

**PUBLIC ACCOUNTS COMMITTEE**  
**(1972-73)**

(FIFTH LOK SABHA)

**NINETY-FOURTH REPORT**

**[Reports of the Comptroller and Auditor General of India—Union Government (Civil) for the years 1969-70 and 1970-71 relating to the Ministry of Finance.]**



**LOK SABHA SECRETARIAT**  
**NEW DELHI**

*April, 1973/Vaisakha, 1895 (SAKA)*

*Price : Rs. 2.75*

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## PART II\*

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22-1-1973

23-1-1973

27-4-1973

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**PUBLIC ACCOUNTS COMMITTEE**  
**(1972-73)**

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**Shri Era Sezhiyan**

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**SECRETARIAT**

**Shri Avtar Singh Rikhy—Joint Secretary.**

**Shri M. S. Sundaresan—Deputy Secretary.**

**Shri T. R. Krishnamachari—Under Secretary.**

## INTRODUCTION

1. I, the Chairman of the Public Accounts Committee as authorised by the Committee do present on their behalf this Ninety-Fourth Report of the Committee (Fifth Lok Sabha) on the Reports of the Comptroller and Auditor General of India for the years 1969-70 and 1970-71—Union Government (Civil) relating to the Ministry of Finance.

2. The Reports of the Comptroller and Auditor General of India for the years 1969-70 and 1970-71—Union Government (Civil) were laid on the Table on the 22nd June, 1971 and 7th April, 1972 respectively. The Committee examined the paragraphs relating to the Ministry of Finance on the 22nd and 23rd January, 1973.

3. The Committee considered and finalised this Report at their sitting held on the 27th April, 1973. Minutes of the sittings of the Committee form Part II\* of the Report.

4. A statement showing the summary of the main conclusions| recommendations of the Committee is appended to the Report (Appendix II). For facility of reference these have been printed in thick type in the body of the Report.

5. The Committee place on record their appreciation of the assistance rendered to them in the examination of the paragraphs by the Comptroller and Auditor General of India.

6. The Committee would also like to express their thanks to the Officers of the Ministry of Finance for the cooperation extended by them in giving information to the Committee.

ERA SEZHIYAN

April 28, 1973

Vaishaka 8, 1895 (S)

Chairman,

Public Accounts Committee.

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## GENERAL

*Variations between budget estimates and actuals*

The original budget estimates and actuals of revenue receipts, expenditure met from revenue and expenditure on Capital Account during 1970-71 are shown below with the corresponding figures for the preceding two years:—

		Budget	Actuals	Variation	Percentage of variation
(Crores of rupees).					
Revenue Receipts*	1968-69 . @3027.30	3084.07	+56.77	+1.9	
	1969-70 . @3322.21	3388.54	+66.33	+2.0	
	1970-71 . @3678.41	3731.94	+53.53	+1.5	
Expenditure met from Revenue	1968-69 . @2896.38	3003.11	+106.73	+3.7	
	1969-70 . @3262.33	3263.37	+1.04	..	
	1970-71 . @3505.63	3568.92	+63.29	+1.8	
Expenditure on Capital Account	1968-69 . 761.48	427.91	—333.57	—43.8	
	1969-70 . 769.58	648.44	—121.14	—15.7	
	1970-71 . 843.02	941.59	+98.57	+11.7	

1.2. During 1970-71, the revenue receipts were Rs. 53.53 crores more than the budget estimates, but the expenditure met from revenue exceeded the budget estimates by Rs. 63.29 crores. The expenditure on capital account also exceeded the budget estimates by Rs. 98.57 crores.

1.3. During the course of the year supplementary grants were obtained, the effect of which was to increase the above estimates

\*Exclude payments to States of their share of divisible proceeds of taxes on income and estate duty which are taken as reduction of revenue receipts. Such payments to States during the three years were:—

	1968-69	1969-70	1970-71
(Crores of rupees).			
Taxes on Income . . . . .	194.51	293.18	359.09
Estate Duty . . . . .	5.94	6.98	6.30

@Budget estimates for revenue receipts include Rs. 6.84 crores, Rs. 23.52 crores and Rs. 34.94 crores respectively during 1968-69, 1969-70 and 1970-71 being the share of Union Excise Duties payable to States as a result of Budget proposals, which were taken in reduction of revenue. On the expenditure side, however, the figures of budget estimates exclude this element.

of expenditure met from revenue and expenditure on capital account by Rs. 137 crores and Rs. 294 crores respectively.

1.4. Further details of Revenue Receipts have been given in my Report on Revenue Receipts.

[Para I of the Report of C&AG for the year, 1970-71, Union Government (Civil)].

#### *Audit Paragraph*

1.5. The excess of Rs. 98.57 crores in expenditure on capital account as compared with the budget estimates during 1970-71 was made up of excesses under a few heads and savings under a few other heads. The excesses were mainly under the following heads:—

Head	Budget estimates	Actual expenditure	Excess
	(Crores of rupees).		
Currency and coinage . . . . .	10.50	168.58	158.08

Mainly due to (i) payment of additional subscription to the International Monetary Fund and International Bank for Reconstruction and Development and (ii) larger expenditure on customs duty, freight, insurance etc., on gold imported for payment of subscription to the International Monetary Fund. Schemes of Government Trading (—) 24.14 7.26 31.40

1.6. The substantial excess was under the following schemes:—

(a) Purchase of Foodgrains :

Gross Expenditure	27.60	52.65	25.05
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Mainly due to adjustments of larger gifts, consignments and cost of indigenous foodgrains supplied earlier by Food Corporation of India.

(b) Purchase of Fertilizers . . . . .	—11.36	—3.04	8.32
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Mainly due to clearance of 1969-70 backlog in shipments.

1.7. The excesses under the above heads were counter balanced by decrease mainly under:—

(1) Capital outlay on Indian Railways . . . . .	150.00	135.89	—14.11
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(2) Capital outlay on Posts and Telegraphs. . . . .	35.00	6.96	—28.04
(3) Public Works. . . . .	66.34	53.13	—13.21

Mainly due to lesser expenditure on national highways and delay in procurement of equipment and spares for construction of border roads.

(4) Industrial and Economic Development . . . . .	340.96	308.08	—32.
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Mainly due to lesser investment in various Government Companies.

[Paragraph 5 of the Report of C&AG for the year, 1970-71, Union Government (Civil)].

1.8. The Committee desired to know the reasons for shortfall in actual expenditure on Capital Account as compared with the Budget Estimates to the extent of Rs. 333.57 crores (43.8 per cent) during 1968-69. The Finance Secretary stated: "We have analysed all the shortfall on Plan expenditure, it used to be very large in the first 2 or 3 years." Pointing out that there was shortfall in capital expenditure in 1968-69 and 1969-70 and excess in 1970-71, the Committee asked whether there was any system of co-relation of shortfall of one year with the budget estimates of the following year in respect of continuing plan projects schemes. The Finance Secretary stated: "Allotments are given to spill over schemes." He added: "All the schemes which are provided in the Plan are getting provision but budget provision does not depend only upon expenditure which is needed on the scheme, but also on the resources available. There has to be a matching between allocations and resources." As regards the shortfall in expenditure the witness stated: "the scheme did not make progress in the first 2 years of the Plan. Funds are provided. Shortfalls occur due to non-implementation of the projects." Asked if the Finance Ministry had investigated the reasons for non-utilisation of funds, the Finance Secretary stated: "When we prepare the budget we take into account the progress of schemes which has taken place during the past years and the amounts which will be necessary in the current year and for the new schemes a detailed study is made in the Finance Ministry regarding the provisions which are required. Sometimes because of certain situations such as non-availability of steel, cement, equipment and material there are shortfalls." Asked if the Finance Ministry enforced any discipline in the utilisation of funds by the Ministries, the witness stated: "It is difficult to enforce discipline in a general atmosphere of shortages. Every Department looks at its own requirements. Situations arise during

the course of the year such as less steel and cement production and therefore, shortages are there. Sometimes you want to import but you are not in a position to import. At the beginning of the Plan it is not so much deficient."

1.9. The Committee desired to be furnished with a note stating the reasons for a saving of Rs. 28.04 crores in capital outlay on the Posts and Telegraphs during the year 1970-71. In a written reply, the Ministry of Finance (Department of Expenditure) stated: "The borrowed capital allocated to P&T Department in BE 1970-71 was Rs. 35.00 crores out of the total capital outlay of Rs. 88.27 crores. The balance of Rs. 53.27 crores was proposed to be generated internally. The actual achievement of Internal resources was Rs. 52.95 crores. The savings are mainly due to less supply of equipment and cables by ITI and HCL and slow progress in the execution of Building and line works.

1.10. The Committee desired to be furnished with a statement showing the Budget Estimates and Actual Expenditure on Capital Accounts on the National Highways and Border Roads for the years 1968-69, 1969-70 and 1970-71. The Ministry of Finance (Department of Expenditure) furnished the following information:

*National Highway Capital Expenditure on Works (Border Roads)*

(Rs. in lakhs)

Year	Budget Estimates	Actual Expenditure	Reasons for variations
1968-69	338.49	299.25	(a) Slow progress of work on premix carpeting in respect of CE Beacon due to frequent breakdown of the Nigota and Hotmix-plant and the slow supply of materials by contractors.  (b) Delay in the finalisation of design and contracts for minor bridges in project Beacon and due to failure of contractor to carry on work on major bridges in Project Deepak.
1969-70	535.80	408.32	(a) Works on Nashri Bye pass construction of permanent bridges on Painthal and Khun-Nallah, accommodation of GREP units and road side accommodation could not be taken up for want of Administrative Approval of certain jobs and shortage of equipment, Vehicles and masons. Adequate number of vehicles also could not be procured from civil market as well.

(Rs. in lakhs)

Year	Budget Estimate	Actuals Expenditure	Reason for variation
			(b) Provisions made for landslide clearances in respect of Deepak under this head in the B.E. was surrendered at R.E. stage because the same was to be met out of Maintenance grant.
			(c) Slow progress of work on bridges over Sutluj River in Project Deepak.
1970-71	384.42	386.95	The variation is negligible.

*Expenditure on Capital Account on National Highways**Year 1968-69*

	Budget Estimates	Actual Expenditure	Variation
	Rs.	Rs.	Rs.
National Highways	11,76,00,000	12,18,81,295	(+)42,81,295
Tools & Plant	54,00,000	52,66,068	(—)1,33,932
Total	12,30,00,000	12,71,47,363	(+)41,47,363

The excess was less than 5% and was due to accelerated pace of the works on National Highways.

*Year 1969-70*

	Budget Estimates	Actual Expenditure	Variation
National Highways	17,17,00,000	11,74,00,000	(—)5,43,00,000
Tools & Plant	54,00,000	54,64,000	(+) 64,000
Total	17,71,00,000	12,28,64,000	(—)5,42,36,000

The savings were due to the following reasons:—

- (i) Less demands from States for new works on National Highways than originally anticipated.
- (ii) Reduction in proposed programme of works and delay in commencement of works; and
- (iii) Non-issue of decrees against Government which were anticipated earlier.

Year 1970-71

	Budget Estimates Actual Expenditure		Variation
	Rs.	Rs.	Rs.
National Highways . . . .	27,27,98,000	21,81,24,000	(—)5,46,74,000
Tools & Plant. . . . .	82,40,000	47,56,000	(—)34,84,000
Total. . . . .	28,10,38,000	22,28,80,000	(—)5,81,58,000

The savings were due to the following reasons:

- (i) Less demands from the States for new works on National Highways than originally anticipated.
- (ii) delay in materialisation of and deferment of purchase of equipment.
- (iii) delay in the materialisation of D.D.A. Budget; and
- (iv) non-receipt of the estimates for the works from the Chief Engineer (E.Z.), C.P.W.D., Calcutta.

1.11. The Finance Secretary stated during evidence "The real reason is that there is not much realistic budgeting by the departments. They want a higher allotment than they are in a position to spend and then surrender it. Asked if the Finance Ministry did not prune the estimates of the departments, the Finance Secretary stated: "There is a lot of pruning in the Finance Ministry on the basis of the information given by the department. Even then, they are not in a position to spend the allocation." When pointed out that year after year same explanation was given by the Ministries for savings, the Finance Secretary stated: "That is the usual feature for all the Departments. What can the Finance Ministry do?" He added "The concerned Ministry have to give a realistic estimate." Asked what the remedy would be if the Ministry did not frame realistic estimates the witness stated: "Then we can only apply our judgment." He added: "Supposing they want more money later on then we will not be able to provide that money." Asked on what basis the Finance Ministry made the allotment, the Finance Secretary stated: "We have got a Financial Adviser who is attached to every major Department or a number of Departments. He keeps in touch with the progress of work in those Departments. I can tell you with some pride that his assessment is much more realistic than the assessment of the Ministry concerned."

1.12. The Committee asked whether it was not desirable for the Financial Adviser to make closer study in cases of repeated



over-budgeting. The Finance Secretary stated: "To the extent possible, we do look into it. We advise the Ministry concerned about the allotment they should take. Even then, there are various representations made to us. For example, there is a shortfall in the construction of roads, national highways, etc. Every year, the Minister in-charge of that Department writes a letter to the Finance Minister to say that the amounts provided for the Department are not sufficient." The witness added: "As the Plan has advanced, these shortfalls have been reduced. For example, for 1971-72, as against a budgeted outlay of Rs. 1350 crores, the shortfall is only Rs. 85 crores. It has been considerably reduced. Perhaps, in 1972-73, the shortfall may be very much less." Asked if this was due to the improvement in utilisation of funds or lesser provisions, the Finance Secretary stated: "Actually, side by side, we are taking steps to see that they improve their organisation efficiency also. It is not due to lesser provision of funds. We have been giving more funds year after year. For example, in 1972-73, we have given about Rs. 720 crores more than in 1969-70. Even then, the shortfall is only Rs. 85 crores."

1.13. The Committee drew attention to Para 30 of the Audit Report (Civil), 1970 showing that out of the total saving of Rs. 926.34 crores in all grants and appropriations during the year 1968-69, Rs. 885.67 crores were surrendered but almost the entire surrender was made in March, 1969. The Finance Secretary stated: "Ministries are very reluctant to surrender any amount until the last month because they are always hopeful of utilising amounts in the last three or four months." Explaining the position further, the witness stated: "Generally what happens is that about 50 per cent of the expenditure is concentrated during the last three months of the year because we cannot help it, because the working season begins sometime from November and it takes time to build up the expenditure. Moreover contractual payments have to be made after making sure that the money has been spent and the work has progressed. The working season is only concentrated on between 1st November and 31st March. There was a general view that a change in the Financial Year will also create more problems. Some people suggested that the financial year should begin on the 1st of July or August but that would create other problems. This was also considered in the Secretaries' meeting."

1.14. Pursuant to the recommendation made by the Committee in Paragraph 1.21 of their 55th Report (4th Lok Sabha), the Ministry

of Finance issued instructions in September, 1969 reiterating the need for exercising strict budgetary control and of surrendering savings as soon as they are anticipated instead of postponing the same till the end of financial year. The Ministries were required to review the grants|appropriations and report savings periodically to the accredited Finance Divisions in the Department of Expenditure. The Department of Expenditure would review the position with particular reference to the major provisions in Grants|Appropriations and forward the statements, with their comments, to the Budget Division for necessary action.

1.15. The Committee are dissatisfied with the variations between the budget estimates and the actual expenditure on capital account during the years 1968-69, 1969-70 and 1970-71. The shortfall of expenditure during the years 1968-69 and 1969-70 amounted to Rs. 333.57 crores and Rs. 121.14 crores which worked out to Rs. 43.8 per cent and 15.7 per cent respectively. In 1970-71 there was excess of expenditure over the budget estimates amounting to Rs. 98.57 crores which worked out to 11.7 per cent. In extenuation of the shortfalls, it was urged before the Committee that for the first two or three years of the plan there was slow progress of the plan projects/schemes for various reasons such as non-availability of steel, cement, equipment etc. The Committee view with concern over budgeting by the Administrative Ministries resulting in a locking up of much needed funds. The Committee also regard the excess of Rs. 98.57 crores in the capital expenditure for the year 1970-71 as bad budgeting. The Committee desire that the Administrative Ministries concerned should frame their budget estimates realistically. They should neither be over-optimistic about their capacity to utilise funds, nor grossly underestimate it. The Ministry of Finance who have Financial Advisers attached to the Administrative Ministries should be able to play a more effective role in ensuring realistic budget provisions. The Committee suggest that the Finance Ministry should analyse the variations between the estimates and actuals during the last five years with a view to identifying the causes for shortfalls or excesses in expenditure and improving the budgeting procedure.

1.16. During 1970-71, although there was an overall excess of Rs. 98.57 crores in expenditure on capital account, there was significant shortfall of capital expenditure on Posts and Telegraphs (Rs. 28.04 crores) and public works (Rs. 13.21 crores). The savings in the P. & T. Department were mainly due to smaller supply of equipment and cables by the Indian Telephone Industries and Hindustan Cables Ltd. and slower progress in execution of building and line

works. As regards public works, a saving of Rs. 5.82 crores was accounted for by the National Highways in which case there was also a saving of Rs. 5.42 crores during 1969-70. In 1969-70 there was also a saving of Rs. 1.27 crores in respect of Border Roads. The Committee desire that the Ministries of Communications and Shipping and Transport should exercise proper care in framing the budget estimates in future and ensure that the funds provided for important projects are utilised during the year.

1.17. The Committee have in the past urged on the Ministries/Departments to surrender savings as soon as that possibility is envisaged without waiting till the end of the year. Pursuant to the recommendation made in paragraph 1.21 of their 55th Report (4th Lok Sabha), the Ministry of Finance issued instructions in September, 1969 asking the Ministries to review the grants/appropriations periodically and to report the savings to the accredited Finance Division for necessary action. The Committee desire that the Ministry of Finance should review how far these instructions have been implemented and savings surrendered in time during the last three years.

1.18. The Committee were informed that generally 50 per cent of the expenditure is concentrated during the last three months of the financial year. The Committee would like the Ministry of Finance to examine the factors that are responsible for rush of expenditure in the last three months and how the situation can be remedied.

#### Overall Expenditure (Revenue and Capital)

##### *Audit paragraph*

1.19. The expenditure during 1970-71 compared with that during the previous two years is shown below:—

(Crores of rupees)

	1968-69	1969-70	1970-71
1	2	3	4
Collection of Taxes and Duties . . . . .	38.69	41.79	48.12
Debt Services . . . . .	528.02	564.87	605.54
Administrative Services . . . . .	153.52	174.97	201.82
Social & Developmental Services . . . . .	234.23	258.62	306.70
Multipurpose River Schemes . . . . .	2.14	4.01	13.95
Public Works. . . . .	34.05	33.06	39.13
Transport & Communications. . . . .	14.43	19.72	21.49
Currency and Mint. . . . .	24.31	26.17	26.45

1	2	3	4
Miscellaneous . . . . .	197.47	248.22	232.67
Contributions & Miscellaneous Adjustments	835.59	920.49	1015.01
Extraordinary items . . . . .	11.61	5.82	6.58
Defence Services . . . . .	929.05	965.63	1051.46

[Para 3 of Report of Comptroller and Auditor General of India  
(Civil) for the year 1970-71 Union Government].

1.20. The expenditure on General Administration increased from Rs. 27.98 crores in 1968-69 to Rs. 27.46 crores in 1969-70 and Rs. 29.87 crores in 1970-71. The expenditure on Police increased from Rs. 72.60 crores in 1968-69 to Rs. 86.16 crores in 1969-70 and Rs. 101.60 crores in 1970-71.

1.21. Explaining the reasons for increase in the Administrative Expenditure to Rs. 201.82 crores in 1970-71, the Finance Secretary stated: "This is mainly due to the rise in police expenditure, interim relief, purchase of arms and ammunition and more expenditure through large-scale movement due to disturbed conditions etc. On police, it has gone up from Rs. 86 crores to Rs. 101 crores. There is some increase in general administration also, by about Rs. 2 crores." Asked how Budget estimates and actuals for Police compared during the year 1970-71, the witness stated that the budget estimates and actuals were Rs. 88.84 crores and Rs. 101.60 crores respectively. Explaining the reasons for increase in the expenditure on police, the witness stated: "There was an expansion of the Central Reserve Police. During 1968-69, the CRP had a strength of 23,705 which increased to 63,285 in 1970-71. The number of battalions rose from 35 to 52."

1.22. Referring to the expenditure on collection of Taxes and Duties, the Committee asked whether the staff engaged on the work was adequate. The Finance Secretary stated: "I think our efficiency of tax collection is very good. The tax collection charges constitute only 1.6 per cent and there is some truth in what you say. We try to see that they should get more staff." The representative of the Central Board of Excise and Customs stated: "In so far as Customs and Central Excise are concerned, we are very grateful to you for observing this. It is not only that at the supervisory level strengthening is needed but in cases at the lower level, primary workers level, it is needed." The Chairman of the Central Board of Direct Taxes stated, "I also agree with you on this point. We do feel two major requirements. One is the increase in the strength

of staff as you put, staff on survey and also on investigation. These cases take lot of time and, therefore, if we have more staff on investigative work, we might be able to produce better results. To cope with this, we also need trained man-power. These things i.e. staff and their training should be simultaneously. We feel that we do need a sufficient amount of expansion in order to deliver the goods particularly in the matter of tax collection and dealing with tax evasion." Asked whether there was any machinery in the Department to check that the increase in expenditure was commensurate with the work, the Secretary, Ministry of Finance, sated: ".....we have some norms whereby we try to assess the output but I must frankly say that till we standardise work, it will be difficult to give norms of performance. Asked whether any method for standardisation had been evolved, the witness stated "We have been doing this gradually, we have to revise our methods also." Asked whether a study had been made of the number of assessments made by each Income-Tax Officer, the Finance Secretary stated: "We have got a unit in the Ministry called S.I.U. which generally is asked to take these departments one by one. It can only conduct a few studies during the course of the year. I do not think S.I.U. has studied this but I would suggest that S.I.U. may be asked to study these organiations also."

1.23. Referring to the work already done by the S.I.U. the Finance Secretary stated: "...it has submitted very useful reports regarding the staff requirements in many cases, it has suggested appointment of additional staff in some cases, and in many cases, it has indicated surplus staff also"

1.24. The Committee referred to the recommendation made in paragraph 1.8 of their 90th Report (4th Lok Sabha) that Government should examine the question of fixing a periodicity for reviews to be conducted by the Staff Inspection Unit and asked about the action taken in this regard. The Finance Secretary sated: "It is very difficult to prescribe periodicity, because the staff inspection unit can take up only 10 to 12 studies in a year. There are a large number of departments and organisations. Secondly, we generally direct the studies to those departments and organisations which have shown a large increase in expenditure and have come up for increased staff. That helps us to check the further expenditure growth in the department. But whenever any department asks us to sanction staff, we generally tell them to get their proposals vetted by the staff inspection council."

1.25. The Committee wanted to know to what extent the recommendations of the S.I.U. were implemented by the Departments concerned. The Finance Secretary stated: "After the report is ready, the director of the Staff Inspection Unit is supposed to discuss that report with the head of the department or organisation and generally, agreed conclusions are arrived at and the surplus staff is surrendered. Sometimes, the staff are adjusted against further increases, and quite often, they are surrendered." In reply to a question, the witness stated: ".....in the departments and organisations which have been taken up by the staff inspection unit, the surplus which has been found out generally is about 14 to 15 per cent and not more than that."

1.26. At the instance of the Committee, the Ministry of Finance (Department of Expenditure) furnished a statement showing the details of Government Officials and posts studied by the Staff Inspection Unit during the years 1970, 1971 & 1972. The following position emerges:

Year	No. of revi- ews con- ducted	No. of posts studied	No. of posts found surplus for reduction	No. of posts denied	Economy achieved (Rs. in lakhs)			Action taken by the officers concerned by way of abolition reduction or adjustment of surplus posts.	
					Direct	Preven- tive	Total		
1	2	3	4	5	6	7	8	9	
1970	50	13,553	2,576	1,294	113.62	59.04	172.66	2479	96%
1971	38	11,791	1,669	1,294	70.68	77.37	148.05	1197	72%
1972	47	20,412	2,190	964	99.73	65.54	165.27	587	27%

1.27. The expenditure on Administrative Services increased from Rs. 153.52 crores in 1968-69 to Rs. 201.82 crores in 1970-71. The Committee were informed that the increase was mainly due to more expenditure on police. The expenditure on police increased from Rs. 72.60 crores to Rs. 101.60 crores and that on General Administration from Rs. 27.98 crores to Rs. 29.57 crores. The Committee have urged in the past that the expenditure on General Administration should be kept under constant watch to explore further economies. The Committee note that as a result of the studies of the Staff Inspection Unit of the Ministry of Finance, 2576 posts were found surplus in 1970, 1669 in 1971 and 2190 posts in 1972. In paragraph 1.8 of their 90th Report (1969-70), the Committee had suggested that the

question of fixing periodicity for reviews to be conducted by the Staff Inspection Unit should be examined. The Committee were informed during evidence that it was very difficult to fix the periodicity. The Committee desire that the Staff Inspection Unit should be able to increase the number and frequency of reviews as and when required.

### Receipt and Disbursement outside the Revenue Account

#### Audit Paragraph

1.28. The following Tables give a broad analysis of the receipts and disbursements outside the revenue account during the three years ending 31st March, 1971.

	1968-69	1969-70	1970-71
	(Crores of rupees)		
(a) Receipts.			
Consolidated Fund—			
(i) Permanent Debt			
Debt raised in India*	396.15	611.69	582.39
Debt raised outside India.	653.83	633.32	526.63
(ii) Floating Debt (other than Treasury Bills) (Net)	—2.52	2.73	15.53
(iii) Repayment of loans and Advances by State Governments, etc.	742.38	904.62	922.57
(iv) Inter State Settlement	0.18	0.05	0.01
Contingency Fund—			
Reoccupments to Contingency Fund	0.59	2.96	16.13
Public Account—			
Unfunded Debt (Net)	77.11	251.89	343.22
Deposits and Advances (Net)	291.98	339.44	219.56
Other items (Remittances) (Net)	—76.40	—132.44	—25.70
Total Receipts outside the Revenue Account	2083.30	2614.26	2600.34
Add-Debt raised by issue of Treasury Bills (Net)	234.93	—12.56	284.14
GRAND TOTAL	2318.23	2601.70	2884.48

\*The actuals against the head include Rs. 75 crores representing receipts on account of conversion of ad-hoc treasury bills into dated securities during each of the years 1968-69 to 1970-71.

	1968-69	1969-70	1970-71
	(Crores of rupees)		
(b) Payments.			
Capital Outlay Civil . . . . .	175.58	385.53	650.91
Capital Outlay Railways . . . . .	121.47	94.29	135.89
Capital Outlay Posts & telegraphs . . . . .	26.72	33.38	6.96
Capital Outlay Defence . . . . .	104.14	135.24	147.83
TOTAL . . . . .	427.91	648.44	941.59
Loans and Advances by Central Government . . . . .	1497.91	1457.63	1552.65
Repayment of Debt—			
Debt raised in India. . . . .	246.14	396.26	284.41
Debt raised outside India. . . . .	176.39	179.16	194.46
Inter State Settlement. . . . .	0.34	..	..
Contingency Fund. . . . .	2.96	1.13	0.01
Total Expenditure outside the Revenue Account	2351.65	2682.62	2973.12
Total receipts as in sub-paragraph (a) above. . . . .	2318.23	2601.70	2884.48
Excess of expenditure over receipts pertaining to the heads outside the Revenue Account. . . . .			
	—33.42	—80.92	—88.64
Deduct—Revenue Surplus. . . . .			
	80.96	125.18	163.01*
Net Surplus + } . . . . .	47.54	+44.26	+74.37
Deficit— }			

1.29. It will be seen that if net expansion of treasury bills during each year is added, the overall deficit was Rs. 187.39 crores and Rs. 209.77 crores during 1968-69 and 1970-71 respectively and there was a surplus of Rs. 56.82 crores during 1969-70.

(c) The year 1970-71 closed with a deficit of Rs. 209.77 crores against the anticipated deficit of Rs. 226.94 crores (budget) and Rs. 154.57 crores (revised estimates). The table given below gives the analysis of this deficit:—

	Budget	Actuals	Variation
	(Crores of rupees)		
Treasury Bills (net)	226.00	284.14	—58.14
Depletion of cash balance	0.94	—74.37	75.31
<b>TOTAL . . . . .</b>	<b>226.94</b>	<b>209.77</b>	<b>—17.17</b>

[Para 8 of the Report of C&AG (Civil) for 1970-71]

\*This figure is less than the difference between "Revenue Receipts" and "Expenditure met from Revenue" mentioned in paragraph 1.07e by rupees, one lakh being the recoupment of expenditure met by Railways out of the Contingency Fund of India during 1969-70 but remaining unrecovered till the end of that year.



**DEBT.**

1.30. (a) The following table indicates the outstanding under "Public Debt" and "Unfunded Debt" at the end of 1955-56, 1969-70 and 1970-71.

	31st March, 1956	31st March, 1970	31st March, 1971
(Crores of rupees)			
<b>Public Debt—</b>			
(i) Market Loan . . . . .	1545	4146	4444
(ii) Floating Debt . . . . .	808	2921	3221
(iii) Loans from Foreign sources	*1111	6153	6485
<b>Unfunded Debt—</b>			
(i) Small Saving Collections . . . . .	575	2021	2205
(ii) Provident Fund, Income-tax Annuity Deposits etc. . . . .	183	934	1081
(iii) Deposits by U.S. Government of counterpart funds created under P.L. 480 . . . . .	..	667	679
<b>TOTAL .</b>	<b>3222</b>	<b>16842</b>	<b>18115</b>

\*After adjustment on account of devaluation.

(b) The net balances at the credit of reserve funds, deposit account etc., in the deposit section of Government accounts as shown below also constitute liabilities of Government as these have not been separately invested but are merged in the general cash balance of Government.

Deposits bearing interest . . . . .	188.96	223.97	267.30
Deposits not bearing interest . . . . .	422.10	1535.70	1832.21

(c) Details of debt transactions during 1970-71 are given below:—

	Receipts	Repay- ments	Net increase
(Crores of rupees)			
(i) Market Loans . . . . .	582.39	284.41	+ 297.98
(ii) Floating Debt . . . . .	9408.12	9108.45	+ 299.67
(iii) Loans from Foreign Sources . . . . .	526.63	194.46	+ 332.17

## (iv) Unfunded Debt—

Small Saving Collections	789.82	605.55	+ 184.27
Provident Funds, etc.	286.31	124.09	+ 162.2
Compulsory Deposits	0.11	2.17	—2.06
Income-tax Annuity Deposits	2.01	14.77	—12.76
Deposits by U.S. Government of counterpart funds created under P.L. 480, etc.	166.41	154.86	+ 11.55
<b>TOTAL</b>	<b>11761.79</b>	<b>10488.76</b>	<b>1273.03</b>

[Paragraph 9 of the Report of C&AG (Civil) for 1970-71.]

1.31. The Committee desired to know the reasons for increase in the receipts under 'Unfunded debts' (Net) during 1970-71. The representative of the Ministry of Finance stated: "Unfunded debts' consist of small savings collections, provident funds and deposits of US counterpart funds. This is mainly the net increase in the small savings collections and the net accretion in the provident funds. For instance, during the year under consideration, the small savings collections were to the tune of Rs. 184 crores. This represents an increase of Rs. 184 crores."

1.32. Asked about the position regarding PL 480 Funds, the Secretary, Economic Affairs stated: "The present position is that the total amount of money of PL 480 rupees which is held by the US Government and which are deposited in our special securities amounts to Rs. 679 crores as on 31st March 1971." Asked about the procedure for disbursement of the fund, the Secretary, Economic Affairs stated: "This is not being operated by us. It is being held in securities and as and when it is required for any agreed purpose by the US Government, we withdraw." He added: "The agreed purposes—there are a number of them—one is the expenditure on the US Embassy itself. Then there are expenses on the rural electrification programme." The witness further stated: "Then there are other uses. But, at the moment, there are some continuing schemes for which PL 480 money is given. Money is still being provided and the money that used to be provided for various institutions is not being provided at the moment so that to have a rough budget of about Rs. 60 crores a year or so. We do not know where the figure will stand now because the expenditure has considerably increased. As an instance the support costs of the technical personnel were also met out of this money. These have been very rapidly decreasing." As regards the withdrawal by the US Emba-

ssy, the Secretary, Economic Affairs stated: "We know the broad amounts which they draw. We do not check individual details. I want to mention for your consideration that the money that they spend on the embassies are also appropriated at the other end by the U.S. Government and entered into their budget."

1.33. Para 9 of the Report of the Controller and Auditor General of India for 1970-71 showed the following details of transaction during 1970-71:

	Receipts	Payments	Net increase
	(crores of rupees)		
Government of counterpart funds			
L480.	166.41	154.86	+ 11.55

In a written reply the Ministry of Finance stated: "These figures have been checked with those which the Finance Ministry receives from the RBI and it is found that the C&AG's figures are higher than the figures reported by the RBI. This is due to a mix up of deposits of Rural Electrification Corporation with PL 480 deposits in the Special Securities Account in the Accounts of 1970-71. The transactions in the Special Securities Account of PL 480 deposits during 1970-71 as reported by the RBI aggregated Rs. 144.35 crores on the receipts side and Rs. 134.95 crores under withdrawals, giving a net increase of Rs. 9.40 crores"

1.34. The Finance Ministry have furnished the following break-up of withdrawals (disbursements) for the fund at Reserve Bank of India:

		(Rs. crores)					
		1965- 66	1966- 67	1967- 68	1968- 69	1969- 70	1970- 71
1	2	3	4	5	6	7	8
1.	Loan to GOI	80.00	350.00	250.00	171.40	60.50	50.00
2.	Grant to GOI	60.17	0.12	..	10.50	3.00	24.07
3.	Grant to REC	..	..	..	..	7.00	14.00
4.	US-uses expenditure : including conversions, grants for research, other grants, aid to Nepal etc.	20.04	31.27	37.92	48.93	48.13	54.00
5.	Transfer to US banks in India for time deposits in US accounts.	3.50	6.90	6.00	12.50	0.75	..

1	2	3	4	5	6	7	8
6. Disbursement of Cooley loans		16.77	12.63	10.74	6.47	6.35	9.44
Total withdrawals from special Securities of the USDO, New Delhi.		180.48	400.92	304.66	249.80	125.73	129.51
7. Other items (in cluding transactions in the USDO Kathmandu, Nepal's account in the RBI.		4.65	8.72	4.18	4.20	4.52	5.44
TOTAL :		185.13	409.64	308.84	254.00	130.25	134.95

1.35. The Committee pointed out that in regard to *ad hoc* treasury bills issued to the Reserve Bank of India and the State Governments Rs. 2429.43 crores were outstanding as on 31st March, 1971. The outstanding bills were held by the Reserve Bank of India (Rs. 2218.41 crores) and State Governments (Rs. 211.02 crores). Explaining the procedure, the representative of the Ministry of Finance stated: "This is the arrangement with the Reserve Bank of India and the R.B.I. is asked to maintain a certain minimum cash balance. It is being reviewed from time to time. At present it is about Rs. 50.0 crores. The amount of Rs. 50.0 crores is the Central cash balance. At the end of the week, the position is reviewed. Whenever the cash balance increases or decreases—the variations are there—for this purpose *ad hocs* are created. If the cash balance is lower, additional *ad hocs* are issued to bring up the level of Rs. 50.0 crores. Also, when there is a larger cash balance, the *ad hocs* are retired and cash balance is brought down. This sort of adjustment is continuously being done, not that at all times Rs. 50.0 crores are maintained. Normally it does not go down the point of Rs. 50.0 crores." Explaining the position further, the witness stated: "The treasury bills get accumulated over a period of time. This will have to be there for a long time, because of the present tempo of development, the need to maintain a degree of deficit financing—however judicious it may be—and in view of the back-logs, it may not be possible to re-deem them. We are still converting these *ad hoc* bills into dated securities. We do it every year at the rate of about Rs. 75 crores to Rs. 100 crores. It is not an effective measure; but it is one way to bring it on a more regular basis."

1.36. Asked whether the minimum balance of Rs. 50 crores was not unrealistic, the representative of the Ministry of Finance stated: "May be it is very unrealistic. We can take it up with the Reserve

Banks; but we can always increase it, whenever there is need, without difficulty. We can, however, consider the question of raising this limit." The Committee desired to know the basis for fixing the balance of Rs. 50 crores. In a written reply, the Ministry of Finance stated: "Under Section 21 of the Reserve Bank of India Act, 1934 (2) of 1934 the Reserve Bank is empowered to transact Central Government's business in India and the latter maintains its cash balance with the Bank free of interest. On the basis of letters exchanged between the Reserve Bank and the Central Government in 1937, Central Government agreed to maintain a minimum cash balance of Rs. 425 lakhs with the Bank subject to the proviso that the balance could fall temporarily to not less than Rs. 400 lakhs in the course of a week and that so long as the balance was less than Rs. 450 lakhs surplus amounts would not be invested nor ways and means advances from the Bank repaid."

"Early in 1953, the matter was reviewed having regard to the volume of transactions involved and it was decided to have a working balance of Rs. 50 crores with the Bank. This decision was mentioned in Paragraph 37 of the Finance Minister's Budget Speech on 27th February, 1953."

"Every Friday and even earlier, if necessary, the position of Government's cash balance is reviewed in the light of immediate commitments and *ad-hoc* treasury bills in favour of the Reserve Bank are created or cancelled, as may be necessary to bring the cash balance to about the level of Rs. 50 crores. This arrangement has been working satisfactorily."

1.37. The Committee understand that as a result of a review held in 1953 it was decided by Government to maintain a cash balance of Rs. 50 crores with the Reserve Bank of India, having regard to the volume of transactions involved. In view of the fact that 20 years have elapsed since then, the Committee consider that it is time for Government to review the position and examine the desirability of revising the requirement of minimum cash balance on a realistic basis with due regard to the volume of transactions at present. The Committee would like to be informed of the result of the review.

#### **Loans and Advances given to parties other than State Governments**

##### **Audit Paragraph**

1.38. Audit paragraph showed details of loans and advances (other than State Governments) in which recovery of principal

(Rs. 20237.08 lakhs) and interest (Rs. 2573.88 lakhs) remained in arrear at the end of 1970-71. Besides the total number of loans by the Rehabilitation Finance Administration Unit which were outstanding at the end of 1970-71 was 2749. The amount was Rs. 172.59 lakhs as Principal and Rs. 107.37 lakhs as interest.

[Paragraph 19 of the Report of the Comptroller and Auditor General of India for the year 1970-71 Union Government (Civil)].

1.39. Referring to the arrears of loans and advances given to the parties other than State Governments, the Committee desired to know the steps taken by the Finance Ministry for recovery of the outstandings. The Finance Secretary stated: "The General Financial Rules provide that recovery of loans and interest thereon has to be watched by the Accounts Officer and the Ministry concerned. We try to keep watch over major defaults." The witness added: "Where crores of rupees are involved we generally look into that and try to find out. But in many cases, you will find that the public sector undertakings are losing concerns and they have not been able to make profits during the last few years and there we try to see whether there is any possibility of recovering the dues."

1.39. Referring to the outstandings loans and interest amounting to Rs. 84.78 crores due from the Khadi and Village Industries Commission, the Committee asked whether the Commission had assets to repay the amount. The Finance Secretary replied: "The Khadi and Village Industries Commission have not got any funds to pay back." Asked if further loans to the Commission had been stopped, the witness stated: "We have not stopped it. On the other hand, every year we are making provision for them." The witness added that "Loans are given to Khadi and Village Industries Commission because section 17 of the Khadi and Village Industries Commission Act, 1956 provides that the Central Government may, after due appropriation by Parliament by law in this behalf, pay to the commission in each financial year such sums as may be considered necessary for performance of the functions of the commission. Loans are given to the commission, for the production of khadi and promotion of village industries for a period of five years."

1.40. The Committee desired to be furnished with a statement showing the break up of the loans given to the Commission, purpose thereof and repayments if any made. In a written reply the Ministry of Finance have stated that as per the records of the Ministry of Industrial Development loans amounting to Rs. 85,02,36,883 lakhs (after adjusting refunds/write off etc.) are outstanding against the Commission as on 31st March, 1971.

1.41. The total number of loans by the Rehabilitation Finance Ad-

ministration outstanding at the end of 1970-71 was 2749. The amount was Rs. 172.59 lakhs as Principal and Rs. 107.37 lakhs as interest. The representative of the Ministry of Finance stated during evidence that "The RFA was dissolved on 31st December, 1960. Since then the entire work is one of recovery. What was just now read out was upto 31st March, 1971. The latest figure is that the number of accounts has come down to 2458 as against 2749. Another 300 accounts have been squared up." The witness added "The total loans given by RFA before dissolution in 1960 amounted to Rs. 11.2 crores. So far we have recovered out of that principal amount. Rs. 10.58 crores. In other words, there is a balance only of Rs. 64 lakhs so far as the principal is concerned. We write off the interest when we get some data regarding repayment of principal. These were poor people, all refugees, many of them have found it difficult to be resettled. So usually a humane view of things is taken and too much hustling is not done. That is how we are carrying about 2400 accounts and on paper a liability of about Rs. 2 crores which should really be only Rs. 64 lakhs principal." The Committee desired to be furnished with a statement showing the amounts recovered, written off and expenditure on establishment for the year 1969-70 to 1971-72. The Ministry of Finance have furnished the following position:

Financial Year	(Rs. in lakhs)		
	Amount recovered	Amount written off	Expenditure on establishment
1969-70	6.91	26.22	4.12
1970-71	3.61	30.89	4.04
1971-72	3.31	17.89	3.82

1.42. The Committee are concerned to find that, apart from outstanding loans from the State Governments, recovery of principal amounting to Rs. 202 crores and interest amounting to Rs. 25.74 crores was over-due from various autonomous bodies, public undertakings etc. The reason for non-recovery is that in many cases the Public Sector Undertakings are losing concerns and have not made profits during the last few years. The Committee are particularly dissatisfied over non-payment of overdue loans and interest amounting to Rs. 85 crores by the Khadi & Village Industries Commission. The arrears represent accumulations from 1959-60 onwards. The Committee suggest that the Ministry of Finance should undertake a review of the cases where arrears of Rs. 1 crore or more have been overdue for more than five years and take necessary steps to effect recoveries.

### *Guarantees given by Central Government*

1.43. During 1970-71 Government of India issued guarantees in 60 cases (including renewal of old guarantees) for Rs. 97 crores. The total amount guaranteed by Government outstanding at the end of 1970-71 was Rs. 1249 crores (including certain cases where the sums are payable in foreign currencies). The guarantees were given for loans raised by 29 joint stock companies, 56 Government companies, 7 statutory corporations, 6 Port trusts, 7 co-operative banks, 56 co-operative societies, 5 State Electricity Boards, 3 State financial corporations, 48 consumers' cooperative societies, 1 autonomous body and 1 private individual. In addition, Government has also guaranteed a minimum dividend on the share capital of certain corporations as also payment of interest on debenture etc. floated by them.

1.44. Payments by Government under the terms of the guarantees:—

#### *I. Branch Line Railway Companies:—*

Government has guaranteed a net return of 3½ per cent per annum on the paid up share capital of branch line railway companies. The guarantee was invoked during 1970-71 in the case of two companies and Rs. 1.79 lakhs were paid by Government.

#### *II. Credit guarantee for small-scale industries:—*

Guarantees were invoked in 36 cases during the year 1970-71 and Rs. 4.35 lakhs were paid during the year as Government's share on account of default in repayment of loans/advances.

[Para 21 of the Report of C. & A.G. for the year, 1970-71,  
Union Government (Civil).]

1.45. The Committee desired to know the types of guarantees given by Government. The Finance Secretary stated: "We give guarantees for credits from foreign Governments and suppliers, which contain specific provision for Government guarantees or counter-guarantees when guarantees are given by banks to the foreign lending agencies or suppliers. Whenever we get foreign loans or foreign suppliers' credit, there is a stipulation in the agreement that Government should give a guarantee either directly or a counter-guarantee to the bank which provides the guarantee. In the second case, guarantees are given for financing the working capital requirement of public sector undertakings like the FCI and other industrial undertakings during the initial stages of construction, because if that is not done, then Government may have to provide them the working capital for this purpose. Now when they go into



construction, they are required to obtain cash/credit accommodation by hypothecation of their stock from the banks, and the banks usually give upto certain limits. If any working capital is necessary, over and above these limits that is provided by Government. Then there are bonds floated by the various statutory financial institutions like IFC. There is usually a provision in the Act that the Government can give guarantee to the bonds issued by them."

1.46. Asked about the guarantees invoked regarding  $3\frac{1}{2}$  per cent return on paid up capital of branch line railway companies, the Finance Secretary stated: "About 50 years ago, private companies were encouraged to undertake these branch railway lines and in order to encourage them, a guarantee was given regarding the minimum return on capital invested by them. If in any year the net receipts of a company fall short of the guaranteed minimum, the shortfall is made good by Government." Asked if it was in perpetuity, the witness added: "In perpetuity. The only alternative for Government is to take over these branch lines." Asked about the policy of taking over these branch lines, the Finance Secretary stated: "There is provision that the payment of subsidy can be extinguished only by purchasing these railway lines. The question of purchasing them is also periodically examined by the Ministry of Railways on merits. But perhaps in this case the cost of takeover is more than the payment of  $3\frac{1}{2}$  per cent." He added: "The Finance Ministry will not agree to a costlier arrangement... The Railway Ministry examines this periodically and comes to a conclusion."

1.47. Asked if the Railway Ministry were competent to give a guarantee without the concurrence of the Ministry of Finance. The Finance Secretary stated: "Railways have that privilege because they have Financial Commissioner who is also Secretary to Government. If his advice is not accepted, he has direct access to the Finance Minister. In the case of other Ministries, the Financial Advisers are subordinate officers in the Expenditure Department. Even for grant of subsidy by railways, the papers do not come to us. Guarantees may have been given 50 years ago when there was not this distinction between the Expenditure Department and the Railway Ministry. But now the Railways have a separate budget and a Financial Commissioner."

1.48. The Committee drew attention to the recommendation made in Para 5.24 of their 55th Report (1968-69):

"While the Committee appreciate the need for flexibility, they feel that, in view of the substantial amount of guarantees given by Government and the contingent liability that

this involves, it is but proper that Government's guaranteeing power is regulated by law as envisaged in Article 292 of the Constitution. In order, however, to enable Government to act quickly when the situation so requires, the law to be made by Parliament may itself have an appropriate built-in flexibility. The Committee would like Government to work out a solution on these lines and initiate necessary action."

1.49. In reply, the Ministry of Finance stated:

"Article 292 of the Constitution covers both Government borrowings and guarantees by Government.

1.50. In regard to the former, the Government's view that no real advantage would be secured by prescribing statutory limits on borrowings as such limits, if imposed, would not only not result in greater control but might, on the other hand, hamper flexibility now available, was conveyed to the Committee in this Ministry's Memorandum No. F. 4(41)-W&M/65, dated the 28th January, 1967 with reference to their recommendation in the 52nd Report (Third Lok Sabha). This view is equally applicable in the case of the recommendation in respect of statutory limits on guarantees. It might, however, be added that the policy in regard to giving of guarantees is, by and large, restrictive. Instructions have also been recently issued that proposals for guarantees by Government must be justified by public interest, that they should be examined in the same manner as proposals for loans and that adequate precautions should be taken to safeguard Government's interest while giving guarantees."

1.51. The Finance Secretary stated during evidence: "This question has been examined in the past in great detail whether it will be practicable to have such a law imposing restrictions. These guarantees are given from time to time and they fluctuate so much that it will be impossible to lay down a limit. For instance, we had to give large guarantees to the Food Corporation because they had to keep large stocks of foodgrains— 9 million tonnes or so. Similarly we have to get into agreements with foreign governments and suppliers for deferred payments... Strict instructions have been issued that a proposal for guarantee must be justified by public interest, that they should be very carefully examined and adequate precautions must be taken. Whatever guarantees are given, they are mentioned both in the financial accounts and also in the Explanatory Memorandum given to Parliament. So, Parliament is kept fully informed."

1.52. The Committee asked if it was not possible to have a law providing for a flexible limit for guarantee requiring retrospective regularisation of any amount exceeding the limit, to avoid possibility of improper use of discretion by the competent authority. The Finance Secretary stated: "When all these years this discretion has been properly used, why should we be afraid of such a possibility of misuse? Because, there are very strict instructions as to the levels at which these guarantees should be given. For example, guarantees involving less than Rs. 50 lakhs are given only at the Financial Adviser's level. If the amount is above that, the matter has to come to the Expenditure Secretary. In the case of guarantees to private institutions, the approval of the Minister has to be taken and for amounts exceeding Rs. 10 lakhs the approval of the Cabinet has to be taken. With all these safeguards, I do not see why there should be any reason to think of any wrong use of discretion."

1.53. As regards the limit the Finance Secretary stated: "In order to make it worthwhile, the ceiling will have to be at a very high level. It will not serve any purpose if it is kept at a very low level. It will create difficulties in the matter of giving guarantees. I do not think it will serve any purpose." With regard to the procedure for giving guarantees, the Finance Secretary Stated: "We have laid down uniform instructions in May, 1969."

1.54. The Committee referred to a case of guarantee given to the Maharashtra State Financial Corporation for a loan given to a private individual in April, 1960 referred to at page 81 of Union Government, Finance Accounts, 1970-71:

"The individual purchased an evacuee property known as Ahmed Mills at Ambarnath and mortgaged it to the Government of India along with certain other property situated at Ambarnath. The Maharashtra State Financial Corporation Bombay agreed to advance to the individual a loan of Rs. 7 lakhs with interest at 6½ per annum for running the Mills on the security of a second mortgage of the property. (The first mortgage is in favour of the Government of India for Rs. 48,11,000). The entire loan of Rs. 7 lakhs has been guaranteed by the Government of India."

1.55. The Committee desired to know the present position of the recovery of loan given to the individual by the Government of India and also the one guaranteed to the Maharashtra State Financial Corporation. In a written reply, the Ministry of Finance stated the following position.

1.56. "There is an evacuee property known as the Ambernath Mills Complex, Bombay consisting of Woolen Mills, Silk Mills, Oil and Leather Cloth Factory and Wood-Works. This concern was sold by negotiation to . . . . (the individual) for Rs. 50,11,000/- in 1960. The amount was, according to the condition of the sale, to be paid in 7 yearly instalments, after the initial instalment of Rs. 20 lakhs in the form of compensation scrips. . . . . (the individual) also under-took an additional liability for Rs. 18 lakhs for the arrears of lease-money due from the previous lessees of the Mills. After the initial payment of Rs. 20 lakhs, the Mills were conveyed to him on 21-4-1960. . . . . (the individual) executed a Mortgage Deed in favour of the Government of India for the remaining liability of Rs. 48,11,000/- to be paid by him. Out of this amount, . . . (the individual) has so far paid an amount of Rs. 14.07 lakhs towards the principal and about Rs. 12.89 lakhs towards the interest. The balance due from him, including interest, is about Rs. 52 lakhs. He was subsequently allowed by Government to pay the balance amount upto 20-10-1976 in yearly instalments on certain terms and conditions."

1.57. As regards the loan guaranteed to the Maharashtra Financial Corporation the Ministry have stated: "Against the sanctioned amount of Rs. 7 lakhs, . . . (the individual) got a loan of only Rs. 5 lakhs. After repaying Rs. 4.25 lakhs to the Corporation, (the individual) defaulted. The Maharashtra State Finance Corporation filed a suit on 8-1-1969 in the Bombay High Court against the Union of India as guarantors for the recovery of the balance amount of the loan. . . . (the individual) was called upon to clear the amount, but he pleaded his inability to do so on account of financial difficulties consequent upon general recession, credits squeeze etc. The High Court passed a decree on 15-9-1970 awarding an amount of Rs. 89,558/- up to 15-9-1970 plus further interest at 6 per cent upto the date of payment. The total amount payable to the Maharashtra State Finance Corporation as on 31-1-1972 worked out to Rs. 1,03,066/- which the Government of India had to pay as guarantor. . . . (the individual) has already repaid to the Govt. the above sum in September, 1972."

1.58. In paragraph 5.24 of their 55th Report (1968-69) the Committee have desired that in view of the substantial amount of guarantees given by Government and the contingent liability involved, it is but proper that Government's guaranteeing power is regulated by law as envisaged in Article 292 of the Constitution. In their reply, the Government stated that no real advantage would be secured by prescribing statutory limits on guarantees. The Committee would like the Government to re-examine whether it was not possible to

have a law providing for a flexible limit for guarantees and for a retrospective regularisation of any amount exceeding the limit in appropriate cases.

1.59. The Committee find that guarantees were invoked in the case of the branch line railway companies during 1970-71. The Committee would like the Ministry of Railways and the Ministry of Finance to examine whether it would not be desirable to take over such Railway companies rather than incurring liabilities for the payment of shortfall in the guaranteed return of 3½ percent on the paid up share capital.

1.60. The Committee note that a loan amounting to Rs. 52 lakhs, is still outstanding from the individual who purchased an evance property at Ambarnath Government have allowed him to pay this amount upto 20th October, 1976 in yearly instalments on certain terms and conditions. The Committee would like to be informed whether the instalment payments as agreed to are being paid by the individual in time. The Committee are of the view that in any case the individual should not be allowed further extension in repaying the loan.

#### *Audit Paragraph*

1.61. *Utilisation Certificates*:—A certificate of utilisation of grant is required to be furnished by the sanctioning authority to the Accountant General for every grant, specifying that the grant has been utilised on the objects for which it was sanctioned, and that, where the grant was conditional, the conditions have been fulfilled. The extent to which delays have occurred in issue of utilisation certificates is indicated below:

Ministry/Department	Period to which grant relates.	Number of utilisation certificates out-standing at the end of September 1971.	Amount (Lakhs of rupees)
(1)	2	3	4
<b>Agriculture : —</b>			
(i) Department of Agriculture . . . . .	1964-65 and 1966-70	62	24
(ii) Department of Food . . . . .	1964-65 and 1968-69	5	5
(iii) Department of Community Development . . . . .	1964-66 and 1967-70	13	188
Cabinet Secretariat . . . . .	1967-70	7	97

1	2	3	4
Defence . . . . .	1969-70	2	3
Education and Social Welfare :—			
(i) Department of Education . . . . .	1955-70	1264	1885
(ii) Department of Social Welfare . . . . .	1962-70	61	148
External Affairs. . . . .	1960-61, 1962-64 and 1966-70	22	99
Foreign Trade . . . . .	1961-62 and 1964-69	70	73
Health and Family Planning:—			
(i) Department of Health . . . . .	1956-70	494	632
(ii) Department of Family Planning . . . . .	1954-55 and 1956-70	982	254
Home Affairs. . . . .	1967-70	19	7
Industrial Development:—			
Department of Industrial Development . . . . .	1961-62 1963-64 and 1968-70	17	63
Information and Broadcasting . . . . .	1965-70	6	26
Labour and Rehabilitation :—			
(i) Department of Labour and Employment . . . . .	1967-68	3	8
(ii) Department of Rehabilitation . . . . .	1955-56 1957-58 1960-62 and 1964-65	9	5
Petroleum and Chemicals . . . . .	1968-69	1	10
Shipping and Transport . . . . .	1968-69	1	5
Works and Housing . . . . .	1965-70	39	13
TOTAL . . . . .		3,077	3,545

[Para 47(b) (i) of the C. & A.G. Report, 1970-71]

1.62. The Committee pointed out that a larger number of utilisation certificates were outstanding from the Ministry of Education and Health and Family Planning. The Finance Secretary stated: "We have issued very clear instructions to the Ministries concerned regarding the procedure which has to be followed. The procedure

has been laid down in the General Finance Rules and instructions in respect of grants-in-aid. Apart from the general instructions issued by the Finance Ministry, individual Ministries, like, Health and Education, concerned with various schemes of grants-in-aid, have also issued their own separate instructions, laying down the pattern, the conditions of eligibility and other related matters for the benefit of their subordinate organisations. We have been writing to the departments to make their vigorous efforts to get the utilisation certificates. There is some progress, but it is not as satisfactory as it should have been. For instance, the pendency of utilisation certificates, if you take the year 1965-66, was 5113. The amount outstanding was Rs. 68.83 crores. In 1970-71 it came down to 3077, amount Rs. 35.45 crores. The position as of date is 2588 certificates, involving Rs. 27.37 crores. We have been writing to the Ministries concerned." The witness added: "The two Ministries which have got a large number of outstandings of the utilisation certificates are the Ministries of Education and Health and Family Planning. As such two cells should be created, one each in these Ministries, consisting of an officer of the Finance, an officer of the Administrative Ministry and an officer of the Audit and they should try to look into these and see whether this can be speeded up." Asked if the procedure of stopping further grants was followed in case of non-receipt of certificates, the witness stated: "There are also clear instructions that unless utilisation certificates for a previous grant have been given, they should not give a fresh grant, except in very exceptional circumstances." Asked if this rule was being followed by the Ministry of Education, the Finance Secretary stated: "We shall find out whether this has been strictly followed."

1.63. In a written reply, the Ministry of Finance stated: "The Ministry of Finance have taken various measures during the last few years to tighten up the procedure for sanctioning/releasing grants-in-aid as well as for obtaining Utilisation Certificates within reasonable periods. In pursuance of the recommendations of the Public Accounts Committee contained in their 68th Report (3rd Lok Sabha), the procedure regarding sanction of grants and issue of utilisation certificates to Audit was reviewed by the Finance Ministry in consultation with Comptroller Auditor General of India and necessary instructions were issued to all Ministries *vide* Ministry of Finance O.M. No. F.14(6)-E.II(A) 67, dated 16th February, 1968. According to these instructions target dates should be fixed for submission of audited statements of accounts by the grantee institutions to the Sanctioning Authorities and for submission of Utilisation Certificates by the Sanctioning Authority to Audit, and for keeping a watch on the timely issue of utilisation certificates by

maintaining registers and reviewing them periodically at appropriate levels."

"In the case of Ministries of Health and Family Planning and Education and Social Welfare, special studies were conducted by the Financial Advisers in the Department of Expenditure, associated with the above Ministries to sort out the cases which represented a "hard core" and would not respond to any further action. Attempts were made to isolate these cases and examine, in consultation with C. & A.G., where necessary, what special steps should be taken to remove them from the outstanding list. Simultaneously efforts were also made to watch the progress of the other outstanding utilisation certificates. These Ministries who have old cases were also advised in cases where documents such as the Audited statements of account etc. are not forthcoming, to take a reasonable view after examining the circumstances of the cases where there is a reason to think that the grant has been utilised for the purposes for which it was given and issue the utilisation certificates to Audit on that basis. The practical difficulties experienced by these Ministries in settling the old cases are given below:—

#### *Ministry of Education*

- (i) Delay in receipt of audited statements of accounts from the guarantees in spite of repeated reminders;
- (ii) Delay in settling the points arising out the scrutiny of audited statements of accounts entailing protracted correspondence with the guarantees;
- (iii) Delay in release of final instalments of grants pending completion of projects resulting in the earlier instalments of grants remaining uncertified;
- (iv) Delay in the completion of audit of grantee institutions by appointed Auditors.
- (v) Delay caused by the time taken in some cases in the settlement of audit objections against the institutions after which only a clear utilisation certificate could be given.

#### *Ministry of Health and Family Planning*

- (i) In the absence of audited statements of accounts and progress reports of the work done from the Local Bodies and Voluntary Organisations in the absence of satisfactory response to the correspondence, the intervention of State



Governments was requested and in some cases they are requested to adjust the Grants given by them but the medium of the State Governments has not always been very effective in this matter; and

- (ii) Progress of old cases is slow as there is difficulty in getting old records.

Due care is also taken by the Associated Finance Divisions to examine various aspects like financial position of the grantee, the objects for which the grant is requested, the past performance of the grantee etc.

As a result of this drive undertaken by the Ministry of Finance the position of pendency of Utilisation Certificates has been coming down as will be seen from the following figures:—

Utilisation Certificates pending	Name of the Ministry			
	Education		Health & Family Planning	
	No.	Amt. in lakhs	No.	Amt. in lakhs.
At the end of September, 1968 .	2820	3960	1848	996
At the end of September, 1969 .	2390	3405	1783	822
At the end of September, 1970	1124	1177	1545	693
At the end of September, 1971 .	1264	1885	1476	886

1.64. For the grants paid by the various Ministries, utilisation certificates were outstanding as on 30th September, 1971 in 3077 cases involving a total amount of Rs. 35.45 crores. Some of the cases date back to the period as early as 1954-55. The Committee are particularly concerned about a large number of utilisation certificates outstanding in respect of grants paid by the Ministries of Health and Family Planning and Education and Social Welfare. At the end of September, 1971 utilisation certificates were outstanding in 1325 cases involving an amount of Rs. 20.33 crores in the case of Ministry of Education and Social Welfare and 1476 cases involving amount of Rs. 8.86 crores in the case of Ministry of Health and Family Planning. Though the number of outstanding utilisation certificates has come down as compared with the position at the end of September, 1968, the Committee feel that further efforts are necessary to clear the back log of utilisation certificates. The Committee understand that a cell is proposed to be created in the Ministries of Education and Social Welfare and Health

**& Family Planning to speed up the process of issuing certificates. On this committee, there should be a representative of the Ministry of Finance. The Committee would like to be informed of the progress made in this regard.**

*Delay in compilation of Proforma Accounts*

1.65. On 31st March, 1971, there were 34 Government Undertakings of Commercial and quasi-Commercial nature as against 33 Undertakings on 31st March, 1970; the addition being that of Tarapur Atomic Power Station, which was declared commercial in September, 1970 with effect from 1st November, 1969.

1.66. The financial results are ascertained annually by preparing statement of accounts on a proforma basis outside the general accounts of Government. The proforma accounts for the year ending 31st March, 1971 of 27 Undertakings were not received till January, 1972.

[Para 49 of the Report of C. & A.G. (Civil) of 1970-71].

1.67. Explaining the position of the proforma accounts in respect of the India Security Press and the Currency Note Press, the representative of the Department of Economic Affairs stated "the C. & A.G. has laid down a certain time-table for the submission of the returns. The time table goes like this—completion of reconciliation figures has to be submitted by AGs by the 15th June, the closing of March final accounts—30th June, supplementary accounts 30th July and March final accounts by 5th July, March Supplementary Accounts by 7th August and so on. The date for the closing of the annual accounts is the 1st October. In the case of debit and credit notes towards adjustment for stores indented through DGSD, these accounts generally are not received before October-November. Clearance certificates from A.Gs are usually not received before October-November. In the first case reconciliations of figures is very difficult by 15th June. Clearance certificates come by October or November. In the case of these two organisations, they are usually finalised by December." The Finance Secretary stated, "If so you fix a realistic schedule it would be possible to adhere to them. At the moment whatever has been laid down is unworkable."

1.68. The Committee desired to know the reasons for non-submission of proforma Accounts of Ice-cum-Freezing Plant, Ernakulam since its inception (20-11-1967). In a note, the Department of Agriculture stated, "The Ice-cum-Freezing Plant is one of the units of the I.N.P. (now I.F.P.). The project came into existence as a

result of an Agreement with the Government of Norway. The administrative control of the Project which was with the Government of Kerala was taken over by the Government of India in 1963. The last Agreement with the Government of Norway under which the project was in operation was reached in 1967 and has expired on 31-3-1972. The Project is, however, being continued under the revised designation of "Integrated Fisheries Project". Originally the idea was that the plant would operate on a commercial basis. The Ministry of Finance (Budget Division) and the Comptroller and Auditor General of India agreed that proforma account should be maintained and that a formal order recognising the project as a Departmental Commercial Undertaking should be issued. The Ministry of Finance (Budget Division) subsequently suggested in May, 1967 that since all the schemes of Government trading had not formally been declared as commercial undertakings, it would be advisable to wait before declaring the Project as a commercial undertaking. This arrangement was also agreed to by the Comptroller and Auditor General of India on the understanding that indirect charges like "Administrative Expenses" would be taken into account in preparing the proforma accounts.

1.69. While deciding the set up of the freezing plant, the Ministry of Finance suggested that the plant should be worked to the full capacity and that for the purpose there should be no hesitation in making purchase of prawns from the open market. This suggestion was accepted by the Standing Committee and Orders were issued accordingly. It was, however, decided on reconsideration in January, 1969 that entering the Open market for spot purchases would not be in accordance with the objectives of the agreement with the Government of Norway. Under the Agreement, the freezing plant was to be utilised for training and demonstration and commercial activities were excluded. This view namely that spot purchases were not necessary was agreed to by the Ministry of Finance. In the light of the instructions issued in January, 1969, to the effect that the Project may not purchase prawns from the Open market and that the Plant was to be used for training and demonstration, the matter as to whether commercial accounts were still required to be maintained was gone into, in consultation with the Ministry of Finance and Comptroller and Auditor General of India, The Comptroller and Auditor General of India, the Accountant General, Kerala, as well as the Ministry of Finance were doubtful as to whether any commercial account or proforma account needs to be maintained. The situation was then reviewed by this Ministry in

consultation with the Ministry of Finance and Comptroller and Auditor General and a decision was taken in August, 1971 that the plant need not be declared as commercial, but that proforma accounts should be maintained for the purpose of broad financial assessment of the working of the scheme in consultation with the Accountant General, Kerala. This decision was conveyed to the Director I.N.P. in August, 1971. The Director prepared a set of forms and sent the same to Accountant General for approval in November, 1971. The approval of the Accountant General to the proposed proforma together with the A.G.'s instructions regarding the preparation of the Proforma accounts were received in November, 1972".

1.70. The Committee desired to know the reasons for non-completion of Proforma accounts by the Electricity Department, Laccadive, Minicoy and Aminidive Islands since its inception (April 1961). In a note the Ministry of Finance stated:

"The Electricity Department of the Union Territory of Laccadive, Minicoy and Aminidive Islands was declared as a Commercial Department with effect from 1st April, 1961. The accounts of the department were, however, being maintained on the PWD System of accounts. The Central Water and Power Commission informed the local administration on 5th September, 1962 that the accounts should be prepared on Commercial lines in the form used by the State Electricity Boards. The preparation of the Proforma Accounts was taken up and completed by the PWD for the period ending 1963 and submitted to the Accountant General, Kerala in 1965. The Proforma Accounts were returned by the Accountant General with his comments. The Audit Office desired that accounts for the years 1960-61, 1961-62 and 1962-63 should be prepared separately for each year. In the light of the comments given by audit on the accounts for 1962-63, the local administration modified and recast the forms and prepared separate accounts for 1960-61, 1961-62 and 1962-63 and 1963-64 and submitted them to the concerned Accountants General in March, 1970. Accountant General, however, desired to have the accounts prepared in the approved forms.

(2) As regards the finalisation of the accounts forms, it may be stated that these forms were drawn up and circulated to all the Union Territories for comments and suggestions. After the forms were recast or modified in the light of comments given by Audit they were circulated to various Accountants General for suggestions. The matter remained under correspondence with the Central Water and Power Commission, the Director of Commercial Audit, the Ministry of Finance and the Comptroller and Auditor General. The forms were finalised by the middle of 1972 and circulated to the Union Territories for adoption.

(3) Due to the time and labour involved in collecting the details from the Divisional office of PWD with whose accounts the accounts of electricity were merged (or the period from 1962-63 to 1968-69) in addition to the routine work as also inspection of the section have fair idea regarding the system followed hitherto, the preparation of the proforma accounts has been delayed. The collection of data is almost completed and it is expected that these accounts could be furnished in a month or so."

1.71. The Committee are not satisfied with the delay in completion of proforma accounts by Government Undertakings of Commercial and quasi-Commercial nature. Out of 34 such undertakings, proforma accounts for the year 1970-71 had not been finalised by 27 undertakings till January, 1972. The Committee were explained difficulties in the timely closing of accounts in respect of the two undertakings till January, 1972. The Committee were explained that the other Ministries concerned should also look into the reasons for delay in the compilation of the proforma accounts of the undertakings under their control. In case the present time schedule fixed for closing of the accounts is considered unrealistic, necessary steps should be taken in consultation with the Comptroller and Auditor General to revise the schedule. Once a realistic time schedule is fixed, no excuse should be accepted for not adhering to it except in very exceptional circumstances.

1.72. The Committee are particularly unhappy that the proforma accounts in respect of the Electricity Department, Laccadiv Minicoy, Aminidivi Islands and the Ice-cum Freezing Plant, Ernakulam have not been compiled since their inception in 1961 and 1957 respectively. It is unfortunate that they have taken a long time to finalise the form of accounts. Now that the forms have been finalised, the Committee desire that the proforma accounts should be compiled and furnished to Audit without further delay.

#### **.. Loss on sale of forged National Defence Certificates**

1.73. The statement of losses appended to paragraph 37 of the Report of C&AG (Civil) for 1970-71 disclosed 3 cases of loss of an amount of Rs. 5,94,412 by the Ministry of Finance.

[Paragraph 37 of Report of C&AG (Civil) for 1970-71 and Appendix-IX thereto]

1.74. The Committee desired to know the reasons for loss worth Rs. 5.94 lakhs. In a written reply, the Ministry of Finance stated: "Three sanctions were issued by the Ministry of Finance, Department of Economic Affairs as per details given below for the issue of ante-dated 12-years National Plan Savings|National Defence Certificates to different parties totalling in all Rs. 5,98,000. These amounts represent the deposits received from the different parties for which proper certificates had not been issued to them.

(i) No. F. 28(6)-NS 69 .	17-11-1970	Rs. 3,68,500
(ii) No. F. 28(5)-NS 70 . . . . .	3-3-1971	Rs. 2,25,000
(iii) No. F. 28(7)-NS 70 . . . . .	3-3-1971	Rs. 4,500
		<hr/> Rs. 5,98,000

The parties involved in the issue of ante dated 12 years National Plan Savings|National Defence Cerificates are as follows:—

	Name	Amount Rs.	Date of the Certificates
I.	1. The J. K. Manufacturers Ltd. Employees Provident Fund, Kanpur. . . . .	6,000	23-3-1967
	2. Juggilal Kamlapat Cotton Spinning and Weaving Mills Company Ltd. Employees Provident Fund, Kanpur. . . . .	30,000	23-3-1969
	3. Juggilal Kamlapat Jute Mills Company Ltd., Employees Provident Fund, Kanpur . . . . .	19,500	31-1-1967
	4. The J. K. Manufacturers Ltd., Employees Provident Fund, Kanpur. . . . .	50,000	31-1-1967
		36,000	18-2-1967
		20,000	18-2-1967
	5. Juggilal Kamlapat Iron and Steel Company Ltd. Employee Provident Fund, Kanpur. . . . .	20,000	31-1-1967
	6. Juggilal Kamlapat Cotton Spinning and Weaving Mills Co., Ltd., Employees Provident Fund, Kanpur	1,12,000	18-2-1967
	7. Juggilal Kamlapat Jute Mills Company Limited Employees Provident Fund, Kanpur . . . . .	25,000	16-3-1963
	8. The J. K. Manufacturers Limited Employees Provident Fund, Kanpur. . . . .	25,000	31-1-1963
		25,000	5-6-1953

	1	2	3
II. 9. Hindustan Commercial Bank Ltd., Employees Provident Fund, Kanpur.		35,000 40,000 1,00,000 50,000	11-10-1962 27-11-1962 31-1-1963 23-12-1963
III. 10. Juggilal Kamlatpat Iron and Steel Company Ltd., Employees Provident Fund, Kamla Tower, Kanpur.		4,500	23-3-1967
		5,98,000	

The amounts mentioned above were authorised to be written off as loss under the Major Head 71-Miscellaneous—Miscellaneous and Unforseen Charges—Other Items". In all these cases applications from the different parties for getting the National Defence Certificates had been obtained by Shri ..... a District Organiser in the National Savings Organisation, U.P. and he also received the amounts needed for getting these certificates. In some cases Shri ..... had actually obtained certificates from Post Office and also made them over to the parties. Later it was found that the certificates issued to the parties were forged ones and that the original certificates issued by the Post Office had been fraudulently issued to some other parties by suitably altering the entries made therein. Since the amounts for investments had been properly handed over to Shri ....., District Organiser, it was held that, so far as the parties were concerned, the responsibility for the issue of certificates remained with the Government of India. When these parties instituted Civil Suits for recovering the amounts from the Government of India, it was decided in consultation with the Ministry of Law to compromise all these suits by agreeing to issue to the parties concerned ante-dated certificates. The Government of India thus assumed responsibility for the issue of fresh ante-dated certificates to the parties detailed above. The procedure for handling of investors money by the field staff of the National Savings Organisation has already been tightened up with a view to ensure that frauds of the type revealed by the case under consideration do not recur in future.

Shri ....., District Organizer, involved in all these transactions is now under suspension and the frauds committed by him have been reported to Special Police Establishment and the case is being processed by the S.P.E."

**1.75. The Committee note with concern that a District Organiser in the National Savings Organisation in Uttar Pradesh committed a**

fraud in issuing National Plan Savings/National Defence Certificates involving an amount of Rs. 5.98 lakhs. The Organiser received the amount from different parties out did not issue the proper certificates. In some cases he actually obtained certificates from Post Office but issued forged ones to the parties concerned and the original certificates to some other parties by suitably altering the entries. On the parties instituting civil suits for recovery of the amount from Government, it was decided to issue ante-dated certificates to them. The frauds committed by the organiser are stated to be under investigation by the Special Police Establishment. The Committee find that the organiser has been distributing fraudulent certificates over a long period from 1962 to 1967. The Committee feel that a thorough investigation should be made, if not already done, of all the certificates sold through the said organiser. The Committee would like to be informed about the progress of investigation within six months.

1.76. The Committee have been informed that the procedure of handling of money by the field staff of the National Savings Organisation has been tightened up. The Committee hope that such cases will not recur.

#### Audit Paragraph

##### U.S.A.I.D. loans—

1.77. Between 1967-68 and 1969-70 a total amount of U.S. \$7.365 millions (Rs. 5.524 crores) was refunded out of loans drawn from U.S. AID owing to objections raised by the A.I.D. authorities. The refunds are broadly classified as under:—

Category	No of re-funds made during the three years	Amount refunded in U.S.\$			Total amount refunded U.S.\$
		Private parties	Government companies and autonomous body	Government departments	
(1) Refunds due to non-utilisation of Imported goods)	12	662,141·08	554,502·53	97,021·12	1,313,664·73
(2) Refunds due to diversion of imported goods for ineligible purposes.	5	223,409·48	2,845,247·00	..	3,068,656·48



	1	2	3	4	5	6
(3) Refunds as a result of foreign exchange having been spent on ineligible Items. . . . .	58	403,018.75	757,133.72	294,473.95	1,454,626.42	
(4) Refunds due to excess/duplicate reimbursements obtained from U.S.A. I. D. . . . .	21	786,916.94	1,015.80		787,932.74	
(5) Refunds due to settlement of claims for short landing, damages, etc.,	93	695,327.83	30,817.96	14,913.13	740,158.92	
TOTAL . . . . .	189	2,770,814.08	4,188,717.01	405,508.20	7,365,039.29	
					or Rs. 5,52,37,794.65	

1:78. A few typical cases of refunds are given below:

(i) *Refunds due to non-utilisation of imported goods.*—The refunds include \$282,000, \$116,947 and \$60,250 representing cost of 4 wagon tipplers imported by Trombay Fertilizer Project, Delhi 'C' Thermal Power Station and Barauni Thermal Power Project respectively. The tipplers imported in these cases could handle only four wheeler bogies and could not be put to use in view of the policy of the Railways to change over to eight wheeler wagons for carrying coal or because, for other reasons, the tipplers were not put to use within a reasonable time.

A refund of \$89,978.30 had to be made as steel imported by the Railways in 1964 was not put to use within a reasonable period and also because part of it was not cleared from the Bombay port even after three years of its arrival in India owing to disputes with the Port Trust authorities, etc. about survey of that part of the consignment which had been received in loose condition. It was stated (November 1970) that "the Railways have since confirmed that the steel imported by them has been used for rolling stock manufacture and repairs except for a small quantity that was short delivered".

Another refund of \$91-164.53 was made as the equipment imported for the Barapani Hydro Electric Project could not be utilised owing to its late receipt in India (i.e. May, 1964) as orders therefor had not been placed sufficiently in advance or the equipment had been diverted to other projects. It was stated by the Ministry in November 1970 that "the need for the equipment in question was felt at the time orders were placed, and they were cleared by U.S.A.I.D. also. However, they could not be used as originally intended because of subsequent developments. The authorities concerned

have since been addressed to intimate to us the manner in which the items in question have subsequently been utilised and their reply is awaited.

It may be mentioned in this connection that before allocating foreign exchange every effort is made to ensure that the import for which foreign exchange was allocated is essential. Project authorities are also to obtain the clearance of their associated Finance before allocation of foreign exchange is considered. However, either due to wrong estimation of demand or unforeseen technological changes it may sometimes happen that an imported item is not utilised."

(ii) *Refunds due to diversion of imported goods for ineligible purposes.*—Lubricants worth \$121,555.63 imported by two private parties were sold to Ordnance factories in accordance with the condition laid down in the import licences. The transaction was, however, in contravention of the terms of A.I.D. loan agreements according to which loan is not admissible for imports for meeting specific Defence requirements. In two other cases, refunds of \$2,381,366 and \$463,911 had to be made as copper imported by MMTC was diverted to Ordnance factories (the loans were for economic development and not for any other purpose). The Corporation at the time of sale to Ordnance factories had in stock sufficient quantity of copper which had been imported out of free foreign exchange resources and as such could have, if suitably instructed by Government, met the Defence requirements from that stock. It was stated by the Ministry in November 1970 that "as the funds under the A.I.D. programme are received in order to meet the foreign exchange requirements of economic development, we have always taken care to see that no allocations are made from A.I.D. funds for defence purposes.... We, therefore, issued instructions in May 1967 to the Ministry of Industry, when the first such refund claim came to our attention, to ensure that such cases of diversion to defence needs are not repeated and making it clear that A.I.D. allocations can meet only civilian requirements. We have since reiterated the position by issuing instructions to all concerned to ensure that A.I.D. funds are utilised only for civilian uses". It was further stated that "the refund in effect means that the requirement was financed through free foreign exchange which should have been the case originally but for the technical mistake in utilising A.I.D. funds.

(iii) *Refunds as a result of foreign exchange having been spent on ineligible items.*—These refunds represent reimbursement ob-

tained out of loan funds on account of ineligible items such as (a) imports made prior to the eligibility date, (b) freight charges on non-U.S. flag vessels and airlines, (c) insurance coverage from sources other than U.S., (d) interest charges paid to foreign suppliers on deferred payments, (e) import of goods not included in the items eligible for A.I.D. financing (f) Indian agents' commission paid by the foreign suppliers in foreign currency etc.

[Paragraph 70 of the Report of C&AG (Civil) for 1969-70]

1.79. Explaining the overall position of refunds, the Finance Secretary stated during evidence: "We have gathered figures which may be of interest to you. The total amount for which we have had to make a refund in terms of millions of dollars—I give that because that is the currency in which we make it—is 9.233 million. This stretches over a period from 1958-59 to 69-70. I am saying 1969, but there was no amount in that year. Out of the total amount of loans that was drawn during that period, 2376 million, refund was 9.233 million, a percentage of .388 which is small considering the volume of work involved and the volume of imports, many of them of small items. Also in terms of year-wise percentage, the amount of refund has gone down sharply. In 1959 it was 1.9 per cent of the total loans taken in that year. From that time, they have reduced regularly. In 1964, it was .36 per cent, then .06, then .04. In 1968-69, it was .02. In terms of total volume these percentages are very small and I would venture to say they do not really give us a bad name."

#### *Wagon Tiplers*

1.80. The Committee desired to know when the decision of Railways to change over to eight wheeler wagons for carrying coal was taken. The Secretary, Economic Affairs stated: "The decision of the Railways as I believe was taken in 1958. When actually it was communicated, I am not very sure.". Referring to the tiplers orders for Trombay Fertilizer Project, the witness stated: "The question of the Railway Policy that coal beyond a certain amount could only be provided in secure wagons is not entirely relevant because the change in the policy of getting the rock phosphate by road did not really apply because at a certain stage they found that the Railways would charge the minimum amount which was the rate for 40 km. The distance was only 7 kms. We had calculated that they could do by train. Later when they went to rock phosphate from Rajasthan and elsewhere, the policy of the Railways did not act as a block because they were then in a position to use the tiplers. Here the Railway policy of 1958 was not a bar. But it was

a bar in the other cases of the wagon tipplers for the Thermal Power Stations where they did learn that in 1961 Railways intended to change over to the box type wagon and they did attempt to alter. The wagons did not come but orders had been placed and they were told, if you cancel the order you will have to pay the full amount, for they brought the tipplers in the hope that they could persuade the Railways. This was carefully considered by them. We had learnt of the policy. The Delhi Electric Committee considered that tipplers could be used partially. In one case the tippler is now being used and the Railway policy as mentioned did not apply."

1.81. Explaining the position further in respect of the tippler purchased by the Trombay Fertilizers, the witness stated: "The question that the Railways would charge a minimum charge for 40 kilometres, perhaps they should have known that. Now if they brought it by road, it would cost Rs. 7.56 per tonne, whereas by rail, it would cost Rs. 10.58 per tonne. They therefore, decided to use the road transport. But later when they got the rock phosphate from Rajasthan, the tippler came into commission and I believe, they are being used since June, 1971 fully." The Committee asked whether the question of transportation by road being economical was examined before ordering for tipplers. The representative of the Ministry of Petroleum and Chemicals stated: "...from 1959 onwards for a period of about two years the question of creating adequate facilities for the unloading of the rock phosphate and sulphur which were to be imported in large quantities was under consideration and the matter was discussed a number of times by FCI with the Ministry of Railways. It was expected at that time that the Trombay plant would require about 1.5 lakh tonnes of rock phosphate and sulphur and the daily arrival would be 1,000 tonnes. To avoid payment of demurrage, it was considered necessary to have mechanical unloading facilities and for that purpose, they wanted a tippler. The design for this was settled in consultation with the Railway and the Railways had also assured that the four-wheeler wagons required would be made available. This was in 1961. I do not know the exact date. The order was placed in 1961, towards the end, and the procurement was in 1963. It was installed in 1965. Before these facilities were asked, detailed techno-economic studies were made and they brought out the fact that the best and most economical way would be to move them by rail. It was on this basis that the mechanical unloading facility was created. In 1965, the first shipment of rock phosphate was received. It was then found that it would be more economical to move this by road, rather than by rail. The studies made in 1961 showed that if this is

moved by rail, it would be cheaper. The first shipment came in 1965. The studies made earlier were based on the best judgement and the best assessment that could be made at that time. In 1965, the situation might have changed. It was then known that to move the imported rock phosphate by road would be cheaper.' Asked how it was assessed that the Rail transportation would be cheaper, the witness replied, "The information available with me shows that all these factors were taken into account. Perhaps till 1965, it was assumed that the Railways could charge according to the actual distance." Asked what the basis of the assumption was, the witness replied: "In some cases, the railways have charged according to the actual distances. They were using 4 wheelers which were going out of use. It was a closed circuit movement. Then according to the information available with them, the Railways were known to charge on station to station basis. It is on the basis of these parameters that it was found that it would be cheaper to move by rail. Unfortunately, these expectations did not materialise." Asked if there was any written undertaking from the Railways, the witness stated: "I cannot categorically answer this, Sir. I would submit, however, that there were discussions at different levels, at the level of Chairman, Railway Board. But in 1965, since it transpired that it would be more expensive to use the railway transport instead of the road transport, the matter was taken up with the railway authorities."

1.82. In reply to a question, the witness stated: "In 1967 the matter was reported to the Government by FCI. This report was made to Government in 1967. Immediately we took up the matter at the level of the Ministers and made the plea that the wagons may be allotted and then they agreed. In October, 1967 the Chairman of the Railway Board wrote that it would be possible for them to allot the wagons and also they agreed to give four-wheel wagons. But they did not relent on the question of freight. The Ministry had gone into the pros and cons of the matter whether we should pay a higher freight."

1.83. In a written reply, the Ministry of Finance stated: "Before ordering the tippler, the feasibility of transporting rock phosphate by different modes of transport was examined by the project authorities and it was found that it would be economical to transport it by rail. There are no records to show that there were any formal consultations with the Railways on this aspect." The tippler was ordered on the 3rd August, 1962. It arrived in India in December 1963 and its erection was completed in May, 1965."

"The Ministry of P and C., have stated that the Railways informed F.C.I., in May 1963 that F.C.I., should be prepared to handle 8 wheel wagons also, but the FCI in the meantime had proceeded to instal the wagon-tippler which had already been ordered in August 1962 on the basis of the approval of the design of the tippler from the Railway authorities. The question of arranging the movement in 4-wheel wagons was taken up with the Railways by the FCI soon after May 1963 and in January 1968 the Railways advised that in view of the very special circumstances they had decided to clear this traffic in 4-wheel wagons."

"Discussions were held with the Railway authorities including the Chairman of the Railway Board by arranging meetings on 8-7-1959, 12-7-1959 and 16-7-1959 as well as by correspondence with them, regarding the transportation of rock phosphate from Bombay Port to factory site by rail. The Railway Board and Central Railways were kept informed by FCI that a tippler designed to use 4-wheeler wagons were being provided to unload the rock phosphate wagons at the site for movement of phosphate by rail."

"The tippler is being used regularly now for unloading of rock-phosphate received from Udaipur (approximately 5,000 tonnes per month)."

1.84. In a written reply, the Ministry of Finance have furnished the following position regarding the tipplers ordered by the Barauni Thermal Power Station and Delhi 'C' Thermal Power Station:

*Barauni Thermal Power Station*

(a) The wagon tippler was ordered in the year 1959 and imported in 1962. The decision to change over to eight wheeler wagons by the Eastern Railways was communicated to the Bihar Electricity Board in February, 1960.

(b) The Ministry of Irrigation and Power have stated that when the Railways informed the Board in February 1960 that while the present needs of coal of the Barauni Power Station could be supplied by four wheeler wagons their future supplies would be moved in box-type wagons, the Board approached the Railways to indicate to them the date from which the coal in eight wheeler wagons would be supplied. The Railways, however, did not indicate the date from which the eight wheeler wagons would be available. The Board, therefore, decided to go in for the wagon tippler suitable in four wheeler wagons.

"The Railways informed CWPC in May 1961 that all Power Houses should keep themselves equipped for tipping arrangements capable of handling both box-type and ordinary type wagons. This was circulated to all the Electricity Boards by CWPC in June, 1961.

(c) Subsequent to the receipt of the tipplers, the Railway started movement of coal in box-type wagons but of the tippler was not suitable for handling the case. The Board was, however, pursuing the matter regarding movement of coal in four wheeler wagons and it was agreed in 1967 that the NCDC would move coal from their Giridih Colliery in four wheeler wagons. Coal was supplied in four wheeler wagons between March 1968 and October, 1968 and the tippler was used intermittently. Further, due to conversion of coal to oil firing in October 1968, coal remained only as a standby fuel.

With the present level of supply from Barauni Refinery, 15 M.W. Unit might have to be operated on coal when working in emergency in conjunction with 50 M.W. Unit. Coal for this could be carried from Giridih Colliery in four wheeler wagons and, as such, to that extent, the wagon tippler is likely to be used in future also as a standby arrangement.

#### *Delhi 'C' Thermal Power Station*

(a) The tippler was ordered on the foreign suppliers on 29th December, 1960 and received in March, 1963. The Northern Railways intimated the DESU in September, 1961 that it would be the policy of the Railway Board that all the bulk consumers of coal would receive their supplies of coal in newly introduced box-type wagons.

(b) Immediately on receipt of the above intimation from the Railways, DESU requested them to defer the supply of coal in eight wheeler wagons but this was not agreed to by them. DESU, therefore, decided to cancel the order for the tippler but the foreign suppliers showed their inability to do so without the full cost of the tippler being paid as the cancellation charges, since the tippler was reported to be ready for shipment. Thereafter, DESU decided to dispose of the tippler by inviting tenders locally as well as approaching the India Stores Department, London, before the tippler could be shipped but all their efforts in this direction were of no avail. Ultimately the equipment was received in March, 1963.

(c) After it was received, it was used only for 11 days."

*Delay in utilisation of Steel*

1.85. Explaining the reasons for delay in utilisation of steel imported by Railways, the Secretary, Ministry of Economic Affairs stated: "This steel was imported and unfortunately it stayed in the dock for about three years. There was certain quantity, about 224 bundles which were discharged in loose condition with the bundles broken and this resulted in dispute between the Railways and the Port Trust. The Railways, however, agreed to clear the consignment on terms of actual weight and asked the Port Trust to certify the shortage. The Port Trust did not agree and obtained a no objection certificate from the shipping agents. This matter remained under correspondence between the Railways and the Bombay Port Trust till June, 1966 and then a meeting was held on the 30th of June with the Docks Manager and it was agreed that the loose sheets lying could be delivered to the Railways on actual weight basis. Now the clearance was further held up because of the levy of demurrage charges and was cleared in April, 1967." Asked the urgent requirements of Railways were met, the witness stated: "If I may put it that way the total quantity that was received was 4846 tonnes. Now out of this the quantity that was not cleared was only 635 tonnes. This means a major part of the shipment was cleared and a certain amount was left and it is in regard to this residue that the dispute took place which caused a delay and therefore, asked for refund." Asked if the refund related to 635 tonnes, the witness replied "Yes".

*Non-utilisation of equipment for Barapani Hydro Electric Project*

1.86. The Committee asked why the orders for the equipment were not placed sufficiently in advance, the Finance Secretary stated: "I must confess that we know that there was delay. There was also some delay in the supplier's ordering the delivery, as sometimes does happen."

1.87. In a written reply, the Ministry of Finance Stated: The following equipments were imported by Barapani Hydro-Electric Project:—

1. Concrete Buckets
2. Batching Plant
3. Lima 65 Shovel Attachment
4. Clam Shell Attachment and Dragline Bucket
5. D-4 Caterpillar Tractor.



The position in respect of each equipment is indicated below:

*(1) Concrete Buckets*

The need for concrete buckets arose towards the end 1962 as it was found that indigenously manufactured buckets were unable to meet the required rate of output. According in January, 1963, the matter for release of Foreign Exchange was taken up. Foreign exchange was released on 9th May, 1963 and order was placed on 5th June, 1963. The buckets were expected to reach at site by first week of October, 1963. There was delay by the suppliers and the equipment actually reached at site in February, 1964.

On account of late receipt of the Buckets at site certain modifications had been carried out to the indigenous buckets and by this the discharging time was improved upon satisfactorily to carry out the required quantity of work.

The buckets will be utilised at Kyrдем Kulai Hydro-Electric Project.

*(2) Batching Plant*

Towards the middle of 1963, as a result of deeper foundations necessitated and also due to raising of the height of the dam by 10 ft. to accommodate future diversion of water from adjoining basins the quantity of concrete required to be placed got increased. It was found that unless arrangements were made for placing extra quantity of concrete on the right bank by a separate arrangement, the Dam could not be completed on schedule. It was, therefore, decided to procure a batching plant. On 15th June, 1963, the case was processed for release of foreign exchange. The foreign exchange was released on 6-9-1963. The orders were placed on 8th October, 1963, and it was expected that equipment would be received before end of December, 1963. The delivery was delayed and the consignment arrived at the project site in May, 1964.

When the prospect of batching plant not being received at site in time became clear, improvised arrangements were made to carry concrete from the existing batching plant on the left bank in dump trucks across the river to the right bank by construction of alternative roads on the right bank. As after May, 1964, the quantity of concrete required to be placed was small, the batching plant was not set up on the right bank as proposed.

The equipment will be utilised at Kyrдем Kulai Hydro-electric Project, the work on which has already begun.

### (3) *Lima 65 Shovel Attachment*

The necessity for Shovel Attachment for Lima-arose out of an unforeseen collapse in the tunnel due to bad geological formation necessitating on open-cut excavation to remove the collapse in the Chimney formation in the tunnel. The case for release of foreign exchange was processed in January, 1964 and released in March, 1964 and orders were placed in May, 1964 and delivery of the equipment was delayed by suppliers by about 5 months and equipment was actually received at site by March, 1965.

As the equipment did not arrive at site till March, 1965, and the Power House had to be commissioned by early, 1965, the excavation had to be managed by employing other alternative equipment obtained from other projects.

This equipment had been utilised at Chanderpur in the year 1968-69.

### (4) *Clamshell Attachment and Dragline Bucket*

By the end of 1962, a chimney formation took place in a valley along the tunnel alignment. As tunneling was impossible through the region, it was decided to cut open the valley. As it was found impossible to do this work by manual labour, it was considered necessary to obtain a Clamshell Attachment and Dragline Bucket for mucking open-cut-spoil. The case of foreign exchange was processed in June, 1963 and the foreign exchange was released in July, 1963. Orders were placed in September, 1963 but the Attachment arrived at site in March, 1964, due to delay on the part of supplier.

"On account of late receipt of the equipment at site, it was assessed that unless the open-cut excavation was completed by March, 1964, the project would be delayed. In view of this, the excavation was continued by manual operation and with the help of the crane and the work was completed by March, 1964. As such, the equipment was not used at the project.

"This equipment had been utilised at Chanderpura in the year 1968-69.

### (5) *D-4 Caterpillar Tractor*

Non-utilisation in the Barapani project was not due to delay in the receipt of the equipment but due to the decision taken by the Project authority to divert this equipment to Namrup Thermal

Power Project foreign exchange for which was obtained under the Exim Bank loan in lieu of one Eimco Excavator which was obtained for the Namrup Thermal Project but used on the Uiam Hydrel Project. The equipment was required there for loading excavated muck from Power House and tail-race excavation into dump trucks. As both the projects were financed by American loan it was presumed by the Assam Electricity Board that there would be no objection to such diversion.

"This equipment had been utilised in the Uiam Hydrel Project Stage II and in the Namrup Thermal Project for excavation work. It is now being utilised in the Kyrtem Kulai Hydro-Electric Project."

### *Copper*

1.88. The Committee wanted to know the reasons for diversion of Copper imported and AID programme to the Ordnance Factories by MMTC. The Secretary, Economic Affairs stated: "These stock were held by MMTC. At a certain stage, for various reasons, at one time there was a sort of freeze on the use of copper because it was felt the Defence Ministry might need a large amount. The freeze was taken away and we found that the stocks of copper were considerable and MMTC was asked to dispose early. They did, and gave a large chunk to Defence. They say they were not aware that any copper imported under AID was not meant for defence purposes. Now normally most of these allocations are done by the Department of Economic Affairs and we, knowing about this provision, ensure that it is given to people who are going to use it for economic development. In this particular case, it happened that the holder was one who also supplied defence requirements, and in this particular case having this big allocation made the supplies to Defence. After that event, we have been perhaps wiser. We have sent them instructions as well that this should not be done."

1.89. In a written reply, the Ministry of Finance stated: "The total quantity of copper in stock with MMTC at the time of diversion of imports under US AID Programme to the Ordnance factories was 9,971 tonnes including stocks in transit. This included a stock of nearly 5414 tonnes of copper imported by MMTC using free foreign exchange. It has been explained by the MMTC that they were not aware of the restrictions placed on the use of US AID financed goods for non-civilian purposes. If they were aware of these restrictions they had sufficient stocks of copper imported under free foreign exchange and out of these, supplies amounting to 2835 tonnes could have been made to the Ordnance factories."

"It may be added that the question whether there was any lapse on the part of the Ministry of Industry or of the Corporation in allowing the diversion of the AID financed copper to the Defence Units was considered by the Ministry of Finance and it was concluded that it would be difficult to hold any body in particular responsible for this. However, the Ministry of Finance issued a circular to all the Ministries on the 8th September, 1969 to bring to the notice of all the Ministries the correct position and also the steps to be taken by them in future."

1.90. The Committee find that during the period 1967-68 to 1969-70, in a total number of 189 cases, 7.365 million US dollars (Rs. 5.524 crores) had to be refunded out of loans drawn from US AID owing to objections raised by the AID authorities. It was explained during evidence by the Finance Secretary that out of the total loan of 2376 million US dollars received over the period 1958-59 to 1969-70, the refunds amounted to 9.233 million dollars which worked out to 0.388 per cent. While the Committee appreciate that though as a percentage of the total amount invested, the amount of refund is small, in their view that is no justification for the failure to exercise proper care in importing stores, equipment etc., under the programme. One case referred to in the Audit paragraph indicates that reasonable care was not exercised in the importing and utilisation of equipment material.

1.91. In the case of four wagon tipplers imported for the Trombay Fertilizer Project, the Delhi 'C' Thermal Power Station and the Barauni Power Project, the question of long term utilisation of the equipment was not properly examined before placing the orders. The wagon tipplers procured by Delhi 'C' Thermal Power Station and Barauni Power Project have not generally been used since their import due to the Railway having changed over from 4-wheeler wagons to 8-wheeler wagons for carrying coal.

1.92. In the case of the tippler ordered by the Trombay Fertilizer Project, there is nothing on record to show if the relative merits of transportation of the material by rail and by road had been examined before deciding to place the order for a tippler. It was only when the material arrived in 1965, that the project authorities came to know that the Railways would charge the rate for a minimum distance of 40 kilometers and not the actual distance which was much less. Because of this the road transportation was found to be cheaper. The conclusion, it seems to the Committee, is obvious that a proper study had not been made of the comparative cost of transportation of the material by rail and by road. The

Committee consider that the responsibility should be clearly fixed for the failure to do something which obviously needed doing.

1.93. In another case a refund had to be made as a part of the steel imported by the Railways in 1964 remained under dispute with Port Trust Authorities for a long time. As a result it could not be utilised. The Committee are surprised that a dispute between the two Government Agencies could not be settled for three years.

1.94. In the case of the equipment imported for Barapani Hydro Electric Project, none of the five equipments could be utilised in the project due to delays in their arrival. This shows that the placing of the orders for the equipment had not been properly planned.

1.95. Copper imported by MMTC under the economic development programme was diverted to the Ordnance Factories, although they had sufficient free stock of copper to meet the defence requirements. The MMTC should surely have been aware of the purpose for which the material had been imported. The Committee would like the reasons for this failure to be gone into with care.

#### Audit Paragraph

##### *Outstanding Audit objections and inspection reports*

1.96. Outstanding Audit Objections—The financial irregularities and defects noticed in central audit are brought to the notice of the departmental authorities through objection statements. Half-yearly reports of outstanding audit objections are also forwarded by Audit to the administrative Ministries for taking necessary steps to expedite their settlement.

1.97.(i) The number of outstanding objections in the Ministries noted below and their attached and subordinate offices is large:—

Ministries/Departments	Total number of ob - jections raised up to March, 1971	Total amount (lakhs of rupees)	Number of ob - jections raised prior to April, 1968	Amount (lakhs of rupees)
(1)	(2)	(3)	(4)	(5)
Agriculture	A. Civil Departments. 4,231	96.49	559	42.36

(1)	(2)	(3)	(4)	(5)
Communications . . .	170	76.70	27	0.08
Education & Social Welfare .	3,413	100.70	493	15.72
External Affairs. . . .	8,393	143.70	5,269	78.49
Finance . . . . .	13,361	180.26	2,621	24.60
Foreign Trade . . . .	877	38.91	154	1.65
Health & Family Planning . .	2,121	162.23	301	11.43
Home Affairs . . . . .	17,001	1187.01	2,658	127.28
Industrial Development .	1,648	10.83	385	2.47
Information & Broadcasting .	1,715	72.50	157	1.44
Irrigation and Power . . .	3,478	1103.62	727	32.67
Labour and Rehabilitation .	5,762	202.86	2,174	84.30
Shipping and Transport .	969	294.86	176	0.42
Steel and Mines . . . .	5,982	94.43	1,140	7.20
Tourism and Civil Aviation	4,111	362.64	605	3.60
Works and Housing . . . .	18,117	3336.79	2,867	277.38
Science and Technology .	879	26.50		..

*B. Departmentally managed commercial and quasi-commercial undertakings*

Agriculture . . . . .	36	10.24	4	3.12
Information and Broadcasting	68	0.25	2	0.01

(ii) The following is a broad analysis of the outstanding objections :—

Nature of objections	Number of items	Amount (Lakhs of rupees)
(1)	(2)	(3)
<i>A. Civil Departments</i>		
(a) Want of sanctions to establishments or continuance of establishments . . . . .	1,108	38.38
(b) Want of sanctions to miscellaneous and contingent expenditure. . . . .	2,765	446.48
(c) Want of sanctions to estimates or excess over sanctioned estimates . . . . .	2,744	635.98
(d) Want of detailed bills, vouchers, payees' receipts, stamped acknowledgements or other documents . . . . .	41,402	3863.24

	(1)	(2)	(3)
(e) Recoverable advances not recovered and adjusted within the prescribed period . . . . .		26,910	158.41
(f) Want of agreements . . . . .		956	672.85
(g) Non-recovery of overpayments amounts disallowed in audit . . . . .		679	2.32
(h) Irregularities in payments with reference to contracts .		17	0.01
(i) Objections raised on ground of financial propriety . .		17	0.03
(j) Want of sanction to write off losses or irrecoverable amounts . . . . .		4	0.07
(k) Other reasons . . . . .		20,938	1698.25

*B. Departmentally managed commercial and quasi-commercial undertakings*

(a) Want of sanctions to miscellaneous and contingent expenditure.. . . .		9	0.04
(b) Want of detailed contingent bills, vouchers, payees' receipts, stamped acknowledgements or other documents . . .		29	10.24
(c) Recoverable advances not recovered and adjusted within the prescribed period, . . . . .		53	0.16
(d) Other reasons . . . . .		8	0.06

The entire expenditure for which detailed bills and vouchers are not submitted escapes audit scrutiny.

[Paragraph 56 of the Report of the C&AG (Civil) for 1970-71]

*Outstanding Inspection Reports ..*

1.98. The audit done in central office is supplemented by local inspection. All important financial irregularities and defects in initial accounts noticed during local audit and inspections are included in inspection reports and sent to departmental officers for necessary action. Besides, copies of the inspection reports and half-yearly statements of outstanding inspection reports are also forwarded to the administrative Ministries.

1.99. (i) The Ministries with comparatively large outstandings are shown below:—

Ministries/Departments	Year of issue of the earliest outstanding Reports	Number of outstanding	
		Reports	Paragraphs in the Reports.
(1)	(2)	(3)	(4)
<i>A. Civil Departments</i>			
Agriculture . . . . .	1951-52	548	2,216
Education and Social Welfare . . . . .	1951-52	1,073	3,332
External Affairs . . . . .	1949-50	317	1,437
Finance . . . . .	1950-51	679	175
Foreign Trade . . . . .	1958-59	113	446
Health and Family Planning . . . . .	1956-57	265	879
Home Affairs . . . . .	1953-54	1,010	3,921
Industrial Development . . . . .	1950-51	191	509
Irrigation and Power . . . . .	1953-54	647	15,446
Labour and Rehabilitation . . . . .	1951-52	947	5,708
Shipping and Transport . . . . .	1954-55	204	612
Tourism and Civil Aviation . . . . .	1956-57	199	999
Works and Housing . . . . .	1952-53	11,717	14,175
Supply . . . . .	1949-50	142	592
<i>B. Departmentally managed commercial and quasi commercial undertakings</i>			
Agriculture . . . . .	1966-67	15	52
Finance . . . . .	1961-62	24	39
Health and Family Planning . . . . .	1959-60	25	55
Information and Broadcasting . . . . .	1964-65	87	232
Irrigation and Power . . . . .	1957-58	16	143
Works and Housing . . . . .	1962-63	35	154



(ii) The more important types of irregularities noticed during inspection and local audit are briefly summarised below:—

	Number of offices in which ir- regulari- ties were noticed
<i>A. Civil Departments</i>	
<b>1. Public Works Offices—</b>	
(i) Wasteful and infructuous expenditure due to defective plans, designs and abandonment of works . . . . .	39
(ii) Extra cost to Government due to rejection of lowest tenders or delay in accepting tenders . . . . .	7
(iii) Excess payments due to non-observance of the conditions of contracts or non-provision of necessary safeguards in contracts. . . . .	17
(iv) Splitting up of purchase orders . . . . .	15
(v) Unauthorised financial aids to contractors . . . . .	35
(vi) Delay in effecting recovery of security deposits from contractors and payment of contractors' bills. . . . .	27
(vii) Arrears in maintenance and/or non-maintenance of initial accounts of road, metal, material-at-site accounts, etc. . . . .	66
(viii) Other irregularities. . . . .	498
<b>2. Treasuries and other Civil Offices—</b>	
(i) Non-observance of rules relating to custody and handling of cash, posting and maintenance of cash books, mustor rolls, physical verification of cash, reconciliation of departmental receipts, and remittances with the treasury records, recording of measurements, etc. . . . .	543
(ii) Securities from persons handling cash and stores not obtained or, if obtained, not for the prescribed amount . . . . .	198
(iii) Store accounts not maintained properly and periodical verification not done . . . . .	516
(iv) Defective maintenance and/or non-maintenance of log books of staff cars, etc. . . . .	161
(v) Local purchase of stationery in excess of authorised limits and expenditure incurred without proper sanction . . . . .	167
(vi) Delay and/or non-recovery of receipts, advances and other charges, etc. . . . .	482

	Number of offices in which irregula- rities were noticed.
vii) G. P. Fund accounts of Class IV staff not maintained properly . . .	174
viii) Payment of grant-in-aid in excess of actual requirements . . .	166
(ix) Other types of irregularities . . . . .	2,163
<i>B. Departmentally managed commercial and quasi-commercial undertakings.</i>	
(i) Extra cost to Government due to rejection of lowest tenders or delay in accepting tenders . . . . .	8
(ii) Non-observance of rules relating to the custody and handling of cash, posting and maintenance of cash books, muster rolls, physical verification of cash, reconciliation of departmental receipts and remittances with the treasury records, recording of measurements, etc. . . . .	12
(iii) Stores accounts not maintained properly and periodical verification not done. . . . .	23
(iv) Other types of irregularities . . . . .	257

[Paragraph 57 of the Report of C&AG. (Civil) for 1970-71]

1.100. In a note, the Ministry of Finance have stated:

"In pursuance of the instructions contained in Finance Secretary's D.O. letter No. F. 12(49)-E(Coord) |66 dated 27th February, 1967 addressed to all administrative Secretaries, the Ministries which were having a large number of chronic objections which somehow defied attempts at settlement in the ordinary manner have set up ad hoc Committees from time to time including a representative from Audit as an observer to settle such items and also designated a senior officer in their Ministries to coordinate action in matters relating to settlement of audit objections and paras of inspection reports."

"The following are the Ministries who have set up such ad hoc Committees to settle chronic objections:—

- (i) Ministry of Works & Housing
- (ii) Ministry of Irrigation and Power
- (iii) Ministry of Foreign Trade
- (iv) Department of Rehabilitation.

With the issue of the instructions contained in Finance Ministry's Office Memorandum No. F. 10(3)-E(Coord) |67 dated

18.10.68 on "Arrangements for budgeting and financial control and delegation of financial powers to Ministries" the Ministries including the Finance Ministry have appointed Internal Financial Advisers. . . . .the work relating to watching of the settlement of audit objections, inspection reports, draft audit paragraphs etc. has been entrusted to the Internal Financial Adviser. Accordingly these Internal Financial Advisers in the Ministries are coordinating action on the work relating to settlement of audit objections and paras of inspection reports."

"An up-to-date 'Standing Guard File' on speedy settlement of audit objections etc. incorporating all the instructions issued on action to be taken by various authorities for speedy settlement of audit objections etc. has been prepared by the Finance Ministry (Department of Expenditure) and supplied to all the Ministries/Departments."

"The Ministries are also having periodical discussions with the Audit officers at appropriate levels to settle the outstanding audit objections."

**1.101. The Committee are surprised that such a large number of Audit objections and Inspection Reports involving substantial amounts should still be outstanding. Some of the Inspection Reports pertain to the period as far back as 1949-50. This is not a desirable state of affairs. Audit objection and inspection reports are meant to be dealt with promptly, otherwise the very object of having audit and inspection is defeated. Every effort should be made to clear audit objections still outstanding for the period prior to 1966-67 before 31st March, 1974.**

## GOVERNMENT OPIUM FACTORIES GHAZIPUR, NEEMUCH AND MANDSAUR

### Audit Paragraph

#### *Introduction*

2.1. (a) Government Opium Factories are located at two places (i) Ghazipur (U.P.), and (ii) Neemuch (M.P.). An Alkaloid works is also attached to the Ghazipur Factory. Another factory, which was started at Mandsaur (M.P.) in May, 1962 was closed in May, 1969 as it was felt that it was not necessary to have a second factory within a short distance from Neemuch.

The working of the Factories was last reviewed in Section XXIV of the Audit Report (Commercial), 1967 and was considered by the Public Accounts Committee vide paras 1.77 to 1.131 of their Twenty-sixth Report (Fourth Lok Sabha—April, 1968). Action taken by Government on the recommendations of the Public Accounts Committee is contained in their 79th Report (Fourth Lok Sabha—April, 1969). The succeeding paragraphs contain the result of review of their operations for the period ending 31st March, 1971.

(b) With a view to improving the efficiency of the Narcotics Department, the Government of India appointed an Officer on Special Duty in January, 1969 to conduct a comprehensive study of the Narcotics Department in all its aspects, particularly long-term performance and policies, production of opium and alkaloids, etc. The Officer on Special Duty submitted his report in October, 1970.

2.2. The Ministry have stated (February, 1971) that "most of the recommendations have already been implemented. Certain recommendations relating to the matters involving major policy issues are, however, still under consideration."

[Paragraph 50(1) of the Report of the Comptroller & Auditor General of India for the year 1970-71—Union Government (Civil)].

2.3. At the instance of the Committee, the Ministry of Finance furnished a statement showing action taken on the recommendations of the Officer on Special Duty (Narcotics) who conducted a compre-

comprehensive study of the Narcotics Department in all its aspects and submitted his report in October, 1970. It is stated that most of the recommendations of the Officer on Special Duty have been implemented by the Department but some important recommendations relating to organisational matters, financial management, cadre rationalisation, training etc. appear to be still under consideration.

2.4. The Officer on Special Duty has also pointed out the imperative need to amend and improve the existing Act and to incorporate new provisions consistent with the changed conditions so as to make the national narcotics control conform to the international regulations. The proposed Act should also provide for establishment of a central Administrative machinery empowered to issue necessary administrative instructions to the State Agencies for considering the preventive and repressive actions against illicit traffic and for collection and compilation of statistical information. With a view to suppression of illicit traffic, stringent penalties have been suggested for narcotic offences. In their reply, it has been stated by Government that the recommendations have been accepted and that a Central Narcotics Bill is being drafted.

2.5. The Committee note that the Officer on Special Duty who was appointed to make a comprehensive study of the working of the Narcotics Department has submitted some important recommendations, most of which are stated to have been accepted by Government. The Committee desire that an early decision should be taken on the remaining recommendations which are still under consideration, particularly those relating to financial management.

2.6. The Committee desire that steps should be taken to introduce early a consolidated and comprehensive Narcotics bill in Parliament.

#### *Expansion programme*

#### **Audit Paragraph**

2.7. As the existing Alkaloid works at Ghazipur was unable to meet the increased demand of the Pharmaceutical Industry of India, a proposal to set up a new Alkaloids Project at Neemuch at a cost of Rs. 53 lakhs, (including foreign exchange components of Rs. 13.00 lakhs) for the extraction of semi-refined morphine on the basis of process evolved by the National Chemical Laboratory estimated to give recovery of 90 per cent morphine against the existing 75 per cent was approved by Government in March, 1965. Thereafter, the evolution of plant layout, preparation of sketches and drawings for

civil works, plant and equipment was entrusted to the National Industrial Development Corporation Limited in October, 1965.

2.8. In 1968-69, it was decided to enlarge the scope of the project and to provide for the manufacture of synthetic Codeine and finished alkaloids also. Accordingly, approval was obtained in December, 1968 for the setting up of the project as revised at a total cost of Rs. 105.806 lakhs.

2.9. The sanction for the execution of the Project could not, however, be issued as certain difficulties arose in obtaining suitable guarantees in respect of National Chemical Laboratory process in the absence of any pilot plant studies. It was not until January, 1970 that the National Chemical Laboratory, National Industrial Development Corporation Limited and the Chemical experts of Government came to the conclusion that they were satisfied about the technical feasibility of the Project and no pilot studies were necessary. On this basis, Government accorded in April, 1970 approval to the execution of the Project at a cost of Rs. 117.736 lakhs; the increase being on account of increase in the cost of plant and machinery and civil works.

2.10. The construction work on the Project has commenced in October, 1970. No firm date for the completion of the Project is yet (February, 1972) available as a coordinated erection time schedule is currently being drawn up in consultation with National Industrial Development Corporation Limited (consultants), Bharat Heavy Plate and Vessels Limited (turnkey contractors for fabrication, supply, installation and commissioning of the plant and equipment) and the sub-contractors for electrical and instrumentation work.

2.11. Taking into account the increased cost of the Project and the reduced recovery of 87 per cent, the net annual gross profit has been estimated by the Management at little over 47 per cent (on the basis of current sales prices) on the total capital investment.

[Paragraph 50(2) of the Report of the Comptroller and Auditor General of India for the year 1970-71 Union Government (Civil)]

2.12. The Committee desired to know the reasons for delay in designing of buildings, plant and equipment, etc. In a written reply, the Ministry of Finance stated: "Narcotics Commissioner placed order on the National Industrial Development Corporation on 3-1-1966 for designing of buildings, plant and equipment, etc. for the Semi-refined Alkaloids Sections on the basis of the process evolved by the National Chemical Laboratory, Poona. NIDC were to submit the de-

signs within one year of the placement of the order. However, as a result of the subsequent discussions towards the close of 1966 between the NIDC Engineers, N.C.L. Scientists and Departmental Chemists/Officers, it was considered desirable to manufacture Synthetic Codeine and Finished Salts also instead of confining the scope of the Project to Semi-Refined Alkaloids only. N.I.D.C. actually submitted their quotation for the designing of this additional Synthetic Codeine and Finished Salt Section in April, 1967 and had also actually commenced simultaneously the designing work of this job as part of the integrated designing for the Plant as a whole. However, in the meantime, the mode of execution of the Project viz. by setting up of a Departmental Organisation for construction of the entire work relating to Plant and Machinery to a single firm on a turnkey basis and getting the Civil Works done through the C.P.W.D. was under consideration. The cost of the Project had also risen and several issues regarding marketability of the products, export potential, profitability of the new Project, comparative production cost of the individual Alkaloids produced by the factories at Ghazipur and Neemuch, etc. cropped up. Sorting out of these points took considerable time and formal order in respect of the designing of this additional section could, therefore, be placed on the N.I.D.C. on 23-3-68 only. N.I.D.C. had mentioned in their quotation that they would complete the designing work for this additional section within six months from the date of placement of order ie. by 23-9-1968."

"National Industrial Development Corporation Limited completed most of the designing work by 4-12-68 but consequent upon subsequent discussions and pilot plant studies, they had to review their designs to incorporate further improvements. Thus broadly speaking designing work took about 3 years from January, 66 to December, 68. Since the designing work had to be an integrated effort for the entire plant, it is very difficult to say the extent of increase in the total time taken by the N.I.D.C. due to enlargement of the scope of the Project."

"It would be appropriate to mention that the Alkaloid Plant which is being set up at Neemuch (M.P.) is of its own kind in the whole of India and is fairly complicated. National Chemical Laboratory, Poona with the assistance of our Chemists evolved a process for the extraction of Semi-refined Alkaloids from opium on a laboratory scale. The job of designing the Plant for commercial exploitation of the laboratory process was a difficult and exacting one. It would be appreciated that the preparation of designs become an easier job in cases where process/technique used in another similar plants is known and it may always be possible to bring about some improvements in such cases. However, there is no other

similar Plant in existence in India and it was also difficult to obtain the process and technology employed by the foreign manufacturers as they keep their technology a secret. Besides due to sensitive nature of the commodity, there was natural reluctance on our part too to consult the foreign manufacturers. In the circumstances, the consultants had to rely on their own ingenuity and techniques in designing the Plant. The designing of this Plant has in fact been a continuous process in which improvements have been attempted at each stage to make the Plant more economic and efficient. Keeping in view the latest availability of the indigenous material, equipment, etc. N.I.D.C. have even very recently incorporated improvements in the designs."

"Some of the technical and other points of doubt and the problems which have led to delay in the finalisation of the designs and commencement of actual construction work on the project are given below:—

- (i) Replacement of Hydrochloric Acid by Sulphuric Acid for isolation of Semi-refined Codeine;
- (ii) Process for isolation of Natural Codeine and Narcotine;
- (iii) The details of filtration equipment that should be used and whether the Nutsche filter apparatus fabricated by N.I.D.C. would yield satisfactory results;
- (iv) Considerable part of the equipment of the Plant is non-standard and it required special designing effort and considerable liaison with the manufacturing facilities available within the country.
- (v) N.I.D.C. have attempted considerable automation and mechanisation which will have considerable impact on the economy of the Plant when completed.
- (vi) Since there was huge difference in the cost estimate originally indicated by the N.C.L. Poona and those worked out by the N.I.D.C., N.I.D.C. had to make critical study of the cost estimates with reference to the proposed designs based upon information collected by them regarding costs incurred in industries for similar works.
- (vii) N.I.D.C. had also to review their designs to cut down, as far as possible, expenditure on Civil Works.
- (viii) Since no pilot plant studies had been conducted to ensure that the process developed by the N.C.L. Poona could be successfully exploited on a commercial scale, it was de-



cided in July, 69 to conduct pilot plant studies by using the equipment available with the I.D.P.L. Hyderabad. These pilot plant studies took considerable time.

- (ix) The batch size for Synthetic Codeine Section was revised in November, 70 and after detailed discussions between N.C.L. Scientists N.I.D.C. Engineers, and Departmental Chemists it was decided to increase the batch size from 20 Kgs. to 60 Kgs. This required revision of the process equipment of the Synthetic Section.
- (x) The disposal of the effluent disposal has defied a proper solution in spite of discussion between the N.I.D.C. Experts, Departmental Chemists and the N.C.L. Scientists for a long time. N.C.L. Poona even carried out experiments to give a suitable solution for the disposal of the effluents but on the basis of the data given by them, it has not been possible to design a suitable plant for the disposal of effluents. The matter, has, therefore, now been referred to the Central Public Health Engineering Research Institute Nagpur."

2.13. The Committee desired to know the reasons for revision of the estimates for the project from time to time. In a written reply, the Ministry stated:

"It may be mentioned that the cost estimate of Rs. 117.736 lakhs for the Project were prepared in January, 1970 and these estimates rose to Rs. 164.09 lakhs in September, 1971. Sanction for the execution of the Project at this enhanced cost was issued on 1-10-1971."

2.14. Broad reasons for increase in the cost estimates are given below:—

*Revision of the Cost Estimates of the Project from Rs. 53.30 lakhs to Rs. 105.806 Lakhs*

The estimates of Rs. 53.30 lakhs were prepared by the N.C.L. Poona prior to the preparation of the sketches and drawings for the buildings and detailed engineering of the Plant. The N.C.L. estimates were, therefore, of a very preliminary and rough nature. While preparing the detailed designs, it transpired that N.C.L. Poona had not included provisions for certain important and major items. The N.I.D.C. on the basis of their designs estimated the cost of the Project to be Rs. 105.806 lakhs.

2.15. In view of the position explained above, any comparison of the cost estimates of the Project with the N.C.L.'s rough and preliminary estimates may not give correct picture. However, the increase in cost is broadly explained below:—

- (i) Increase in the area of the Production Building from 33,000 to 35,852 sq. ft.
- (ii) In their estimates N.C.L. had not taken into account Site Development, Sewage, Storm Water Drains, Compound Wall, Security fencing and Watch Tower, Inter-communication, Pump House, Rest House, Acid & Alkali Resistant Flooring, White Glazed Dado, Wire mesh in Windows, Steel doors, Extensive glazing in windows for operation facilities, extra for 33' height of floor of the Production Building as against normal height of 11' etc.
- (iii) N.C.L. had not included any provision for the Departmental charges of the C.P.W.D. contingencies, etc.
- (iv) Addition of an altogether new section viz. Synthetic Codeine and Finished Salts Section.
- (v) Non-inclusion of any provision at all for—
  - (a) Fabrication of non-standard equipment, e.g. Stainless Steel Vessels, Mild Steel Vessels, etc.
  - (b) Refrigeration, Dust proofing, Cooling Tower, Fire Fighting Equipment.
- (vi) projection cost and Instrumentation. Amounts provided were much less than actually required.
- (vii) N.C.L. had included 15 per cent of the Civil Works for Electrification. This was not adequate in view of the fact that flame-proof fittings were required to be provided.
- (viii) The equipments provided for by the N.C.L. were also not adequate as would be observed from the following items:—

Equipment	As suggested by N.C.L.	As per NIDC designs
(a) Pumps	13 of 5 H.P. each	39 of 2 H.P. each
(b) Vacuum Pumps	1 of 100 CFM	2 of 250 CFM
(c) Vacuum Driers	1	3
(d) Extractors	22	28

Similarly the boiler and the transformer required were of a much higher capacity than envisaged by the N.C.L.

*Reasons for Increase in the Cost Estimates from Rs. 105.806 Lakhs in May, 68 to Rs. 117.736 Lakhs in January, 1970*

2.16 The increase of Rs. 11.930 lakhs in the cost estimates of the project was mainly due to increase in the cost index. C.P.W.D., intimated in October, 1969 that they had prepared the estimates of Rs. 30.05 lakhs for Civil Works based on the cost index of 155 whereas the cost index for Neemuch had gone upto 194 and as such C.P.W.D. revised the cost estimates from 30.05 lakhs to Rs. 35.92 lakhs. A further addition of Rs. 1,39,000 was made in the estimates for Civil Works to meet the cost of machine foundations, cable ducts & process drains in the Production Building thereby raising the cost of Civil Works to Rs. 37.31 lakhs.

An overall increase of about 8 per cent was made in the balance items in view of the rise in prices of various goods & services.

*Reasons for increase in the cost estimates from Rs. 117.736 lakhs to Rs. 164.09 lakhs*

2.17. The increase of Rs. 46.35 lakhs in the Cost estimates of the Project has been broadly due to the following factors:—

<i>Civil Works</i>	+3,72,000
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- (i) C.P.W.D. estimates for Civil Works were based on the approved cost index of 194 over DSR 1955. But by the time, the contracts were awarded, the cost index had gone upto 208 over DSR 1955.
- (ii) Consequent upon the decision to increase the batch size of the Synthetic Codeine from 20 Kg's to 60 Kg's, an additional bay had to be added in the Production Building thereby increasing the plinth area and the cost.

*Plant and Machinery*

- (iii) Enlargement of the scope of the Project so as to include the manufacture of finished Salt—Dionine—not originally contemplated and increase in the capacity of Thebaine (80 Kg's to 200 Kg's) and the batch size of the Synthetic Codeine (20 Kg's to 60 Kg's).

(Rs. 13.06 lakhs)

- (iv) Revision of the instrumentation scheme so as to provide latest Instrument Controls now available indigenously. The installation of the latest instrument controls would

avoid wastage of process material, provide accurate and effective control on the process line thereby ultimately reducing the cost of production.

(Rs. 7.90 lakhs).

- (v) Increase in Fabrication Charges of Vessels.

(Rs. 4.49 lakhs)

- (vi) Increase in Mild Steel & Structural Steel prices.

(Rs. 2.47 lakhs)

- (vii) Mark-up due to entrusting of turn-key job. Earlier the equipment was proposed to be acquired from several suppliers. Realising the coordination problems and the delay involved in the implementation of the Project by following this course, turn-key job was given to M/s. Bharat Heavy Plate & Vessels, Visakhapatnam who have provided a composite warranty for the equipment and workmanship and adoption of this course has eliminated coordination problems.

(Rs. 2.30 lakhs)

- (viii) Over-all escalation in the cost index (excluding the increase in prices indicated at S. Nos. v, vi and ix below).

(Rs. 7.42 lakhs)

- (ix) Likely additional expenditure on account of the Budget proposals presented to the Parliament on 28.5.1972. (Rs. 5 lakhs approx.)

2.18. As regards increase in the cost estimates of the Project due to delay in its execution, it may be mentioned that the execution of the project at an estimated cost of Rs. 117.736 lakhs on the basis of the designs prepared by the N.I.D.C. was sanctioned on 23.4.70. Before this date the Project was not ripe for commencement of any work. The entire detailed engineering and construction management work relating to the Alkaloid Project, Neemuch was entrusted to the National Industrial Development Corporation on 20.5.70. N.I.D.C. had mentioned that the completion of the Project would take about 24 months from the date of entrusting of the consultancy work to them i.e. the Project was expected to be completed by about July, 72. The delay in the execution of the Project has, therefore, to be reckoned from July, 72 onwards and not from any earlier date. Since no revision in the cost estimates of the Project has been made after September, 1971, there is no increase in the cost estimates of the Project, on account of delay in the execution of the Project. However, there has been price escalation during the execution of the Project which cannot be avoided. It would be observed that price es-

calation during the execution of the Project from January, 1970 onwards has been Rs. 22.38 lakhs as per details below:—

	(In lakhs of Rs.)
Increase in the Fabrication charges of Vessels	4.49
Increase in Mild Steel and Structural Steel Price	2.47
Overall escalation in the cost index	7.42
Likely additional expenditure on account of Budget Proposals presented to Parliament on 28-5-71	5.00
Increase in expenditure on Civil Works (excluding approximate expenditure on additional bay)	3.00
	<hr/> 22.38

2.19. Regarding Foreign Exchange component of the Project, it may be mentioned that originally a provision of Rs. 13 lakhs was indicated for the import of Stainless Steel Plates, Bars, Pipes, Pipe Fittings, Ball Valves, Flanges, etc. However, Ball Valves & Flanges have subsequently been procured indigenously at a cost of Rs. 4,32,175 and Rs. 3,60,000 respectively and only the Stainless Steel Plates, Bars, Pipes & Pipe Fittings have been imported at a foreign exchange cost of about Rs. 7,30,500. A saving of about Rs. 5.70 lakhs has thus been effected in the foreign exchange requirement.

2.20. The Committee desired to know if there was any delay in the completion of Civil Works. In a written reply, the Ministry of Finance stated:

“The execution of Civil Works relating to the Alkaloid Project, Neemuch was entrusted to the C.P.W.D. and the necessary administrative approval and expenditure sanction was conveyed on 23.4.70. After going through the various preliminaries like preparation of Structural designs, quantity schedules, tender papers, etc., C.P.W.D. invited tenders for most of the Civil Works during August-September, 1970 and the contracts were awarded and the work on them commenced during October-November, 1970. Contracts in respect of provision of various services, e.g. Construction of roads, sewerage disposal, external water supply, etc., were awarded subsequently. The Civil Works were expected to be completed in a period of about 16 months from the commencement of the work and these have since been almost completed excepting for some minor works outside the Production Blocks and finishing touches like flooring and plastering of walls in the production Blocks which can be undertaken only after the

installation of the Plant. There have been no major delays worth mentioning in the execution of civil works and whatever works could be undertaken have since been completed."

2.21. The Committee desired to know why no schedule for completion of the project was drawn up till February, 1972. In their written reply, the Ministry stated:

"A firm and coordinated erection schedule for the Project could be drawn up only in consultation with the Contractors| Sub-Contractors for various Groups of Works. The Sub-Contracts for Electrical and Instrumentation Groups of Works were finalised in January, 1972 and coordinated erection schedule could, therefore, be drawn up thereafter only. However, it may be mentioned that even prior to the fixation of sub-contractors tentative time schedule was in existence. N.I.D.C.—the consultants had in fact drawn up a tentative work time schedule according to which the completion of the Project was estimated to take about 24 months to 26 months from the date of sanction. A period of 24 months for the completion of the Project is also indicated in our Agreement with the National Industrial Development Corporation which came into force w.e.f. 20-5-1970. The Project was thus expected to be completed by about July, 1972. Even as per agreement entered into between the Government and Bharat Heavy Plate and Vessels in November, 1971, BHP&V were to complete the Project by 31st July, 1972. However, adherence to this schedule was subject to the supply of Stainless Steel material and certain other essential items of equipment, which were being procured through the DGS&D, by certain specified dates. It would thus be observed that tentative time schedule for the project was in existence right from the time the Project was sanctioned in April, 1970."

2.22. Subsequent to the finalisation of the above said sub-contracts, the Managing Director, BHP&V sent with his D.O. dated 26.2.72 a schedule showing the various activities in which the commissioning date for the Project was indicated as January, 73. BHP&V attributed the postponement of the commissioning date from July, 72 to January, 73 mainly to the following factors:

"(i) As per Agreement, Stainless Steel material was to be supplied to the BHP&V during September to November, 1971. But the observance of various formalities|obtaining of clearances, import of Stainless Steel material from Japan after invitation of global tenders and the despatch of the material from Madras Port to Visakhapatnam led to a

delay of about 3 months in the delivery of Stainless Steel material to the BHP&V. Excepting this Stainless Steel material no other item of plant and equipment has been imported from abroad. This delay of 3 months in the supply of Stainless Steel material to the BHP&V naturally led to delay in the fabrication of Stainless Steel Vessels and consequently in the postponement of the completion schedule for the Project.

- (ii) Certain essential items of equipment like Stainless Steel Flanges were also to be supplied to the BHP&V but DGS&D could not get any offer for them and their procurement had, therefore, to be entrusted to the BHP&V, in about March, 72. It was decided on 25.4.72 to place order for these flanges on M/s. Metal Forgings (P) Ltd., New Delhi who had quoted a delivery period of 3 to 4 months. Delay in the procurement of these Stainless Steel Flanges was also quoted by the BHP&V as a factor contributing towards the postponement of the completion schedule.
- (iii) BHP&V also mentioned that it was not possible for them to commence fabrication of the Steel Structures as they had not been able to procure the essential Structural Steel Sections."

2.23. BHP&V experienced tremendous difficulty in the procurement of Structural Steel. The Committee of Management also made all out efforts to help the BHP&V in the procurement of Structural Steel and in spite of personal requests and several communications addressed to the Iron & Steel Controller, Ministry of Steel, General Managers of the Steel Plants, J.P.C. and various other authorities, the procurement of the requisite Structural Steel took a considerable time because of its paucity within the country. In the absence of this basic raw material, BHP&V could not undertake the fabrication of Steel Structures which upset the entire time schedule for the Project. Consequently BHP&V submitted on 30.9.72 a revised fabrication and realisation schedule postponing the completion date of the Project from January, 73 to April, 73.

2.24. It has not been possible for the BHP&V to work even as per the above revised time schedule. As against 1st November, 72 envisaged in the revised schedule, BHP&V could commence the fabrication of Steel Structures only in the middle of December, 72 on account of the late receipt of the requisite Structural Steel. BHP&V have fabricated about 40 tonnes of Steel Structures, 30 Stainless Steel Vessels, 13 Heat Exchangers and balance fabrication work is

in progress NIDC have inspected a major part of the instrumentation equipment like Compressors, Ph Meters, Air drying Plant and inspection of flame-proof level switches is in progress. Electrical works too have made a considerable head-way at the site. However, the erection work which as per schedule was to be commenced at the site from 1st of December, 72 has not so far been commenced. BHP&V are reported to be making arrangements for the despatch of the fabricated structures to the site but their transit and actual commencement of erection work at site may take a minimum of one month thereby delaying the commencement of erection work by about 4 months.

2.25. BHP&V have also recently intimated in their letter dated 24.1.73 that because of the recent agitation in the whole of Andhra Pradesh in general and Visakhapatnam in particular the normal working of their factory has been severely affected since the last week of November, 72. They have also mentioned that the State Electricity Board have during the recent months imposed power cut which has affected not only their production but also the production of Oxygen Gas by M/s. Indian Oxygen, Visakhapatnam which is a vital requirement in the fabrication of the equipment at BHP&V Works. They have stated that all these factors have affected their production and might affect their delivery schedules too.

2.26. Taking into consideration the above factors and the progress so far made in the fabrication of Steel Structures and Stainless Steel Vessels, it appears that the erection/commissioning of the Plant may not be completed before August, 73 i.e. there may be a delay of about 1 year over the original envisaged completion date.

2.27. It may be mentioned that the progress of this Project is kept under constant watch by the Committee of Management [comprising of Chairman, Central Board of Excise & Customs as Chairman, Joint Secretary (Department of Expenditure), Chief Engineer, C.P.W.D. and Director (Project) D.G.S. & D. as Members and Narcotics Commissioner as Managing Director]. During the period April, 1970 to January, 1973, 21 meetings of the Committee of Management were held mainly to review the progress made in the setting up of the Alkaloid Project and to resolve the various obstacles and difficulties confronting the expeditious setting up of the Project. Two of the meetings of the Committee of Management were held at site also so that the Committee may get first hand information about the progress of the Project and the problems confronting it. The representatives of the consultants and the Bharat Heavy Plate & Vessels, Visakhapatnam have been attending these meetings and the management has been persuading all the concerned agencies viz. D.G.S. & D. NIDC



and BHP & V to cut down all possible delays and besides extending all necessary help, have been expressing serious concern at the highest level in respect of the delay/postponement in the completion schedules of the Project. Coordination meetings between the Consultants, the C.P.W.D., BHP & V etc. were also arranged frequently at site New Delhi to resolve difficulties by mutual discussion. Departmental officers have also been deputed from time to time to the BHP & V Works to watch the progress and to persuade them to speed up the work.

2.28. The Committee desired to know the total demand of the Pharmaceutical industry in India of Alkaloids and to what extent the requirements had to be imported during the last 3 years. In a written reply the Ministry stated:

2.29. The estimated demand for opium alkaloids during the past three years and as communicated to us by the Drugs Controller of India, has been as under:—

Name of the Alkaloid	1970	1971	1972
	Kgs.	Kgs.	Kgs.
Codeine & its salts.	6,500	7,000	8,500
Morphine & its salts	500	600	650
Ethyl-mor'phine (Dionine)	750	750	1,000
Thebaine	1	1	1
TOTAL	7,751	8,351	10,151

As may be seen from above, the demand of opium alkaloids by the Indian Pharmaceutical Industry has been progressively increasing. This is due to extension of medical facilities in the country.

2.30. The indigenous production of opium alkaloids in the Government Alkaloid Works, Ghazipur, has been around 5,500 kgs. per year of which Codeine and its salts accounts for nearly 4,400 kgs. We had, therefore to import Codeine Phosphate from abroad for meeting the requirements of the Pharmaceutical industry in this country on the advice of the Drugs Controller of India during the last three years as under:—

Year	Quantity of Codeine Phos. imported
1970	750 Kgs.
1971	2,000 „
1972	2,050 „

2.31. Government decided in March, 1965 to set a new alkaloids project at the Opium Factory, Neemuch to utilise the process developed by the National Chemical Laboratory (a Laboratory of the Council of Scientific and Industrial Research). This decision, after 8 years, still remains unimplemented. The delay that has occurred, as will be seen, from the paragraphs that follow, is unjustifiable, this led to considerable increase in the cost of the project.

2.32. Due to faulty estimates originally prepared by the National Chemical Laboratory and subsequent expansion of the scope of the project and increase in prices, the estimated cost of the project was revised from time to time. The estimate of Rs. 53.30 lakhs prepared by the National Chemical Laboratory was revised by the National Industrial Development Corporation (designers and consultants for the project) to Rs. 105.81 lakhs in May, 1968, Rs. 117.74 lakhs in January, 1970 and Rs. 164.09 lakhs in September, 1971.

2.33. The National Industrial Development Corporation who were entrusted with designing of the project in January, 1966 took about 3 years to complete most of designing work by December, 1968 and thereafter another period of 1-½ years elapsed before the construction work commenced in October, 1970. The Committee find that lack of proper planning in two aspects resulted in considerable loss of time. First, when the Government approved the project in March, 1965, it was proposed to produce only semi-refined morphine but after entrusting the designing to NIDC, it was considered desirable to expand its scope to the manufacture of synthetic codeine and finished salts also, which gave rise to consideration of issues regarding the market ability of products, export potentiality, profitability etc. Secondly, after the designing work was mostly over by December, 1968 the question of conducting the pilot studies of the process developed by the National Chemical Laboratory came for consideration and it was decided in July, 1969 to use the equipment available with the IDPL, Hyderabad for the purpose. The pilot studies took considerable time and delayed the sanction for the approval of the execution of the project till April, 1970. It is surprising why these two questions viz. expansion of scope and pilot study of a new process were not considered before the Government approved the project in March, 1965.

2.34. The project which was sanctioned in April, 1970 was started in October, 1970 and was expected to be completed by July, 1972. While there was no appreciable delay in completion of civil work, fabrication of the plant by the Bharat Heavy Plate and Vessels Limited (turnkey contractors for fabrication, supply, installation and com-

commissioning of the plant and equipment) has been delayed due to difficulties in supply of stainless steel flanges and structural steel sections. The Committee have been informed that the erection/commissioning of the plant may not be completed before August, 1973. The Committee hope that the commissioning of the plant will not be further delayed. The Committee would like to be informed about the commissioning of the plant and the actual cost of the project.

2.35. The Committee have been informed that the indigenous production of opium alkaloids in the Government Alkaloids works, Gazipur, has been around 5,500 kgs. per year of which codeine and its salts account for nearly 4400 kgs. For meeting the requirements of the Pharmaceutical Industry in the country Government had to import 2000 kgs. Codeine phos. in 1971 and 2,050 kgs. in 1972. The Committee hope that the capacity of the new Alkaloid Plant at Neemuch Factory will be fully utilised not only to meet the internal requirements but also to export the products, if feasible.

### Raw Opium

#### *Cultivation of Poppy Opium (i.e. raw opium)*

#### Audit Paragraph

2.36. The acreage to be brought under poppy cultivation in any one year is determined by the Ministry of Finance (Department of Revenue and Insurance) with reference to the demand (internal as well as export) for opium and alkaloids expected during the coming year. The cultivation of poppy is licensed to the cultivators by the Narcotics Department.

2.37. The following table indicates *inter alia* the areas licensed and brought under cultivation and the raw opium produced during the last 5 years:—

Crop year	Area to be brought under cultivation (in Hectares)	Area actually cultivated (in Hectares)	Quantity of 'Damdeta' produce at 70°C in KG.		Average yield per Hectare 70°C in Kg.
			Estimate	Actual	
1965-66	13,000	12,071.76	5,14,000	4,35,890.858	36.108
1966-67	15,500	14,181.85	5,40,000	4,72,800.965	33.342
1967-68	26,700	23,971.00	8,60,000	7,50,594.308	31.313
1968-69	36,000	35,034.96	11,20,000	11,14,283.167	31.800
1969-70	39,000	37,530.21	12,00,000	10,18,085.851	27.127

2.38. It will be seen from above that there was shortfall in production with reference to the estimates in each of the years and the yield of raw opium per hectare is showing a declining trend.

2.39. In this connection, the Ministry have stated (February, 1972) as follows:

- (a) Increase/decrease in the area of actual cultivation affects the average yield per hectare,
- (b) The lowest yield in 1969-70 was mainly due to adverse climatic conditions.

[Paragraph 50(3) of the Report of the C. & A.G. of India for the year 1970-71—Union Government (Civil) .]

2.40. The table below indicates the area intended to be brought under cultivation, the areas actually cultivated and quantity of opium produced during crop year 1970-71.

State	Area offered to cultivators in hectares	Area measured i.e. actually brought under cultivation in hectares	Quantity of opium estimated from 50,000 hectares at 70°C (Kg.)	Actual production at 70°C (Kg.)	Average yield per hectare at 70°C. (Kg.)
1	2	3	4	5	6
Madhya Pradesh	25,000	18,022	775000	568010	31.62
Rajasthan	14,500	14,172	392000	398686	28.13
Uttar Pradesh	10,500	8,636	283000	168062	19.46
All India	50,000	40,830	1,350000	1,134658	27.79

FOOT NOTE.— C stands for the consistence of opium and indicates the moisture content of opium. 70°C implies that the opium contained 30% moisture.

In Madhya Pradesh and Uttar Pradesh, there was a short fall of area in licensing, as the cultivators did not come forward to take licences for the entire area offered to them due to their preference for food crops.

In Uttar Pradesh, there was a short fall of 1,032 hectares in licensing. There was a further short fall of 832 hectares between the area actually cultivated and licensed. This was due primarily on account of cultivators' preference for other crops.

It would, therefore, be seen that area under cultivation in 1970-71 crop was a record area.

2.41. The comparative data for crop year 1971-72 is given below:

State	Area offered to cultivators in hectares	Area measured i.e. actually brought under cultivation in hectares.	Quantity of opium estimated from 50,000 at 70°C. (Kg.)	Actual production at 70°C (Kg.)	Average yield per hectare at 70°C. (Kg.)
1	2	3	4	5	6
Madhya Pradesh	21,500	21,163	645000	622691	249.43
Rajasthan	18,500	15,539	555000	430837	27.76
Uttar Pradesh	10,000	10,613	300000	220290	20.77
All India	50,000	47,315	1,500000	1,273818	26.77

In Rajasthan there was a short fall of area in licensing as the cultivators did not come forward to take licences for the entire area offered to them due to their preference for cultivating other food crops.

2.42. The Committee asked whether the decline in production resulting from cultivation of lesser area affect the export as well as internal requirement. In their written reply, the Ministry stated:

"In the year 1970-71 we had planned poppy cultivation in an area of 50,000 hectares expecting production of about 1350 tonnes of opium at 70° Consistence. India is the main supplier of opium for medicinal and scientific needs of the world. Nearly 80 per cent of the world demand is met by India. This demand is on the increase and we are trying to meet the demand as far as possible. However, our main attempt is to confine the area to manageable extent as opium being a sensitive commodity vulnerable to smuggling and abuse, abundant precaution has to be taken to ensure that cultivation is confined to such areas which can be effectively controlled. Smuggling of opium and its abuse is engaging the attention of the international organisations also and in the recent past, more and more attention is being focussed on this question. We have always been conscious of our obligation to the interna-

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tional community and we have, therefore imposed rigid control over poppy cultivation confining it to compact areas which could be efficiently controlled and in this regard India has also earned appreciation from the international forums. Even so, while deciding the area to be brought under cultivation, keeping the above factors in view, a sufficient margin is kept, as the experience is that the cultivators do not undertake cultivation in areas allotted to them and usually the area actually cultivated falls short of the area licensed by about 5 to 10 per cent. Thus, there is a difference of about 10 to 15 per cent between the area planned and the area actually cultivated. During the year 1970-71 although the area actually cultivated was only 40,825 hectares, against the planned area of 50,000 hectares, we obtained a yield of 882 tonnes at 90° consistence (1134 tonnes at 70°C) and we could export 826 tonnes of opium during the year 1971-72. The internal needs were fully met. Our exports of opium during the last five years are as under:

1967-68	.	426 tonnes
1968-69		565 tonnes
1969-70		677 tonnes
1970-71		737 tonnes
1971-72	. . . . .	826 tonnes

Although in the year 1971-72 the decline in production due to fall in cultivation area as against that planned did not seriously affect either our exports or our internal requirements such a contingency cannot be ruled out in future as area actually cultivated and the yield obtained depend on availability of irrigation facilities and other condition.

2.43. According to Audit the cost of raw opium at Ghazipur and Neemuch during 1966-67 to 1970-71 was as follows:

	(at 70°C)	
	Ghazipur	Per Kg. Neemuch.
	Rs.	Rs.
1966-67	44.47	44.09
1967-68	41.41	40.58
1968-69	39.48	38.10
1969-70	41.32	41.40
1970-71	40.89	46.88

2.44. The Committee desired to know the reasons for the cost of raw opium being higher at Neemuch during 1970-71. In a written

reply, the Ministry stated: "The main principle underlying the purchase price of opium is to pitch the same at a level so as to make it sufficiently attractive for the farmer to engage in poppy cultivation. For this purpose, the likely returns from other cash crops are kept in view while fixing the minimum price. As a further incentive to the cultivator for surrendering his entire opium to the Government and not to divert it to illicit channels, a slab rate is provided, whereby the cultivator tendering higher yield receives payment at a higher rate. This system of pricing structure aims at:—

- (i) encouraging farmers to engage in poppy cultivation,
- (ii) ensuring that the cultivators tender high average yield,
- (iii) cutting down the diversion of opium to illicit channels.

As a further incentive to poppy cultivators, cash awards are also paid to them for outstanding performance such as tendering highest yield in a particular region.

2.45. The main reason, therefore, for the cost of raw opium being higher at Neemuch during 1970-71 is the higher price of opium per kg. paid to cultivators of Madhya Pradesh as the average yield of opium per hectare in Madhya Pradesh was higher than the average yield of opium per hectare in Rajasthan and Uttar Pradesh. As explained above, the price of opium is linked to the average yield of opium per hectare, tendered by poppy cultivators, that is, the higher the yield per hectare, the higher the price per kg. paid to the cultivators. In other words, one kg. of opium tendered by the cultivator may be priced at Rs. 40.00 per kg. while one kg. of opium tendered by a cultivator whose average yield is better, may be priced at Rs. 70.00. During crop season 1966-67, there were three slabs of prices of Rs. 30.00, Rs. 33.00 and Rs. 36.00. During crop season 1967-68, there were four slabs of Rs. 30.00, Rs. 35.00, Rs. 36.00 and Rs. 38.00. During crop season 1968-69, there were five slabs of Rs. 30.00, Rs. 35.00, Rs. 38.00, Rs. 40.00 and Rs. 45.00. As there was a small difference in the price slabs during all these years, there was no noticeable difference in the cost of raw opium received by the two factories. Besides in these years although the price paid to cultivators in Madhya Pradesh was a little higher the transport charges, cost of police guards in respect of opium received in Ghazipur factory were higher as the major portion of opium was transported over a long distance from Rajasthan to Ghazipur. Thus, there was not much difference in the cost of raw opium received in two factories. However, during crop season 1969-70 (Financial year 1970-71) there were eight price slabs varying from, Rs. 32.00 to Rs. 70.00 per kg. instead of 4 or 5 in the preceding years.

In this year not only the lowest price was raised by Rs. 2/- per kg., but there was some increase at every stage which resulted in higher payments to cultivators in Madhya Pradesh whose opium was received in Neemuch factory, than those of Uttar Pradesh whose opium was sent to Ghazipur. This resulted in a marked difference in the cost of opium in these two factories.

2.46. According to a statement furnished by the Ministry, the price per kg. payable for the different slabs during the year 1972-73 was as follows:—

Category	Price per Kg. at 70° consistence
	Rs.
Cultivators who have tendered 60 Kgs. or more of opium per hectare	100.00
Cultivators who have tendered 40 Kgs. or more but less than 60 Kgs. of opium per hectare	90.00
Cultivators who have tendered 30 Kgs. or more but less than 40 Kgs. of opium per hectare	75.00
Cultivators who have tendered less than 30 Kgs. of opium per hectare	60.00

2.47. The Committee desired to know the steps taken by the Department to increase the average yield per hectare. In a written reply, the Ministry have stated, "At our instance the Indian Council of Agricultural Research have drawn up a scheme of 5 years duration with effect from 1st April, 1971 at an approximate expenditure of Rs. 4.20 lakhs for agricultural research on poppy crop. The experiments aim at (a) improving the morphine content (b) increasing the yield of opium by breeding suitable varieties of seed, (c) conducting agronomical research which would give maximum per hectare yield of opium (d) developing more efficient methods of lancing and collection and (e) studying various diseases affecting poppy in order to formulate suitable control measures including breeding of disease resistant varieties.

The price of opium is linked with average yield of opium per hectare tendered by the poppy cultivator, that is, the higher the yield per hectare, the higher the price per kilogram paid to the cultivator.

Cash awards are paid to the cultivators for outstanding performance.



To encourage the cultivators to make collective efforts aiming at higher yield of the village as a whole a running shield is given to the village tendering highest yield of opium per hectare in each Division. Each cultivator of such a village is also rewarded.

The help of the State Agriculture Department is taken in explaining to the cultivators better and more scientific methods of cultivation, manuring etc. We have also planned to collect some better quality seeds for distribution to the cultivator through the appropriate agencies of the Agriculture Department.

We are exploring the possibility of enlisting the help of United Nations Laboratory, Division of Narcotic Drugs Geneva for increasing the average yield and morphine content of opium."

2.47. Although the area brought under poppy cultivation is increasing, the average yield of opium per hectare is decreasing in spite of the various incentives given to the cultivators for higher yields. The cultivated area increased from 12,072 hectares in 1965-66 to 47,315 hectares in 1971-72, but the average yield of opium (70°C) per hectare decrease from 36:11 kg. to 26:77 kg. According to the Ministry, the contingency of the exports or the internal requirements being seriously affected by decline in production due to fall in cultivated area cannot be ruled out in future as the area actually cultivated and the yield obtained depend on availability of irrigation facilities and whether conditions. The Committee note that the Indian Council of Agricultural Research have drawn up a scheme of 5 years duration with effect from April, 1971 for agricultural research on poppy crop aiming at (a) improving the morphine content (b) increasing the yield of opium by breeding suitable varieties of seed, (c) conducting agronomical research which would give maximum yield of opium per hectare (d) developing more efficient methods of lancing and collection and (e) studying various diseases affecting poppy in order to formulate suitable control measures including breeding of disease resistant varieties. The Committee hope that the research efforts on poppy crop will be intensified and particular attention will be paid to areas like Uttar Pradesh where the average yield per hectare is considerably low. The Department should make efforts to ensure that the area brought under cultivation does not fall short of the planned area.

2.48. The price of opium is linked with the average yield per hectare tendered by the poppy cultivator, that is, the higher the yield per hectare the higher the price per kilogram paid to the cultivator. For the year 1972-73, price payable to the cultivator for different slabs

of average yield per hectare under this system ranges from Rs. 60 to Rs. 100 per kg. of raw opium of the same consistence. The Committee desire that the feasibility of introducing some other system should be examined in depth, which should not only provide incentive for tendering high average yield but also remove discrimination in the price payable to the cultivators for the same quality of opium.

### Production performance

#### Audit Paragraph

2.49. The table below indicates the actual output of manufactured opium at 90° for the last 6 years:—

Name of the Factory	(Production in lakh Kgs.)					
	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71
Ghazipur	3.87	5.60	3.83	3.94	4.48	4.53
Neemuch	*2.20	0.99	0.87	1.45	2.93	2.84

\*Includes 0.89 lakh Kgs. relating to Mandasaur factory.

2.50. (i) No targets of production were laid down.

(ii) The Public Accounts Committee in its 26th Report (4th Lok Sabha—April 1968) had observed that standards for evaluating the efficiency of production should be fixed for all the opium factories. The Director of Inspection (Customs and Central Excise) had made certain recommendations in this regard in July, 1968. The final decision of Government thereon is still awaited.

The Ministry have stated (February, 1972) that these recommendations pertained to grant of production award. The Officer on Special Duty had suggested (October, 1970) certain modifications therein. The recommendation of the Officer on Special Duty has been accepted by the Committee of Management and orders are under issue.

(iii) The following deficiencies were noticed in the manufacture of opium at Ghazipur:—

- (a) The bags containing raw opium on receipt from weighment centres were stacked on the floor instead of on polythene sheets for a long period because of time lag in reweigh-

ment and chemical tests, with the result that losses in transit, if any, remained unnoticed and no timely check could be exercised to investigate them.

- (b) Opium was stored in vats. The pouring and removal of opium from the vats involve wastage in handling.
- (c) Drying opium in wooden trays for weeks and handling the material manually at various stages involved considerable wastages.

In this connection the Officer on Special Duty (1970) suggested as follows:—

- (a) Better type of containers which could be easily operated upon and their contents measured may be introduced.
- (b) Government should take immediate steps for installation of suitable mechanical and electrical stirring and heating equipment. The Ministry have stated (February, 1972) that stirring equipment is being installed as an experimental measure.

[Paragraph 50(4) of the Report of the Comptroller & Auditor General of India for the year 1970-71—Union Government (Civil).]

2.51. The Committee asked whether there was no under utilisation of production facilities and manpower in the factories. In a written reply, the Ministry of Finance stated:

“The production of the factories mainly depends on the quantity of raw opium received in the factories. Production of opium has increased from year to year during the last few years. As the world demand of opium for medical and scientific purposes is on the increase, the exports of opium during the last five years have also progressively increased as under:—

Year	Quantity of opium exported at 90°C (in tonnes)
1967-68 . . . . .	426
1968-69 . . . . .	565
1969-70 . . . . .	677
1970-71 . . . . .	734
1971-72 . . . . .	826
(Despatches from factories) . . . . .	

Due to the increasing exports from year to year, there is no under utilisation of production facilities and manpower in the factories. In fact, to cope up with increase in work, more casual labour is employed in the factories on temporary basis during peak season."

2.52. The Committee asked if the entire raw opium procured during the year was not converted into manufactured opium. In their written reply, the Ministry stated: "Opium is a seasonal crop which is harvested in the month of March and received in the factories by the end of May. Opium after being processed is mainly exported, and only a small portion of it is sold to the State Governments in India or consumed in Ghazipur Alkaloid Works for manufacture of alkaloids.

Since the world demand of the Indian Opium is higher than our total production, it becomes necessary for us to manufacture the entire opium received in the factories, before receipt of the next crop."

2.53. The Committee asked whether any norms have been fixed for determining the extent of labour required both in opium factories and alkaloid works. In their written reply, the Ministry of Finance stated:

"The question of fixation of norms for determining the extent of labour required was examined by the Officer on Special Duty (Narcotics). He opined that the problem was a complex one, particularly in view of the different items of work involved and other variable factors like individual efficiency.

However, the O.S.D. (Narcotics) suggested guidelines for each factory on the basis of a time and motion study of the actual operations carried out in the two factories. These guidelines are not in the nature of norms, but are generally taken into consideration by the factory managers for ascertaining the requirements of the labour in the factories."

2.54. In their 26th Report (Fourth Lok Sabha) the Committee suggested that standards for evaluating the efficiency of production should be fixed for the factories. The Committee asked if the standards had been fixed. In a written reply, the Ministry stated:

“The question regarding laying down standards for evaluating the efficiency of production was studied at the time of fixing production awards. The Committee of Management Government Opium and Alkaloid Works Undertaking considered this matter and approved the recommendations of the O.S.D. (Narcotics) in this regard. The production award payable to the employees is periodically reviewed by the Committee of Management.

Production award for the last two years has been decided as per Ministry's letter F. No. 7/18/68-Ad-IV dated 15th May, 1972 and 19th August, 1972.”

2.55. Referring to the observation of the Officer on Special Duty that bags of raw opium on receipt from weighment centres were stacked on the floor in Ghazipur, the Committee asked about the reasons for the time lag in reweighment and chemical tests. In a written reply, the Ministry stated:

“Opium is a seasonal crop and the entire harvest reaches the factories in about 6 weeks commencing from the first week of April. The raw opium purchased from the cultivators has a varying consistency ranging generally from 55° to 70°C i.e. the water content is between 30 per cent to 45 per cent. It is transported in canvas bags lined with inner polythene bags. In the course of this period of 6 weeks, nearly 40,000 to 45,000 bags are received in the factories.

Each bag is weighed and its contents subjected to chemical analysis to determine the moisture content in opium and presence of adulterants, if any. The results of weighment and chemical analysis are intimated to the opium divisions on the basis of which the final accounts of the cultivators are settled.

The magnitude of work is enormous as opium of about 40 to 45 thousand bags is to be tested. Thus, a time lag between the receipt of the bags and the completion of the chemical test is inevitable. At present, by employing additional temporary staff, the work is completed in about 3 months time. Further reduction of this period will require employment of a sizeable additional staff i.e. unskilled labour.

and technical personnel like laboratory assistants, Chemical Analysers etc. on a temporary basis. Employment of Casual labour and technical personnel of this magnitude will create security problems and also raise cost of production. To minimise losses, however, further precautions have been taken to improve the stacking of bags and the floor is also now covered with polythene sheets, as far as possible. Earlier, even the morphine content in opium was also ascertained for grade wise storage of opium. This process took much more time. The O.S.D. (Narcotics) pointed out that the delay in weighment could be reduced by dispensing with morphine tests. The O.S.D.'s recommendations have since been implemented and the morphine strength of opium received from the collection centres is not determined at the initial stage. Thus, the time lag between the re-weighment and chemical test has been reduced."

2.56. The Committee desired to know the action taken to remove the deficiencies noticed in Ghazipur factory involved in (a) wastage in storage of opium in Vats, and (b) drying opium in wooden trays. In a written reply, the Ministry of Finance stated: "The question of wastage in storage of opium in vats was considered by the Opium Losses Enquiry Committee, and it was suggested by them that the opium should instead be stored in overhead tanks having mechanical device for stirring. Opium could then be directly fed to the trays for further drying. It was also suggested by them that till the tanks are introduced, opium may be allowed to be kept in bags which should be stored in the godowns on racks and not on the floor. The practice of storing bags on racks has been introduced in most of the godowns in Neemuch factory and the same is under consideration in respect of the Ghazipur Factory.

As regards the storage of opium in vats, the OSD (Narcotics) suggested that large metal containers duly calibrated should be introduced, or if it is too expensive, the floor and the inner walls of the existing storage vats be lined with aluminium or given a polished surface like that of marble mosaic so that it would be easier to scrap and clean for recovering the opium. Since the Opium Losses Enquiry

Committee suggested that the storage of opium in vats should be dispensed with, the recommendations are under examination.

As regards the question of drying opium in wooden trays, OSD (Narcotics) suggested the use of mechanical and electrical stirring and heating (for drying) equipment. He also suggested that the wooden trays should be lined with thin metal sheets of aluminium so as to facilitate cleaning and scraping and prevention of losses by absorption and leakage through joints, cleavages etc.

As mentioned above, most of the trays have been lined with aluminium. As regards the use of mechanical stirring and drying equipment a mechanical Mixer-cum-drier has been imported and installed at Neemuch Factory. Two trays with mechanical stirrers are already installed at Ghazipur Factory. Two more such trays are being installed in Ghazipur factory."

2.57. The Committee note that due to increased world demand, the production of manufactured opium by the Factories at Ghazipur and Neemuch has increased from year to year and that there is no underutilisation of production facilities in the factories. To cope with the increase in work, more casual labour is employed on temporary basis during the peak season. The Committee hope that efficiency of production and labour requirement will be kept under constant watch.

2.58. It is stated that with a view to reducing losses, precautions have been taken to improve the stacking of bags of opium received from weighment centres and to cover the floor with polythene sheets as far as possible. The Committee desire that efforts should be made to reduce the time-lag between the receipt of the bags and their re-weighment in the factories.

2.59. The Committee desire that early decision should be taken on the question of dispensing with the storage of opium in vats to avoid wastage.

### *Losses*

#### **Audit Paragraph**

2.60. (1) Opium losses occur because of adhesion, assay variation and handling at various stages, for instance in procuring, storing, drying etc. The loss is not worked out at each stage. The following

table indicates the storage and manufacturing losses in terms of percentage and the value for the last 5 years:—

*Gazipur Factory*

Year	Storage losses		Manufacturing losses	
	Percentage of loss to the quantity received	Value (Rs. in lakhs)	Percentage in of loss to the quantity received	Value Rs. in lakhs)
1965-66	1·17	2·10	1·78	5·21
1966-67	1·66	2·03	1·77	5·10
1967-68	1·89	2·71	1·77	3·37
1968-69	1·93	4·50	1·92	4·33
1969-70	Not available			

*Neemuch Factory*

Year	Malkhana, Manufacturing and Warehouse losses			
	Percentage		Value (Rs. in lakhs)	
1965-66	4·27		5·52	
1966-67	4·45		2·58	
1967-68	4·58		2·39	
1968-69	3·53		2·66	
1969-70	3·15		4·96	

NOTES.—1. In the case of Neemuch factory the losses have been adjusted in the Proform Accounts but are still to be written off under the sanction of the competent authority after investigation.

2. The Ministry have stated (February, 1972) that the write-off of Opium losses arising during store, manufacture and transit etc. is under examination.

2.61. In para 1.122 of their 26th Report (4th Lok Sabha—April, 1968) the Public Accounts Committee had recommended certain



measures for reducing the losses. In January, 1969 the Government informed the Public Accounts Committee as follows:—

(i) (a) Loss statements are being prepared on a yearly basis and such statements in respect of past years have been received. Where the losses are markedly high, full investigation will be carried out to locate the reasons and take remedial action.

(b) The Opium Losses Enquiry Committee have been asked to suggest norms and as soon as their report becomes available, action to prescribe norms will be taken.

(ii) *To eliminate arrears in weight.*—Instructions have been issued for supervising the weightment of opium in the presence of a responsible officer of the receiving factory and for maintenance of detailed records of all despatches from one factory to another. The Security Adviser to the Government of India recently reviewed the security arrangements in the Opium factories and furnished his suggestions. These are under examination.

(iii) The question of reducing losses in manufacture to the minimum has been referred as an item of research to the C.S.I.R.

The Opium Losses Enquiry Committee submitted its Report in October, 1970. No action has, however, been taken so far (May, 1971) on the suggestions especially in regard to the steps to be taken to improve the overall efficiency of the work in the factory and the fixation of norms for the handling and manufacturing losses.

(2) *Transit Losses*—In 14 cases of transfer of opium from the Neemuch Factory to the Ghazipur Factory pertaining to the years 1965-66 to 1969-70, 3,164.931 Kgs. of good opium and 35.732 Kgs. of inferior opium at 70°C costing Rs. 1.41 lakhs (approximately) were found to have been received short at the Ghazipur Factory. According to the Management, these differences were mainly on account of assay variations due to heterogeneous characteristic of opium and turn of scale. Necessary sanction of the competent authority to write off these transit losses is awaited (February 1972).

[Paragraph 50(5) of the Report of the Comptroller and Auditor General of India for the year 1970-71—Union Government (Civil)]

2.62. The position in respect of Ghazipur Factory for 1969-70 and 1970-71 was as follows:—

Year	Storage Losses		Manufacturing losses	
	Percentage of loss to the quantity received	Value (Rs. in lakhs)	Percentage of loss to the quantity received	Value (Rs. in lakhs)
1969-70 . . . . .	1.76	5.23	1.97	5.47
1970-71 (Provisional) . . . . .	1.59	4.37	1.95	4.77

2.63. The losses for the Neemuch factory during 1970-71 are as under:—

	Storage losses		Manufacturing losses	
	Percentage of loss to the quantity received	Value	Percentage of loss to the quantity received	Value
		Rs.		Rs.
Warehouses . . . . .	0.0001	162	1.5	2,59,000
<i>Malkhana</i>				
Good Opium . . . . .	0.89	1,34,000	..	..
Inferior Opium . . . . .	0.66	*294	..	..

(\*Since written off)

2.64. In their written reply, the Ministry have stated: "Opium is a sticky and highly resinous substance and as such sticks to the bags in which it is transported from growing areas to factories. Sometimes the bags burst during transport and storage, spilling out some quantity. It also gets attached to the trays and to the earthen pots in which the cultivators bring their opium. Some part of this opium is retrieved by scrapping the pots, washing the polythene bags and washing the floors and tanks. These scrappings and washings are known as khurchan and Dhoi. Generally this Dhoi contains more than 80 per cent of water and the opium obtained from it is of very inferior quality which cannot be exported or sold as medicinal

opium to the State Governments. It can however only be utilised in the manufacture of opium alkaloids and, as such, all Khurchan and Dhoi has necessarily to be utilised at Ghazipur Alkaloid Works since this is the only plant in India manufacturing opium alkaloids. So far as these products in the Neemuch area are concerned, they are transported to Ghazipur Factory after drying and reducing the moisture content to about 30 per cent (similar to the other opium). Khurchan and Dhoi obtained in the Ghazipur area are not dried but are stored in tanks and taken for use in the Alkaloid works as and when required. It is also not possible to ascertain the quantity of opium obtainable from Dhoi, when it is in the tanks with the result that this can be ascertained only when Dhoi is fed to the Alkaloid Works. It may also be mentioned that Dhoi at Ghazipur Factory has to be kept for longer period because it alone cannot be used in the Alkaloid Works as it is of very inferior quality and of low morphine content. Good opium having better morphine content has also to be used to produce more alkaloids. Thus, the Dhoi obtained in a particular year does not get used up in the Alkaloid Works in same year making it difficult to compute the losses year-wise. For these reasons, while Dhoi in the Neemuch Factory gets accounted earlier, i.e. when it is dried and despatched to Ghazipur Factory, it is not so accounted in the Ghazipur Factory till it is fully utilised."

2.65. The Committee desired to know why it had not been possible to accord write off sanction for the losses. In a written reply, the Ministry stated: "In order to give the reasons why it has not been possible to sanction write off of losses, a short background of the matter is given as under—

In the year 1962 the Narcotics Commissioner approached the Ministry for the write off of the Losses pertaining to years 1954-55 to 1956-57. The delay in sending the proposals was due to the time taken in drying of Dhoi, which in those days was done by sun-drying, and took about 2-3 years to know the final results. The F.M.O. Branch of Ministry of Finance, to whom the matter was referred to regarding write off of losses of the year 1954-55, 1955-56 and 1956-57, opined that the amount being more than 10 lakhs of rupees, the sanction of the Finance Minister was necessary. Thus the matter was referred to the Finance Minister and Finance Minister ordered that before the write off order was issued, the matter may be examined by an independent body. Accordingly Opium Losses Enquiry Committee was appointed in the year 1968 to look into the losses. The Opium Losses Enquiry Committee submitted their report in Octo-

ber, 1970 and on their findings further action to write off of losses was taken. The following losses have already been written off:

Year		Nature of loss	Quantity loss at 7°C.	Value in Rs.
1	2		3	4
<i>Ghazipur Factory</i>				
1959-60	Storage	.	51·6858 Mds.	77,211·25
	Loss	.	411·7248 "	6,26,254·00
1960-61	"	.	194·6943 "	3,07,558·59
		.	260·7050 "	4,05,456·24
1961-62	"	.	8498·658 Kgs.	3,49,294·84
1962-63	"	.	4653·492 "	2,11,826·99
1954-55	Manufacturing loss	.	252·6117 Mds.	2,82,901·89
1955-56		.	258·8135 "	3,17,642·04
1956-57	"	.	362·7144 "	5,84,193·75
1957-58	"	.	574·4147 "	10,90,095·90
1958-59	"	.	565·9781 "	11,20,641·56
1959-60		.	693·6239 "	13,73,473·65
1960-61		.	229·7378 "	4,73,688·64
1961-62	"	.	15681·555 Kgs.	8,95,746·43
1962-63	"	.	10907·959 "	6,88,199·70
1968-69	"	.	7936·962 "	4,32,643·80
<i>Neemuch Factory</i>				
1962-63	Warehouse	.	960·100 Kgs.	19,292·00
1963-64	"	.	20·586 "	1,028·00
1966-67	Malkhana	.	3867·833 "	1,44,070·91
1967-68	"	.	0·995 "	2·94
1968-69	"	.	6·192 "	93·07
1968-69	Warehouse	.	160·061 "	6,979·00
1969-70	"	.	9·779 "	437·30
1970-71	Malkhana	.	13,663 "	293·61
1970-71	Transit	.	7·171 "	126·78

1	2	3	4
1971-72	Transit . . . . .	2.657 Kg.	24.50
1966-67	Manufacturing losses . . . . .	3475.857 "	1,53,242.19
			<u>69,84,273.73</u>
	GRAND TOTAL . . . . .		95,62,419.54

Other losses are under examination".

2.66. The Ministry further stated that the Opium Losses Enquiry Committee after carefully examining all the cases, came to the conclusion that there was not clandestine removal of opium except in few specific cases of theft and they recommended that barring such cases the losses may be admitted.

2.67. The Committee desired to know the present position regarding the research undertaken by CSIR on the question of reducing losses. In their reply, the Ministry stated: "the National Chemical Laboratory, Poona of the CSIR conducted experiments in drying of opium with a view to minimise losses. A Mixer-cum-dryer was recommended by them to minimise handling losses in drying of opium. This equipment has been imported and installed at Neemuch factory. The equipment is under trial."

2.68. The Committee desired to know the action taken on the suggestion of the Opium Losses Enquiry Committee especially in regard to improvement of the overall efficiency of the work in the factory and fixation of norms for the handling and manufacturing losses. In their written reply, the Ministry stated: "The report submitted by the Committee was received in November, 1970. It contained a number of recommendations involving additional expenditure and some major changes in the procedure. Till May, 1971, the recommendations were being scrutinised and studied at various levels. A number of recommendations have now been implemented and the following steps have been taken to improve the overall efficiency of the working in the factories:—

(i) the practice of stacking bags one over the other has been discontinued and the bags are now stored in racks at Neemuch factory;

(ii) most of the trays have been lined with aluminium;

- (iii) Trays with mechanical stirrers have been installed in Ghazipur Factory.
- (iv) as mentioned above, a mixer-cum-dryer has been imported and installed in Neemuch factory;
- (v) the sampling is now supervised by a responsible Chemist;
- (vi) opium, which is transported from the Collection Centres, to the Factory is first packed in polythene bags and then covered with canvas and gunny bags to reduce spillage and the consequent losses;
- (vii) protection walls have been improved in both the factories;
- (viii) polythene sheets are spread over the floor or some of the Godowns before stacking bags;
- (ix) inner barbed wire fencing has been provided at Neemuch;
- (x) search-lights have been installed in both the factories;
- (xi) security of the two factories has been entrusted to the Central Industrial Security Force;

A few recommendations of the Opium Losses Enquiry Committee which require large capital investment or major alterations in the existing layout of the factories are under study. These are storing of opium according to the consistence and morphine strength, transportation of opium from weighment centres to factory in aluminium alloy containers etc.

As regards the fixation of norms this matter was considered by the Opium Losses Enquiry Committee and on the basis of weighted average they had expressed the opinion that about 1 per cent loss could be considered as normal both in storage and during manufacture. It was also indicated that this norm was based on the weighted average and may be treated only as tentative pending evaluation of norms on more scientific basis for which department should draw out a plan for experiments spread over the next few years. One of the main reasons for the losses was assay variation at various stages. Earlier the Opium Losses Enquiry Committee had conducted experiments to ascertain the normal range of variation in assay. Experiments were conducted by sending samples to five different international analysts and their report showed that the difference in assay results ranged from 0.95 degrees to 2.70 degrees. The matter is being studied further.

2.69. Referring to the transit losses, the Committee asked about the reasons for the transfer of opium from Neemuch factory to

Ghazipur factory and the position regarding write off. In a written reply, the Ministry stated: "The transfer of opium from Neemuch Factory to Ghazipur Factory was necessary because exports of opium were mainly made from the Ghazipur Factory upto the year 1967-68. It was only in the year 1968-69 that the exports were regularly started from Neemuch Factory. Consequently from that year onwards (1968-69), the transfer of exportable opium (or good opium) from Neemuch to Ghazipur was reduced. There has been no transfer of exportable opium from Neemuch to Ghazipur for the last two years.

In order to minimise losses the opium which sticks to the bags, vats, trays, handling equipment etc. is retrieved by scrapping and/or washing them. The opium so obtained from Dhoi (Washing) and Khurchan (Scrappings) and contraband opium, which is not fit for export, is transported from Neemuch to Ghazipur Factory. It may be stated that this Khurchan (Scrappings) or Dhoi collected at Neemuch Factory has to be sent to the Ghazipur factory for utilising the same in the manufacture of alkaloids as there is no use of such opium and the only factory manufacturing Alkaloids is situated at Ghazipur.

The transit losses are no doubt, mainly on account of assay variation but there are also some other factors such as spillage, drying during transit etc. which are responsible for certain percentage of deficiencies in weight. The entire question of investigating the losses of opium including losses in transit was entrusted to the Opium Losses Enquiry Committee and the question of writing off losses was held in abeyance till the Enquiry Committee's report was received. Transit losses in respect of two cases pertaining to the years 1970-71 and 1971-72, have been written off, while the question of writing off other transit losses is under consideration.

2.70. The Committee note the steps taken by the Department in pursuance of the recommendations of the Opium Losses Enquiry Committee to improve the overall efficiency of the working of the factories and to reduce storage and manufacturing losses of opium. But a few recommendations of the Committee which require large capital investment on major alterations in the existing layout of the factories are still under study. These recommendations relate to the storing of opium according to the consistence and morphine strength, transportation of opium from weighment centres to factory in aluminium alloy containers etc. The Committee hope that early decision will be taken on these recommendations. The Com-

mittee expect as a result of the measures already taken, the losses to decrease substantially.

27.71. On the question of fixation of norms for the losses, the Opium Losses Enquiry Committee expressed an opinion on the basis of weighted average that tentatively 1 per cent loss could be considered as normal both in storage and during manufacture, pending evaluation of norms on more scientific basis by the Department. The Opium Losses Enquiry Committee had also conducted experiments to ascertain the normal range of variation in assay by sending samples to some international analysts which showed the difference in assay results from 0.95° to 2.70°. The matter is being studied further by the Department. The Committee hope that the Department will actively pursue the question of fixing norms for the losses on a scientific basis. The Committee would like to be informed about the outcome of the studies made by the Department.

2.72. The Committee note that after examination of the losses by the Opium Losses Enquiry Committee, certain old losses amounting to Rs. 95,62,419 have been written off and others are under examination. The Enquiry Committee have pointed out that there are a few specific cases of losses by theft. The Committee desire that these cases should be examined expeditiously and necessary action taken against the persons concerned.

### Audit Paragraph

#### *Costing and Accounting*

2.73. (i) The Public Accounts Committee in their 26th Report (4th Lok Sabha—April, 1968) had observed that the Costing system prescribed in 1925 and followed by the Factories was defective as:—

- (a) It did not indicate the true cost of production;
- (b) the Abkari losses (i.e. manufacturing losses) continued to form part of the closing stock; and
- (c) the non-adjustment of manufacturing losses in the Profit and Loss Account resulted in inflation of profits.

2.74. These defects still persist and manufacturing, storage and handling losses continue to form part of the closing stock resulting in inflation of profit.

2.75. The Ghazipur Opium Factory have stated that a new costing procedure has been recommended in 1970 by the Officer on Special Duty and action has been initiated to implement these recom-



recommendations. The progress intimated by the Factory was as follows:—

“...Commercial Accounting has been introduced from 1st April, 1970. Introduction of cost ledger to collect items of cost according to the cost centres has also been introduced from 1st April, 1970. ....Steps have also been taken to introduce the job cost card from 1st May, 1971.”

Even though Commercial Accounts are stated to have been introduced with effect from 1st April, 1970 the accounts of the Factory continue to be maintained on single entry basis. Due to non-maintenance of Journal, Ledgers, etc. the work of proving the accounts poses problems and results in delay in the compilation of *pro forma* accounts.

(ii) No departmental manual laying down the records to be maintained and procedures to be observed and specifying the duties and responsibilities of the staff has been drawn up so far (May, 1971).

[Paragraph 50(6) of the Report of the C&AG of India for the year 1970-71 Union Government (Civil)]

2.75. In a written reply, the Ministry stated:

“As desired by the Public Accounts Committee, following action has been taken to improve upon the accounting system introduced in 1925.

(a) The accounting system in the Opium Factories and Alkaloid Works, was studied by the officer on special duty (Narcotics). (An Officer of the Indian Audit and Accounts Service). On his recommendations, the Opium Factories and Alkaloid Works were declared as commercial undertakings with effect from 1st April, 1970. (Ministry's letter F.No.1(91)-B/69 dated 20th January, 1970). Consequently, new accounts classifications to fulfil the requirements of commercial accounting, for the receipts and expenditure relating to opium factories and Alkaloid Works Undertaking, were prescribed.

(b) The services of a Cost Accounts Officer, from the Railways were obtained on deputation. He has drawn a revised accounting procedure wherein, all the deficiencies of the 1925 procedure pointed out by the Public Accounts Committee in their observations reproduced above, have been rectified.

The revised accounting procedure, has been vetted by the Cost Accounts Branch of the Ministry of Finance. It has been suggested

by them that a paragraph on depreciation should also be incorporated in the procedure. After this is done, concurrence of the Comptroller and Auditor General will be obtained before according administrative approval.

The revised procedure has been adopted uniformly in both the factories with effect from 1st April, 1970, except that the adjustment of manufacturing losses in the Production Account of Ghazipur factory is not made which will be done when the revised procedure is approved.

The Committee asked whether it was proposed to introduce full-fledged commercial accounting for the factories and alkaloid works and maintain accounts on double entry basis. In a written reply, the Ministry of Finance stated:

From 1st April, 1970, Government Opium and Alkaloid Works have been declared as Commercial Undertakings, and from that date Commercial Accounting System to the extent it is suitable for our needs, has been introduced.

In order to keep a complete record of the transactions according to commercial principles based on double entry system of book keeping, the following books of accounts are required to be maintained:—

- (a) *Principal Books* namely Ledgers—Sales Ledger, Purchase Ledger and General Ledger.
- (b) *Subsidiary Books* or Books of original entry, such as Cash Book, Purchase Book, Sales Book, Journal.

To implement Commercial Accounting procedure, following steps have been taken:—

- (i) Sales Ledger, Purchase Ledger and General Ledger are duly maintained.
- (ii) Sale Book and Purchase Book have been substituted by Export Register and Liability Register which are maintained under existing procedure, to avoid maintenance of duplicate account books.
- (iii) Journal—entries are journalised in the Journal wherever necessary.
- (iv) Cash Book as prescribed under Commercial Accounting procedure has not been introduced and the existing Cash Book in form T.R.4 has been continued because the Undertakings do not maintain a Bank Account of their own. Each transaction in respect of 'Receipts' and 'Expendi-

ture' is passed through the Revenue Treasury and ultimately reconciled with A.G.'s books. In the absence of Cash Book (to be maintained under Commercial Accounting), double aspect of each transaction is completed by debiting, crediting as the case may be, the Government of India's Capital Account under remittances—i.e. the amount of sale proceeds realised and other miscellaneous receipts deposited into the Treasury and withdrawals—i.e. the amount withdrawn from the Treasury for meeting the expenditure of the Undertaking.

Ultimately a Trial Balance is cast by balancing the figures of expenditure and receipts as per Ledger Accounts with those booked by A.G. under various Major, Group Minor and Minor Heads, of accounts prescribed under Government accounts. On the basis of this Trial Balance, Proforma Accounts are prepared."

2.76. The Committee enquired about the completion of a departmental Manual for accounts. In a written reply, the Ministry of Finance stated:

"A compendium of instructions for the guidance of Accounts Staff on financial Accounting and Cost Accounting has been compiled. While vetting the compendium, the Cost Accounts Branch of the Ministry of Finance pointed out that a para on 'Depreciation' should also be incorporated in the compendium. After this is done, concurrence of the Comptroller and Auditor General will be obtained before according administrative approval."

2.77. The Committee asked if there was any system of internal audit in the factories and alkaloid works. In a written reply, the Ministry of Finance stated:

"The system of internal audit is in vogue in the Opium Factories and Alkaloid Works. We have three internal audit cells functioning under the control of Deputy Narcotics Commissioners, Neemuch, Kota and Ghazipur."

2.78. Even though the Commercial Accounting has been introduced in the opium factories from 1st April, 1970, the accounts of the factories continue to be maintained on a single entry basis. The Committee desire that accounting procedure and the departmental manual may be finalised expeditiously in consultation with the Comptroller and Auditor General.

# COST OF PRODUCTION

## Audit Paragraph

2.79. The table below indicates the output and cost of production of the major products for the last five years ending 31st March, 1971:—

	1966-67		1967-68		1968-69		1969-70		1970-71	
	Output Kgs.	Cost of Production Per Kg.	Output Kgs.	Cost of Production Per Kg.	Output Kgs.	Cost of Production Per Kg.	Output Kgs.	Cost of Production Per Kg.	Output Kgs.	Cost of Production Per Kg.
Export Opium 90°		Rs.		Rs.		Rs.		Rs.		Rs.
Ghaziपुर Factory	56402	64.47	383109	65.65	394247	59.69	447800	57.59	..	..
Necraugh Factory	99112	65.08	86741	61.68	145095	55.32	292514	57.50	283506	62.80
Medicinal Opium (Ghaziपुर)										
(i) I.M.O. Powder 100°	2633	72.30	2783	67.98	2741	60.05	3880	65.71	Not available	
(ii) I. M. O. Cake 90°	96	95.26	78	73.92	1619	61.88	215	64.87	Not available	
Alkaloids (Ghaziपुर)										
Morphine & Morphine salt					339	691.80	337	636.49	Not available	
Codeine and Codeine salt					4046	701.57	4500	655.77	Not available	
Ethyl-Morphine Hydrochloride					461	867.41	559	926.04	Not available	

2.80. It will be seen from above that the cost of production of export opium at Neemuch factory was generally lower than that of Ghazipur factory notwithstanding the fact that:—

- (a) the quantity produced at Neemuch factory was much less than that at Ghazipur factory; and
- (b) the Neemuch factory has to pay Purchase|Sales Tax on the purchase of raw opium which amounted to Rs. 23 lakhs in 1968-69 and Rs. 71.84 lakhs in 1969-70.

[Paragraph 50(7) of the Report of the C&AG of India for the year 1970-71—Union Government (Civil)].

2.81. According to Audit the output and the cost of production of Export Opium, I.M.O. Power, I.M.O. Cake and Ethyl Morphine Hydro at Ghazipur during 1970-71 were as follows:

	Output Kgs.	Cost of Production Per Kg.
Export opium at 90°C	4,52,164	Rs. 57.86
<i>Medicinal Opium</i>		
IMO Powder 100°C	3,069	60.60
IMO Cake 90°C	547	68.22
<i>Alkaloids</i>		
Ethyl Morphine Hydrochloride	677	863.46

2.82. The Committee desired to know the reasons for increase in cost during 1970-71 in the case of Export opium and IMO Cake. In their written reply, the Ministry of Finance stated:

“The increase in the production cost of Export Opium, is marginal (0.27 paise only) and this is due to the following reasons:

- (a) Increase in the basic price of raw opium:

The minimum price of Rs. 30/- per kg. for cultivators who had tendered less than 30 kg. per hectare fixed for the year 1969-70, was raised to Rs. 32/- per kg. during the year 1970-71. The increase in other slabs also ranged from Rs. 2/- to Rs. 5/- per kg.

(b) Payment of Production award for 2 years (i.e. 1967-68 and 1968-69) during 1970-71:

Production Award (i.e. *ex-gratia* payment to workers of the factories) for the years 1967-68 and 1968-69 was not paid because the question of revising the norms for the payment of production award to the employees of the factories was under consideration.

The Committee of Management decided in their 4th meeting held on 19th November, 1970 to make payment of production award to the employees of the factories on the basis of old norms and the payment was made during 1970-71.

The aforesaid reasons are also applicable for the increase in the cost of production of IMO Cake from Rs. 64.87 in 1969-70 to Rs. 68.22 in 1970-71. Another factor was that prior to 1970-71, distribution of overhead costs between the Opium factory and the Alkaloid Works was not done on equitable basis and most of the overhead costs were accounted for in the Opium factory, so the correct cost of production of various products of Alkaloid Works could not be worked out. IMO Cake is a product of Alkaloid Works.

The position has been remedied from the accounts for 1970-71, when commercial and cost accounting procedure has been introduced and Alkaloid Works has been declared as a distinct Commercial Unit.

2.83. At the instance of the Committee, the Ministry of Finance furnished the following figures of output and cost of production of Morphine and Morphine salts, Code line and Code line salts during the years 1970-71 and 1971-72:

	1970-71		1971-72	
	Production	Cost of production per kg.	Production	Cost of production per kg.
	Kg.	Rs.	Kg.	Rs.
(i) Morphine Hydro I. P. .	164	788.31	158	808.63
(ii) Morphine Sulphate	155	784.06	151	803.66
(iii) Morphine B. P. C.	8	779.09	9	874.44
(iv) Codeine Phosphate	3278	795.24	3216	919.40
(v) Codeine Sulphate	152	754.98	150	909.17
(vi) Codeine B. P.	677	752.82	685	852.31

2.84. The Committee asked if any comparative study of the cost of production of two Opium Factories was made periodically and, if so, with what results. In their written reply, the Ministry stated:

"Comparatively study of the cost of production of two factories has not been possible, because the system of cost accounting followed by two factories was not uniform. In Neemuch factory Abkari Losses are adjusted in the production account whereas, in Ghazipur Factory production losses are not adjusted in the production account until the write off sanction is received and are included in the closing stock.

With effect from 1st April, 1970, a uniform system of accounting has been introduced in both the factories, except that the production losses in respect of Ghazipur Factory are not adjusted in the production account till the write off sanction is received (as per existing practice). In the new procedure prepared for the factories, provision for adjustment of production losses in the production account has been made. The procedure is under consideration for approval.

This type of study will now be possible and conducted when the procedure for adjustment of production losses in the production account is approved and implemented.

However, the cost of production in the two factories during 1970-71, and 1971-72 is as under:

Name of Factory	Cost of production of export opium per kg. at 90°C (in Rs.)	
	1970-71	1971-72
Ghazipur	57.86	60.57
Neemuch	62.80	61.09"

2.85. The Committee desired to know the pricing policy of opium. In their written reply, the Ministry stated: "It is our practice to review the export price of opium at six month's interval, i.e. on 1st January and 1st July every year. While reviewing the price, we take into account the trend of demand of opium from our opium buyers, trends of opium cultivation and export potential of other opium producing countries, trends of prices of opium derivatives in the international market, likelihood of price increases to be paid to the cultivators and other administrative costs."

2.86. The Committee find that even after the introduction of a uniform system of accounting with effect from 1st April, 1970 in the Opium Factories, Ghazipur and Neemuch, the production losses in the Ghazipur Factory are still not adjusted in the production account till the write off sanction is received, whereas in the Neemuch Factory abkari losses are adjusted in the production account. The Committee hope that under the new procedure which is stated to be under consideration, a uniform cost accounting system will be followed by the two factories to enable the Department to make a comparative study of the respective cost of their production and effect necessary economies. The Committee desire that the new procedure should be finalised expeditiously.



## Working results

### Audit Paragraph

2.87. The table below indicates the working results of the factories for the last 6 years. Simplified *pro forma* accounts have been annexed as Appendix—.

(Rupees in lakhs)

Year	Government capital at the close of the year		Sales		Net Profit charging interest on capital		Percentage of net profit to capital	
	Ghazipur Rs.	Neemuch Rs.	Ghazipur Rs.	Neemuch Rs.	Ghazipur Rs.	Neemuch Rs.	Ghazipur Rs.	Neemuch Rs.
1965-66	423.27	114.94	311.71	11.43	(+ ) 10.58	(— ) 6.29	0.13	..
1966-67	372.30	29.93	534.00	..	(+ ) 119.36	(— ) 4.33	32.06	..
1967-68	259.27	55.90	435.73	27.84	(+ ) 118.57	(+ ) 4.22	45.73	7.54
1968-69	326.19	17.27	505.48	148.37	(+ ) 211.88	(+ ) 43.96	64.96	254.49
1969-70	398.42	109.80	613.86	248.48	(+ ) 301.70	(+ ) 109.84	75.72	100.04
1970-71	Not available	161.74	N.A.	375.57	N.A.	(+ ) 185.39	N.A.	114.98

NOTES : (1) Figures for 1965-66 in respect of Neemuch under the Column 'Government Capital', include that of Mandasaur factory also with effect from 1966-67, combined accounts for Neemuch and Mandasaur factories were prepared.

(2) The steep fall in the figure of Government Capital for 1968-69 in respect of Neemuch factory was mainly due to the adjustment of amount realised against export sales in 1967-68 and 1968-69. Similarly, the rise in the Government Capital for 1969-70 was mainly due to delay in the adjustment of realisation/remittances of the sale proceeds of the opium exported during latter half of 1969-70.

*Ghazipur Factory*—(i) In arriving at the above working results, the manufacturing and storage losses aggregating Rs. 1.27 crores for the years 1954-55 to 1968-69 have not been taken into account pending their write off.

(ii) The profits during 1968-69 and 1969-70 were much higher mainly due to (a) higher sales, (b) increase in the export price and (c) lower cost of production.

*Neemuch Factory*. (iii) The loss in 1965-66 was mainly due to export sale of opium below the cost of production and that in 1966-67 owing to transfer of the entire stock of opium manufactured at Neemuch and Mandsaur Factories to Ghazipur Factory at cost (excluding interest on capital). Sharp increases in net profits during 1968-69, 1969-70 and 1970-71 were due to increase in the quantities of opium exported and the better average selling rates.

[Paragraph 50(8) of the Report of the C&AG of India for the year 1970-71—Union Government.]

2.88. The working results of the two opium factories for 1970-71 and 1971-72 are given in the statement below:—

(Figures in thousand of Rs.)

Name of Undertaking	Govt. Capital	Block Assets Net	Depreciation	Profit(+) Loss(-)	Interest on Govt. Capital	Total Return	Mean Capital	Percentage of total return to mean Capital	Remarks
1970-71									
Netemuch Opium Factory	1,67.23	2.16		9 (+) 1,85.39	2.02	1,87.41	43.08	435.06	
Ghaziwar Opium Factory and Works	5,36.68	10.95		94 (+) 3,74.84	13.45	3,88.29	2,73.41	141.77	
1971-72									
Netemuch Opium Factory	1,65.46	2.89		21 (+) 2,57.59	1.72	2,59.31	34.81	745.03	
Ghaziwar Opium Factory and Works	3,16.48	11.91		101 (+) 3,57.59	12.18	3,69.77	2,42.20	152.67	

**Capital Government Capital for a year is worked out as under:**

Opening Balance (i.e. balance at the commencement of a year)

Add Amount received (i.e., withdrawals from Treasury and adjustments through A.G. during the year).

Add Profit for the year.

Add Interest for the year.

Deduct Amount paid back to Government by cash and adjustments (i.e., remittances during the year).

2.89. From the above it will be observed that if the remittances during the year are more, balance of Government Capital will be *less* and if the remittances are less, balance of Government Capital will be *more*. This will explain the variation in the Government Capital Account as illustrated below:—

		<i>Ghazipur Factory</i>	
		1970-71	1971-72
		Rs.	Rs.
Opening Balance . . . . .		3,98,42,328	5,36,68,225
Add. Amount received (Cash and adjustments)		3,72,37,412	3,69,09,785
Add. Profit for the year		3,74,83,541	3,57,59,195
Add. Interest . . . . .		13,44,527	12,18,215
		11,59,07,808	12,75,55,420
Deduct Remittances . . . . .		6,22,39,583	9,59,07,134
		5,36,68,225	3,16,48,286
<i>Neemuch Factory</i>			
Opening Balance . . . . .		1,09,79,995	1,67,23,251
Add. Amount received (Cash and adjustments)		1,89,29,308	Ad-justments 21,680
			2,20,43,566
Add. Profit for the year		1,85,38,975	2,57,59,468
Add. Interest . . . . .		2,01,751	1,71,473
		4,86,50,029	6,47,19,327
Deduct Remittances . . . . .		3,19,26,778	4,81,72,915
		1,67,23,251	1,65,46,412

Profits are related to mean Capital. The increase in the percentage of net profit in two years is due to the fact that the mean capital has decreased. The increase in the profit in both the factories is attributable to rising exports and enhancement in the selling price.

2.90. The Committee desired to know the share of India in the total world exports of opium and the scope for boosting the exports. In a written reply, the Ministry stated:

The figures of total world exports of opium and opium exported from India during the last four years are given below (International figures compiled by I.N.C.B. are available calendar year-wise only).

Year	Total world exports of opium (in tonnes)	Export from India (in tonnes)	Percentage of Indian exports to world exports
			Percentage
1968	676	532	80.6
1969	775	602	85.4
1970	882	777	91.6
1971	Figures Not available	907	

It will be observed that share of India in the total world exports of opium is increasing from year to year. Turkey was the only country, apart from India, which exported opium. It is, however, understood that Turkey has stopped opium poppy cultivation after 1972 crop. As such, India is now the only country which exports opium to other countries. Except the internal requirements of opium which are at present about 60 tonnes of opium at 90°C, all the opium produced in the country is exported.

We have international obligation to supply, as far as possible, opium for the medical and scientific needs of the world. Under the international convention we are one of the seven countries which are allowed to produce opium for export.

It may, however, be mentioned that opium is a sensitive commodity and cannot be treated on par with commercial commodities. Thus while we make efforts to produce opium to cater to the growing medical and scientific needs of the world, we also in deference to our international obligations adopt measures to prevent the leakage of opium into illicit channels. One of the main consideration therefore, is that area that we earmark for poppy cultivation is not only compact but also capable of being effectively controlled. Thus it is not possible to expand poppy cultivation to an unlimited extent for meeting the world demand.

The profits earned during the last five years are given below:

Year	Profits earned (Rs. in lakhs)
1968-69	255.84
1969-70	411.54
1970-71	560.22
1971-72	615.19

Though we do make some profits by the sale of opium, it is not our sole objective for producing opium.

2.91. According to Audit, the increase in overall profit of Ghazipur factory from 301.70 lakhs in 1969-70 to Rs. 374.84 lakhs in 1970-71 was mainly due to increase in average sale price. The sale price increased from Rs. 113.16 per kg. in 1969-70 to Rs. 134.58 per kg. in 1970-71, thereby yielding an additional amount of Rs. 96.85 lakhs on a quantity of 4,52,164 kg. sold during the year. Similarly, the increases in net profits of Neemuch factory during 1968-69 to 1970-71 was due to increase in the quantity exported and the better average selling prices. The Committee desired to know the quantity exported by the factories in 1971-72 and the average sale price. The Ministry furnished the following figures for 1971-72.

Name of Factory	Quantity of opium exported in Kg.	Value of Opium exported (in Rs.)	Average price per kg. (in Rs.)
Ghazipur	4,60,069	6,16,87,779	134.08
Neemuch	3,66,547	4,82,36,917	131.60
TOTAL	8,26,616	10,99,24,696	132.98

2.92. The Committee desired to know the total manufacturing and storage losses (i.e. 1954-55 to 1970-71) which have not been taken into account in arriving at the profit, pending their write-off in Ghazipur factory. The Ministry furnished the following figures:

Nature of Losses	Year	Quantity (in kg.)	Value (in Rs.)
Manufacturing losses	1954-55 to 1969-70	1,87,035	98,66,805
Storage Losses	1953-54 to 1969-70	1,53,333	39,56,724
*(Storage losses)	1970-71	10,191	4,36,668
(Manufacturing Losses)	1970-71	8,718	4,76,734

\*Provisional.

2.93. The export of opium increased from 532 tonnes in 1968 to 907 tonnes in 1971. The export of 777 tonnes in 1970 constituted 91.6% of the total world exports of opium. With Turkey reportedly having stopped opium poppy cultivation after the 1972 crop, India will be the only country to export opium to other countries.

2.94. The profit of the factories increased from Rs. 255.84 lakhs in 1968-69 to Rs. 615.19 lakhs in 1971-72 without providing for the manufacturing and storage losses. According to the Ministry, "though we do make some profits by sale of opium, it is not our sole objective for producing opium." While the Committee appreciate this view, they hope that the working results of the factories will continue to be improved by increasing efficiency in production and reducing manufacturing|storage losses.

### Stores

#### Audit Paragraph

2.95. The following table indicates the value of closing stock of raw opium and sundry stores at the end of the last 5 years:

Year ending	(Figures in lakhs of Rupees)			
	Raw Opium		Sundry Stores	
	Ghazipur	Neemuch	Ghazipur	Neemuch
31st March, 1966	92.55	0.56	6.18	0.08
31st March 1967	81.58	13.95	6.95	0.08
31st March, 1968	69.55	16.49	7.92	0.08
31st March, 1969	71.77	0.04	8.10	0.10
31st March, 1970	80.60	0.18	7.94	0.43

- (i) No minimum, maximum and re-ordering level of sundry stores have been fixed so far (April, 1971) at Ghazipur factory. The Department has stated that the question of fixing minimum, maximum and re-ordering level is under examination.
- (ii) The physical verification of general stores for the year 1969-70 has not been conducted so far (Ghazipur factory).
- (iii) The Narcotics Commissioner in January, 1970 laid down that a certificate in the prescribed proforma to the effect

that the Dead Stock articles and other stores have actually been verified physically may also be submitted annually by the District Opium Officer/Manager to Deputy Narcotics Commissioner (Controlling Officer) who shall countersign the same and offer suitable remarks, if any, pointing out the action on rectification of discrepancies and submit it to the Chief Accounts Officer of the Narcotics Commissioner's Office. No certificate for the year 1969 has so far been sent to the Narcotics Commissioner.

The Department has stated (May, 1971) that the physical verification of Dead Stock for the year 1970 has fallen due and will be taken up shortly.

(iv) In respect of Stock of Raw Opium, the question of verification was considered in 1960 but was not pursued in view of practical limitations.

2.96. However, the Officer on Special Duty has, after examining the matter in detail, recommended in October, 1970 that it should be possible to complete the verification without causing any serious dislocation. Instructions were also issued by the Narcotics Commissioner, Gwalior in January, 1970 that annual verification of opium stock should be extended to all the stocks of opium. This has, however, not been implemented.

[Paragraph 50 (9) of the Report of C&AG. of India for the year 1970-71 Union Government (Civil)]

2.97. The Committee desired to know the position of fixing minimum, maximum and re-ordering level of sundry stores at Ghazipur Factory. In a written reply, the Ministry of Finance stated: "Ghazipur Factory has reported that no minimum, maximum and re-ordering level of sundry stores has been fixed so far."

2.98. The Committee desired to know the reasons for not carrying out physical verification of general stores in Ghazipur factory for the year 1969-70 and the position for the year 1970-71. In their written reply, the Ministry of Finance stated: "In Ghazipur factory physical verification of general stores was conducted for the year 1969-70 during the months February 1970 to August 1970. Only 90 per cent of the stores could be verified.

Physical verification for the year 1970-71 was also conducted.

In both the years only minor discrepancies were noticed."



2.99. The Committee asked whether the physical verification of dead stock articles had since been taken up. In a written reply, the Ministry stated: "The verification of dead stock articles of the Neemuch Factory for 1969 year was done in March 1970 and the certificate was sent to the Narcotics Commissioner in October, 1970.

Verification of dead stock articles for 1970 and 1971 years have also been done and certificates sent to Narcotics Commissioner. This was being done annually in this factory. As regards Ghazipur factory, the verification of dead stock for 1970 and 1971 have been done and certificates sent to Narcotics Commissioner. There was some mis-understanding about the orders of verification of stores and dead stock articles and due to the huge quantity of stock and stores involved there were some lapses in regular yearly verification prior to 1970."

2.100. As regards the verification of stocks of raw opium, the Ministry stated:

"The stock of opium as on 31-3-71 (except contraband opium and Dhoi in Ghazipur Factory) was verified both in Ghazipur and Neemuch factories in pursuance of the instructions issued in 1970."

2.101. The Committee note that no minimum, maximum and re-ordering level of sundry stores has been fixed by the Opium Factory, Ghazipur so far. The Committee desire that the limit should be fixed early.

2.102. The Committee have been informed that in Ghazipur Factory there were some lapses in regular annual verification of dead stock article prior to 1970. The Committee hope that the stock article as well as general stores and raw opium will be regularly done in the factory.

## APPENDIX I

( Vide paragraph 2-87)

## GOVERNMENT OPIUM AND ALKALOID WORKS, GHAZIPUR

Balance Sheet as on 31st March, 1970

<i>Liabilities</i>	1968-69 Rs.	1969-70 Rs.	<i>Assets</i>	1968-69 Rs.	1969-70 Rs.
Government Capital at the close of the year	3,26,18,619	3,98,42,328	Fixed Assets (Net)	10,18,533	9,70,245
Sundry Creditors	13,35,784	25,56,167	Stock in hand:—		
			(i) Opium	1,85,74,685	2,25,67,178
<i>Other Liabilities</i>					
Undischarged Liability—Audit fee	2,44,771	2,76,176	(ii) Miscellaneous stores	6,83,153	6,41,023
			Sundry Debtors	1,38,05,851	1,80,70,642
			Cash including Service stamps	1,16,052	70,966
			Permanent Advance	900	892
			Payments made for purchase of Opium		3,53,725
<b>TOTAL</b>	<b>3,41,99,174</b>	<b>4,26,74,671</b>	<b>TOTAL</b>	<b>3,41,99,174</b>	<b>4,26,74,671</b>

GOVERNMENT OPIMUM AND ALKALOID WORKS, GHAZIPOUR

### Profit and Loss Account for the year 1969-70

Dr.								Cr.
	Particulars	1968-69 Rs.	1969-70 Rs.	By	Profit or :—	Particulars	1968-69 Rs.	1969-70 Rs.
To								
	Cost of Audit . . . . .	29,041	31,405					
	Interest charges . . . . .	7,91,663	9,22,571		Manufactured opium . . . . .		1,67,91,731	2,49,66,294
	Losses and adjustments . . . . .	42,647	1,404		Indian Medical Opium Powder . . . . .		2,80,164	3,62,699
	Share of Cost of Administration by :—				Indian Medical Opium Cake . . . . .		1,10,578	37,804
(i)	Central Board of Excise & Customs New Delhi . . . . .	1,43,850	1,31,777		Finished Morphine and Morphine Salts . . . . .		3,36,024	3,48,166
(ii)	Narcotics Commissioner . . . . .	2,70,266	2,04,614		Finished codeine and codeine salts . . . . .		42,54,359	48,93,158
(iii)	Chief Chemist, Central Revenues Control Laboratory, New Delhi . . . . .	1,14,000	1,18,800		Ethyl Morphine Hydrochloride . . . . .		6,76,339	7,88,633
					Minor Alkaloids . . . . .		92,902	1,47,490
	Net Profit . . . . .	2,11,88,013	3,01,70,003		Miscellaneous receipts . . . . .		37,383	36,330
TOTAL	TOTAL . . . . .	2,25,79,480	3,15,80,574		TOTAL . . . . .		2,25,79,480	3,15,80,574

GOVERNMENT OPIUM FACTORY NEEMAUCH

Balance Sheet as on 31st March, 1971

	1969-70 Rs.	1970-71 Rs.	Assets	1969-70 Rs.	1970-71 Rs.
<b>Liabilities</b>					
Government Capital at the close of the year			Fixed Assets	1,09,79,995	1,63,75,966
Sundry creditors			Floating Assets	1,74,955	4,35,372
<b>Other Liabilities —</b>					
<i>Undischarged liability</i>			Sundry Debtors		86,48,302
Audit fee			Deposits	36,957	40,730
Contributory Provident Fund			Investment of Provident Fund	3,008	
Security deposit and advances			Suspense Account	3,588	
Purchase tax			Cash including service postage stamps	12,13,672	10,83,162
<b>Cost of administration of:—</b>					
(i) Narcotics Commissioner			Cost of seized opium of Mandsaaur Opium Factory	1,49,160	
(ii) Central Board of Revenue				79,819	
(iii) Chief Chemist				31,000	
Pensionary liabilities				68,482	
Depreciation Reserve				9,532	
Service done account (unpaid staff payment)				634	
<b>TOTAL</b>	<b>1,24,80,657</b>	<b>1,82,92,681</b>	<b>TOTAL</b>	<b>1,24,80,657</b>	<b>1,82,92,681</b>

GOVERNMENT OPIUM FACTORY, NEEMUCH

*Trading and Profit and Loss Account for the year 1970-71*

<i>Particulars</i>	<i>1969-70</i>		<i>1970-71</i>		<i>Particulars</i>	<i>1969-70</i>		<i>1970-71</i>	
	<i>Rs.</i>		<i>Rs.</i>			<i>Rs.</i>		<i>Rs.</i>	
<i>To</i>					<i>By</i>				
Opening stock		91,391		35,93,105	Sales Manufactured Opium		2,46,54,849		3,73,67,118
Raw opium		1,57,15,226		1,73,45,286	Adjustment of sale proceeds of opium		2,62,512		1,89,820
Manufacturing charges		11,03,219		4,59,726	Miscellaneous receipts		3,709		13,757
General charges		3,46,526		6,62,590	Inferior opium transferred to Ghazipur Factory		5,146		994
Cost of Audit		3,653		3,773					

*Share of Cost of administration of —*

(i) Central Board of Excise and Customs, New Delhi	85,436	79,981	Stock Manufactured Opium	35,93,105	36,36,907
(ii) Narcotics Commissioner, Gwalior	1,32,660	1,49,160			
(iii) Chief Chemist, Central Revenue Control Laboratory	30,790	31,000			
(iv) Deputy Narcotics Commissioner Neemuch	..	1,63,409			
Interest charges	36,529	2,01,751			
Net Profit	1,09,83,901	1,85,38,975			
<b>Total</b>	<b>2,85,19,321</b>	<b>4,12,28,594</b>	<b>Total</b>	<b>2,85,19,321</b>	<b>4,12,28,594</b>

**APPENDIX—II**  
*Summary of main Conclusion/Recommendations*

Sl. No.	Para No.	Ministry/Deptt. Concerned	Conclusion/Recommendation
I.	2	3	4
I.	I.15	Finance	<p>The Committee are dissatisfied with the variations between the budget estimates and the actual expenditure on capital account during the years 1968-69, 1969-70 and 1970-71. The shortfall of expenditure during the years 1968-69 and 1969-70 amounted to Rs. 333.57 crores and Rs. 121.14 crores which worked out to Rs. 43.8 per cent and 15.7 per cent respectively. In 1970-71 there was excess of expenditure over the budget estimates amounting to Rs. 98.57 crores which worked out to 11.7 per cent. In extenuation of the shortfalls, it was urged before the Committee that for the first two or three years of the plan there was slow progress of the plan projects/schemes for various reasons such as non-availability of steel, cement, equipment etc. The Committee view with concern over budgeting by the Administrative Ministries resulting in locking up of much needed funds. The Committee also regard the excess of Rs. 98.57 crores in the capital expenditure for the year 1970-71 as bad budgeting. The Committee desire that the Administrative Ministries concerned should frame their budget estimates realistically. They should neither be over-optimistic about their capacity to utilise funds, nor grossly under-estimate it. The Ministry of Finance who have Financial Advisers attached</p>

to the Administrative Ministries should be able to play a more effective role in ensuring realistic budget provisions. The Committee suggest that the Finance Ministry should analyse the variations between the estimates and actuals during the last five years with a view to identifying the causes for shortfalls or excesses in expenditure and improving the budgeting procedure.

- |   |      |   |   |
|---|------|---|---|
| 2 | 1.16 | Finance/<br>Communications/<br>Shipping and Transport | <p>During 1970-71, although there was an overall excess of Rs. 98.57 crores in expenditure on capital account, there was significant short-fall of capital expenditure on Posts and Telegraphs (Rs. 28.04 crores) and public works (Rs. 13.21 crores). The saving in the P &amp; T Department were mainly due to smaller supply of equipment and cables by the Indian Telephone Industries and Hindustan Cables Ltd., and slower progress in execution of building and line works. As regards public works, a saving of Rs. 5.82 crores was accounted for by the National Highways in which case there was also a saving of Rs. 5.42 crores during 1969-70. In 1969-70 there was also a saving of Rs. 1.27 crores in respect of Border Roads. The Committee desire that the Ministries of Communications and Shipping and Transport should exercise proper care in framing the budget estimates in future and ensure that the funds provided for important projects are utilised during the year.</p> |
|---|------|---|---|

- |    |      |         |   |
|----|------|---------|---|
| 3. | 1.17 | Finance | <p>The Committee have in the past urged on the Ministries/Departments to surrender savings as soon as that possibility is envisaged without waiting till the end of the year. Pursuant to the recommendation made in paragraph 1.21 of their 55th Report (4th Lok Sabha),</p> |
|----|------|---------|---|
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the Ministry of Finance issued instructions in September, 1969 asking the Ministries to review the grants/appropriations periodically and to report the savings to the accredited Finance Division for necessary action. The Committee desire that the Ministry of Finance should review how far these instructions have been implemented and savings surrendered in time during the last three years.

4. 1.18

Finance

The Committee were informed that generally 50 per cent of the expenditure is concentrated during the last three months of the financial year. The Committee would like the Ministry of Finance to examine the factors that are responsible for rush of expenditure in the last three months and how the situation can be remedied.

5. 1.27

-Do-

The expenditure on Administrative Services increased from Rs. 153.52 crores in 1968-69 to Rs. 201.82 crores in 1970-71. The Committee were informed that the increase was mainly due to more expenditure on police. The expenditure on police increased from Rs. 72.60 crores to Rs. 101.60 crores and that on General Administration from Rs. 27.93 crores to Rs. 29.67 crores. The Committee have urged in the past that the expenditure on General Administration should be kept under constant watch to explore further economies. The Committee note that as a result of the studies of the Staff Inspection Unit of the Ministry of Finance, 2576 posts were found surplus in 1970, 1669 in 1971 and 2190 posts in 1972. In paragraph 1.8 of their



90th Report (1969-70), the Committee had suggested that the question of fixing periodicity for reviews to be conducted by the Staff Inspection Unit should be examined. The Committee were informed during evidence that it was very difficult to fix the periodicity. The Committee desire that the Staff Inspection Unit should be able to increase the number and frequency of reviews as and when required.

The Committee understand that as a result of a review held in 1963 it was decided by Government to maintain a cash balance of Rs. 50 crores with the Reserve Bank of India, having regard to the volume of transactions involved. In view of the fact that 20 years have elapsed since then, the Committee consider that it is the time for Government to review the position and examine the desirability of revising the requirement of minimum cash balance on a realistic basis with due regard to the volume of transactions at present. The Committee would like to be informed of the result of the review.

The Committee are concerned to find that, apart from outstanding loans from the State Governments, recovery of principal amounting to Rs. 202 crores and interest amounting to Rs. 25.74 crores was overdue from various autonomous bodies, public undertakings etc. The reason for non-recovery is that in many cases the Public Sector Undertakings are losing concerns and have not made profit during the last few years. The Committee are particularly dissatisfied over non-payment of overdue loans and interest amounting to Rs. 85 crores by the Khadi and Village Industries Commission. The

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arrears represent accumulations from 1959-60 onwards. The Committee suggest that the Ministry of Finance should undertake a review of the cases where arrears of Rs. 1 crore or more have been overdue for more than five years and take necessary steps to effect recoveries.

1.58

Finance

In paragraph 5.24 of their 55th Report (1968-69) the Committee have desired that in view of the substantial amount of guarantees given by Government and the contingent liability involved, it is but proper that Government's guaranteeing power is regulated by law as envisaged in Article 292 of the Constitution. In their reply, the Government stated that no real advantage would be secured by prescribing statutory limits on guarantees. The Committee would like the Government to re-examine whether it was not possible to have a law providing for a flexible limit for guarantees and for a retrospective regularisation of any amount exceeding the limit in appropriate cases.

1.59

Railways

Finance

The Committee find that guarantees were invoked in the case of the branch line railway companies during 1970-71. The Committee would like the Ministry of Railways and the Ministry of Finance to examine whether it would not be desirable to take over such Railway companies rather than incurring liabilities for the payment of shortfall in the guaranteed return of 3½ per cent on the paid up share capital.

The Committee note that a loan amounting to Rs. 52 lakhs is still outstanding from the individual who purchased an evacuee property at Ambarnath. Government have allowed him to pay this amount upto 20th October, 1976 in yearly instalments on certain terms and conditions. The Committee would like to be informed whether the instalment payments as agreed to are being paid by the individual intine. The Committee are of the view that in any case the individual should not be allowed further extension in repaying the loan.

Finance  
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Education & Social  
Welfare  
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Health and  
Family Planning

For the grants paid by the various Ministries, utilisation certificates were outstanding as on 30th September, 1971 in 3077 cases involving a total amount of Rs. 35.45 crores. Some of the cases date back to the period as early as 1954-55. The Committee are particularly concerned about a large number of utilisation certificates outstanding in respect of the grants paid by the Ministries of Health and Family Planning and Education and Social Welfare. At the end of the September, 1971 utilisation certificates were outstanding in 1325 cases involving an amount of Rs. 20.33 crores in the case of Ministry of Education and Social Welfare and 1476 cases involving an amount of Rs. 8.86 crores in the case of Ministry of Health and Family Planning. Though the number of outstanding utilisation certificates has come down as compared with the position at the end of September, 1968, the Committee feel that further efforts are necessary to clear the back-log of utilisation

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certificates. The Committee understand that a cell is proposed to be created in the Ministries of Education and Social Welfare and Health and Family Planning to speed up the process of issuing certificates. On this Committee there should be a representative of the Ministry of Finance. The Committee would like to be informed of the progress made in this regard.

The Committee are not satisfied with the delays in completion of proforma accounts by Government Undertakings of Commercial and quasi-Commercial nature. Out of 34 such undertakings, proforma accounts for the year 1970-71 had not been finalised by 27 undertakings till January, 1972. The Committee were explained difficulties in the timely closing of accounts in respect of the two undertakings under the Ministry of Finance. The Committee desire that the other Ministries concerned should also look into the reasons for delay in the compilation of the proforma accounts of the undertakings under their control. In case the present time schedule fixed for closing of the accounts is considered unrealistic, necessary steps should be taken in consultation with the Comptroller and Auditor-General to revise the schedule. Once a realistic time schedule is fixed, no excuse should be accepted for not adhering to it except in very exceptional circumstances.

The Committee are particularly unhappy that the proforma accounts in respect of the Electricity Department, Laccadive, Minicoy, Amindivi Islands and the Ice-cum-Freezing Plant, Ernakulam have

12 1 71 Finance  
All Ministries

13 1 72 Agriculture  
Irrigation & Power

not been compiled since their inception in 1961 and 1967 respectively. It is unfortunate that they have taken a long time to finalise the form of accounts. Now that the forms have been finalised, the Committee desire that the proforma accounts should be compiled and furnished to Audit without further delay.

14 1.75 -Do.-

The Committee note with concern that a District Organiser in the National Savings Organisation in Uttar Pradesh committed a fraud in issuing National Plan Savings National Defence Certificates involving an amount of Rs. 5.98 lakhs. The Organiser received the amount from different parties but did not issue the proper certificates. In some cases he actually obtained certificates from post Office but issued forged ones to the parties concerned and the original certificates to some other parties by suitably altering the entries. On the parties instituting civil suits for recovery of the amount from Government, it was decided to issue ante-dated certificates to them. The frauds committed by the organiser are stated to the under investigation by the Special Police Establishment. The Committee find that the organiser has been distributing fraudulent certificates over a long period from 1962 to 1967. The Committee feel that a thorough investigation should be made, if not already done, of all the certificates sold through the said organiser. The Committee would like to be informed about the progress of investigation within six months.

15 1.76 -Do.-

The Committee have been informed that the procedure of handling of money by the field staff of the National Savings Organisation



their import due to the Railway having changed over from 4-wheeler wagons to 8-wheeler wagons for carrying coal.

In the case of the tippler ordered by the Trombay Fertilizer Project, there is nothing on record to show if the relative merits of transportation of the material by rail and by road had been examined before deciding to place the order for a tippler. It was only when the material arrived in 1965, that the project authorities came to know that the Railways would charge the rate for a minimum distance of 40 kilometers and not the actual distance which was much less. Because of this the road transportation was found to be cheaper. The conclusion, it seems to the Committee, is obvious that a proper study had not been made of the comparative cost of transportation of the material by rail and by road. The Committee consider that the responsibility should be clearly fixed for the failure to do something which obviously needed doing.

In another case a refund had to be made as a part of the steel imported by the Railways in 1964 remained under dispute with Port Trust Authorities for a long time. As a result it could not be utilised. The Committee are surprised that a dispute between the two Government Agencies could not be settled for three years.

In the case of the equipment imported for Barapani Hydro-Electric Project, none of the five equipments could be utilised in the project due to delays in their arrival. This shows that the placing of the orders for the equipment had not been properly planned.

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21	1.95	Finance	Copper imported by MMTC under the economic development programme was diverted to the Ordinance Factories, although they had sufficient free stock of copper to meet the defence requirements. The MMTC should surely have been aware of the purpose for which the material had been imported. The Committee would like the reasons for this failure to be gone into with care.
22	1.101	<div>Finance</div> <div>-----</div> <div>All Ministries</div>	<p>The Committee are surprised that such a large number of Audit objections and Inspection Reports involving substantial amounts should still be outstanding. Some of the Inspection Reports pertain to the period as far back as 1949-50. This is not a desirable state of affairs. Audit objection and inspection reports are meant to be dealt with promptly, otherwise the very object of having audit and inspection is defeated. Every effort should be made to clear audit objections still outstanding for the period prior to 1966-67 before 31st March, 1974.</p>
23	2.5	Finance	<p>The Committee note that the Officer on Special Duty who was appointed to make a comprehensive study of the working of the Narcotics Department has submitted some important recommendations, most of which are stated to have been accepted by Government. The Committee desire that an early decision should be taken on the remaining recommendations which are still under consideration, particularly those relating to financial management.</p>



The Committee desire that steps should be taken to introduce early a consolidated and comprehensive Narcotics bill in Parliament.

Government decided in March, 1965 to set a new alkaloids project at the Opium Factory, Neemuch to utilise the process developed by the National Chemical Laboratory (a Laboratory of the Council of Scientific and Industrial Research). This decision, after 8 years, still remaining unimplemented. The delay that has occurred, as will be seen, from the paragraphs that follow, is unjustifiable, this led to considerable increase in the cost of the project.

Due to faulty estimates originally prepared by the National Chemical Laboratory and subsequent expansion of the scope of the project and increase in prices, the estimated cost of the project was revised from time to time. The estimate of Rs. 35.30 lakhs prepared by the National Chemical Laboratory was revised by the National Industrial Development Corporation (designers and consultants for the project) to Rs. 105.81 lakhs in May, 1968, Rs. 117.74 lakhs in January, 1970 and Rs. 164.09 lakhs in September, 1971.

The National Industrial Development Corporation who were entrusted with designing of the project in January, 1966 took about 3 years to complete most of designing work by December, 1968 and thereafter another period of 1½ years elapsed before the construction work commenced in October, 1970. The Committee find that lack of proper planning in two aspects resulted in considerable loss of time. First, when the Government approved the project in

March 1965, it was proposed to produce only semi-refined morphine but after entrusting the designing to NIDC, it was considered desirable to expand its scope to the manufacture of synthetic codeine and finished salts also, which gave rise to consideration of issues regarding the marketability of products, export potentiality, profitability etc. Secondly, after the designing work was mostly over by December, 1968 the question of conducting the pilot studies of the process developed by the National Chemical Laboratory came for consideration and it was decided in July 1969 to use the equipment available with the IDPL, Hyderabad for the purpose. The pilot studies took considerable time and delayed the sanction for the approval of the execution of the project till April, 1970. It is surprising why these two questions viz., expansion of scope and pilot study of a new process were not considered before the Government approved the project in March, 1965.

#### Finance

The project which was sanctioned in April 1970 was started in October, 1970 and was expected to be completed by July 1972. While there was no appreciable delay in completion of civil work, fabrication of the plant by the Bharat Heavy Plate and Vessels Limited (turnkey contractors for fabrication, supply, installation and commissioning of the plant and equipment) has been delayed due to difficulties in supply of stainless steel flanges and structural

steel sections. The Committee have been informed that the erection/ commissioning of the plant may not be completed before August, 1973. The Committee hope that the commissioning of the plant will not be further delayed. The Committee would like to be informed about the commissioning of the plant and the actual cost of the project.

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The Committee have been informed that the indigenous production of opium alkaloids in the Government Alkaloid Works, Ghazipur, has been around 5,500 kgs. per year of which Codeine and its salts account for nearly 4400 kgs. For meeting the requirements of the Pharmaceutical Industry in the country Government had to import 2000 kgs. Codeine phos. in 1971 and 2050 kgs. in 1972. The Committee hope that the capacity of the new Alkaloid Plant at Neemuch Factory will be fully utilised not only to meet the internal requirements but also to export the products, if feasible.

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2.47

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Although the area brought under poppy cultivation is increasing, the average yield of opium per hectare is decreasing in spite of the various incentives given to the cultivators for higher yields. The cultivated area increased from 12,072 hectares in 1965-66 to 47,315 hectares in 1971-72, but the average yield of opium (70C °) per hectare decreased from 36.11 kg. to 26.77 kg. According to the Ministry, the contingency of the exports or the internal requirements being seriously affected by decline in production due to fall in cultivated area cannot be ruled out in future as the area actually cultivated and the yield obtained depend on availability of irrigation facilities and weather conditions. The Committee note that the

Indian Council of Agricultural Research have drawn up a scheme of 5 years duration with effect from April, 1971 for agricultural research on poppy crop aiming at (a) improving the morphine content (b) increasing the yield of opium by breeding suitable varieties of seed, (c) conducting agronomical research which would give maximum yield of opium per hectare (d) developing more efficient methods of lancing and collection and (e) studying various diseases affecting poppy in order to formulate suitable control measures including breeding of disease resistant varieties. The Committee hope that the research efforts on poppy crop will be intensified and particular attention will be paid to areas like Uttar Pradesh where the average yield per hectare is considerably low. The Department should make efforts to ensure that the area brought under cultivation does not fall short of the planned area.

The price of opium is linked with the average yield per hectare tendered by the poppy cultivator, that is the higher the yield per hectare the higher the price per kilogram paid to the cultivator. For the year 1972-73, price payable to the cultivator for different slabs of average yield per hectare under this system ranges from Rs. 60 to 100 per kg. of raw opium of the same consistence. The Committee desire that the feasibility of introducing some other system should be examined in depth which should not only provide

Finance

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incentive for tendering high average yield but also remove discrimination in the price payable to the cultivators for the same quality of opium.

Do. The Committee note that due to increased world demand, the production of manufactured opium by the Factories at Ghazipur and Neemuch has increased from year to year and that there is no underutilisation of production facilities in the factories. To cope with the increase in work, more casual labour is employed on temporary basis during the peak season. The Committee hope that efficiency of production and labour requirement will be kept under constant watch.

33. 2.58

Do.

It is stated that with a view to reducing losses, precautions have been taken to improve the stacking of bags of opium received from weighment centres and to cover the floor with polythene sheets as far as possible. The Committee desire that efforts should be made to reduce the time-lag between the receipt of the bags and their reweighment in the factories.

34. 2.59

Do.

The Committee desire that early decision should be taken on the question of dispensing with the storage of opium in vats to avoid wastage.

35. 2.70

Do.

The Committee note the steps taken by the Department in pursuance of the recommendations of the Opium Losses Enquiry Committee to improve the overall efficiency of the working of the factories and to reduce storage and manufacturing losses of opium. But a few recommendations of the Committee which require large

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			<p>capital investment on major alterations in the existing layout of the factories are still under study. These recommendations relate to the storing of opium according to the consistence and morphine strength, transportation of opium from weighment centres to factory in aluminium alloy containers etc. The Committee hope that early decision will be taken on these recommendations. The Committee expect as a result of the measures already taken, the losses to decrease substantially.</p>
36.	2.71	Finance	<p>On the question of fixation of norms for the losses, the Opium Losses Enquiry Committee expressed an opinion on the basis of weighted average that tentatively 1 per cent loss could be considered as normal both in storage and during manufacture, pending evaluation of norms on more scientific basis by the Department. The Opium Losses Enquiry Committee had also conducted experiments to ascertain the normal range of variation in assay by sending samples to some international analysts which showed the difference in assay results from 0.95° to 2.70°. The matter is being studied further by the Department. The Committee hope that the Department will actively pursue the question of fixing norms for the losses on a scientific basis. The Committee would like to be informed about the outcome of the studies made by the Department.</p>
37.	2.72	Do.	<p>The Committee note that after examination of the losses by the Opium Losses Enquiry Committee, certain old losses amounting to</p>

Rs. 95,62,419 have been written off and others are under examination. The Enquiry Committee have pointed out that there are a few specific cases of losses by theft. The Committee desire that these cases should be examined expeditiously and necessary action taken against the persons concerned.

38. 2.78 Do. Even though the Commercial Accounting has been introduced in the opium factories from 1st April, 1970, the accounts of the factories continue to be maintained on a single entry basis. The Committee desire that accounting procedure and the department manual may be finalised expeditiously in consultation with the Comptroller and Auditor General.

39. 2.86 Do. The Committee find that even after the introduction of a uniform system of accounting with effect from 1st April, 1970 in the Opium Factories, Ghazipur and Neemuch, the production losses in the Ghazipur Factory are still not adjusted in the production account till the write off sanction is received, whereas in the Neemuch Factory abkari losses are adjusted in the production account. The Committee hope that under the new procedure which is stated to be under consideration, a uniform cost accounting system will be followed by the two factories to enable the Department to make a comparative study of the respective cost of their production and effect necessary economies. The Committee desire that the new procedure should be finalised expeditiously.

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40.	2.93	Finance	The export of opium increased from 532 tonnes in 1960 to 907 tonnes in 1971. The export of 777 tonnes in 1970 constituted 91.6 per cent of the total world exports of opium. With Turkey reportedly having stopped opium poppy cultivation after the 1972 crop, India will be the only country to export opium to other countries.
41.	2.94	Do.	The profit of the factories increased from Rs. 255.84 lakhs in 1968-69 to Rs. 615.19 lakhs in 1971-72 without providing for the manufacturing and storage losses. According to the Ministry, "though we do make some profits by sale of opium, it is not our sole objective for producing opium." While the Committee appreciate this view, they hope that the working results of the factories will continue to be improved by increasing efficiency in production and reducing manufacturing storage losses.
42.	2.101	Do.	The Committee note that no minimum, maximum and re-ordering level of sundry stores has been fixed by the Opium Factory, Ghazipur so far. The Committee desire that the limit should be fixed early.
43.	2.102	Do.	The Committee have been informed that in Ghazipur Factory there were some lapses in regular annual verification of dead stock articles prior to 1970. The Committee hope that the stock articles as well as general stores and raw opium will be regularly done in the factory.