii)

24. According to the Air Corporation Rules, 1954 a physical verification of stores, tools and plants was required to be made by an officer who was not the custodian thereof. As the physical verification of stores and other assets every year was found inconvenient the Air Corporations rules were amended to allow the physical verification in such a way that every item of stores, tools and plants was verified at least once in two years. The first biennial verification was due in 1960—62 but as on 31st March, 1962 the work of

verification was not completed. Hence the excesses/shortages of stock had not been completely brought into account. The results of physical verification together with the orders of the Corporation for any shortages and excesses of stores and tools and plants had not also been communicated to the Comptroller and Auditor-General of India, as required in rule 8 of the Air Corporations Rules, 1954.

The Committee enquired whether the physical verification was being conducted now even on a biennial basis. The General Manager, IAC stated that the biennial stock verification due for 1960—62 had since been completed. He added that the IAC had a separate internal audit department with stock verifiers whose job was to verify stores day in and day out; but the volume of work involved was very heavy. There were on the whole about 200,000 items or more of stores in various areas, and they went on charging from area to area and from hanger to hanger. It was, however, felt that by appointing another 20 or 25 persons to the team of stock verifiers the inspection work would be carried out properly and regularly, and a complete cycle maintained.

The Committee would like the Corporation to ensure that the stock verification is carried out regularly as per the schedule that has been laid down.

AUDIT REPORT ON THE ACCOUNTS OF THE IAC FOR THE YEAR 1962-63

Short recovery of Rs. 13,530 *in respect of Kabul Charters, page* 2, *para* 7.

25. The Corporation had prescribed minimum charges for various types of aircraft chartered for carrying cargo between Delhi and Kabul, calculated on the basis of standard outward and inward payload. In case the load carried the standard payload, an additional charge of 75 nP. per lb. in each direction was levied. In many cases no additional charges had been recovered from the charter parties although the payload carried was in excess of the standard payload. This resulted in a short recovery of Rs. 13,530 during the period 11th February, 1962 to 7th May, 1962.

The Committee enquired why the prescribed recoveries were not made from the charter parties. Explaining the circumstances under which the short recovery of Rs. 13,530 was made, the General Manager stated that the charters had to be undertaken in a great rush and it was not considered desirable to detain the aeroplanes just to check up the actual weight in advance. He added that had it been done a second flight to Kabul would not have been possible. By making a second flight to Kabul, the IAC earned much more though a little bit of excess load that the aircraft may have carried was overlooked. With regard to fixation of responsibility the General Manager stated that these Charter flights were being handled by about a dozen officers at various times. According to the witness this little loss to the Corporation was incurred against the charter earning of Rs. 29·75 lakhs, made during, this short period. It was also stated that efforts were, however, being made to recover the amount from the charter parties.

The Committee would like to be informed of the results of the efforts made to recover the amounts due (Rs. 13,530) from the charter parties.

III

GOVERNMENT COMPANIES

26. There were 46 Government Companies with two Subsidiary Companies as on 31st March, 1962, under the administrative control of 10 Ministries.

During the year 1961-62, the paid-up capital of these Companies increased from Rs. 536·94 crores to Rs. 614·97 crores and loan from Rs. 372·28 crores to Rs. 459·41 crores. After taking into consideration the free Reserves, the total capital actually employed increased from Rs. 920·43 crores to Rs. 1090·75 crores.

The net result of operation of all these Companies shows a loss of Rs. 10·60 crores during this year, as compared to the profit of Rs. 6·34 crores during 1960-61. This position is mainly due to the loss sustained by Hindustan Steel Limited during 1961-62. During this year, this company made an adjustment of arrears of depreciation to the extent of Rs. 17·82 crores not provided for in the previous years.

27. The break-up of the paid-up capital of these Companies according to the investments made by the Central Government, State Governments and Private parties as on 31st March, 1962 was as under:

Paid-up capital (Rs. in thousands)

		Centre	State	Private parties	Total
(a) Companies fully owned and managed by Central Government (excluding subsidiaries)	34	578,82,56	..	..	578,82,56
(b) Companies jointly owned by Central Government and State Governments	4	20,78,92	1,94,08	..	22,73,00
(c) Companies jointly owned by Central Government and private parties	4	2,44,14	..	47,11	2,91,25
(d) Companies jointly owned by Central Government, State Governments and private parties	4	6,98,79	2,51,63	99,64	10,50,06
TOTAL	46	609,04,41	4,45,71	1,46,75	61,49,687

(III) HINDUSTAN STEEL LIMITED

Audit Report (Commercial), 1963—*Para VI, pages* 24—37 *General*

28. The Hindustan Steel Limited, a Government Company, was registered on 19th January, 1954 with an authorised capital of Rs. 100 crores, for the construction and management of the Rourkela Steel Project. On March 31, 1962, the authorised and paid-up capital of the Company were Rs. 600 crores and Rs. 300 crores, respectively. The paid-up capital includes shares of the value of Rs. 53·83 crores allotted to the Government of India otherwise than in cash, for the transfer of assets of Bhilai and Durgapur Projects which were also taken up by the Company from 1st April, 1957.

Loans advanced by the Government of India to the Hindustan Steel Ltd.—para 1·01, *page* 24

In addition to share-capital, the Government of India have from time to time advanced unsecured loans to the Company amounting to Rs. 357·1 crores upto 31st March, 1962. In August, 1960 all these loans were consolidated into one loan as from 1st April, 1962 and allowed a currency of 20 years with interest at 5 per cent per annum from that date, the earlier period being treated as interest-free. According to the general principles laid down by the Government of India in June, 1961, the currency of the loans advanced to Central Government Undertakings should not exceed 15 years (of which not more than 5 years may be treated as interest-free) and the rate of interest is fixed at 6 per cent per annum. This Company has, however, derived the benefit of an "interest holiday" for 7 years instead of 5 years. After 1st April, 1962, the yearly benefit on account of concessional rate of interest on total loans amounting to Rs. 357·1 crores will be Rs. 3·57 crores per annum approximately.

Regarding the loans advanced to the Hindustan Steel Limited by the Government of India and the benefit derived by the Company on account of concessional rate of interest, the Secretary, Department of Iron and Steel stated in evidence that of all the Government Companies, the Hindustan Steel Limited stood on a different footing. The Company was to be treated in a category by itself because of its size and the amount invested in the Company. It would not be fair to impose standard period of loans and the standard rate of interest in respect of the Hindustan Steel Limited. He further stated that in a Steel Company the gestation period was a little longer than in respect of other types of Companies, and that the decision to allow 20 years currency for the loan instead of the normal 15 years had the sanction of the Ministry of Finance.

The Committee were further informed during evidence that at the time when the loan was advanced there was no uniform procedure and *ad hoc* decisions used to be taken. The Government took a decision about the loan to Hindustan Steel Limited on certain principles in 1960. The general principles laid down in June, 1961 regarding the currency of loan and rate of interest were different from those laid down in 1960. These general principles were not made applicable retrospectively to Hindustan Steel Ltd.

The Committee are of the view, that for future in such cases a procedure should be laid down that any earlier *ad hoc* decision should be specifically reviewed on the basis of the general policy that might be laid down later.

Project estimates—para 2, page 24

29. The estimated cost of each Steel Project as given in the Project Reports concerned was revised from time to time. Details of the original estimates and the latest revised estimates (1963) are given below:

(Rs. in crores)

	Original estimate		Revised estimates 1963		Difference (Increase)
A. *Rourkela*					
Steel Plant Proper . .	128		177·87		
Township and other Ancillaries	..		46·53		
Escalation and other items	..	128	8·80	233·20	105·20
B. *Durgapur*					
Steel Plant Proper . .	115		151·31		
Township and other Ancillaries	..		37·90		
Escalation and other items	..	115	16·04	205·25	90·25
C. *Bhilai*					
Steel Plant Proper . .	110		150·01		
Township and other Ancillaries	..		52·33		
Escalation and other items	..	110		202·34	92·34
GRAND TOTAL .		353		640·79	287·79

Taking all the three projects together, it will be seen that the latest estimates have gone up by Rs. 287·79 crores. This increase includes Rs. 161·60 crores for ancillaries and other items not provided for in the original estimates. The balance of Rs. 126·19 crores works out to 36 per cent of the original estimates.

Steel Plants Proper

The original and revised estimates together with the actuals upto 31st March, 1962 for the Steel Plants proper are given below:

(Rs. in crores)

Unit	Original Estimates	Revised Estimates 1957	Revised Estimates 1961	Revised Estimates 1963	Actual cost upto 31-3-1962
Rourkela	128	170	177·86	177·87	171·71
Bhilai	110	131	141·41	150·01	142·77
Durgapur	115	138	159·08	151·31	160·26
TOTAL	353	439	478·35	479·19	474·74

The increase in foreign exchange elements for the steel plants proper is as shown below:

(Rs. in crores)

Unit	Original Estimates	Revised Estimates 1957	Revised Estimates 1961	Actual upto 31-3-1962
Rourkela	89·00	122·00	121·31	114·94
Bhilai	67·50	78·00	85·60	91·33
Durgapur	72·00	86·06	90·86	92·46
TOTAL	228·50	286·06	297·77	298·73

Township and Other Ancillaries

The original estimated expenditure on the township and other ancillaries, the revised estimates and the actuals thereon as on 31st March, 1962 are as follows:

(Rs. in crores)

Projects	Original Estimates	Revised Estimates 1961	Revised Estimates 1963	Actual as on 31-3-1962
Rourkela	43·85	43·47*	46·53	40·92
Bhilai	47·65	57·91	52·33	58·96
Durgapur	27·86	27·69*	37·90	18·60
TOTAL	119·36	129·07	136·76	118·48

Township and ancillaries thus amount to more than 20 per cent of the total cost of the Project. The largest expenditure on these items both in absolute terms and as a percentage of total cost is in Bhilai.

Escalation

The position of estimated escalations and actuals as on 31st March, 1962 is indicated below in the case of Rourkela and Durgapur plants:

(In crores of Rs.)

	Estimate 1961	Estimate 1963	Actuals
Rourkela	5·4	6·09	5·76
Durgapur	12·04	12·04	6·89

In reply to a question regarding the enormous increase in the estimate of expenditure for the three Steel Projects (original Rs. 353 crores, 1963 revised estimates Rs. 640·79 crores) the Secretary, Department of Iron and Steel stated in evidence that the increase was due to the inclusion of expenditure regarding ancillaries and other items which was not provided in the original estimates. The earlier estimate of Rs. 353 crores was a tentative one as the full details were not worked out at that time. The revised estimates made in 1961 were for three plants excluding the township and the ancillaries like mines, etc. The estimates were divided into two parts *viz.*, (1) estimates for the main plants, and (2) estimates for the township and ancillaries.

*Net after taking into account certain recoveries.

The Committee enquired as to why the expenditure in respect of ancillaries and other items were not included in the original estimates. The Secretary, Department of Iron and Steel stated that the original estimate was only an abstract estimate for the purpose of plant provision and only plant figures were given. It was specifically mentioned that figures for ancillaries had not been included. When the Committee asked about the reasons for the increase in the foreign exchange element (from Rs. 228·50 crores in the original estimate to Rs. 310·36 crores in 1963), the Secretary, Department of Iron and Steel stated that during the course of the construction.

(i) some more specialists were entertained or employed;

(ii) to some extent the scope of supplies was enlarged;

(iii) consultant's fees were paid; and

(iv) escalation was larger than anticipated.

Regarding the excess of expenditure in respect of township and other ancillaries in *Bhilai*, the Secretary, Department of Iron and Steel stated that owing to some misclassification of expenditure, the expenditure which ought to have been put on the steel plant side was wrongly shown on the ancillaries side. After the correction was made the correct figure for Bhilai was Rs. 51·05 crores upto 30th November, 1963. Similarly in *Durgapur* there was some misclassification of expenditure. After the correction was made, the correct figure of expenditure on this account for Durgapur was Rs. 36·40 crores upto 30th November, 1963.

The Committee feel unhappy that such misclassification of expenditures should have occurred in the cases of Bhilai and Durgapur. They hope that suitable measures will be taken by the management to avoid such misclassifications of expenditure in future.

30. Regarding the increase in foreign exchange components for Bhilai (from the revised estimate of Rs. 85·60 crores in 1961 to the actual expenditure of Rs. 91:33 crores upto 31st March, 1962 and Rs. 97·98 crores upto 31st March 1963) it was stated in evidence by the representative of the Hindustan Steel Limited, that the estimate of Rs. 85·60 crores did not include the estimate of foreign exchange on certain items viz.,

1. Salaries to the Soviet experts;

2. Consultant's fee;

3. Incidental charges on U.S.S.R. Stores.

The Committee are surprised to learn that these important factors were lost sight of despite two earlier upward revisions of original estimates, first in 1957 and again in 1961. This indicates that sufficient care is not being taken at the time of framing the estimates. The Committee would like Government to issue suitable instructions to all the Public Sector Undertakings to ensure that the estimates be prepared more realistically and such important factors are not omitted from the estimates.

31. The Committee enquired about the proportion of expenditure on townships and ancillaries to the total cost of the project. The Secretary, Department of Iron and Steel, stated that the expenditure on townships was of the order of Rs. 10 to Rs. 15 crores in each of the new towns *viz.*, Bhilai, Durgapur and Rourkela. But ancillaries varied from plant to plant. In Bhilai there was iron ore mine and lime stone mines owned by the Bhilai plant itself. In Durgapur there was no iron ore mine. The expenditure on mines and things like that were different between the two plants. He urged that the items under "ancillaries" varied from plant to plant, and therefore the expenditure on this account was not strictly comparable.

As regards the proportion spent over townships, the Secretary, Department of Iron and Steel, stated that in Durgapur, the total ancillaries amounted to Rs. 38 crores. The township was Rs. 17·3 crores and the rest was consultant's fees, customs duties, water works and miscellaneous. In Bhilai, the total ancillaries were around Rs. 52 crores. The expenditure on township was Rs. 15 crores, mines and quarries Rs. 15 crores, miscellaneous Rs. 10 crores, Consultants' fees Rs. 2½ crores, Customs Duties Rs. 7½ crores. In Rourkela, the total ancillaries were Rs. 46 crores. (The expenditure on townships was Rs. 14 crores, Mines and quarries Rs. 14 crores, customs duties Rs. 9 crores, Consultants' fees Rs. 3½ crores.)

The Committee consider it strange that such an important item like the expenditure on townships and ancillaries was not provided in the original estimates for projects of such magnitude. The Committee were informed that the expenditure on townships was Rs. 14 crores in Rourkela; Rs. 15 crores in Bhilai and Rs. 17 crores in Durgapur and explained that the difficulty was that the Company had to put up townships in two or three years. The Committee desire the Government to examine whether the expenditure on townships is not rather disproportionate to the total outlay of the projects. They would like Government to consider the feasibility of laying down a suitable ceiling of the proportion of expenditure on townships to the total outlay of the project.

The Committee do appreciate that in a project of this magnitude undertaken for the first time with foreign collaboration, the possibility of an upward revision of the original estimates cannot altogether be avoided as some new factors which could not be foreseen at the time of framing the initial estimates are bound to crop up because of inexperience. All the same, they consider that a variation of 36 per cent between the original estimates of Rs. 353 crores and the revised estimates in 1963 of Rs. 479·19 crores in respect of three steel plants proper (against which the actual expenditure upon 31st March, 1962 was Rs. 474·74 crores) is very much on the high side. Now that the three steel plants have gone into full production, the Committee suggest that Government should undertake a detailed study of the various factors that have led to such an abnormal increase in expenditure against the original estimates in case of each steel plant. The Committee have no doubt that such a detailed analysis made after a careful and objective study would serve as a useful guide whenever large projects are undertaken in the public sector, and will assist in avoiding similar pitfalls.

Delay in Erection—para 3, page 26

32. There has been considerable delay in the dates of completion of erection of the various units of the plans as compared with the scheduled dates given in the Project Reports. A few notable instances are given below:

Units	Scheduled date of completion	Date of actual completion	Delay
Rourklea			
Plate Mill	1-5-1959	25-6-1960	14 months
Cold Rolling Mill			
Unit I . . .	1-1-1960	20-4-1961	15½ months
Unit II	1-3-1960	17-6-1961	15½ months
Unit III	1-3-1960	31-8-1961	18 months
Bhilai			
Blast Furnace III . .	Nov. 1959	28-12-1960	12 months

The Committee asked about the reasons for the delay in completion of erection of the various units of the plants as compared with the scheduled dates and the extent to which such delays contributed in increasing the cost of erection of the plants, the representative of the Hindustan Steel Limited ascribed the delay to the following reasons in the case of *Rourkela*:

(1) There was delay in the preparation of the ground;

(2) In the civil engineering works two difficulties arose. One was that the estimated quantities originally made were inadequate and secondly there was some delay in getting the detailed drawings from Germany; and

(3) Labour strike in 1958 in Calcutta Docks. Though the strike lasted only 4 weeks, it caused great difficulties because certain equipment which had arrived was dumped there and over that was dumped other equipment which was to be used much later. So, in sorting out what was first required, considerable time was lost.

In the case of *Bhilai*, the delay in the erection of one blast furnace was entirely due to the delay in the supply of equipment by Russians.

As regards the increase in the cost of erection owing to these delays the representative of the Hindustan Steel Ltd. stated that the increase in the cost of erection was not very considerable.

The representative of the Hindustan Steel Ltd. promised to furnish a statement on the following points regarding the delay in the dates of completion of the erection of the various units of the plant at Rourkela:

(a) when were the drawings actually received from the German firm?

(b) when did the Hindustan Steel Ltd. ask the German firm for the supply of drawings and whether the firm was informed at that time that the delay in the supply of drawings would affect the completion of civil engineering work within the scheduled time?

(c) when did the civil engineering work actually commence after the receipt of the drawings?

The Committee regret to note that the information on the above points is still awaited. This should be expedited.

In view of the fact that each delay in big projects, has a consequent effect on other units, the Committee would like the Government to keep a strict watch over timely completion so that such delays are avoided as far as possible.

Delay Notice Served on the Contractors—Para 3·02, page 26

33. Under clause 43 of the contract with ISCON in Durgapur, the contractor is required to secure completion of the works by the

dates stated in the programme of works subject to fulfilment of certain conditions laid down in this clause. If any delay is attributable to the contractors, they are liable to pay under clause 44 of the contract a penalty not exceeding 3 per cent of the value of such portion. The first stage, though due for completion on 31st October, 1959, was not actually completed by that date. A delay notice was served on the contractors on 25th November, 1959. Similarly, there was a delay in completion of the second stage due to be completed on 30th April, 1960 also. A formal notice was served here also on 10th July, 1960. The delay notices in these two cases were not accepted by the contractors and they alleged that these delays had been caused through no fault of theirs and that they had notified all such cases to the consultants. Upto 31st March, 1962 the matter had not been settled.

It was stated in evidence, by the representative of the Hindustan Steel Ltd. that the question of payment of penalty by the contractors for the delay had not yet been settled. Delay notice under clause 44 of the contract had been served on the contractors who had not accepted the notice. The consultants—I.C.C. had said that causes of delays were contributed by both the sides and therefore there would be no use asking for damages. Even then the notices were served on the contractors and the matter was under negotiation. It was stated that negotiations were to be held for settling claims of Rs. 276 lakhs against the contractors within a month or so. Some claims (Rs. 171 lakhs) against the Hindustan Steel Limited had also been made by the contractors for technical surveys of the work done. The witness further added that if the matter was not settled, it would have to be referred to arbitration.

The Committee were given to understand that a Negotiation Committee was instituted in August, 1962 for settling the contractual issues. The Negotiation Committee with the General Manager, Durgapur, as the Hindustan Steel Limited's representative had, however, not made much progress due to the reported non-co-operation of M/s ISCON. Apart from this, the Committee were also told in the course of evidence that the contractors were adopting delaying tactics. The Committee are perturbed over these disclosures. The Committee desire that the Ministry and the Hindustan Steel Ltd. should take suitable measures to overcome the non-co-operation of the contractors and take necessary steps to realise the penalty. The Committee would like to be apprised of the final outcome of the negotiation.

Delay in Commissioning—para 4, page 27

34. In the case of Rourkela, the Coke Oven No. III (value—Rs. 277·3 lakhs) although completed in October, 1959, was commissioned only on 14th August, 1962. The Potash Plant (Rs. 89·37 lakhs) was completed in August, 1960. This plant has not yet been (31st March, 1962) commissioned. Commissioning of various other units in the three steel plants have also been delayed beyond the due dates. In the case of Rourkela, such delays extended upto 37 months, in the case of Bhilai upto 14 months and in the case of Durgapur 14 months.

The management had given the following reasons to Audit for the delay in the commissioning of the various units:

Rourkela—The delay in the completion of civil engineering works. site formation works and labour strikes.

Bhilai—Due to non-receipt of equipment and other materials at site as originally planned and scarcity of raw materials due to non-availability of wagons.

Durgapur—Due to shortages in raw materials and defects on ancillary units, etc.

The representative of the Hindustan Steel Ltd. explained in evidence that the third coke battery would have been required only when the whole plant was to be in operation and that the completion of the last part of the plant *i.e.*, the rolling mills, took place only in 1962.

In reply to a question, the Secretary, Department of Iron and Steel and the representative of Hindustan Steel Ltd. admitted that the answer given by the management to Audit as included in the audit para on delay in commissioning was incorrect. The Committee, therefore, desired to be furnished with a note giving the actual reasons for the delay in commissioning of Coke Oven No. III and the Potash Plant at Rourkela.

The Committee regret that the information is still awaited on the above point. The Committee would like to emphasise that the Ministries/Departments should furnish correct information to Audit based on indisputable facts.

Targets and Actual Achievements—para 5, pages 27—29.

35. The production achieved by each Steel Plant in respect of the main products, *viz.*, pig iron and steel with respect to rated capacity and budgeted and actual production is given below:

ROURKELA

(in lakhs of tons)

Main Products	Year	Rated capacity as per project report	Budgeted production	Actual production	Shortfall in percentage (Cols. 5 to 3)	Percentage of cols. 5 to 4
1	2	3	4	5	6	7
Pig Iron .	1960-61	6·30 (for 2 Furnaces)	..	4·12	34·59%	
	1961-62	7·09 (for 3 Furnaces)	6·25	4·57	35·55%	73·12%
Steel	1960-61	O.H. 2·42		0·84	65·01%	
		L.D. 7·50	..	1·28	83·0%	
	1961-62	O.H. 2·50	5·04	1·44	42·6%	70·63%
		L.D. 7·50	(both for O. H. & L.D.)	2·12	71·7%	
Rolling Mills :						
Blooming and Slabbing Mill	1960-61	8·59	..	1·04	88·0%	
	1961-62	8·59	3·83	2·29	73·3%	59·79%
Plrip Mill .	1960-61	0·52	..	0·02	95·9%	
	1961-62	6·18	1·91	1·12	81·8%	58·64%
State Mill .	1960-61	0·91	..	0·27	70·3%	
	1961-62	1·70	0·96	0·78	54·3%	81·25%
Cold Rolling Mill .	1961-62	1·46	0·45	0·14	90·3%	31·11% Commissioned in 1961-62 only
Pipe Mill .	1960-61	0·35	..	0·03	91·6%	
	1961-62	1·20	0·41	0·37	69·3%	90·24%

The foregoing table would indicate that in spite of the fact that Rourkela went into production in April, 1959, the total production during 1961-62 was 3·56 lakh tons of steel or 35·6 per cent of the rated capacity of 10 lakh tons and 70·6 per cent of budgeted production of 5·04 lakh tons.

The shortfall in production has been attributed to poor off-take by succeeding units, major breakdown in Blast Furnace Blooming

Mill, short supply of input product, power and wagons in the Plate Mill, Cold Rolling Mill and Pipe Plant.

DURGAPUR

(In lakhs of tons)

Main Products	Year	Rated capacity as per project report	Budgeted production	Actual production	Shortfall in percentage (Col. 5 to 3)	Percentage of col. 5 to 4
1	2	3	4	5	6	7
Pig Iron	1960-61	4·86	4·10	3·89	19·9%	94·87%
	1961-62	8·33	7·45	7·28	12·6%	97·72%
Steel	1960-61	..	1·66	1·69	..	101·81%
	1961-62	8·96	4·90	4·62	48·4%	94·29%
Rolling Mill:						
Blooms & Slabs	1960-61	..	..	1·42	..	..
	1961-62	9·80	4·50	4·26	56·5%	94·67%
Billets (inclusive of sleeper bars)	1960-61	..	..	1·20	..	..
	1961-62	5·92	3·62	3·01	42·0%	83·15%

Here again it would appear that the factory has been able to achieve in 1961-62 only 52 per cent of the rated production of steel while the budgeted production was fixed at 54·6 per cent of the rated production.

BHILAI

The following table will indicate the production achieved by the Project:—

(In lakhs of tons)

Main Products	Year	Rated capacity as per project report	Budgeted production	Actual production	Short fall in percentage (Col. 5 to 3)	Percentage of col. 5 to 4
1	2	3	4	5	6	7
Pig Iron	1960-61	11·10	10·09	7·22	35%	71·56%
	1961-62	11·10	10·37	10·00	10%	96·43%
Steel (Ingots)	1960-61	10·00	7·5	4·01	60%	53·47%
	1961-62	10·00	8·37	7·89	21%	94·27%
Rails and Heavy structurals	1960-61	4·12	..	0·16	96·1%	..
	1961-62	4·12	2·20	2·00	51·5%	90·90%
Merchant Mill	1960-61	3·58	..	0·08	97·8%	..
	1961-62	3·58	1·53	1·53	57·3%	100·00%

The Bhilai Project was able to achieve only 79 per cent of the rated capacity in steel production in 1961-62. The targets for the year for certain steel products have also been fixed at a low figure as compared with the rated capacity although the project had started production by 1960-61.

Explaining the reasons for the shortfall in production at Rourkela which was attributed to poor off-take by units, major breakdown in Blast furnace, Blooming Mill, and short supply of product, power and wagons, the Secretary, Department of Iron and Steel admitted in the course of evidence that the production in Rourkela had come up rather slowly and a longer time was taken to achieve full production. The representative of the Hindustan Steel Ltd. added that the shortfall in production was due to more than one break down, non-availability of coal and iron ore of the quality envisaged in the project Reports, shortage of experienced personnel and difficulties of transport.

The Committee feel that at least some of the difficulties mentioned in achieving full production are not of such a nature as could not have been overcome with better co-ordination with the Department of Mines and Fuel and the Ministry of Railways. As regards shortage of experienced personnel, the Committee would suggest the introduction of a suitable course of intensive training for the working personnel by rotation, so that within a reasonable period of time, a number of well trained persons may be available. The Committee hope that the requirement of technical personnel for the fourth Five Year Plan will be kept fully in view while chalking out the training programme.

36. As regards the difference in actual production to budgeted production in the various plants with particular reference to Rourkela, the Secretary, Department of Iron and Steel stated that in Rourkela higher targets were fixed particularly to develop production of plates and sheets which were in short supply. The result of production was unfavourable in Rourkela because of more breakdowns.

The Committee were also informed in evidence that inspite of protests from the Rourkela Plant authorities, a somewhat higher target was fixed in their case. The Committee feel that there should be a uniform basis and procedure for fixing targets in all the steel plants.

37. In reply to a question regarding the cause of major breakdown in blast furnace and blooming mill, the Secretary, Department of Iron and Steel stated that during the period, a team of experts came from Germany to investigate the causes. According to the team, the maintenance had not been as good as it should have been. But the team of Indian experts was of the view that some of the plant was not as good as it should have been.

The Committee are perturbed to learn about the conflicting views of the teams of German and Indian Experts. They trust that the Hindustan Steel Ltd. will take adequate steps to rectify all the defects in the plant and its maintenance, and that shortfalls in production will be avoided in future.

Cost of Production—para 6, pages 29-31

38. The cost of production per ton of the primary products during 1960-61 and 1961-62 in the case of Rourkela and Bhilai Plants and during 1961-62 in the case of Durgapur Plant, according to the costing data available at the projects as compared with the estimated cost in the Project Report is indicated in the statements which follow. The current retention price (the price payable to the producer fixed by the Government generally on the recommendation of the Tariff Commission) allowed for each product is also indicated therein. It will be observed that the actual costs of production in 1961-62 are higher in almost all cases than the retention price.

ROURKELA

Product	Cost as per Revised project Report 1959 (excluding depreciation)	Actual cost 1960-61 excluding depreciation	Actual cost 1961-62		Retention price (per tonne) 1-4-60 to 31-3-1962 (exclusive of excise)
			Excluding depreciation	Including depreciation	
1	2	3	4	5	6
	per tonne	per tonne	per tonne	per tonne	
	Rs	Rs.	Rs.	Rs.	
Cold Pig Iron . .	..	149·75	184·07	239·82	Pig Iron Std. Foundry (High Manganese) 202·00 Grade Std. Basic 178·0

1	2	3	4	5	6
Hot Metal (Basic) .	97·84*	120·42	128·66	161·08	
Hot Metal (Foundry).	98·57	125·30	138·84	174·05	
Ingot (OH) ** . .	184·43 39·35	334·43	308·82	..	Ingot 326·00
Ingot (LD) ** .	137·81 39·35	297·77	308·39	385·63 400·72	
Slabs . . .	214·08	436·61	402·57	548·44	378·00 Untested
Plate . . .	280·34	633·92	623·60	972·55	598·00 Untested
HR Strip . .	285·16	543·30	538·07	823·39	623·00 Untested
HR Sheets and Narrow Sheets	..		616·23	964·16	663·00 (Black sheets) (Untested)
CR Sheets	407·17		1308·00	2240·44	743·00 Untested
Tin Plate	490·48		2684·90	4433·62	1053·10 (Provisional)
Pipe . . .	..		739·55	1105·92	..

*Exclusive of hot metal handling

Note : For pipes no retention price is fixed and it is sold at different prices depending on quality etc.

**Reprsents Excise duty not contemplated in the cost of production estimates prepared by the resultants (Messrs. IGKD).

In spite of an increase in production under all heads in 1961-62, the cost per tonne has shown an increase in many cases over that in 1960-61.

The wide variations between the estimated and actual costs of production have been attributed to low production, higher consumption of fuels, coke and finishing alloys and higher cost of gases and oxygen.

BHILAI

Items	Estimated	Actual cost of production 1960-61 (per tonne)	1961-62	Retention price (per tonne) includes excise
1	2	3	4	5
	Rs.	Rs.	Rs.	Rs.
Pig Iron (Foundry) .	80	171·02	172·50	Pig Iron (Std)202
Pig Iron (Open Hearth) .	74	152·62	161·07	Foundry Grade I (High Manganese) Ingot 326

1	2	3	4	5
Blooms for—				
(*i*) Rails . .	151	425·97	424·03	360 (Untested)
(*ii*) Structurals .	145	397·99	403·31	
(*iii*) Billets .	145	363·99	363·25	
Billets for—				
(*i*) Merchant Mill .	166	400·19	410·23	393 (Untested)
(*ii*) Outside Plant .	167	403·92	403·43	
Rails	229	..	630·54	507 (Tested)
Structurals—				
(*i*) Beams and Joists	207	..	618·38	520 (Untested)
(*ii*) Channels .	207	..	638·26	
Bars and Rounds				
(*i*) Angles	223	..	561·42	Light 500
(*ii*) Rounds .	223	..	541·14	Heavy 481 (Untested)
Light Structural . . .	223	..	546·46	

The management have stated that the figures given above are inclusive of depreciation and that the estimated cost as given in the project report cannot be compared due to non-inclusion of excise duty, General Administration and Township overheads, etc. with the actual cost.

DURGAPUR

Items	Estimated cost as per project report per ton	Actual cost 1961-62 per ton	Retention price per ton (1-4-1960 to 31-3-1962 excluding excise
	Rs.	Rs.	Rs.
Steel Ingots	103·81	333·18	331·22
Blooms and Slabs . . .	126·54	387·36	Blooms 365·76* Slabs 385·04*
Billets, Sleeper Bars . . .	143·57	430·00	475·49
Sleepers	..	524·15	616·71
Sections	160·67	555·27	516·13
Merchant Mill	178·02	568·94	534·42

*Untested

NOTE : The actual cost of production shown above in respect of Steel Ingots is based upon the monthly moving average of the period from June, 1961 to May, 1962, while for the rest of the items cost is based upon similar average of the period from October, 1961 to May, 1962.

The management have stated that the increase in the cost of production is due to the increase in the prices of raw material and stores and freight, etc. after the submission of the project report.

The Committee enquired the reasons for the cost of production being higher than the retention price for the various products and the steps taken to reduce the cost of production. The representative of the Hindustan Steel Ltd. stated during evidence that in the project report the estimated cost of production of steel was taken as Rs. 120/- per ton which was only an arbitrary and theoretical figure. The Committee enquired whether any effort had been made to compare the cost of production in the three steel plants with that in TISCO and IISCO. The representative of the Hindustan Steel Limited replied in the negative, adding that it was difficult to obtain accurate figures of cost of production from TISCO and IISCO. He, however, stated that actually the works costs would be comparable. He further added that in fixing the retention price for steel, Government had taken the works cost of Rs. 357/- and added Rs. 12/- for certain other minor expenses. He further stated that in fixing retention price the Government had taken the block (TISCO Block) at Rs. 1176 per ton of steel and on that figure depreciation of 5% and a return of 8% had been allowed. Thus the retention price was worked out as Rs. 552/- per ton. As against the figure for the TISCO block of Rs. 1176 for fixing the retention price, the capital block for Rourkela came to Rs. 3,200/-, for Bhilai about Rs. 2,200 and for Durgapur Rs. 2,200. Therefore, even if the Hindustan Steel worked on the basis of the works cost of Tatas, they had to suffer an unavoidable loss.

The Committee hope that every effort will be made to reduce the cost of production. It would be useful for the Ministry to make periodical comparison of the cost of production in Hindustan Steel Limited with that in TISCO and IISCO.

The Secretary, Department of Iron and Steel, assured the Committee that with the increasing efficiency in production, the Hindustan Steel Limited would better even the TISCO figures and that was their aim. The Committee hope that this aim will be fulfilled soon.

39. In reply to a question regarding the increase in the cost of production during 1961-62, in Rourkela despite the increase in production, the Secretary, Department of Iron and Steel stated that the increase was due to the rise in the prices of coal, iron ore and manganese ore and higher taxation. He further stated that although these were common factors in all the three steel plants there were items like transport charges which affected the different plants differently, in view of the location of the sources of supply of raw materials.

In reply to a question regarding variation between the actual cost of production and the estimated cost of products during 1961-62 at Bhilai, the Secretary, Department of Iron and Steel stated that the foreign experts who prepared the project reports seven years ago included the cost of raw material, labour, input, overheads at the plant itself but not the excise duty etc. of which they were not aware. Explaining further how cost of raw materials had gone up, the Secretary stated that in Durgapur lime-stone was assumed to be available at Rs. 16.50 per ton delivered there, as also Dolomite, but the price for lime-stone is Rs. 32·60 per ton at present and of Dolomite at Rs. 38·84 per ton. Similarly the present price of Iron ore was Rs. 28·89 per ton as against the price of Rs. 17·50 originally assumed. As regards coal the present controlled price was Rs. 35:07 as against the assumption of Rs. 16·00.

The representative of the Hindustan Steel Ltd. stated that steps are being taken to reach peak production to improve the yields and to make improvements in technology, all of which would go to reduce the cost of production.

The Committee note that steps are being taken to reach peak production and to reduce the cost of production. The hope that the concrete results of these steps in the shape of reduced cost of production in the Plants under Hindustan Steel Ltd. at least to the extent of the cost of production of private producers would be visible soon.

Agreements—Rourkela—Dolomite Calcining Plant—Para 7.01, *page* 31.

40. A Dolomite Calcining Plant consisting of three lime kilns and two Dolomite kilns of 100 ton capacity was purchased for Rs. 64·24 lakhs and erected October, 1959 at an additional estimated cost of about Rs. 72·72 lakhs. Payment upto 95 per cent. was completed in May, 1962. Eved since the commissioning of the Plant, the Kilns have not given satisfactory service and, therefore, the production was below the capacity yield. The plant has been lying idle since June, 1960.

In reply to a question regarding the unsatisfactory working of the Dolomite calcining plant, the representative of the Hindustan Steel Ltd. stated during evidence that production of the plant which was working fairly satisfactorily was at present 87%. As regards the cost incurred on the repairs of the plant it was stated that no cost was incurred on repairs as the suppliers agreed to supply the parts. The present Dolomite calcining plant also included lime calcining and it was intended to change the plant for lime calcining and to order a new Rotary kiln of 125 tons for day capacity at a total estimated cost of Rs. 83·55 lakhs. In reply to a question regarding the payment of residual amount to the firm, the representative of the Hindustan Steel Ltd. stated that the acceptance of the Dolomite Calcining plant had not yet been made and the residual payment of 5% had been withheld.

The Committee would like to be informed about the final outcome of the case.

Durgapur—(Agreement with the Contractors)—para 7·02, *pages* 31-32.

41. The Contract for the construction of an integrated Steel Plant at Durgapur was awarded to a consortium of 13 foreign companies known as Indian Steel Works Construction Company Ltd. The contractors during the course of negotiation suggested that if 20 per cent of the F.O.B. value was given to them as advance, they would be prepared to reduce their price by £ ½ million. The Government, however, agreed to give 10 per cent as advance and the balance 10 per cent as loan at bank rate plus 1 per cent which was not availed by the Company. Had the entire 20 per cent been given as advance, it would have saved about Rs. 30 lakhs in foreign currency after deducting interest charges thereon.

When the Committee enquired the circumstances under which the full advance was not given to contractors when it was known that it would result in the saving of foreign exchange, the Secretary, Department of Iron and Steel stated that advance of 20% was not given at the time as the usual pattern was only 10%. He, however, admitted in restrospect that payment of 20% would have saved something in foreign currency.

The Committee consider it unfortunate that as a result of the wrong judgement on the part of the authorities a saving of about Rs. 30 lakhs in foreign currency could not be affected. They hope that proper thought and consideration would be given in future to such matters so as to avoid recurrence of such cases.

42. The F.O.B. supplies to the extent of £ 52 million have been distributed among the four members of the Consortium. Some of the members have no manufacturing works of their own and have thus to obtain the supplies from the market. Three such members placed orders on 9 members of the Consortium. The latter obtained the supplies from the market. As the cost to the project is not merely the purchase price, but also the profit of the purchasing contractor, such transactions had resulted in giving profit to two contractors for the same supply. It had been stated by the Ministry that merely because the different contractors have got together as a Consortium to co-ordinate the work and to bring up the plant in

its entirety, it is not to be expected that individual contractors would forego the profit on supplies which they would have made to another contractor, had there been no Consortium.

As regards the contract given to a consortium of 13 companies in respect of Durgapur plant, of which some members had no manufacturing works of their own, the Secretary, Department of Iron and Steel stated that if the steel plant in Durgapur were to be established in time, it was desirable, if possible to make satisfactory arrangements with a single party for the main work. He further stated that the advice of the United Kingdom Technical Federation was obtained to explore the possibility of placing the order with the consortium of the United Kingdom manufacturers. It was also considered that this would afford a basis for obtaining the necessary credit for the plant from the United Kingdom. The basis of the agreement was to be settled on a preliminary quotation for a plant subject to adjustments on account of escalation and modification to the plant.

In reply to a question of double profit drived by some of the contractors, the Secretary, Department of Iron and Steel stated that the contract was for the supply and erection of steel plant as a whole. It was stated further that even if tenders were invited separately for each section, the contractor undertaking the work would have to buy a number of items of equipment and material from other suppliers.

The Committee are not convinced of the arguments advanced in this case. They do not appreciate why in the case of supplies separately made by individual contractors (members of the Consortium) through the Consortium, profit should be given to two contractors for the same supply. The Committee suggest that the feasibility of safeguarding against such double profit be examined.

Defects in Plants—Para 8, page 32.

43. *Rourkela*—A team of German Experts visited Rourkela in March, 1962 to review the performance etc. of the Steel Plant. In their report it has been mentioned that they noticed certain defects particularly in Blast Furnaces I and III, and in the Pig Casting Machine and also lack of proper maintenance of Plant and Machinery resulting in breakages of certain essential portions of the same.

According to them, one of the reasons for not being able to achieve the production target was the unsatisfactory working of the Pig Casting Machine. This machine was installed at a cost of

Rs. 61·06 lakhs. The Project authorities have now ordered the installation of another Pig Casting Machine at a total estimated cost of Rs. 37·79 lakhs approximately.

The Committee enquired whether the defects pointed out by the German experts in Rourkela had been rectified and what was the amount of extra expenditure incurred on repairs. The representative of the Hindustan Steel Limited stated that the terms of reference of the team of German experts were to investigate whether the German firm's services to the plant had been carried out satisfactorily in accordance with the contractual obligation; and to examine what working conditions and organisational measures were needed to ensure a properly adjusted functioning of the entire plant. The team made certain recommendations regarding operation, maintenance, certain auxiliary attachments, transport and additions to the German personnel. On the recommendations of the team, the Hindustan Steel Ltd. went in for additional loan of about DM. 41 million in January, 1963 for spares, DM. 22 million for six locos, DM. 3 million for establishing a wagon repair shop and special additions, and alterations for the wagon repair shop. A second pig casting machine was also included. They also took another loan of DM. 15 million to enable them to take for some longer time, more German personnel.

The representative further stated that production of pig iron at Rourkela Plant was for its own domestic consumption. The reason for having another pig casting machine was not because the first one had failed, but because it was found that break-downs and impediments that sometimes came in the second stage of production of steel made it necessary to have ready at hand adequate pig casting machines. The original machine was now working all right. The only unsatisfactory feature of the machine was that the ladling arrangement was not convenient but it was not an impediment to the working of the Plant.

The Committee were informed that it had not been possible for Audit to assess whether all the defects pointed out by the team of German Experts have been rectified and the extra expenditure involved. The Committee would like the Ministry to furnish this information to the Committee.

44. Regarding the *Blast Furnace I* it was stated that the blast furnace began to give trouble in March, 1962. After the investigation by the German team, it was found that there were certain leakages near the top hole. It was also discovered that these leakages had developed not due to any bad material used, but due

to the way in which the bricks were arranged. After it was relaid in April-May 1962, there had not been any further break-down. The representative, however, admitted that extra money amounting to Rs. 99,474 was spent for clearing up the lining and relaying.

The Committee are sorry to note that the trouble in the first Blast Furnace was due to faulty way in which the bricks were arranged which had led to certain leakages near the top hole. This resulted in an extra expenditure of Rs. 99,474 on clearing up the lining and relaying it. The Committee hope that such costly errors would be avoided in future.

45. Regarding *Blast Furnace III*, the representative stated, that before it was started in January, 1962, a special examination was made by a German, General Superintendent. When the trouble started the German team examined it and it was found that the defect was due entirely to excessive moisture. The defects had been set right and it was working properly. The Committee were informed further that as a result of the steps taken to remove defects, overall improvement had come in the Plant.

The Committee trust that the over-all improvement claimed to have been achieved in the plant as a result of the steps taken will continue to be maintained.

Civil Engineering Works—Para 9, pages 32-33.

46. *Rourkela: Use of defective cement and avoidable expenditure of Rs. 10 lakhs*—The result of tests carried out in certain sections of the Rolling Mill revealed that defective cement had been used. As the dismantling of the entire portion of the structure and rebuilding of the same would have involved considerable time, it was decided that the matter should be examined by a competent technical authority. Although under the specification of the contract, the concrete was required to attain the maximum strength within 28 days, the required strength had not been reached in many cases even upto 100 days. Seven out of eight samples which were sent to Alipore for examination were found to be below I.S.I. standard as regards the tensile and compressive strength. As a result of this defective concrete work, certain addition work had to be carried out. The extra expenditure involved was estimated at about Rs. 3·03 lakhs besides a loss of incidental expenditure amounting to Rs. 19·02 lakhs

In reply to a question regarding the use of defective cement and the additional expenditure incurred as a result, the representative of the Hindustan Steel Limited stated in evidence that the cement was supplied by the suppliers with test certificates which were considered reliable. He further stated that no tests were conducted either at the time of despatch or before the cement was used, as they were relying on the test certificates given by the cement factory. When the defects were noticed, the Hindustan Steel Ltd. consulted the Advocate General, West Bengal. The suppliers had agreed to replace 2000 tons of cement. The representative further stated that during the course of the construction, the samples were sent to Alipore Test House for examination. After the report was received, the suppliers were changed. The representative added that some structures raised with the defective cement had to be dismantled and some extra expenditure had to be incurred on dismantling. Arrangements of pre-test of all the cement had since been made.

The Committee regret to note that as a result of use of defective cement in the construction of structures an extra expenditure estimated at about Rs. 8.03 lakhs was incurred besides a loss of incidental expenditure amounting to Rs. 19.02 lakhs. The Committee are surprised to learn that the Hindustan Steel Ltd. depended entirely on the suppliers' test certificate and no tests were carried out either at the time of despatch or before the cement was used in the construction of structures by the engineers of the project. The Committee desire that an enquiry should be made to fix responsibility for the lapses which resulted in such a heavy loss to public exchequer, and to determine the extent to which this loss can be made good from the Cement Distributors Ltd. which was responsible for supplying defective cement.

47. *Durgapur*—In the case of Civil Engineering Works, there was, till 1961, an increase from the original estimate of Rs. 1,543 lakhs to Rs. 2,494 lakhs. A Civil Engineering Officer of the Project was asked to investigate the reasons for this abnormal increase. In his report he has emphasised that the system of making payments was defective and that the working of the Quantity Survey Department of the Consultant required special investigation.

Among other things he has also pointed out serious defects in the methods of execution, fixation of rates and the mode of payment in respect of excavations, site levelling, roads (temporary and permanent), railway (temporary and permanent), and concrete foundations, etc. He was not able to make a full assessment of the overpayments made and the extra expenditure which could have been avoid. On items on which approximate assessment has been made by him, the total amount involved is about Rs. 100 lakhs. This officer in his report, *inter alia* stated:

> "It is a sad reflection of the state of affairs at site that four years after the Civil Engineering work commenced and at this stage of 90% completion not a single final Bill should have been agreed".

In reply to a question regarding the report submitted by the Civil Engineering Officer pointing out serious defects of various nature and the extra payment of about Rs. 100 lakhs involved in these, the representatives of the Department of Iron & Steel, and the Hindustan Steel Ltd. stated that the Civil Engineer was employed on deputation by the I.C.C. He was asked by the Company to investigate and submit a report on some complaints filed in a petition to Hindustan Steel Ltd.

The representative of the Hindustân Steel Ltd. added that a Director of the Company who was dealing with construction was aksed to report after scrutiny of the Civil Engineer's report. The Director after examining the report came to the conclusion that on certain aspects, the report was without substance. The Civil Engineer had reported that the design was uneconomic, that method of measurement and records and the quarterly survey was inadequate, that the application of the day work rates was not properly done, that rates were not properly fixed etc. These were really matters in which, according to the terms of the contract, full powers had been given to Consulting Engineers. The Director came to the conclusion that there was not much point in them and that they did not require any further investigation. The value of items which were not considered worth further examination amounted to Rs. 61·97 lakhs. This was considered to be an extra payment by the Civil Engineer but in the scrutiny it was rejected. There was another amount of Rs. 38 lakhs relating to alleged excessive payments (due to higher rates) about which investigation was going on. The I.C.C. had already ordered refund of Rs. 8 lakhs, in this case. For the remainder, negotiations were going on.

The Committee enquired as to why rates were not fixed in advance. The representative of the Hindustan Steel Limited stated that under the contract, the International Construction Company, a British Company were given the entire charge of supervision. The Secretary, Department of Iron and Steel, giving the background further elaborated that the Durgapur Steel Project was set up through two agencies. The credit for steel works was British. The construction was given to Indian Steel Works Construction Company, a Consortium of British firms. The Consultants were also British, called the International Construction Company. This was a part of the whole contract. The consultants were to fix the rates, supervise the works and on their certificate the Hindustan Steel Ltd. was to make payment. When a report to the effect that rates were not fixed properly, was received, the complaint was examined. The Hindustan Steel Ltd. got a report that the job was not properly done and as a result of that Rs. 100 lakhs extra was paid, owing to the I.C.C.'s slackness. A Director of the Company (who was a specialist in Civil Engineering) examined this report and found that out of Rs. 100 lakhs, the responsibility of I.C.C. was only for Rs. 38 lakhs. The Consultants had accepted responsibility for about Rs. 8 to Rs. 10 lakhs and the Hindustan Steel Ltd. were having negotiations with them for the rest.

The Financial Adviser of the Hindustan Steel Ltd. further stated that the alleged overpayment of about Rs. 62 lakhs which was considered to be due to liberal designs by the Engineer could not be treated as over-payment as over-designs was normally done by Consulting Engineers to provide adequate safety. Out of a balance of Rs. 38 lakhs, Rs. 13 lakhs had already been recovered and the balance of Rs. 25 lakhs had not yet been recovered. The matter was to be discussed between the two parties—ISCON and Hindustan Steel Ltd. as part of the final negotiation.

It was a revelation to the Committee that the terms of the contract with the contractors were so wide that Hindustan Steel Limited were concerned merely with the paying of the amounts claimed on the basis of certificates given by consultants, and that there was no check, inspection or examination of the work done or of the rates fixed. This unfortunate situation has led to the alleged over-payment to the extent of Rs. 100 lakhs (of which about Rs. 62 lakhs have not been considered to be over-payment by the Hindustan Steel Ltd. authorities) to the Consultants who are supposed to be looking after the interest of the Hindustan Steel Ltd. The Committee feel that the terms of the agreement which were stated to be so extra-ordinary need to be re-examined and suitably revised if possible at this stage. Another aspect that disturbs the Committee is that such heavy payments were made without any officer of the Company caring to check up the correct position, as a result of which at least an amount of Rs. 38 lakhs (even if the conservative estimate of the Director is to be accepted) in all probability overpaid to the contractors is under

investigation (out of which Rs. 13 lakhs have already been recovered). What is more distressing to the Committee is the fact that these matters would not have come to notice in the normal course had there been no complaint and investigation.

The Committee consider it rather strange that against the estimate of over-payment to the extent of about Rs. 100 lakhs made by an Engineer with technical knowledge the value of items which were not considered worth further examination by the Director amounted to Rs. 62 lakhs. They feel that full facts of the case have not come to light. The Committee, therefore, recommend that Government should appoint a high level Inquiry Committee to investigate the cases of alleged over-payments reported by the Civil Engineering Officer. The Centre would also like to know the final outcome.

Stock shortages—para 10—*page* 33.

48. The Company has fixed the limit of normal losses at 8 per cent of total receipts in respect of coal, 4 per cent in respect of iron ore and 2 per cent in respect of other materials and such losses are automatically written off. During the years 1960-61 and 1961-62, however, there were losses to the extent of Rs. 47·39 lakhs and Rs. 22·57 lakhs, respectively, over and above the permissible losses. It has been stated by the Management that the losses are being investigated and shortages will not be written off until the results are known.

The Committee enquired the steps taken to keep the shortages within normal limits. The representative of the H.S.L. stated during evidence that the percentage of losses in *Rourkela* had come down to 89% for iron ore, 1.94% for lime-stone, 3·19% for bauxite and ·74% for other materials. In *Bhilai* it had come down to 1·4% for iron ore, 0·7% for ferro-manganese, 2% for quartsite and 1·2% for manganese and in Durgapur 0·15% for the lime-stone, 3·10% for dolomite, 2·2% for quartsite, 5·5% for manganese and other materials. Thus the losses had been brought down within the limits which were fixed by the Company. He, however, added that their experience had shown that the limits fixed earlier were high. The Company had, therefore, appointed a Committee to go into the question of losses, to investigate the reason and to re-examine what the normal limits of losses should be.

The Committee are glad to note that percentage of losses on various products has come down. The Committee understand that the existing limits of losses fixed by the Company are on the high side and are being reviewed. They would like to be informed of the reduced limits of losses proposed to be fixed by the Company.

Demurrage Charges—Para 11, *page* 33

49. The Company incurred demurrage charges to the extent of Rs. 20·33 lakhs and Rs. 63·83 lakhs during the years 1960-61 and 1961-62.

The demurrage charges in Bhilai Project increased from Rs. 0.63 lakh in 1960-61 to Rs. 14·22 lakhs in 1961-62.

Explaining the reasons for the steep rise in demurrage charges during 1961-62 when compared to 1960-61 in the course of evidence the representative of the Hindustan Steel Ltd. stated that—

(1) During 1961-62, the production went up and the Railways had no self-discharging wagons. The coal wagons had to be manually handled for movement of iron-ore. Arrangements were made to step up iron ore movements in Box (Coal) wagons. Incoming rake loads of Box wagons had to be broken up into parts for replacement and handling with the result that unloading and trench occupation time went up very materially.

(2) Throughout the second half of 1961 the weather was extremely unfavourable. The gantry cranes were situated at a fair height and when there were high velocity winds the capacity of these cranes was reduced considerably and these could not remove the material from the trench quickly.

(3) There was revision of rates of demurrage charges by the Railways. Before 1st may, 1961 the demurrage charges were being paid on cumulative basis. The total number of wagon hours was set off against the free time allowance and the demurrage reckoned on excessive number of hours. From 1st May, 1961, a new system was introduced according to which the demurrage was reckoned on individual wagon basis and to this was also added excess over three hours terminal time in the exchange yard. The revision of the rates of demurrage charges by the railways raised the bill by about 60 per cent.

The representative further stated the demurrage charges were revised by the Railways without consulting the project authorities. Among other causes which had led to increase in the demurrage bill were the unsuitable wagons. The project report envisaged the movement of lime stone and dolomite in self discharging wagons but the lime stone and dolomite were moved in ordinary or Box wagons which meant manual handling and piecemeal replacement resulting in more time. He further stated that a very high percentage of inward wagons received at the Steel Works were not fit for loading finished material.

Explaining the remedial measures taken to reduce the demurrage charges, the representative of the Hindustan Steel Limited stated that a systematic time and motion study had been put into effect in the steel works. A double line connection had been provided between the exchange yard and the project area. When it was pointed out that demurrage charges had jumped to Rs. 56·65 lakhs in 1962-63, the representative of H.S.L. stated that the rate of demurrage per ton had been less (·48 per cent as against ·54 per cent in 1961-62) but because of the rise in production the total amount had increased.

The Committee feel concerned to note that the demurrage charges incurred by the H.S.L. which were Rs. 20·33 lakhs in 1960-61, had gone upto Rs. 63·83 lakhs during 1961-62 and Rs. 56·65 lakhs in 1962-63. The Committee would like to draw attention in this connection to para 32 of their 7th Report (Third Lok Sabha) wherein they had recommended that demurrage charges would not only push up the cost of end product at the project but also impede the optimum utilisation of wagon capacity of the country. The Committee cannot accept that incurring the demurrage charges as a regular feature is totally unavoidable. In their view demurrage charges are avoidable and wasteful expenditure. In the evidence the Committee were informed that the matter was discussed with the Railways at various levels. The Committee trust that effective steps will be taken in co-operation with the Railway administration to minimise/eliminate the demurrage charges.

Financial Results—Para 12, page 33

50. The working results of the Company during the years 1960-61 and 1961-62 as per accounts are given below:

(Figures in Lakhs of rupees)

Project		1960-61		1961-62
Rourkela	(Loss)	155·85	(Loss)	1092·55
Durgapur	(Loss)	71·18	(Loss)	465·78
Bhilai	(Profit)	152·69	(Loss)	388·57
Total	(Loss)	74·34	(Loss)	1946·90

In reply to a question, the Secretary, Department of Iron and Steel stated that the losses which were shown less in 1960-61 and more in 1961-62 were due to the fact that no depreciation was added on in 1960-61 and the depreciation was provided in 1961-62. He added that as the plants were just going into production then, no depreciation was provided earlier. Depreciation was provided after the plants started functioning properly. The total arrears of depreciation for the entire period upto 31st March, 1961 amounting to Rs. 1781·90 lakhs was adjusted in the accounts for 1961-62. The total loss incurred by the Company upto 31st March, 1962 works out to Rs. 4008·22 lakhs. The Committee inquired about the reasons for such heavy losses. The representative of the H.S.L. explained that the retention price was fixed after assuming the capital block for a ton of steel as Rs. 1,176. Actually, however, on an average, the capital block for the three plants came to Rs. 2,500 per ton. This meant that the H.S.L. had to pay a higher rate of interest and had also to allow a larger amount by way of depreciation.

The Committee appreciate that with the heavy capital investment, any large projects of this magnitude are apt to work at a loss in the initial phases, till the peak production is reached. Since all the three plants have started working to their full capacity, the Committee hope that their future financial results will show profits.

System of accounts and Book-keeping—Para 13·01, *pages* 34-35.

51. While the accounting system as laid down by the Company is in general adequate for the purpose of preparation of final accounts and audit, the following general deficiencies were noticed:

(i) Suitable registers were not kept to record the incoming bills, statement of accounts and claims to ensure incorporation and recording of all liabilities in the books of accounts.

(ii) There was no system of reviewing the balances in Works-in-Progress, Deposit and Advance accounts to ensure proper transfer of completed work to Capital accounts.

(iii) Control accounts have not been maintained by the Head Office in respect of the transactions of the individual projects.

Other important defects noticed in each of the three Projects are listed below:—

Bhilai Steel Plant

(a) In most cases, detailed schedules and subsidiary records necessary to substantiate the balance of various accounts had neither been prepared nor reconciled.

(b) There is no proper system for the accounting and billing for Stores issued to Contractors and the ascertainment of total outstandings.

(c) Asset Registers have not been maintained in respect of most of the assets nor are detailed certified inventories available in respect of the same.

(d) The stores records showing values are incomplete and a reconciliation between the stores records and the financial balances has not been effected as on 31st March, 1962. Though a balance of Rs. 197·56 lakhs has been carried forward on stock suspense account and on purchase advance account, it still remains to be ascertained as to the extent to which they are actually represented by stock of stores and spare parts.

Rourkela Steel Plant

The accounting of electricity charges recoverable was in arrears and the total income as also outstandings against the same could not be reconciled.

Durgapur Steel Plant

The records maintained for the accounting of rent and allied charges and outstandings thereof and insurance in Railway claims offer considerable scope for improvement. The system of accounting as laid down in the procedure orders, though satisfactory, was not fully implemented.

The Committee enquired the reasons for non-maintenance of control accounts as suggested by the Auditors, and also enquired whether a suitable system of reviewing the balances in Works-in-Progress, Deposit and Advance accounts had since been introduced. The representative of the Hindustan Steel Ltd. accepted that there had been some delay in setting up this arrangement. (The delay was due to making adjustments). He, however, added that the arrangement had been made for the year 1962-63, to maintain the control registers in the Headquarters.

With regard to the Bhilai Steel Plant the Committee pointed out that according to the report of the Company auditors for 1962-63, the position regarding stock suspense account had not yet improved, and that a balance of Rs. 167·37 lakhs was still lying under stock suspense account and purchase advance account as on 31st March, 1963. The Committee enquired the steps taken to clear the suspense accounts in Bhilai. The representative of the Hindustan Steel Limited stated that initially there was a departmental system of accounting. From 1st April, 1960 priced store ledger cards had been introduced. The inventories were valued on the basis of prices in force. The difference in value between the financial ledger and the inventory balances was kept in suspense, pending verification and adjustments. The representative further stated that they had created a separate Cell for clearance of suspense accounts for the individual items of work and this work was expected to be completed in six months' time. All the stores would then be adjusted to the various works.

As regards the proper maintenance of the assets registers and other records, the representative stated that they had now switched on from the departmental system to the commercial system of accounting and the defects had been removed.

The Committee regret to note that there was a heavy balance of Rs. 167·37 lakhs under stock suspense account and purchase advance account at Bhilai on 31st March, 1963. They hope that with the creation of a special cell for clearance of suspense accounts, the amount would be properly adjusted. The Committee would like the H.S.L. to ensure that such heavy balances do not accumulate under stock suspense account in future.

Internal Control—Para 13.02, *page* 35

52. Each Project has an internal Audit Department but in the case of Bhilai the scope of audit was very restricted and therefore largely ineffective. It was seen from the report of the company auditors for 1962-63 that the scope of internal audit at Bhilai had since been slightly enlarged; but that almost in all the plants certain points raised by internal audit were pending for a long time.

Explaining the delay in taking final action on the outstanding audit points, the representative of the Hindustan Steel Ltd. stated during evidence that initially, there was some difficulty as there was only a small section to deal with the audit objections. He added that the internal audit was reorganised covering all aspects of accounting.

The Committee are glad to learn that the system of internal audit has been reorganised and improved. They would, however, like to point out that the system of internal audit can be really effective only if the audit objections are attended to with promptitude. The Committee would like the H.S.L. to take steps to ensure prompt and adequate attention to points raised by the Internal Audit Department.

Rejections—Para 13.04, *page* 35

53. *Bhilai*—Although the percentage of rejection on total production works out to 0·49 per cent to 1·17 per cent, it appears that in regard to rails, about 15 per cent of the total quantity inspected had to be sold to other parties because these had been rejected by the Railways and more than 7 per cent had to be sent for refinishing.

Rourkela—In the case of plates, the range of rejections in the various months expressed as a percentage of net production is 0·1 per cent to 45 per cent, while in the case of H.R. Sheets and C.R. Sheets, it was 0·5 per cent to 17·9 per cent and 9·8 per cent to 30·7 per cent respectively.

Durgapur—The rejections revealed in the works inspections ranged from 2 per cent in the Section Mill to 24 per cent in the Blooming Mill.

The representative of the Hindustan Steel Ltd. stated that rejections took place when the products did not come up to the standard. He, however, added that in Bhilai, the percentage of rejections in rails which was formerly 15 had come down to 10·53 during 1962-63. (These rejections were called second class rails and were used for sidings etc.)

The Committee need hardly emphasise the necessity of reducing the percentage etc. of rejections to the minimum as ultimately rejections mean loss to the Company.

Balance Sheet—Para 13.05, *page* 35

Sundry Debtors

54. The total volume of Sundry Debtors as on 31st March, 1962 and 31st March, 1963 were as follows:

(Rupees in lakhs)

	Balance as at 31-3-62	Balance as at 31-3-63	Outstanding for more than one year as at 31-3-63
Bhilai	470·54	524·36	96·98*
Rourkela	192·03	618·35	32·82†
Durgapur	260·31	474·19	38·58

*This includes outstandings in respect of Township Debtors as estimated by the Estate Department.

†This includes figures only for Sales Section and Estate Office Section.

In reply to a question regarding the break up of the outstanding dues from Government Departments, Public Undertakings and Private Parties, the representative of the Hindustan Steel Ltd. stated that a substantial portion of the outstandings was with the Railways. He further added that the outstandings in respect of private parties were Rs. 324 lakhs.

In reply to a question regarding the interest charged on the outstandings, the Secretary, Department of Iron and Steel stated that no interest was charged on outstandings but a discount of 1 per cent was allowed for prompt payment within 12 days. He added that the older outstandings related to disputed claims.

The Committee suggest that special efforts be made by the Hindustan Steel Ltd. to settle early all the outstanding dues from the Government Departments, especially from the Railways, who are the principal debtors and also from the private parties. Where necessary the good offices of the Deptt. of Iron and Steel may be availed of.

Irregularities in the purchase of ingot moulds—Para 14, *page* 36

55. In January, 1958 Bhilai Steel Project entered into a contract with a firm for the supply of moulds and hot tops even though other firms who had tendered in that connection had offered to supply hot tops at very much lower rates, mainly on the consideration that this particular firm was the only firm which had tendered both for moulds and hot tops (184 moulds of 7·45 tons @ Rs. 15,482 each, 100 moulds of 6·2 tons @ Rs. 14,138 each and 100 tops @ Rs. 888 each). Prior to placing this order a team of experts from the Project had visited the contractor's workshop and had confirmed that the firm would be able to supply the entire quantity by the due dates. As the firm had supplied only a negligible portion of the number of moulds ordered at the end of the scheduled delivery period, a second team of experts visited the workshop (in December 1958) and reported that (1) the contract price of Rs. 15,482 per mould was abnormally high; the fair price being about Rs. 3,000 each; (2) the contract price of hot tops at Rs. 880 was also very high, the quotation orginally received from another tenderer being Rs. 440 each; and (3) the firm would not be able to keep to the schedule.

The chemical test (suggested by the Second Expert Team in January 1959 and actually carried out in July 1959) revealed that the moulds were brittle and could not withstand even the first pouring of molten metal. The Project, therefore, cancelled the remaining order of 100 moulds (6·2 tons) and 50 hot tops from the contract with the firm (August 1959). By then, 95 moulds (7·45 tons) valuing Rs. 14·71 lakhs and 50 hot tops valuing Rs. 44,440 had been received.

The Project authorities on 21st August, 1962 filed a suit against the firm and their bankers for a refund of Rs. 12·23 lakhs inclusive of liquidated damages.

The Committee enquired as to why an order was placed for the purchase of ingot moulds at a high price on a particular firm when other firms quoted lower price. The representative of the Hindustan Steel Ltd. stated that though 19 firms had responded to the tenders, it was the only firm which had quoted for both moulds and hot tops but since they were found incompetent, Indian Iron and Steel Company were asked to make the moulds. When it was pointed out that the reason advanced that the tops and moulds had to be made together, did not hold good in view of the fact that orders had been placed for 184 moulds and 100 tops, it was stated that all the moulds were not used all the time. It was admitted that the prices of moulds and tops were not known to Hindustan Steel Ltd. and they depended on the tenderers for this, as the particular required size was not available in the country. As regards appointment of the first team of experts, the Secretary, Department of Iron and Steel stated that before placing the orders, a team consisting of a Soviet Expert and an Indian Engineer was sent by the General Manager to visit the works of the firm to ascertain the capacity of the firm for executing the order. The team reported that the firm could do the casting satisfactorily, and that though at that time the firm did not have full technical facility for the manufacture of ingot moulds, they should be able to take up the work in hand following their programme of reconstruction of the works. It was further stated that one officer of the first team was no longer alive. The explanation of the other had been called for and it was found that he had acted in good faith.

In reply to a question regarding the appointment of a second team, the Secretary, Department of Iron and Steel stated that when the firm failed to supply the moulds, a second team was appointed to enquire into the reason for the delay in the supply. The team consisted of the Superintendent of the Melting Shop and another Soviet expert.

As regards the suit filed by the Company against the firm, the representative of the Hindustan Steel Ltd., stated that out of a total amount of Rs. 42 lakhs for the contract, the Hindustan Steel Ltd. had paid only Rs. 4·73 lakhs, and the suit for the recovery of Rs. 12·23 lakhs was in respect of damages, freight, interest etc. The Committee were further informed that the party had gone into liquidation; hence the Bank which was guarantor of the firm was also being sued.

In regard to the number of contracts given in the past to this firm and its performance, the Committee desired to have further information on the following points:

(a) whether the firm who were awarded a contract for the supply of moulds and hot tops were awarded any other contract in the past also, and if so, how many (showing the amounts of each contract) and what was their performance in these contracts,

(b) whether they were given any other contract also after their performance in regard to the contract for the supply of moulds and hot top was known?

The information is still awaited.

56. As regards delay of three years in filing a suit, the representative of the Hindustan Steel Ltd. stated that first they had to make sure that they would get moulds from some other party. Enquiries were made for getting the moulds from the Indian Iron and Steel Company which took some time; negotiations with the firm for the refund of the money had also to be held; thereafter, legal advice was taken.

The Committee are not satisfied with the explanation advanced by the representative of the Hindustan Steel Ltd. for placing the order (Rs. 42 lakhs) for the purchase of ingot moulds and tops at a very high price on a particular firm when other firms had quoted lower rates. It is unfortunate that no serious efforts were made to ascertain the normal price of moulds and tops before placing the order. The Committee regret to note that the order was placed on the firm for the supply of moulds and tops even though the firm did not have at that time full technical facility for the manufacture of ingot moulds. The supply depended entirely on the future programme of reconstruction of the works of the firm. The disclosures made by the second team of experts who visited the workshop of the firm about the abnormally high prices contracted for and the fact that the moulds supplied by the firm were brittle and could not

withstand the first pouring of the molten metal point to the need for an investigation for fixing responsibility for the irregularities which have involved the project authorities into difficulties and a suit in the Court of Law. The Committee would like the entire deal to be investigated and be informed of the final outcome.

Comments of the C. & A. G. under Section 619(4) *of the Companies Act,* 1956 *on the accounts of the Hindustan Steel Limited for the year* 1962-63

(i) *Physical verification of Stores, Bhilai*

57. The Company has not conducted the physical verification of the stores and spares (metal and refractories) worth Rs. 617·42 lakhs forming part of the total stores and spares valued at Rs. 2373·82 lakhs (at cost) as on 31-3-1963.

As regards the physical verification of stores which was not conducted in Bhilai, the representative of the Hindustan Steel Limited stated that the contract in the case of Bhilai was different from Durgapur and Rourkela. In the case of Bhilai, the whole contract was for the entire integrated steel plant. The equipment which used to come by tonnages were not clearly specified in value. Moreover, there was no individual contract for blast furnace, coke oven battery, rolling mill etc. as in the case of Durgapur and Rourkela. The physical verification had been taken up which revealed a surplus of Rs. 53·6 lakhs. The work would be completed in 5 or 6 months.

The Committee desire that the physical veirfication of stocks which had been taken up may be completed early and the result communicated to them.

(ii) *Depreciation—Fixed Assets and Work-in-Progress*

58. *Bhilai*—A sum of Rs. 203 lakhs representing the cost of works certified to have been completed, has been included under work-in-progress. This has resulted in an under provision of depreciation to the extent of Rs. 10 lakhs (approximately).

The Committee enquired as to why the work costing Rs. 203 lakhs certified to be completed, had been included under work-in-progress resulting in an under-provision of depreciation. The representative of the Hindustan Steel Ltd. stated that originally the capitalisation was done on a mere estimate basis. After completion of certain verification of actual issues of stores and actual expenditure, completion reports were now being obtained. After this work was completed, the capitalisation would be reviewed and if depreciation had not been allowed adequately, this would be done.

Rourkela—The Company has not provided depreciation on Railway line acquired from the Railways with effect from 1-4-1960 but capitalised in 1962-63 and also on buildings and other installations completed in earlier years but not finally capitalised, though both the assets have been in use. The total depreciation on the above assets works out to Rs. 13·50 lakhs. Similarly no provision for depreciation has been made in respect of commissioning and other expenses amounting to Rs. 77·79 lakhs not capitalised although the plant unit to which the above expenses relate has already been commissioned. The depreciation on the above sum works cut to Rs. 7·85 lakhs.

As regards assets and expenses which had not been capitalised and non-provision of depreciation in respect of the railway line acquired from the Railways with effect from 1-4-1960, the representative of the Hindustan Steel Ltd. stated that the railway yard remained the property of railways till 1st September, 1963, and the Company had been making payments for certain hire and maintenance charges and for the facilities. The capitalisation was made on a provisional basis.

(iii) *Balance Sheet*

(a) *Current Assets—Loans and Advances—*

Bhilai: Out of the total stores in transit on 31-3-1963 valuing Rs. 124·67 lakhs, stores worth Rs. 19·63 lakhs pertain to the years 1957-58 to 1961-62 which are yet to be located and adjusted.

As regards certain stores pertaining to the years 1957-58 to 1961-62 which were not located and adjusted, the representative of the Hindustan Steel Ltd. stated that the stores valued at Rs. 120·36 lakhs had already been located and only stores worth about Rs. 4 lakhs were in the process of being located.

(b) *Claims recoverable*—Out of the total claims recoverable amounting to Rs. 100·92 lakhs, a sum of Rs. 24·37 lakhs representing settled/closed items has not been adjusted in the accounts.

In reply to a question, the representative of the Hindustan Steel Ltd., stated that this sum of Rs. 24·37 lakhs representing certain items of claims recoverable had now been adjusted.

(iv) *Profit and loss account—Rourkela*

The Company has taken a credit for Rs. 11·84 lakhs representing the difference between the sale price charged on steel ingots supplied to a private firm during 1960-62 and the retention price fixed subsequently in the accounts for the year 1962-63. This claim for the difference had neither been accepted by the firm nor entertained by the

Iron and Steel Controller for reimbursement. In this connection, the representative of the Hindustan Steel Limited stated during evidence that the Company was asked to supply the ingots to Tatas on a provisional price. The price was to be fixed afterwards. Now Hindustan Steel Ltd. were pointing out that retention price had increased by a certain date and the amount had not been paid. So, an appeal had been made by Hindustan Steel Ltd. to Government.

The Committee find from the Audit comments and the facts placed before them in the course of evidence that certain items which were not to be taken credit of, have been included in the credit side. The Committee feel that to that extent the profit and loss account will be affected. Since it is desirable that the profit and loss account and the balance sheet of the Company should give accurate and correct picture of their working, the Committee desire that the Hindustan Steel Limited should take suitable measures so that such lacuna do not creep in the accounts.

Coal Washery Protect

59. The Company had not made any provision for the reclamation charges payable to a contractor at Re. 1 per ton while valuing the closing stock on middlings aggregating to 1,96,344 tonnes on the basis of selling price determined less expenditure to be incurred.

Asked as to why provision was not made in the accounts for the reclamation charges payable to a contractor, the representative of the Hindustan Steel Ltd. replied that the expenditure had not yet been incurred and would be charged when incurred.

In the opinion of the Committee, when the liability for increasing reclamation charges was known, the same should have been taken into consideration in valuing closing stock of middlings.

(iv) Hindustan Machine Tools Limited.

Para VII of Audit Report

General.

60. Hindustan Machine Tools Limited was formed on the 7th February, 1953 with an authorised share capital of Rs. 12 crores to take over the machine tools factory set-up by Government of India in

collaboration with Messrs. Oerlikons of Switzerland. The paid up capital of the Company was Rs. 5·31 crores as on the 31st of March, 1962. The original agreement executed in 1949 provided for a participation in the share capital of the Company by Oerlikons to the extent of 10%. This agreement was revised in March, 1957 under which the foreign firm ceased to have any interest in the share capital.

Production—Para VII, Sub-para 3, pages 37-38

Under the recommendation of Machine Tools Committee appointed by the Government of India in 1956, four types of Machines were allotted to Hindustan Machine Tools, *viz.*, lathes, milling machines, grinding machines, and radial drilling machines. In order to manufacture these machines, the Company entered into agreements with four firms, *viz.*, M/s. Batignolles Britz Wehner, Olivetti and Hermann Kolb, apart from Oerlikons. The Company also entered into technical collaboration agreements with M/s. Limex for a variety of machines and M/s. Renaults for special purpose machines.

The production programme drawn up in 1955 was for a total factory capacity of 400 H-22 lathes per year by working single shift only. The Board of Directors, in May, 1956, decided to increase the production targets by 2½ times (*i.e.* 1000 H-22 lathes per year) by introducing multiple shifts. The capacity of the factory was increased by adding a second unit which was completed in July, 1961. This second factory had not gone into full production till the end of 1961-62 and, therefore, the remarks given below refer only to the first factory for the five year period, 1956-57 to 1960-61.

In the Company's Annual Report for 1960-61 it had been stated that 1,002 machines were produced during that year; but this total figure of diversified machines included Milling Machines, Radial Drills, Grinding Machines, Turret Lathes, etc. The Company had fixed various labour hours for the various types of machines and they were in most cases different from the labour hours required for producing H-22 lathes. Therefore, a comparison of the total number of diversified machines produced with the target fixed in terms of H-22 lathes, namely, 1000 will not be correct. The following table gives the target of production and the actual production worked out in terms of labour hours fixed by the Company.

	1956-57	1957-58	1958-59	1959-60	1960-61
1. Targets (in terms of H-22 lathes) as fixed by the Board by working multiple shifts	135	400	600	800	1000
2. Production (in terms of H-22 lathes) on the basis of standard hours fixed by the Company	135	419	559	643+1	793 +32

(Note 1: The additions against items 2 from 1959-60 onwards indicate the machines for which standard hours were not available.

Note 2: The management have stated that some special accessories in addition to the machines mentioned above were also produced by the factory during the period under consideration.)

Included in the figures mentioned against item 2 in the statement given above are the machines assembled from ready-to-assemble parts supplied by several licencees under their respective agreements during 1957-58 to 1960-61. The details of the numbers so assembled are given below:—

1957-58	1958-59	1959-60	1960-61
89	51	55	30

During evidence, the representative of the Ministry of Steel, Mines and Heavy Engineering explained that the target was not fixed in terms of production of H-22 lathes alone. In 1957-58 there was a steep fall in the demand for H-22 lathes. The Government of India also appointed a Committee which went into the requirements of other types of machine tools. Therefore, in addition to H-22 lathes, other machines like milling machines, radial drilling machines and gear- cutting machines, which were less sophisticated and less costly were also produced. The figures of targets were fixed on the basis of the market demand. The representative of the H.M.T. added that at the time when the target was fixed for a period of 5 years, they had no idea about the capacity, the man-power or standard hours required for the production of machines. When every year they took up new designs, the details like standard hours, manufacturing time etc. required for the production of machines were also not available. When target in 1956 was fixed, they had only roughly estimated the personnel, machines and man-hours required. Persons were recruited and trained and orders for the purchase of plants and equipments which were necessary for the production of machines were placed. For all these reasons, it was difficult for them to fix the target exactly in terms of various split-ups of the machines to be produced. The Committee equipped about the total production of H.M.T. in terms of value. The representative of the Ministry stated that the actual value of production year by year in terms of different types of machines produced and in terms of selling price was as follows:

Rs. 51·35 lakhs in 1956-57.

Rs. 161·64 lakhs in 1957-58.

Rs. 213·61 lakhs in 1958-59

Rs. 243·32 lakhs in 1959-60.

Rs. 351·49 lakhs in 1960-61

The targets in terms of number of diversified machines for the years 1961-62 and 1962-63 were stated to be 1200 and 1600 respectively.

The representative of the Ministry claimed that in terms of the converted value of the lathes, the factory was well above the total value of the targets. The witness added that their production included machines assembled from ready-to-assemble parts. But they formed only a very small proportion of the total number of machines produced.

As regards assessment of the production in terms of man-hours, it was admitted that the time spent on non-standard nature of work like jigs and fixtures had not been taken into account.

The Committee enquired about the targets of production in terms of H-22 lathes fixed by the Board of Directors for the years 1961-62 and 1962-63 and the actual production in terms of H-22 lathes during these years. The witness promised to furnish the information. The Committee also enquired about the percentages in terms of money value, of imported components used in H-22 lathes and other machine tools manufactured or assembled during each of these two years. The witness promised to supply the information. It is still awaited.

The Committee observe that the figures of production included machines assembled from ready-to-assemble parts. It was admitted by the witness that the assembly of machine tools from imported ready-made parts required less time than the actual production of

complete machine tools from raw materials. The Committee, therefore, feel that in order to present a correct picture of production, the figures of production in both cases should be maintained and shown separately by the Company in their documents.

The Committee feel that fixation of targets on the basis of value of production in terms of selling prices will only give an unrealistic picture.

The Committee also suggest that a uniform procedure on the basis of standard men hours should be adopted by the Company while fixing the targets so that there can be no ambiguity in judging actual performance against these targets.

Low Utilization of productive hours—sub-para 4, page 38

61. The following statement gives the details of production of High Precision Lathes (including work-in-progress) during 1960-61 and 1961-62 and the number of standard and actual labour hours charged against them:—

	1960-61	1961-62
(1) Number of machines completed and those under production but not fully completed in terms of H-22 lathes	901	1,270
(2) Total number of labour hours chargeable to manufacture and assembly of the lathes produced at the prescribed standard of 1077 hours per lathe	9,70,377	13,67,790
(3) Total number of labour hours actually utilised for manufacture and assembly of the lathes . .	17,11,191	19,80,449
(4) Excess utilisation of labour hours (3-2) . .	7,40,814	6,12,659
(5) Percentage of excess over standard labour hours.	76·3%	44·8 %

The management had stated that the standard hours fixed for the various types were based on European standards and had not been converted to suit Indian conditions. They had further held that allowance was to be made for rejections, rectifications and for additional time to be allowed for materials non-conforming to specifications etc. In addition, there was a loss in efficiency due to diversification of production by taking up new items for manufacture.

With regard to the utilisation of labour hours in excess of the standard fixed, the representative of the Ministry stated in evidence that in considering the number of different machine tools produced they had not taken into account the substantial volume of work done for non-standard items including accessories, jigs and fixtures. If this factor was taken into account, the excess utilisation of labour hours would come down very substantially. Secondly, they had borrowed the standard of performance of the European collaborators. In the beginning their man-power was not up to the mark of European standard but now they were much nearer to the European standard. The percentage of their efficiency in terms of one unit of foreign labour had increased from 57% in 1960-61 to 85% in 1963-64. They hoped to be approximately closer and closer to the European standard over the next 3-4 years. The Committee were, however, informed by Audit that 17,11,191 were not the total working hours of the Company. According to the figures available with Audit for 1960-61 the effective hours available for production were 28,44,803. Out of this capital orders consumed 47,320, fixtures, etc. 2,38,513, tools 70734; manufacture and assembly 18,75,069, outside jobs 37,208, idle time, repairs and maintenance etc. 5,75,959. The Secretary of the Ministry promised to look into the matter. **The Committee would like to be furnished with a note on the subject.**

In the meantime the Committee trust that every effort would be made to improve the efficiency of the labour so that it reaches the European standard without undue delay. Given adequate experience, proper working conditions and necessary supervision and guidance, the Committee see no reason why the standard of performance in Indian factories should be lower than in European countries.

Cash Credit Arrangements with Private Banks—sub-para 5, *page* 39

62. According to the recommendations of the Reserve Bank of India the funds of the statutory bodies and Government Companies in which the Central Government was a shareholder to the extent of 51 per cent or more should be invested in the State Bank of India or its subsidiaries. The Ministry of Commerce and Industry, who was the coordinating authority with regard to all policies concerning Industrial and Commercial Corporations in the Public Sector, also accepted this suggestion in principle. It was, however, noticed that the Hindustan Machine Tools was banking with a scheduled bank. The Board of Directors of the Company resolved on the 17th April, 1957 that the Bank balance might be transferred to the State Bank of India maintaining a small amount with the United Commercial Bank. This decision could not be enforced as the State Bank of India was not willing to participate in this arrangement jointly with the United Commercial Bank. The Company thereafter continued the

banking arrangements with the United Commercial Bank Limited. The Ministry of Commerce and Industry, to whom the matter was referred, had intimated that the procedure for investment of funds of local bodies and quasi-commercial institutions was under examination by the Minintry of Finance (Department of Economic Affairs).

With regard to the proposal to transfer the Bank balance from the United Commercial Bank to the State Bank of India, as required according to the principle accepted by Government on the recommendation of the Reserve Bank of India, the representative of the Ministry stated during the course of evidence that Government had not yet taken a decision over it but a decision was likely to be taken any time now. Describing the background of the case, the witness stated that originally Hindustan Machine Tools had accounts with the Imperial Bank of India and the Central Bank of India. Some time, thereafter, the United Commercial Bank, long before the recommendations of the Reserve Bank of India, offered to open a branch in the factory's own premises, with the facility for free remittances. In addition they offered lower rate of interest on cash-credit facilities. For these considerations an account was opened with the United Commercial Bank. In 1957 when the recommendation of the Reserve Bank of India was made, Hindustan Machine Tools administration recommended to the Board of Directors that the bulk of the amount might be transferred to the State Bank of India and considering their (H.M.T.'s) past association with the United Commercial Bank and as a token of their confidence in them, a small balance might be kept with the United Commercial Bank. Unfortunately the State Bank of India refused to accept that condition and, therefore, H.M.T. account remained with the United Commercial Bank. It was added that in the Pinjore Factory also the Account had been opened with the United Commercial Bank who had opened a Branch in that Factory. The witness further stated that if a directive was given to them in this matter, the Board of Directors would abide by it. To a question whether the State Bank of India was asked to open a branch in the factory premises, and give similar facilities, the representative of H.M.T. replied in the negative.

The Committee regret to note that although more than seven years have passed since the Reserve Bank of India recommended that funds of statutory bodies and Government Companies should be invested in the State Bank of India or its subsidiaries which was accepted by Government in principle, no decision has been taken so far in this regard. The argument put forth by the representative of the Ministry that due to their past association with the United Commercial Bank it was not considered desirable to transfer the whole

amount to the State Bank of India is hardly convincing. (According to the Annual Report of 1962-63, the Bank Balances of the H.M.T. with the scheduled Banks on 31st March, 1963 were Rs. 89,51,552). The Committee are of the view that once the recommendation of the Reserve Bank of India had been accepted by Government in principle, the Bank account should have been transferred to the State Bank of India by the H.M.T. without any reservation. They desire that the decision of Government in the matter should be expedited and the Bank account of H.M.T. transferred to the State Bank of India without any further delay. The Committee would like Government to ensure that the recommendations of the Reserve Bank of India in this connection, which have already been accepted in principle, are also implemented in practice.

Advance from Government—Sub-para 6, *page* 39

63. In 1-4-1960, the Company had a cash balance of Rs. 9·76 lakhs and no over-draft. During 1960-61 and 1961-62, the Company received an advance of Rs. 175 lakhs from Government of which Rs. 150 lakhs were for the Watch Project and Rs. 25 lakhs for the third Machine Tool Factory at Pinjore. Out of this, an expenditure of Rs. 37 lakhs (Rs. 33 lakhs on the watch project and Rs. 4 lakhs on the third Machine Tool Factory) was incurred upto 31st March, 1962, thus leaving a balance of Rs. 138 lakhs against this receipt of Rs. 175 lakhs. On 31st March, 1962, however, the actual cash balance was Rs. 1·23 lakhs and the over-draft Rs. 86·61 lakhs which indicated that the amount of Rs. 136.77 lakhs (Rs. 138 lakhs minus Rs. 1.23 lakhs) had been diverted for use elsewhere.

In evidence, the representative of the Hindustan Machine Tools stated that to some extent they had utilised the advances made by Government for capital expenditure/revenue expenditure or for day-to-day requirements of H.M.T. Factories I and II. All this was due to the fact that they had only one account with the Bank. They were unable to check at every stage whether the money was utilised for the particular purpose for which it had been given. The witness further stated that out of Rs. 1.5 crores which were made available to them for the watch factory (meant for capital projects), they had to set aside about Rs. 90 lakhs towards the purchase of capital equipment for the watch factory by way of bank guarantee for deferred payments. Therefore, only a small amount was left for the purchase of capital equipment in the subsequent months. The representative of H.M.T. admitted that there might have been a temporary diversion of funds and assured the Committee that in future they would observe the fiscal discipline in utilisation of the Government funds.

The Committee enquired the extent to which H.M.T. had actually spent the amount of Rs. 150 lakhs contributed by Government towards share capital for the III Factory for the purpose for which it was given; the amount of balance, if any, and how the balance was utilised. The witness promised to furnish the information. It is still awaited.

64. As regards the diversion of a sum of Rs. 136.77 lakhs to purposes other than that for which it was sanctioned, the representative of the Ministry stated that the procedure adopted was not authorised by Government nor was it done with their knowledge.

The Committee view with concern that there had been diversion of Government funds amounting to Rs. 136·77 lakhs and no check was exercised by the H.M.T. to see that money was utilised for the particular purpose for which it had been given. It is all the more regrettable that the diversion of funds was restored to without the knowledge and approval of the Ministry concerned.

The Committee were assured during evidence that in future fiscal discipline in utilisation of Government funds would be observed. They trust that such cases will not occur in future. They would, however, like the Ministry of Finance to issue strict instructions on the subject.

The Committee also note that a large sum of Rs. 175 lakhs had been disbursed to the Company by Government far in advance of actual requirements. This in the opinion of the Committee, is wrong in principle. They would like the Ministry of Finance to look into this aspect and lay down principles to be followed at the time of disbursing funds for specific purposes.

(v) NATIONAL COAL DEVELOPMENT CORPORATION

Paras VIII—Pages 40—46

Delay in the finalisation of the terms of transfer—page 40, sub-para 1.

65. The National Coal Development Corporation Limited started with effect from the 1st October, 1956 with an authorised capital of

Rs. 50 crores wholly financed by the Central Government. At the time of incorporation they took over eleven State Collieries with their assets and liabilities. Although more than six years have elapsed since then, the terms of the transfer of assets of the book value of Rs. 9·37 crores and the liabilities amounting to Rs. 1·23 crores from these collieries have not yet been finalised and are stated to be (in August, 1962) under negotiation with the Government of India. The paid up capital of the Company on 31st March, 1962 was Rs. 30·81 crores.

Tracing the background, the representatives of the Ministry of Mines and Fuel and National Coal Development Corporation stated that the collieries in question were taken over by the Government of India from the Railways in 1944. These remained under the ownership of the Government of India till 1956 when the N.C.D.C. came into being. The then Controller of Coal Accounts prepared a balance-sheet of these collieries as on 30th September, 1956. This Balance-Sheet was considered by the Board of Directors of the Corporation and they desired to be furnished with fuller details with a view to ensuring that the balances mentioned in the Balance-sheet were effective balances. On being informed of the views of the Board of Directors, the Government of India decided in March, 1957, that the assets and liabilities should be provisionally transferred to the Corporation, subject to adjustment to be made later on, on the basis of effective balances to be worked out.

The Committee desired to know the reasons for the abnormal delay (of over six years) in the settlement of the terms of transfer. The Secretary of the Ministry stated that, according to the advice tendered by the Ministry of Law, topographical maps of the collieries were required to be attached, as a part of the document of final transfer from Government to N.C.D.C. The collieries being very old (two having been started nearabout 1897), the topographical maps were not traceable. Nor were the lease deeds available in full details. This necessitated fresh survey of the collieries. In reply to a question, the Managing Director, N.C.D.C., stated that it took 6-8 months to prepare the topographical maps.

The Committee are not convinced that the abnormal delay in assessing the assets and liabilities in this case was unavoidable. All the eleven collieries, even though some of them might be very old, were owned by the Government of India. These were transferred to a Government Corporation. Therefore, there ought not to be any difficulty in the matter of assessing the assets and liabilities. The only

reason that would be responsible for the difficulty could be the fact that Accounts of these collieries and the records of topographical maps had not been maintained properly by the original owners (Government Departments). Such lapses, in the opinion of the Committee are serious and merit special notice and remedial action.

The Committee hope that now that the topographical maps have been prepared, there would be no further delay in effecting final transfer of the Assets and Liabilities to the Corporation.

66. As regards the latest position regarding the determination of effective balances of liabilities, the representative of the Ministry of Mines & Fuel stated that on the basis of available records the Corporation had compiled certain figures, to verify which Government had appointed a special officer in March, 1962. Of the 91 Registers relating to Deposits, the special officer had completed the examination of 45 Registers and of the 87 Registers relating to liabilities, he had completed the examination of 82 Registers. He hoped that the work would be completed by the close of the present financial year. In reply to a question, the representative of the Ministry of Mines & Fuel admitted that the Special Officer should have been appointed earlier.

The Committee are surprised to learn that the Special Officer was appointed for the determination of balances six years after the event. The Corporation and Government must have been aware of the position relating to effective balances of liabilities from the very beginning. The Ministry have shown a lack of initiative in this matter which is regrettable. The Committee would like to be apprised to the results as soon as the work is completed by the Special Officer.

67. It was reported by the Auditors in their supplementary report for 1962-63 that the assets taken over from the State collieries in 1956 included an amount of Rs. 41·33 lakhs in respect of book debts which had remained unrealised even by 31st March, 1963. The financial Controller to the Corporation stated that book debts of the value of about Rs. 183 lakhs as on 30th Septembser 1956 were taken over by the Corporation. Of these, the debts amounting to about Rs. 143 lakhs had since been realised, leaving a balance of about Rs. 40 lakhs. The parties against whom the debts were outstanding were known to the Corporation, and efforts were being made to realise the amounts from them. In reply to a question, the witness stated that out of the balance of Rs. 40 lakhs, the amount due from private parties would not exceed Rs. 1 lakh. **The Committee hope that the efforts of the Corporation to realise the outstanding debts (about Rs. 40 lakhs) from parties known to them would bear fruit. They would like to be informed of the result of the efforts.**

Production targets and actual production—Pages 40-42, sub-para 2

68. The annual production of coal at the commencement of Second Five Year Plan from the eleven collieries owned by N.C.D.C. was 2·9 million long tons. The target set up in the Second Five Year Plan was 13·5 million long tons per year and the additional out-put of 10·6 million tons was proposed to be raised in the following manner:—

		(Million Long Tons)
From existing collieries	..	0·6
From New Coal Mines to be developed in Madhya Pradesh and Bihar	..	10·0
TOTAL	..	10·6

The Company had, however, been fixing targets from year to year which in certain cases were very much below the production capacity of these collieries. It has been stated that this has been done to suit—

(i) clearance of large accumulated stocks, and

(ii) *restricted availability of railway wagons.*

Nine new collieries were opened by the end of the Second Plan period bringing the total number of working collieries to twenty. The targets fixed by the Corporation and actual production in these collieries for the year 1960-61 and 1961-62 are given below:—

(Million Long Tons)

	1960-61		1961-62	
	Target	Actual Production	Target	Actual Production
Old Collieries . . .	5·81	4·79	5·87	5·95
New Collieries . . .	7·79	3·14	(6·05	M. Tonnes)

NOTE:—Targets of production and actual production in respect of Bhurkunda (New) and Kurasia (New) have not been shown under new collieries as they were merged with old Bhurkunda and Kurasia collieries.

It would thus appear that the total production of coal (7·93 million tons) achieved by National Coal Development Corporation in 1960-61 was 59 per cent approx. of the target.

For the first year of the Third Five Year Plan (1961-62) the target of production was fixed by the Corporation at 5·87 million long tons or only 43·16 per cent of the target fixed for 1960-61. Against this the actual production was 5·95 million long tons. It was stated that this scaling down of the target from 1961-62 had to be made due to the heavy accumulation of stock at the pitheads during the last quarter of the previous year (1·86 million tons valued at Rs. 3·35 crores).

The accumulation of these stocks was explained as due not only to the restricted availability of Railway wagons but also to the limited line capacity, which could not cope with the increased volume of production during the last quarter of the Second Five Year Plan (January-March, 1961). It was stated in this regard that the N.C.D.C. had decided to demonstrate its capacity to achieve the target rate laid down for the last year of the Second Five Year Plan, irrespective of the available transport capacity. The production during the year 1962-63 (7·76 million tons) was also below the level reached in 1960-61. The witness further added that the transport position had since considerably improved, and as a result, the pithead stocks had come down to 5 lakh tons from 1·86 million tons as on 1st April 1961. The present production capacity of the N.C.D.C. was 14½-15 million tons (as against the target of 30·5 million long tons for the last year of the Third Five Year Plan), and could be achieved, given sufficient transport and demand. The actual production was, however, still well below the developed capacity. The limitation on production, at present, was, however, not so much placed by inadequacy of transport as by slump in the non-coking lower grade coal market—the quality mainly produced by the N.C.D.C.

In reply to a question, the representative of the Corporation admitted that due to the scaling down of the targets of production, a large proportion of the machinery was rendered idle, and the workers laid off, resulting in increase in overhead charges, and a corresponding reduction in profits. In open cast mines, however, as the machinery engaged in actual production could also be utilised for renewal of over-burden, it was possible to reduce the idle working-hours. The Committee were also informed that the profit of the Corporation was at present Rs. 2 per ton. The profit would have been Rs. 3·50 per ton had the Corporation produced their full capacity.

The Committee learn with regret that initially due to inadequacy of transport, (shortage of wagons as well as line capacity) and later mostly due to slump in the market, the production of coal had to be deliberately kept down. This only indicates that initial targets were not fixed realistically. Since scaling down of production below the targets initially fixed results in a large proportion of the machinery being rendered idle and workers laid off, the Committee desire the Government and the Corporation to make long-terms planning with the help of the Ministry of Railways and Transport and maintain close liaison amongst themselves so that such situations do not arise in future.

69. In reply to another question, it was stated that the overall target of production to be achieved by the Corporation in the last year of the Plan was laid down by the Planning Commission, and the fixation of year-wise and colliery-wise targets was left to the Corporation itself. Year-wise targets had, however, not been fixed for the Third Plan period. **The Committee desired to be furnished with a statement setting forth the yearly targets and actual production of each colliery under the control of the Corporation for the Second Plan period. The representative of the Corporation promised to furnish the requisite information later. This information is still awaited.**

Transport of Coal

70. The Committee enquired whether in view of inadequate facilities for transport of coal by rail, it was proposed to develop other means of transport. The representative of the Ministry of Mines & Fuel stated that a team of experts had been invited from the World Bank to go into the question of transport of coal by various means including pipe-lines. This team had submitted an interim report, and were expected to submit the final report by the end of March, 1964. In reply to a question, the witness stated that transport of coal by pipelines (in the form of slurry mixed with water) was economical in certain conditions; for instance, when pumped direct from the source of supply to the consuming unit. In foreign countries, efforts were being made to pump to distances of even 100-150 miles. As regards the development of river transport capacity, it was stated that last year (1962-63), a few consignments were sent by means of boats. The cost was, however, excessive, as the boats were small, and the Government had to start from a scratch in the matter of navigational aids.

The Committee would like to know the result of the study by the experts and the action proposed to be taken thereon by Government to improve facilities for transport of coal by means other than rail.

Loss due to fire

71. Due to heavy accumulation of stock (73,802 tons) a fire broke out on the 26th May, 1961 in the Old Kurasia Colliery (Madhya Pradesh) and the mine had to be closed down. It was re-opened on the 8th May, 1962 after about a year. The total loss of production during this period on the basis of average monthly production of 83,101 tons during January to May 1961 comes to 9,14,118 tons valuing over Rs. 2 crores (at Rs. 22 per ton). In addition, up to the end of November, 1962, an expenditure of Rs. 40·15 lakhs was incurred for extinguishing the fire. In 1960-61, the colliery made a profit of Rs. 48·61 lakhs, but in 1961-62 the working results showed a loss of Rs. 20·93 lakhs.

The Enquiry Committee set up by the Board to investigate into the causes of this fire reported that it was due to the spontaneous heating of large piles of loose coal which had been heaped in the quarry itself contiguous to the mouth of the underground gallery. The representative of the N.C.D.C. stated that the fire was initially caused by the falling of loose coke (slack coal) from the roof, and the large stocks accumulated at the pitheads added to the extent of fire. In reply to a question, the representative of the Corporation admitted that they were aware of the risks attendant upon heavy accumulation of stocks at the pitheads (*viz.*, possibility of fire and deterioration in quality), but added that having taken the decision to demonstrate the Corporation's capacity to achieve the target during the last quarter of the Second Five Year Plan, there was no other alternative. As regards the remedial measures, he stated that the stocks were being completely blanketed with mud. These stocks were also being cleared. Other precautions against fire in underground mines were also being taken.

While the Committee are glad to know about the remedial measures which are being taken to avoid losses by fire they cannot find any justification for not taking such measures as soon as stocks had begun to accumulate. They also feel that in anticipation of the accumulation of stocks, the N.C.D.C. should have taken a decision to scale down the production at the appropriate time. In their opinion, it was hardly prudent on the part of the Corporation to display their capacity to achieve the target despite heavy accumulation and attendant risk of fire which eventually resulted in a total loss of about Rs. 2·40 crores to the public exchequer.

Loss due to deterioration in quality of coal

72. There had also been loss due to deterioration in the quality of coal stocked in various collieries which has been assessed at

Rs. 16·70 lakhs. The loss had been deducted from the opening stocks of coal for 1961-62 with the respective collieries.

The Committee referred to the loss amounting to Rs. 16·70 lakhs due to deterioration in quality, in respect of which the Corporation had stated that it was based on a liberal assessment made at the end of March, 1962, and that during the current year there was a possibility of some credit being available due to recovery of stocks embedded in the ground. The representative of the Corporation stated that it had not been possible to recover the blanket coal from the Kurasia colliery, and that the figure of Rs. 16·70 lakhs remained unchanged.

The Committee are sorry to learn that a loss of Rs. 16·70 lakhs occurred due to deterioration in quality of coal stocked in various collieries. The Committee would impress upon the Corporation the need to avoid such losses by taking preventive measures at appropriate time.

Plant and Equipment, Page 42, *sub-para* 3

73. A mention has been made in para 102 of the Audit Report 1962 on the Appropriation Accounts of the Central Government 1960-61 regarding purchase of two walking draglines. These draglines have not so far been commissioned (23rd November, 1962). In addition it was noticed in Korea Colliery that a P. & H. Model 1855 crawler-mounted dragline purchased from U.S.A. at a cost of Rs. 22·88 lakhs and received in September, 1960 had not been assembled fully and commissioned till as late as 23rd November, 1962.

The Company have also transferred to Stores, Plant and Machinery valuing Rs. 120 lakhs which were in use during previous years but were not used for more than 30 days during 1961-62 due to curtailment of production.

The representative of the N.C.D.C. informed the Committee that the first dragline [(referred to in para 27 of the 7th Report of the Public Accounts Committee (Third Lok Sabha)] had arrived in 1961 and the second in April, 1962. The completion of the Railway line to the (Bisrampur) colliery where the draglines were to be installed was delayed by about a year. The assembly of these draglines was started by the manufacturers' engineers in October, 1962. The first dragline was expected to be ready for commissioning in January, 1964 and the other in another 4-5 months. The witness stated in this connection that the assembly of a plant of this size took about 12-14 months even in a country like the U.S.A. wherefrom the machines had been imported. In reply to a question, the witness stated that there was no stipulation in the contract regarding the period within which the assembly was to be completed.

As regards the crawler-mounted dragline (received in September, 1960), it was stated that the boom of the dragline (about 75 ft. long) was damaged in transit from the U.S.A. to India. When the dragline arrived in India, a claim for replacement of the boom was made on the suppliers who accepted it. The period of replacement was, however, very long. In the meantime, the Corporation decided to cut the damaged boom, and to utilise it, after welding. For this purpose special type of electrodes had to be imported. The new boom had just arrived at the port. The dragline was expected to be commissioned by April, 1964.

The Committee would like to be informed when the two walking draglines and the crawler mounted dragline are actually commissioned. They would also like the Corporation to ensure that delays involved in assembling such costly machinery are reduced to the minimum.

74. The Committee referred to the plant and machinery (valuing Rs. 120 lakhs) transferred to the Stores due to curtailment of production, and enquired about the prospects of their utilisation in the near future. The representative of the Corporation stated that as the production was gradually increasing, the whole machinery was expected to be utilised. **The Committee may be informed of the latest position regarding the utilisation of the plant and machinery.**

Stores—Page 42, *sub-para* 4

75. The closing stock of stores and spare parts etc. had increased from Rs. 60·78 lakhs on the 31st March, 1957 to Rs. 1,059·03 lakhs (or 1,742·4 per cent) on the 31st March, 1962. During the corresponding period the consumption of stores had only increased from 19.30 lakhs to 79·89 lakhs or 414 per cent. It has been stated that the heavy accumulation of stores is due to the practice of purchasing stores and spare parts up to 15 per cent of the value of the equipment along with the equipment. The closing stock of stores on 31st March, 1962 has not also been reconciled with the stock registers where the balance stood at Rs. 1,083·90 lakhs. The difference of Rs. 24·87 lakhs has been stated to be due to an amount of Rs. 24·48 lakhs pertaining to the pre-Corporation period which is to be settled along with the overall settlement of the assets and liabilities transferred from the Ex-state Collieries and Rs. 0·39 lakhs relating to

1961-62 awaiting investigation and adjustment. In addition, there is a difference of Rs. 6·59 lakhs between the actual ground balance of stores and the balances of the stores ledger. This amount has been kept in suspense pending adjustment.

The Financial Controller of the Corporation stated that the figures of closing stock, referred to in the Audit para, could be broken up in three parts: (i) plant and equipment; (ii) construction materials; and (iii) consumable stores and spare parts. The closing stock of plant and equipment had gone up from Rs. 12 lakhs as on 31st March 1957 to Rs. 370 lakhs as on 31st March, 1962. The figure of Rs. 370 lakhs included plant and equipment purchased for new and developing collieries; the dragline alone accounting for Rs. 2 crores. The construction materials were mostly iron and steel and cement required for developing collieries. The figures of these materials had gone up from Rs. 6 lakhs as on 31st March, 1957 to Rs. 128 lakhs as on 31st March, 1962. As regards consumable stores (including spare parts), the closing stock had gone up from Rs. 42 lakhs as on 31st March, 1957 to Rs. 560 lakhs as on 31st March, 1962.

Referring to consumption of stores, the Financial Controller stated that the figure of Rs. 19·30 lakhs related only to half year; the figures for the whole year (1956-57), on this basis, being about Rs. 38·60 lakhs. The figure of Rs. 79·89 lakhs, shown in the Profit and Loss Accounts for the year 1961-62, as the figure of consumption, did not, by mistake, include stores consumed on two major activities: (i) removal of over-burden, and (ii) Kargali washery. If the stores consumed on these activities were taken into account, the figure of consumption for the year 1961-62 would be Rs. 269·65 lakhs as against Rs. 38 lakhs in 1956-57. As against this the closing balance had gone up from Rs. 42 lakhs (1956-57) to Rs. 560 lakhs (1961-62). The witness, however, added in extenuation that the present level of production was much below the developed capacity; and if the store-holding was brought down to a level warranted by the existing level of production, difficulties might be faced later on when it was decided to increase production to the developed capacity. He stated in this regard that the wanted stores were not readily available, and that it took 8-9 months to procure even indigenous stores. **The Committee desired to know the percentage of spares to the total value of consumable stores held as on 31st March, 1957 and 31st March, 1962. The witness promised to furnish the requisite information later on. This information is still awaited.**

The Committee referred to the practice of purchasing stores and spare parts up to 15% of the value of the equipment along with the equipment (which was stated to be one of the causes for accumulation of stores), and enquired whether there was any such condition in the contracts for the import of equipment. The representative of the Ministry of Mines and Fuel stated that although there was no such condition in the contracts, this was done as a matter of abundant caution. He stated in this regard that out of credit made available by the Export-Import Bank; credit to the extent of 15% of the value of the equipment would be utilised for the purchase of spares. As later on, no such credit was available, the Ministry was generally advised to purchase spares to the full extent of 15% at the very beginning itself. The representative of the Corporation added that the Corporation had to be particularly careful about foreign spares. The import of a spare took at least 10—12 months and there had been instances (although not many), when for want of a particular imported spare expensive machinery remained idle, necessitating import of such parts from foreign countries by air. In reply to a question, the witness stated that the proportion of store-holding was larger in the case of foreign spares than in the case of indigenous spares. In reply to another question, the witness stated that the Corporation was conscious of the need to keep the stock to the minimum extent possible. With this end in view, the Stores Department had been, for the last few months, analysing and grouping stores on the basis of turnover (ABC and XYZ analysis). Future purchases of stores would be made on the basis of this classification.

Even after making due allowance for the various factors explained during evidence, the Committee feel that the increase in the closing stock of stores and spare parts etc. from Rs. 60·78 lakhs on 31st March, 1957 to Rs. 1059·03 lakhs on 31st March, 1962 (or 1742·4 per cent) is far too excessive.

In the opinion of the Committee the holding of stores much in excess of the actual requirements not only locks up capital but is attendant with the risk of loss due to deterioration in storage. They suggest, therefore, that the requirements should be assessed more realistically than what seems to have been the case hitherto. The Committee would like the Corporation to take early steps to reduce the closing stocks of stores and spare parts etc. to a more reasonable proportion.

76. The Committee referred to the Supplementary Report of Company Auditors (dated 9th October, 1963), wherein the Auditors had observed that their review of the Price Ledger balances as on 31st March, 1963, of various collieries/units revealed that Plant and

Machinery of the value of Rs. 91,29,244·90 were held in stocks without being commissioned from 1st April, 1959. The representative of the Corporation stated that the machinery formed part of the equipment purchased for the Corporation's collieries at Korba. On driving the machine underground, it was found that the mining conditions were different from those originally anticipated. The machinery had, therefore, to be withdrawn, and utilised elsewhere, after remaining unused for sometime.

The Committee regret to note that Plant and Machinery valued at Rs. 91 lakhs should have remained unutilised for a period of 4 years. The Committee would like the Ministry to examine whether there was adequate justification for purchasing such costly machinery without first establishing definitely whether they could be utilised for the purpose in view, and whether the plant and machinery in question had deteriorated to any extent due to their remaining unutilised for 4 years.

77. The Committee then referred to the difference of Rs. 24·87 lakhs (Rs. 24·48 lakhs relating to pre-Corporation period and Rs. 0·39 lakhs relating to 1961-62) between the closing stock of the stores and the balance as per stock register, and enquired whether the difference had since been reconciled. The Financial Controller of the Corporation stated that the special officer, appointed by the Ministry in March, 1962, was examining the pre-Corporation difference of Rs. 24·48 lakhs. This officer was expected to complete his work by the end of the current financial year. The difference of Rs. 39,000 (relating to 1961-62) was also expected to be adjusted in the current year.

The Committee do not appreciate such delays in the examination of the Accounts and desire that this work should be expedited.

Physical verification of stores

78. Since its inception on 1st October, 1956 the Corporation has not, in any one year, been able to conduct a cent. per cent. physical verification of stores and spares etc. held by it. During the year 1961-62, out of 26 stores depots, full physical verification of stores was conducted in respect of 10 depots only whereas in respect of others, the physical verification conducted was between 75 per cent. to 98 per cent. of the total number of items of stores held by them.

The Management have stated that they have now taken steps to rectify these defects.

The Committee desired to know why the Corporation had not been able to conduct a cent per cent. physical verification of stores in any one year. The financial Controller of the Corporation stated that due to shortage of trained manpower, stock-verification could not be completed in 12 months and took a longer period. The strength of the staff to do this work was, however, being augmented. It was hoped that a cent. per cent. stock-verification within the year itself would be possible from the next year onwards.

The Committee consider it unfortunate that it had not been possible to conduct cent. per cent. physical stock-verification of stores. They need hardly emphasise the importance of this work in order to safe-guard against losses owing to pilferage or otherwise. They hope that cent. per cent. annual stock verification will be conducted regularly in future.

Cost of Production and Costing System—page 43, *sub-para* 5

79. A separate cost sheet is maintained for each mine, open-cast or underground. However, no estimates of the probable costs of production are prepared in the beginning of each year nor have any standard costs been fixed with which the actual costs may be compared enabling the management to get the variations investigated in order to have a proper control over costs.

The cost sheets are also not reconciled with the financial accounts. The Management have stated that steps are being taken to introduce standard cost for the different mines in the project on the basis of which future comparison and checks can be exercised.

In extenuation of the defects pointed out in the Audit para, the representative of the Corporation stated that although estimates of cost of production in respect of each colliery were not framed from year to year, in the case of every new colliery, a detailed project report was prepared which, *inter alia,* gave estimates of cost under a number of heads. These project reports were prepared by the Corporation, scrutinised by the Board of Directors and finally approved by the Ministries of Mines and Fuel and Finance. The actual cost of production of a colliery was compared with the estimated cost, as given in these project reports. Comparison was also made with the (actual) cost during the corresponding month of the preceding year, taking into account the quantum of production. Efforts were also being made to fix standard cost, on the basis of a detailed time-and-motion study in respect of each mine. The witness, however, added that the carrying out of time-and-motion studies was a long and continuous process, and the fixation of standard cost on the basis thereof was more difficult in the case of mines than in the case of Factories in that there was a larger degree of standardisation in the latter.

In reply to a question, the Financial Controller of the Corporation stated that the cost sheets had not so far been reconciled with the financial accounts of collieries; it was proposed to do so with effect from the year 1963-64. **The Committee hope that this work would be completed without undue delay.**

Payment of Electric Charges to Madhya Pradesh State Electricity Board—Page 43, *sub-para* (6).

80. With a view to meet its power demand, the Corporation entered into an agreement on 1st December, 1962 with the Madhya Pradesh State Electricity Board to reserve 6000 KW of power (2,000 KW for Korba and 4,000 KW for Central India Coal-fields). The agreement will remain in force for a period of five years from 1st April, 1960. The Corporation paid the Electricity Board Rs. 26·07 lakhs from 1st April, 1960 to 31st March, 1962 on the basis of power reserved against the actual consumption valued at about Rs. 7·53 lakhs during the period (consumption being between Rs. 20,000 to Rs. 30,000 p.m.). It has been stated by the Electricity Board that the power could have been sold to other consumers had this been not reserved for National Coal Development Corporation.

The Committee desired to know why the reservation of power was not phased according to the development programme of the Coal-field. The representative of the Corporation stated that the Madhya Pradesh Electricity Board were informed of the phased requirements of the Corporation, but the Board insisted that unless the maximum power required by the Corporation was reserved at that stage, they could not guarantee to provide this quantum later on, when required.

The Committee were informed by Audit that as the transmission line to the Central India Coal Fields (for which 4000 KW of power was reserved) was not ready, the power for this coalfield could not be utilised. Indicating the latest position, the representative of the Corporation stated that the poles had been put up and the wiring completed. But the State Electricity Board had not yet completed their sub-station at Bisrampur. All the materials had been collected and the sub-station was expected to be completed by December,

1963. But, the witness added, even if this sub-station were complete, the State Electricity Board would not be in a position to transmit power beyond 42 kva. The power requirement of the Corporation was, however, 133 kva which the Board could not transmit unless another sub-station of the Board at Cherimeri, was completed. The Committee enquired why the Corporation had made payment to the Board when it had not even made necessary arrangements for the transmission of power. The representative of the Corporation stated that payment was made to the Board only up to October, 1963 (by which time the Corporation was also not ready to receive power). The Corporation had informed the Board that it would not make payment for the period October, 1963—January, 1964. The State Electricity Board had agreed to this for the time being. In reply to a question, the witness stated that the question of non-payment of charges before the transmission arrangements had been completed by the Board, had been raised several times at the meeting of the Consultative Committee between the N.C.D.C. and the Madhya Pradesh Government, of which the Chairman of the State Electricity Board was also a Member, but not to much avail.

In reply to another question, the representative of the Corporation stated that although there was an agreed note signed by both the parties regarding the timely completion of transmission lines. the State Electricity Board did not agree to payment of penalty for delay.

The Committee are unhappy to note that an infructuous expenditure of about Rs. 18·54 lakhs had to be incurred by the Corporation due to their failure to reserve power to the phased consumption depending upon the development programme of the coalfields in the Central India. It appears that in charging this amount the Madhya Pradesh Electricity Board had not taken into consideration the Employment potential and industrial development created by the N.C.D.C. Moreover, the Board had also failed to complete their sub-station owing to which the Corporation have suffered. The Committee, therefore, desire that this matter should be reviewed, a written agreement arrived at and the N.C.D.C. should not accept liability where the responsibility was that of the State Electricity Board. The Committee suggest that this matter should be settled at a high level meeting between the representatives of the Centre and the Madhya Pradesh Government assisted by the N.C.D.C. and the State Electricity Board.

Financial Results—Page 43, sub-para (7)

81. The financial position of the Company as on 31st March, 1961 and 31st March, 1962 was as follows:—

(In lakhs of Rupees)

	31-3-1961	31-3-1962
Paid up Share Capital	2,540·14	3,081·46
Long-term Loans	2,345·00	2,813·00
Ratio of paid up capital to long-term loans .	108:100	109:100
Profit/Loss prior to adjustment and appropriation	103·66 (Profit)	11·89 (Profit)
Profit/Loss after adjustment and appropriation	31·56 (Loss)	76·16 (Loss)

The representative of the Corporation ascribed the reduction in profit (from Rs. 103·66 lakhs in 1960-61 to Rs. 11·89 lakhs in 1961-62 prior to adjustment and appropriation) to drastic reduction in output, necessitated by accumulation of stocks at pitheads. In reply to a question, the witness informed the Committee that the profit of the Corporation for the year 1962-63 was Rs. 134,000,00*.

The Committee trust that the Corporation would show better results, now that the production is to be increased.

Deficit in Kargali Washery—Page 44, sub-para 8(ii)

82. The Hindustan Steel Limited is the sole consumer of washed coal from this Washery. Pending fixation of statutory price of this variety of coal, an interim agreement was entered into with this Company regarding the rates at which supplies should be paid for. This agreement was valid till 31st March, 1963 and provided that from November, 1958 to September, 1961 the actual cost would be charged and from that date up to March 1963 the "standard cost" with certain adjustments would be charged. It is understood that the actual quantities supplied and the "actual cost" and the "standard cost" have not yet been mutually agreed upon. As a result, the total loss on the Washery account amounting to Rs. 167·99 lakhs upto the end of 31st March, 1962 is lying in the Suspense Account. The extent to which this deficit would be reduced by recoveries from the H.S.L. cannot be assessed at this stage.

*Rs. 125:56 lakhs according to Audit.

The representative of the Corporation urged in evidence that the figure of Rs. 167·99 lakhs, mentioned in the Audit Report as the total loss suffered by the Kargali Washery upto 31st March, 1962, was not a loss in the true sense of the term. This figure had been worked out by the Corporation on the basis of written down value of the plant, and kept in the Suspense Account, pending realisation from the Hindustan Steel Ltd. The latter had, however, suggested that the amount payable to the Washery should be determined on a straight line method. This suggestion of the Hindustan Steel had been agreed to by the Board of Directors of the Corporation, and the figure now stood at Rs. 149 lakhs. As against this, Rs. 78·8 lakhs had been provisionally paid by the Hindustan Steel. The witness further stated that the amount recoverable from the Hindustan Steel would initially be less and the whole amount would be recovered in due course. The matter was due to be discussed with the management of the Hindustan Steel. The Committee enquired whether after the expiry of the present agreement on 31st March, 1963, any fresh agreement had been entered into with the Hindustan Steel Ltd. The Financial Controller of the Corporation stated that for the period subsequent to 31st March, 1963, the standard cost of washing is to be reviewed and fixed in every two years. The Corporation had worked out the standard cost, after taking into account the additional engineering cost, the methods of transport, the man-power employed, the performance of the washery in relation to the type of coal to be supplied to it in the next two years, etc. The standard cost, thus worked out by the Corporation, was at present being checked by the Cost Accountants of the Hindustan Steel Ltd.

In reply to a question, the Financial Controller of the Corporation stated that there was at present no dispute between the Corporation and the Hindustan Steel regarding the quantities of coal supplied by the Washery to the Hindustan Steel.

The Committee feel that the situation as revealed in this case should not have arisen had there been firm agreement between the N.C.D.C. and the Hindustan Steel Ltd. regarding price etc. at the very beginning. It is also unfortunate that there should be difference of opinion at a later stage between two Public Sector Undertakings. The Committee, therefore, desire that the standard cost of washing should be fixed without further delay and firm agreement entered into for the period after 31st March, 1963 so that difficulties of the nature disclosed in the Audit para do not arise in future.

Profit and Loss Account—page 44, para 6(iii)

83. According to normal accounting practice, the credits received or amounts spent on account of transactions pertaining to previous years are taken to the Profit and Loss Appropriation Account. However, in 1961-62 the Corporation credited an amount of Rs. 16·31 lakhs recoverable from Hindustan Steel Ltd. for administrative and other charges pertaining to previous years to the Profit and Loss Account proper and not to the Appropriation Account. On the other hand, debits pertaining to previous years amounting to Rs. 29·99 lakhs were properly taken to the Profit and Loss Appropriation Account. This has resulted in the profits being over-stated to the extent of Rs. 16·31 lakhs. Otherwise, the working results would actually show a loss of Rs. 4·42 lakhs.

The representative of the Corporation informed the Committee that the Auditor's objection regarding the crediting of Rs. 16·31 lakhs to the Profit and Loss Account was considered by the Board of Directors at the Annual General Meeting of the Corporation held on the 28th September, 1962. The Board observed that although this amount related to previous years, it represented items of income of a casual nature arising from an agreement arrived at during the course of the year in question and should, therefore, be credited to the Profit and Loss Account, rather than the Profit and Loss Appropriation Account. An appropriate indication to this effect had, however, been given not only in the Profit and Loss Account but also in the Balance-sheet. The witness also urged that the amount in question was a small one.

The Committee do not appreciate the reasons advanced for crediting the sum of Rs. 16·31 lakhs to the Profit and Loss Account. This has resulted in over-stating the profits of the Company to the extent of Rs. 16·31 lakhs; otherwise the working results would actually show a loss of Rs. 4·22 lakhs. The Committee, therefore, desire that correct and uniform procedure should be followed in preparing the Balance-sheet, Profit and Loss Accounts etc.

Working of individual collieries—page 45, para 9

84. The Profit and Loss Accounts of the individual collieries for the years 1960-61 and 1961-62 indicates that seven out of 19 collieries in 1960-61 and 10 out of 18 collieries in 1961-62 for which revenue accounts were maintained, worked at a loss.

Five collieries have been continuously running at a loss. In respect of Kurhubaree and Serampore collieries the loss has been attributed to the fact that due to the continuous working of these collieries for more than 80 years, a stage has been reached where further raising of coal is both difficult and expensive. But in view of the increasing requirements of selected grades of coking coal raised from these collieries, the Government of India had issued instructions in September, 1960 that the production in these collieries should be continued as long as the present available reserves of these coals can be worked out.

Explaining the reasons for an increase in the number of collieries showing losses from 7* in 1960-61 to 10 in 1961-62, the representative of the Corporation stated that one of the collieries (*viz.*, Kurasia), which was running at a profit in 1960-61, caught fire and suffered a loss in 1961-62. One or two collieries, which were brought on the revenue account for the first time during the year 1961-62, continued to run at a loss. The loss in the case of other collieries was occasioned by restrictions on production, necessitated by accumulation of stocks at pitheads.

Referring to the five collieries continuously running at a loss, the representative of the Corporation stated that two collieries (Kurhubaree and Serampore) had been working for the last 65 years, and had been, by and large, exhausted. Heavy pumping was required to keep them free from water. The Board of Directors of the Corporation had pointed out to the Government in 1960 that it would be uneconomic to continue the working of the mines. The Government, however, issued a directive to the Corporation that production in these mines should continue as they were producing the highest grade of coking coal available in the country. The other two collieries were also old (Sawang and Jarangdih). Bachra was a new colliery which had suffered a loss in 1956-57. It was not possible to make a drastic reduction in staff in the collieries and to switch over to mechanical working. Efforts were, however, being made to effect improvements and, it was hoped, that all these collieries (except Kurhubaree and Serampore) would show profits. The Committee enquired whether, with a view to reducing losses, a higher price could not be charged on the coal produced by the collieries. The representative of the Corporation stated that a suggestion to this effect had been made by the Corporation from time to time, but had not so far been accepted by Government. The representative of the Ministry of Mines and Fuel stated that prices were fixed by Government on the basis of grades, and the highest price fixed by Government was being charged. Prices could not be fixed on the basis of collieries.

*Two of the collieries showing losses in 1960-61 were merged in the year 1961-62.

The Comptroller and Auditor-General referred to a provision in the Indian Airlines Corporation Act, according to which in cases where the Government desired the Corporation to run a service, not considered to be economical, Government would pay from their own funds an amount necessary for the maintenance of such service. The Committee desired to know the reaction of the Ministry of Mines and Fuel to the introduction of this principle in the case of the two collieries covered by the Government's directive. The Secretary of the Ministry of Mines and Fuel urged that all the units of the Corporation—earning as well as losing—should be taken into account. Further, a public sector Corporation was brought into being only because of fulfilling certain objectives of Government. In the present case, the main objective was the scarce reserve of the country in coking coal which should be conserved over a fairly long period of time. The witness further urged that the N.C.D.C., being a Corporation in the public sector, it did not make much difference whether the loss was borne by the N.C.D.C. or made good by Government by means of a subsidy.

The Committee were glad to be informed that with the exception of Giridih Collieries, it should be possible to put all the other collieries on a profit basis. The Committee trust that this hope would be realised in the near future.

The Committee would however, like Government to examine the suggestion made by the C. & A. G. for giving subsidies to the Corporation for collieries which were to run at a loss under a directive from the Central Government, in view of the fact that the N.C.D.C. has been set up by Government as a commercial organisation.

Working of the Corporation, para 10—page 45

85. From the special report received from the Auditors of the Company pursuant to the directives issued by the Comptroller and Auditor-General in March, 1962 for looking into certain special aspects of the working of this Corporation, the following points have come to notice:

(1) There is delay in the accounting of stores transactions and their ultimate recording in the subsidiary books. Discrepancies between book balances and the physical stock as revealed by stock verification are only partially adjusted in the financial accounts of the year. Wherever investigations are necessary, the items are left unadjusted. Reconciliation between the priced

and numerical store ledgers is not carried out promptly. No maximum and minimum levels of stores to be held at any time have been prescribed by the Corporation. There are instances of overstocking of some stores materials. There is no regular system of isolating unserviceable stores for quick disposal.

(2) Collieries do not report in time all items of outstanding Income and Expenditure at the end of the year with the result that subsequent year's profit and loss account is overburdened by the adjustments of these items.

(3) The amounts due for recovery for sale of coal outstanding for more than one year have steadily increased from Rs. 34 lakhs in March, 1959 to Rs. 1·66 crores in March, 1962. The Corporation's working capital is being blocked to this extent and its customers are receiving credit facilities for long periods.

The representative of the Corporation stated in evidence that the work of fixing minimum and maximum ceilings for the different items of stores which were about 5,000 in number was in hand. **The Committee desired to know the value of unserviceable stores lying with the Corporation for disposal. The representative of the Corporation promised to furnish the information later. This is still awaited.**

86. As regards the delays in the accounting of stores transaction and their ultimate recording in the subsidiary books, the witness explained that it was mainly due to the fact that this work was at present centralised in the Head Quarters Office. Returns were received from various Depots located at distant places where the means of communication were not satisfactory. The Head Quarters Office fixed the price of the various items and kept their accounts. It was proposed to decentralise the accounting set up and place Accounts Officers in collieries and different regions who could be kept informed of the price of stores from time to time. It was hoped that with the introduction of the system, the delays would be largely eliminated. It had been reported that the collieries did not report in time all items of outstanding income and expenditure at the close of the year. The witness expressed the hope that with the proposed decentralisation of accounting set up, this problem would also be solved. As regards the outstanding amounts due for recovery for sale of coal, it was pleaded that the amount had increased with the increase in transaction. Most of it was to be recovered from the Railways and other Government Departments.

As regards private parties, it was explained that sales were transacted through middlemen who took credit for 90 days. There had been certain occasions when this credit period had been exceeded. **The Committee desired to be furnished with a note/statement setting forth the latest position regarding the amount due for recovery for sale of coal (including those outstanding for more than one year). This information is still awaited.**

87. The Committee hope that with the appointment of a special officer and inspectors for taking up the arrears with State Governments and an officer of the Accounts Department for taking up the dues with the Railways there would be improvement in the recovery of dues from Government Departments.

88. The Committee do not feel happy over the slackness shown in the realisation of dues from middlemen. They hope that some ways would be devised so that such dues do not accumulate. In the meantime efforts should be made to recover the dues which are more than three months old from private parties.

Theft of Stores worth about Rs. 11,000—*para* 11, *page* 45

89. In the Bokaro Colliery, a shortage of 550 ft. of cables valuing Rs. 11,000 was noticed on 25th February, 1958. As a result of an enquiry in May, 1958, the Officer on Special Duty (Watch and Ward) found the Store-keeper to be responsible for this shortage either by connivance to theft or by negligence. The Police to whom the matter was reported on 25th February, 1958, closed the case on 7th April, 1958 after merely observing that the theft was not possible without the connivance of the Store-keeper. The management, however, continued to retain the Store-keeper for more than 2½ years (until 6th November, 1960) on the ground that they could not find a suitable substitute earlier. The Store-keeper was suspended on 7th November, 1960 and later directed to retire with effect from 12th April, 1961. A sum of Rs. 1,002 was adjusted against the total loss of Rs. 11,000 by withholding the security deposit of the Store-keeper and the payments on account of contribution to the Company's Provident Fund and Gratuity.

The Managing Director admitted in evidence that it was a bad case. He added that the official was retained through negligence on the part of the superior officers in spite of the fact that the Managing Director had ordered his suspension from service. On being asked whether any responsibility could be fixed for the loss in this case, the witness stated that although it was considered that the theft could not have taken place without the connivance of the Store-keeper, prosecution could not be launched because of lack of sufficient evidence. He added that no motives could be attributed for the retention of the official in question.

It is obvious that there had been not only negligence on the part of superior officers in retaining on duty the Store-keeper whose suspension was ordered by the Managing Director, but also non-compliance with the orders of the Head of the Department which is a serious matter. This action on the part of the officers amounts to shielding of a person suspected of connivance in the theft, as also breach of office discipline. The Committee would like the Ministry to investigate how the orders of the Managing Director were not carried out and who were responsible for the same.

Loss of about Rs. 97,000 *due to delay in payments—Para* 12, *page* 46

90. The terms for sale of Nitro-compound by Messrs. Imperial Chemical Industries (I) Ltd., Calcutta provided that the customers whose purchases would exceed 1 lakh lbs. in any one accounting year of the firm (1st October to next September 30th) would be entitled to a quantity rebate at 2½ per cent if the firm's bills were settled in full within 30 days of the date of invoice or despatch, whichever was later. During the period from March, 1960 to March, 1961 the National Coal Development Corporation Ltd., purchased Nitro-compounds from the firm amounting to Rs. 42 lakhs against which bills for Rs. 38·7 lakhs were not settled within the stipulated period. As a result, the Corporation did not qualify for a rebate of Rs. 97 thousands (approximately) which represents a loss.

A proper system for the examination and payment of the supplier's bills did not exist in the Corporation prior to 1st April, 1961 which caused delay in settlement of the firm's dues. The procedure for payment has since been revised.

It was stated in evidence that hitherto payments for the explosives supplied by the I.C.I. were made on the certificate from the colliery that actual supplies had been received by it. This resulted in considerable delays. The I.C.I., therefore, introduced the system of giving rebate in case the payments were made to them within 30 days. The Corporation had since deviated from the past practice in that payments are now made within the prescribed period of 30 days pending receipt of certificates from the collieries. Although this course was not without risk of loss, it had been adopted in order to earn rebate from the company.

It is unfortunate that the Company could not get a rebate of Rs. 97,000 owing to delay in getting the bills certified by the collieries. The Committee would like to be informed of the result of working of the new procedure for payment now introduced.

COMMENTS OF THE C. & A. G. ON THE ACCOUNTS OF THE N.C.D.C. FOR THE YEAR ENDING 31-3-1963

The Branch Auditors

91. The following comment was issued under section 619 (4) of the Companies Act, 1956:

> "The Branch Auditor concerned has reported that the closing stock of South Balanda Colliery includes rejections of 14,000 tonnes valued at Rs. 3,37,680 on the same rate at which saleable coal has been valued, resulting in an overstatement of profit. The Branch Audit Report was stated to have not been made available to the Company Auditors."

It was explained that the objection of the Branch Auditor was based on certain misunderstanding and was later dropped as a result of clarification given by the Area General Manager.

The Comptroller and Auditor General pointed out that in the Companies Act, 1956, there are special provisions for the audit of Government Companies, according to which the Auditors are to be appointed on the advice of the Comptroller and Auditor General. Neither in these provisions nor in the provisions for the audit of other Companies, the method in which Branch Auditors should be appointed were prescribed prior to 1960. In that year, Section 228 of the Act was amended and in 1961 the Companies (Branch Audit Exemption) Rules were issued. The Company Law Administration took the view that since in the special provisions for the appointment of Auditors to Government Companies there was no mention about the Branch Auditors, Section 228 and the Companies (Branch Audit Exemption) Rules, 1961 would be applicable to Government Companies also. As, after the amendment to the Act, non-Government Companies could appoint even their own officers as Branch Auditors, the interpretation given by the Company Law Administration meant that Government Companies could also appoint their own Officers as Branch Auditors without consulting the Comptroller & Auditor General in spite of the fact that in the case of main Auditors, the appointment had to be made on the advice of the Comptroller and Auditor General. As a result, Government Companies have been appointing their own Officers as Branch Auditors. This had been done in the present case also.

The Committee regret to note that as a result of the interpretation given by the Company Law Administration to the provisions of Act relating to Branch Auditors, Government Companies are appointing their own Officers as Branch Auditors. This in the opinion of the Committee is not a healthy practice. It is obvious that the comments of the Branch Auditors who are officers of the Company cannot be as objective and independent and would not receive the same weight as the comments of independent Auditors appointed on the advice of the Comptroller & Auditor General. The Committee desire that this matter should be reviewed and the present practice of appointing Branch Auditors for Government Companies in the manner described should be discontinued. In the opinion of the Committee, the Branch Auditors should also be appointed on the advice of the Comptroller & Auditor General in the same manner as that of the Auditors for the Head Office.

(vi) STATE TRADING CORPORATION OF INDIA LIMITED

(Para IX pp. 46—49)

Functions and activities—Page 46, *Para IX* (*I*)

92. The State Trading Corporation of India Ltd., was incorporated on 18th May, 1956 under the Companies Act, 1956 with an authorised capital of Rs. 1 crore (later raised to Rs. 5 crores), all the shares being held by the Central Government. The main objects were "to organise and effect exports from and imports into India of all such goods and commodities as may be determined by the Company from time to time, and to undertake the purchase, sale and transport of and general trade in such goods and commodities in India or anywhere else in the world". With the passage of time the activities of the Corporation have widened. The Company now largely deals with State Trading Organisations in the East European countries and assists in the settlement of trade disputes, accelerating exports by linking them with imports ensuring supplies of certain commodities in proper quality and at competitive prices, helping the private trade and industry in importing capital goods, raw materials and other commodities essential for internal distribution of certain commodities like cement. Functionally, the Corporation consists of six divisions, *viz.*, (i) Minerals; (ii) Consumer Goods; (iii) Agricultural Products (including distribution); (iv) Engineering; (v) Chemicals division and (vi) Cement. The Corporation earned a profit of Rs. 15·27 crores upto 31st March, 1962 before making provision for taxation. This is 5·9 per cent of the total turn over and includes a

sum of Rs. 4·24 crores (approx.) earned by the Corporation from commission on cement trade business associateship and other service charges.

The Committee enquired whether the Corporation chalked out its own programme of activities or followed the directions issued by the Government of India. The Secretary of the Ministry stated that Government was free to issue directions to the Corporation; but the State Trading Corporation being an autonomous body functioned independently within the framework of activities assigned to it. The Chairman of the State Trading Corporation added that the programme for a year was considered by the Board of Directors and it was reviewed periodically to assess the extent of success achieved, and changes if any, that were necessary to achieve better results. It was further added by the Secretary of the Ministry that broadly speaking the S.T.C. was an instrument of Government policy but it was open to them to undertake any activity although they did not undertake any item without Government's asking them to take it up. To a question whether the Corporation was bound to carry out the orders of Government even if they felt that a certain work was unprofitable or commercially unsound the witness stated that if Government issued a formal directive, the S.T.C. was bound to follow it, but normally in cases where there was some difference of opinion, the matter was discussed between the Government and the STC and an agreed decision taken thereon. To another question, whether Government made good the loss suffered by S.T.C. in a transaction taken up at the instance of Government, the representative of the Ministry stated that in certain cases, knowing that there would be loss, but in order to earn foreign exchange, the S.T.C. was directed to undertake the export of an item and permitted to import some other item on which some profits could be made, so as to make good the loss suffered. As an instance, it was stated, that Government, definitely asked the S.T.C. to undertake the export of groundnut oil and at the same time gave them permission to import some profitable item on which they had made profits to compensate for the loss.

While the Committee appreciate the need to export certain commodities in order to earn foreign exchange, they feel concerned with the manner in which the losses suffered on exports are made good at the expense of the consumers in India. Since the profits on the imported items, to make good the loss, are earned in India, it is the common consumers in India who have to pay extra for these imported items. This, therefore, amounts to a sort of an indirect levy, which

in the opinion of the Committee, is not quite justifiable. The Committee hope that Government will consider this aspect of the problem and arrive at a better solution.

Annual Report of S.T.C. for 1961-62 *Page* 3, *Para* 2-4.

93. The direct trade of the Corporation improved from Rs. 64·69 crores in 1960-61 to Rs. 77·39 crores in 1961-62, showing a rise of about 20 per cent over the previous year. Besides the direct trade, the Corporation continued to assist the private trade and industry to import essential capital goods and raw materials and other commodities both from the countries dealing in State Trading and other countries and to export finished goods. The total value of such indirect trade was Rs. 29 crores for which no service charges were levied. In addition, another Rs. 19 crores worth of similar indirect business was also handled for a smaller service charge.

The Committee desired to know what was the 'service charge', the basis on which it was determined and on what goods it was levied. The representative of the S.T.C. stated that the indirect trade of the S.T.C. consisted of assisting the Indian importers in securing essential commodities, raw materials etc. for stock and sale as their normal commercial operations, from the East European Countries as also from other sources and it was considered to be a sort of 'service' for which a service charge varying from ½ per cent to 2 or 2½ per cent was levied, but for services rendered for the supply of the essential requirements of the actual users/industries in the country no 'service charge' was levied.

Explaining the several kinds of trade undertaken by the S.T.C., the Chairman, S.T.C. stated that they had to find a market for the high-priced commodities which in the normal business would not sell. The right to export against those selling items gave an incentive to the foreign buyer to buy different items from this country. Therefore, two parallel transactions of sale and purchase, called 'barter' had been introduced. The 'link deal' was slightly different. There was a list of commodities of this country and that of the other country with whom India might have continuously an adverse balance of trade. Essential purchases from them were equated with the sales of additional items from India. Through this package deal, efforts were made to narrow down the gap. In barter as well as link deal, a list of imports was drawn up very carefully, in consultation with various organisations already set up by the Government of India, in order to ensure that only that which was absolutely essential and which figured in the overall import plan and which could be met from the foreign exchange provision, was imported. It was added that prices at which the Indian commodity was to be sold and the prices at which the imported commodity was to be bought, was the most important consideration in the barter transaction. There was direct trade also *viz.*, in iron ore, manganese, bauxite, mica and some other minerals in which S.T.C. had no monopoly but they negotiated with the foreign buyer and made sales. The Chairman, S.T.C. explaining the position further added that barter was not the universal pattern of trade; it was not applied to every commodity or to any commodity for every kind of transaction. It was resorted to in respect of very selective items which would not otherwise sell. These were exportable surpluses within the country. It was added that the S.T.C. had suffered no losses in 'barter deals'.

The Committee are happy to note that the volume of direct trade of the Corporation has improved from Rs. 64·69 crores to Rs. 77·39 crores in 1961-62 showing a rise of about 20% over the previous year; but they feel that they would have been in a better position to appreciate the position had the information, as asked for by them, regarding the total margin of loss in exporting of commodities in respect of which internal prices are higher than the international prices, and of profits earned on the linked imports under barter trade for 1961-62, been furnished to the Committee. The information is still awaited.

94. The Committee were informed in evidence that diversion of a commodity imported from India had been resorted to by a country with whom agreements had been entered into. The Commodity was bought from India under the rupee trade agreement and it was sold to another country to get foreign exchange. The Committee hope that such cases are promptly taken up with the country concerned as being contrary to the agreements.

Export of Iron Ore—Page 47, para IX (2) (a) of the report

95. The entire export of iron ore which was previously being handled by private business became the monopoly of the Corporation from July, 1957. Since then the export had increased by 68 per cent viz., for 18·35 lakh tons in 1956 to 30·87 lakh tons in 1961.

Replying to a question the Chairman, S.T.C. stated that in regard to iron ore the selling price for 65 per cent—62 per cent was 81 sh. per ton FOB. It was a fact that in negotiating the sales, this year, to Japan, this had been brought down to 74 sh. per ton FOB. Explaining the world situation, he stated that large deposits were coming up in Chile, Peru, Brazil, Australia etc. including Sweden which was already in the field. As a result of past experience, the S.T.C. had either to stick rigidly to their own prices and go on losing markets or had to take a realistic view of the world picture and fall in line with the prices of other suppliers. Besides, hitherto the Indian lumpy ore of high grade—65 per cent, used to have a special premium, but on account of the coming of blast furnace and the L.D. process that premium was diminishing, if not vanishing, because 60 percent iron ore was as valuable for the blast furnace as 65 per cent used to be, and the high prices could not, therefore, be justified. It was added that part handling facilities in India were almost primitive while Chile and Brazil today could load 2,000 tons per hour, the maximum, in India even with the mechanical berth in Madras, was 1,800 tons or so per day. Moreover, the receiving capacity of Indian ports was very much lower. **The Committee hope that the S.T.C. will continue to be vigilant and watch the trend of the world trade to derive maximum advantage the Indian Industry in exporting iron ore.**

96. When asked about the reasons for the disappearance of export of iron ore to Belgium, Netherland, France and Poland, the Chairman of the Corporation stated that the best buyer of our iron ore was Japan and the next the East European countries. Czechoslovakia, Hungary, etc. The West European countries were not willing to buy from India at the prices offered.

The Committee would like the Corporation to make efforts towards the resumption of iron ore trade with the West European countries also.

Export of Manganese Ore—Page 47, *para IX* (2) (*b*)

97. In August, 1956 the State Trading Corporation entered into a contract for the supply of 60000 tons of Manganese ore to Japan to be delivered between October, 1956 to April, 1957 (later extended to August, 1957). Even by the extended date the supply was only 37,942 tons and the supply of the balance quantity of 22,058 tons was cancelled by the foreign buyer. However, the Corporation did not cancel the corresponding contract with the Indian suppliers on the consideration that there was no fault on their part. This resulted in the balance quantity remaining at the ports for a long time thereby leading to the payment of plot rents at the ports. The Corporation had also to make an on account payment to the Indian suppliers (free of interest), apart from having to dispose of the stock at a loss. The total loss incurred on the deal came to Rs. 5·26 lakhs.

Explaining the background of the case and the extenuating circumstances, the Chairman, S.T.C. stated that it was among the first few deals negotiated by the S.T.C. in the manganese field, with less experience and the trade somewhat hostile. In the beginning the policy was to secure export order first and then to negotiate supplies internally on the basis of the export order. The Corporation was able to secure this export order for 60,000 tons of Manganese Ore to Japan to be delivered between October, 1956 to April, 1957 (later extended to August, 1957). Due to some unavoidable circumstances prevalent at that time in the market the supplies could be negotiated only at the end of December so that only eight months were left for making all the supplies. Then there was the difficulty of 'quota system' in the case of manganese, the S.T.C.'s quota being only one-third and two thirds being in the private hands *viz.*, CPMO, Sandur, Bird & Company who had good quality ore and long established contacts and who were able to sell on their own effort. STC's quota was increased to half which continued till about 1961. The quota was then abolished in 1962. Even when the STC were able to secure the supplies internally, they were not able to move the supplies to the ports because of the quota system on the Railways due to which wagons were not available. As such the S.T.C. defaulted on the supply to the extent of about 22,000 tons. Normally the foreign buyers would extend the delivery period but at that time they were speculating and were aggressive on this deal and they refused to extend the period of delivery. In respect of 22,058 tons, contracts to the extent of 13,000 were cancelled internally and only 9,000 tons remained because even if these were cancelled there would have been litigation. Another factor was that at that time the market was buoyant. In August-September the prices were high and it was thought that the stock would be sold profitably; but in December there was world slump and at once the prices fell which no body could foresee. There was then so much difference between the selling price and the world market price that 'barter' remained the only remedy. In the circumstances the loss to the extent of Rs. 5·26 lakhs was unavoidable.

The Committee note that owing to the lack of adequate experience of the S.T.C. at the beginning and other factors there was a loss of Rs. 5·26 lakhs on this deal. They hope, however, that the S.T.C. will benefit from this experience and that it will take all possible steps and precautions to avoid such losses, in future. A state agency like the S.T.C. should take all precautions to ensure that it does not default in fulfilling the terms and conditions of contract accepted by it.

The Committee would also like the Ministry of International Trade to take up the question of making Railway Wagons available in time for the movement of manganese ore to ports and for this purpose some working arrangements with the Railway Board should be made so that similar situations may not arise in future.

98. In reply to a question it was stated that S.T.C.'s trade in manganese ore was also spread out all along the possible markets. The overall requirements in the world for manganese was to the tune

of 4·5 million tons. Out of that about 2·5 million tons were tied up with "Captive Sources" and the free world demand was reduced to 2 to 2·5 million tons only. There were powerful competitors like U.S.S.R. and Gabon, and the effort of the Corporation had been directed towards achieving the export figure of 1·1 million tons out of the world demand of 2·5 million tons. It was added that in procuring the ore, the tender system could not work as each mine was situated in a different place, the mining was also different—some were surface, some deep ores and some had to be blasted and as such the price was fixed by negotiation.

It was admitted in reply to a question that the price factor of mangenese ore was definitely against the S.T.C. but all out effort was being made to improve the working of the mines and reduce costs. The Government of India had also set up a Manganese Ore Committee which was studying the whole situation.

The Committee hope that the Manganese Ore Committee would be able to finalise their study early and it will be possible for Government to take steps on their recommendation for improvement of the position relating to export of manganese ore.

99. The Committee enquired as to how S.T.C. checked the ore contents in the mineral that was exported. They were assured by the Chairman, S.T.C. that due care was taken to check the ore content of the minerals exported. Internationally competent firms were employed to assess the quality of the ore and give a report to the S.T.C. before shipment. Another test was carried out at the destination at the time of unloading. It was also stated by the Chairman, S.T.C. that the export figure of manganese had come down from 8,51,846 tons in 1960-61 to 7,41,426 tons in 1961-62 as depression in the world market continued.

The Committee would like to suggest that it is desirable to ensure that the ore content of the minerals exported by the private sector was also upto the prescribed standard, as it might otherwise affect adversely the reputation of India in international trade. They trust that suitable steps will be taken in this direction soon. The Committee also hope that all out efforts will be made to arrest the down ward trend of the export figures of manganese ore.

Other Exports—Page 47, *Para IX* (2) (c)

100. In para 62 of the Audit Report, 1961 on the Appropriation Accounts of the Central Government of 1959-60 loss in the supply of shoes to foreign countries had been reported. The Public Accounts Committee (1961-62) in para 42 of their 42nd Report (Second Lok

Sabha) had dealt with this case. The surplus of 67,726 pairs of shoes costing Rs. 10·20 lakhs which remained with the National Small Industries Corporation Limited were disposed of in the internal market at a loss of Rs. 5·37 lakhs which was borne by the State Trading Corporation.

Explaining the reasons for this surplus, the Chairman, S.T.C. stated that initially the rejections were due to poor quality. On account of rejections production fell down considerably because the fabricators could not bear that loss. Then the S.T.C. and NSIC evolved a scheme whereby they decided to accept those shoes provided that their internal inspectors were able to certify that the shoes were good, whether they were ultimately acceptable to the export trade or not. Then the production went up, but all that time lag and delay resulted in our defaulting on timely shipments. This resulted in the orders being cancelled. The witness added that as a result of earlier rejections of shoes the industry indirectly benefited in two ways; firstly, the fabricators improved their quality tremendously. (The rejections were now to the extent of 0·9 per cent only). Secondly, the State Trading Corporation had become more careful in giving greater satisfaction to the foreign buyers, from whom orders for the supply of shoes were increasing and expectation for 1964 was to the extent of one million pairs of shoes to USSR alone. With regard to the loss of Rs. 5·37 lakhs on the disposal of surplus shoes, it was stated that the rejected shoes were being sold internally as a joint effort by the National Small Industries Corporation and State Trading Corporation in accordance with the decision of the Government of India. It was added that it was a condition of sale that some of the losses in the case of rejection by the purchaser would be passed on to the suppliers.

The Committee are glad to know that the export of shoes is being increased. They hope, however, that the State Trading Corporation will benefit by the experience they have gained in the export of shoes and will take all possible precautions including improvement in the quality to avoid such losses in future. The State Trading Corporation should regard it a matter of prestige to see that the goods supplied by it are not rejected on account of being below standard.

Demurrage—Page 47, *para* *IX* (3)

101. Since its inception to 31st March, 1962, the Corporation has spent Rs. 30·80 lakhs by way of demurrage on the outward

shipments from India as detailed below:

Year	*Demurrage* (In Rupees)
1957-58	6,53,350
1958-59	96,052
1959-60	3,38,243
1960-61	16,84,172
1961-62	3,08,166
	30,79,983

Referring to the demurrage paid during 1960-61 amounting to Rs. 16,84,172, the Committee desired to know the reasons for such a high figure and the steps taken to minimise it. The Chairman, State Trading Corporation contended that the question of demurrage should be assessed in the context of the despatch money that had been earned from year to year. The total amount of demurrage upto 1961-62 was Rs. 30·80 lakhs while the earning of despatch money which was in foreign exchange was to the tune of Rs. 59·51 lakhs. Whatever the S.T.C. paid to the Railways for transport was also paid back to them in foreign exchange.

With regard to the demurrage for the year 1960-61, the reasons advanced for the high figure were viz., (i) non-availability of berths on account of congestion of vessels at ports; berths were allotted by the Port Authorities and the S.T.C. had no say in the matter; (ii) unloading of foodgrains was given priority over iron-ore; (iii) protracted adverse weather and/or surf conditions at the ports of Masulipatam, Cuddalore etc., for which exemption was not given by the buyers in terms of S.T.C.'s agreement based on international maritime practice according to which conditions alongside the vessel were the determining factor for non-weather working periods; (iv) inadequacy of stocks as a result of operational difficulties on the part of Railways. It was added that the afore-mentioned factors were of general nature but they were more forceful in that particular year. The most special feature of the year was the Central Government Employees strike during the month of July, 1960 as a result of which movement of ore to the ports was seriously affected and the vessels already in port were detained for long periods. The slow feeding of vessels already in port created serious conditions of congestion with the arrival of vessels fixed for later positions. In clarifying the position further, the Chairman, S.T.C. stated that the loading rate at the ports was one of the very important factors on which the price was determined, the tendency of the buyer being to coerce the supplier into giving a larger and larger loading rate. From year to year, the tendency was to increase the loading rate which was resisted by S.T.C. When the rate went high; and when for various reasons the S.T.C. were not able to keep upto the loading rate, the demurrage became due.

While the Committee do appreciate that some of the factors resulting in heavy demurrage charges during 1960-61 were beyond the control of S.T.C., they cannot accept that incurring demurrage as a regular feature is unavoidable. Demurrage charges are wasteful expenditure pure and simple. The Committee would therefore like S.T.C. to devise ways and means of eliminating the wasteful expenditure.

Handloom Export Organisation—Page 48, *para IX*(4)

102. The Handloom Export Organisation was set up on 1st January, 1959 at Madras to acquaint the manufacturers and exporters of handloom products with fashion trends in the non-traditional market and to promote export of handloom goods. The financial results of the Organisation during the last 3 years ended 1960-61 showed progressive losses, *viz.*, 0·18 lakhs in 1958-59, Rs. 0·46 lakhs in 1959-60 and Rs. 1·33 lakhs in 1960-61. It has been stated that on account of high costs of production, paucity of the raw materials and the quality of production not being up to expectation in certain cases, the Organisation has not been able to maintain the delivery schedules in certain sale orders, leading to their cancellation. Such cancellations have resulted in the loss of foreign exchange to the extent of Rs. 15·18 lakhs. This organisation has been merged with the Indian Handicrafts Development Corporation and a Company (Handicrafts and Handloom Export Corporation of India Limited) has been formed, as a subsidiary of the State Trading Corporation.

The Committee enquired as to what steps had been taken to solve the difficulties referred to above. The Secretary of the Ministry, at the outset, stated that the work of this Corporation was primarily developmental and promotional and their losses had to be judged from that point of view. As a result of their work, exports of handloom fabrics had gone up from Rs. 13 lakhs in the previous year to Rs. 1·69 crores and the Organisation had maintained the exports at still higher levels. It was added that apart from exporting goods themselves, the Corporation encouraged exports by others also. When the first boost was given to these exports, there were some factors in the situation which had now been corrected. There was a keen competition in buying. Buyers came from outside and paid higher rate.

The whole structure of prices became unreal, resulting in a kind of crisis. He further added that some corrective action had been taken in the matter of exports now by prescribing the floor and ceiling rates for the products and more regulated rates of flow of the fabrics. The Chairman of the Handicrafts and Handlooms Exports Corporation of India Ltd. added that in 1958 the export of cotton handloom goods to the U.S.A. was worth Rs. 13 lakhs. This rose in 1959 after the formation of the Handloom Export Organisation to Rs. 1·69 crores. Last year's export figures were Rs. 2·50 crores and for the current year it was expected to reach the figure of Rs. 3·50 crores to Rs. 4 crores.

The Committee are glad to note the steady improvement in the export figures of cotton handloom goods to the U.S.A. They hope that this trend will be maintained and that efforts will be made to popularise cotton handloom goods in other foreign countries also.

103. With regard to the merger of the Handloom Export Organisation with the Indian Handicrafts Development Corporation, it was stated by the Chairman, S.T.C. that previously it used to be the Indian Handicrafts Development Corporation only dealing with the export of handicrafts to the non-traditional markets. Then the S.T.C. used to have a division known as handloom export organisation which dealt with handlooms. It was felt that the problems of the handloom goods and the handicrafts were very much similar and to pool the different channels together, this merger was effected. He added that side by side with the developmental functions, the Corporation was also taking on trading activities which gave a stabilising influence on the markets in India and abroad. Asked about the set-up of the Organisation, he stated that the Corporation was a subsidiary organisation of the S.T.C. who appointed the Chairman and Directors. The accounts and other things were shown to S.T.C.; but they functioned independently.

The Committee hope that with the merging of the Handloom Export Organisation with the Indian Handicrafts Development Corporation all duplication of work would be avoided and there would be uniformity of approach to trading and development activities.

Loss on Stock of Groundnut Oil—Page 48, *para IX* (5)

104. In order to earn foreign exchange, Government of India entrusted the State Trading Corporation in 1961 with procurement of groundnuts-in-shell and the task of crushing them into oil and cake through Apex Cooperative marketing societies. The operations for

procurement of groundnuts were started towards the end of November, 1961 and the stock of groundnut-in-shell, oil and cake amounted to Rs. 296·64 lakhs at the end of 1961-62. The valuation of this stock on the basis of International prices of oil and cake and internal prices of groundnut-in-shell resulted in a loss of Rs. 50·21 lakhs which was set off against the Trade Development Reserve in the accounts for 1961-62. The Corporation expected a further fall in value of existing stock during the course of the year 1962-63.

Explaining the overall significance of the deal in question, the representative of the Ministry stated that at the instance of Government, S.T.C. undertook export of groundnut oil. It was known that external prices would be lower than the internal price of procurement, but it was a package deal in the sense that against these anticipated losses the STC was given import items (such as copra, betelnuts and cloves) on which they would make adequate profits so that the entire series of transactions should not result in any appreciable loss. At the same time, the country earned foreign exchange amounting to Rs. 288 lakhs which was badly needed. In the first case it was also the objective of the S.T.C. to try and get a very fair and reasonable price to the grower; hence the purchase through the Growers' Co-operatives. To a question whether the loss made in India had been made good, it was added that if it was desired to export groundnut oil and earn foreign exchange; then someone had to suffer the loss—the entire community, like the case of Parliament voting for a subsidy on sugar. To make up the loss, it had to be linked with another commodity which had a profit element. It was added that the internal price of betelnuts was about 8 times the landed cost.

It was pointed out by the Committee that as the imported aricles were scarce in the country, the S.T.C. charged a much higher price for them, with the result that the consumers had to suffer. The Committee desired to know whether the S.T.C. could not give some relief to the consumers by reducing the quantum of its own profit on imported items. The Chairman, S.T.C. stated that the total demand for betelnuts and cloves in the country was much larger than the capacity to import them on account of foreign exchange shortage. Even if the limited trade in these articles was left free, it was not certain that the prices would come down; on the contrary, they might go up.

The Committee do not appreciate the policy that when the imported articles were scarce in the country, the S.T.C. should charge a much higher price for these articles, putting the consumers to much

difficulty and suffering. They suggest that some *via media* should be found out to solve this problem.

In order to get a clear picture of the various transactions involved in this deal, the Committee desired to have additional information from the Ministry as per list of points in Appendix I.

The Committee regret to note that the information has not been received so far (Feb., 1964).

Exhibition Cell in the S.T.C.

105. The Public Accounts Committee had in their earlier recommendation [para 16 of their 8th Report (3rd Lok Sabha)] desired to know whether there was any possibility of merging the various exhibition units of the Handicrafts and Handloom Export Corporation and the S.T.C. into the Directorate of Exhibitions as they were doing more or less the same job. In a note submitted to the Committee, the Ministry of Commerce and Industry (now Ministry of International Trade) had stated that the activities of the different Exhibition Units were different and as such it was not feasible to merge all of them into one Unit. The Committee desired to know the views of the Chairman, S.T.C. in the matter. The Chairman, S.T.C. stated that it might not be possible to merge all these with the Directorate of Exhibitions because their functions and purposes were quite different. As far as the S.T.C. was concerned, the staff for exhibition Unit which was to coordinate the activities of the S.T.C. with the Exhibition Directorate, consisted of one O.S.D., U.D.C., L.D.C. and one Inspector. The total cost incurred was of the order of Rs. 24,000 per year. This skeleton staff was not only meant for the purpose of exhibitions but also to do other work. While the Exhibition Directorate performed the organisational functions, publicity work etc., the work relating to enquiries with regard to particular trade could be better handled by the persons concerned who could answer the queries and also receive orders if any. The Exhibition Directorate would not be able to handle the actual trade enquiries or give samples etc. The Chairman, S.T.C. further submitted that the formula should be that if all the Units were doing different functions which were supplementary and complementary to each other, they would be entitled to have separate existence.

The Committee are not quite convinced with these arguments. They feel that it should be possible for the Directorate of Exhibitions to handle all the work connected with Exhibitions. Other organisations like the S.T.C. and Handicrafts and Handloom Export Corporation can entrust the work in connection with exhibitions to one of

their officers. That officer should remain constantly in touch with the Directorate of Exhibitions and supply them with such data and information as required from time to time. The Committee would like the Ministry to re-examine this question in the light of Committee's observations.

(vii) NATIONAL NEWSPRINT AND PAPER MILLS LTD.

Introductory—Para x (1),—*page* 49

106. The National Newsprint and Paper Mills Limited was floated as a private enterprise at Nepanagar in 1947 with an authorised capital of Rs. 5 crores and issued capital of Rs. 1·5 crores. The Government of Madhya Pradesh subscribed to the share capital to the extent of Rs. 60 lakhs and also promised certain facilities in the earlier stages. In 1949, the State Government took over the management of the Company.

In 1958, the Capital structure was recast and the Government of India acquired the majority of the shares and took over the control of the Company. The paid-up capital as on 31st March, 1962 stood at Rs. 4·95 crores. No valuation of the Company's assets was made at the time of its being taken over by the Central Government.

The Committee were informed by the Managing Director of the Nepa Mills that during the early phases of its existence when the Mills were managed by a private Company, the Mills encountered financial and other difficulties and practically made no progress. This led to the Mills coming under the management of the Madhya Pradesh Government in November, 1949. The Mills then showed sign of progress; but it was still not satisfactory. It appeared that without some large-scale financial help and proper technical direction no further headway was possible. As such, in December, 1958 the Management of the factory was passed on to the Central Government as a limited company in the public sector. Since then the production was stated to have risen steadily from 14,371 tonnes in 1957-58 to 26,515 tonnes in 1962-63.

The Committee were also informed in evidence by the representative of the Ministry that, in financial terms, the taking over by the Central Government involved conversion of the Central Government loans amounting to Rs. 282·73 lakhs into share capital amounting to Rs. 255 lakhs which gave Central Government majority of shares of 51 per cent. The State Government held 35 per cent of the shares and the rest were held by private individuals. It was admitted that the formal valuation was not done in December, 1958 when the

Mills were taken over by Government but it was done for the period ending the 31st March, 1959 in the balance sheet. The assets were then valued at Rs. 5,98,65,336. It was also added that no detailed physical verification was conducted although that should have been done.

The Committee enquired as to what was the market value of the shares compared to their face value. The representative of the Ministry stated that the present market value was Rs. 9 or Rs. 8 per share of Rs. 10 as face value. This, it was explained, was due to the fact that no dividend had been declared for a number of years on account of repayment of accumulated loans. The results of the Company were said to indicate a hopeful trend, the profit during 1961-62 being 8·2 per cent of the paid up capital.

The Committee were anxious to satisfy themselves if at the time of taking over the management of the Company or immediately thereafter, the Central Government had duly looked into the state of assets and liabilities and the accounts of the Company so as to see that Government were not saddled with accumulated losses of the past, and the price paid by them for acquisition of share capital had been arrived at on a fair assessment of assets. Having been unable to obtain information during oral evidence, the Committee desired to be furnished with a note on the following points; but the note is still awaited:

(i) Basis of valuation of the Mills.

(ii) Value fixed for assets and liabilities of the Mills (The figures for assets and liabilities to be given separately).

(iii) What was the market value and face value of the Shares of the Mills at the time when the Mills were taken over by the Central Government.

(iv) Whether the amount of loss shown in the accounts of the Mills to the tune of Rs. 1·73 crores when they were taken over by the Government of India, was adjusted against the payment of compensation. If not, what was the position.

(v) What was the conclusion reached after valuation regarding the state of assets and liabilities with reference to the book value taken over.

Production—Para X(2), pages 49-50

107. The production capacity of the Mills was fixed at 100 tons per day on an estimated speed of the paper machine at 900 to 1,000 ft. per minute or 30,000 tons per annum, on the basis of 300 working days

a year. The factory went into regular production on 26th April, 1956. The targets of production fixed and actual production during the four years 1958-59 to 1961-62 were as follows:

Year	Physical targets fixed	Actual Production during the year	Actual Production per day
	(Tons)	(Tons)	(Tons)
1958-59	No target fixed	21,838	73
1959-60	24,000	22,411	75
1960-61	24,000	23,029	77
1961-62	26,000	24,880	83

According to the Audit Report, one of the reasons given by the Management for shortfall of actual production compared to the rated capacity was "weakness of the fibre which does not allow the machine to run at the normal speed of 1200 ft. per minute". Elucidating the position, the Managing Director of the Company stated in his evidence that the raw material coming into the production of newsprint in the Mills was *Salai* which had the characteristics of hard wood and was a very poor material as compared to soft woods from which newsprint was produced in most other countries. He added that by improving the techniques of fibre treatment the production had increased. Production during December, 1962 was stated to be 2,555 tonnes; in January, 1962 2,627 tonnes; and in March, 1963, 2,793 tonnes, *i.e.*, about 200 tonnes more than the monthly rated capacity of the plant. The Mill's own indigenous chemical and mechanical pulps had gone into this production. It was also stated that the rated capacity of 30,000 tonnes per year was expected to be achieved during the current year.

The other reasons attributed to the shortfall in the production hitherto were stated to be (a) limited supply of power and steam and (b) non-availability of experienced staff to run the machine at higher speed. In reply to a question, the Committee were informed that these difficulties were also real but in spite of these handicaps the rated capacity had been achieved. The shortfall in the availability of power to the Mills was stated to be of the order of 700 to 800 K.W. But this was likely to be made up in the next three or four months. The problem of recruiting experienced technical personnel, it was stated, arose due to the fact that the scales of pay prescribed for certain posts were not sufficiently attractive. A Study Group of the P.A.C. who had visited the Mills were informed that certain posts of mechanical and chemical superintendent had been advertised twice but after screening, none of the candidates was found suitable.

The Study Group also learnt during discussion with the Management that another matter causing concern was the diminishing reserves of *Salai* wood which neither regenerated nor was it found possible to grow it by seedling. The question was stated to be engaging the attention of the Forest Research Department of the State Government. They had found the possibility of growing Eucalyptus in this area, a wood which was used for making paper in some other countries. Provision had been made by the State Government for its plantation.

The Committee note from the evidence that the main problem faced by the Mills arises out of unsuitability of the available raw material for production of newsprint and this also affected the economics of production. The Committee consider it unfortunate that this factor had not been given due consideration when the location of this factory was decided. They were informed that until recently some pulp had to be imported to be mixed with indigenously manufactured pulp so as to improve the quality of the fibre. The Committee had also been informed that at present only about 25 per cent of the requirement of newsprint in the country was being met by indigenous production and that it was proposed to expand indigenous production by increasing the capacity of Nepa Mills from 30,000 to 75,000 tonnes by 1966 and by creating a further capacity for 1,50,000 tonnes in the private sector. The Committee hope that the question of availability of suitable raw materials for the new schemes will be given due attention and that the history of Nepa Mills will not be repeated in their case. Urgent attention must also be paid to the training and recruitment of technical staff.

108. In view of the proposed expansion of the capacity of Nepa Mills, the problem of diminishing reserves of *Salai* wood assumes added urgency. The Committee suggest that it is necessary to assess how long the existing reserves would last and that the ways of increasing them and of growing alternative woods should be systematically examined and pursued so that the afforestation programme of the State Government is kept abreast of the requirement of Nepa Mills.

The Committee were informed that suitable soft-woods were available in Kashmir in the Himalayan slopes but the problem was of their transport and economics of pulp manufacture. They were also informed that the possibility of putting up a plant in Kashmir

was being explored. Since it is in the long term interest of the newsprint industry in India to produce pulp of good quality indigenously rather than importing it, the Committee feel that it is high time that priority is given to this matter.

Cost of Production and Selling Price—Paras X(3) (a) and X(4)—pages 50 *and* 52

109. In 1953 a Committee was formed to enquire into the working of Nepa Mills Limited. The Report of the Committee was submitted in July, 1953. The cost of production of Newsprint on the basis of full production capacity was estimated by this Committee at Rs. 478 per ton approximately. The following table indicates the quantity produced and cost of production:

Year	Quantity produced (Tons)	Percentage increase over previous year	Cost per ton Rs.	Percentage increase over previous year
1958-59	21,838	..	801	..
1959-60	22,411	2·6%	864	7·8%
1960-61	23,029	2·7%	885	2·4%
1961-62	24,880	8·0%	869	—1·8%

The cost of production per ton and the selling price from 1956-57 to 1961-62 was as follows: The cost of imported newsprint per ton was between Rs. 800 and Rs. 900:

Year	Cost of production per ton	Selling price
1956-57	1,107	Rs. 770 upto 31-12-1956 Rs. 840 with effect from 2-1-1957
1957-58	1,014	Rs. 900 w.e.f. 1-4-1957 Rs. 910 w.e.f. 16-5-1957 Rs. 952 w.e.f 1-1-1958
1958-59	801	Rs. 1064
1959-60	864	Rs. 1064
1960-61	885	Rs. 1064
1961-62	869	Rs. 1064

The Managing Director of the Company explained that the Nepa Newsprint was costlier than the imported product mainly because of large expenditure incurred in Nepa Mills on chemicals for bleaching of pulp as *Salai* wood was rich in colouring matter and the high cost of purchased power and steam (25 per cent of the total cost). In foreign countries 15 per cent chemical pulp was used, whereas in Nepa Mills the percentage was 40. The Secretary of the Ministry added that the countries exporting newsprint to India produced it in large quantities. Such producers were also anxious to retain the Indian market. Their cost of production, however, could not be ascertained.

With regard to the cost of production during 1958-59 to 1961-62 being as high as about 80 per cent above the estimated cost of Rs. 478 per ton worked out by a Committee in 1953, it was stated in extenuation that there had been considerable increase after 1953 in the cost of chemicals, steam and power etc. Also, the cost of Rs. 478 per ton estimated by the Experts Committee did not include (i) the imported chemical component of the pulps, (ii) machine clothing, *i.e.*, wire and felts, (iii) insurance charges, (iv) the selling commission and (v) depreciation. To a question as to what steps had been taken to reduce the cost of production, the Committee were informed that control was being exercised at each and every stage of production. The cost of production had come down from Rs. 869 a ton in 1961-62 to Rs. 838 in 1962-63 and for the current year it was Rs. 830.

The Committee drew attention to the fact that although the cost of production was coming down, as mentioned above, the selling price had remained constant at Rs. 1064 per ton. They enquired whether it was left to public sector companies to charge any price they chose to fix or they were guided by certain principles in this regard. The Secretary of the Ministry stated that it was difficult to lay down any norms of fixation of prices for products of various kinds manufactured in the public sector. Prices of certain products like Iron and Steel were subject to controls. In respect of products which were also produced by the private sector, it was stated, the price fixed for the public sector product had to be correlated to that at which the product was sold in the market by the private sector. The Secretary added that price fixation had to be kept flexible to suit the condition in each industry. In regard to the price fixation for Nepa Newsprint the Secretary stated that left to themselves, the Nepa Mills would have liked to increase the price because they were anxious to repay the accumulated loans early and declare a dividend at some stage. The price fixed gave a return of less than 10 per cent. of the capital employed at any stage and was therefore a fair price. He added that it would be worthwhile to see that the debts of the company were wiped out first before any reduction of the prices was considered.

The Committee note that the cost of production had been brought down from Rs. 869 a ton in 1961-62 to Rs. 830 in the current year. It is however, significant to note that the cost of imported newsprint per ton is between Rs. 800 and Rs. 900. If due allowance is made for shipping charges, customs duties and the margin of profit it would be obvious that the cost of production would be considerably less in the foreign countries. The Committee, therefore, hope that efforts will be continued to bring down the cost of production still further.

Raw Material—Para X(3) (b), pages 50-51

110. According to the standard fixed by the Committee of experts in 1953, 100 tons of *salai* and 100 tons of bamboo pulp are required for the production of 100 tons of newsprint. From the table given below it would appear that the consumption of these materials had shown wide variations and had exceeded the standard practically in all the years. The excess utilisation of these raw materials during the last 5 years amounted to Rs. 13·43 lakhs.

Year	Standard Consumption		Consumption of *salai* and bamboo for 100 tons of newsprint		Excess Utilisation		Value of excess consumption on the basis of total productivity (In lakhs of Rs.)	
	Salai Tons	Bamboo Tons	Salai Tons	Bamboo Tons	Salai Tons	Bamboo Tons	Salai	Bamboo
1957-58	100	100	130·75	126·05	30·75	26·05	1·14	2·86
1958-59	100	100	117·61	111·45	17·61	11·45	1·19	1·81
1959-60	100	100	114·83	124·42	14·88	24·42	1·02	3·44
1960-61	100	100	108·36	98·57	8·36	..	0·54	..
1961-62	100	100	124·98	100·47	24·98	0·47	2·03	..

On 16th December, 1961, a contract was entered into with a firm of American Consultants, who were to suggest improvements in the existing Plant and Working methods. Their report was stated to be under examination by the Board of Directors. Meanwhile, the Management had given effect to some of the suggestions made by the Consultants during the course of their investigations, as a result of which there was stated to be some improvement in the recovery from the existing raw materials.

The Committee desired to know the reasons for wide variations in the proportion of Salai wood and bamboo utilised per 100 tons of newsprint as against the standard consumption of 100 tons of each. The Managing Director of the Mills stated that the poor quality of the available raw material was the greatest handicap in the beginning and they had to utilise imported pulp. To the extent imported pulp was mixed, the consumption of both Salai and Bamboo declined. The characteristics of raw materials used also varied from time to time. The use of imported pulp was discontinued recently after difficulties in regard to use of indigenous raw materials were overcome. The Secretary of the Ministry, intervening, stated that the standard of 100 tons was only a matter of guess as there was no previous experience of any factory utilising *Salai* wood.

In reply to a question whether in the light of experience gained any new formula had been evolved, the Secretary of the Ministry stated that it was only this year that the Mills were likely to have a full year of production with indigenous material without admixture of foreign pulp. It was, therefore, difficult to fix any revised standard, without gaining experience at least for two years. It was also stated that when the expansion of the Mills would be taken up, there would be a different process which would give a better pulp.

The Committee feel that with the experience already gained in the manufacture of newsprint without admixture of imported pulp with the indigenously manufactured pulp, it is desirable to fix some tentative standards for consumption of raw materials as compared to the finished product. These could be revised in the light of further experience.

Setting up Plant for Caustic Soda and Chlorine—Para X(3) (c), page 51.

111. Caustic Soda and Chlorine were the main items of consumption amongst chemicals which were purchased from outside. The Committee of experts was of the view that it would be advantageous if the Company could persuade a private party to set up a small plant of 5 or 6 tons capacity for the supply of soda and chlorine to the Mills and nearby consumers as it would save cost on transporting those chemicals over long distances. For setting up the plant, land, water and power are available in Nepanagar and only salt has to be

transported from Surat or Bombay. Considering the cost of tranporting salt from Bombay or Surat, the savings when the plant is set up would be of the order of Rs. 2 or 3 lakhs a year. On 29th December, 1960, *i.e.*, 7 years after the recommendation of the Committee the Mills approached the Government for a licence for the installations of the plant. It was granted on 10th February, 1961. The contract for supply, erection and commissioning of Caustic Soda/Chlorine Plant and Machinery was awarded at a total cost of about Rs. 39 lakhs on 28th July, 1961. The supply equipment was to be completed by January, 1963.

The Secretary of the Ministry explained to the Committee that a private party had been given licence to put up a plant in Nepanagar but it failed to do so and its licence had to be revoked in 1960. In the circumstances and until the licence already granted was revoked, the Nepa Mills could not take steps to set up their own unit. The present position was that the machinery had been received and the plant was being erected and by early 1964, it would be put into commission.

The Committee regret to note that the question of setting up the plant through a private party or by the Mills themselves was not dealt with the urgency it deserved in view of the saving of Rs. 2 or 3 lakhs per year expected to accrue as a result thereof.

The National Newsprint and Paper Mills Limited—15th Report and Accounts, 1961-62.

112. The Committee note that Annual Report of the Company for the year 1961-62 was rather sketchy. They desire that the next Annual Report of the Company should be more informative as regards its achievements against targets fixed, the major problems encountered and solutions found and it should also deal with such matters as cost, control, progress of expansion of capacity training imparted to personnel etc.

Cost of departmental bamboo lost due to fire—Page 20 *of the Report, Rs.* 1,90,851·52 *nP.*

113. A sum of Rs. 0·93 lakhs was charged to the profit and loss account for the year 1961-62. This represented loss due to fire of bamboo worth about Rs. 1·91 lakhs less an amount of Rs. 0·98 lakhs recovered from the Insurance Company. The Committee were informed that the cause of the fire was not known. The entire stock was not covered by insurance. The Committee would like to know the reasons therefor.

The Committee hope that necessary precautions are being taken to avoid such losses in future.

(viii) INDIAN RARE EARTHS LIMITED

Para XI, pp. 53-54
General

114. In April, 1949, the Government of India entered into a Technical Agreement with M/s Societe de Products Chemique Des Terres, Paris, of France for setting up a factory in India with the object of processing monazite sand into cerium, thorium and other similar radioactive minerals and for this purpose the Indian Rare Earths Ltd. was formed on 18th August, 1960. As the Company could go into production only after some time, the Government of India entered into another agreement with the same French firm in September, 1950, called the 'Interim Processing Agreement' for the temporary processing of the monazite sand sent from India for and on behalf of the Indian Company at the Works of the French firm in France.

Avoidable loss of Rs. 1,16,383 *on sale of Carbonate—Sub-para (ii) of Para XI, page* 54

115. The French firm processed the chloride solution extracted from Monazite and manufactured 34,274 kgs. of Rare Earths Carbonate. Out of this quantity, they took over 597 Kgs. of dried carbonate equivalent to 12905·02 kgs. of chloride solution @746·83 F.F. per kg. of chloride solution plus the processing charges (up to Carbonate stage) amounting to F.F. 2404666. The outside selling rate of Carbonate was however 1,766 F.F. per kg. (at which rate the foreign firm had already disposed of 7,567 kgs.).

In the statement of accounts rendered upto June 1951, the French firm gave credit to Indian Rare Earths Ltd., for 11,597 kgs. of dried carbonate taken over by them at the rate approximating to the market rate, less their commission and profits. Subsequently in the accounts rendered for the third quarter of 1951, rectification statement was furnished, writing back the above credits.

The Board of Directors of the Indian Rare Earths Ltd., resolved on the 26th December, 1951 that the S.T.R. should be charged for the carbonate at the same rate at which it was being sold to others. However after some negotiations the company charged the French firm @746·83F.F. per kg. of chloride solution plus the processing charges as against the outside selling rate of carbonate of 1766F.F. per kg. and the journal entries were passed giving effect to the above in March, 1952. There was no specific approval of the Board to sell at the above rate and only in the recent meeting held on 28th June 1963 the Board had taken cognisance of the above sale as a result of the audit para.

The Committee were informed during evidence that while processing monazite, two types of rare earths chloride are obtained—one concentrated chloride solution which is the main product and another dilute solution. The dilute solution cannot be economically concentrated and, therefore, this is converted either to hydroxide or to carbonate or some other similar product. Out of 34 tonnes of carbonate with the French Firm, part of it (16·5 tonnes) was sold to outside parties. But subsequently there was no demand for it. Therefore, the problem was either to carry it into stock or to sell it at reasonable rates. The French firm, which was using rare earth for making various products, offered to take up the Rare Earths Carbonate for its own use at the price of the chloride solution. It took 11·6 tonnes of carbonate and gave credit at the rate of £262 per tonne. The Company (I.R.E.) however, sent some experts to find out as to what should be charged from the French firm for the quantity of carbonate taken by it. As a result of such study it was decided to raise the basic price of chlordie from £262 to £375 per tonne. It was also decided that this rate might apply to chloride as well as to carbonate assuming that the carbonate had been taken at the earlier stage of processing namely as chloride and further processing cost of converting chloride into carbonate had also to be borne by the French firm. It was thus contended by the Financial Adviser that although the price at which carbonate had been sold in the market was higher than that at which credit was given by the French firm, it was a fair settlement arrived at taking into consideration the market conditions. It was added that the resolution of the Board of Directors at their meeting held on 26th December, 1961 regarding charging the same rate from the French Firm at which carbonate was being sold to others applied to subsequent transactions, if any. But nothing had been sold after that date.

In order to examine the matter further the Committee desired to be furnished with certain further information. From a note* furnished by the Company pursuant thereto **the Committee observe that the quantity of 11597 kg. of Carbonate (Oxide) was sold to the S.T.R. during November, 1950 to June, 1951. During this period Carbonate (Oxide) weighing 12,803·50 kg. was also sold to outside parties by the S.T.R. Therefore, the plea that the decision to sell carbonate to the French Firm, on the basis of the price for chloride, was taken in view of lack of demand for it is not very convincing. According to**

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*Not vetted by Audit.

the note submitted by the Company the price for carbonate was fixed in accordance with the decision of the Board on 21st April, 1951 that the selling price of rare earths chloride be fixed at £ 375 per ton ex-works. It has been contended that although the minutes of the meeting of the Board contained no separate reference to the sale of carbonate on the basis of the price of rare earths chloride solution from which it had been obtained by the French firm at its own cost, the management's action was based on the discussion and consideration of the matter at the Board Meeting and within the spirit of the actual minute recorded by the Board. The Committee understand from Audit that the decision taken at the Board meeting held in April, 1951, deals only with the selling price of Rare Earth Chloride and does not refer to carbonate. That this decision is not applicable to carbonates sold in question is also evident from the fact that in the statement of accounts rendered upto June, 1951 the S.T.R. gave credit for carbonate taken over by them at the rate approximating to the market rate less their commission and profits. The rectification entries reversing the original credits at market price were made only in the return of the third quarter for 1951 received from S.T.R. The financial implications of the rectification entries and of the sale at the price of Rare Earth Chloride solution in the light of the market price of carbonate, when they were taken by the S.T.R. in the form of carbonate, had not been brought to the notice of the Board. The Committee are surprised that an important decision having financial bearing should not have been specifically mentioned in the minutes of the meeting of the Board of Directors. They desire that proper records should be kept of all important decisions to avoid any possibility of doubt.

Internal Audit, Para XIV—Sub-para 2, page 56

116. According to the Report of the Company's Auditors the existing system of internal audit in the Company was not comprehensive and effective. During the year 1961-62 the Audit staff was diverted for the preparation of final accounts, thereby defeating the very object of internal audit.

The Committee were informed during evidence that the internal audit staff was utilised for the preparation of final accounts because of the pressure of work. However, the Company had accepted the observations of Audit and the practice of utilising internal audit staff for preparation of accounts had been stopped.

The Committee consider it wrong in principle to utilise the services of internal auditors for the preparation of the accounts, which they themselves are required to audit later on. In order that the audit may be effective it is essential that the two functions should be

discharged by different persons. The Committee found that in the case of another Public Undertaking also (Hindustan Shipyard Ltd.) the Audit staff was diverted for the preparation of final accounts. The Committee, therefore, desire that their observations should be brought to the notice of all the public undertakings, etc. to avoid the recurrence of such instances.

Supply of defective plant and machinery by a firm—para 166 *of* 18*th Report of the Public Accounts Committee* (1958-59)

117. Some defects were noticed in a number of plant and machinery components of the chloride furnance purchased in France according to designs and specifications furnished by the Consultants and inspected by them. As it was desired that the plant should go into operation according to schedule, the defects were set right by the Company itself at a cost of about Rs. 3,86,763. To safeguard the interests of the Company, the payment of Rs. 2 lakhs due to the Consultants had been withheld. The Public Accounts Committee (1958-59) were informed that as soon as the final audit of the company's accounts with the French firm was carried out, the Company proposed to discuss the issue with the firm and settle it.

Explaining the present position the Managing Director stated during evidence that the Company had preferred a claim of Rs. 2·70 lakhs against the French firm and the matter was also discussed with the firm. The firm had however, not accepted the claim in full. It was added that it might be possible to settle the claim before the agency with the Firm was terminated on 1st April, 1964.

The Committee would like to be informed of the settlement reached in this case and the amount recovered from the firm.

IV

REPORT OF COMPANY AUDITORS UNDER THE DIRECTIVE ISSUED BY THE COMPTROLLER & AUDITOR GENERAL

(ix) BHARAT ELECTRONICS LIMITED

Chapter IV—Para XIV, Pages 56—58

Budget Estimates

118. In their Report on the Accounts of the Company for the year 1961-62, the Company Auditors stated that there were wide variations between the original estimates and the actuals, both regarding receipts and payment.

In evidence, the representative of the Ministry of Defence stated that budget estimates were framed by the Company on the basis of indications of requirements given by the Services. As the orders actually placed by the Services did not always conform to previous indications, the actuals differed from the estimates. The Comptroller & Auditor General pointed out that the budget provision for factory buildings and residential buildings were Rs. 10·09 lakhs and Rs. 14·34 lakhs respectively but the total expenditure on both was Rs. 10·40 lakhs only. The representative of the Ministry stated that there was considerable difficulty regarding the price of land on which the building was to be constructed. There were also difficulties in the procurement of cement and steel.

While the Committee note the difficulties encountered by the Company in the preparation of accurate estimates, they feel that with a closer liasion with the Ministry of Defence and other Government Departments and a more realistic basis of assessment, in the light of the Company's past experience, the position can be significantly improved. The Committee trust that the Company will pay due attention to the matter, and initiate necessary steps to achieve the desired end.

Balance Sheet

119. The 'Sundry Debtors for Trade' increased from Rs. 32.93 lakhs on 31st March, 1959 to Rs. 132.42 lakhs on 31st March, 1962. The amount outstanding for over a year as on 31st March, 1962, was Rs. 14.81 lakhs. In evidence, the representative of the Ministry of

Defence stated that 99% of the outstandings were against Government Departments. The accumulations were due to procedural delays in these Departments. It was suggested by the Comptroller & Auditor General that, like other commercial undertakings, the Company might ask for 90% payment before despatch, and 10% thereafter. The representative of the Ministry agreed that it would be worthwhile introducing this principle. He, however, added that there might be some difficulty in case of Defence requirements.

The Committee desire the Company to take an early decision regarding the introduction of the above mentioned suggestion of the Comptroller & Auditor General. They also desire the Company to make special efforts for the expeditious realisation of the heavy debts which have already accumulated.

(x) GARDEN REACH WORKSHOPS LIMITED

Para XIV—Pages 56—58.

System of Accounts and Book-keeping

120. The Committee were informed by Audit that the detailed duties and responsibilities of various officers concerned with the maintenance of accounts had not been specified. The representative of the Ministry stated that a Financial Controller for the Workshops had been appointed who would lay down the duties to be performed by the various officers in the matter. **The Committee desire that this work should be completed at an early date.**

Asset Registers

121. The Committee were informed by Audit that the original cost figures of various assets as appearing in the Asset Register could not be reconciled with those appearing in the Fixed Assets schedule attached to the Balance-Sheet. In a Note* furnished by the Ministry of Defence, it has been stated that the original cost figures of various assets as appearing in the Assets Register have not been recorded properly in the Assets Register and have never been reconciled with the original cost mentioned in the Schedule of Fixed Assets in the Balance Sheet since 1935 and as such it is not possible to reconcile the figures of original cost. The original costs mentioned in the Schedule of Fixed Assets in the Balance Sheet have always been worked out from the Schedule of Fixed Assets of the previous year for incorporating in the Schedule of the Current

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*Not vetted by Audit.

year. It has further been stated that as the original cost mentioned in the Assets Register cannot be reconciled with the original cost mentioned in the Schedule of Fixed Assets in the Balance Sheet, the original cost portion of the Assets Register, which is being written afresh will not be a reconciled figure.

The Committee are surprised that the Accounts of the Garden Reach Workshops—a commercial undertaking—should have been so badly maintained. They desire that vigorous efforts should be made by the Workshops to bring their Accounts to a satisfactory level.

Balance Sheet

122. The Committee were informed by Audit that the amounts due from Sundry Debtors had increased from Rs. 80,51,221 on 31st March, 1960, to Rs. 1,10,30,424 on 31st March, 1962, although the sales had decreased from Rs. 2·3 crores (approximately) in 1959-60 to Rs. 1·70 crores in 1961-62. The representative of the Ministry of Defence stated that timely payments had not been made by Ordnance Factories and other Government organisations.

In a note* submitted by the Ministry of Defence, it has been stated that it was not possible to reconcile the figures mentioned above. The figures from the published Accounts were as follows:

	Rs.
(a) Debtors as reduced by Doubtful Debts as on 31st March, 1960.	71,84,408
(b) Sales during the half-year, 1959-60	1,14,96,370
(c) Debtors as reduced by Doubtful Debts as on 31st March, 1962, amounts to	1,01,69,965
(d) Sales during the year 1961-62.	1,69,98,687

It has further been stated in the note that the debtors have increased from Rs. 71·84 lakhs as on 31st March, 1960 to Rs. 101·70 lakhs as on 31st March, 1962, *i.e.*, an increase of Rs. 29·86 lakhs. This was mainly due to the fact that the net amount of bills submitted/accounted for during the last month of the year ended 31st March, 1962, *i.e.*, in March 1962, amounting to Rs. 64.72 lakhs (after adjusting the amount of advance received), was more than the net amount of bills submitted/accounted for during the last month of the year

*Not vetted by Audit.

ended 31st March, 1960, *i.e.*, in March 1960 amounting to Rs. 37·05 lakhs (after adjusting the amount of advance received) by Rs. 27·67 lakhs. These bills being submitted during the last month of the year could not be collected before the end of the year and as such the debtors showed an increased figure.

The Committee view with concern the accumulation of heavy Debts due to the Workshop which appear to be disproportionately large in relation to their turnover. They desire the Workshops to take effective steps for the expenditious realisation of these dues. They would also like the Ministry to examine the feasibility of implementing the Comptroller and Auditor General's suggestions (referred to in an earlier para) that 90 per cent. of the value of the goods sold may be charged before despatch and 10 per cent. thereafter.

Procurement and inventory control

123. According to Audit, there was no scientific system of procurement and inventory control in the Workshops. The representative of the Ministry stated that there had since been an improvement, and a continuous check was now being exercised by the Finance Manager of the Company. The Comptroller and Auditor General pointed out that, according to auditor's report, some of the non-moving stores were old. The representative of the Ministry stated that action was being taken to dispose of some of these stores. **The Committee desire that this should be expedited. They further desire that the leeway in the introduction of a scientific system of procurement and inventory control in the Workshops should be made up at early date.**

(xi) MAZAGON DOCK LIMITED

Para. XIV—Page 57

Manufacturing and Production Accounts.

124. According to auditors' report the Company did not prepare manufacturing accounts. The only finished product the Company manufactured was Camp-bell Oil Engine. As the selling price of this Engine was fixed some years ago and the cost of production had since gone up, the Company did not make profit on the same. The question of continuing this line of activity was stated to be under consideration.

The representative of the Ministry of Defence stated that, according to the view expressed by the Company, if the price of the

Engine was raised, it would not be possible to sell it in the market. An effort was, therefore, being made to bring down the cost of production. In a note* submitted by the Ministry of Defence, it has been stated that the production of Campbell Oil Engine had been undertaken in this Company in 1953, in collaboration with M/s. Campbell Oil Engine Company (U.K.), with a view to provide an outlet for the surplus foundry capacity available in the Yard. The intention also was to provide some work load of a regular and recurring nature (for the Fitting and other shops), to offset the variation in load due to ship repair work. The agreement with the principals required the payment of royalty on a sliding scale, depending upon the indigenous content of the engine manufactured. As the Agreement terminated on 10th June, 1963, by efflux of time and as the Company held on that date considerable amount of spare for the manufacture of the engines (approximately Rs. 10 lakhs), it was decided to continue the manufacture of the engines under a different trade name and to reduce the cost of production by avoiding royalty payments.

Based on the production for the period 1st October, 1962 to 31st March, 1963 the cost of production per engine of each type had been computed as follows:

Type of Engine	Cost Price	Selling Price
6 H.P.	Rs. 2,039	Rs. 1,980
10/12 H.P.	Rs. 3,318	Rs. 3,200 (Rs. 3325 for 12/13 H.P.)
15/20 H.P.	Rs. 4,392	Rs. 4,350 (Rs 4,500 for 18/20 H.P.)

It has further been stated in the Ministry's Note that the Company had considered the question of increase in the selling price of these engines and it had come to the conclusion that there was no escope for increasing the prices in the fact of competition from other manufacturers, as it would result in a considerable fall in demand. With the cessation of the payments for royalty, it was hoped that the cost price would be reduced and the loss in the manufacture of engines could be avoided. It is, however, seen that due to general increase in prices of components supplied by other parties, the possibility of a fall in the cost of production may be ruled

*Not vetted by Audit.

out. The Company, is therefore, examining the question of continuance of production of these engines and enquiries are being made regarding the possibility of disposing of the components and spare parts.

The Committee regret the losses suffered by the Dock in the production and sale of the Engine in question. They note that the Company are already seized of the question of discontinuance of the production of the Engine. They would like to be informed of the final decision taken in the matter. Before the Company finally decided to discontinue the production of the Engine, the Committee would like them to examine critically once again whether it would not be possibe to eliminate the marginal loss, by improving the technique of production and/or by a slight increase in the selling price.

Balance Sheet

125. The debts outstanding to the Company for more than one year had gone up from Rs. 49,684 in 1958-59 to Rs. 741,238 in 1961-62 (15 times) while the outstanding total debt (including those of more than one year old) had gone up by 3 times (approximately) *viz.*, from Rs. 20·63 lakhs to Rs. 63·75 lakhs.

The representative of the Ministry of Defence stated that bulk of the outstandings were due from the Navy on account of manufacture and repair of naval ships. There was a difference of opinion between the Navy and the Dock regarding the rates to be charged by the latter.

In a note furnished by the Ministry of Defence, it has been stated that the debts outstanding from Government concerns for more than one year amounted to over Rs. 5,40,000 in 1960-61 and to over Rs. 6,10,000 in 1961-62. It is also observed from this note that the total debts as on 31st March, 1963 amount to Rs. 99·58 lakhs.

The Committee view with concern the phenomenal increase in the debts outstanding to the Company (from Rs. 20·63 lakhs as on 31st March, 1959 to Rs. 99·58 lakhs as on 31st March, 1963). The Committee desire that special efforts should be made by the Company for the expenditious realisation of these dues. In cases where the outstandings could not be realised due to differences regarding the rates charged, the matter may be settled with the customers at a higher level in a spirit of conciliation. In order that such heavy dues do not accumulate in future, the Committee would like the

Company to examine the feasibility of implementing the Comptroller and Auditor General's suggestion (referred to in an earlier para) that 90% of the value of the goods sold may be charged before despatch and 10 per cent. thereafter.

Expansion Programme

126. During the course of their on-the-spot study visit to the Dock in October, 1963, Study Group of the Public Accounts Committee were informed that due to the limited capacity of the dock for repair of ships, the Dock had refused orders for ship-repairs on a number of occasions. **The Committee feel that as the repair orders, when accepted, would directly or indirectly earn foreign exchange for the country, the expansion scheme of the company should be accorded a high priority.**

V

DEPARTMENTALLY MANAGED GOVERNMENT COMMERCIAL UNDERTAKINGS

127. On 31st March, 1962 there were 41 Government Undertakings of a Commercial or quasi-Commercial nature run departmentally. The financial results of the working of these undertakings are ascertained annually by preparing statements of accounts on a proforma basis outside the General Accounts of Government

It may be explained that the manner of working out the Government Capital in these proforma annual accounts is as under:—

	Government Capital as per Last Balance Sheet
Add	Withdrawals from treasury during the year
Less	Remittances into treasury during the year
Add	Adjustments during the year
Add	Profit during the year
Less	Loss during the year
	Government Capital

The adjustments against Government Capital include—(a) Interest on capital; (b) Liabilities not met from cash (*e.g.* pension contribution, depreciation etc.). Money is drawn from the Treasury as and when required and all surplus cash is remitted to the Treasury.

(xii) DELHI MILK SCHEME

Para XVI, pp. 64—69

General

128. The Delhi Milk Scheme started supplying milk from 1st November, 1959. A wholetime Chairman who acts as the Chief

Executive Officer is in charge of the day to day administration of the Scheme.

Foreign Assistance—Sub-Para 2 of para XVI, page 64

129. The Scheme received £8,00,000 (Rs. 106 lakhs approx.) from the Government of New Zealand under the Colombo Plan for the purchase of machinery and equipment for the Central Dairy and its milk collection and chilling centres. Out of this, Rs. 83·74 lakhs had been utilised and the balance of Rs. 22·26 lakhs was expected to be utilised during 1961-62 for capital expenditure. The foreign Government had further provided £13,250 approx. (Rs. 1·77 lakhs) under the Colombo Plan for the Scheme and had also placed the services of two Experts to train the Indian staff.

Explaining the present position regarding utilisation of Foreign Assistance, the Secretary of the Department of Agriculture stated during evidence that orders had been placed for the purchase of additional machinery and the entire amount was expected to be utilised before the end of the current financial year. As regards further assistance of Rs. 1·77 lakhs, the witness stated that it was in the form of machinery (milk evaporator) which had already been installed.

The Committee were also informed that the services of the foreign experts had been utilised for training the staff in running and maintaining the plant. The experts had, however, left about two years ago.

130. As regards the reasons for the delay in the utilisation of the assistance, the Secretary stated that the orders for the machinery had been placed according to the quantity of milk available. As against the target of the 7,000 maunds of milk every day within the Third Five Year Plan the supplies available at present were about 4,000 maunds per day. The target of 7,000 maunds was expected to be reached in about a year.

Physical Targets and Achievements—Sub-para 3, page 64

131. Besides the delay in the utilisation of Foreign Assistance, there had also been shortfall in the achievement of targets fixed for establishment of milk collection and chilling centres and Milk

Depots, etc. The targets initially fixed and the achievements thereagainst were as given below:—

Target		Achievement	Upto 31-3-61	as on 31-3-1962
(1) Establishment of 30 Milk Collection and Chilling Centres (subsequently reduced to 20 for the period upto 31-3-1961)		(1) (a) Centres in Operation	6	9*
		(b) Centres completed but not operated for want of electrification	5	3
		(c) Works in progress	4	2
		(d) Work yet to start	5	5
		TOTAL . . .	20	19
(2) Setting up :				
Milk Depots .	1000		357	414
All-day milk shops .	50		2	5

*NOTE : One centre at Najafgarh which was operated for a short time on an experimental basis was closed down in 1961-62. The management had stated that this centre will again be put into active commission shortly.

According to the information furnished to Audit the late completion of construction work by C.P.W.D. and delay in manufacture of prefabricated booths by Hindustan Housing Factory were the main reasons for not achieving the target planned upto 31st March, 1961 even by 31st March, 1962.

During evidence, the representative of the Ministry of Works, Housing and Rehabilitation stated that so far as the establishment of collection and chilling centres was concerned there had been delay in acquisition of land in some cases. Further, as some of these centres were situated in out of the way places, contractors were not readily available and tenders had to be called for two or three times. The present position was that 16 centres had already been completed, and 4 were under construction. As regards milk depots, which were to be set up by the Hindustan Housing Factory, although orders had been issued for the erection of booths, on many occasions the sites were not available and there were also obstructions from the local people. The number of depots working at present was 619 and by the end of March, 1964 it was proposed to be increased to 750.

The Committee were, however, informed that the delay in the construction of these Centres and depots had not affected the working of the scheme. The target of 30 milk collection and chilling centres and 1,000 milk depots was set up for handling 7,000 maunds of milk supply. The Centres and depots actually established had been able to handle the supplies of milk available at present and would be increased according to the increase in the supply of milk. Therefore, the main task was to step up the procurement of milk.

The Committee note that one of the reasons for the short-fall in procurement of milk was the defective working of the collection and chilling centres. Thus, the two centres set up by the Scheme at Alipore and Najafgarh were not functioning at all. Similarly, the supplies from Ballabgarh and Bahadurgarh centres last winter were only 80—90 maunds as against the maximum capacity of 400 maunds. (At Bahadurgarh the supplies during the summer were only 35 maunds). The Committee were informed that so far as Alipore and Najafgarh centres were concerned these were selected after a survey of the potentialities of the supply of milk in consultation with and on the advice of the Delhi Administration. However, the Centres could not be started as the suppliers asked for a higher price which could not be agreed to. Further, as these centres were nearer to Delhi, the milk was being brought into the city by local people. The matter had been taken up with the Delhi Administration for the development of these areas by intensive cattle development so that the Scheme could get milk from the co-operative societies at the usual rates. The reasons advanced for low supplies at Bahadurgarh and Ballabhgarh centres were that the industries had come up at both these places and the areas which were previously considered to be rural had become semi-urban and local demand for milk had increased.

From the facts placed before the Committee it is obvious that there had been a failure to make proper survey about the availability of milk to the Scheme before setting up these Centres. The Committee were surprised to learn during evidence that as early as 1960 the Scheme had tried to procure milk at Alipore and Najafgarh centres with the help of local Administration but it could not succeed. Even then, the Scheme went on investing on these centres. Expenditure was incurred on the electrification of the Alipore Centre and an Assistant Manager was posted for five months (from 24th January, 1963 to 24th June, 1963) and paid Rs. 250 per month for surveying the milk supply although no milk could be collected at the Centre.

132. The Committee regret to note that lack of proper planning and fore-thought had resulted in large capital expenditure incurred on the setting up of these Centres (about Rs. 3 lakhs on each Centre), remaining unutilised, besides a lot of recurring expenditure on staff

appointed to look after these Centres. They trust that the Scheme would be more careful in setting up further such Centres.

Capacity installed and achieved—Sub-para 4, pages 64-65

133. The installed handling capacity of the plants and the capacity achieved from 1st November, 1959 to 1961-62 are given below:—

Sl. No.	Name of the product	Rated capacity	*Capacity achieved* 1-11-1959 to 31-3-1961	1961-62	Percentage of capacity achieved 1-11-59 to 31-3-1961	1961-62
1.	Milk (Buffalo, Cow, Toned, flavoured and sterilised)	3,750 mds. or 1,36,360 sLitre per shift.	51,400 Litres	1,00,869 Litres	37·7%	74%
2.	Butter . .	4,000 Kg. a day of single shift.	133 Kg.	196 Kg.	3·3%	4·9%
3.	Ghee . .	500 Kg. a day	171 Kg.	396 Kg.	35·5%	79·2%
4.	Skimmed Milk Powder	9,090 Litres per day of single shift.	1472 Litres	Not available.	16·2%	..

Ice Cream and Sterilised milk machines are still run on experimental basis and commercial production is yet to start. The management had informed Audit that equipment for processing by-products had been installed keeping in view the eventual expansion of activities. At present only surplus milk was diverted for these products.

It had also been stated that the rated capacity could not be achieved as it was decided that the expansion of the milk scheme should not cause any displacement of the persons engaged in the milk trade and that the collection of milk should be planned so as to give inducement to the milkmen and farmers to join the Scheme.

From a statement* furnished by the Ministry at the instance of the Committee, they observe that the capacity achieved for various products during 1962-63 was as follows:

	Name of the Product	Capacity achieved	Percentage of Rated capacity
1.	Milk (Buffalo, Cow, toned, flavoured & sterilised)	132,061 litres	96.85%
2.	Butter	965 Kg.	24·11%
3.	Ghee	733 Kg.	146·60%
4.	Skimmed milk powder . . .	6218 litres	68·39%

*Not vetted by Audit.

While the Committee note that there had been improvement in the achievement of rated capacity for various products, they find that in the case of butter the production still fell too short of the rated capacity (24·11%). The Committee could get no explanation for such a large shortfall in the case of butter which according to the Ministry's own statement gave a good return on capital. The Committee, therefore, feel that this matter requires further examination. As the low utilisation of rated capacity results in high percentage of over-heads affecting the cost of production, the Committee desire that efforts should be made to achieve the rated capacity for various products early.

Price of various products—Sub-para 5, page 65

134. The sale price of milk and milk products has been fixed on an *ad hoc* basis. The following statement indicates the *ad hoc* rates fixed by the Scheme for their various products and the rates worked out by the Cost Accounts Officer, Ministry of Finance:

Particulars of products			*Ad hoc* rate fixed by the Scheme		Rate worked out by the Cost Accounts Officer at the rate of D.M.S.	Difference less charged (—) excess charged (+)
			Rs.		Rs.	Rs.
(i)	Buffalo Milk		0·62	per litre	0·64	(—) ·02
(ii)	Cow Milk . .		0·62	,,	0.62	..
(iii)	Toned Milk . .		0.42	,,	0·41	(+) ·01
(iv)	Ghee	1 Kg.	7·50	per packing	8·90	(—) 1·40
		2 Kg.	14·50	,, ,,	19·35	(—) 4·85
		4 Kg.	28·50	,, ,,	34·24	(—) 5·74
(v)	Butter	100 Gm	0·75		0·69	(+) ·06
		250 Gm	1.81		1·73	(+) ·08

NOTE :—Rates for ghee were revised first on 1-11-61 and then again on 19-3-1962

	1-11-61	19-3-62
	Rs.	Rs.
1 Kg. Packing	7·62	8·25
2 Kg. packing	14·75	16·00
4 Kg. packing	29·00	31·50

Explaining the reasons for the selling price of the ghee being lower than the cost of production, the Secretary of the Department stated during evidence, that the original prices were fixed on an *ad hoc* basis as no data was then available. The cost of production for 1962-63 had been worked out recently and the price of ghee would be refixed on that basis. **The Committee would like the Delhi Milk Scheme authorities to make efforts to reduce the cost of production of ghee so that the loss incurred may be reduced if not eliminated altogether.**

From a statement furnished by the Ministry showing the details of cost of production of milk it is observed that out of the total cost of production of 63·03 nP. per litre for milk during 1962-63, the cost of raw milk was 47·96 nP. Thus, the various other charges amounted to 15·07 nP. (about 24% of the total cost of production).

Supervision & Distribution Charges and Miscellaneous expenditure— Trading and Profit & Loss Accounts for the year ended 31-3-1962

135. According to the Trading and Profit & Loss Accounts of the Scheme for the year ended 31-3-1962, the expenditure incurred on supervision and distribution charges had gone up from Rs. 7·93 lakhs during the period 1st November, 1959 to 31st March, 1961 to Rs. 12·84 lakhs in 1961-62. It was explained during evidence that these charges were related to the volume of business. The sales during the corresponding period had gone up from Rs. 1·48 crores to Rs. 2·10 crores. It is, however, observed that whereas the increase in the sales had been only 43%, the increase in supervision and distribution charges had gone up by 62%.

Another item where there had been large increase was 'Miscellaneous expenditure' which had increased from Rs. 32,588 during 1-11-59 to 31-3-61 to Rs. 1,06,577 during 1961-62.

The Committee desire that the reasons for the large increase in supervision and distribution charges and on miscellaneous expenditure should be re-examined and steps taken to reduce the various charges to the extent possible to minimise the cost of production of various products and also the loss suffered by the Scheme.

136. The Committee would also like to invite attention in this connection to their recommendation in para 52 of their Eighth Report (1962-63) suggesting that early steps should be taken to increase the through put as originally envisaged so that the Scheme runs on 'No-profit-no-loss basis', as intended by Government.

Reconciliation of sales receipts with quantity of milk issued for sale; Stores & Accounting System—Sub-paras 6—8, pages 65-66

137. According to the Audit para, till December, 1962, there was no system in vogue by which sales/receipts of a particular day/week /month could be reconciled with the quantity of milk issued for sale to depots. Similarly no attempt was being made to compare the out-turn of milk and milk products with the quantity of raw milk and other materials put into processing.

No price ledgers were maintained. Quantitative ledgers were there; but the consumption during the year was determined with reference to opening and closing stocks for the year. Therefore, it was not possible to locate abnormal wastages and/or losses due to pilferage etc. Physical verification of stores had not been completed at the close of the year 1961-62 and therefore, the book balances as per quantitative ledgers were taken as closing stock.

No costing system had been introduced. Therefore, there was no system of apportioning overheads over the various departments. A large number of vans and milk tankers are maintained by the Organisation; but individual accounts of expenses incurred for their repairs and maintenance were not kept.

During evidence the Secretary of the Department admitted that the accounts of the Scheme were not in a satisfactory state. However, he added that steps had been taken to improve the position in this regard. The Chief Accounts Officer had been asked to go into the accounting procedure of the Scheme and to prepare an Accounts Manual. He further added that because of the large number of milk depots the reconciliation of accounts had not been prompt. However, the accounting machines for prompt recording and reconciliation of these transactions had since been received and reconciliation of accounts was now being done regularly. Price ledgers were also being maintained since last year. Physical verification of stock had also been completed.

The Committee were also informed that a Cost Accounts Officer had been appointed since August, 1963. He was examining the whole matter to lay down proper cost accounting procedure.

The Committee feel concerned to note that although it is more than four years since the Scheme started functioning, the accounts are still in highly un-satisfactory state. They need hardly emphasise the necessity of maintaining proper accounts to keep a watch over financial transactions and to locate abnormal wastages and/or loss

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due to pilferage etc. They trust that the steps taken by the Scheme would result in the improvement of the position in this regard.

Losses & Wastages

138. No standards had been laid down by the Scheme for the loss and wastage of milk, bottles and by-products during handling and processing. The Management had informed Audit that one had to wait for some time before standards could be laid down for permissible handling and breakage losses.

During evidence, the Committee were informed that the percentage of loss in handling of milk was 0·73 for 1959-61, 0·62 in 1961-62 and 0·63 in 1962-63. The corresponding figures for the Aarey Milk Scheme were 0·45 per cent, 1·054 per cent and 1·210 per cent respectively.

As regards loss of bottles due to breakage during bottling and handling, which according to Audit was Rs. 6,05,400 from 1959-60 to 1962-63, the witness stated that the percentage of the loss of bottles to the total bottles filled at the Central Dairy was only 0·77. The corresponding figure for the Aarey Milk Scheme was 0·74 per cent.

However, besides, loss of milk, bottles and other products due to normal wastage during handling and processing there had also been loss due to other causes. **According to a note furnished by the Ministry, milk worth Rs. 5·20 lakhs went sour and curdled since November, 1959 to the end of 1962-63. Although, out of this, milk worth about Rs. 5·09 lakhs had been utilised for making by-products, milk worth Rs. 11,650 was curdled and could not be used.** The reasons advanced for milk having gone sour and curdled were failure of electricity at the milk collection and chilling centres for long or delay in transporting milk from assembling centres to the chilling centres due to some mechanical trouble in vans, etc.

Similarly, a loss of 47,873 new milk bottles valued approximately at Rs. 19,149 had been on account of fire on 18th April, 1963 as the gunny bags containing bottles had been stacked in the open yard for inspection before taking them on to stock.

Some other similar cases of loss have been dealt with in the subsequent paras of this Report. **It is apparent from these cases that the loss of milk, bottles and other products had been not only due to normal wastage during handling and processing but due to other reasons also. The Committee, therefore, feel that this matter requires detailed examination to analyse as to what extent**

these losses had been due to causes other than normal wastage during handling and processing so that suitable steps can be taken to avoid such losses in future.

139. The Committee also feel that as it is already more than 4 years since the Scheme started functioning steps should be taken to lay down standards on the basis of past experience for the loss and wastage of milk bottles and various other products during handling and processing. This would enable the management to locate any abnormal wastage and to take necessary remedial measures..

Loss due to deterioration of butter.

140. One of the specific instances of losses which came to the notice of the Committee was the deterioration of 45 tons of butter valuing Rs. 3 lakhs. The Committee were informed that the butter was prepared during winter out of surplus milk. However, instead of selling it quickly it was allowed to accumulate. In the absence of a deep-freeze capacity plant, all this butter could not be stored at a low enough temperature to keep its quality intact. Accordingly its acidity had increased. As a result the ghee prepared out of this butter also gave some off-flavour. It was stated, in extenuation, during evidence that the samples of butter were tested by some experts from the Dairy Institute and they came to the conclusion that while the ghee made out of this butter might give some off-flavour, it was pure chemically, bacteriologically and in all other respects. It also complied with the Agmark specifications. However, as the scheme had established its reputation for its ghee being of very low acidity, it was decided to sell this ghee for use largely as a cooking medium.

The Committee regret to note that instead of selling butter or converting it quickly into ghee, large quantity of butter was allowed to accumulate even when the Scheme did not have an adequate deep-freeze equipment. They were informed that there had been a little carelessness on the part of the authorities, that necessary enquiries were being made by the Ministry in this matter and that the responsibility would be fixed. The Committee would like to be informed of the action taken in the matter as also the amount of loss suffered on this account.

141. The Committee were also surprised to note that although deep-freeze equipment was ordered in October, 1962, it had not been received so far. They desire that the matter should be pursued vigorously with the suppliers to avoid the recurrence of the type of losses mentioned above.

Loss of Skimmed Milk Powder

142. Another instance of loss that came to the notice of the Committee was that of about 1½ ton of powder manufactured at the Dairy which was sold to but rejected by a firm as a few insects were found in the bags containing the powder. The Committee were informed that these bags were second-hand bags received with the powder imported by the Scheme for the manufacture of toned milk. It was stated in extenuation that out of 500 tons of milk powder produced since the Dairy went into production, this had been the only instance where powder had been rejected.

The Committee regret to note that even the elementary precaution of properly cleaning the packages before they were packed with powder was not taken in this case. They need hardly emphasise the necessity of maintaining a very high standard of cleanliness in the storage and handling of various products of the Scheme and any laxity in this regard should be seriously viewed by the Scheme. The Committee hope that such cases will not recur.

Sundry Debtors—Profit and Loss Accounts of the Scheme for the year ended 31st March, 1962

143. The amount outstanding against Sundry Debtors as on 31st March, 1962 was Rs. 5,75,505. During evidence, the Secretary of the Department stated that the amount was outstanding against Government institutions and hospitals etc. to whom supplies were made in bulk.

From a statement furnished by the Ministry showing the break-up of the outstanding amount, the Committee observe that in certain cases the amount (Rs. 39,557) has been outstanding for more than two years. **The Committee desire that efforts should be made to recover the old outstandings expeditiously.**

(xiii) RESERVE POOL OF FERTILIZERS

Para XVII, pp. 70-74

General

144. To ensure an equitable distribution of fertilizers at a fair price to agriculturist the Central Fertilizers Pool was established in 1943-44 as a State Trading Scheme under the then Department of Food and Agriculture. The Pool collects the estimated demand of fertilizers from (a) State Governments; (b) such Corporate bodies as control the plantations, *e.g.,* Tea Board, Coffee Board and Rubber

Board, and (c) industrial users. The indigenous production as well as imported stock is allotted to the above parties at a pooled price.

On the basis of demands received from State Governments and other bodies and also on the basis of anticipated procurement from indigenous sources and import, provision is made in the annual budget estimates of the Central Government for the procurement of fertilisers and for recoveries by sale. These recoveries are taken directly to the General Revenues. Thus the Pool does not have any fund of its own to operate upon.

Procurement of Fertilizers—Sub-para 2, para XVII, page 70

145. All imports of fertilizers are made on Government Account. The following quantities of fertilizers were procured and imported during the years 1959-60 to 1961-62 :

(In tons)

Year	Sulphate of Ammonia		Urea		Ammonium Sulphate Nitrate		Calcium-Ammonium nitrare	
	Indigenous	Imports	Indigenous	Imports	Indigenous	Imports	Indigenous	Imports
1959-60	2,95,507	3,76,267	3,125	99,780	4,305	74,736	..	70,687
1960-61	3,53,516	3,56,728	8,371	55,910	27,764	19,521	..	95,049
1961-62	4,09,905	2,97,334	13,915	1,24,579	61,303	29,374	1,54,811	62,306

It is observed from the above table that the indigenous production of fertilizers was not keeping pace with the demand for the fertilizers with the result that substantial quantities of fertilizers continue to be imported involving heavy drain on foreign exchange. The Committee were unhappy to learn during the course of evidence that the total annual production of the fertilizers at the end of the Third Five Year Plan would be only 5 lakh tons in terms of nitrogen as against the earlier estimates of about 8 lakh tons and therefore the imports would have to continue for some time to come. The Committee desire that the reasons for the shortfall in production should be examined and vigorous efforts should be made to increase the indigenous production of fertilizers.

Retention Price—Sub-para 4, *page* 70-71

Financial results—Sub-para 5(*a*), *page* 71

Princing policy—Sub-para 3, *p.* 70

146. The Supplies from indigenous sources are obtained at a price known as 'retention price' (or procurement price). Such price is fixed annually by Government separately for each individual supplier generally on the advice of the Tariff Commission. The following table gives the retention price for each type of fertilizer obtained from different sources during the 3 years ending 1961-62 and their pool prices for the corresponding periods.

Sl. No.	Fertilizers	Suppliers	1959-60 Procurement price per L.T.	1959-60 Pool price for States per L.T.	1960-61 Procurement price per M.T.	1960-61 Pool price per M.T. for States	1961-62 Procurement price per M.T.	1961-62 Pool price per M.T. for States
1	2	3	4	5	6	7	8	9
			Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1.	Sulphate of Ammounium	Sindri FACT others	300 356 250	350	295·20 336·00 246.00	344·50	295·20 336·00 246·00	344·50 upto 30-11-61 330.00 w.e.f. 1-12-61
2.	Urea	Sindri	No production	695	646	684·10	646·00	684·10 upto 30-11-61 670.00 w.e.f. 1-12-61
3.	Ammonium Sulphate Nitrate	Sindri	No production	415	394	408·50	394·00	408·50 upto 30-11-61 400·00 w.e.f. 1-12-61
4.	Calcium Ammonium Nitrate	Nangal	Do.	330	275	324·80	275·00	324·80 upto 30-11-61 310·00 w.e.f. 1-12-61

147. The Pool has made substantial profits during the four years from 1957-58 to 1960-61. The profits had risen from Rs. 154·78 lakhs

in 1957-58 to Rs. 744·81 lakhs in 1960-61. In terms of metric tonnes the increase in profits has been as shown in the following table:

Year	Quantity handled in metric tonnes	Profit earned Rs.	Profit per metric tonne Rs.
1957-58	7,68,463	1,54,78,413	20·1
1958-59	6,95,147	3,50,50,140	50·4
1959-60	8,92,644	6,37,07,000	71·3
1960-61	8,57,957	7,44,81,003	86·8

148. The Scheme was initially meant to make the fertilizers available to the consumers on a no-profit no-loss basis. Actually, however, as would be observed from the above table, the Pool had made substantial profits. The profit per metric tonne earned by the Pool had been progressively increasing from year to year and was as high as Rs. 86·8 per metric tonne in 1960-61. The Committee would like to point out, in this connection that as early as February, 1958, the Ministry had clearly stated in a note (Appendix II) submitted to the Public Accounts Committee (1957-58) that the Ministry was running a State Trading Scheme on 'no profit no loss basis' for the purchase and distribution of chemical fertilizers with a view to popularising their use and making them available to the cultivators at reasonable rates in the interest of maximising agricultural production. According to that note the main items which were taken into account while fixing the uniform price were as follows:—

(i) The purchase costs of the material from various sources, (internal as well as external).

(ii) Handling charges at the ports.

(iii) Departmental charges levied by the purchasing organisations.

(iv) Indirect charges incurred by the Ministry (namely interest on capital and salary of staff employed at the centre and the ports for running the fertiliser pool).

(v) Internal transport charges based on average freight paid during the previous years from the sources of supply to various centres.

(vi) In addition to the above usual items a further *ad hoc* provision was made in 1957-58 to cover an unusual expenditure necessitated by the closure of the Suez

Canal, such as demurrage, diversion, shortage, storage, rebagging etc. charges.

Explaining the reasons for not adhering to the initial object of running the scheme on no-profit no-loss basis, the Secretary of the Department stated during evidence that till 1957-58, the price of imported fertilizers was approximately the same as the price paid to the Sindri Fertilizers and Chemicals Ltd. Further, the imports were small as the fertilizers were not as popular then as at present. Since 1957-58, the price of imported fertilizers had gone down substantially. The price of imported ammonium sulphate was Rs. 210 per ton in 1962-63 as compared to Rs. 336 per ton in 1957-58. Thus, due to reduced cost of imported fertilizers and larger imports to meet the rising demand, the pool had made profits during the subsequent years. In 1961, the question of reducing the price of fertilizers was considered and the matter was decided at Cabinet level. The Government toook the view that these imports were largely temporary. As the cost of indigenous production was high any reduction in price could also be temporary and the price would have to be raised again when the imports ceased. Therefore, taking a long term view only a small reduction was made reducing the price of ammonium sulphate by about Rs. 14 per ton. It was thus contended by the Secretary that if the concept of no profit and no loss was applied over a short-term, the prices would have to be changed from year to year, but from the decision taken by Government in 1961, it could be concluded implicitly that they had given up this question of balancing the profits and losses in a particular period of a year or two years. It was, however, admitted by the Secretary that at the end of the Third Five Year Plan the indigenous production capacity for fertilizers would be lower than the earlier estimates, and the imports would have to continue for some time to come.

The Committee are not satisfied with this explanation. They observe that according to the Ministry's own admission, "at the time of the preparation of the Third Five Year Plan the Government also took into account the possibility of something like Rs. 40 crores to Rs. 50 crores as additional resources arising from the pool profits." It is, therefore, evident that the profits accruing to the Pool were not incidental due to the imported price of fertilizers being low in a particular period of one or two years but due to the fact that the prices had deliberately been kept high with a view to making profits. This, the Committee regret to point out, was not consistent with the object of the Pool, which was never intended to be a revenue earning scheme, but was to serve as an equalisation fund, so that

all the imported and indigenous fertilizers could be made available to the consumers at a uniform price throughout the country. In the circumstances, such a wide margin of profit (Rs. 86·8 per metric tonne in 1960-61) by the Pool could by no means be justified. In the opinion of the Committee, fixation of selling prices at a considerable higher level than necessary for the real purpose of equalisation was objectionable in principle as it amounted to indirect taxation which was the prerogative of Parliament only. Besides, this defeated the basic concept of establishing the Pool which was to make the fertilizers available to the cultivators at reasonable rates in the interest of maximising agricultural production.

149. The Committee would also invite attention in this connection to their recommendation in para 17 of their Seventh Report (1962-63) that 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. The Committee, therefore, desire that Government should urgently review their pricing policy for the fertilizers keeping in view the objects of the Pool. The prices of various type of fertilizers should be so fixed as to ensure that the benefit of lower imported price/cost of production was actually passed on the consumers to promote their sale and wider use.

Recovery of Rs. 109 *lakhs—Sub-para* 5(c), *page* 72.

150. Amounts of Rs. 34,56,269 and Rs. 75,29,726 are being shown as recoverable in the accounts of the Pool from the 'Special Development Fund' and Indian Council of Agriculture Research respectively on account of supplies of the fertilizers since 1956-57.

Explaining the present position about the adjustment of these amounts, the Secretary of the Department stated that the amount recoverable from the Special Development Fund had been adjusted in March, 1963 accounts. The amount recoverable from I.C.A.R. was being adjusted partly during the current year and the balance would be adjusted next year.

The Committee regret to note that the reconciliation of figures and the adjustment of the amounts between the Pool, Special Development Fund and I.C.A.R. should have taken such a long time (about 7 years). They trust that the final adjustment of the amount between the Pool and the I.C.A.R. would be expedited.

(xiv) INDIAN VETERINARY RESEARCH INSTITUTE

(Biological Products Division, Izatnagar)

General

151. The Indian Veterinary Research Institute was established in 1890. The Biological Products Division is mainly concerned with the manufacture and supply of different kinds of sera and vaccines for prophylaxis. It also carried out research for the improvement of these products.

Production—Para XXI, Sub-para (2), *page* 91

According to the management the installed capacity of the institute is neither known nor practicable to work out. It had, however, been roughly assessed that the Institute could manufacture upto 20 million doses of sera and vaccine per annum. As against this capacity, the actual production was 6:3 million doses in 1959-60, 3·9 million doses in 1960-61 and 6·7 million doses in 1961-62.

The representative of the Ministry stated during evidence that the estimate of 20 million doses as being the capacity of the plants could be regarded only as a very general and rough estimate as the capacity of production depended upon the kind of vaccine and sera produced. The period of manufacture and amount of labour varied from product to product. Further, the figures of actual production given in the Audit para did not take into account the various other non-commercial items produced by the Institute. The total production during 1961-62 and 1962-63 was 144 lakhs and 135 lakhs doses respectively. Taking both commercial and non-commercial products into account, the total production in certain years had exceeded 20 million doses.

Asked whether there was any idle capacity, the representative of the Ministry stated that a certain minimum staff and capacity had got to be there, so that large quantities could be produced in the event of a sudden outbreak of disease. The production of any item depended upon the demand from State Governments and Army authorities etc. For certain known diseases the Institute had a programme of production. But in the case of new diseases the Institute took up production according to demand. Some of the products had also been exported to Nepal, Sikkim, Afghanistan, Iran, Malaya and Burma. Many other neighbouring countries were, however, understood to have their own plant for making vaccine etc., and, therefore, they had not shown any great interest.

The Secretary of the Ministry, however, admitted that some of the plants which might be idle could be used for other types of vaccine although that would mean a new line of production.

The Committee desire that the feasibility of utilising the spare capacity of the plants suitably at the Institute should be examined early.

Pricing Policy—Sub-para (3), *pages* 91-92

152. The Royal Commission on Agriculture in 1927 observed that the Institute on its factory side should be regarded as an 'All India Affair' and maintained to supply its products to the States at cost price. The selling prices of the biological products were fixed on 'no profit and no loss' basis from 1930 onwards as and when a product was commercialised. The present prices were fixed in the year 1939 and have remained unchanged till now. Meanwhile, the cost of production in some of the cases has been considerably reduced due to mechanisation of the manufacturing processes and introduction of new methods of packing. The cost of production of the various biological products and their selling prices during the years 1957-58 to 1961-62 are given below:

Name of Product	Selling price per dose in nP.	Cost of production per dose in nP.				
		1957-58	1958-59	1959-60	1960-61	1961-62
(1) Anti Haemorrhagic Septicaemia serum . . .	25·00	25·91	23·35	22·04	26·88	18·90
(2) Anti Black quarter serum .	25·00	27·58	25·95	23·14	27·29	20·04
(3) Anti Anthrax serum . .	25·00	28·85	23·21	23·61	28·00	21·60
(4) Anti Fowl Cholera serum .	12.00	8·60	10·57	9·19	9·54	..
(5) Haemorrhagic Septicaemia vaccine (broth) . .	12·00	6·65	5·45	5·27	7·40	8·06
(6) Black quarter vaccine . .	22.00	7·38	6·05	6.04	8·46	9·27
(7) Fowlcholera vaccine . .	3.00	1·14	1·23	1·25	3·83	5·30
(8) Fowl Pox Vaccine . .	2·00	..	1·23	1·36	2.09	1·68

Thus, the Institute has been making profits on most of its products from 1958-59. In certain cases (*e.g.* items 5 and 6) the profits have varied from 50 per cent to over 100 per cent.

The profits earned by the Institute during the years 1958-59 to 1961-62 had been as follows:—

Year	Rs.
1958-59	3,10,203
1959-60	3,93,259
1960-61	1,46,632
1961-62	3,71,069

During evidence, the representative of the Ministry stated that so far as cattle owners were concerned these products were supplied free by the State Governments. The question of price, therefore, arose only for transactions between the Central and the State Governments. The Committee were also informed that the cost of production of various items had been arrived at on a rough and ready basis. Therefore, the whole costing system of the Institute required examination with a view to arriving at correct cost of production of various products. Accordingly, the Accountant General, U.P. was requested to depute an officer to go into this matter and the Ministry had received his proposals about the costing procedure sometime back. It was added that the cost of production of various products would be worked out accordingly and the price co-related to the cost of production.

The Committee understand from a note* furnished by the Ministry that the question of revising the costing manual of the Institute was first taken up with the Accountant General, U.P. on 4th October, 1961. However, the matter remained under correspondence and it was only on 6th February, 1963 that an Accounts Officer joined the Institute. The cost accounting manual prepared by him in consultation with the Accounts Officer of the Institute was received by the Department on 24th October, 1963. Pending receipt of the comments of the Director of Commercial Audit/Accountant General, U.P. on his report, no final decision had, however, been taken in the matter so far.

The Committee note that although the price of biological products was to be fixed on a no-profit no-loss basis, the price of various products has remained unchanged since 1939 although in the meanwhile the cost of production in some of the cases had been considerably reduced due to mechanisation of manufacturing processes and introduction of new methods of packing. Even the cost of production of vari-

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*Not vetted by Audit.

ous products had not been worked out properly and it was only in October, 1961 that the question was taken up with the Accountant General, U.P. Even thereafter, there had been some delay and although more than two years have since elapsed the revised system of costing has not yet been introduced. The Committee desire that the matter should be expedited and the prices of various products fixed taking into account the revised cost of production.

153. The Committee were also surprised to learn during evidence that by convention, commercial accounts were kept for some products whereas no such accounts were maintained for others. The representative of the Ministry agreed that this matter needed a more detailed examination and that the cost of production should be properly worked out for all the products.

The Committee need hardly emphasise the importance of maintaining proper cost accounts of various products to control their cost of production and for avoidance of waste. They trust that such accounts would be maintained for all the Products in future.

Alleged mis-appropriation of sale-proceeds—Sub-para 4, *page* 92

154. In the Disease Investigation Section of the Institute an alleged case of misappropriation and fraud amounting to Rs. 21,554 in the sale proceeds of birds, hides and skins of animals during 1960-61 and 1961-62 has been brought to the notice of the management. The matter was, however, stated to be still under investigation.

The representative of the Ministry admitted in evidence that the process of taking action in this case had been slow. Explaining the reasons for the delay it was stated in extenuation that the report regarding alleged misappropriation was received by the Ministry in July, 1962. Thereupon, a request was made to the Accountant General, U.P. for deputing party to conduct a detailed audit. The Audit report, received in May, 1963, revealed that there was misappropriation of Rs. 24,039. The matter was also referred to the Special Police Establishment. They however, took about 15 months for investigation and their report had been received only recently. The Special Police Establishment made certain suggestions for taking disciplinary action against various officials. The matter was under examination of the Ministry. However, the official suspected to be directly responsible for the loss had already been suspended by the Director of the Institute before reporting the matter to the Ministry.

The Committee have repeatedly emphasised the need for taking prompt disciplinary action against the delinquent officials, if it is to serve the desired purpose. They trust that this matter *viz*., the al-

leged misappropriation and fraud committed in years 1960-61 and 1961-62 would now receive immediate consideration and suitable action taken against the delinquent officials. The Committee would like to be informed of the outcome of the case, and also whether it had been possible to recover any part of the amount misappropriated (Rs. 24,039).

(xv) FILMS DIVISION

Cost of production—Para XXII—Sub-para 3, pages 95-96

155. The Films Division assigns the production of a number of films to approved private producers. A comparison of the cost paid to these private producers (including Rs. 3:20 nP. per foot as share of overheads for departmental supervision) and the cost of production of Films Division is given below:

Year	Average cost per foot of a black and white film of Films Division	Average cost per foot of a black and white production from an outside producer including share of overheads of Rs. 3·20 nP per foot.
	Rs.	Rs.
1958-59	24·7	19·25
1959-60	22·76	19·93
1960-61	21·00	19·75
1961-62	20·26	19·37

The management had stated that the Division had to follow certain principles and procedures laid down on administrative considerations which affected the cost of production.

In evidence, the representative of the Ministry of Information and Broadcasting stated that Controller of the Films Division was of the rank of a Senior Deputy Secretary who with the help of the Assistant Producers supervised production of films. The private producers on the other hand did not engage such highly paid staff on regular basis. Even so, he added, there was no particular difference between the cost of production in the Films Division and that of the private producer, as the overhead charges were included in both sets of figures given above.

During their on-the-spot study visit to the Films Division, the members of Study Group 'A' of Public Accounts Committee were informed that the total expenditure incurred on the production and distribution of a film for commercial exhibition was about Rs. 60,000 whereas the revenue realised was about Rs. 48,000 only.

The Committee recommend that efforts should be made by the Films Division to effect possible economies in the production and distribution of such films so as to make them self-supporting. Steps should also be taken to bridge the gap between the income and expenditure of the auditoria maintained by the Division, for exhibiting their documentaries etc.

Location of the Office building of the Films Division

156. In the course of their on-the-spot visit to the Films Division Bombay, on the 10th October, 1963, by Study Group of the Public Accounts Committee, the members were informed that the offices of the Films Division were at present housed in a rented building and that the accommodation was not sufficient to meet the requirements of the Division. They were also informed that a plot of land had already been purchased for the construction of the building for the Films Division and the construction plan had already been drawn up. **The Committee feel that if it is decided to locate the offices of the Films Division somewhere further away from the proposed site, it should be possible to acquire land and construct buildings at a much cheaper rate. They desire that feasibility of this proposal may be urgently examined. If, however, this proposal is likely to entail heavy delays, then the construction of buildings, as already planned, may be expedited, since the Films Division is at present very much cramped for space.**

(xvi) ALL INDIA RADIO

Loss due to delayed occupation of staff quarters—para XXIII, page 99

157. On the 15th June, 1956, the Director General, All India Radio, accorded administrative approval for the construction of staff quarters at Goraya, Punjab at a cost of Rs. 2,13,200 based on the estimate given by the Central Public Works Department on 10th May, 1955. The buildings were completed by January, 1959. As the provision for external electrification of the quarters included in the estimate was found insufficient, a revised estimate was approved in April, 1959 and the work was entrusted to a Contractor in May, 1959 who completed the same in January, 1960. Consequent on this delay in external electrification the staff quarters could not be allotted for 13 months between January 1959 to January, 1960 during which period the staff

had also to be continued to be transported daily to Goraya and back in Government vehicles. An expenditure of Rs. 15,133 was incurred on transport and Rs. 6,136 was the loss of rent between January, 1959 to January, 1960.

The representative of the C.P.W.D. stated that in his evidence that original estimate provided for overhead lines. As the A.I.R. authorities desired that underground cables should be provided for, a supplementary estimate was prepared accordingly in September, 1957 and it was approved in December, 1958. The representative of the Ministry of Information and Broadcasting, however, stated that from the very beginning. the A.I.R. authorities had specified that underground cable connection should be given. The temporary overhead line provided by the C.P.W.D. was not approved by the Punjab Electricity Department as it was not in conformity with Indian Electricity Act.

The Committee regret to note that the C.P.W.D. should have been ignorant of the provisions of the statute. The provision of temporary overhead connection became necessary only because of administrative delays in sanctioning the supplementary estimate. The process took a period of 15 months. The estimate had again to be revised after 4 months in April, 1959. The Committee desire that the Ministry of Works, Housing and Rehabilitation should take note of the unbusiness like procedures adopted in this case which cost the exchequer Rs. 21,269 and take remedial action to prevent recurrence of such cases.

VI

GENERAL

Pricing Policy of Government Undertakings

158. The Public Accounts Committee have in the past made certain recommendations with regard to the pricing policy of the products of Government Undertakings. In Para 17 of their 7th Report (3rd Lok Sabha), the Committee had recommended that 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 paras 148 and 149 of this Report, the Committee have desired that Government should urgently review their pricing policy for the fertilizers keeping in view the objects of the Central Fertilizers' Pool. They have further observed that the prices of various types of fertilizers should be so fixed as to ensure that the benefit of lower imported price/cost of production was actually passed on the consumers to promote their sale and wider use.

Similarly, the Public Accounts Committee in para 25 of their 7th Report (3rd Lok Sabha) while commenting upon the sale price of penicillin produced at the Pimpri Factory had observed 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 rates. In a note submitted to the Committee, the Ministry of Industry intimated that the question of reduction in the sale price of penicillin and penicillin products will be considered further in the light of the Committee's views. **The Committee welcome this move.**

The Committee have also expressed the hope **in para, 109 of this Report** that efforts would be continued to bring down the cost of production in NEPA Mills Ltd.

In regard to the pricing policy in general, while the Committee agree in principle that all industrial and commercial transactions in the public sector should earn enough profits to be able to give a good dividend to the exchequer and to build up reserves to finance their own future expansion, the Committee feel that some principles should be laid down so as to see that the pricing policies do not become an

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instrument of indirect taxation as the power of taxation is the prerogative of Parliament only. In this connection the possibility of prescribing with the approval of Parliament a ceiling to the percentage of profit with powers to vary the percentage within that ceiling from industry to industry might be examined.

MAHAVIR TYAGI,
Chairman,
Public Accounts Committee.

NEW DELHI;
The 18*th March,* 1964.
Phalguna 28, 1885 (*Saka*).

APPENDIX I

(Para 104 of Report)

Further points with reference to para IX (5) of the Audit Report (Commercial), 1963, re: *loss on Stock of Groundnut Oil.*

1. Total quantity of ground-nuts in shell purchased during 1961-62 and the price paid.

2. The time, place and rates of purchase and how they compared with market prices then prevalent.

3. The arrangements made for stacking the commodity and the hire charges, if any paid.

4. The agencies utilised for crushing the ground-nuts, the amounts paid for this purpose—the quantity crushed, and the quantity and value of oil and cake.

5. The quantity and value of groundnuts, oil and cake exported, and the loss suffered on their account.

6. If any quantity of ground-nuts, oil and cake deteriorated due to storage, the quantity and value thereof.

7. If any quantity of ground-nuts, oil and cake were disposed of in local markets, quantity sold and prices obtained, against the market prices.

8. Quantity and value of stock still on hand and arrangements proposed for their disposal.

9. How the loss suffered on this account was made good?

10. What is the loss incurred on this transaction, due to a further fall in value of existing stock during 1962-63.

11. The quantity and price of copra, betelnuts and cloves imported by S.T.C. during 1961-62 and 1962-63 separately.

12. The quantity and prices at which the commodities referred to in Sl. No. 11 were sold by S.T.C., the profits made by S.T.C. and the market prices then prevailing.

13. Which of the transactions in Sl. No. 11, if any, were linked with the transaction of the export of ground-nuts and with what result?

APPENDIX II

(*See para* 148)

No. F.1-13/57-M.A.

New Delhi, Dated the 19th February, 1958.

Note from the Ministry of Food and Agriculture (Department of Agriculture) giving in detail how the price of fertilisers that were distributed to the cultivators was worked out under para 86 of the Twenty-third Report regarding Reserve Pool of Fertilisers.

The Ministry of Food and Agriculture is running a State Trading Scheme on "no profit no loss basis" for the purchase and distribution of chemical fertilisers with a view to popularising their use and making them available to the cultivators at reasonable rates in the interest of maximising agricultural production. The requirements of State Governments as well as other interests or fertilisers are first collected and the excess demand over availability from estimated production in the country, is calculated. The procurement of the deficit is arranged through the Ministry of Works, Housing and Supply on global basis. The Fertilisers from all sources are pooled together and sold at a uniform rate throughout the country. Of the chemical fertilisers handled by the pool, Sulphate of Ammonia is the only one produced in the country so far and is very popular with and largely used by the cultivators. The method of fixing pool price for Sulphate of Ammonia and other fertilisers is the same.

2. The main items which are taken into account while fixing the uniform price are as follows:—

(i) The purchase costs of the material from various sources, (internal as well as external).

(ii) Handling charges at the ports.

(iii) Departmental charges levied by the purchasing organisations.

(iv) Indirect charges incurred by the Ministry (namely interest on capital and salary of staff employed at the centre and the ports for running the fertiliser pool).

(v) Internal transport charges based on average freight paid during the previous years from the sources of supply to various centres.

(vi) In addition to the above usual items a further *ad hoc* provision was made in 1957-58 to cover an unusual expenditure necessitated by the closure of the Suez Canal, such as demurrage, diversion, shortage, storage, rebagging etc. charges.

.3 After arriving at a tentative pool price, the price at which it would be economical to the cultivator is also investigated in consultation with the Statistical and Economic Adviser to the Ministry of Food and Agriculture. The final Pool price is then fixed with suitable adjustments with the approval of the Ministry of Finance. Accordingly the pool price of Sulphate of Ammonia for 1957-58 was fixed at Rs. 350 per ton to States effective from 26th March, 1957. The State Governments are allowed to add a maximum of Rs. 30 per ton, over the Central Pool price, to meet their handling and distribution expenses.

The attached statement illustrates the basis on which the pool price of Sulphate of Ammonia was fixed for the year 1957-58 effective from 26th March, 1957.

This note has been seen by the Director of Commercial Audit.

T. C. PURI,
Joint Secretary.

APPENDIX III

Summary of Main Conclusions/Recommendations

Sl. No.	Para No.	Ministry/Deptt. Concerned	Conclusion/Recommendation
1	2	3	4
1	7	Transport	The Committee recommend that the Air India should continue to endeavour to improve the utilisation of the available capacity.
2	8	—Do—	The Committee note that the land for the Administrative Building was acquired on lease in February, 1961, and according to the terms of their lease, the building was to be completed within a period of 3 years from the date of acquisition (*i.e.* by February, 1964). The Committee, however, learned during evidence that the construction of the building was expected to commence only after the monsoon of 1964. While noting the various reasons enumerated during evidence the Committee regret the abnormal delay that has occurred in starting construction specially in view of the fact that the Air India has been paying a high rent of Rs. 1·78 lakhs per annum for the various offices that are to be accommodated in the new building. The Committee are of the opinion that expenditure incurred on construction of such buildings should be commensurate with the economic conditions in India and attempts should be made to economise wherever possible.

			It was admitted before the Committee that Indian Architects could have built such buildings. As such, the Committee fail to understand why the work of preliminary drawings involving an expenditure of 150,000 dollors was not entrusted to an Indian Architect to save the foreign exchange involved.
3	9	—Do—	The Committee feel concerned about the huge amount of Rs. 7·86 crores outstanding on account of passage, freight, etc., as on 31-3-1963, out of which the dues outstanding for more than 3 years amounted to Rs. 2,89,000. Out of this amount a balance of Rs. 1,60,000 remained still outstanding on 1-12-1963. The Committee are of the view that the Corporation should take special measures to ensure that the outstanding dues are collected within a maximum period of six months.
4	10	—Do—	The Committee do not appreciate the abnormal delay involved in finalising the formal regulations regarding grant of loans. The Committee hope that the draft regulations will be finalised without delay and strictly adhered to in future.
5	11	—Do—	The Committee are surprised to note that such important decisions as disclosed in this para are left to be decided at lower levels without being brought to the notice of the higher authorities at any stage. They recommend that suitable instructions should be issued in this regard to avoid the incurring of such infructuous expenditure, in future.
6	12	—Do—	The Committee are glad to note the sound financial position of the Air India. They hope that Government will take an early decision with regard to the proposals of the Corporation to start paying interest on Government loans and to deposit about Rs. 3 to Rs. 4 crores with the Government. The Committee also hope that Government will take care to see that handsome profits earned by the Air India do not lead to extravagance.

1	2	3	4
7	13	Transport	The Committee are of the view that the Air India should expedite framing of rules laying down suitable criteria according to which loan should be sanctioned and interest charged thereon. Setting up of the Welfare Fund and framing of rules for its utilisation should also be expedited.
8	14	—Do—	The Committee are surprised at the lethargy shown in settling the pending matters relating to the staff till the end of 1961 resulting in the loss of about Rs. 15,500/-. As admitted by the General Manager, an increase could have been made in the man hour rates in November 1960 itself and the sum of Rs. 15,500/- could have been collected. The Committee hope that such delays will be avoided in future.
9	15	—Do	(i) The Committee, desired to be furnished with the break-up of expenditure under the heading 'sales promotion' with special reference to agents' tours and publicity for the year 1962-63. This information is awaited.
	15	—Do—	(ii) The Committee are of the opinion that there is some scope for reduction in the expenditure incurred by the Air India on Publicity and Sales Promotion which comes to Rs. 1·20 crores and they hope that due economy will be effected wherever possible. The Committee also recommend that publicity, advertisement and entertainment etc. may be shown under a separate head and not mixed up with sales promotion or commissions paid to agents.

10	16	—Do—	(i) The Committee wanted to know the expenditure incurred on the grounded Herons during the year 1962-63. The information is awaited. (ii) The Committee are unhappy to note the failure on the part of the administration in referring the offers received from U.K. in June, 1957 for Rs. 3·33 lakhs and from America in July, 1957 for Rs. 5·52 lakhs to the Board for their consideration. Had the Board been properly apprised of the falling market price of the Heron aircraft, the Board might have fixed a more realistic sale price of the seven Herons, thereby minimising the loss of Rs. 16 lakhs. The Committee cannot help observing that the question of the disposal of unwanted Heron Aircraft was handled in an unbusiness-like manner and the downward trend of the market for Heron Aircraft was not given due weight. The Committee trust that the Corporation will benefit from this experience and avoid such erroneous judgments in future.
11	17	—Do—	The Committee are glad to learn that the operation of Hyderabad-Vizag Service at the request of the Andhra Pradesh Government has now been continued on a shortfall guarantee basis. The Committee are of the view that whenever the Corporation is asked to operate a commercially non-profitable route at the request of a State Government it should invariably be on a shortfall guarantee basis.
12	18	—Do—	In view of the fact that the Corporation had actually incurred a loss in the year 1960-61 the Committee would like the Government to re-examine whether the loss suffered by the Corporation on this route (Delhi-Gwalior-Bhopal-Indore-Bombay) which was being operated in accordance with the directive issued by the Government of India is reimbursable under Section 34(2) of the Air Corporations Act, in the present case.

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13	19	Transport	The Committee are of the view that such "interpretational errors" should be avoided and that suitable procedure should be devised to ensure that the HQ is in a position to promptly detect and rectify such errors if they do occur at all.
14	20	—Do—	While the Committee agree that the Corporation is competent to decide administrative questions of promotions etc.; they are not happy about the decision to give retrospective effect to those appointments when the employees were not actually performing the duties attached to the posts. The Committee hope that the Corporation will scrupulously avoid such irregular procedures in future.
15	21	—Do—	In the absence of the information asked for by the Committee, they are unable to appreciate the increase in payment of overtime allowance when the staff strength was also increasing. The Committee would like the Corporation to analyse carefully the various factors that have caused the increase in overtime allowance and take steps to reduce the same. The Committee would like to watch the outcome.
16	22	—Do—	Since the General Manager accepted that (i) the agreement entered into with the AIROA was to come into force only with the introduction of the Pilot operated RT Scheme and (ii) that the RT Scheme itself had not been introduced till the 1st of February, 1964, the Committee are of the view that the *ex-gratia* payment of Rs. 33,337 to the Radio Officer who left service on the 1st January, 1962 at his own request, was not warranted.

			In this connection the Committee would like to refer to the decision of the Government of India Ministry of Finance (Department of Coordination) contained in their D.O. No. 837-SCDN/63, dated 18-11-1963 regarding directions to be given by the Government to their representatives on the Boards of Directors of public undertakings. The Committee feel that the Government representatives should look into such financial irregularities of the Corporation and report them promptly to Government.
17	23	Transport	The Committee are sorry to note that there was misinterpretation of a simple 'four year rule' resulting in over payments to the tune of Rs. 18,000. In the absence of a copy of the Board's Resolution to the effect that the excess payments that had been made need not be recovered the Committee are not in a position to appreciate the circumstances under which this decision was taken. The Committee were informed by the Secretary of the Ministry of Transport that the Corporation had not come to Government for a formal sanction to waive recovery of excess payment. The Committee would like Government to examine whether there is any justification for waiving recovery of excess payments.
18	24	—Do—	The Committee would like the Corporation to ensure that the stock verification is carried out regularly as per the schedule that has been laid down.
19	25	—Do—	The Committee would like to be informed of the results of the efforts made to recover the amounts due (Rs. 13,530) from the charter parties.

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20	28	Steel, Mines & Heavy Erginecring (Deptt. of Iron & Steel)	The Committee are of the view, that for future in such cases a procedure should be laid down that any earlier *ad hoc* decision should be specifically reviewed on the basis of the general policy that might be laid down later.
21	29	Do.	The Committee feel unhappy that such misclassification of expenditures should have occurred in the cases of *Bhilai* and *Durgapur*. They hope that suitable measures will be taken by the management to avoid such misclassifications of expenditure in future.
	30	Do.	Regarding the increase in foreign exchange components for Bhilai (from the revised estimate of Rs. 85·60 crores in 1961 to the actual expenditure of Rs. 91·33 crores upto 31st March, 1962 and Rs. 97·98 crores upto 31-3-63) it was stated in evidence by the representative of the Hindustan Steel Limited that the estimate of Rs. 85·60 crores did not include the estimate of foreign exchange on certain items viz., 1. Salaries to the Soviet experts; 2. Consultant's fee; 3. Incidental charges on USSR Stores. The Committee are surprised to learn that these important factors were lost sight of despite two earlier upward revisions of original estimates, first in 1957 and again in 1961. This indicates that sufficient care is not being taken at the time of framing the estimates. The Committee would like Government to issue suitable instructions to all the Public Sector Undertakings to ensure that the esti-

			mates be prepared more realistically and such important factors are not omitted from the estimaes.
22	31	Do.	(i) The Committee consider it strange that such an important item like the expenditure on townships and ancillaries was not provided in the original estimates for projects of such magnitude. The Committee were informed that the expenditure on townships was Rs. 14 crores in *Rourkela;* Rs. 15 crores in *Bhilai* and Rs. 17 crores in *Durgapur* and explained that the difficulty was that the Company had to put up townships in two or three years. The Committee desire the Government to examine whether the expenditure on townships is not rather disproportionate to the total outlay of the projects. They would like Government to consider the feasibility of laying down a suitable ceiling of the proportion of expenditure on townships to the total outlay of the project. (ii) The Committee do appreciate that in a project of this magnitute undertaken for the first time with foreign collaboration, the possibility of an upward revision of the original estimates cannot altogether be avoided as some new factors which could not be foreseen at the time of framing the initial estimates are bound to crop up because of inexperience. All the same, they consider that a variation of 36 per cent between the original estimates of Rs. 353 crores and the revised estimates in 1963 of Rs. 479·19 crores in respect of three steel plants proper (against which the actual expenditure upto 31st March, 1962 was Rs. 474·74 crores) is very much on the high side. Now that the three steel plants have gone into full production, the Committee suggest that Government should undertake a detailed study of the various factors that have led to such an abnormal increase in expenditure against the original estimates in case of each steel plant. The Committee have no doubt that such a detailed analysis made after a careful and objective study would serve as a useful guide whenever large projects are undertaken in the public sector, and will assist in avoiding similar pitfalls.

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23	32	Steel, Mines & Heavy Engineering (Deptt. of Iron and Steel)	The representative of the Hindustan Steel Ltd. promised to furnish a statement on the following points regarding the delay in the dates of completion of the erection of the various units of the plant at Rourkela : (a) when were the drawings actually received from the German firm? (b) when did the Hindustan Steel Ltd. ask the German firm for the supply of drawings and whether the firm was informed at that time that the delay in the supply of drawings would affect the completion of civil engineering work within the scheduled time? (c) when did the civil engineering work actually commence after the receipt of the drawings? The Committee regret to note that the information on the above points is still awaited. This should be expedited. In view of the fact that each delay in big projects, has a consequent effect on other units, the Committee would like the Govt. to keep a strict watch over timely completion so that such delays are avoided as far as possible.
24	33	—Do—	The Committee were given to understand that a Negotiation Committee was instituted in August, 1962 for settling the contractual issues. The Negotiation Committee with the General Manager, Durgapur, as the Hindustan Steel Limited's representative had, however, not made much progress due to the reported non-cooperation of M/s. ISCON. Apart from this, the Committee were also told in the course of evidence that the contractors were adopting delaying tactics. The Committee are perturbed over these disclosures. The Committee desire that the Ministry and the Hindustan

			Steel Ltd. should take suitable measures to overcome the non-co-operation of the contractors and take necessary steps to realise the penalty. The Committee would like to be apprised of the final outcome of the negotiations.
25	34	Do.	In reply to a question, the Secretary, Department of Iron and Steel and the representative of Hindustan Steel Ltd. admitted that the answer given by the management to Audit as included in the audit para on delay in commissioning was incorrect. The Committee, therefore, desired to be furnished with a note giving the actual reasons for the delay in commissioning of Coke Oven No. III and the Potash Plant at Rourkela. The Committee regret that the information is still awaited on the above point. The Committee would like to emphasise that the Ministries/Departments should furnish correct information to Audit based on indisputable facts.
26	35	Do.	The Committee feel that at least some of the difficulties mentioned in achieving full production are not of such a nature as could not have been overcome with better coordination with the Department of Mines and Fuel and the Ministry of Railways. As regards shortage of experienced personnel, the Committee would suggest the introduction of a suitable course of intensive training for the working personnel by rotation, so that within a reasonable period of time, a number of well trained persons may be available. The Committee hope that the requirement of technical personnel for the fourth Five Year Plan will be kept fully in view while chalking out the training programme.
27	36	Do.	The Committee was also informed in evidence that in spite of protests from the Rourkela Plant authorities, a somewhat higher target was fixed in their case. The Committee feel that there should be a uniform basis and procedure for fixing targets in all the steel plants.

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28	37	Steel, Mines & Heavy Engineering (Deptt. of Iron & steel)	The Committee are perturbed to learn about the conflicting views of the teams of German and Indian Experts. They trust that the Hindustan Steel Ltd. will take adequate steps to rectify all the defects in the plant and its maintenance, and that shortfalls in production will be avoided in future.
29	38	Do.	The Committee hope that every effort will be made to reduce the cost of production would be useful for the Ministry to make periodical comparison of the cost of production in Hindustan Steel Limited with that in TISCO and IISCO. The Secretary, Deptt. of Iron and Steel, assured the Committee that with the increasing efficiency in production, the Hindustan Steel Ltd. would better even the TISCO figures and that was their aim. The Committee hope that this aim will be fulfilled soon.
30	39	Do.	The Committee note that steps are being taken to reach peak production and to reduce the costs of production. They hope that the concrete results of these steps in the shape of reduced cost of production in the Plants under Hindustan Steel Ltd. at least to the extent of the cost of production of private producers would be visible soon.
31	40	Do.	The Committee would like to be informed about the final outcome of the case relatives to Dolomite Calciums Plant.

32	41	Do.	The Committee consider it unfortunate that as a result of the wrong judgement on the part of the authorities a saving of about Rs. 30 lakhs in foreign currency could not be effected. They hope that proper thought and consideration would be given in future to such matters so as to avoid recurrence of such cases.
33	42	Do.	The Committee are not convinced of the argument advanced in this case. They do not appreciate why in the case of supplies separately made by individual contractors (members of the Consortium) through the Consortium, profit should be given to two contractors for the same supply. The Committee suggest that the feasibility of safeguarding against such double profit be examined.
34	43	Do.	The Committee were informed that it had not been possible for Audit to assess whether all the defects pointed out by the team of German Experts have been rectified and the extra expenditure involved. The Committee would like the Ministry to furnish this information to the Committee.
35	44	Do.	The Committee are sorry to note that the trouble in the first Blast Furnace was due to faulty way in which the bricks were arranged which had led to certain leakages near the top hole. This resulted in an extra expenditure of Rs. 99,474 on clearing up the lining and relaying it. The Committee hope that such costly errors would be avoided in future.
36	45	Do.	The Committee trust that the over-all improvement claimed to have been achieved in the plant as a result of the steps taken will continue to be maintained.
37	46	Do.	The Committee regret to note that as a result of use of defective cement in the construction of structures an extra expenditure estimated at about Rs. 8·03 lakhs was incurred besides a loss of incidental expenditure amounting to Rs. 19·02 lakhs. The Committee are

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			surprised to learn that the Hindustan Steel Ltd. depended entirely on the suppliers' test certificate and no tests were carried out either at the time of despatch or before the cement was used in the construction of structures by the engineers of the project. The Committee desire that an enquiry should be made to fix responsibility for the lapses which resulted in such a heavy loss to public exchequer. and to determine the extent to which this loss can be made good from the Cement Distributors Ltd. which was responsible for supplying defective cement.
38	47	Steel, Mines & Heavy Engineering (Iron & Steel)	It was a revelation to the Committee that the terms of the contract with the contractors were so wide that Hindustan Steel Ltd. were concerned merely with the paying of the amounts claimed on the basis of certificates given by consultants. and that there was no check, inspection or examination of the work done or of the rates fixed. This unfortunate situation has led to the alleged overpayment to the extent of Rs. 100 lakhs (of which about Rs. 62 lakhs have not been considered to be over payment by the Hindustan Steel Ltd. authorities) to the Consultants who are supposed to be looking after the interest of the Hindustan Steel Ltd. The Committee feel that the terms of the agreement which were stated to be so extra-ordinary need to be re-examined and suitably revised if possible at this stage. Another aspect that disturbs the Committee is that such heavy payments were made without any officer of the Company caring to check up the correct position, as a result of which at least an amount of Rs. 38 lakhs (even if the conservative estimate of the Director is to be accepted) in all probability overpaid to the contractors is under investigation (out of which Rs. 13 lakhs have already been recovered). What is more distressing to the Committee is the

			fact that these matters would not have come to notice in the normal course had there been no complaint and investigation.
38	47	Do	The Committee consider it rather strange that against the estimate of overpayment to the extent of about Rs. 100 lakhs made by an Engineer with technical knowledge the value of items which were not considered worth further examination by the Director amounted to Rs. 62 lakhs. They feel that full facts of the case have not come to light. The Committee, therefore, recommend that Government should appoint a high level Inquiry Committee to investigate the cases of alleged overpayments reported by the Civil Engineering officer. The Committee would also like to know the final outcome.
39	48	Do.	The Committee are glad to note that percentage of losses on various products has come down. The Committee understand that the existing limits of losses fixed by the Company are on the high side and are being reviewed. They would like to be informed of the reduced limits of losses proposed to be fixed by the Company.
40	49	Do.	The Committee feel concerned to note that the demurrage charges incurred by the H.S.L. which were Rs. 20·33 lakhs in 1960-61, had gone upto Rs. 63·83 lakhs during 1961-62 and Rs. 56·65 lakhs in 1962-63. The Committee would like to draw attention in this connection to para 32 of their 7th Report (Third Lok Sabha) wherein they had recommended that demurrage charges would not only push up the cost of end product at the project but also impede the optimum utilisation of wagon capacity of the country. The Committee cannot accept that incurring the demurrage charges as a regular feature is totally unavoidable. In their view demurrage charges are avoidable and wasteful expenditure. In the evidence the Committee were informed that the matter was discussed with the Railways at various levels. The Committee trust that effective steps will be taken in co-operation with the Railway administration to minimise/eliminate the demurrage charges.

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41	50	S.M. & H.E. (Iron & Steel)	The Committee appreciate that with the heavy capital investment, any large projects of this magnitude are apt to work at a loss in the initial phases, till the peak production is reached. Since all the three plants have started working to their full capacity, the Committee hope that their future financial results will show profits.
42	51	Do.	The Committee regret to note that there was a heavy balance of Rs. 167·37 lakhs under stock suspense account and purchase advance account at Bhilai on 31st March, 1963. They hope that with the creation of a special cell for clearance of suspense accounts, the amount would be properly adjusted. The Committee would like the H.S.L. to ensure that such heavy balances do not accumulate under stock suspense account in future.
43	52	Do.	The Committee are glad to learn that the system of internal audit has been reorganised and improved. They would, however, like to point out that the system of internal audit can be really effective only if the audit objections are attended to with promptitude. The Committee would like the H.S.L. to take steps to ensure prompt and adequate attention to points raised by the Internal Audit Department.
44	53	Do.	The Committee need hardly emphasise the necessity of reducing the percentage of rejections to the minimum as ultimately rejections mean loss to the company.

45	54	Do.	The Committee suggest that special efforts be made by the Hindustan Steel Ltd. to settle early all the outstanding dues from the Government Departments, especially from the Railways, who are the principal debtors and also from the private parties. Where necessary the good offices of the Deptt. of Iron and Steel may be availed of.
46	55	Do.	In regard to the number of contracts given in the past to this firm and its performance, the Committee desired to have further information on the following points: (a) whether the firm who were awarded a contract for the supply of moulds and hot tops were awarded any other contract in the past also, and if so, how many (showing the amounts of each contract) and what was their performance in these contracts, (b) whether they were given any other contract also after their performance in regard to the contract for the supply of moulds and hot top was known? The information is still awaited.
47	56	Do.	(i) The Committee are not satisfied with the explanation advanced by the representative of the Hindustan Steel Ltd. for placing the order (Rs. 42 lakhs) for the purchase of ingot moulds and tops at a very high price on a particular firm when other firms had quoted lower rates. It is unfortunate that no serious efforts were made to ascertain the normal price of moulds and tops before placing the order. The Committee regret to note that the order was placed on the firm for the supply of moulds and tops even though the firm did not have at that time full technical facility for the manufacture of ingot moulds. The supply depended entirely on the future programme of reconstruction of the works of the firm.

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			(ii) The disclosures made by the second team of experts who visited the workshop of the firm about the abnormally high prices contracted for and the fact that the moulds supplied by the firm were brittle and could not withstand the first pouring of the molten metal point to the need for an investigation for fixing responsibility for the irregularities which have involved the project authorities into difficulties and a suit in the Court of Law. The Committee would like the entire deal to be investigated and be informed of the final outcome.
48	57	S. M. & H. E. (Deptt. of Heavy Engineering)	The Committee desire that the physical verification of stocks which had been taken up may be completed early and the result communicated to them.
49	58	Do.	The Committee find from the Audit comments and the facts placed before them in the course of evidence that certain items which were not to be taken credit of, have been included in the credit side. The Committee feel that to that extent the profit and loss account will be affected. Since it is desirable that the profit and loss account and the balance sheet of the Company should give accurate and correct picture of their working, the Committee desire that the Hindustan Steel Limited should take suitable measures so that such lacuna do not creep in the accounts.
50	59	Do.	In the opinion of the Committee, when the liability for incurring reclamation charges was known, the same should have been taken into consideration in valuing closing stock of middlings.

51	60	Do.	(i) The Committee enquired about the targets of production in terms of H-22 lathes fixed by the Board of Directors for the years 1961-62 and 1962-63 and the actual production in terms of H-22 lathes during these years. The witness promised to furnish the information. The Committee also enquired about the percentages in terms of money value, of imported components used in H-22 lathes and other machine tools manufactured or assembled during each of these two years. The witness promised to supply the information. It is still awaited. (ii) The Committee observe that the figures of production included machines assembled from ready-to-assemble parts. It was admitted by the witness that the assembly of machine tools from imported ready-made parts required less time than the actual production of complete machine tools from raw materials. The Committee, therefore, feel that in order to present a correct picture of production, the figures of production in both cases should be maintained and shown separately by the Company in their documents. The Committee feel that fixation of targets on the basis of value of production in terms of selling prices will only give an unrealistic picture. The Committee also suggest that a uniform procedure on the basis of standard man hours should be adopted by the Company while fixing the targets so that there can be no ambiguity in judging actual performance against these targets.
52	61	—Do—	(i) The Secretary of the Ministry promised to look into the total working hours of the Company. The Committee would like to be frunished with a note on the subject. (ii) In the meantime the Committee trust that every effort would be made to improve the efficiency of the labour so that it reaches the European standard without undue delay. Given adequate experi-

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			ence, proper working conditions and necessary supervision and guidance, the Committee see no reason why the standard of performance in Indian factories should be lower than in European countries.
53	62	S.M. & H.E. (Heavy Engineering)	The Comimttee regret to note that although more than seven years have passed since the Reserve Bank of India recommended that funds of statutory bodies and Government Companies should be invested in the State Bank of India or its subsidiaries which was accepted by Government in principle, no decision has been taken so far in this regard. The argument put forth by the representative of the Ministry that due to their past association with the United Commercial Bank it was not considered desirable to transfer the whole amount to the State Bank of India, is hardly convincing. (According to the Annual Report of 1962-63, the Bank Balances of the H.M.T. with the scheduled Banks on 31st March, 1963 were Rs. 89,51,552). The Committee are of the view that once the recommendation of the Reserve Bank of India had been accepted by Government in principle, the Bank account should have been transferred to the State Bank of India by the H.M.T. without any reservation. They desire that the decision of Government in the matter should be expedited and the Bank account of H.M.T. transferred to the State Bank of India without any further delay. The Committee would like Government to ensure that the recommendations of the Reserve Bank of India in this connection, which have already been accepted in principle, are also implemented in practice.
54	63	Do.	The Committee enquired the extent to which H.M.T. had actually spent the amount of Rs. 150 lakhs contributed by Government towards share capital for the III Factory for the purpose for which it was

			given; the amount of balance, if any, and how the balance was utilised. The witness promised to furnish the information. It is still awaited.
55	64	Do.	The Committee view with concern that there had been diversion of Government funds amounting to Rs. 136·77 lakhs and no check was exercised by the H.M.T. to see that money was utilised for the particular purpose for which it had been given. It is all the more regrettable that the diversion of funds was resorted to without the knowledge and approval of the Ministry concerned. The Committee were assured during evidence that in future fiscal discipline in utilisation of Government funds would be observed. They trust that such cases will not occur in future. They would, however, like the Ministry of Finance to issue strict instructions on the subject. The Committee also note that a large sum of Rs. 175 lakhs had been disbursed to the Company by Government far in advance of actual requirements. This in the opinion of the Committee is wrong in principle. They would like the Ministry of Finance to look into this aspect and lay down principles to be followed at the time of disbursing funds for specific purposes.
56	65	Steel, Mines & Heavy Engineering (Deptt. of Mines & Metals)	The Committee are not convinced that the abnormal delay in assessing the assets and liabilities in this case was unavoidable. All the eleven collieries, even though some of them might be very old, were owned by the Government of India. These were transferred to a Government Corporation. Therefore, there ought not to be any difficulty in the matter of assessing the assets and liabilities. The only reason that would be responsible for the difficulty could be the

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			fact that Accounts of these collieries and the records of topographical maps had not been maintained properly by the original owners (Government Departments). Such lapses, in the opinion of the Committee are serious and merit special notice and remedial action.
			The Committee hope that now that the topographical maps have been prepared, there would be no further delay in effecting final transfer of the Assets and Liabilities to the Corporation.
57	66	S.M. & H.E. (Mines & Metals)	The Committee are surprised to learn that the Special Officer was appointed for the determination of balances six years after the event. The Corporation and Government must have been aware of the position relating to effective balances of liabilities from the very beginning. The Ministry have shown a lack of initiative in this matter which is regrettable. The Comittee would like to be apprised of the results as soon as the work is completed by the Special Officer.
58	67	Do.	The Committee hope that the efforts of the Corporation to realise the outstanding debts (about Rs. 40 lakhs) from parties known to them would bear fruit. They would like to be infirmed of the result of the efforts.
59	68	Do.	The Committee learn with regret that initially due to inadequacy of transport, (shortage of wagons as well as line capacity) and later mostly due to slump in the market, the production of coal had to be deliberately kept down. This only indicates that initial targets were

			not fixed realistically. Since scaling down of production below the targets initially fixed results in a large proportion of the machinery being rendered idle and workers laid off, the Committee desire the Government and the Corporation to make long-term planning with the help of the Ministry of Railways and Transport and maintain close liaison amongst themselves so that such situations do not arise in future.
60	69	Do,	The Committee desired to be furnished with a statement setting forth the yearly targets and actual production of each colliery under the control of the Corporation for the Second Plan period. The representative of the Corporation promised to furnish the requisite information later. This information is still awaited.
61	70	Do.	The Committee would like to know the result of the study by the experts and the action proposed to be taken thereon by Government to improve facilities for transport of coal by means other than rail.
62	71	Do.	While the Committee are glad to know about the remedial measures which are being taken to avoid losses by fire they cannot find any justification for not taking such measures as soon as stocks had begun to accumulate. They also feel that in anticipation of the accumulation of stocks, the N.C.D.C. should have taken a decision to scale down the production at the appropriate time. In their opinion, it was hardly prudent on the part of the Corporation to display their capacity to achieve the target despite heavy accumulation and attendant risk of fire which eventually resulted in a total loss of about Rs. 2·40 crores to the public exchequer.
63	72	Do.	The Committee are sorry to learn that a loss of Rs. 16:70 lakhs occurred due to deterioration in quality of coal stacked in various collieries. The Committee would impress upon the Corporation the

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			need to avoid such losses by taking preventive measures at appropriate time.
64	73	S.M. & H.E. (Mines & Metals)	The Committee would like to be informed when the two walking draglines and the crawler mounted dragline are actually commissioned. They would also like the Corporation to ensure that delays involved in assembling such costly machinery are reduced to the minimum.
65	74	Do.	The Committee may be informed of the latest position regarding the utilisation of the plant and machinery.
66	75	Do.	(i) The Committee desired to know the percentage of spares to the total value of consumable stores held as on 31-3-1957 and 31-3-1962. This information is still awaited. (ii) Even after making due allowance for the various factors explained during evidence, the Committee feel that in the closing stock of stores and spare parts etc. from Rs. 60·78 lakhs on 31-3-1957 to Rs. 1059·03 lakhs on 31-3-1962 (or 1742·4 per cent) is far too excessive. In the opinion of the Committee the holding of stores much in excess of the actual requirements not only locks up capital but is attendant with the risk of loss due to deterioration in storage. They suggest therefore, that the requirements should be assessed more realistically than what seems to have been the case hitherto. The Committee would like the Corporation to take early steps to reduce the closing stocks of stores and spare parts etc. to a more reasonable proportion.
67	76	Do.	The Committee regret to note that Plant and Machinery valued at Rs. 91 lakhs should have remained unutilised for a period of 4 years. The Committee would like the Ministry to examine whether there was adequate justification for purchasing such costly machinery without first establishing definitely whether they could be utilised for

			the purpose in view, and whether the plant and machinery in question had deteriorated to any extent due to their remaining unutilised for 4 years.
68	77	Do.	The Committee do not appreciate such delays in the examination of the Accounts and desire that this work should be expedited.
69	78	Do.	The Committee consider it unfortunate that it had not been possible to conduct cent per cent physical stock-verification of stores. They need hardly emphasise the importance of this work in order to safeguard against losses owing to pilferage or otherwise. They hope that cent-per cent annual stock verification will be conducted regularly in future.
70	79	Do.	The Committee hope that the work relating to reconciliation of the cost sheets with the financial accounts of collieries would be completed without undue delay.
71	80	Do.	The Committee are unhappy to note that an infructuous expenditure of about Rs. 18:54 lakhs had to be incurred by the Corporation due to their failure to reserve power to the phased consumption depending upon the development programme of the coalfields in the Central India. It appears that in charging this amount the Madhya Pradesh Electricity Board had not taken into consideration the employment potential and industrial development created by the N.C.D.C. Moreover, the Board had also failed to complete their sub-station owing to which the Corporation have suffered. The Committee, therefore, desire that this matter should be reviewed, a written agreement arrived at and the N.C.D.C. should not accept liability where the responsibility was that of the State Electricity Board. The Committee suggest that this matter should be settled at a high level meeting between the representatives of the Centre and the Madhya Pradesh Government assisted by the N.C.D.C. and the State Electricity Board.

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72	81	S.M.H.E. (Mines & Metals)	The Committee trust that the Corporation would show better results, now that the production is to be increased.
73	82	Do.	The Committee feel that the situation as revealed in this case should not have arisen had there been firm agreement between the N.C.D.C. and the Hindustan Steel Ltd. regarding price etc. at the very beginning. It is also unfortunate that there should be difference of opinion at a later stage between two Public Sector Undertakings. The Committee therefore desire that the standard cost of washing should be fixed without further delay and firm agreement entered into for the priod after 31st March, 1963 so that difficulties of the nature disclosed in the Audit para do not arise in future.
74	83	Do.	The Committee do not appreciate the reasons advanced for crediting the sum of Rs. 16·31 lakhs to the Profit and Loss Account. This has resulted in over-stating the profits of the Company to the extent of Rs. 16.31 lakhs, otherwise the working results would actually show a loss of Rs. 4.42 lakhs. The Committee, therefore, desire that correct and uniform procedure should be followed in preparing the Balance-sheet, Profit & Loss Accounts etc.
75	84	Do.	The Committee were glad to be informed that with the exception of Giridih Collieries, it should be possible to put all the other collieries on a profit basis. The Committee trust that this hope would be realised in the near future. The Committee would however, like Government to examine the suggestion made by the C. & A. G. for giving subsidies to the Corporation for collieries which were to run at a loss under a

			directive from the Central Government, in view of the fact that the N.C.D.C. has been set up by Government as a commercial organisation.
76	85	Do.	The Committee desired to know the value of unserviceable stores lying with the Corporation for disposal. The representative of the Corporation promised to furnish the information later. This is still awaited.
77	86	Do.	The Committee desired to be furnished with a note/statement setting forth the latest position regarding the amount due for recovery for sale of coal (including those outstandings for more than one year). This information is still awaited.
78	87	Do.	The Committee hope that with the appointment of a special officer and inspectors for taking up the arrears with State Governments and an officer of the Accounts Department for taking up the dues with the Railways, there would be improvement in the recovery of dues from Government Departments.
79	88	Do.	The Committee do not feel happy over the slackness shown in the realisation of dues from middlemen. They hope that some ways would be devised so that such dues do not accumulate. In the meantime efforts should be made to recover the dues which are more than three months old from private parties.
80	89	Do.	It is obvious that there had been not only negligence on the part of superior officers in retaining on duty the store-keeper whose suspension was ordered by the Managing Director, but also non-compliance with the orders of the Head of the Department which is a serious matter. This action on the part of the officers amounts to shielding of a person suspected of connivance in the theft, as also breach of office discipline. The Committee would like the

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			Ministry to investigate how the orders of the Managing Director were not carried out and who were responsible for the same.
81	90	S.M.H.E. (Mines & Metals)	It is unfortunate that the Company could not get a rebate of Rs. 97,000 owing to delay in getting the bills certified by the collieries. The Committee would like to be informed of the result of working of the new procedure for payment now introduced.
82	91	S.M.H.E. (Mines & Metals) Finance	The Committee regret to note that as a result of the interpretation given by the Company Law Administration to the provisions of Act relating to Branch Auditors, Government Companies are appointing their own Officers as Branch Auditors. This in the opinion of the Committee is not a healthy practice. It is obvious that the comments of the Branch Auditors who are officers of the Company cannot be as objective and independent and would not receive the same weight as the comments of independent Auditors appointed on the advice of the Comptroller & Auditor General. The Committee desire that this matter should be reviewed and the present practice of appointing Branch Auditors for Government Companies in the manner described should be discontinued. In the opinion of the Committee, the Branch Auditors should also be appointed on the advice of the Comptroller and Auditor General in the same manner as that of the Auditors for the Head Office.
83	92	International Trade	While the Committee appreciate the need to export certain commodities in order to earn foreign exchange, they feel concerned with the manner in which the losses suffered on exports are made good at the expense of the consumers in India. Since the profits on the imported items, to make good the loss, are earned in India,

			it is the common consumers in India who have to pay extra for these imported items. This, therefore, amounts to a sort of an indirect levy, which in the opinion of the Committee, is not quite justifiable. The Committee hope that Government will consider this aspect of the problem and arrive at a better solution.
84	93	Do.	The Committee are happy to note that the volume of direct trade of the Corporation has improved from Rs. 64.69 crores to Rs. 77.39 crores in 1961-62 showing a rise of about 20% over the previous year; but they feel that they would have been in a better position to appreciate the position had the information, as asked for by them, regarding the total margin of loss in exporting of commodities in respect of which internal prices are higher than the international prices, and of profits earned on the linked imports under barter trade for 1961-62, been furnished to the Committee. The information is still awaited.
85	94	Do.	The Committee were informed in evidence that diversion of a commodity imported from India had been resorted to by a country with whom agreements had been entered into. The commodity was bought from India under the rupee trade agreement and it was sold to another country to get foreign exchange. The Committee hope that such cases are promptly taken up with the country concerned as being contrary to the agreements.
86	95	Do.	The Committee hope that the S. T. C. will continue to be vigilant and watch the trend of the world trade to derive maximum advantage to the Indian Industry in exporting iron ore.
87	96	Do.	The Committee would like the Corporation to make efforts towards the resumption of iron ore trade with the West European countries also.

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88	97	International Trade	The Committee note that owing to the lack of adequate experience of the S. T. C. at the beginning and other factors there was a loss of Rs. 5.26 lakhs on this deal. They hope, however, that the S. T. C. will benefit from this experience and that it will take all possible steps and precautions to avoid such losses, in future. A state agency like the S. T. C. should take all precautions to ensure that it does not default in fulfilling the terms and conditions of contract accepted by it.
89	97	Do.	The Committee would also like the Ministry of International Trade to take up the question of making Railway Wagons available in time for the movement of manganese ore to ports and for this purpose some working arrangements with the Railway Board should be made so that similar situations may not arise in future.
90	98	Do.	The Committee hope that the Managanese Ore Committee would be able to finalise their study early and it will be possible for Government to take steps on their recommendation for improvement of the position relating to export of manganese ore.
91	99	Do.	The Committee would like to suggest that it is desirable to ensure that the ore content of the minerals exported by the private sector was also upto the prescribed standard, as it might otherwise affect adversely the reputation of India in international trade. They trust that suitable steps will be taken in this direction soon. The Committee also hope that all out efforts will be made to arrest the downward trend of the export figures of manganese ore.

92	100	Do.	The Committee are glad to know that the export of shoes is being increased. They hope, however, that the State Trading Corporation will benefit by the experience they have gained in the export of shoes and will take all possible precautions including improvement in the quality to avoid such losses in future. The State Trading Corporation should regard it a matter of prestige to see that the goods supplied by it are not rejected on account of being below standard.
93	101	Do.	While the Committee do appreciate that some of the factors resulting in heavy demurrage charges during 1960-61 were beyond the control of S.T.C., they cannot accept that incurring demurrage as a regular feature is unavoidable. Demurrage charges are wasteful expenditure pure and simple. The Committee would therefore like S.T.C. to devise ways and means of eliminating the wasteful expenditure.
94	102	Do.	The Chairman of the Handicrafts and Handlooms Exports Corporation of India Ltd. added that in 1958 the export of cotton handloom goods to the U.S.A. was worth Rs. 13 lakhs. This rose in 1959 after the formation of the Handloom Export Organisation to Rs. 1·69 crores. Last year's export figures were Rs. 2·50 crores and for the current year it was expected to reach the figure of Rs. 3·50 crores to Rs. 4 crores. The Committee are glad to note the steady improvement in the export figures of cotton handloom goods to the U.S.A. They hope that this trend will be maintained and that efforts will be made to popularise cotton handloom goods in other foreign countries also.
95	103	Do.	The Committee hope that with the merging of the Handloom Export Organisation with the Indian Handicrafts Development Corporation all duplication of work would be avoided and there would be uniformity of approach to trading and development activities.

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96	104	International Trade	The Committee do not appreciate the policy that when the imported articles were scarce in the country, the S.T.C. should charge a much higher price for these articles putting the consumers to much difficulty and suffering. They suggest that some via media should be found out to solve this problem. In order to get a clear picture of the various transactions involved in this deal, the Committee desired to have additional information from the Ministry as per list of points in Appendix I. The Committee regret to note that the information has not yet been received so far (Feb., 1964).
97	105	Do.	The Committee are not quite convinced with these arguments. They feel that it should be possible for the Directorate of Exhibition to handle all the work connected with Exhibitions. Other organisations like the S.T.C. and Handicrafts and Handloom Export Corporation can entrust the work in connection with exhibitions to one of their officers. That officer should remain constantly in touch with the Directorate of Exhibitions and supply them with such data and information as required from time to time. The Committee would like the Ministry to re-examine this question in the light of the Committee's observations.
98	106	Industry	The Committee were anxious to satisfy themselves if at the time of taking over the management of the Company or immediately thereafter the Central Government had duly looked into the state of assets and liabilities and the accounts of the Company so as to see that Government were not saddled with accumulated losses of the

			past, and the price paid by them for acquisition of share capital had been arrived at on a fair assessment of assets. Having been unable to obtain information during oral evidence, the Committee desired to be furnished with a note on the following points; but the note is still awaited : (i) Basis of valuation of the Mills. (ii) Value fixed for assets and liabilities of the Mills (The figures for assets and liabilities to be given separately). (iii) What was the market value and face value of the Shares of the Mills at the time when the Mills were taken over by the Central Government. (iv) Whether the amount of loss shown in the accounts of the Mills to the tune of Rs. 1·73 crores when they were taken over by the Government of India, was adjusted against the payment of compensation. If not, what was the position. (v) What was the conclusion reached after valuation regarding the State of assets and liabilities with reference to the book value taken over.
90	107	Industry	The Committee note from the evidence that the main problem faced by the Mills arises out of unsuitability of the available raw material for production of newsprint and this also affected the economics of production. The Committee consider it unfortunate that this factor had not been given due consideration when the location of this factory was decided. They were informed that until recently some pulp had to be imported to be mixed with indigenously manufactured pulp so as to improve the quality of the fibre. The Committee had also been informed that at present only about 25%

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			of the requirement of newsprint in the country was being met by indigenous production and that it was proposed to expand/indigenous production by increasing the capacity of Nepa Mills from 30,000 to 75,000 tonnes by 1966 and by creating a further capacity for 1,50,000 tonnes in the private sector. The Committee hope that the question of availability of suitable raw materials for the new schemes will be given due attention and that the history of Nepa Mills will not be repeated in their case. Urgent attention must also be paid to the training and recruitment of technical staff.
:x	108	Do.	(i) In view of the proposed expansion of the capacity of Nepa Mills, the problem of diminishing reserves of Salai wood assumes added urgency. The Committee suggest that it is necessary to assess how long the existing reservs woueld last and that the ways of increasing them and of growing alternative woods should be systematically examined and pursued so that the aforestation programme of the State Government is kept abreast of the requirement of Nepa Mills.
		Do.	(ii) The Committee were informed that suitable soft-woods were available in Kashmir in the Himalayan slopes but the problem was of their transport and economics of pulp manufacture. They were also informed that the possibility of putting up a plant in Kashmir was being explored. Since it is in the long term interest of the newsprint industry in India to produce pulp of good quality indigenously rather than importing it, the Committee feel that it is high time that priority is given to this matter.
101	119	Do.	The Committee note that the cost of production had been brought down from Rs. 869 a ton in 1961-62 to Rs. 830 in the current year. It

			is however significant to note that the cost of imported newsprint per ton is between Rs. 800 and Rs. 900. If due allowance is made for shipping charges, customs duties and the margin of profit it would be obvious that the cost of production would be considerably less in the foreign countries. The Committee, therefore, hope that efforts will be continued to bring down the cost of production still further.
102	110	Industry	The Committee feel that with the experience already gained in the manufacture of newsprint without admixture of imported pulp with the indigenously manufactured pulp, it is desirable to fix some tentative standards for consumption of raw materials as compared to the finished product. These could be revised in the light of further experience.
103	111	Do.	The Committee regret to note that the question of setting up the plant through a private party or by the Mills themselves was not dealt with the urgency it deserved in view of the saving of Rs. 2 or 3 lakhs per year expected to accrue as a result thereof.
104	112	Do.	The Committee note that the Annual Report of the Company for the year 1961-62 was rather sketchy. They desire that the next Annual Report of the Company should be more informative as regards its achievements against targets fixed, the major problems encountered and solutions found and it should also deal with such matters as cost, control, progress of expansion of capacity training imparted to personnel etc.
105	113	Do.	A sum of Rs. 0.93 lakhs was charged to the profit and loss account for the year 1961-62. This represented loss due to fire of bamboo worth about Rs. 1.91 lakhs less an amount of Rs. 0.98 lakhs recovered from the Insurance Company. The Committee were informed that the cause of the fire was not known. The entire stock was not covered by insurance. The Committee would like to know the reasons therefor.

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			The Committee hope that necessary precautions are being taken to avoid such losses in future.
106	115	Deptt. of Atomic Energy	In order to examine the matter further the Committee desired to be furnished with certain further information. From a note furnished by the Company pursuant thereto the Committee observe that the quantity of 11597 kg. of Carbonate (Oxide) was sold to the S.T.R. during November, 1950 to June, 1951. During this period Carbonate (Oxide) weighing 12,803.50 kg. was also sold to outside parties by the S.T.R. Therefore, the plea that that the decision to sell carbonate to the French Firm, on the basis of the price for chloride, was taken in view of lack of demand for it is not very convincing. According to the note submitted by the Company the price for carbonate was fixed in accordance with the decision of the Board on 21st April, 1951 that the selling price of rare earths chloride be fixed at £375 per ton ex-works. It has been contended that although the minutes of the meeting of the Board contained no separate reference to the sale of carbonate on the basis of the price of rare earths chloride solution from which it had been obtained by the French firm at its own cost, the management's action was based on the discussion and consideration of the matter at the Board Meeting and within the spirit of the actual minute recorded by the Board. The Committee understand from Audit that the decision taken at the Board meeting held in April, 1951, deals only with the selling price of Rare Earth chloride and does not refer to carbonate. That this decision is not applicable to carbonates sold in question is also evident from the fact that in the statement of accounts rendered upto June, 1951 the S.T.R. gave credit for carbonate taken over by them at the rate approximating to the market rate less their commission and profits. The rectification

			entries reversing the original credits at market price were made only in the return of the third quarter for 1951 received from S.T.R. The financial implications of the rectification entries and of the sale at the price of Rare Earth Chloride solution in the light of the market price of carbonate, when they were taken by the S.T.R. in the form of carbonate, had not been brought to the notice of the Board. The Committee are surprised that an important decision having financial bearing should not have been specifically mentioned in the minutes of the meeting of the Board of Directors. They desire that proper records should be kept of all important decisions to avoid any possibility of doubt.
107	116	Deptt. of Atomic Energy	The Committee consider it wrong in principle to utilise the services of internal auditors for the preparation of the accounts, which they themselves are required to audit later on. In order that the audit may be effective it is essential that the two functions should be discharged by different persons. The Committee found that in the case of another Public Undertaking also (Hindustan Shipyard Ltd.) the Audit staff was diverted for the preparation of final accounts. The Committee, therefore, desire that their observations should be brought to the notice of all the public undertakings, etc. to avoid the recurrence of such instances.
108	117	—Do—	The Committee would like to be informed of the settlement reached in this case and the amount recovered from the firm.
109	118	Defence	While the Committee note the difficulties encountered by the company (Bharat Electronics Ltd.) in the preparation of accurate estimates, they feel that with a closer liaison with the Ministry of Defence and other Government Departments and a more realistic basis of assessment, in the light of the Company's past experience, the position can be significantly improved. The Committee trust that

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			the Company will pay due attention to the matter, and initiate necessary steps to achieve the desired end.
11	11	Do	The Committee desire the Company to take an early decision regarding the introduction of the above-mentioned suggestion of the Comptroller and Auditor General. They also desire the Company to make special efforts for the expeditious realisation of the heavy debts which have already accumulated.
111	12	—	The Committee desire that the work relating to the laying down of the duties to be performed by various officers for the maintenance of accounts in the Garden Reach Workshops Ltd.
11	121	—Do—	The Committee are surprised that the Accounts of the Garden Reach Workshops—a commercial undertaking—should have been so badly maintained. They desire that vigorous efforts should be made by the Workshops to bring their Accounts to a satisfactory level.
11	122	—Do—	The Committee view with concern the accumulation of heavy Debts due to the Workshop which appear to be disproportionately large in relation to their turnover. They desire the Workshops to take effective steps for the expeditious realisation of these dues. They would also like the Ministry to examine the feasibility of implementing the Comptroller and Auditor General's suggestion (referred to in an earlier para) that 90 per cent of the value of the goods sold may be charged before despatch and 10 per cent thereafter.
114	123	—Do—	The Committee desire that disposal of the stores should be expedited. They further desire that the leeway in the introduction of

			a scientific system of procurement and inventory control in the Workshops should be made up at early date.
115	124	Defence	The Committee regret the losses suffered by the Mazagon Dock in the production and sale of the Engine in question. They note that the Company are already seized of the question of discontinuance of the production of the Engine. They would like to be informed of the final decision taken in the matter. Before the Company finally decided to discontinue the production of the Engine, the Committee would like them to examine critically once again whether it would not be possible to eliminate the marginal loss, by improving the technique of production and/or by a slight increase in the selling price.
116	125	—Do—	The Committee view with concern the phenomenal increase in the debts outstanding to the Company (from Rs. 20·63 lakhs as on 31st March, 1959 to Rs. 99·58 lakhs as on 31st March, 1963). The Committee desire that special efforts should be made by the Company for the expeditious realisation of these dues. In cases where the outstanding could not be realised due to differences regarding the rates charged, the matter may be settled with the customers at a higher level in a spirit of conciliation. In order that such heavy dues do not accumulate in future, the Committee would like the Company to examine the feasibility of implementing the Comptroller and Auditor General's suggestion (referred to in an earlier para) that 90 per cent of the value of the goods sold may be charged before despatch and 10 per cent thereafter.
117	1	—Do—	The Committee feel that as the repair orders, when accepted, would directly or indirectly earn foreign exchange for the country, the expansion scheme of the company should be accorded a high priority

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118	131	Food, & Agriculture (Deptt. of Agriculture)	The Committee note that one of the reasons for the short-fall in procurement of milk was the defective working of the collection and chilling centres. Thus, the two centres set up by the Scheme at Alipore and Najafgarh were not functioning at all. Similarly the supplies from Ballabgarh and Bahadurgarh centres last winter was only 80-90 maunds as against the maximum capacity of 400 maunds. (At Bahadurgarh the supplies during the summer was only 35 maunds). From the facts placed before the Committee it is obvious that there had been a failure to make proper survey about the availability of milk to the Scheme before setting up these Centres. The Committee were surprised to learn during evidence that as early as 1960 the Scheme had tried to procure milk at Alipore and Najafgarh centres with the help of local Administration but it could not succeed. Even then, the Scheme went on investing on these centres. Expenditure was incurred on the electrification of the Alipore Centre and an Assistant Manager was posted for five months (from 24th January, 1963 to 24th June, 1963) and paid Rs. 250 per month for surveying the milk supply although no milk could be collected at the Centre.
119	132	—Do—	The Committee regret to note that lack of proper planning and fore-thought had resulted in large capital expenditure incurred on the setting up of these Centres (about Rs. 3 lakhs on each Centre), remaining unutilised, besides a lot of recurring expenditure on staff appointed to look after these Centres. They trust that the Scheme would be more careful in setting up further such Centres.
120	133	—Do—	While the Committee note that there had been improvement in the achievement of rated capacity for various products, they find that

			in the case of butter the production still fell too short of the rated capacity (24·11 per cent). The Committee could get no explanation for such a large shortfall in the case of butter which according to the Ministry's own statement gave a good return on capital. The Committee, therefore, feel that this matter requires further examination. As the low utilisation of rated capacity results in high percentage of over-heads affecting the cost of production, the Committee desire that efforts should be made to achieve the rated capacity for various products early.
121	134	Food & Agriculture (Deptt. of Agriculture)	The Committee would like the Delhi Milk Scheme authorities to make efforts to reduce the cost of production of ghee so that the loss incurred may be reduced if not eliminated altogether.
122	135	—Do—	The Committee desire that the reasons for the large increase in supervision and distribution charges and on miscellaneous expenditure should be re-examined and steps taken to reduce the various charges to the extent possible to minimise the cost of production of various products and also the loss suffered by the Scheme.
123	136	Do.	The Committee would also like to invite attention in this connection to their recommendation in para 52 of their Eighth Report (1962-63) suggesting that early steps should be taken to increase the through put as originally envisaged so that the Scheme runs on 'No-profit no loss basis', as intended by Government.
124	137	—Do—	The Committee feel concerned to note that although it is more than four years since the Scheme started functioning, the accounts are still in a highly unsatisfactory state. They need hardly emphasise the necessity of maintaining proper accounts to keep a watch over financial transactions and to locate abnormal wastages and/or loss due to pilferage etc. They trust that the steps taken by the Scheme would result in the improvement of the position in this regard.

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125	138	Food & Agriculture Deptt, (Agriculture)	According to a note furnished by the Ministry, milk worth Rs. 5·20 lakhs went sour and curdled since November, 1959 to the end of 1962-63. Although, out of this, milk worth about Rs. 5·09 lakhs had been utilised for making by-products, milk worth Rs. 11,650 was curdled and could not be used. Similarly, a loss of 47,873 new milk bottle valued approximately at Rs. 19,149 had been on account of fire on 18th April, 1963 as the gunny bags containing bottles had been stacked in the open yard for inspection before taking them on to stock. It is apparent from these cases that the loss of milk, bottles and other products had been not only due to normal wastage during handling and processing but due to other reasons also. The Committee, therefore, feel that this matter requires detailed examination to analyse as to what extent these losses had been due to causes other than normal wastage during handling and processing so that suitable steps can be taken to avoid such losses in future.
126	139	Do.	The Committee also feel that as it is already more than 4 years since the Scheme started functioning steps should be taken to lay down standards on the basis of past experience for the loss and wastage of milk bottles and various other products during handling and processing. This would enable the management to locate any abnormal wastage and to take necessary remedial measures.
127	140	Do.	The Committee regret to note that instead of selling butter or converting it quickly into ghee, large quantity of butter was allowed to accumulate even when the Scheme did not have an adequate deep-freeze equipment. They were informed that there had been a little

			carelessness on the part of the authorities, that necessary enquiries were being made by the Ministry in this matter and that the responsibility would be fixed. The Committee would like to be informed of the action taken in the matter as also the amount of loss suffered on this account.
128	141	Do.	The Committee were also surprised to note that although deep-freeze equipment was ordered in October, 1962, it had not been received so far. They desire that the matter should be pursued vigorously with the suppliers to avoid the recurrence of the type of losses mentioned above.
129	142	Do.	The Committee regret to note that even the elementary precaution of properly cleaning the packages before they were packed with powder was not taken in this case. They need hardly emphasise the necessity of maintaining a very high standard of cleanliness in the storage and handling of various products of the Scheme and any laxity in this regard should be seriously viewed by the Scheme. The Committee hope that such cases will not recur.
130	143	Do.	The Committee desire that efforts should be made to recover the old outstandings expeditiously.
131	145	Food & Agriculture (Agriculture) Petroleum & Chemicals	It is observed from the table given in the Report that the indigenous production of fertilizers was not keeping pace with the demand for the fertilizers with the result that substantial quantities of fertilizers continue to be imported involving heavy drain on foreign exchange. The Committee were unhappy to learn during the course of evidence that the total annual production of the fertilizers at the end of the Third Five Year Plan would be only 5 lakh tons in terms of nitrogen as against the earlier estimates of about 8 lakh tons and therefore the imports would have to continue for some time to come. The Committee desire that the reasons for the shortfall in production

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			should be examined and vigorous efforts should be made to increase the indigenous production of fertilizers.
132	148	Food & Agriculture (Agriculture) ——— Steel, Mines and Heavy Engineering (Heavy Engineering)	The Committee are not satisfied with this explanation. They observe that according to the Ministry's own admission, "at the time of the preparation of the Third Five Year Plan the Government also took into account the possibility of something like Rs. 40 crores to Rs. 50 crores as additional resources arising from the pool profits." It is, therefore, evident that the profits accruing to the Pool were not incidental due to the imported price of fertilizers being low in a particular period of one or two years but due to the fact that the prices had deliberately been kept high with a view to making profits. This, the Committee regret to point out, was not consistent with the object of the Pool, which was never intended to be a revenue earning scheme, but was to serve as an equalisation fund, so that all the imported and indigenous fertilizers could be made available to the consumers at a uniform price throughout the country. In the circumstances, such a wide margin of profit (Rs. 86·8 per metric tonne in 1960-61) by the Pool could by no means be justified. In the opinion of the Committee, fixation of selling prices at a considerable higher level than necessary for the real purpose of equalisation was objectionable in principle as it amounted to indirect taxation which was the prerogative of Parliament only. Besides, this defeated the basic concept of establishing the Pool which was to make the fertilizers available to the cultivators at reasonable rates in the interest of maximising agricultural production.
133	149	Do.	The Committee would also invite attention in this connection to their recommendation in para 17 of their 7th Report (1962-63) that 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 or production and in the expenses incurred by various intermediary agencies. The Committee, therefore, desire that Government should urgently review their pricing policy for the fertilizers keeping in view the objects of the Pool. The prices of various type of fertilizers should be so fixed as to ensure that the benefit of lower imported price/cost of production was actually passed on the consumers to promote their sale and wider use.
134	150	Food & Agriculture (Agriculture)	The Committee regret to note that the reconciliation of figures and the adjustment of the amounts between the Pool, Special Development Fund and I.C.A.R. should have taken such a long time (about 7 years). They trust that the final adjustment of the amount between the Pool and the I.C.A.R. would be expedited.
135	151	Do.	The Committee desire that the feasibility of utilising the spare capacity of the plants suitably at the Institute (I.V.R.I.) should be examined early.
136	152	Do.	The Committee note that although the price of biological products was to be fixed on a no-profit no-loss basis, the price of various products has remained unchanged since 1939 although in the meanwhile the cost of production in some of the cases had been considerably reduced due to mechanisation of manufacturing processes and introduction of new methods of packing. Even the cost of production of various products had not been worked out properly and it was only in October, 1961 that the question was taken up with the Accountant General, U.P. Even thereafter, there had been some delay and although more than two years have since elapsed the revised system of costing has not yet been introduced. The committee desire that the matter should be expedited and the prices of various products fixed taking into account the revised cost of production.

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137	153	Food & Agriculture (Agriculture)	The Committee were also surprised to learn during evidence that by convention, commercial accounts were kept for some products whereas no such accounts were maintained for others. The representative of the Ministry agreed that this matter needed a more detailed examination and that the cost of production should be properly worked out for all the products. The Committee need hardly emphasise the importance of maintaining proper cost accounts of various products to control their cost of production and for avoidance of waste. They trust that such accounts would be maintained for all the Products in future.
138	154	Food & Agriculture (Agriculture) Home Affairs	The Committee have repeatedly emphasised the need for taking prompt disciplinary action against the delinquent officials, if it is to serve the desired purpose. They trust that this matter *viz.*, the alleged misappropriation and fraud committed in years 1960-61 and 1961-62 would now receive immediate consideration and suitable action taken against the delinquent officials. The Committee would like to be informed of the outcome of the case, and also whether it had been possible to recover any part of the amount misappropriated (Rs. 24,039).
139	155	Information & Broadcasting	The Committee recommend that efforts should be made by the Films Division to effect possible economies in the production and distribution of such films so as to make them self-supporting. Steps should also be taken to bridge the gap between the income and expenditure of the auditoria maintained by the Division, for exhibiting their documentaries etc.
140	156	Do.	The Committee feel that if it is decided to locate the offices of the Films Division somewhere further away from the proposed site, it

			should be possible to acquire land and construct buildings at a much cheaper rate. They desire that feasiblity of this proposal may be urgently examined. If, however, this proposal is likely to entail heavy delays, then the construction of buildings, as already planned, may be expedited, since the Films Division is at present very much cramped for space.
141	157	Do.	The Committee regret to note that the C.P.W.D. should have been ignorant of the provisions of the statute. The provision of temporary overhead connection became necessary only because of administrative delays in sanctioning the supplementary estimate. The process took a period of 15 months. The estimate had again to be revised after another 4 months in April, 1959. The Committee desire that the Ministry of Works, Housing and Rehabilitation should take note of the unbusiness like procedures adopted in this case which cost the exchequer Rs. 21,269 and take remedial action to prevent recurrence of such cases.
142	158	Finance All Ministries	(i) In a note submitted to the Committee, the Ministry of Industry intimated that the question of reduction in the sale price of penicillin and penicillin products will be considered further in the light of the Committee views expressed in para 25 of their 7th Report (3rd Lok Sabha). The Committee welcome this move. (ii) In regard to the pricing policy in general, while the Committee agree in principle that all industrial and commercial transactions in the public sector should earn enough profits to be able to give a good dividend to the exchequer and to build up reserves to finance their own future expansion, the Committee feel that some principles should be laid down so as to see that the pricing policies do not become an instrument of indirect taxation as the power of taxation is the prerogative of Parliament only. In this connection the possibility of prescribing with the approval of Parliament a ceiling to the percentage of profit, with powers to vary the percentage within that ceiling from industry to industry might be examined.