REPORT

OF THE

Comptroller and Auditor General of India

for the year 1977-78

(COMMERCIAL)

GOVERNMENT OF UTTAR PRADESH

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PREFATORY REMARKS

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

(i) Government Companies,

(ii) Statutory Corporations, and

(iii) Departmentally managed commercial and *quasi*-commercial undertakings.

2. This report deals with the results of audit of accounts of Government Companies and Statutory Corporations including the Uttar Pradesh State Electricity Board. The Report of the Comptroller and Auditor General of India (Civil) contains the results of audit relating to departmentally managed commercial and *quasi*-commercial undertakings.

3. In the case of Government Companies, audit is conducted by professional auditors appointed on the advice of the Comptroller and Auditor General but the latter is authorised under section 619(3)(*b*) of the Companies Act, 1956 to conduct a supplementary or test audit. He is also empowered to comment upon or supplement the report submitted by the professional auditors. The Companies Act, 1956 further empowers the Comptroller and Auditor General to issue directives to the auditors in regard to the performance of their functions. Such directives were issued in November 1962 to the auditors for looking into certain specific aspects of the working of Government Companies. These instructions were revised in December 1965 and again in February 1969.

4. In respect of Uttar Pradesh State Road Transport Corporation and Uttar Pradesh State Electricity Board, which are Statutory Corporations, the Comptroller and Auditor General is the sole auditor, while in respect of other two Statutory Corporations, *viz.* Uttar Pradesh Financial Corporation and Uttar Pradesh State Warehousing Corporation, he has the right to conduct audit in accordance with the provisions of the relevant Acts independently of the audit

conducted by the professional auditors appointed under the respective Acts.

5. The points brought out in this Report are those which have come to notice during the course of test audit of accounts of the above undertakings. They are not intended to convey or to be understood as conveying any general reflection on the financial administration of the undertakings concerned.

CHAPTER I

GOVERNMENT COMPANIES

SECTION I

1.01. *Introduction*

There were 72 Companies (including 22 subsidiaries) of the State Government as on 31st March 1978. Out of 72 Companies, 59 (including 18 subsidiaries) close their accounts on 31st March and seven Companies (including one subsidiary) on 30th June each year, two subsidiary Companies on 31st July each year and three Companies (including one subsidiary) on 30th September each year. The remaining one Company, *viz.* Uttar Pradesh Panchayati Raj Vitta Nigam Limited closes its accounts on 31st December each year.

1.02. A synoptic statement showing the summarised financial results of 46 Companies, on the basis of their latest accounts (1977-78: 26, 1976-77: 18, 1975-76: 1 and 1974-75: 1) received up to January 1979 is given in Appendix I. Five Companies finalised their accounts for two years, *viz.* Uttar Pradesh State Textile Corporation Limited, Uttar Pradesh State Spinning Mills Company (No. I) Limited, Agra Mandal Vikas Nigam Limited and Meerut Mandal Vikas Nigam Limited (1976-77 and 1977-78) and The Uttar Pradesh State Leather Development and Marketing Corporation Limited (1975-76 and 1976-77) during 1978-79.

1.03. The accounts of 46 Companies are in arrears (January 1979). The Companies whose accounts are in arrears for two years or more are given below:

	Years for which accounts are in arrears
Uttar Pradesh Panchayati Raj Vitta Nigam Limited	Years ended December 1975, December 1976 and December 1977
Uttar Pradesh State Bridge Corporation Limited	Years ended September 1976, September 1977 and September 1978

	Years for which accounts are in arrears
Uttar Pradesh State Bundelkhand Vikas Nigam Limited	1975-76 to 1977-78
Uttar Pradesh Pashudhan Udyog Nigam Limited	1975-76 to 1977-78
Uttar Pradesh Abscott Private Limited	1975-76 to 1977-78
Uttar Pradesh Potteries Private Limited	1974-75 to 1977-78
Uttar Pradesh Buildwares Private Limited	1974-75 to 1977-78
Uttar Pradesh Plant Protection Appliances Private Limited	1974-75 to 1977-78
Uttar Pradesh Roofings Private Limited	1974-75 to 1977-78
Krishna Fasteners Limited	1973-74 to 1977-78
Faizabad Roofings Limited	1975-76 to 1977-78
Mohammadabad People's Tannery Limited	1976-77 and 1977-78
Uttar Pradesh Poorvanchal Vikas Nigam Limited	1976-77 and 1977-78
Uttar Pradesh State Tourism Development Corporation Limited	1976-77 and 1977-78
Uttar Pradesh State Food and Essential Commodities Corporation Limited	1976-77 and 1977-78
Uttar Pradesh Prestressed Products Limited	1976-77 and 1977-78
Uttar Pradesh Small Industries Corporation Potteries Limited	1976-77 and 1977-78
Tarai Anusuchit Janjati Vikas Nigam Limited	1975-76* to 1977-78
Uttar Pradesh Paschimi Kshetriya Vikas Nigam Limited	Years ended June** 1977 and June 1978

The matter has been brought to the notice of Government in March 1979.

Four Companies, *viz*. Indian Bobbin Company Limited, Gandak Samadesh Kshettra Vikas Nigam Limited, Ramganga Samadesh Kshettra Vikas Nigam Limited and Sharda Sahayak Samadesh Kshettra Vikash Nigam Limited are under liquidation.

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*2nd August 1975 to 31st March 1976.

**31st March 1976 to 30th June 1977.

1.04. *Paid-up capital*

The aggregate paid-up capital of 26 Companies (the accounts of which were up-to-date) at the end of 1977-78 was Rs.10,188.31* lakhs, as detailed below:—

Category of Companies	Number	State Government	Central Government Company	Holding companies	Private parties	Total
		(In lakhs of Rupees)				
Companies fully owned by the State Government	15	8,311.96	..	..	..	8,311.96
Wholly owned subsidiary Companies	5	..	..	1,796.19	..	1,796.19
Companies jointly owned by the State Government and private parties	5	45.48	..@	..	27.67	73.15
Companies jointly owned by the Holding Company and Central Government Company	1	..	..@	7.01	..	7.01
Total	26	8,357.44	..	1,803.20	27.67	10,188.31*

1.05. *Profit and dividend*

The 26 Companies which had finalised their accounts for 1977-78, showed aggregate net loss of Rs.598.51 lakhs for the year (comprising profit of Rs.154.21 lakhs made by fourteen Companies and loss of Rs.752.72 lakhs incurred by eleven Companies). One Company, which is in construction stage, capitalised its entire expenditure during the year.

The particulars of Companies, which substantially improved their working results during 1977-78 over those for 1976-77, are given below:

Name	Profit(+)/Loss(—) 1976-77	1977-78
	(In lakhs of Rupees)	
The Pradeshiya Industrial and Investment Corporaion of Uttar Pradesh Limited	(+)28.42	(+)42.29

*As per the accounts of the Companies.

@ Includes Rs.300 subscribed by Scooters (India) Limited.

Name	Profit(+)/Loss(—) 1976-77	1977-78
	(In lakhs of Rupees)	
Harijan Evam Nirbal Varg Avas Nigam Limited	(+)1.05	(+)4.77
Uttar Pradesh Electronics Corporation Limited	(—)5.22	(—)1.07
Agra Mandal Vikas Nigam Limited	(+)3.33	(+)8.04
Uttar Pradesh State Brasswares Corporation Limited	(+)1.96	(+)3.28
Uttar Pradesh State Industrial Development Corporation Limited	(+)64.00	(+)69.51
Meerut Mandal Vikas Nigam Limited	(+)3.90	(+)6.53
Uttar Pradesh (Madhya) Ganna Beej Vikas Nigam Limited	(+)0.55	(+)2.86

Prayag Chitrakoot Krishi Evam Godhan Vikas Nigam Limited showed net loss of Rs.0.57 lakh in 1977-78 against a profit of Rs.0.92 lakh in 1976-77. Similarly, the Uttar Pradesh State Cement Corporation Limited showed net loss of Rs. 70.19 lakhs in 1977-78 against net loss of Rs.47.59 lakhs in 1976-77.

Uttar Pradesh State Industrial Development Corporation Limited proposed dividend of Rs.28.45 lakhs for the year 1977-78, which works out to two *per cent* of its total paid-up capital (Rs.1,422.73 lakhs). The Uttar Pradesh Rajkiya Nirman Nigam Limited proposed dividend (Rs.2.55 lakhs) in its second year of working (1976-77) also, which works out to 2.55 *per cent* of its total paid-up capital including share money pending allotment (Rs.100 lakhs).

Twenty two Companies with a total paid-up capital of Rs.9,988.21 lakhs sustained losses totalling Rs.1,320.39 lakhs (1977-78: Rs.752.72 lakhs, 1976-77: Rs.547.63 lakhs and 1974-75: Rs. 20.04 lakhs), of which Rs.1,304.27 lakhs pertained to the following nine Companies:

Name	Year	Losses (In lakhs of Rupees)
Chhata Sugar Company Limited	1977-78	218.73
Uttar Pradesh State Cement Corporation Limited	1977-78	70.19
Uttar Pradesh Instruments Limited	1977-78	21.82
Uttar Pradesh State Sugar Corporation Limited	Ended on 30th September 1977	359.88
Uttar Pradesh State Spinning Mills Company (No. I) Limited	1977-78	195.56

Name	Year	Losses (In lakhs of Rupees)
Uttar Pradesh State Agro Industrial Corporation Limited	1976-77	91 .31
Kichha Sugar Company Limited	Ended on 30th September 1977	87 .37
Uttar Pradesh State Textile Corporation Limited	1977-78	239 .37
Uttar Pradesh State Bridge Corporation Limited	1974-75	20 .04

1.06. *Guarantees*

Government have guaranteed repayment of loans aggregating Rs.6,398.78* lakhs obtained by seven Companies, against which Rs.5,061·84* lakhs were outstanding on 31st March 1978. The table below indicates the maximum amount guaranteed and the amount outstanding against each Company:

Name of the Company	Maximum amount guaranteed	Amount guaranteed and outstanding as on 31st March 1978
	(In lakhs of Rupees)	
The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited, Lucknow	1,053 .00	860 .00
Uttar Pradesh State Agro Industrial Corporation Limited, Lucknow	1,057 .94	1,019 .00
Uttar Pradesh State Bridge Corporation Limited, Lucknow	395 .00	301 .00
Uttar Pradesh State Sugar Corporation Limited, Lucknow	2,258 .00	1,530 .00
Uttar Pradesh State Spinning Mills Company (No. I) Limited, Kanpur	1,047 .00	861 .00
Uttar Pradesh State Textile Corporation Limited, Kanpur	540 .00	443 .00
Uttar Pradesh State Industrial Development Corporation Limited, Kanpur	47 .84	47 .84
Total	6,398 .78	5,061 .84

*Figures as per the Finance Accounts for the year 1977-78.

Further, there were three Companies in the State coming under Section 619-B of the Companies Act, *viz.* Steel and Easteners Limited, Almora Magnesite Limited and Electronics and Computers (India) Limited. The accounts of Electronics and Computers (India) Limited for the years ended 31st December 1975, 1976 and 1977 were in arrears (January 1979). The paid-up capital of Almora Magnesite Limited, as on 31st October 1977, was Rs.140 lakhs, out of which Rs.85.40 lakhs were held by Companies and Corporations owned or controlled by the Central and State Governments. The working results of Almora Magnesite Limited for 1976-77 showed a net profit of Rs.48.82 lakhs.

SECTION II

UTTAR PRADESH STATE TEXTILE CORPORATION LIMITED

2.01. *Introduction*

The Uttar Pradesh State Textile Corporation Limited, wholly owned by the State Government, was initially incorporated as a private limited Company on 2nd December 1969. To avail the facility of raising funds by floating bonds and debentures, the Company was converted into a public limited company on 24th December 1973.

In 1974, two subsidiary companies, *viz.* Uttar Pradesh State Spinning Mills Company Limted (UPSSMC) No. I and II, wholly owned by the Company, were incorporated for establishing and managing four spinning mills each in Uttar Pradesh.

2.02. *Objects*

The main objects of the Company are (i) to carry on the business of textile mills in all the branches, (ii) to manage any such business or undertaking entrusted to it by the Central or State Government, (iii) to establish cotton mills and (iv) to manufacture and deal in all kinds of yarn and other incidental activities.

2.03. *Organisational set-up*

The Company is managed by a Board of Directors consisting of 12 directors, one of whom represents financial institutions and the others are nominated by the State Government. The Company has a wholetime Managing Director and a Chairman. The Chairman of the Company is also the Chairman of both the subsidiaries. The subsidiaries have their respective Boards of Directors. The subsidiary company No. I has a wholetime Managing Director. Subsidiary No. II has been kept dormant. In September 1977, the Board of Directors of the subsidiary company No. II decided to wind it up. Subsequently (March 1978), the said Board of Directors revised their earlier decision and decided to keep the issue of winding up in abeyance as the setting up of new projects *viz.* Rayon Grade Pulp Unit, Viscose Staple Fibre Units and new spinning mills was under consideration of the State Government. The final decision of the State Government regarding setting up of the above new projects is awaited (December 1978).

The mills owned by the Company and subsidiary company No. 1 are headed at the unit level by a wholetime Chief Executive. For day-to-day management, powers have been delegated by the Board of Directors to the Managing Director and the Chief Executive of the individual mills.

2.04. *Capital structure*

The Company was initially registered with an authorised capital of Rs.300 lakhs, subsequently raised to Rs.2,500 lakhs in December 1976. The entire paid-up capital of Rs.2,577.97 lakhs (including equity share deposit of Rs.532.25 lakhs made by the State Government and accepted by the Company without raising its authorised capital) as on 31st March 1977 has been contributed by the State Government. Out of the equity share deposit of Rs.532.25 lakhs, shares of Rs.154.00 lakhs were issued (May 1977) to the State Government. Out of the balance amount of Rs.378.25 lakhs, which was received (March 1977) for Automatic Looms Project, an expenditure of Rs.1.06 lakhs was incurred on the Scheme and the balance was refunded (October 1978) to the State Government as the scheme was dropped in October 1977.

For setting up new spinning mills, the Company obtained bridging loan of Rs.200 lakhs during 1976-77 from New Okhla Industrial Development Authority. In addition, loans of Rs.215 lakhs and Rs.197.50 lakhs were obtained in 1977-78 from the Industrial Finance Corporation of India and Industrial Development Bank of India respectively. The bridging loan of Rs. 200 lakhs has since been repaid (October 1978).

2.05 *Management of sick textile mills*

The Central Government appointed the Company as Authorised Controller of New Victoria Mills Limited, Kanpur and Muir Mills Company Limited, Kanpur with effect from 15th February

1971 and 22nd January 1973 respectively, under Section 18 (A) of the Industries (Development and Regulation) Act, 1951 and as Custodian of Lord Krishna Textile Mills, Saharanpur, Shri Vikram Cotton Mills, Lucknow and Bijli Cotton Mills, Hathras with effect from November 1972 under the Sick Textile Undertakings (Takeover of Management) Act, 1972. All the five sick mills were nationalised by the Central Government in September 1974.

Consequent upon the promulgation (21st September 1974) of the Sick Textile Undertakings (Nationalisation) Ordinance 1974, the management of the above mills was transferred to the National Textile Corporation Limited (U. P.), a subsidiary of the National Textile Corporation Limited, with effect from 25th November 1974. A sum of Rs.169.28 lakhs, being the amount of loans, interest and penal interest, was outstanding against the sick mills on 24th November 1974, which was reimbursed (November 1975) to the Company by the State Government and in lieu thereof National Textile Corporation Limited (U. P.) issued shares in favour of the Governor of Uttar Pradesh for the like amount.

2.06. *Cotton purchase scheme*

In pursuance of its decision of October 1971, the Company started purchase of cotton in December 1971 to boost the sagging economy of five sick textile mills. Initially, cotton was purchased by the Company on behalf of these sick mills. Subsequently (January 1973), however, cotton was purchased directly by the sick mills out of the funds provided by the Company. The cotton so purchased was to be pledged with the Company and the Company was to re-pledge it to its bankers against 65 *per cent* advance. The margin money of 35 *per cent* was to be provided to the mills out of the Company's own resources. The pledged cotton was to be released to the mills by the Company against *cent per cent* payment of the value of cotton together with interest at nine *per cent* (increased to nine and a half *per cent* from 15th December 1973) and 0.5 *per cent* for service charges. During 1974-75 to 1976-77, three sick mills obtained cotton pledged to the Company without depositing full amount, and a sum of Rs.43.50 lakhs (including interest and service charges) was recoverable as on 31st March 1977. The Management stated (November 1978) that the amount remained outstanding not only due to non-payment of the value of cotton but also because the cheques given by the mills in payment of value of cotton were dishonoured in some cases. It was further stated that Rs.14.03 lakhs outstanding against one of the three mills had been received in April 1977 and that action for recovery from the other two mills was in progress.

2.07. *Working of yarn schemes*
staple fibre yarn

From February 1972 to September 1974, the Company acted as nominee of the State Government for procurement of staple fibre yarn from the various member mills of Man Made Fibre Spinners' Association (MMFSA) and Southern India Mills Owners Association (SIMA) and its distribution among the handloom and powerloom weavers of the State. The yarn was distributed through 14 depots of the Company opened throughout the State during February to October 1972. There was no statutory control over the prices to be charged by the associations of the spinning mills. The selling price was determined by MMFSA and SIMA. It was decided in a meeting held between the Textile Commissioner, spinning mills and the Company that the delivery of yarn could be made by MMFSA and SIMA to the Company either against full payment in cash or through letter of credit to be opened in favour of member mills of MMFSA and SIMA. The Company preferred the latter system which enabled the suppliers to rush through the supplies of yarn to the extent of the amount available in the letter of credit without regard to the actual demand of the Company. This resulted in accumulation of yarn to the extent indicated below:

Month	Opening stock	Receipts	Sales	Closing stock
	(Quantity in bales)			
July 1974	1,884	4,732	2,534	4,082
August 1974	4,082	4,119	736	7,465
September 1974	7,465	3,386	98	10,752
October 1974	10,752	2,036	32	12,755

As the yarn, which accumulated in stock, had deteriorated in rains while in transit from the suppliers to the Company in 1974, and because the market price of staple fibre yarn had started falling, the Company effected distress sale of the entire stock (10,113 bales during November and December 1974 and 2,642 bales in 1975-76) sustaining a loss of Rs.30.85 lakhs. In 1974, the MMFSA allowed their member mills to increase the prices of yarn and also add a surcharge on account of power cut. Such increase in price of yarn was disputed by the Company. The system of payment through letter of credit, however, enabled the supplier mills, five in number, to get enhanced price against letters of credit, resulting in excess charges to the tune of Rs. 27.17 lakhs. Civil suits for recovery of the excess charges have been filed (March 1977) by the Company. The expenditure incurred in filing the five civil suits was Rs.2·98 lakhs up to March 1977. Further developments are awaited (January 1979).

2.08. *Cotton yarn*

Under a statutory scheme for the control of prices, packing and distribution of cotton yarn introduced by the Government of India with effect from 13th March 1973, the Company was appointed as a nominee by the State Government with effect from 28th March 1973 for distribution of yarn in the State. The following points were noticed in audit:

Damage of yarn during transit

(i) Four bales and 21 bags of cotton yarn valuing Rs.0.20 lakh, while being transported from Dhampur depot to Kanpur depot during June 1974, were damaged in transit. The transport company did not certify the damage as the goods were not covered by transit insurance. Because of non-certification of damage, the Company refused to take delivery of the goods and lodged (January 1975) a claim on the transport company, which is pending (December 1978).

(ii) Out of 600 bundles of cotton yarn despatched by a textile mill of Saharanpur through a road transport contractor on 28th July 1973, which were not insured against transit losses, 384 bundles were received in damaged condition (certified by the transport company). The damaged bundles of yarn valuing Rs.0.22 lakh were auctioned in June 1974 for Rs.0.09 lakh, resulting in a loss of Rs.0.13 lakh. On 2nd June 1976 a civil suit was filed by the Company against the transport company for recovery of the loss. The suit was pending in the Court (December 1978).

2.09. *Setting up of spinning mills*

The State Government constituted (July 1972) a working group for Heavy and Medium Industries, which in turn formed (September 1972) a sub-working group for the textile industry.

The sub-working group recommended (October 1972) the installation of eight lakh additional spindles during the Fifth Five Year Plan to meet the acute shortage of yarn for the decentralised powerloom and handloom sector in the State. Accordingly, 16 spinning mills of 25,000 spindles each were to be set up by the Company, in equal number in two phases. No time-schedule for completion of each phase was available in the records of the Company. The following table shows the dates of (i) project reports, (ii) commencement of projects and (iii) commissioning of projects:

Serial number	Name of project	Project report prepared in	Estimated cost as per project report	Commencement of project	Commissioning of project
			(In lakhs of Rupees)		
1.	Rae Bareli	April 1974	514	June 1974	1st October 1975
2.	Akbarpur	October 1974	480	February 1975	16th October 1976
3.	Maunath Bhanjan.	March 1974	505	November 1974	1st November 1976
4.	Barabanki	December 1974	530	April 1975	1st April 1977
5.	Jhansi	August 1976	490	July 1975	1st June 1977
6.	Kashipur	February 1977	480	January 1975	1st July 1977
7.	Sandila	February 1977	490	July 1975	1st September 1977
8.	Meerut	June 1977	510	July 1975	1st December 1977

The mills at serial numbers (1) to (4) are being managed by subsidiary Company No. I and the others at serial numbers (5) to (8) by the Holding Company.

The project reports for the projects at Jhansi, Kashipur, Sandila and Meerut were prepared after the commencement of works.

Change in drawings

Jhansi project

Drawings of production hall, initially approved in August 1975, were revised in January 1976 and again in June 1976. The subsequent revisions in the drawings necessitated dismantling of considerable quantity of masonry work which had already been done and all the air and return air ducts had to be dug twice. The location of yarn conditioning and cone packing buildings was also revised, resulting in dismantling of work already done up to 2.5 metres height. The extra expenditure incurred on the above alterations amounted to Rs.0.50 lakh approximately.

Maunath Bhanjan project

Due to bad planning of the consultants, civil works in respect of factory building already executed had to be dismantled (March 1976) and reconstructed which involved extra expenditure of Rs. 0.50 lakh Out of the above amount, only a sum of Rs. 0.16 lakh was borne by the consultants.

2.10. *Production planning*

(*a*) *Cotton mixing*

Before cotton is fed to the Blow Room Line, different varieties of cotton are mixed in a certain proportion, decided every month by the head office in advance, taking into consideration the varieties of cotton stock in hand and their availability in the market. The aim of deciding in advance the varieties of cotton and the proportion in which the same are to be mixed is to keep the mixing cost at the minimum possible level. A test check of cotton mixing records for August 1977 to March 1978 of the Spinning Mill, Akbarpur showed that cotton mixing could not be done in the manner decided by the head office as the cotton of requisite variety, though available in the market, was not procured by the Company. The mill had to use cotton of superior quality, resulting in an avoidable expenditure of Rs.0.60 lakh in the Akbarpur Mill.

The Management stated (September 1977) that excessive mixing cost was due to non-availability of requisite quality of cotton in the Akbarpur Mill.

(*b*) *Capacity utilisation*

The following table indicates the production of yarn as per project reports of the eight spinning mills and the actual production during 1976-77 and 1977-78:

Name	Rated capacity (350 days) as per project report	Monthly capacity	Date of commencement of full capacity production	Number of months of production	Actual production	Production capacity for the period operated	Shortfall in production
	(In lakh kg.)				(In lakh kg.)		
1976-77							
Rae Bareli	24.17	2.01	1st April 1976	12	18.10	24.17	6.07
Akbarpur	28.96	2.41	1st January 1977	3	7.27	7.23	..
Maunath Bhanjan	22.03	1.84	1st February 1977	2	3.67	3.68	..
1977-78							
Rae Bareli	24.17	2.01	1st April 1976	12	11.36	24.17	12 81
Akbarpur	28.96	2.41	1st January 1977	12	21.93	28.96	7.03
Barabanki	33.88	2.82	1st July 1977	9	19.18	25.38	6.20
Maunath Bhanjan	22.03	1.84	1st February 1977	12	14.64	22.03	7.39

Name	Rated capacity (350 days) as per project report	Monthly capacity	Date of commencement of full capacity production	Number of months of production	Actual production	Production capacity for the period operated	Shortfall in production
	(In lakh kg.)					(In lakh kg.)	
Jhansi	43.95	3.66	1st June 1977	10	18.15	36.60	18.45
Kashipur	39.24	3.27	1st July 1977	9	18.80	29.43	10.63
Sandila	43.87	3.66	1st September 1977	7	12.03	25.62	13.59
Meerut	48.88	4.07	1st February 1978	2	9.07	8.14	..

The mill at Rae Bareli in 1976-77 and all the mills during 1977-78 (except one mill at Meerut) did not produce yarn to their rated capacity. The Management stated (November 1978) that the actual product-mix was not as mentioned in the project report and that power cut, labour problems, raw material and market fluctuations were various aspects which affected the capacity utilisation.

(*c*) *Spindle utilisation*

The following table indicates the spindle utilisation of the spinning mill at Akbarpur (managed by Subsidiary Company No. 1) and the mills at Jhansi and Sandila (managed by the Company):

Particulars	Akbarpur		Jhansi	Sandila
	1976-77 (December 1976 to March 1977)	1977-78	1977-78 January to March 1978)	1977-78 (December 1977 to March 1978)
Spindles installed (In lakhs)	0·25	0·25	0 25	0.24
Budgeted utilisation (percentage)	95	95	95	95
Spindle shifts available (Budgeted) (In lakhs)	90 60	250·10	64·65	80 19
Actual spindle shifts worked on eight hours basis	67 31	197·29	55·62	66·23
Spindle utilisation (percentage)	74 3	78 9	86 0	82·6

None of the three mills achieved the budgeted spindle utilisation. Reasons for shortfall were not on record. Information for the other five mills was not available. The Management stated (November 1978) that these were not statutory records to be maintained.

(d) Spindle efficiency

The table below indicates the spindle efficiency, per spindle shift of eight hours, of the spinning mill at Akbarpur (managed by the Subsidiary Company No. I) and the mills at Jhansi and Sandila (managed by the Company) for the year 1977-78:

Count	Rated capacity	Budgeted production	Actual production per spindle at packing stage	Shortfall compared to budgeted production
		(In grammes)		
Akbarpur				
14	248·37	212·71	185·19	27·52
16	217·26	173·68	166.02	7·66
20	202·23	181·02	138·51	42·51
24	148.77	129.68	119·31	10·37

Count	Rated capacity	Budgeted production	Actual production per spindle at packing stage	Shortfall compared to budgeted production
		(In grammes)		
32	102·13	88·47	84·73	3·74
34	94·12	81·00	76·40	4·60
60	42·57	39·17	35·07	4·10
26	194·68	163·09	137·40	25·69
Jhansi (January to March 1978)				
12	295·4	260·00	231·6	28·4
14	250·0	224·0	172·5	51·5
16	215·9	192·0	177·9	14·1
20	165·0	165·0	122·2	42.8
24	125·4	122·0	103·9	18·1
30	88·0	87·0	49·8	37·2
Sandila (December 1977 *to March* 1978)				
20	165·0	157·0	131·4	25·6
20 (Hosiery)	171·0	160·0	140·7	19·3
25	115·0	113·0	93·4	19·6
30	84·0	84·0	42·2	41·8
34	73·0	73·0	62·0	11·0

The actual production per spindle/shift was lower than the budgeted production. The reasons for shortfall in production per spindle/shift were not stated and records relating to spindle efficiency of the rest of the five mills were not available. The Management stated (November 1978) that these were not statutory records to be maintained.

(e) *Yarn realisation*

The following table indicates the percentages of yarn realisation and visible and invisible wastes during 1975-76 and 1976-77 in the spinning mill at Rae Bareli, and during 1976-77 in the mills at Akbarpur and Maunath Bhanjan (all managed by the Subsidiary Company No. I):

	Rae Bareli		Akbarpur	Maunath Bhanjan
	1975-76	1976-77	1976-77	1976-77
	(In lakhs of Kilograms)			
Opening stock of cotton	..	1·38	..	..
Cotton purchased	10·22	23·71	10·61	6·96
Closing stock of cotton	1·38	2·05	1·72	1·59
Cotton consumed	8·84	23·04	8·89	5·37
Less : work-in-progress	0·41	0·21	0·51	0 55
Net consumption	8·43	22·83	8·38	4·82
Yarn produced	6·94	18·10	7·27	3·67
Visible waste	1·34	3·75	1·15	0·63
Invisible waste	0·15	0·98	(—)0·04*	0·52
Percentage of yarn realised from cotton to net consumption	82·3	79·3	86·8	76·1
Percentage of visible waste	15·9	16·4	13·7	13·1
Percentage of invisible waste	1·8	4·3	..	10·8

The yarn realisation percentage differed from mill to mill. The Management has not fixed norms regarding yarn realisation for the mills. Norms regarding visible waste and invisible waste at each process of production or for overall wastage have also not been fixed. The Management could not clarify how the yarn produced plus visible waste exceeded the cotton consumed in the spinning mill at Akbarpur. The Management stated (November 1978) that percentage of yarn realisation and visible and invisible waste depend

*Figures based on the accounts of the Company.

upon availability of cotton, power cut, product-mix, labour problems, market demand, *etc*.

2.11. *Costing system*

The Company and its subsidiary had not introduced (March 1978) costing system although a Cost Accounts Officer, later designated as part-time Cost Consultant, was engaged in August 1975. The Management stated (July 1977) that the Cost Consultant was helping the Company in taking decision at the time of product-mix planning and that he was also helping and developing overall information systems for all the eight mills. The Management stated (November 1978) that Cost Accounting Records (Cotton Textiles) Rules, 1977 had come into force from 1st April 1978 and the system as prescribed in the rules was being enforced.

2.12. *Pricing policy and sale performance*

(*a*) *Pricing policy*

Yarn is sold by the Company and its subsidiary at prevailing market price. There is a Yarn Sale Committee which has full powers to decide the selling rates from day-to-day, keeping in view the market trend. Yarn is sold through wholesale dealers and consignees who are allowed a trade discount of one *per cent*. Sale of yarn to dealers is made on cash basis. Sale to the consignees is made on 'goods on consignment' basis after obtaining security of Rs. 0.20 lakh in each case; the value of every order was more than this amount. Agreements incorporating the terms and conditions of sale through dealers and consignees were not executed (March 1979).

In November 1975, the Spinning Mill, Rae Bareli (managed by the Subsidiary Company No. I) supplied yarn of the value of Rs.0.21 lakh on credit to a private dealer of Kanpur without the approval of Yarn Sale Committee and without obtaining security deposit. As the dealer did not pay the amount, the Management filed (April 1978) a civil suit for recovery of the dues. Further developments are awaited (January 1979).

The Management stated (November 1978) that the private dealer purchased the yarn from Rae Bareli unit by misrepresenting that the yarn would be used by him under the integrated scheme of the Company. It may, however, be stated that under the integrated scheme, this party was to be supplied grey cloth for processing and not the yarn.

(b) Selling price vis-a-vis actual cost of sales

The following table indicates the average selling price and the cost of sales per kg of yarn (before depreciation) in respect of Spinning Mills at Rae Bareli, Akbarpur and Maunath Bhanjan (managed by the Subsidiary Company No. I):

	1975-76		1976-77		1977-78	
Name of the mill	Cost of sales	Selling price	Cost of sales	Selling price	Cost of sales	Selling price
	(In Rupees per kg)					
Rae Bareli	10·91	10·78	16·49	15·24	22·44	20·46
Akbarpur	..	..	17·56	18·62	17·54	18·54
Maunath Bhanjan	..	..	19·87	19·06	21·29	21·43

The selling price of yarn was less than the cost of sales (before depreciation) in the case of the Spinning Mills at Rae Bareli during all the three years and at Maunath Bhanjan during 1976-77.

The Management stated (November 1978) that it was not possible to relate the sale prices with the cost of production in view of many problems beyond their control, like power cut, labour problem, raw material and fluctuating market trends, *etc.*

2.13. *Purchase procedure*

The Company and its subsidiary purchased cotton through 'Cotton Purchase Committee' and capital goods through 'Capital Goods Purchase Committee'. The consumable stores, required by the mills were purchased by the Chief Executives of the mills as per delegation of powers.

(a) Payment of escalation against contract having firm price clause

A purchase order was placed (November 1973) by the Company on a firm of Kanpur for supply of spinning machines valuing

Rs.131·67 lakhs for the mills at Akbarpur, Maunath Bhanjan and Rae Bareli (managed by the Subsidiary Company No. I). According to the terms of the order, prices of the spinning machinery were firm and the machines were to be supplied during March 1975 to August 1976. Supply of machines was commenced in September 1975 and completed in July 1976. In May 1975, the suppliers claimed price escalation (to the extent of 50 *per cent* of full escalation) because of rise in the cost of material and wage structure. The Management appointed (September 1975) the Textile Commissioner of India (Bombay) as sole arbitrator though the purchase order did not contain any provision for arbitration and the prices accepted were firm. In October 1976, the arbitrator gave an award for payment of escalation of a sum of Rs.12.93 lakhs (to the extent of 25 *per cent* of full escalation) which was paid in October 1976. The Management stated (November 1978) that there was no alternative but to appoint the arbitrator as otherwise the execution of the projects would have been delayed had the order been cancelled.

(*b*) *Purchase of cotton*

Cotton for the spinning mills is purchased centrally at Kanpur by the Company and its subsidiary through their respective 'Cotton Purchase Committee'. Cotton is purchased on 'sample' basis instead of on the basis of C. S. P. (Count, Strength, Product) and trash content since the Company has no laboratory facilities to test these aspects though the later system has the advantage over the former of giving a clear idea to the cotton suppliers about the type of cotton required by the Company. As a result, recoveries due to defects in the cotton supplied to the Company from the suppliers are being made on the subjective judgment of the cotton manager, which procedure is avoidable.

The Management stated (November 1978) that the Cotton Purchase Committee had a Cotton Manager who was a cotton expert and even by visual inspection he was able to tell the spinnability, *etc.* of cotton.

The following table indicates the types of defects in cotton supplies during the years 1976-77 and 1977-78 and the varying rates of recovery effected per candy (two bales of 360 kgs. approximately) for the same type of defect, which the Management has explained can be of different degrees:

Nature of defect	Total number of bales supplied	Number of bales found defective	Rate of recovery per candy ranging From	To
			(In Rupees)	
Company				
Inferior in grade	2,350	1,100	15	130
Inferior in grade and more trash	1,700	500	25	120
Short/weak in staple	..	..	..	..
More trash	1,800	640	40	150
More trash and immature fibre	..	..	..	..
More trash and irregularity in fibres	..	..	..	..
More trash and weak in staple	..	..	..	..
Subsidiary Company No. I				
Inferior in grade	6,787	2,728	15	175
Inferior in grade and more trash	2,140	1,087	40	200
Short/weak in staple	2,250	802	25	200
More trash	7,100	2,349	20	165
More trash and immature fibre	598	197	45	80
More trash and irregularity in fibres	1,160	150	75	161
More trash and weak in staple	4,752	1,292	50	350

2.14. *Inventory control*

(*a*) The following deficiencies were noticed in inventory control:

(i) The maximum, minimum and ordering levels for each store item have not been fixed.

(ii) Critical, non-critical, fast and slow moving items of stores have not been categorised .

(iii) The system of periodical reporting of ground balance of stores and spares is not in vogue.

(iv) Norms for consumption of individual items to locate excessive consumption have not been fixed.

(v) Stores accounting manual has not been prepared (December 1978).

The Management stated (November 1978) that no manual for stores accounting was required under the Companies Act and that the Company had been preparing stores accounts as per standard practice of the industry.

(b) Physical verification of stores

Physical verifiation of stores in Rae Bareli mill (managed by the Subsidiary Company No. I) conducted in December 1976 revealed shortages and excesses in stores valuing Rs.0.84 lakh and Rs.0.22 lakh respectively. These shortages and excesses had neither been reported to the Board of Directors nor reconciled/adjusted. The Management stated (November 1978) that the above shortages and excesses were under scrutiny.

(c) Machine maintenance management

No manual prescribing machinery maintenance schedule was prepared by the Company for the guidance of maintenance incharges posted in each mill.

The Management stated (November 1978) that they had got a full fledged qualified and experienced Machine Maintenance Incharge at each mill and that no separate manual was statutorily required.

2.15. *Financial position*

(a) The table below summarises the financial position of the Company under broad headings for the four years up to 1977-78:

	1974-75	1975-76	1976-77	1977-78
	(In lakhs of Rupees)			
Liabilities—				
Paid-up capital (including share application money and equity share deposits)	1,155.00	1,545.72	2,577.97	2,577.97
Reserves and surplus	16.22	22 21	29.71	244.25

	1974-75	1975-76	1976-77	1977-78
	(In lakhs of Rupees)			
Borrowings				
From bank (cash credit)	2.92	..	...	178.39
From New Okhla Industrial Development Authority	..	..	100.00	..
From Industrial Finance Corporation of India	..	..	..	484.50
Trade dues and other current liabilities (including provisions)	4.33	65.86	226.35	248.86
Total	1,178.47	1,633.79	2,934.03	3,733.97
Assets—				
Gross block	2.09	4.58	7.05	1,596.62
Less : Depreciation	0.74	1.33	2.14	247.06
Net fixed assets	1.35	3.25	4.91	1,349.56
Capital works-in-progress	92.49	281.64	1,345.93	65.85
Investments	293.49	700.01	1,040.01	1,040.01
Current assets, loans and advances	791.14	648.89	542.43	832.15
Miscellaneous expenditure	..	..	0.75	0.50
Accumulated losses	..	..	..	445.90
Total	1,178.47	1,633.79	2,934.03	3,733.97
Capital employed	788.46	586.58	321.29	1,935.99
Net worth	1,171 22	1,567 93	2,606.93	2,375.82

Note: 1. Capital employed represents net fixed assets plus working capital.

2. Net worth represents paid-up capital *plus* reserves *less* intangible assets.

(*b*) *Budgetory control*

The Company and its subsidiary had not prepared production, sales, capital expenditure and financial budgets up to 1976-77. Only the performance/production budget was prpared for 1977-78.

2.16. *Internal audit*

The Company and its subsidiary have not introduced any internal audit. An internal auditor appointed by the Subsidiary Company No. I in April 1976 resigned in December 1976. The Management stated (November 1978) that an internal auditor had since (October 1978) been appointed.

2.17. *Abandonment of Scheme of central processing house and automatic loom units*

At the instance of the State Government, the Company submitted (April 1976) a proposal to Government regarding setting up of a centralised process house with a capacity of 50,000 metres a day at Unnao. To improve the viability of the spinning mills of the Company and to utilise the capacity of centralised process house to the maximum extent, the Company also submitted (October 1976) an application to Government for installing 1,500 automatic looms-300 looms in each of its five spinning mills. The yarn to the looms was to be supplied by the spinning mills of the Company, which were established to cater to the needs of powerlooms and handlooms in the decentralised sector. A sum of Rs. 378.25 lakhs was received (March 1977) by the Company from Government for automatic looms project. Letters of intent for installing process house and automatic powerlooms were issued by the Government of India in May 1977. The work regarding preparation of feasibility reports of the above projects was awarded (June 1977) to a Bombay firm at Rs. 0.75 lakh (paid during June 1977 to July 1978). In addition to this payment, the Company incurred an expenditure of Rs. 0.31 lakh on account of travelling allowance, and soil and water testing. The scheme of setting up of automatic loom units was, however, dropped by the Board of Directors of the Company in October 1977 as it would inevitably consume a part of the yarn produced by the spinning mills and also compete with the handloom and powerloom sector. The process house project was also dropped (October 1977) because it was not likely to attract sufficient business from outside agencies. The expenditure of Rs. 1.06 lakhs incurred on the above two schemes has, thus, proved to be infructuous. The balance amount of Rs. 377.19 lakhs was utilised by the Company for its working capital up to September 1978 after which the same was refunded (October 1978) to the State Government.

The Management stated (May 1978) that in a developing organisation it was a usual practice to spend money on research and thinking in terms of diversification of new lines. In this connection it may be stated that the object of establishing the Companies (holding as well as subsidiaries) was to supply yarn to decentralised Sector of Handloom and Powerloom and as such the question of setting up of automatic looms should not have arisen. At any rate, the basis on which the Scheme was not proceeded with was very much there, when it was decided to have the Scheme.

2.18. *Other points of interest*

(*a*) *Sales tax assessment*

Under the Uttar Pradesh Sales Tax Act, 1948 as amended from time to time, sale of cotton yarn to dealers is exempted from payment of sales tax on production of a declaration in Form IIIA obtainable from the Sales Tax Department. Due to non-production of the prescribed declaration, a sum of Rs.2.07 lakhs was assessed (29th August 1977) as sales tax by the Sales Tax Department. An *ad hoc* payment of Rs. 0.50 lakh was made by the Company in October 1977 and for the balance of Rs.1.57 lakhs, stay order was obtained in November 1977. The Management stated (May 1978) that the requisite forms could not be produced due to inexperience of the sale depot staff who were no longer in the service of the Company. The case is pending with Sales Tax authorities (December 1978.

(*b*) *Excess payment of sales tax*

Owing to non-issue of prescribed declaration form to the suppliers, the Company and its Subsidiary Company No. I lost the benefit of concessional sales tax on purchases made, as shown below:

	Period of purchases	Value of purchases	Amount of benefit lost
		(In lakhs of Rupees)	
State sales tax	1976-77 to 1977-78	26.79	0.55
Central sales tax	1975-76	7.05	0.42
	1976-77	1.46	0.09
			1.06

The Management stated (November 1978) that III-D forms could not be issued to suppliers as those were not available with the

Sales Tax Offices. It was further stated that in the application regarding registration for sales tax, under Central Sales Tax Act, certain items, *viz.* cement, electrical goods, *etc.* were omitted to be included initially and as such 'C' form could not be issued to the suppliers.

(c) Electric energy charges

The Company entered into (February 1972) an agreement with Uttar Pradesh State Electricity Board for getting supply of electricity in the spinning mill at Jhansi. The supply of energy to the mill at a single point commenced from 19th February 1977. Although energy was being utilised for residential quarters in addition to factory, no separate meter to measure such energy was got installed till July 1977, due to which the mill was billed by the Board at a higher tariff, resulting in an extra payment of Rs. 0.75 lakh from February to July 1977.

(d) Payment of demurrage charges

An *ad hoc* payment of Rs.0.58 lakh was made by the Subsidiary Company No. I, through its clearing agents, to the Bombay port authorities in December 1977 on account of demurrage charges on a consignment of 1,871 bales of Orleans/Texas cotton weighing 448 tonnes, received against a contract of March 1977 entered into by the Subsidiary Company No. I with the Cotton Corporation of India Limited. Although the payment of demurrage charges was made due to strike in Bombay Port Trust, no action was taken to get the demurrage waived from the port authorities.

The Management stated (November 1978) that they have already requested, several times, Bombay Port Authorities to refund the amount of demurrage charged by them, but they showed their inability to do so. No documentary evidence in support of the statement was, however, made available to Audit by the Company.

(e) Process loss

During April 1977 to August 1977, the percentage of waste in spinning process ranged between 14.67 and 17.15 against the norm of 12.70 to 14.65 fixed (February 1977) by the Uttar Pradesh State Spinning Mills Company (No. I) Limited on the basis of standard mixing. The extra cotton waste over the norm was 0.10 lakh kg valuing Rs.1.40 lakhs. After adjusting the sale value of the usable wastage, the net loss on this account works out to Rs. 1.30 lakhs.

The Management stated (September 1977) that the norms fixed were meant for guidance and appraisal of the technicians, and since the cotton was not purchased on the basis of actual test results, it was not possible to achieve the norms. It was also stated that the percentage of usable wastage (which ranged from 0.59 to 3.22 over norm) was high due to:

(i) machines being in the process of running-in;

(ii) workers employed in the mill being untrained;

(iii) inadequate atmospheric conditions on account of delays in civil works and in commissioning of the plants; and

(iv) shortage of skilled labour.

The Management stated (September 1978) that these norms were only meant for the guidance of top management at Head Office and actually norms are fixed to have a better grip over the Chief Executives of the spinning mills.

It was further stated (December 1978) that the figures of extra cotton waste during April 1977 to August 1977 have been compiled from budget statements, which are not statutory records.

The matter was reported to Government in July 1978; reply is awaited (December 1978).

2.19. *Summing up*

(1) The time-schedule for completion of two phases in which 16 spinning mills were to be set up was not determined.

(2) Production of yarn in the spinning mill at Rea Bareli during 1976-77 and in all the eight mills (except mill at Meerut) during 1977-78 fell short of the rated capacity mentioned in the respective project reports. Spindle utilisation and spindle efficiency of the mills were also lower than that budgeted for by the Company.

(3) Norms for yarn realisation, visible waste and invisible waste were not fixed.

(4) Costing system was not introduced up to March 1978.

(5) Cotton was purchased by visual inspection on sample basis instead of on the basis of count, strength and product, in the absence of a cotton testing laboratory of the Company.

(6) Shortages/excesses in stores were not investigated and adjusted

SECTION III

THE UTTAR PRADESH SMALL INDUSTRIES CORPORATION LIMITED

3.01. *Introduction*

The Uttar Pradesh Small Industries Corporation Limited was incorporated on 13th June 1958 as a wholly-owned Government Company with a view to promoting, stimulating and accelerating the growth of small scale industries in the State. Of the various activities incorporated in the memorandum of association, the Company confined itself to the following activities:

(i) procurement and distribution of raw materials and coke;

(ii) assisting the import of raw materials including finance, insurance, shipping and clearance of consignments from the ports;

(iii) procurement and supply of indigenous machinery to the entrepreneurs on hire purchase basis;

(iv) assisting the establishment of units in specified industrial complexes;

(v) assisting the marketing of the products of entrepreneurs;

(vi) selling of consumer goods to the public;

(vii) operating some commercial schemes of its own by employing modern production techniques; and

(viii) stimulating entrepreneurship in small scale sector under joint venture in the backward districts of the State.

Mention about some aspects of the working of the Company was made in paragraph 73 of the Report of the Comptroller and Auditor General of India for the year 1972-73.

3.02. *Organisational set-up*

The management of the Company is vested in a Board of Directors consisting of a part-time Chairman, Managing Director and seven other directors.

3.03. *Capital structure*

The authorised capital of the Company is Rupees one crore. The paid-up capital was Rs. 65 lakhs as on 31st March 1978, which was fully subscribed by the State Government. The position of equity capital, reserves and surplus, borrowings and grants/subsidy (which were the main sources of finance), at the close of each of the four years up to 1977-78, was as under:

	1974-75	1975-76	1976-77	1977-78
		(In lakhs of Rupees)		
Equity capital	65 .00	65 .00	65 .00	65 .00
Borrowings	611 .56	550 .18	601 .58	657 .81
Receipt from the State Government for implementation of certain schemes	101 .08	70 .00	48 .18	72 .62
Reserves and surplus ..	55 .39	60 .92	68 .46	70 .43

The debt equity ratio, which was 5:1 in 1974-75, became 7:1 in 1977-78 owing to more borrowings by the Company.

3.04. *Borrowings*

In addition to the borrowings from the State Government, the Company has been obtaining institutional finance for implementing the hire purchase, package assistance programme and other trading activities and the commitments made thereunder.

The State Government loans (Rs. 303.22 lakhs in 1975-76, Rs. 309.48 lakhs in 1976-77 and Rs. 286.74 lakhs in 1977-78) carried interest at rates varying from seven and a half *per cent* to 15 *per cent* with rebate for timely payments of instalments of principal and interest, provided there were no arrears; rate of the rebate varied from two *per cent* to three and a half *per cent*. Rebate for one year, *viz*. 1976-77 alone, amounted to Rs. 3.87 lakhs, which could not be availed of owing to delayed repayment of loan instalments and payment of interest to the State Government.

Agreements, incorporating the terms and conditions of the loans and creating a floating charge on the entire assets of the Company, required to be executed within one month from the date of drawal of the loans, have not been executed (March 1979). The Management stated (December 1978) that Government has been requested for exemption of stamp duty required for execution of the agreements.

The loans raised (Rs. 55·69 lakhs as on 31st March 1978) from Uttar Pradesh State Industrial Development Corporation Limited (UPSIDC) carry interest at 12½ *per cent* per annum.

The loans from various banks (Rs. 180.38 lakhs outstanding on 31st March 1978) obtained against hypothecation of stock, machines, *etc.,* carried interest at rates ranging from 14 to 16 *per cent* per annum. In addition, a deposit of Rs. 30 lakhs was also taken from Uttar Pradesh Advocates Welfare Fund Trust in April 1974, which carried interest at 12 *per cent* per annum. In order to reduce the burden of interest charges on loans, the Company floated (1976-77) unsecured debentures of Rs. 105 lakhs carrying interest at 10·25 *per cent* per annum and bank loan was reduced from Rs.147·79 lakhs to Rs. 51.04 lakhs. Rupees 32.64 lakhs towards principal (Rs. 18.59 lakhs) and interest (Rs. 14.05 lakhs) were paid to the State Government during 1976-77.

3.05. *Non-utilisation of grants and loans*

Grants of Rs. 28.80 lakhs and loans of Rs. 33.31 lakhs, as detailed below, received from Government for specific purposes and required to be utilised within one year of receipt, remained unutilised (March 1978):

Name of scheme	Year of sanction and receipt	Amount received	Amount utilised	Balance unutilised (31st March 1978)	Further utilisation up to March 1979
			(In lakhs of Rupees)		
Package assistance programme for educated unemployed					
Loans	1972-73	46.66	36.83	17.49	..
	1974-75	7.66			
Grants	1972-73	23.34	20.11	13.42	..
	1974-75	10.19			

Name of scheme	Year of sanction and receipt	Amount received	Amount utilised	Balance unutilised (31st March 1978)	Further utilisation up to March 1979
			(In lakhs of Rupees)		
Grant for backward areas technical consultancy	1972-73	2.00	0.22	1.78	..
Grant for technical information service	1972-73	1.50	2.89	0.11	..
	1973-74	1.50			
Grant for market survey	1973-74	0.70	0.18	0.52	Refunded
Grant for preparation of project reports	1973-74	6.00	..	6.00	2.52
Grant for establishment of chemical complexes	1973-74	5.00	0·88	4.12	Refunded
Loan for equity participation	1973-74	18.20	14.83	3.37	3.37
Loan for working capital	1971-72	6.30	10.00	6.30	Refunded
	1972-73	10.00			
Margin money advance for hire purchase scheme	1973-74	5.00	..	6.30	1.04 Refunded
	1974-75	1.30			
Margin money grant for hire purchase scheme	1973-74	5.00	6.02	0.28	..
	1974-75	1.30			
Interest subsidy for hire purchase scheme	1974-75	1.00	3.24	1.86	1.[illegible]6
	1975-76	0.10			
	1976-77	4.00			
Grant for establishment of trade centres	1976-77	1.20	0.49	0.71	0.71

3.06. *Financial position*

The financial position of the Company, under the broad headings, for the four years up to 1977-78, was as under:

	1974-75	1975-76	1976-77	1977-78
		(In lakhs of Rupees)		
Liabilities—				
Paid-up capital	65.00	65.00	65.00	65.00
Reserves and surplus	55.39	60.92	68.46	70.43
Borrowings (including cash credit)	611.56	550.18	601.58	657.81
Trade dues and other current liabilities (including provisions)	373.23	301.34	264.07	297.61
Total	1,105.18	977.44	999.11	1,090.85
Assets—				
Gross block	28.30	28.89	34.75	33.64
Less : Depreciation	8.87	10.24	10.87	11.46
Net fixed assets	19.43	18.65	23.88	22.18
Capital works-in-progress	1.60	1.60	0.10	..
Investments	10.82	14.14	14,83	14.83
Current assets, loans and advances	1,073.33	943.05	958.51	1,052.23
Intangible assets (expenses on issue of debentures)	..	..	1.79	1.61
Total	1,105.18	977.44	999.11	1,090.85
Capital employed	719.53	660.36	718.32	776.80
Net worth	120.39	125.92	131.67	133.82

NOTE:—1. Capital employed represents net fixed assets (excluding capital works-in-progress) *plus* working capital.

2. Net worth represents paid-up capital *plus* reserves *less* intangible assets.

3.07. *Working results*

During the four years up to 1977-78, the Company earned net profits (after provision of tax) of Rs. 10·16 lakhs, Rs. 9·59 lakhs, Rs. 6·28 lakhs and Rs.2·38 lakhs respectively. The decline in profit of the Company was attributed by the Management (December 1978) to accumulation of unsold stock of finished goods and the reduction in the margin of profit.

3.08. *Procurement and distribution of raw materials*

The Company undertook procurement of various scarce raw materials, both imported and indigenous, for supply to the small scale industries and operated upon import licences/release orders issued to small scale industries, by clubbing them together for placing indents on foreign or indigenous suppliers. The main raw materials procured are iron and steel, non-ferrous metals (copper, zinc, aluminium, *etc.*), chemicals, woollen yarn, dyes, *etc.* These are issued to small scale industrial units through various depots of the Company, by adding service charges to the cost of these raw materials. Government also entrusted to the Company, in March 1974, the task of procurement and distribution of text book printing paper for the State. The Company also undertook (January 1975) a scheme for procurement of hard coke/steam coal in bulk consignments and to supply it to the small scale industries of the State, mainly glass and ceramic industries.

The Company adopted a system of bulk indenting and distribution of the materials on the basis of master lists prepared by the Director of Industries. With the help of these lists it could be possible to plan more accurately the indents destination-wise and to supplement the requirements by the stock-yard arrivals, where necessary. Under the scheme, the parties were required to deposit five *per cent* of the cost of materials, as advance, with the Company before procurement and the balance, alongwith service charges, was payable at the time of lifting the material. If the materials were not lifted by the parties within 90 days of receipt of material by the Company, the advances of the parties stood forfeited and the Company, with the permission of the State Government, was at liberty to sell them by auction or by obtaining tenders/quotations for the same. In the absence of any clause in the agreement, the losses, if any, on the sales, as indicated in the cases discussed in subsequent paragraphs, could not be recovered from the parties and were borne by the Company.

Comparative position of the purchases and sales of raw materials for the four years up to 1977-78 had been as under:

Name of the material	1974-75		1975-76		1976-77		1977-78	
	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
(i) Iron and Steel								
Quantity (in tonnes)	29,384	26,997	7,216	8,951	10,871	12,958	20,833	17,998
Value (in lakhs of Rupees)	562 69	612·76	150·26	192·29	179·00	235·76	366·87	354·15
(ii) Non-ferrous metals and chemicals								
Quantity (in tonnes)	2,896	2,691	372	576	2,064	2,111	2,000	2,219
Value (in lakhs of Rupees)	147·87	127·55	58·32	94·29	117·00	130·62	131·77	123·37
(iii) Woollen yarn								
Quantity (in tonnes)	107	73	220	271	292	324	304	304
Value (in lakhs of Rupees)	120·61	88·41	59·66	76·82	91·00	101·76	106·36	108·44
(iv) Coke/coal								
Quantity (in tonnes)	23,141	23,149	51,621	50,233	47,940	47,268	74,559	74,449
Value (in lakhs of Rupees)	47·70	51·85	119·23	122·34	112·78	116·74	119·40	128·58
(v) Text book paper								
Quantity (in tonnes)	3,890	2,450	..	1,430	..	7	..	3
Value (in lakhs of Rupees)	12).42	85·57	..	52·22	..	0·20	..	0·12

The Company has not worked out the profit/loss for each individual activity/material.

(*a*) *Loss on the sale of iron and steel*

Tenders for the sale of iron and steel of various sizes lying at Naini (Allahabad), Agra, Lucknow, Kanpur and Gorakhpur depots, procured for the small scale units but not lifted by them, were invited in May 1978 after obtaining the permission (April 1978) from the State Government. As the market rates were on the increase due to increase in excise duty by the Government of India, the Depot Managers were instructed (June 1978) not to sell the stock without finalisation of the tenders, already obtained and opened (June 1978). However, in contravention of the orders issued and without waiting for finalisation of the tenders, the Depot Managers sold (June 1978) various iron and steel materials (366·101 tonnes) at the depot selling rates which were much lower than the tendered/market rates. The selling of such materials at a lower rate, when the higher rates of the market as well as of tenders were known to the Company, resulted in a reduction in profit of Rs.1·14 lakhs to the Company.

(*b*) *Losses etc. of non-ferrous metals and chemicals*

(i) Minerals and Metals Trading Corporation of India Limited (MMTC, a Central Government Undertaking) issued 'sale notes'* to 53 parties of Uttar Pradesh for purchase of 94 tonnes of zinc slabs during 1973-74 and 1974-75. These parties surrendered their sale notes to the Company which procured the material (value: Rs.15·68 lakhs) on their behalf, after obtaining security deposit (Rs.0·33 lakh) from them. The Company kept the material at its raw material depot at Moradabad, subsequently transferred to Bareilly depot in 1975-76. The parties did not lift the material and the same was auctioned (July 1976) for Rs. 14.08 lakhs. The loss to the Company on this account, after adjustment of the security deposit (Rs.0.33 lakh) and the realisable service charges (Rs.0·21 lakh) was Rs.1·28 lakhs.

(ii) The Company obtained zinc cathode, zinc slabs, *etc.* from Hindustan Zinc Limited (HZL, a Central Government Undertaking) during 1972-73 to 1974-75 against the State quota for supply to small scale industrial units on the basis of their requirements and the recommendations of the Director of Industries. The stock of the materials with the Company at the end of 1974-75 was 112·74 tonnes valuing Rs.15·89 lakhs. As the prices were showing a downward trend and the parties did not lift any material during 1974-75, the Board of Directors decided (June 1975) to dispose of the entire stock by invitation of tenders. Accordingly, the Company disposed of (August 1975) the entire stock at Rs.13·77 lakhs which resulted in a loss of Rs.2·12 lakhs.

(iii) The Company, on the basis of the requirements of small scale industrial units and the recommendations of Director of Industries, purchased 1.22 tonnes of cadmium metal (value: 1.38 lakhs)

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* Sale notes are the release orders issued by the Government of India for the import of canalised items through the agencies, such as STC and MMTC.

from HZL during 1974-75 for sale to the units at Rs.166·50 per kg. Due to fall in market price only 0·15 tonne could be sold at Rs.128·00 per kg. and the balance (1·07 tonnes, value: Rs.1·21 lakhs) remained unlifted (December 1978). Tenders were invited (May 1978) for disposal of the material but the tenders received were not accepted as the rate quoted was much lower than the holding price of the Company. The Management stated (August 1978) that the selling price of the Company was nearly double than the market price and hence none of the units was willing to lift the material.

(iv) During the years 1973-74 and 1974-75, the Company imported 206 tonnes of zinc ingots, through MMTC at a cost of Rs.30·78 lakhs, against 'sale notes' surrendered by 113 parties. The material was not lifted by the parties. It was decided (September 1975) to dispose of the material by invitation of tenders. The material was disposed of in November/December 1975 for Rs.23·61 lakhs, resulting in a loss of Rs.7·17 lakhs (without adjustment of their security deposits) excluding storage charges and the interest on the amount blocked.

(v) The Company arranged (July 1974) for import of 4·2 tonnes phthalic anhydride, on behalf of a firm of Rae Bareli, through the State Trading Corporation of India Limited (STC). The material valued at Rs.0·68 lakh (including service charges), received in the raw material depot of the Company at Lucknow in November 1974, had not been lifted by the party. The Management decided (June 1977) to dispose it of by inviting tenders. The total cost of holding the material (Rs.0·94 lakh), including godown rent and interest charges up to June 1976 worked out to Rs.22·22 per kg. Quotations received (June 1977) from two firms by the Company (quoting Rs.8 per kg.) indicated that they were already purchasing this material at Rs.8·00 per kg. and were not willing to have it at a rate higher than that. The material was lying unsold (December 1978) with the Company since November 1974. The advance towards security deposit (Rs.2,970) has also remained unadjusted.

(c) Loss on sale of text book printing paper

The State Government entrusted (March 1974) to the Company a scheme for procurement of printing paper from specified mills and its distribution to the publishers of text books for schools and colleges, nominated by the Education Department. The Company borrowed (July 1974) Rupees one crore from Uttar Pradesh State Industrial Development Corporation Limited (UPSIDC), carrying interest at 10 *per cent* per annum up to March 1975 and 12 *per cent* thereafter, for operation of the scheme. The State Government allotted 3,000 tonnes of printing paper in July 1974, the selling price of which was worked out by the Management as Rs.3,410 per tonne on the assumption that all the stock would be sold out within a period of six months. The State Government further allotted 2,500 tonnes of printing paper in August 1974. The Company, however, procured only 3,890 tonnes of printing paper (value: Rs.120·42 lakhs) in August 1974 which was sold for Rs 138.11 lakhs, as detailed below:

Year of sale	Quantity (in tonnes)	Value (in lakhs of Rupees)
1974-75	2,450	85.57
1975-76	1,430	52.22
1976-77	7	0.20
1977-78	3	0.12

The Company repaid Rs.16 lakhs in December 1974, Rs.10 lakhs in June 1975, Rs.20 lakhs in July 1975 and Rs.54 lakhs in September 1977 to the UPSIDC. The interest accrued and due up to August 1977, and not paid, aggregated Rs.17·38 lakhs (March 1979).

The cost of sales of the text book printing paper, alongwith interest and incidentals, worked out by the Management, was Rs.3,755 per tonne, against the average sale price of Rs.3,550 per tonne. The Company, thus, incurred a loss of Rs.7·96 lakhs on this scheme.

3.09. *Import of raw materials*

Under a scheme formulated by the Company in April 1970, assistance is rendered to licence holders for importing material on their behalf by clubbing together several small value licences and placing bulk orders with foreign suppliers. Apart from surrendering the licence to the Company, the licence holder was required to deposit an amount equivalent to 10 *per cent* of CIF value of the goods to be imported against the licence. Assistance is also rendered in financing import of materials and issuing the same in instalments. The licence holders are required to lift the goods within three months of the issue of delivery orders to them, failing which their security deposits are liable to be forfeited. The Company is also entitled to realise the dues by disposal of materials, not lifted, after obtaining permission from the Deputy Chief Controller of Imports and Exports.

The position of sale notes/ import licences processed by the Company during 1973-74 to 1977-78 through the canalising agencies was as under:

	Number of sale notes processed	Number of import licences processed	Value (In lakhs of Rupees)
1973-74	199	40	51.00
1974-75	170	18	56.03
1975-76	16	10	16.00
1976-77	23	7	106.00
1977-78	8	15	102.00

The reduction in business during 1975-76 was reportedly (October 1976) due to the increase in prices of materials offered by the canalising agencies, which did not compare favourably with the market price of those products.

Test check (July 1977) of records showed that the non-ferrous metals and chemicals imported during 1971-72 to 1975-76, not lifted by 28 parties (value : Rs.63.94 lakhs), were awaiting disposal. The Management informed (December 1978) that materials valuing Rs. 46.94 lakhs have since either been disposed of or lifted by the parties. It was further stated that in some cases recovery cerificates have been issued to the District Magistrates to realise the dues as arrears of land revenue or cases were pending in courts.

Losses, etc. of imported materials

(i) For the import of bearings and spares, *etc.,* from a West German firm, the Uttar Pradesh State Road Transport Corporation handed over (November 1973) their import licence of November 1972 to the Company, along with a letter of authority. After shipment of the consignment (June 1974) the documents were retired by the Company from the bank on 30th August 1974 and sent to the clearing agents in Bombay on 6th September 1974. The goods landed in Bombay in September 1974 and were got cleared from the Customs by the clearing agents but were despatched by rail to Kanpur on 4th December 1974, *i.e.* three months after their release. The delivery of the consignment was taken from the Railways by someone on 24th December 1974 on the basis of a forged letter of authority of the Project Manager of the Company. The Company was not aware of the landing of goods in Bombay or their despatch to Kanpur. The receipt of the goods at Kanpur, after an enquiry from the clearing agents, became known to the Company in March 1975 and the alleged forgery, after enquiry from the Railways, in June 1975. The Company asked (July 1975) the clearing agents to lodge a claim with the insurers; claims were lodged in March 1976. The insurers rejected the claims on the grounds that (a) the cover under the policy had terminated 60 days after discharge of the goods from vessel, during which period the goods should have reached the destination and (b) the extension of the validity period of the insurance policy was not sought for in time from the insurers. Legal notices were sent (21st October 1975) to the clearing agents and the Railways for recovery of Rs. 2.88 lakhs on account of the value of the consignment and transportation and insurance charges. While the clearing agents had accepted (December 1975) the delay on their part in despatching the goods, the Railways pleaded (December 1975) that they delivered the goods (against forged letter of authority) in good faith. Neither the clearing agents were asked to pay any compensation nor the legal position in regard to the Railway's plea was examined. The matter is, however, under investigation by the Criminal Investigation Department (March 1979).

(ii) During 1974-75, the Company imported 4,435 kg. of polythene moulding alkathene powder through State Trading Corporation of India Limited at a cost of Rs.0.65 lakh, including freight, insurance, *etc.* There was no consumption in 1974-75 and only 297 kg. were consumed in 1975-76 by the Company at its Sports Goods Factory, Dehradun. The balance quantity (4,138 kg.) valued at Rs.0.60 lakh was lying unutilised (March 1979). The Management stated (June 1977) that the plastic grains manufactured in India were cheaper than the imported ones and as such the industries preferred the indigenous raw materials.

3.10. *Hire purchase scheme*

(i) Till the close of 1973-74, the Company received loans of Rs. 320.50 lakhs from the State Government under the scheme and utilised it to the extent of Rs.310.34 lakhs by 31st March 1974. Government stopped financing the scheme after 1973-74 when the Company had outstanding commitments for Rs.91.52 lakhs to the prospective entrepreneurs. To honour these commitments, the Company supplied machines of the value of Rs. 76 lakhs during 1974-75 to 1977-78 to entrepreneurs by borrowing funds from banks at $14\frac{1}{2}$/15 *per cent* per annum. Government, however, reimbursed only Rs.56 lakhs (Rs.10 lakhs in March 1975, Rs.22.72 lakhs in October 1975 and Rs.23.28 lakhs during February/March 1977).

(ii) The loans granted by Government could earn rebate ranging from two to three and a half *per cent* for timely payment of instalments of principal and interest, provided there were no arrears. Out of the total loan of Rs.376.50 lakhs received from the State Government till 1977-78, the Company paid Rs.105.28 lakhs towards principal and Rs.147.11 lakhs towards interest. Amount of rebate lost due to delayed payments of instalments was not determined. The Management stated (August 1978) that Government had been approached (July 1976) for re-scheduling the instalments of principal and interest; decision was awaited (March 1979).

(iii) After Government stopped financing the hire purchase scheme, the Company decided (March 1974) to continue it in collaboration with the State Bank of India, another bank and the Uttar Pradesh Financial Corporation (UPFC) for rendering the same financial assistance to the prospective entrepreneurs on the same terms and conditions as under the old hire purchase scheme. The entrepreneurs were required to enter into an agreement with the financial institutions direct and to repay the loan and interest directly to the financial institutions granting loan to them. The State Government, however, also agreed (March 1974) to grant an interest subsidy equal to 3 *per cent* on the loans obtained by the Company at higher rates from the banks for financing the scheme from 1974-75 onwards.

The Board of Directors of the Company observed (August 1977) that the running of the Hire Purchase Scheme had not been satisfactory and appointed a committee (August 1977) to review the working of the scheme. The committee recommended (March 1978) for winding up of the scheme due to poor response, continuous losses, higher rates of interest and procedural difficulties. The report of the committee was put up before the Board of Directors on 7th April 1978. The recommendation of the committee, was however, not agreed to by the Company on the ground that continuous losses were not due to the present scheme but on account of (i) difference in the interest payable to Government and that recoverable from hirers under the old scheme, (ii) meagre disbursement of loans during 1975-76 and 1976-77, (iii) cost of establishment remaining the same for about 1,300 cases under the old scheme and (iv) rescheduling of loans as per Government directives, thereby waiving penal interest in these cases.

(iv) *Inspection of sites*

Inspection of sites of entrepreneurs by the Company during March 1976 to October 1976 revealed that 12 parties to whom machines (value : Rs.2.64 lakhs) were given on hire purchase and from whom the instalments due were not forthcoming, were not in existence and nine parties had either sold out their machines (value: Rs.1.26 lakhs) without the permission of the Company or hired them out to some other parties. Their deposits (Rs.0.39 lakh) were forfeited (December 1976) by the Company. The Management stated (December 1978) that FIRs have been lodged against these parties.

(v) *Machinery re-possessed*

Owing to non-payment of instalments of principal and interest (Rs.0.18 lakh and Rs.0.02 lakh respectively) by a party, a machine valued at Rs.0.20 lakh was re-possessed during 1971-72 and sold to another party at Rs. 0.08 lakh (*i.e.* at a loss of Rs.0.12 lakh). During 1975-76, machines valued at Rs. 2·83 lakhs were re-possessed from four defaulting hirers (principal: Rs. 2.17 lakhs and interest: Rs. 0.66 lakh) and sold (August 1976) at a loss of Rs.2.02 lakhs. Reasons for losses sustained in the resale of the machines have not been investigated (December 1978).

3.11. *Package assistance scheme*

To create opportunities for the educated unemployed, the Company prepared (1972-73) a 'package assistance scheme'. The scheme envisaged establishment of functional industrial estates where the Company would assist the entrepreneurs by conducting preliminary market survey, indentification of products, acquisition and development of land, construction of buildings, roads and factory sheds, preparation of project profiles and detailed project reports, purchase of machinery and equipment, making available working capital and technical consultancy, including training, and helping in the marketing of products manufactured by the entrepreneurs. The entrepreneurs are required to deposit five *per cent* of the total cost of the project with the Company to be entitled to the above benefits under the scheme. The Company borrows 90 *per cent* of the cost of the project from financial institutions, *i.e.* UPFC and banks in the shape of a bridging loan and five *per cent* of the cost of the project from Government, for providing financial assistance to the entrepreneurs.

Under the scheme, two complexes, *viz.* Building Material Complex and Scooters Ancillary Estate for 15 and 30 entrepreneurs were proposed (October 1972) by the Management to be set up at Rae Bareli and Lucknow respectively. Government advanced loans of Rs.35 lakhs for each of the complexes, which were disbursed to the Company in January and March 1973 respectively. One-third of these loans (Rs.23.34 lakhs) was treated (March 1973) as grant to the Company. These complexes were scheduled to be completed in January and April 1974 respectively but were completed in March 1976. The delay was attributed by the Management (November 1978) to power shortage. The total expenditure incurred on Building Material Complex at Rae Bareli was Rs.25.43 lakhs. Scooters India Limited was advanced Rs.50.80 lakhs (May 1973) at its request, for the construction of sheds in the Scooters Ancillary Estate at Lucknow, of which an expenditure of Rs.33.31 lakhs was incurred by them up to March 1977. The balance of Rs.17.49 lakhs was refundable to the State Government in accordance with the terms and conditions of the loan/grant. Later, Scooters India Limited constructed some additional sheds, without the consent of the Company and desired adjustment of the expenditure of Rs.12.07 lakhs out of the balance refundable. The Company did not agree (July 1978) to such adjustment and desired the refund of the balance amount, alongwith interest thereon. The balance due for recovery, including interest up to September 1978, amounted to Rs.23.24 lakhs (December 1978).

3.12. *Marketing Assistance Scheme*

The Company sponsored (1971-72) a 'Marketing Assistance Scheme' to assist the small-scale units in selling their products. As per instructions of the State Government, small-scale industrial units registered with the Company were entitled to a price preference of 15 *per cent* on their products. The tenders/enquiries invited by various Government departments and undertakings were passed on by the Company to the units and the rates offered by those units were quoted by the Company on their behalf in response to those tenders/enquiries. The orders, when received, were also passed on to the units for supplying the goods. The Company guarantees the quality and the timely delivery of the products.

Under the scheme, the manufacturing units of small-scale industries of the State, having an investment up to Rs.10 lakhs in plant and machinery and up to Rs.15 lakhs if they were ancillaries, were entitled to avail of the facility. They were to get themselves registered with the Company up to 15th August 1976 and thereafter with the Director of Industries. The registration certificate is issued for a period of two years only, during which period the units can avail of the facility. Service charges of two to four *per cent* are levied for this assistance, depending on the value of the orders procured for them.

The following table would indicate the working of the scheme during the years 1971-72 to 1977-78:

	Number of units registered during the year	Number of units assisted during the year	Value of orders procured	Service charges received	Expenses incurred
			(In lakhs of Rupees)		
1971-72	Not available	20	3.0	0.06	0.42
1972-73	43	24	3.2	0.06	0.42
1973-74	23	30	10.0	0.20	0.42
1974-75	16	19	3.9	0.08	1.75
1975-76	25	17	27.0	0.72	1.75
1976-77	89	30	75.0	0.49	0.84
1977-78	39	50	32.0	1.65	1.28
			Total	3.26	6.88

Operation of the scheme thus, resulted in a loss of Rs.3.62 lakhs.

The Management stated (August 1978) that the scheme was being examined and Government had been informed(November 1977) of the unsatisfactory working of the scheme. The results of examination and the comments of Government, if any, were awaited (March 1979).

3.13. *Establishment of trade centres*

In August 1975, the Government of India sanctioned a scheme for setting up of a number of trade centres for providing integrated marketing assistance to small-scale industries by offering facilities of exhibition room, display hall, conference room, library and collection and dissemination of information regarding various markets. The expenditure on the establishment of trade centres was to be shared equally by the Government of India and the State Government. The share of the State Government was to be released after utilisation of the Central assistance. The Board of Directors proposed (December 1975) to establish five trade centres in the State; one at Kanpur during 1976-77 and the others in the following two years. The Government of India approved (November 1976) the setting up of the trade centre at Kanpur and released Rs.1.20 lakhs as grant for the purpose through the State Government in March 1977. As the funds were not received from the State Government, the establishment of the trade centre at Kanpur was postponed (March 1977) to 1977-78 and others up to 1979-80. The Company requested the State Government in June 1977 for according approval to the scheme and releasing funds. The State Government approved the scheme and released Rs.1.50 lakhs in March 1978. The Government of India further released a sum of Rs.0.80 lakh, through the State Government, in February 1978 which has not been availed of by the Company (March 1979). The scheme has not made any headway except for the hiring of a building in September 1978 for office-*cum*-trade centre at a monthly rent of Rs.7,500 and the posting of some staff of the Company in the centre. The expenditure on establishment till August 1978 had been Rs.0.67 lakh. The Management stated (December 1978) that the work of establishing trade centre could not be taken up in time due to non-availability of a proper site and delay in receipt of Government sanction.

3.14. *Uphar Yojna*

The Company formulated 'Uphar Yojna' in August 1976 to streamline the distribution of consumer goods by procuring directly from the manufacturers and distributing these to consumers. To begin with, it was envisaged to deal in readymade garments, handloom cloth, footwears, washing soaps, detergents and stationery items. The goods were to be purchased from the small scale industrial units for sale to the consumer through salesmen to be appointed on commission basis. The sales and profit for the first five years were estimated as under:

	1st year	2nd year	3rd year	4th year	5th year
			(In lakhs of Rupees)		
Sales	5.00	10.00	20 00	40.00	50.00
Profit	0.25	0 50	1.00	2.00	2.25

The State Government was requested (August 1976) to approve the scheme and provide funds for the same. Without waiting for approval and the release of funds, the Company started the scheme at Lucknow from 15th August 1976 on its own, to be extended to other towns (*viz.* Kanpur, Allahabad, Varanasi and Agra) also. It was expected that the State Government would accord its approval to the scheme and release funds in due course but the State Government declined (October 1976) to provide funds for the same.

As the scheme did not prove remunerative due to heavy cost of establishment and poor response from the consumers, and the State Government declined to provide funds for the same, it was abandoned with effect from 30th April 1977. The total sales under the scheme had been Rs.0.79 lakh against the cost of purchases of Rs.1.35 lakhs and other expenses of Rs.0.26 lakh. Thus, the total loss sustained by the Company in the implementation of the scheme amounted to Rs.0.82 lakh.

3.15. *Commercial schemes*

Mention was made in paragraph 73 (d) of the Report of Comptroller and Auditor General of India for the year 1972-73 regarding management of the commercial units and the losses sustained by them.

The Management appointed a sub-committee in November 1973 to review the working of the units taken over and report on the reasons for the losses and their unsatisfactory working. According to the report of the sub-committee, received in March/April 1974, the managerial cost involved in efficient running of those units was not comensurate with the results on account of inherent deficiencies of over-capitalisation and lack of business. The Company, therefore, decided (July 1974) to take remedial steps, including, if necessary, disposal of such units or leasing them out to suitable entrepreneurs. One of the units, *viz.* Footwear Centre, Agra was transferred (October 1974) to Uttar Pradesh State Leather Development and Marketing Corporation Limited, Agra and the Sports Goods Factory, Bareilly was amalgamated (1974-75) with Wood Seasoning Plant, Bareilly. As was mentioned in paragraph 3.03 of the Report of the Comptroller and Auditor General of India for the year 1975-76 (Commercial), the Electroplating Plant, Kanpur was sold out in July 1976 for Rs.0.73 lakh to a private entrepreneur, after incurring losses of Rs.0.93 lakh and Rs.1.03 lakhs during 1973-74 and 1974-75 respectively. The Wood Seasoning Plant, Bareilly was transferred to Uttar Pradesh Forest Corporation with effect from 1st April 1977.

The year-wise profit (+)/loss (–) of each of the units from 1973-74 to 1977-78 were as under:

	1973-74	1974-75	1975-76	1976-77	1977-78
				(In lakhs of Rupees)	
Sports Goods Factory and Wood Seasoning Plant, Bareilly	(—)0.25	(—)0.26	(—)0.50	(+)0.19	(—)0.34
Footwear Centre, Agra	(+)0.02	(—)0.01	..	..	..
Electroplating Plant, Kanpur	(—)0.93	(—)1.03	(—)0.56	..	..

	1973-74	1974-75	1975-76	1976-77	1977-78
			(In lakhs of Rupees)		
Wood Seasoning Plant, Allahabad	(+)0.67	(+)0.65	(+)0.87	(+)0.93	(+)1.33
Sports Goods Factory, Dehradun	(—)0.11	(—)0.18	(—)0.57	(+)0.39	(+)0.02
Chinhat Potteries, Lucknow	(—)1.64	(—)1.38	(—)2.09	(—)0.99	(—)2.11
Intra Uterine Contraceptive Device Plastic Factory, Kanpur	(—)2.81	(—)0.54	(—)0.59	(+)0.41	(—)1.19
Weigh-bridge, Khurja	(+)0.01	(+)0.04	(—)0.03	(—)0.01	(+)0.14

The closing stock of finished goods (Rs.4.00 lakhs) as on 31st March 1978 at Chinhat Potteries, Lucknow included stock of the value of Rs.1.21 lakhs (including goods valuing Rs.0.61 lakh held at the time of transfer of the unit to the Company in October 1970) whose designs became obsolete and the quality deteriorated. The Management received (August 1978) the required permission of the Excise Department to sell these obsolete goods of Chinhat Potteries, Lucknow but the disposal has not been made (December 1978).

3.16. *Joint sector projects*

With a view to creating confidence amongst the entrepreneurs, by sharing the actual running of an industry as well as shouldering financial responsibility, by equity participation, a scheme for setting up joint sector projects (as subsidiaries of the Company) in the backward districts of the State was introduced by the Company in July 1971. Under the scheme, investment in the equity capital by the entrepreneurs was to be 49 *per cent* and by the Company 51 *per cent*. As it was anticipated that the units will go into production and achieve a viable stage within a period of four years, it was provided in the Articles of Association of each subsidiary that the Company may, after the expiry of four years (which may be extended by another one year), sell its shares to the entrepreneurs or to anyone else in case the entrepreneurs refused to purchase. As the subsidiaries have not achieved a viable stage and the fair prices of these shares are very low due to lesser or no production and low capacity utilisation, the sales could not be effected (January 1979).

The State Government sanctioned a loan of Rs.18.20 lakhs to the Company in February 1974 towards equity participation in the joint sector ventures indicated in a subsequent sub-paragraph; the loan would carry interest at 3.5 *per cent* per annum till July 1974 and 8 *per cent* (subject to a rebate of 3.5 *per cent*) thereafter. The repayment of this loan was to begin after three years from the date of its drawal and completed in a total period of seven years. The first two instalments of loan alongwith interest, amounting to Rs.7.15 lakhs (instalments: Rs.0.40 lakh and interest: Rs.3.11 lakhs), were paid by the Company in February 1977 and February 1978.

The joint sector projects, where these funds had been invested (as indicated in the next sub-paragraph), were not in a position to generate funds for declaring dividends or purchasing back the shares of the Company. According to the stipulation in the Articles of Association of these projects, the Company cannot ask for transfer of shares till four years while repayment of loans to Government have to start after three years. The Company approached (April 1978) the State Government for amending the terms and conditions of the loan; decision of Government was awaited (December 1978).

The table below indicates the joint sector projects set up by the capital and the investment of the Company as on 31st March 1978

Name of the joint sector project	Date of incorporation
Uttar Pradesh Abscott Private Limited, Bindki (Fatehpur)	28th June 1972
Uttar Pradesh Potteries Private Limited, Basti	28th June 1972
Uttar Pradesh Plant Protection Appliances Private Limited, Ghazipur	28th June 1972
Uttar Pradesh Buildwares Private Limited, Ballia	28th June 1972
Uttar Pradesh Prestressed Products Private Limited, Mau (Azamgarh)	30th September 1972
Uttar Pradesh Roofings Private Limited, Faizabad	24th November 1973
Krishna Fasteners Private Limited, Kasganj, (Etah)	14th December 1973
Faizabad Roofings Private Limited, Faizabad	16th February 1974
Bundelkhand Cement Works, Kalpi (Jalaun)	2nd March 1974
Total	..

Thus, out of the total loan of Rs.18·20 lakhs received from Gov-
lakhs till December 1978) in the joint venture companies. The
Pradesh Industrial Consultants Limited, a subsidiary of Industrial

Besides equity participation, the Company advanced money (with-
their working capital, the balance of which at the close of 1977-78 was

Company, their dates of incorporation, authorised capital, paid-up and their products :

Authorised capital	Paid-up capital	Investment of the Company	Products
	(In lakhs of Rupees)		
4·00 (raised to 10·00 in June 1975)	3·47	2·58	Absorbent and surgical cotton
10·00	6·89	3·51	Crockery wares
4·00	3·28	1·63	Plant protection appliances
4·00	0·10	0·05	Building material
4·00 (raised to 10·00 in June 1975)	2·17	1·11	NPK fertiliser (originally scheduled to manufacture prestressed cement concrete poles)
10·00	6·68	3·41	Asphaltic/light roofing sheets and mill board
8·00	5·38	1·56	Nuts and bolts
10·00	2·09	0·83	Processing into corrugated asphaltic light roofing sheets
10·00	..	..	Prestressed cement concrete poles (The project abandoned in June 1975)
76·00	30·06	14·68	

ernment, the Company invested Rs.14·68 lakhs (increased to Rs.18·17 Company had also invested Rs.0·15 lakh during 1976-77 in the Uttar Development Bank of India.

out any interest thereon) to these units from time to time towards Rs.2·98 lakhs.

The table below indicates some aspects of working of the joint

	Pre-operation expenses	Cash credit limit for working capital	Loan from Uttar Pradesh Financial Corporation and others	Production capacity per annum
Uttar Pradesh Abscott Private Limited, Bindki (Fatehpur)	..	4·75	11·89	300 tonnes
Uttar Pradesh Potteries Limited, Basti	1·70	20·00	13·39	630 tonnes
Uttar Pradesh Plant Protection Appliances Private Limited, Ghazipur	1·94	1·75	4·37	4,000 machines
Uttar Pradesh Prestressed Products Private Limited, Mau (Azamgarh)	..	8·75	11·25	6,000 tonnes of NPK fertiliser
Uttar Pradesh Roofings Private Limited, Faizabad.	1·84	5·00	11·78	Twelve million corrugated light asphaltic roofing sheets of $4' \times 2\frac{1}{2}'$ size or 1,200 tonnes mill board per annum (plant capacity 2,100 tonnes per annum)

sector projects of the Company up to 1976-77 :

Break-even point (percentage)	Capacity utilisation (percentage)	Sales	Accumulated losses	Remarks
		(In lakhs of Rupees)		
65	15	8.58	6.15	Production started in February 1977.
55	25	7.16	1.92	Production was scheduled to start in January 1974 but it started in February 1976. Figures are for the period February 1976 to March 1977 which has been treated as first yea
65	12	1.39	11.98	Production started in November 1973.
60	25	9.72	1.02	Prestressed cement concrete (PCC) poles were not manufactured although an expenditure of Rs.2.84 lakhs was incurred on factory building, plant and machinery, technical know-how, *etc.* One mixer and two vibrators (Rs.0.17 lakh) await disposal (December 1978).
60	..	1.89	5.34	(i) The project was scheduled to go into production in May 1974 but production started in March 1976. There was no production of basemats during September 1976 to April 1977 for want of funds accumulation of unsold stock. The basemats

	Pre-operation expenses	Cash credit limit for working capital	Loan from Uttar Pradesh Financial Corporation and others	Production capacity per annum
Krishna Fasteners Private Limited, Kasganj (Etah)	0.96	5.00	7.63	320 tonnes
Faizabad Roofings Private Limited, Faizabad	0.39	23.00	7.21	Twelve million sheets

Break-even point (percentage)	Capacity utilisation (percentage)	Sales	Accumulated losses	Remarks
		(In lakhs of Rupees)		
				were processed into roofing sheets by a sister Company. 28,148 basemats out of 1,68,171 (value : Rs.2.26 lakhs) produced up to August 1976, were rejected during processing into roofing sheets, being defective and unfit for sale. The loss due to rejection was Rs.0.99 lakh. (ii) The production of mill board was taken up in February 1977 and produced 6.2 tonnes till June 1977. 4 tonnes were sold at Rs.810 per tonne against production cost of Rs. 1,050 per tonne. The balance remains unsold with the Company (December 1978). (iii) Factory is closed since October 1977 due to accumulation of heavy unsold stock and labour trouble.
50	22	2.10	1.96	Production was scheduled to start from September 1974 but started in November 1976.
60	4	0.67	2.86	Production was scheduled to start in May 1974 but started in March 1976. Factory is closed since October 1977.

The Management intimated (July 1978) the State Government that the capital of all the units had completely been eroded due to low capacity utilisation and the recurring losses from year to year and a working capital of Rs.79·80 lakhs would be required if it is decided to revive these units; reply of Government was awaited (March 1979).

The following further points were noticed :

(i) *Construction of building*

As against the project cost of Rs.2·00 lakhs (revised to Rs.3·40 lakhs and then to Rs.4·60 lakhs) and the estimated cost of Rs.2·36 lakhs, tenders for the construction of the factory building of Uttar Pradesh Abscott Private Limited, Bindki were invited in September 1972 and the contract was awarded to a firm in December 1972 at the lowest rate of Rs.2·13 lakhs The work was scheduled to be completed by 31st March 1973. The layout drawing was, however, given to the contractor on 30th June 1973. The work of the contractor was found (May 1973) defective and not according to specification. When asked for rectification of the defects, the contractor demanded (July 1973) increase in rates and stopped the work in August 1973. The contractor was, however, allowed (November 1973) increase in rates amounting to Rs.0·65 lakh. A revised agreement at the increased cost (Rs.2·78 lakhs) was executed (December 1973) with the contractor. Since he had already executed the work of the value of Rs.0·50 lakh, the value of the left over work inclusive of increase, amounted to Rs.2·28 lakhs. The contractor did not start the work even after execution of the revised agreement. It was decided (February 1974) by the Management (which was communicated to the contractor also) to get this work done through another agency to the account of the contractor and not to pay any money to the contractor till he takes up the work. The contractor started the work again in April 1974 but executed the work of the value of Rs.1·06 lakhs only till October 1974. The balance work of the value of Rs. 1·85 lakhs was got done departmentally and completed in December 1975 at a cost of Rs.3·42 lakhs. The actual expenditure incurred on construction of the building thus amounted to Rs.4·98 lakhs. The extra expenditure of Rs.1·57 lakhs has not been recovered from the defaulting contractor (December 1978). Detailed measurements of the work done departmentally have not been taken and certified by the Project Civil Engineer of the Company.

(ii) *Delay in supply of machines*

The work of supply of plant and machinery and their erection and commissioning for Uttar Pradesh Roofings Private Limited, Faizabad was awarded (September 1973) to a firm of Madras at a total cost of Rs.5.41 lakhs which was revised (December 1973) to Rs.5.52 lakhs due to change in design. In terms of the agreement, the supplies were to be completed by 30th June 1974 and the plant commissioned by 31st December 1974. The civil work was awarded (January 1973) for Rs.3·20 lakhs to another firm, without inviting tenders or quotations. The civil work was to be completed by 31st May 1974 but due to delay in supply of machines by the Madras firm, the erection was considerably delayed (January 1976). Penalty of Rs.2,500 per week for the delayed supply (November/December 1974) and commissioning (August 1975) of plant, beyond 31st December 1974, was, according to the Management (December 1978), not levied on the Madras firm due to difficulties in opening an irrevocable letter of credit in favour of the suppliers.

(iii) During March 1975, a Marketing Division was established by the Company at Kanpur for selling the products of Uttar Pradesh Roofings Private Limited, a subsidiary of the Company. The products of the value of Rs.10 to Rs.15 lakhs each year were expected to be sold through this Division to the Education and Harijan departments of the State Government, Co-operative Societies and the Milk Unions. As there were no sales through this Division for want of orders and expenditure of Rs.1.25 lakhs on rent, telephones, advertisement, pay and allowances, *etc*. had already been incurred, the Division was wound up in August 1977.

3.17. *Uttar Pradesh Small Industries Corporation Potteries Limited*

A subsidiary of the Company under the name "Uttar Pradesh Small Industries Corporation Potteries Limited, Khurja", with an authorised capital of Rs.50 lakhs, divided into 50,000 equity shares of Rs.100 each, was incorporated on 27th April 1976. It was to acquire and take over the Government Pottery Development Centre, Khurja (which was transferred to the Company with effect from 1st April 1976) in accordance with a Government Order dated 26th March 1976, (on the terms and conditions mentioned therein) and to manufacture, sell and deal in all kinds of earthenware, potteries and articles of clay, artificial stones, gypsum, bricks, slabs, tiles, pipes and ceramic work of all kinds.

In terms of the Government order (March 1976) two-thirds value of the fixed assets of the Centre was to be treated as equity contribution by Government and one-third was to be treated as a term loan by Government to the Company, bearing interest at $11\frac{1}{2}$ *per cent* per annum, subject to a rebate of $3\frac{1}{2}$ *per cent* for timely payment of principal and interest, provided there were no arrears. The repayment of loan was to be made within five years from the date of transfer of assets of the Centre in 10 equal six monthly instalments, alongwith interest thereon. The valuation of the assets of the Government Pottery Development Centre, Khurja (provisional value : Rs.13·86 lakhs) taken over (April 1976) by the subsidiary company has not been finalised (December 1978). A joint committee which was to certify the valuation of the assets of the Centre has been set up in January 1979 and the joint valuation is in progress. The agreement between the State Government and the Company has not been entered into so far (March 1979).

The State Government order (March 1976) also provided for a term loan of Rs.12 lakhs to the Company towards its working capital, bearing interest at $12\frac{1}{2}$ *per cent* per annum, subject to a rebate of $3\frac{1}{2}$ *per cent* for timely payment of principal and interest, provided there were no arrears. The Company, however, received Rs.12 lakhs from the State Government on 31st March 1978 towards the equity contribution of the State Government in the subsidiary company, which was transferred to the subsidiary in October 1978 after adjusting Rs.3·28 lakhs already advanced to the subsidiary in earlier years.

The production capacity of the Company had been 120 tonnes bodies (crockery wares) and 10 tonnes glaze (decoration wares) per month. A review of the fortnightly progress reports for the period 16th July 1976 to 28th February 1977 revealed that during the period, on an average, 13·5 kilns were fired and the production of body and glaze had been 12·5 *per cent* (14·94 tonnes) and 47 *per cent* (4·70 tonnes) respectively of the rated capacity. The Works Manager in his report (November 1976) pointed out that due to higher cost of production and slump in the crockery market at Khurja, the sales had not been satisfactory. The expenditure during the year 1976-77 was Rs.2·24 lakhs as against the income of Rs.1·48 lakhs. By adding depreciation, interest and other provisions (Rs.2·34 lakhs) the loss during the year 1976-77 is estimated to be over Rs.3 lakhs. The accounts of the subsidiary company for the year 1977-78 have not been finalised (January 1979). The accounts for 1976-77 are under scrutiny of the Statutory Auditors (January 1979).

3.18. *Inventory control*

The following table indicates the comparative position of inventory and its distribution at the close of each of the four years up to 1977-78:

	1974-75	1975-76	1976-77	1977-78
	(In lakhs of Rupees)			
Raw materials	6.42	4.55	4.47	2.89
Semi-finished goods	0.94	0.93	2.66	0.93
Finished goods	270.44	168.73	121.70	157.25
Stores and spare parts	1.37	1.79	1.21	0.61
Goods in transit	8.71	3.73	10.57	24.95
Total	287.88	179.73	140.61	186.63

The closing stock of raw materials, spare parts and finished goods, as on 31st March 1978, included stocks of the value of Rs.1·37 lakhs, Rs.0·47 lakh and Rs.46·39 lakhs respectively, which remained unutilised/unsold for over two years. The maximum and minimum levels of stock have not been fixed. Purchases were made on the basis of the requirements of the units and the recommendations of the Director of Industries but due to non-lifting of the goods by the parties these resulted in over-stocking. No action could be taken against the parties as they could not be compelled, in terms of agreement, to lift the materials.

Shortages, as a result of certification of stock by the divisional heads at the year end, aggregating Rs.5·85 lakhs, Rs.4·79 lakhs and Rs.2·16 lakhs in case of iron and steel, non-ferrous materials (including chemicals) and coke/coal respectively, noticed during 1974-75 to 1977-78, were pending investigation (December 1978). The Management stated (December 1978) that 15 cases involving 63·54 tonnes of iron and steel (value : Rs.1·09 lakhs) were under investigation.

The goods imported on behalf of the small industrial units and lying at various depots of the Raw Material Division of the Company were not physically verified during 1976-77. The closing stock of iron and steel as on 31st March 1978 (7,885 tonnes valuing Rs.136·12 lakhs) included about 1,000 tonnes (value : Rs.20 lakhs) purchased in the year 1974, remaining unsold due primarily to non-lifting of allotted stock by small scale units (January 1979).

3.19. *Sundry debtors*

The Company sells the imported materials/goods under its Import Assistance Scheme and the Hire Purchase Scheme on credit to the entrepreneurs. In addition, the woollen carpet yarn is also supplied to the manufacturers on credit basis. As the recoveries under the schemes are not effected in time and re-scheduling of repayment of loans is also done by the Company, the debts have increased considerably.

The following table indicates the value of book debts and sales for the three years up to 1977-78:

As on 31st March	Total debts	Sales during the year	Percentage of book debts to sales
	(In lakhs of Rupees)		
1976	485.84	587.22	82.7
1977	528.74	644.16	82.1
1978	504.26	751.46	67.1

Book debts represented about 9.9 months' sales in 1975-76, 9.8 months' in 1976-77 and about 8·1 months' in 1977-78. Of the outstanding debts as on 31st March 1978, Rs.116·22 lakhs were more than six months old.

(i) *Dues of hire purchase scheme*

The book debts (Rs. 287.03 lakhs) include Rs.205.58 lakhs outstanding against 438 parties under the hire purchase scheme for over two years, including 40 cases (value : Rs. 82·08 lakhs) against whom the outstandings were over Rs. one lakh each.

(ii) *Dues of commercial schemes*

The unit-wise break-up of the book debts relating to the commercial schemes, as on 31st March 1978, was as under:

	Amount (In lakhs of Rupees)
Electroplating Plant, Kanpur	1.03
Wood Seasoning Plant, Allahabad	2.37
IUCD Plastic Factory, Kanpur	5.58
Sports Goods Factory, Dehradun	1.16
Wood Seasoning Plant, Bareilly	4.12
Chinhat Potteries, Lucknow	3.53
Footwear Factory, Agra	1.49
Total	19.28

The Electroplating Plant was sold out to a private entrepreneur in April 1976 and the Footwear Factory, Agra and the Wood Seasoning Plant, Bareilly were sold to other State Government Undertakings, but the book debts of these units were not transferred. This resulted in blocking up of funds of the Company to the extent of Rs.6·64 lakhs. The book debts of all the seven units included dues of Rs.13·70 lakhs outstanding for over two years.

(iii) *Dues of woollen yarn depots*

The Company purchases woollen yarn from various mills at a discount ranging from one to six *per cent* on the value of purchases made. The export oriented woollen carpet manufacturers in the small scale sector are supplied yarn at the mill rates and the expenses on transportation and storage are met out of the discount obtained by the Company. Sale of woollen yarn is made on credit, for which interest is charged at 15 *per cent* per annum up to 90 days and 18 *per cent* thereafter.

The position of sale of woollen yarn during the three years up to 1977-78 and the dues recoverable on account of credit sales under the scheme had been as under:

	1975-76	1976-77	1977-78
Quantity sold (in tonnes)	271	324	304
Value of sales (in lakhs of Rupees)	76.82	101.76	108.38
Debtors as on 31st March (in lakhs of Rupees)	85.92	106.61	111.16

The total outstanding amount as on March 1978 (Rs.111·16 lakhs) included an accrued interest of Rs.19·95 lakhs up to 1977-78. Debts of Rs.3.17 lakhs due from ten parties, outstanding for over two years, were doubtful of recovery as whereabouts of the parties were not known. Recovery certificates for Rs.54·36 lakhs and Rs.17·82 lakhs were issued in 1975-76 and 1976-77 respectively of which Rs.42·11 lakhs could only be realised (January 1979).

3.20. *Internal audit and costing*

The Company organised an Internal Audit Cell in November 1976 consisting of an Internal Audit Officer and two auditors. The Senior Accounts Officer (Head Office) was designated as Senior Accounts Officer-*cum*-Internal Audit Officer and two Accountants were designated as Accountant-*cum*-Senior Inspector of Accounts. The Internal Audit Cell conducted local audit of some of the raw material depots of the Company during December 1976 to March 1977 and has not conducted any audit thereafter. In November 1978, the Audit Cell has been put under the control of the Divisional Manager (Accounts) and local audits of about ten depots have been conducted (December 1978). A test check (December 1978) of the reports submitted by the Internal Audit Cell revealed that there were no important points in them.

In case of commercial units of the Company, the Management approved (May 1977) their audit through an outside agency, *i.e.* Chartered Accountants at an all inclusive remuneration of Rs.2,000 per unit. They conducted audit of only three units (March 1979).

3.21. *Other points of interest*

Irregular payment of bonus

Payment of bonus to employees is governed by the provisions of the Payment of Bonus Act, 1965. The Managing Director of a public company, coming under the definition of an "Employer", is not entitled to bonus under the Act. He was, however, paid bonus at Rs.1,800 every year for 1970-71 to 1975-76 and Rs.750 for 1976-77.

Some of the officers of the Company, whose pay had exceeded Rs.1,600 per month, were also not entitled to any bonus but they were paid bonus of Rs.0·20 lakh at the rate of 20 *per cent* during the years 1972-73 to 1976-77.

The matter was reported to the Management/Government in October 1978; their replies are awaited (March 1979).

3.22. *Summing-up*

The Uttar Pradesh Small Industries Corporation Limited was incorporated on 13th June 1958 as a wholly-owned Government Company with the main object of promoting and accelerating the growth of small industries in the State.

The Company undertook various schemes to achieve its objectives, one of the main schemes being procurement and distribution of raw materials, both imported and indigenous, on behalf of small scale units. In the absence of any clause in the agreement that loss on unlifted material would be recovered from defaulting parties, the Company had to bear these losses. In addition, during operation of these schemes, there were shortage aggregating Rs.5·85 lakhs in case of iron and steel, Rs.4·79 lakhs in case of non-ferrous materials (including chemicals) and Rs.2·16 lakhs in case of coke/coal. The shortages have not been investigated (March 1979).

In the scheme for procurement and distribution of text book printing paper, the Company incurred a loss of Rs.7·96 lakhs. The interest of Rs.17·38 lakhs, due on the loan taken from another sister undertaking, still remains unpaid.

Test check of records revealed that materials imported during 1971-72 to 1975-76 and not lifted by 28 parties (valuing Rs.63·94 lakhs) were awaiting disposal.

The Company incurred a loss of Rs.3·62 lakhs in the operation of its marketing assistance scheme for small scale units. A marketing division, set up in March 1975 for selling the products of one of its subsidiaries, was wound up in August 1977 after incurring an expenditure of Rs.1·25 lakhs.

The scheme of the Company for establishing trade centres for providing assistance to small scale industries could not make any headway. No centre could be established till August 1978.

Another scheme of the Company known as *'Uphar Yojna'* had to be abandoned after sustaining a loss of Rs.0·82 lakh due to heavy cost of establishment and poor response from the customers.

Out of the nine sick factories taken over by the Company during 1970-71 and 1971-72, only five units were left with the Company. All these units, except one, are incurring continuous losses.

The Company formulated a scheme for setting up joint sector projects in backward districts to create confidence amongst the entrepreneurs by sharing the financial responsibility. The entrepreneurs had an option to buy the share of the Company after the unit goes into production and achieves a viable stage. Eight such projects were established and the accumulated losses of such projects up to 1976-77 were Rs.31.23 lakhs. The capacity utilisation in these units ranged from 4 to 25 *per cent.* No entrepreneur has purchased the Company's share as yet (March 1979).

SECTION IV

THE INDIAN TURPENTINE AND ROSIN COMPANY LIMITED

4.01. *Introduction*

The Indian Turpentine and Rosin Company Limited, incorporated in the private sector on 22nd February 1924, was taken over by the State Government in 1947 and since then it is functioning as a Government Company.

The main object of the Company is to buy, manufacture, sell and deal in resin, rosin, turpentine and other allied products.

The main products of the Company are rosin and turpentine. The production of rubber emulsifier was taken up by the Company from March 1974, but due to its low demand in the market, production was kept restricted. The Company does not maintain separate manufacturing, profit and loss accounts for each product. The working results of the Company showed profit of Rs.5 lakhs in 1975-76, loss of Rs.8·81 lakhs in 1976-77 and profit of Rs.11·61 lakhs in 1977-78.

Some aspects of the working of the Company were mentioned in paragraph 72 of the Report of the Comptroller and Auditor General of India for the year 1972-73. These were examined (August 1976) by the Committee on Public Undertakings of Uttar Pradesh Vidhan Sabha (seventh).

The Committee recommended (i) that the quality of resin be improved by the Forest Department, failing which suitable deductions from bills of Forest Department and contractors be made, (ii) that monthly costing system for separate determination of the cost of conversion of resin to turpentine and rosin be introduced, and (iii) that efforts be made for obtaining better price for turpentine from the single bulk purchaser.

4.02. *Organisational set-up*

The management of the Company is vested in a Board of Directors consisting of ten directors. The Managing Director is the only full-time director in the Board and functions as the Chief Executive of the Company. Out of the ten directors, seven including the Chairman are officials of the State Government, two represent shareholders from the Public and the remaining director represents a foreign collaborator, with whose assistance the rubber emulsifier project was commissioned in March 1974.

The Managing Director is assisted by the Factory Manager, Chief Engineer, Chemical Engineer, Production Incharge on the technical side, Secretary-*cum*-Sales Manager, Accounts Officer and Internal Audit Officer on the Sales, Accounts and Internal Audit sides respectively.

4.03. *Capital structure*

The Company's paid-up capital as on 31st March 1978 was Rs.21,78,975 which was subscribed as under:

		Rupees
State Government		12,73,250
Foreign collaborator		6,00,000
Private parties		3,05,725
	Total	21,78,975

4.04. *Financial position and working results*

(*a*) *Financial position*

The table below summarises the financial position of the Company for the four years up to 1977-78:

	1974-75	1975-76	1976-77	1977-78
	(In lakhs of Rupees)			
Liabilities				
Paid-up capital	21.79	21.79	21.79	21.79
Reserves and surplus	135.24	140.33	143.57	152.23
Borrowings	114.74	144.09	133.74	3.79
Current liabilities and provisions	149.01	190.53	161.32	154.59
Total	421.68	496.74	460.42	332.40

	1974-75	1975-76	1976-77	1977-78
		(In lakhs of Rupees)		
Assets—				
Gross block	117 .73	120 .39	121 .66	123 .76
Less : Depreciation	39 .69	44 .17	47 .84	51 .94
Net fixed assets	78 .04	76 .22	73 .82	71 .82
Investments	9 .23	9 .23	6 .41	6 .41
Current assets, loans and advances	334 .41	411 29	380 .08	254 .01
Preliminary expenses	..	..	0 .11	0 .16
Total	421 .68	496 .74	460 .42	332 .40
Capital employed	273 .73	296 .49	292 .47	171 .02
Net worth	157 .03	162 .12	165 .36	174 .02

NOTE : (1) Capital employed represents net fixed assets *plus* working capital.

(2) Net worth represents paid-up capital *plus* reserves *less* intangible assets.

(*b*) *Working results*

The following table summarises the working results of the Company for the four years up to 1977-78:

	1974-75	1975-76	1976-77	1977-78
Income—			(In lakhs of Rupees)	
Sales	399 .23	348 .03	436 .83	393 .18
Income from interest	5 .14	2 .49	3 .69	7 .62
Miscellaneous income	6 .38	1 .02	0 .60	0 .78
Export subsidy	..	0 .64	8 .31	5 .16
Subsidy for crude resin	..	..	..	10 .06
Increase/decrease in stock	31 .24	56 .07	(—)93 .55	(—)39 .36
Total	441 .99	408 .25	355 .88	377 .44
Expenditure—				
Payment to and provisions for employees	48 .94	37 .71	40 .09	49 .16
Purchase/consumption of raw material and expenses thereon	339 .00	294 .85	256 .13	260 .31

	1974-75	1975-76	1976-77	1977-78
		(In lakhs of Rupees)		
Manufacturing expenses, power and fuel	23.10	29.94	22.63	23.26
Repairs to plant, machinery and building	4.53	4.92	4.87	4.97
Miscellaneous expenses	6.21	5.29	6.83	7.59
Interest	5.31	17.46	14.19	7.24
Depreciation	4.50	4.69	3.67	4.10
Selling and other expenses	9.86	8.39	16.28	9.20
Total	441.45	403.25	364.69	365.83
Net profit (+)/Loss (—)	(+) 0.54	(+)5.00	(—)8.81	(+)11.61

During 1976-77, the Company suffered a loss of Rs.8·81 lakhs reportedly due to:

(i) dull business conditions during the major part of the year and slump in the market; and

(ii) drop in production of better grades of rosin, *etc.*

4.05. *Production performance*

Rosin and turpentine are the products which are obtained by treating resin. The Company obtains about 77 *per cent* rosin and 17 *per cent* turpentine from resin so treated.

The table below indicates net quantity of resin treated, rosin and turpentine produced therefrom and the loss of resin in treatment for the four years up to 1977-78:

Particulars	1974-75	1975-76	1976-77	1977-78
		(In tonnes)		
Net resin treated	16,723	16,266	14,790	12,434
Rosin produced	12,933	12,643	11,446	9,606
Turpentine produced	2,792	2,649	2,468	2,107
Process loss of resin	998	974	876	721
Percentage of process loss to net resin treated	5.97	5.99	5.92	5.80

The Management stated (October 1978) that norms for the loss had not been fixed.

The table below indicates the percentage of production of various grades of rosin for the four years up to 1977-78:

Grade of rosin	1974-75	1975-76	1976-77	1977-78
		(Percentages)		
Pale				
WW	0.10	0.05	..	0.07
WG	4.35	2.85	1.34	0.76
N	25.39	32.70	29.46	21.34
Total	29.84	35.60	30.80	22.17
Medium				
M	18.98	20.67	22.58	21.72
K	11.40	8.43	10.39	11.55
H	5.67	3.47	7.49	8.21
Total	36.05	32.57	40.46	41.48
Dark				
D	8.84	9.22	10.11	9.62
B	25.27	22.61	18.63	26.73
Total	34.11	31.83	28.74	36.35

The production of pale grade (a superior quality) rosin as a whole ranged between 45.27 and 48.74 *per cent* during 1967-68 to 1970-71, which declined to 22.17 *per cent* in 1977-78. The Management stated (December 1977) that lower the grades of rosin produced, the poorer was the market realisation and profitability. They also stated that out of eight grades of rosin (three in 'Pale' grade, three in 'Medium' grade and two in 'Dark' grade) "the last four grades (K, H, D and B) of rosin gave loss on the cost of production". Taking the minimum production of pale grade rosin for the year 1967-68, *i.e.* 45.27 *per cent* as base, short realisation due to decline in its production between 1974-75 and 1977-78 worked out to Rs.54.81 lakhs.

The Management stated (September 1978) that fall in production of pale grade rosin was due to receipt of poorer and darker resin from the Forest Department. It was further stated (October 1978) that action was being taken for improvement in the plant to produce better grades of rosin.

4.06. *Cost of sales*

(*a*) The table below indicates the cost of sales of rosin and turpentine per quintal/kilolitre for the four years up to 1977-78:

	1974-75	1975-76	1976-77	1977-78
		(In Rupees per quintal)		
Raw material	220.15	201.70	184.08	222.24
Wages	14.16	14.17	15.41	23.30
Power and fuel	7.53	7.70	7.05	8.34
Manufacturing expenses	3.77	3.77	5.55	5.43
Salaries	16.08	9.75	12.78	17.74
Repairs	2.87	3.21	3.50	4.53
Depreciation	2.03	2.20	0.86	2.08
Other expenses	5.95	11.06	12.89	9.00
Selling and distribution expenses	6.72	6.01	8.49	7.19
Total cost of rosin/turpentine (per quintal)	279.26	259.57	250.61	299.85
Production				
Rosin (in lakh quintals)	1.29	1.26	1.14	0.96
Turpentine (in thousand kilo-litres)	3.22	3.06	2.83	2.36

The following reasons were attributed (October 1978) by the Management for increase in cost:

(i) Salaries and wages and repair expenses are of non-variable nature. With the fall in production during 1976-77 and 1977-78, cost per unit increased. During 1977-78, the cost per unit also increased due to increase in dearness allowance.

(ii) Manufacturing expenses increased during 1976-77 and 1977-78 due to use of galvanised plain sheets in place of wood in packing material.

(iii) Increase in 'other expenses' during 1975-76 to 1977-78 was due to increase of interest charges.

(iv) Increase in selling and distribution expenses during 1976-77 and 1977-78 was due to increase in export expenses.

(*b*) The table below indicates the cost of sales of rubber emulsifier per quintal and quantity produced during the four years up to 1977-78:

	1974-75	1975-76	1976-77	1977-78
		(In Rupees)		
Raw material	311.89	249.26	232.46	283.96
Wages	114.24	10.59	16.92	16.16
Power and fuel	117.87	18.20	18.28	14.00
Manufacturing expenses	128.75	136.14	120.59	130.22
Salaries	45.33	4.27	6.55	4.90
Depreciation	235.74	24.52	67.39	32.19
Royalty	21.74	24.70	34.38	23.83
Interest	320.96	108.10	129.06	46.73
Total	1,296.52	575.78	625.63	551.99
Production (in quintals)	551	5,384	3,665	5,157

Reasons for increase in various items of expenditure per quintal as reported (October 1978) by the Management, were as under:

(i) Unit cost of wages and salaries increased during 1976-77 due to fall in production and in 1977-78 partly due to fall in production and partly due to increase in wages.

(ii) The consumption of furnace oil during 1975-76 and 1976-77 was more than that of 1977-78, as the plant did not run continuously and recovery of catalyst (a chemical) was not made along with the production of rubber emulsifier. The excess consumption of furnace oil during the two years, thus, works out to 0.50 lakh litres valuing Rs.0.50 lakh.

(iii) Increase in manufacturing expenses during 1975-76 and decrease in 1976-77 were due to overcharge and undercharge of expenditure on chemicals in the accounts of respective years.

(iv) Higher incidence of interest charges during 1975-76 and 1976-77 was mainly due to comparatively heavy payment of interest charges on bank overdrafts.

(v) Abnormal increase of depreciation during 1976-77 was partly due to providing depreciation on triple shift basis and partly due to fall in production.

4.07. *Overtime/good work bonus*

The table below indicates payment of overtime/good work bonus to workers of the Company and total quantity of production for the four years up to 1977-78:

	Overtime/good work bonus	Production
	(In lakhs of Rupees)	(In tonnes)
1974-75	1.35	15,967
1975-76	1.74	15,960
1976-77	1.00	14,287
1977-78	1.53	12,231

In 1976-77 lesser payment of overtime/good work bonus was mainly due to fall in the cost of living index.

The Management stated (October 1978) that the good work bonus in most of the cases was paid on the basis of extra hours put in by the workers and that due to increase in number of absentees, payment of good work bonus increased during 1975-76 to 1977-78. Increase in wages during 1977-78 was also responsible for more payment of good work bonus.

4.08. *Capacity utilisation*

The main products of the Company are rosin and turpentine. Other products are estergum, rubber emulsifier (trade name-Rondis-R) and air entrainment agent (AEA).

(*a*) *Rosin plants*

The Company has two resin treatment plants. The aggregate rated capacity of the plants, resin actually treated by both the plants and the percentage of capacity utilisation during 1974-75 to 1977-78 are shown in the table given below:

	1974-75	1975-76	1976-77	1977-78
		(In tonnes)		
Resin treatment capacity	22,400	22,400	22,400	22,400
Actual resin treated	17,125	16,719	15,107	12,659
Percentage of capacity utilization	76.4	74.6	67.4	56.5

The gradual decline in capacity utilisation was attributed (June 1978) by the Management mainly to short supply of resin. It was also stated that the Company had to keep some quantity of resin in reserve due to irregular supply of resin by the Forest Department.

(b) *Rubber emulsifier plant*

The Rubber emulsifier plant was installed in 1974 at a cost of Rs.43.58 lakhs against the original estimate of 1969 for Rs.26.40 lakhs. The plant was commissioned for commercial production in March 1974 and 173 quintals of rubber emulsifier, with trade name Rondis-R, was produced in trial run during 1973-74. The table below indicates the installed capacity of the plant, actual production and percentage of actual production to the installed capacity for the four years up to 1977-78:

	1974-75	1975-76	1976-77	1977-78
		(In tonnes)		
Installed capacity	1,500	1,500	1,500	1,500
Actual production	55	538	366	516
Percentage of actual production to installed capacity	3.7	35.9	24.4	34.4

The Company established the plant without exploring the market. The rubber emulsifier is supplied to a single private firm of Bareilly. During the years 1974-75 to 1977-78 the plant was not operated for 285, 162, 202 and 170 days respectively. The Management attributed (June 1978) it to lack of demand.

The Directors of the Company in their report to the shareholders stated (October 1977) that the user firm had reduced its consumption of Rondis-R due to certain changes in its production pattern and that the Company was exploring other markets for its sale. It was also stated that the price of the Rondis-R in the foreign market was very low. The Management further stated (September 1978) that initial capacity of the plant was fixed at the anticipated requirement of the single private firm of Bareilly and that they have since been able to get a few other customers for the product.

(c) Estergum

The following table indicates the cost of production of estergum, and the quantity produced *vis-a-vis* installed capacity during the years 1974-75 and 1975-76:

	Cost of production per quintal	Installed capacity	Quantity produced	Capacity utilisation
	(In Rupees)	(In tonnes)		(*Per cent*)
1974-75	568.29	255	182	71
1975-76	578.24	255	126	49

The production of estergum was stopped by the Company in November 1975 as it could not compete in the market due to its high cost of production.

4.09. *Sale of turpentine*

A contract for supply of 18 lakh litres of turpentine each year for three years from 1969-70 to 1971-72 was entered into (April 1969) with a firm of Bareilly. The agreement, *inter alia,* provided for the supply of additional quantity of turpentine in bulk to the private firm at a mutually agreed rate. The agreement was renewed in October 1971 for a period of five years—1972-73 to 1976-77. The price agreed upon was Rs.1.16 per litre *ex*-factory for 1972-73 and a three paise per litre price escalation every year for the remaining period of the contract. An annual offtake of 20 lakh litres was agreed upon alongwith a condition for supply of available additional quantities at mutually acceptable rates. Supply during the year 1977-78 was continued to be made without signing any agreement. The terms of supply and price chargeable for the years 1977-78 to 1982-83 were agreed upon in May 1978; formal agreement was signed in January 1979. As per draft agreement, the firm would annually lift 20 lakh litres of turpentine or 85 *per cent* of the Company's total production of turpentine, whichever was higher. Initially, up to November 1977, the rates agreed were 13 paise below the price list of the Company. From December 1977 to March 1979, this rate is Rs.2·15 per litre and thereafter a price escalation of five paise per litre for each of the subsequent years.

The table below indicates the quantities of turpentine supplied under the contractual obligation and additional quantities, the cost of production of turpentine (as furnished by the Management), rate charged from the firm, and the market rates of turpentine at which it was sold to other parties by the Company:

Year	Quantities supplied		Cost of production	Rate charged		Selling price for other parties
	Under contract	Additional		Contract	Additional	
	(In lakh litres)			(Rupees per litre)		
1968-69	18.00	5.00	0.95	0.88	0.92	1.05
		0.01			1.03	to 1.18
1969-70	18.00	2.46	1.05	1.03	1.24	1.25
1970-71	18.00	4.00	1.47	1.06	1.24	1.25
		1.80			1.26	
		0.46			1.45	
1971-72	18.00	3.42	1.84	1.09	1.26	1.48
1972-73	20.00	4.75	2.00	1.16	1.16	1.48
1973-74	20.00	7.13	2 00	1.19	1.19	1.48
1974-75	20.00	6.18	2.14	1.22	1.36	1.48
						to 1.64
1975-76	20.00	7.61	1.99	1.25	1.36	1.64
1976-77	20.00	3.32	1.38	1.28	1.36	1.64
						to 1.84
1977-78	12.85	0.86	2.23	1 67	2.15	1.80
				to 2.15		to 2.55

(*a*) The contractual rates for sale of turpentine to the private firm for all these years were below the cost of production. The difference between the two ranged between two paise per litre in 1960-70 to 92 paise per litre in 1974-75.

(*b*) For additional supplies made by the Company, the contract provided for mutually agreed rates but the rates charged were mostly below the cost of production and the ruling selling price.

The Management stated (September 1978) that the contractual price of turpentine and price for additional supplies had been fixed on the basis of the then prevailing market conditions.

4.10. *Direct sales*

Direct sales of the Company's products were made against the enquires received from different parties such as paper mills, paint and varnish industry, soap industry and other users of rosin and turpentine. As provided in the terms and conditions printed on the bills, the parties were allowed a credit for 90 days. Interest at the rate of 18 *per cent* per annum was to be charged thereafter.

In test check, it was noticed that there were heavy outstandings (Rs.35.98 lakhs) against eight parties at the end of 1976-77. No interest was charged.

The reasons for heavy outstandings were attributed by the Management (June 1978) to:

(i) serious recession in the industry,

(ii) slump in the market, and

(iii) heavy stock piling at the factory which compelled the Company to sell the finished product on credit and could not charge interest from its customers.

The Management further stated (September 1978) that credit sales were made under unavoidable circumstances.

The Company, however, revised its sales policy in December 1977 which, *inter alia,* provided for stoppage of supplies to agents/ parties in default unless they cleared the dues. This resulted in the clearance of Rs.35.48 lakhs during the period ending 31st March 1978.

4.11. *Selling agency agreements*

Selling agency agreements of the three sole selling agents expired on 28th February 1974. These agreements, *inter alia,* provided for payment of four *per cent* commission on the net f.o.r.

Clutterbuckganj price of the Company's products to the agents and allowed credit facility of 45 days, beyond which interest was chargeable at 11 *per cent* per annum. The Board of Directors of the Company re-appointed (5th October 1974) the existing selling agents for a period of five years from 1st March 1974. The agents were allowed 45 days credit facility and the rate of interest was fixed at 18 *per cent* per annum thereafter. While communicating the decision to the agents, the date of charging higher rate of interest (18 *per cent* instead of 11 *per cent*) was intimated (October 1974) as 1st August 1974 instead of 1st March 1974. This resulted in loss of interest of Rupees one lakh as estimated by the Management.

The revised date of enforcing the higher rate of interest, *i.e.* 1st August 1974 was subsequently approved by the Board of Directors in December 1974. No responsibility for the lapse has been fixed (December 1978).

4.12. *Sundry debtors*

The following table indicates the balance due from sundry debtors and the percentage of book debts to sales of finished products during the four years up to 1977-78:

Year	Book debts at the close of the year	Sales during the year	Percentage of book debts to sales
	(In lakhs of Rupees)		
1974-75	108.25	399.23	27.1
1975-76	134.84	348.03	38.7
1976-77	191.38	436.83	43.8
1977-78	74.98	393.39	19.1

The Management stated (September 1978) that increased percentage of book debts to sales during the earlier years were due to adverse market conditions.

4.13. *Finance and accounts*

(*a*) (i) Accounts Manual and purchase procedure have not been compiled by the Company.

The Management stated (September 1978) that action for preparation of manual would be taken up in the current year and that purchase procedures prescribed in the Financial Hand Book of the State Government were followed.

(ii) System of cost control has not been introduced.

(*b*) There is no manual defining the scope and function of internal audit.

4.14. *Inventory control*

The following table indicates the inventory of finished products (including work-in-progress), raw material and store and spare parts at the close of each of the four years up to 1977-78:

Particulars	1974-75		1975-76		1976-77		1977-78	
	Value	In terms of average monthly sale/consumption	Value	In terms of average monthly sale/consumption	Value	In terms of average monthly sale/consump tion	Value	In terms of average monthly sale/consumption
	(Value in lakhs of Rupees)							
Finished and semi-finished goods								
Rosin	84.6	2.9	150.6	7.1	62.0	2.1	25.8	1.1
Turpentine	4.2	1.2	2.8	0.8	3.1	1.0	8.4	2.4
Estergum	8.2	10.8	12.4	37.5	9.1	31.3	1.9	2.9
Rondis-R	2.6	8.0	3.4	0.9	1.5	0.4	0.2	0.1
Raw material								
Crude resin	54.8	1.9	41.2	1.6	58.8	2.7	81.2	3.7
Store and spare parts	48.7	21.3	41.6	16.0	31.9	12.5	30.5	15.7

The physical verification of stores/stock for 1974-75 to 1977-78 brought out shortages as shown below:

Year		Shortages (In lakhs of Rupees)
1974-75		0.37
1975-76		0.95
1976-77		0.52
1977-78		2.97
	Total	4.81

The shortages have not been investigated (December 1978).

The Management stated (September/October 1978) that action for fixing responsibility for shortages of stores was being taken.

4.15. *Summing-up*

The Company taken over by the State Government in 1947 could not establish itself in the market of turpentine and was obliged to sell this product at below the cost price.

The Company is carrying on with the old plant and machinery and additions made in 1974 for manufacture of a new product, *viz.* Rondis-R at a capital cost of Rs.43.58 lakhs proved of little use as the requirement of a single private customer was taken into account without studying the market for its sale.

In spite of the experience gained over the years since the Company started its production, the quality of its main products generally deteriorated and the cost continued to rise because of decline in production. One of the products, *viz.* estergum had to be discontinued in November 1975 as it could not compete in the market due to high cost of production.

Shortage of Rs.4.81 lakhs were noticed during physical verification of stores and stock during 1974-75 to 1977-78. These shortages are yet to be investigated.

SECTION V

OTHER GOVERNMENT COMPANIES

UTTAR PRADESH STATE CEMENT CORPORATION LIMITED

5.01. *Non-levy of excise duty/sales tax*

With effect from 1st October 1975, 35 *per cent ad valorem* basic excise duty plus 10 *per cent* auxiliary duty was leviable on the packing charges realised by cement factories on ordinary 'Portland' brand of cement. The duty on packing charges was subsequently withdrawn by the Government of India with effect from 17th December 1975 in case of private stockists and from 9th January 1976 in case of suppliers on rate contract with Director General, Supplies and Disposals (DGS & D).

The Dalla unit of the Company did not levy and realise the excise duty on packing charges on sales made to the suppliers on rate contract with DGS & D, during the period from 1st October 1975 to 8th January 1976, and also on sales to private stockists during the period from 1st October 1975 to 16th December 1975, as detailed below:

Category of consumer	Amount of packing charges	Amount of excise duty 38.5 *per cent* (35 *per cent* plus 10 *per cent* on 35 *per cent*)
	(In lakhs of Rupees)	
Parties on rate contract	8.75	3.37
Private stockists	23.67	9.11
		12.48

Sales tax at eight *per cent* (Rs. 1.00 lakh) on the excise duty on packing charges could not also be levied and realised. The amount due as sales tax from private parties worked out to Rs.0.73 lakh.

Thus, due to non-enforcement of the orders, the Company could not recover Rs.13.48 lakhs from its customers.

The Management/Government stated (February/March 1979) that in view of the approval of the price list by Superintendent, Central Excise, Mirzapur, the Company had neither realised excise duty on packing charges from the customers nor paid the same to the Excise Department. It was further stated that Excise Department had subsequently demanded (March 1978) excise duty on packing charges against which an appeal had been filed by the Company before Appellate Collector of Central Excise, New Delhi, which was pending (March 1979).

5.02. *Purchase of defective links*

An order for supply of 205 links of 16″ and 20″ sizes (value: Rs.0.54 lakh) was placed (May 1974) by Dalla unit of the Company on Visheswaraya Iron and Steel Limited, Bhadrawati, a Karnataka Government undertaking. According to the terms of the order, the links were to be inspected by the Company before their despatch. The supply was to be completed by May 1975. Twenty-five *per cent* payment was to be made in advance and the balance against despatch documents. In August 1974, advance payment of Rs.0.14 lakh was made to the supplier. In July 1976, the quantity on order was amended by increasing the number of 16″ links and decreasing the number of 20″ links, which resulted in overall reduction of Rs.0.08 lakh in the value of the order.

In October 1976, the supplier intimated that 107 links of 16″ size were ready for despatch and requested for pre-despatch inspection which was waived (November 1976) by the General Manager on the ground that the supplier was a reputed firm. It was only in January 1977 that 124 links of 16″ size were despatched by the supplier and payment of Rs.0.22 lakh was made in the same month against railway receipt.

On inspection of the material by Factory's Production Engineer in April 1977, three pieces were found cracked and the rest were found unfit for use due to the following defects:

(i) Bad workmanship.

(ii) Finish/fitting of male and female parts was not up to the mark.

(iii) Heat treatment was not properly done.

In May 1977, the supplier was requested to suspend supply of the remaining material and to replace the defective material already supplied. The supplier did not agree (September 1977) for replacement except for three cracked pieces; even these have not ultimately been replacd and are lying unutilised (March 1979).

Waiver of inspection of material before despatch resulted in supply of defective material valuing Rs.0.30 lakh. An advance of Rs.0.05 lakh was also lying unadjusted (March 1979).

Reasons for waiver of inspection of material before despatch, attributed by the Management/Government (December 1978/January 1979), were as under:

(i) The supplier firm was a Government undertaking of repute, and

(ii) there was difficulty in sparing trained personnel for going to Karnataka for inspecting the material.

It was also stated by the Management/Government that action was being taken to recover the amount.

UTTAR PRADESH STATE SUGAR CORPORATION LIMITED

Barabanki unit

5.03. *(a) Closure of factory*

Mention was made in paragraph 2.04 (a) of the Report of the Comptroller and Auditor General of India for the year 1975-76 (Commercial) regarding takeover of sick sugar factories. The plant and machinery of Barabanki factory, taken over in July 1971, was outmoded. An important part of the plant (60 teeth gear and pinion) was not giving satisfactory service since the date of takeover of the factory. The General Manager of the factory pointed out to the headquarters of the Company about the deteriorated condition of the gear but the work was carried on by repairing the said part from time to time. The General Manager informed the Company in April 1976 that the part needed major repairs or replacement. The order for supply of the part was, however, placed in May 1977; and the part was to be received by September 1977. Due to certain technical clarifications sought by the supplier and a major lock-out in their works, the part was not supplied in time and the penalty at the rate of half *per cent* per week, subject to a maximum of five *per cent* of the value of supply order, was not imposed. The plant was run with the old part which broke down on 18th April 1978 and the factory had, therefore, to be closed. Under the orders of Cane Commissioner, the sugarcane earmarked for crushing in the factory was transported to Burhwal factory at the cost of Barabanki factory. Thus, an avoidable expenditure of Rs.2.50 lakhs (loading, unloading, transportation charges, *etc.* Rs.1.05 lakhs and wages of idle labour at Barabanki factory (Rs.1.45 lakhs) was incurred on shifting of sugarcane since the closure of the factory till 8th May 1978. Had the Company placed the order when the defects were first noticed and reported by the General Manager to the Company in April 1976 the expenditure of Rs.2.50 lakhs could have been avoided.

The Management stated (September 1978) that the mill was closed under compelling circumstances and the loss incurred by the factory on account of diversion of cane were unavoidable. The factory was bound to pay wages to the seasonal staff for the period up to 8th May 1978 under the standing orders, irrespective of the date of closure.

(*b*) *Non-payment of purchase tax*

Under Section 3-A of Uttar Pradesh Sugarcane (Purchase Tax) Act, 1961, purchase tax on sugarcane is required to be paid by the Company to Government before lifting sugar from the factory for sale or consumption, failing which penalty is leviable.

For the years 1973-74 to 1975-76, the Barabanki unit of the Company did not pay purchase tax of Rs.9.10 lakhs due on sugar cane before lifting sugar from the factory. After considering the representation of the unit that payment could not be made timely on account of financial stringency, the Collector, Barabanki imposed a penalty of Rs.0.32 lakh (April 1977: Rs.0.14 lakh, May 1977: Rs.0.08 lakh and January 1978: Rs.0.10 lakh) for delay in payment of tax.

The Management stated (August 1978) that an appeal had been filed with the Cane Commissioner for granting relief.

The matter was reported to Government in July 1978; reply is awaited (March 1979).

Kichha Sugar Company Limited

5.04. *Energy charges*

According to the rate schedule of the State Electricity Board, applicable to large and heavy power consumers, if the energy supplied to a factory is utilised for non-industrial purpose, such circuits should be segregated by the consumer and metered separately. Consumption so recorded separately is to be charged under the appropriate rate schedule. In case the consumer fails to record non-industrial consumption separately, the entire consumption is to be charged at the higher rate applicable to mixed load.

The Company had a sanctioned load of 1,000 KVA. However, it did not segregate the circuits of the factory and residential colony till June 1977. The Board billed the consumer monthly at the higher rate under mixed load tariff, which resulted in extra payment of Rs.3.95 lakhs to the Board for the period from October 1955 to June 1977.

The matter was reported to the Management in October 1977 and to Government in July 1978; replies are awaited (March 1979).

UTTAR PRADESH STATE BRASSWARES CORPORATION LIMITED

5.05. *Manufacture and sale of 'hukkahs'*

The Company was incorporated on 12th February 1974 with an authorised capital of Rupees one crore to develop brassware industry and to protect and encourage the small artisans engaged in brass and other allied industries. The paid-up capital of the Company, as on 31st March 1977, was Rs.0·47 crore.

In June 1977, the Company received an order from a foreign buyer (through its local agent) for supply of 2,400 pieces of brass *saffari hukkahs* at the rate of Rs.280 each (*c. i. f.* value: Rs.6·72 lakhs). A commission of 10 *per cent* on *f.o.b.* value (Rs.257 each) of the order (five *per cent* immediately after despatch of consignment and the remaining five *per cent* on receipt of payment from the buyer) was payable to the agent. During June 1977 to March 1978, the Company manufactured 1,339 *hukkahs* (cost: Rs.2.56 lakhs), out of which 800 *hukkahs* (*c.i.f.* value: Rs.2·24 lakhs) were consigned to the foreign buyer from October 1977 to January 1978. Documents sent for payment (December 1977 and January 1978) through a foreign bank were not retired by the foreign buyer. In January 1978, the buyer refused the goods on the ground of bad workmanship and irregular and slipped threadings and requested the Company to stop subsequent despatches/shipments as he would not entertain or reply any future communication from the Company on the subject. The Company, however, despatched (February 1978) another consignment of 200 *hukkahs,* which could not be shipped due to non-clearance thereof by Customs authorities. The consignment was brought back (July 1978) from the shipping agents at Bombay. On this consignment the Company spent Rs.0·08 lakh on transportation, loading, unloading, godown rent, *etc.*

Eight hundred pieces (cost: Rs.1.53 lakhs) sent abroad were lying at the foreign port and 539 pieces (cost: Rs.1·03 lakhs) were lying in stock of the Company (May 1978). The Company had also paid agency commission of Rs.0·10 lakh to the local agent.

The Management/Government stated (October 1978/January 1979) that the Marketing Manager of the Company is being deputed to Saudi Arabia to attend to the problem personally. It was further stated that notice had been given to the agent to refund the commission paid and to bear any other losses which the Company might suffer.

UTTAR PRADESH STATE AGRO INDUSTRIAL CORPORATION LIMITED

5.06. *Purchase and processing of peas*

In February and March 1977, the Company purchased 1.48 lakh kgs of green peas at the rate of Re.0.70 per kg for processing and packing in tin containers at its fruit processing factory at Kaimganj (Farrukhabad). During February and March 1977, the peas were processed and packed in 1.42 lakh containers of 800 gm each. Before the sale could commence, the peas in the containers were found to be puffed up. A committee appointed by the Company in May 1977 reported (May 1977) that the peas in the containers were puffed up, rusted and unfit for sale. Another committee, appointed in September 1977 to ascertain the reasons for deterioration of the stuff, in its report observed (January 1978) that (i) the day to day purchases being in excess, the peas could not be processed on the same day which resulted in their contamination; (ii) defect in the operation of seeming machine resulted in puffing of peas in the tins; (iii) proper incubation test of tins was not done which resulted in rusting; (iv) bleaching of peas was not done which made the stuff unfit for human consumption; and (v) water in the cooling tank was contaminated.

The entire stock (peas in 1.42 lakh containers—value: Rs.4.26 lakhs) was declared (February 1978) by the Company unfit for human consumption. The Company expected (February 1978) to salvage about 0.05 lakh saleable tins (value: 0.15 lakh). Thus, excess purchase and defective processing of the peas resulted in a loss of Rs.4.11 lakhs to the Company.

The matter was reported to the Management in April 1978 and to Government in June 1978; replies are awaited (March 1979).

UTTAR PRADESH PASHUDHAN UDYOG NIGAM LIMITED

5.07. *Loss of stainless steel sheets*

In September 1975, the Company placed an order on a firm of Bombay for supply of 15,000 kgs of 'Japan make' stainless steel sheets. In December 1975, the supplier despatched the material of the value of Rs. 0.64 lakh and sent the despatch documents through bank, which were retired (December 1975) after making 95 *per cent* advance payment of Rs. 0.61 lakh.

On receipt (January 1976), the sheets were rejected being of indigenous make. The supplier was asked (February 1976) either to replace the material or to refund the amount paid. In July 1976, the supplier agreed to replace the material and requested the Company to send the material to them through road transport and despatch the documents through bank.

On 5th August 1976, the material was despatched through a local road transport agency without transit insurance. The material did not reach the supplier and was reported (March 1977) by the supplier to have been lost in transit as it was not available with road transport agency.

In January 1978, the Company filed a civil suit against the supplier and the transport agency, which is pending (March 1979) in the Court.

The Matter was reported to the Management in April 1978 and to Government in June 1978; replies are awaited (March 1979).

GORAKHPUR MANDAL VIKAS NIGAM LIMITED

5.08. *Shortages in stores*

Four mini-sugar units of Poorvanchal Vikas Nigam Limited, Faizabad were transferred to the Company in October 1976 under the orders of the State Government. The Manager of one of the four units holding charge of the stores was later on (January 1977) transferred back to Poorvanchal Vikas Nigam Limited, but he did not hand over charge of the stores. On physical verification of the stores at the end of 1976-77, shortage of the value of Rs. 1.18 lakhs (sugar mixed molasses: Rs. 1.11 lakhs, press mud: Rs. 0.04 lakh and office equipment : Rs. 0.03 lakh) were noticed. The Manager, instead of joining the Poorvanchal Vikas Nigam Limited, obtanied (April 1977) a stay order from Uttar Pradesh Public Services Tribunal against his reversion and is posted at the headquaters of the Company.

The Management stated (November 1978) that after conducting the preliminary enquiry, first information report was lodged with the police on 11th November 1978.

The matter was reported to Government in August 1978; reply is awaited (March 1979).

CHAPTER II

STATUTORY CORPORATIONS

SECTION VI

6.01. *Introduction*

There were four Statutory Corporations in the State as on 31st March 1978, *viz.* Uttar Pradesh State Electricity Board, Uttar Pradesh State Road Transport Corporation, Uttar Pradesh State Warehousing Corporation and Uttar Pradesh Financial Corporation.

(a) *Uttar Pradesh State Electricity Board*

The Uttar Pradesh State Electricity Board was established on 1st April 1959, under Section 5 of the Electricity (Supply) Act, 1948. The Board has not adopted (December 1978) the accounts for the year 1977-78. The provisional accounts show that the Board incurred a loss of Rs. 2,309.35 lakhs during the year 1977-78 as against the loss of Rs. 417.86 lakhs in the previous year.

(i) *Loan capital*

The aggregate long-term loans, including loans from Government, bonds, debentures and deposits obtained by the Board as per the provisional accounts was Rs.1,722·32 crores at the end of 1977-78 and represented an increase of Rs.214·31 crores over the total long-term loans of Rs.1,508·01 crores at the end of the previous year.

(ii) *Guarantees*

The guarantees given by Government on behalf of the Board for repayment of loans and bonds and payment of interest thereon, redemption of promissory notes, cash credit facilities to the end of March 1978 amounted to Rs.262·62 crores, against which Rs.178·87 crores were outstanding as on 31st March 1978, as shown below:

Source	Maximum amount of guarantees given by Government	Amount guaranteed and outstanding on 31st March 1978
	(In crores of Rupees)	
Public issue of bonds	86 .97	86 .97
Financial institutions (including banks)	175 .65	91 .90
Total	262 .62	178 .87

Government have also guaranteed, with unlimited liability, the payment of cost of stores purchased through the Director General, Supplies and Disposals and payment of freight and other dues to the Railway Board.

(iii) A synoptic statement, showing the summarised financial results of working of the Board, as per the provisional accounts for the year 1977-78, is given in Appendix II.

(b) Other Statutory Corporations

(I) Uttar Pradesh State Road Transport Corporation

The Uttar Pradesh State Road Transport Corporation was established on 1st June 1972. Accounts for the years 1976-77 and 1977-78 have not been finalised (March 1979). The provisional accounts for 1975-76 showed a profit of Rs.176.86 lakhs against a loss of Rs.251.82 lakhs in the previous year.

Guarantees

Government have guaranteed the repayment of loan and payment of interest on loans taken by the Corporation up to 31st March 1978, as shown below:

Source	Maximum amount of guarantees given by Government*	Amount guaranteed and outstanding on 31st March 1978*
	(In lakhs of Rupees)	
Industrial Development Bank of India and a commercial bank.	2,625 .00	1,369 .00

* Figures as per the Finance Accounts for the year 1977-78.

(II) *Uttar Pradesh State Warehousing Corporation*

Accounts for the year 1977-78 have not been finalised (December 1978). The Corporation earned a net profit of Rs.165·29 lakhs during 1976-77 as against a net profit of Rs.53·37 lakhs in the previous year.

Guarantees

Government have guaranteed the repayment of loan and payment of interest on loans taken by the Corporation up to 31st March 1978, as shown below:

Source	Maximum amount of guarantees given by Government*	Amount guaranteed and outstanding on 31st March 1978*
	(In lakhs of Rupees)	
State Bank of India	350.00	350.00

(III) *Uttar Pradesh Financial Corporation*

(i) *Capital*

The capital as on 31st March 1978 was Rs.495 lakhs, representing an increase of Rs.120 lakhs over the capital of Rs.375 lakhs at the end of the previous year.

(ii) *Long-term loans*

The balance of long-term loans obtained by the Corporation was Rs.3,365·43 lakhs as on 31st March 1978. The break-up of the balance, according to the sources of finance, was as under:

Source	Amount
	(In lakhs of Rupees)
State Government	38.03
Public issue of bonds	1,974.88
Reserve Bank of India and Industrial Development Bank of India	1,352.52
Total	3,365 43

*Figures as per the Finance Accounts for the year 1977-78.

(iii) *Guarantees*

The State Government have guaranteed the repayment of share capital and payment of annual dividend thereon, repayment of bonds and payment of interest thereon, as given in the table below:

Brief particulars	Maximum amount guaranteed*	Amount guaranteed and outstanding on 31st March 1978*
	(In lakhs of Rupees)	
Share Capital (Annual dividend at 3½ *per cent* also guranteed)	420.00	420.00
Bonds (interest thereon also guaranteed)	1,600.00	1,600.00

(iv) *Profits*

During 1977-78, the Corporation earned a profit of Rs.105·49 lakhs representing 21·3 *per cent* of the paid-up capital of Rs.495 lakhs as against the profit of Rs.93·24 lakhs, representing 24·9 *per cent* of the paid-up capital of Rs.375 lakhs, during the previous year.

6.02. A synoptic statement showing the summarised financial results of working of the three Corporations, *viz.* Uttar Pradesh Financial Corporation, Uttar Pradesh State Warehousing Corporation and Uttar Pradesh State Road Transport Corporation, on the basis of the latest available accounts, is given in Appendix II.

*Figures as per the Finance Accounts for the year 1977-78.

SECTION VII

UTTAR PRADESH STATE ELECTRICITY BOARD

HARDUAGANJ THERMAL POWER STATION

7.01. *Introduction*

The table below indicates the particulars of the Board's installed capacity, power generated and sold, *etc.*, for the three years up to 1977-78:

Particulars	1975-76	1976-77	1977-78*
Installed capacity of generating plants (in MW)	2,078.3	2,490.3	2,747.3
Total power generated (in MKWH)	8,012.5	9,629.9	9,289.3
Power used for generating station auxiliaries (in MKWH)	543.0	607.3	678.0
Power available for sale from Board's generation (in MKWH)	7,469.5	9,022.6	8,611.3
Power purchased (in MKWH)	465.7	725.3	118.1
Total power available for sale (in MKWH)	7·935.2	9,747.9	8,729.4
Power sold (in MKWH)	6,246.1	7,432.4	6,937.3
Loss in transmission and distribution (inMKWH)	1,689.1	2,315.5	1,792.1
Normal maximum demand (in MW)	2,157·0	2,345.0	2,730.0
Connected load (in MW)	3,991.5	4,203.9	4,310.2
Load factor (percentage)	33.1	36.2	39.4
Percentage of power generated to installed capacity	43.9	44.1	38.6
Percentage of auxiliary consumption to power generated	6.8	6.3	7.3
Percentage of transmission and distribution loss to power available for sale	21.3	23.8	20.5

7.02. *Generation capacity and utilisation*

(*a*) The total generation capacity available with the Board from

*Provisional

different sources, including Harduaganj at the close of the three years up to 1977-78 was as under:

	As on 31st March		
	1976	1977	1978 (Provisional)
	(Capacity in MW)		
A—Steam			
Obra	550 .0	550 .0	750 .0
Panki	64 .0	284 .0	284 .0
Harduaganj			
'A' Power House	90 .0	90 .0	90 .0
'B' Power House	210 .0	210 .0	210 .0
'C' Power House	..	60 .0	120 .0*
Riverside Power House, Kanpur Electricity Supply Administration	75 .0	75 .0	75 .0
Other small thermal power stations	137 .5	137 .5	137 5
Total	1,126 5	1,406 .5	1,666 5
B—Hydel			
Rihand	300 .0	300 .0	300 .0
Obra Hydel	99 .0	99 .0	99 .0
Khatima	41 .4	41 .4	41 .4
Yamuna Stage I	84 .7	84 .7	84 .7
Yamuna Stage II	240 .0	240 .0	240 0
Kulhal	30 .0	30 .0	30 .0
Ramganga	66 .0	198 0	198 .0
Matatila	30 .0	30 .0	30 .0
Other small power stations on Ganga Canal	45 .2	45 .2	45 .2
Total	936 .3	1,068 .3	1,068 .3
C—Internal combustion	15 .5	15 .5	12 .5
D—Total of Board's own capacity	2,078 .3	2,490 .3	2,747 .3
Percentage of capacity of Harduaganj to total of Board's own capacity	14 .4	14 .5	15 .3

***Excludes 110MW of stage V of 'C' Power House rolled on 31st March 1978, but not put on commercial production.**

(b) The details of the electricity available from different sources during the three years up to 1977-78 are given below:

	1975-76	1976-77	1977-78 (Provisional)
		(In Mkwh)	
A—Steam			
Obra	2,429.8	2,780.1	2,744·3
Panki	358.3	340.5	1,052.4
Harduaganj			
'A' Power House	379.0	421.4	365.9
'B' Power House	1,299.0	1,310.1	871.4
'C' Power House	..	..	252.8
Riverside Power House, Kanpur Electricity Supply Administration	405.4	445.7	375.3
Other small thermal power stations	484.2	498.5	449.7
Total	5,355.7	5,796.3	6,111.8
B—*Hydel*			
Rihand	492.4	1,240.7	826.0
Obra Hydel	181.9	447.5	313.1
Khatima	230.7	176.5	126.8
Yamuna Stage I	489.1	410.5	355.2
Yamuna Stage II	730.9	856.3	813.8
Kulhal	89.5	157.5	145.0
Ramganga	94.6	208.4	252.1
Matatila	141.7	119.2	136.3
Other small power stations on Ganga Canal	204.6	215.4	206.7
Total ..	2,655.4	3,832.0	3,175.0
C—Internal combustion	1.4	1.6	2.5
D—Total generation from Board's stations	8,012.5	9,629.9	9,289.3
E—Power purchased from others	465.7	725.3	118.1
F—Total power available	8,478.2	10,355.2	9,407.4

	1975-76	1976-77	1977-78 (Provisional)
		(In Mkwh)	
G—Percentage of power generated in Harduaganj station to :			
(i) Total of Board's generation	20.9	18.0	15.9
(ii) Total of available power	19.8	16.7	15.7

(c) The following paragraphs deal with some aspects of the working of the Harduaganj Thermal Power Station:

7.03. The Power Station was established in 1945 with a generating capacity of 20 MW. With the fast industrialisation of the western part of the State, this Power Station was selected by the State Government for expansion in 1960. Expansion programmes were undertaken thereafter and the present generating capacity is 420 MW.* The old plants of 20 MW (1×10 MW and 2×5 MW) erected in 1942 were closed (one unit in 1967 and two units in 1970).

The table below indicates the year of commissioning of different units, the total generating capacity and the capital cost of the Power Station:

Unit	Proposed year and month of commissioning	Actual year and month of commissioning	Project estimate	Revised estimate	Expenditure incurred up to March 1978 (Provisional)
			(In lakhs of Rupees)		
A Power House 90 MW					
Stage I (2×30) I	September 1962	April 1962	559.31	549.00 (Year of revision not available)	549.00
II	September 1962	July 1962			

*Note—Refer note under para 7.02 (a).

Unit		Proposed year and month of commissioning	Actual year and month of commissioning	Project estimate	Revised estimate	Expenditure incurred up to March 1978 (Provisional)
				(In lakhs of Rupees)		
Stage II (1×30)	III	March 1964	March 1964	259.20	330.72 (Year of revision not available)	446.59
B Power House 210 MW						
Stage III (2×50)	I	March 1968	March 1968	1,044.49	1,999.53 (revised in 1965)	1,964.56
	II	September 1968	January 1969			
Stage IV (2×55)	III	September 1969	January 1972	1,094.44	2,156.12 (revised in 1967)	2,619.73
	IV	March 1970	September 1972			
C Power House 230MW*						
Stage V (1×110)	VII	December 1977	Not commissioned on commercial load (December 1978)	1,918.15	8,246.00 (revised in 1976)	8,212.36
Stage VI (2×60)	V	December 1976	May 1977	2,260.49		
	VI	June 1977	October 1977			

*Working of C Power House has not been dealt with in the Reveiw as the Power House worked for a short period.

Delay in commissioning of the units under stages III to VI was attributed (March 1978) by the Management to delay in arranging for replacement (second unit of stage III), delay in receiving plant and equipment from manufacturers (units of stage IV), delay in completion of steel structures and import of heavy steel section (first and second units of stage VI).

The variation between the original estimates and the revised estimates was stated (March 1978) by the Management to be due to the following reasons:

Stage II—(*a*) Revised estimates were based on actual tendered rates, and (*b*) provision of wagon tipplers and coal handling plant and equipment had to be made due to introduction of 90 tonne box type wagons by the Railways.

Stage III—Items not provided for or inadequate provision in the original estimate (Rs.456·23 lakhs) and increase in customs duty, devaluation of Indian currency and increase in labour rates (Rs.434·60 lakhs).

Stage IV—Original project estimate was based on imported plant whereas indigenous plant was provided for, which increased the cost by Rs.985·64 lakhs.

Stages V and VI—(*a*) Items not provided for or inadequate provision (Rs.2,341·95 lakhs); (*b*) increase in cost of equipment and material (Rs.735·72 lakhs); and (*c*) proportionate increase in direct and indirect charges and wages (Rs.987.59 lakhs).

7.04. *Organisational set-up*

The Power Station is managed by two Additional Chief Engineers, one for operation and maintenance and the other for construction of new projects. They are assisted by five and four Superintending Engineers respectively. A Senior Accounts Officer is responsible for the accounts relating to operation and maintenance and there is an Accounts Officer for accounts relating to construction works. In August 1978 a General Manager was appointed to act as a co-ordinating authority between these two at the site.

7.05. *Plant operation and outages*

The technical committee on power, appointed by the State Government in March 1972, in its report (December 1972) recommended, *inter alia,* that the thermal power stations of the Board should aim to achieve 80 *per cent* plant availability within a short time and 85 *per cent* within the next two or three years. Most of the units of the Power Station, however, could not achieve 85 *per cent* plant availability during the three years up to 1977-78. The available hours, actual operation hours and the percentage of plant availability of each unit, for the three years, were as under:

	1975-76			1976-77			1977-78		
Unit	Available hours	Actual operation hours	Percentage availability	Available hours	Actual operation hours	Percentage availability	Available hours	Actual operation hours	Percentage availability
A Power House									
1×30 MW set	8,784	6,305	71·8	8,760	7,806	89·1	8,760	6,106	69·7
1×30 MW set	8,784	7,007	79·8	8,760	6,665	76·1	8,760	6,345	72·4
1×30 MW set	8,784	5,909	67·3	8,760	7,224	82·5	8,760	7,182	82·0
Overall performance of three units	26,352	19,221	72·9	26,280	21,695	82·5	26,280	19,633	74·7
B Power House									
1×50 MW set	8,784	6,817	77·6	8,760	6,912	78·9	8,760	4,608	52·6
1×50 MW set	8,784	7,269	82·8	8,760	6,624	75·6	8,760	2,622	29·9
1×55 MW set	8,784	7,466	85·0	8,760	6,563	75·0	8,760	7,258	82·8
1×55 MW set	8,784	6,685	76·1	8,760	6,393	73·0	8,760	3,571	40·8
Overall performance of the four units	35,136	28,237	80·3	35,040	26,492	75·6	35,040	18,059	51·5
Overall performance of the station	..	..	77·0	..	..	78·5	..	..	61·5

NOTE: The figures are based on the plant records maintained by the Efficiency Division of the Power Station.

The details of outages in respect of the generating sets of the Power Houses 'A' and 'B', during the three years up to 1977-78, were as under :

Causes	Outages (in hours)					
	A Power House 3×30 MW sets			B Power House 2×50 and 2×55 MW sets		
	1975-76	1976-77	1977-78	1975-76	1976-77	1977-78
(i) *External*						
(*a*) Absence of demand in grid	..	..	..	..	144	..
(*b*) Grid disturbance	13	69	47	80	42	7
(*c*) Non-availability of coal/furnace oil	..	..	90	2	4	..
Total	13	69	137	82	190	7
(ii) *Internal*						
(*a*) Major overhauling	2,937	..	5,048	1,200	1,358	5,265
(*b*) Annual maintenance	210	2,376	..	479	1,652	5,123
(*c*) Fault/breakdowns in						
Boiler	1,666	614	339	1,326	1,270	2,109
Generator	357	48	58	68	138	2,962
Turbine	1,554	1,053	918	982	446	1,126
Superheater	..	..	..	2,040	3,070	40
(*d*) Others	418	425	147	722	424	349
Total	7,118	4,516	6,510	6,817	8,358	16,974
Total (i) and (ii)	7,131	4,585	6,647	6,899	8,548	16,981

NOTE : These figures are based on the records maintained by the Efficiency Division of the Power Station.

7.06. *Major overhauling and annual maintenance*

The technical committee on power, appointed by the State Government, in its report of December 1972, stated that by organising power maintenance and operation schedule and mobilisation of technical and operating staff, it would be possible for the Board to reduce the period of major overhauling and annual maintenance to eight and four weeks, *i.e.* 1,344 and 672 hours respectively.

Major overhauling is required to be carried out once in every three years. The time taken by the Power Station for major overhauling of some units was as follows :

Unit	Capacity (in MW)	Period	Hours taken
A Power House I	30	June to August 1975	1,705
I	30	August to November 1977	2,312
B Power House I	50	May to October 1977	3,777
IV	55	November 1977 to January 1978	1,488

Major overhauling of Unit II—50 MW and III—55 MW of B Power House was not done after 1974-75 and Unit II—30 MW of A Power House was not done during 1974-75 to 1976-77.

Similarly, the time taken for annual maintenance of some of the turbo-generating sets in the Power Station was in excess of the time recommended (672 hours) by the technical committee on power, as indicated below:

Year	Unit		Actual hours taken
1976-77	A Power House	II 30 MW	1,196
		III 30 MW	1,023
	B Power House	I 50 MW	798
1977-78 (January 1978)	A Power House	I 30 MW	2,312
		II 30 MW	1,137
		III 30 MW	1,269
	B Power House	II 50 MW	4,143
		IV 55 MW	980

The Technical Advisory Committee (for modernisation of maintenance procedure in large thermal power stations), appointed by the Government of India, in its report (June 1972) advised that the boilers should not be kept in operation over long periods without overhauls as it led to uneconomical and inefficient generation, increased and unplanned outages for emergent maintenance and occurrence of certain damages necessitating costly replacements. However, annual maintenance of Unit III (55 MW) was not done during the years 1975-76 and 1977-78.

7.07. (*a*) *Damage to turbine*

Unit VI (60 MW) of Stage VI suddenly tripped in November 1977 after running for 568 hours and got completely smashed beyond repairs. One of the wheels after disengaging itself from the Unit landed on the lubricating oil tank of another Unit V which had to be repaired at a cost of Rs. 12·50 lakhs and was put into operation in March 1978. The extent of damages to civil work of Unit VI was assessed at Rs. 2.00 lakhs approximately. The inital cost of the damaged turbine and generator of Unit VI was Rs. 250 lakhs. The turbine and generator were considered beyond repairs by the project authorities.

(*b*) *Explosions in the ball mill*

There were three (one in August 1974 and two in April 1975) explosions in a ball mill of Unit I installed in B Power House, which resulted in outages of 326 hours. A case study conducted by an Executive Engineer (Efficiency Division) of the Power Station (May to July 1975) to improve the plant availability reported (July 1975) the causes of explosion as poor ventilation, use of high hard grove index coal and presence of oxygen in the air. It was stated by Power Station authorities that care has been taken to ensure that rated flow of air is maintained through the ball mill.

7.08. *Low utilisation of capacity*

The following table gives the actual generation *vis-a-vis* the installed generating capacity:

Name of power house	Year	Installed generating capacity	Actual generation	Percentage of generation to installed capacity
		(In Mkwh)		
A	1975-76	790 .5	379 .0	47 .9
	1976-77	788 4	421 .4	53 .4
	1977-78	788 .4	365 .9	46 .4
B	1975-76	1,844 .6	1,299 .0	70 .4
	1976-77	1,839 .6	1,310 .1	71 .2
	1977-78	1,839 .6	871 .4	47 .4

In respect of A and B Power Houses, the optimum generation was fixed by the Board at 420 Mkwh and 1,260 Mkwh respectively.

7.09. *Thermal efficiency*

The particulars regarding the thermal efficiency (output of electrical energy, denoted as a percentage of the input of heat energy contained in the fuel used in generation) guaranteed by the manufacturers of the plant and achieved by different sets of the Power Houses A and B, during the three years up to 1977-78, are indicated below:

Particulars	Thermal efficiency guaranteed	Actual efficiency		
		1975-76	1976-77	1977-78
			(*Per cent*)	
A Power House				
Stage I—2×30MW	35 .0	16 .2	14 .8	14 .8
Stage II—1×30MW	35 .3	22 .7	23 .1	24 .4
B Power House				
Stage III—2×50MW	29 .9	29 .2	29 .9	27 .8

In the case of 30 MW sets, the lower thermal efficiency was attributed (March 1978) by the Project authorities to the inherent design defects of the boilers. Though the suppliers had carried out modifications, they have not been able to perform satisfactory acceptance test. The matter has been referred to arbitration in

1970. Further development in the matter is awaited (December 1978).

7.10. *Consumption of coal*

The coal consumption per Kwh energy generated in respect of various sets, as per the project estimates and the actuals there-against, were as under:

	1975-76	1976-77	1977-78
	(Quantity in grammes)		
A Power House			
3×30 MW sets			
As per the project estimate	630	630	630
Actual consumption	741	757	778
B Power House			
2×50 MW sets			
2×55 MW sets			
As per the project estimate	520	520	520
Actual consumption	654	600	640

Coal consumption in two sets of A Power House was high. Reasons for this were stated (March 1978) by the Management to be inherent design defects in boilers. The manufacturer could not perform satisfactory acceptance tests even after modification of the boilers.

The excess coal consumption in B Power House was attributed to leakage of steam in starting and stopping of machine and receipt of coal of different calorific values.

7.11. *Auxiliary consumption*

The details of auxiliary consumption in A and B Power Houses, during the three years up to 1977-78, are given below:

Year	A Power House Energy generated	Consumed in auxiliaries	Percentage of consumption	B Power House Energy generated	Consumed in auxiliaries	Percentage of consumption
	(In Mkwh)			(In Mkwh)		
1975-76	379.0	36.5	9.6	1,299.0	129.7	10.0
1976-77	421.4	41.1	9.8	1,310.0	132.0	10.1
1977-78	365.9	40.4	11.0	871.4	93.6	10.7

The project estimates (as revised in 1965 and 1967) of both the Power Houses provided for consumption of electricity in the auxiliaries at 8 and 7½ *per cent* in A and B Power Houses respectively. Taking the level of consumption, as laid down in the project report, the revenue on possible sale of power consumed in excess in the auxiliaries, during the three years up to 1977-78 (January 1978), was as under:

	1975-76	1976-77	1977-78
Excess consumption in auxiliaries (Mkwh)	38.5	41.1	39.3
Energy that would have been available for sale after allowing system losses (Mkwh)	30.8	32.0	32.0
Accruable revenue on sale of energy on the Board's average sales realisations (In lakhs of Rupees)	76·72	77·69	86·66

The Power House authorities stated (October 1978) that auxiliaries consumption varies according to the layout.

7.12. *Fuel*

Allocation of coal to various power houses is made by the Linkage Committee of the Government of India against rate contracts with the Coal India Limited. The power houses get coal from different collieries of eastern and central coal fields. There are two separate divisions for handling the supply of coal to the two power houses. In addition, there is an Efficiency Division for both the power houses to keep the records of fuel consumption.

There is no arrangement for weighment of coal at the receiving ends and the Board has to bear transit losses, if any. During April 1975 to February 1978, the transit losses of coal in B Power House ranged from 7 to 10 *per cent*. The value of coal lost during this period in excess of the permissible limit of five *per cent* as prescribed in Financial Handbook of the State Government adopted by the Board works out to Rs.128·64 lakhs.

The transit losses in A Power House ranged between 2·54 and 4·93 *per cent* during April 1974 to December 1977. The difference in quantum of transit losses of the two power houses was attributed (March 1978) by the project authorities to the following:

(i) The size of the coal received in A Power House was below one inch and in rare cases it went up to two inches to five inches, while the size of coal received in B Power House went up even to 24 inches which is more prone to pilferage enroute.

(ii) The collieries were different for the two power houses.

(iii) There were more stoppages enroute for B Power House than A Power House, resulting in more pilferages in transit.

(iv) Defective method of loading at loading points.

The Board stated (February 1979) that there was no agreement with Coal India Limited according to which Coal India Limited can be pressurised for reducing the size of coal.

Consumption of fuel oil

Records relating to receipts, storage and issue of light diesel oil/furnace oil for generation are maintained by the coal handling divisions, while consumption records are maintained in the Efficiency Division. The consumption is recorded at both the ends. There were variations in the two sets of figures of consumption recorded by the Coal Handling Division in B Power House and Efficiency Division, as detailed below:

Year	Light diesel oil		Furnace oil	
	As per records of the Coal Handling Division	As per per records of the Efficiency Division	As per records of the Coal Handling Division	As per records of the Efficiency Division
	(In Kilolitres)			
1973-74	9,621	10,363	800	. .
1974-75	8,737	11,094	5,980	3,169
1975-76	9,851	9,855	10,283	10,807
1976-77	15,689	15,604	1,272	1,250
1977-78	14,260	13,990	2,369	2,366

Reasons for the variations were not investigated (February 1979).

7.13. *Excess manpower*

The table below indicates the staff requirements for operation and maintenance of the Power Station and the actual deployment thereagainst:

	1975-76	1976-77	1977-78
A Power House			
Personnel factor per MW as per the project estimate	5 47	5.47	5.47
Actual	13.87	14.40	12.83
B Power House			
Personnel factor per MW as per the project estimate	4 47	4 47	4.47
Actual	8 07	9.65	7.49

The technical committee on power in its report (December 1972) observed that the manpower at the Harduaganj Power Station should have been of the order of 7·5 per MW. Reasons for the excess deployment of manpower have not been analysed (February 1979).

7.14. *Inventory control*

(*a*) Inventory control measures, adopted by the Power Station, were inadequate to the extent shown below:

(i) Annual estimates for purchases wrre not framed though the expenditure on purchases increased from Rs. 1,470·50 lakhs in 1975-76 to Rs. 2,107·62 lakhs in 1977-78. There was progressive increase in holdings of stores, spares, *etc.*, as shown below:

	1975-76	1976-77	1977-78
	(In lakhs of Rupees)		
Opening stock	221 00	372 85	461 12
Purchases during the year	1,470 50	1,606.22	2,107 62
Stores available for consumption	1,691 35	1,979 07	2,568 74
Stores consumed	1,318 50	1,517 95	2,071 77
Closing stock	372 85	461.12	496.97
Percentage of consumption to available stores	78.0	76.7	80.7

(ii) Norms of consumption of individual items, to locate excessive consumptions, were not fixed (February 1979).

(iii) Materials were not classified into critical, non-critical, fast and slow-moving items.

(b) Surplus/obsolete stores and spares

In November 1975, stores and spares of the value of Rs. 27·27 lakhs were declared surplus, out of which, stores and spares valuing Rs.23.53 lakhs (spare parts for generating sets: Rs. 2.95 lakhs, electrical and chemical goods: Rs. 4·16 lakhs, spares for Fargo trucks: Rs. 6·00 lakhs, steel and metals: Rs. 5·71 lakhs and miscellaneous items: Rs. 4·71 lakhs) were awaiting disposal (February 1979).

(c) Deficiency in stores accounting

A test check of the system of store-keeping and accounting showed the following position:

(i) Stock register and register of tools and plant are required to be closed periodically, *i.e.* half-yearly/yearly. Stock register and register of tools and plant were not maintained by the power houses as shown below:

	Power House A	Power House B
	Not maintained since	
Stock register	September 1971	March 1972
Tools and plant register	September 1972	September 1973

(ii) Inter-divisional debits within the Power Station, awaiting acceptance (March 1978), aggregated Rs.10.48 lakhs while Rs.2.55 lakhs were awaiting acceptance from outside divisions. Absence of the acceptances is fraught with risks of defalcation of stores.

(iii) Physical verification of stores and spare parts and other items was not conducted in the years 1973-74 to 1975-76 and was partly conducted during 1976-77.

7.15. *Cost control*

The Power Station follows a system of cost accounting under which cost of generation per unit is determined monthly. Cost sheets were prepared on the basis of monthly accounts in which figures of the expenditure on consumption of fuel and stores were not booked in the same month, which vitiated the cost results.

The table below indicates the cost of generation per unit as per the revised project estimate and the actual cost of generation thereagainst *vis-a-vis* the position in Obra Thermal Power Station:

	Cost of generation as per the project report	Actual cost of general per unit					
		1975-76		1976-77		1977-78	
		Obra	Hardua-ganj	Obra	Hardua-ganj	Obra	Hardua-ganj
		(In paise)					
A Power House							
Stage I	5.5	14.1	17.83	14.1	17.66	14.1	20.00
II	4.93						
B Power House							
Stage III	7.75	14.1	15.89	14.1	16.46	14.1	22.82
IV	7.79						

It was also noticed in Audit that no comparative study of the cost of generation of Harduaganj Thermal Power Station with that of Obra Thermal Power Station has been made by the Management (March 1979).

7.16. *Other points of interest*

Purchase of a tank

The Board, entered (February 1971) into an agreement, with a firm of Faridabad for supply of one hydrochloric acid (Hcl) storage tank for Rs. 0·42 lakh. The guarantee period was three years from the date of commissioning. Ninety *per cent* payment (Rs. 0·40 lakh) against railway receipt was made to the firm on 15th January 1972 and the tank was received in the same month. A day after its commissioning (10th April 1973) two holes appeared in the tank and the leakage of acid was so heavy that about eight tonnes of acid (valuing Rs. 2,800) leaked out. The tank has not been replaced or repaired by the supplier although the leakage was noticed within the guarantee period. The tank was lying unrepaired (February 1979). The case has been referred to the Vigilance Department by the Board.

The matter was reported to Government in September 1978; reply is awaited (March 1979).

SECTION VIII

UTTAR PRADESH STATE ELECTRICITY BOARD PROCUREMENT, PERFORMANCE AND REPAIR OF TRANSFORMERS

8.01. *Introduction*

Electricity generated at power generating stations, usually at 11 KV, is stepped-up at higher voltages ranging from 33 KV to 400 KV through 'step-up' power transformers for being transmitted into 'transmission system'. The high voltage electric power, passing through transmission lines, is supplied to the consumers by reducing the voltage through 'step-down' transformers installed at the sub-stations.

The transformers used at the generating stations and high voltage step-down sub-stations in the 'transmission system' are known as 'power transformers' while those used in the distribution system with low voltages are known as 'distribution transformers'.

8.02. *Purchase procedure*

Purchases of transformers for sub-stations up to 33 KV are made centrally by the Electricity Store Procurement Circle I, Lucknow and those of above 33 KV are purchased by Electricity Sub-station Design Circle, Lucknow. In 1976-77, purchase of distribution transformers up to 100 KVA was entrusted by the Board to a newly created Electricity Store Procurement Circle II, Lucknow. Panki Thermal Power Project, Kanpur was also permitted to purchase transformers for its own power station.

Decisions for purchases up to Rs. 50 lakhs against individual tender enquiries were taken by the Central Stores Purchase Committee (CSPC). The purchases above Rs. 50 lakhs required approval of the full Board. In July 1977, the Board authorised the CSPC to decide the cases above Rs. 50 lakhs and a reference to the Board was necessary only in cases in which the decision was not unanimous. Another committee consisting of two whole-time members (one concerned with the purchases), the Chief of the Project concerned, a representative of the Board's Accounts Wing and a representative of the Commissioner-*cum*-Secretary of the Finance Department of the State Government was constituted (July 1977) to decide purchases up to Rs. 50 lakhs.

As regards design of the transformers, the suppliers are free to adopt any design which is economical to them in use of raw materials. The Board lays down minimum technical requirements in each tender specification. Construction design of even distribution transformers up to 100 KVA has not been standardised by the Board, in spite of purchases of large number of such transformers.

8.03. *Purchases and utilisation*

(A) The Board has not maintained any consolidated numerical account of the transformers received on transfer of electricity undertakings of the State Government and *ex*-licensees, those purchased by it from time to time, as well as the transformers in use. According to the purchase orders placed during May 1962 to March 1978 by the Electricity Store Procurement Circles I and II, the Electricity Substation Design Circle and the Panki Power Station, 1,999 power transformers of 1·5 MVA to 240 MVA (value: Rs. 54·91 crores) and 1,78,780 distribution transformers of 5 KVA to 1,000 KVA (value: Rs.80·22 crores) were purchased during 1962-63 to 1977-78 as per the break-up given below:

Year	Power transformers (1.5 MVA to 240 MVA)		Distribution transformers (5 KVA to 1,000 KVA)	
	Number	Value (In crores of Rupees)	Number	Value (In crores of Rupees)
Upto 1972-73	1,298	13.36	1,13,593	39.85
1973-74	303	12.20	23,635	10.57
1974-75	51	7.71	2,295	1.28
1975-76	109	9.89	16,022	11.60
1976-77	116	6.42	12,485	10.82
1977-78	122	5.33	10,750	6.10
Total	1,999	54.91	1,78,780	80.22

In spite of the large scale purchases made in the last five years, the addition of installed transformer capacity was comparatively low as shown below:

Category-wise total capacity of transformers in service

	Power transformer				Distribution transformer	
	(Step-up)		(Step-down)			
	Number	MVA	Number	MVA	Number	MVA
As on 31st March 1973	133	1,660	1,044	5,735	77,196	2,967
Net addition during						
1973-74	2	115	69	711	2,783	301
1974-75	(—)19*	58	119	650	2,850	207
1975-76	4	398	135	1,389	(—)375*	282
Total as on 31st March 1976	120	2,231	1,367	8,485	82,454	3,757

The following position emerges from these figures:

(*a*) As compared to the installed capacity as on 31st March 1973 the 'step-up' transformer capacity increased by 38·1 *per cent* but the 'step-down' transformer capacity increased by 73.7 *per cent* as on 31st March 1976. In test audit, it was noticed that the excessive growth (73·7 per cent) of 'step-down' transformer capacity resulted in partial utilisation of 'step-down' transformers installed at 132 KV 'step-down' sub-stations as power load on these transformers was low. The maximum load on 20 MVA transformers, which are designed for taking load of 88 amperes at 132 KV, recorded at some of the 'step-down' sub-stations, was as under:

Place of sub-station	Number of 20 MVA 132 KV transformers in service	Maximum load during 1975-76 to 1977-78
Kasia (Deoria)	One	Declined from 51 amperes in 1975-76 to 48 amperes in 1976-77 and 38 amperes in 1977-78.
Deoria	One	Varied from 70 amperes in 1975-76 to 77 amperes in 1976-77 and 78 amperes in 1977-78.

*As a result of use of higher capacity transformers, the number of transformers as on 31st March 1975 and 1976 decreased though there was increase in installed capacites.

Place of Sub-station	Number of 20 MVA 132 KV transformers in service	Maximum load during 1975-76 to 1977-78
Ghaziabad (Industrial area)	Two	26 amperes on each transformer.
Ghaziabad (Bulandshahr Road)	Three	9 amperes on one and 18 amperes on each of the other two.
Ghaziabad (Mohannagar)	Five	75 amperes on each of two, 43 amperes on one, 22 amperes on one and 31 amperes on one transformer.
Sahibabad (Ghaziabad)	Three	53 amperes on one and 22 amperes on either of the other two (commissioned in March 1976).
Kauriram (Gorakhpur)	One	26 amperes in 1976-77 and 28 in 1977-78.

In spite of the low load on the existing 20 MVA transformers, the capacity of the 'step-down' sub-stations at these places and or in the areas served by them was being augmented by: (i) addition of one 20 MVA transformer of 132 KV at Deoria (commissioned in June 1978); (ii) construction of new 132 KV sub-station in New Okhala Industrial Estate (Ghaziabad) during 1976-77, and Mahrajganj (Gorakhpur) during 1977-78 and (iii) installation of one additional 20 MVA transformer at each of the sub-stations at Sahibabad (Ghaziabad), Deoria, Kasia (Deoria) and Kauriram (Gorakhpur). The work of installation of these additonal transformers at Sahibabad (Ghaziabad), Kasia (Deoria) and Kauriram (Gorakhpur) is in progress (March 1979).

Besides, construction of additional 132 KV sub-stations with 20 MVA 132 KV 'step-down' transformers is in progress at Anand Nagar, Sardarnagar and Captainganj in Gorakhpur district and Padrauna in Deoria district (March 1979).

(*b*) Out of 41,952 distribution transformers (value: Rs. 43·45 crores) purchased during 1973-74 to 1975-76, only 5,258 transformers were utilised in augmenting the installed capacity of transformers and the rest were utilised in replacement of damaged/stolen transformers.

(B) According to the Board's records there has been large scale damage of distribution transformers mainly due to manufacturing defects, thefts and operational as well as maintenance faults. This resulted in considerable reduction in the number of distribution transformers in use, as compared to the purchases made by the Board, which would be clear from the following table:

Capacity-wise transformers (KVA)	Purchases made during 1962-63 to 1975-76		Number of transformers in use on 31st March	
	Number	Value	1976	1977
		(In crores of Rupees)		
15	45,886	10·76	24,055	13,749
25	59,960	19·44	31,896	22,714
50	6,213	2·33	3,701	1,738
63	28,308	18·36	14,187	12,767
100	6,540	3·73	3,394	2,509
	1,46,907	54 .62	77,233	53,477

NOTE—These figures do not include distribution transformers of other capacities (between 5 KVA and 1,000 KVA).

The salient points noticed in the course of test audit of these purchases are given in the following paragraphs:

8.04. *Order preference*

(a) Firm 'A' of Calcutta for supplies from its factory at Naini (Allahabad)

In April 1956, the State Government agreed to grant incentive to firm 'A' of Calcutta for setting up of its transformer factory at Naini (Allahabad) by providing it a loan of Rs. 50 lakhs and acquiring land for the factory. The firm was also to be given sympathetic consideration in Government purchases of transformers provided "both the quality and price" of its products compared favourably with those of similar transformers manufactured by other firms of equal standing. After creation of the Electricity Store Procurement Circle, the Board placed an order on the firm (May 1962) for 750 transformers of 15 KVA (value: Rs. 0.14 crore) against Director of Industries rate contract dated 12th June 1961. On the basis of the

Board's first tender enquiry (June 1961) the firm was given another order (agreement executed in July 1963) for 15,235 transformers of 15 KVA (value: Rs. 4·20 crores). Since then, orders for 65,034 power and distribution transformers (value: Rs. 37·71 crores) were placed on this firm up to 1977-78. In test audit of the orders placed on the firm during October 1971 to July 1977, it was noticed that the comparative position of the rates quoted by the firm was from 3rd to 47th lowest Some other cases of preference given to the firm are as under:

(i) The firm was given orders for supply of 5,500 distribution transformers of various capacities (25 KVA, 63 KVA and 100 KVA) in October 1971 (value: Rs. 321·22 lakhs), 2,980 transformers (25 KVA and 63 KVA) in March 1972 (value: Rs. 139·58 lakhs) and 1,400 transformers (25 KVA and 63 KVA) in December 1972 (value: Rs. 53·60 lakhs), although it had failed till then to supply 1,000 transformers of 15 KVA against an order placed in May 1969 for supply of 2,000 transformers by February 1970. The unexecuted part of the order was ultimately cancelled in March 1974.

(ii) Against an order for 1,400 transformers (value: Rs. 53·60 lakhs) placed in December 1972 for delivery guaranteed by March 1973, no extension was to be granted under any circumstances. The firm failed to supply 1,000 transformers within the stipulated delivery period. It was granted extension of the delivery period up to 30th September 1973 on the grounds of non-availability of raw materials, labour strike in its factory during November 1972 and June 1973, power cut (period not specified) and delay in payments for its earlier supplies. This saved the firm from imposition of penalty amounting to Rs. 3 lakhs. Except one more firm (firm 'C'), two other firms on whom orders were placed in December 1972, were refused extension of the delivery period sought for (May 1973) by them on identical grounds.

Despite failure of the firm to supply transformers against the previous orders, it was given orders repeatedly for large number of transformers whereas on the same ground of failure in completing supplies other firms were not given orders by the Board.

(b) Firm 'C' of Lucknow

(i) The firm submitted its first tender on 21st December 1970 for supply of 25 KVA and 63 KVA distribution transformers against the Board's tender enquiry of September 1970 for supply of 19,650 transformers, the due date of which was extended from 30th November 1970 to 22nd December 1970. Before submission of its tender, the firm had requested (October 1970) a Divisional Officer of Lucknow to take delivery of two transformers of 25 KVA from its newly set up works in the industrial estate at Amausi (Lucknow) as per instructions given to the firm by the Additional Chief Engineer (Administration). The Divisional Officer advised the firm on 23rd October 1970 to deliver the two transformers to his store-keeper.

While delivery of the two transformers was awaited, the Additional Chief Engineer (Administration) alongwith the Superintending Engineer, Meerut, visited (30th December 1970) the firm's workshop and verbally asked it to deliver 100 transformers of 25 KVA to Bulandshahr and Hapur Rural Electrification Divisions of Meerut Circle. On 1st January 1971, the Electricity Store Procurement Circle I confirmed the verbal order of the Additional Chief Engineer (Administration) subject to finalisation of the terms, conditions and prices by the Board (against the tenders received in December 1970). An Executive Engineer of the Electricity Store Procurement Circle I inspected the firm's workshop on 5th January 1971 and on the basis of his report the Superintending Engineer of the Circle pointed out (8th January 1971) to the firm that its workshop was not well-equipped for manufacture of transformers. Simultaneously, he advised the firm to arrange in its workshop testing facilities and make improvements in the manufacturing technique as well as in the quality of materials used in manufacture of transformers before making supplies. No further verification of the firm's manufacturing technique was arranged by the Board.

After the firm completed supply of 102 transformers by March 1971, formal purchase order for the same was placed on it in May 1971 at Rs. 4,149 per transformer *plus* taxes, without indicating the technical specifications except the guaranteed iron and copper losses. Thus, the transformers were accepted without ensuring fulfilment of the requirements as per the Board's specifications. While the lowest tender was rejected on the ground that the tenderer was new to the Board, firm 'C' was given the rate of Rs.4,149 which was derived from the computed price (*i.e.* the total of the quoted price, capitalised value of iron and copper losses and loading for price variation, insurance, *etc.*) of the second lowest tender.

Before the formal order for 100 transformers was placed, the firm requested (March 1971) the Board for additional order of 400 to 450 transformers pending finalisation of the tenders. Based on the revised offer received (March 1971) from the firm against the tender enquiry of September 1970 (value: Rs. 39·10 lakhs) it was, however, given another order in October 1971 for 1,000 transformers of 25 KVA and 10 transformers of 63 KVA at the composite rates of Rs. 3,840 and Rs. 6,064 per transformer respectively for supply of transformers exclusively of copper winding and exclusively of aluminium winding in the ratio of 75 : 25. The order stipulated delivery of these 1,010 transformers by February 1972 but the firm completed supplies in the extended delivery period up to July 1972. The firm was given 11 more orders between March 1972 and June 1977 for purchase of 8,155 transformers (value: Rs. 4·38 crores) against tender received in December 1970, in spite of the fact that its quoted rates were never competitive and ranged between 6th and 55th lowest.

(ii) The construction design of the firm's transformers was not known. In support of its tender of December 1970, the firm submitted its construction drawings on 20th July 1971 after completing supply of 102 transformers. The drawings showed only the general arrangements. The firm did not submit any detailed drawings. In March 1973, an Inspecting Officer of the Board reported to the Electricity Store Procurement Circle I that no record was available with the firm to show whether even routine tests were carried out on the transformers supplied by the firm and whether the person employed by it for testing the transformers was fully conversant with the relevant provisions in the Indian Standards Specifications and the testing equipment. The firm had neither any ratio meter to check the voltage ratio and polarity of transformers nor were arrangements made by it to check the resistance of the low voltage bushings. The instruments for measuring the iron and copper losses had not been calibrated for two years (1971 and 1972). The Inspecting Officer concluded that the firm was not quality conscious. The Board, however, did not call for reports on performance of the transformers supplied by the firm.

8.05. *Price preference*

With a view to encouraging establishment of small scale and cottage industries, and strengthening and dispersal of such industries into rural areas the State Government provided, from time to time, for a scheme of price preference in their Store Purchase Programme. In February 1969, the scheme of price preference to local industrial units was extended as under:

(i) Preference in price not exceeding five *per cent* to small scale and cottage industries located in the State against such industries located outside the State and to medium and large scale units located in the State against small, medium and large scale units located outside the State.

(ii) Preference in price not exceeding 15 *per cent* to small scale and cottage industries located in the State against medium and large industries located outside the State.

(iii) Price preference shall be computed over the price of the next lower non-qualifying (for price preference) unit.

In January 1973, the Board examined the question of price preference and held that if price preference was granted, it would be necessary to move the State Government for grant of matching subsidy to compensate the Board for this financial burden. On a representation (20th April 1973) made to the State Government by the Uttar Pradesh Conductor Manufacturer's Association, Ghaziabad for a fair chance to the State industry, the Board in its emergent meeting held on 21st April 1973, granted five *per cent* price preference amounting to Rs. 57·29 lakhs to the industrial units located in the State for purchase of transformers, ACSR conductors and energy meters against five tender enquiries of 1972. Of this, Rs. 35·22 lakhs pertained to purchase of transformers against three tender enquiries of 1972. The Board approached Government in August 1973 and again in December 1973 to reimburse this extra financial burden. No reply has been received (December 1978). Price preference amounting to Rs. 42·84 lakhs was also granted in the purchases of transformers against two tender enquiries decided in May/June 1977.

A substantial part of the financial benefit so granted to transformer manufacturers had gone to the following large and medium firms even though the price preference policy was aimed at granting encouragement to small scale and cottage industries:

Name of firm	Amount (In lakhs of Rupees)
'A' of Calcutta having factory at Naini (Allahabad)	32.36
'B' of Lucknow	7.45
'C' of Lucknow	7.99
'D' of Meerut	15.57
	63.37

Price preference was not granted in the case of orders placed on small scale industries for purchase of various other items.

The Superintendening Engineer, Electricity Store Procurement Circle I, stated (September 1977) that the price preference was granted in specific cases as directed by the State Government.

8.06. *Extra expenditure in purchase of distribution transformers up to* 100 *KVA*

(*a*) *Negotiated purchase at higher rates*

A tender enquiry was floated (March 1975) for purchase of 6,000 'conventional'/'sealed' type (with special bushings) distribution transformers of 25 KVA (3,000), 63 KVA (2,500) and 100 KVA (500) during 1975-76, asking for separate rates for the 'conventional' and 'sealed' type transformers and provision of special bushing in the 'sealed' type transformers preferably made of epoxy compound. Out of 53 tenders received, 36 offers were for 'sealed' type transformers. CSPC decided (17th May 1975) to purchase 7,650 'sealed' type transformers of 25

KVA and 63 KVA and 500 'conventional' type transformers of 100 KVA as under:

Name of firm	Number of transformers for which orders were to be placed			Rate (In Rupees)	Position of the accepte rate among all tenders
	25 KVA	63 KVA	100 KVA		
Associate of 'D' of Meerut	250	..	..	4,500 (firm)	Lowest
Associate of 'D' of Meerut	..	250	..	8,100 (firm)	Lowest
'I' from Ghaziabad factory	400	..	..	5,100 (firm)	Second lowest
'I' from Ghaziabad factory	..	300	..	9,050 (firm)	Third lowest
'I' from Ghaziabad factory	..	..	500	10,200 (firm)	Second lowest rate quoted by firm 'M' of Baroda
Seven other firms	4,000	..	..	5,100 (variable subject to a ceiling of 10 *per cent*)	Quoted by firm 'I' on firm price basis
Seven other firms	..	2,450	..	8,800 (variable subject to a ceiling of 10 *per cent*)	Quoted by three firms of Calcutta, Bharatpur and Meerut
Total	4,650	3,000	500		

However, orders for purchase of 15,027 transformers with conventional bushings were placed (for 9,920 transformers in July 1975 and for 5,107 transformers in September 1975) as under:

Name of firm	25 KVA ('sealed' type)		63 KVA ('sealed' type)		100 KVA ('conventional' type)	
	Number	Rate (In Rupees)	Number	Rate (In Rupees)	Number	Rate (In Rupees)
Associate of firm 'D'	310	4,500	250	8,100	..	..
'I'	400	5,100	300	9,050	..	..
'D'	400	5,100 (variable)	1,150	8,800 (variable)	150	10,200
'A'	2,600	5,100 (variable)	2,450	8,800 (variable)	..	..
Ten other firms	3,222	5,100 (variable)	3,135	8,800 (variable)	500	10,200
Trial order on nine firms	85	5,100	75	8,800	..	..
Total	7,017		7,360		650	

Although 'sealed' type transformers had been purchased earlier from certain firms including firm 'D' on trial basis, the lowest rates of D's Associate for 'sealed' type transformers with special bushing made of epoxy compound were not considered for being offered to other firms on the ground that the associate firm had no experience in manufacture of 'sealed' type transformers. It may be stated that the two firms were managed by the same group of persons and as such the question of experience in manufacture of 'sealed' type transformers was not material especially when orders were placed on firm 'O' of Agra, 'F' of Allahabad, 'FF' of Kanpur and 'TT' of Lucknow in July/September 1975 against this enquiry, although none of them had any past experience in manufacture of transformers.

Purchases of 6,707 transformers of 25 KVA and 7,110 transformers of 63 KVA (value: Rs.10·03 crores) at the higher rates of Rs.5,100 and Rs.8,800, instead of the lowest technically acceptable rates of Rs.4,500 and Rs.8,100 (offered by the Associate of firm 'D' of Meerut) respectively, resulted in an extra expenditure of Rs.90·76 lakhs.

The approved rates of Rs.4,500 and Rs.5,100 for 25 KVA and Rs.8,100 to 9,050 for 63 KVA transformers, quoted by firm 'D' of Jaipur and firm 'I' of Sonepat (for supply from its Ghaziabad factory) were inclusive of the extra charge for providing special bushing as stipulated in the tender document. The then acting Chairman of the Board, in his instructions dated 23rd May 1975 to the Electricity Store Procurement Circle, stated that "it is unnecessary to invest approximately Rs.300 per transformer extra on the specified type of bushings as the incidence of breakage of bushings during transit and also after installation is comparatively small". The condition of providing special type bushings preferably made of 'epoxy' compound was, therefore, not incorporated in the purchase orders placed on the various firms. No price reduction for this change in the specification of the transformer was, however, made while placing the orders. This resulted in excess payment of Rs.43·13 lakhs (approximately) to the suppliers.

Against the order placed on firm 'A' for 2,600 transformers of 25 KVA and 2,450 transformers of 63 KVA, it supplied 2,354 transformers of 25 KVA and 1,689 transformers of 63 KVA by the due date (March 1976). The delivery period in this case was extended (6th May 1976) up to 31st May 1976 and again (8th August 1976) extended *ex-post* facto, up to 30th June1976 although lower rates of Rs.4,800 and Rs.8,700 for transformers of the two capacities had been received against subsequent tenders opened in April 1976. Thus, by accepting the supplies from the firm in the extended delivery periods at rates which were higher by Rs.300 and Rs.100 per transformer of 25 KVA and 63 KVA, as compared to the subsequent orders placed in September 1976 (against the tenders opened in April 1976) the Board incurred an extra expenditure of Rs.1·50 lakhs on 246 transformers of 25 KVA and 761 transformers of 63 KVA. The reasons for acceptance of supplies beyond the scheduled delivery period, when lower rates were available, were not on record.

(b) Non-acceptance of lower offer

The Board floated a tender enquiry (September 1972) for purchase of 14,800 transformers (8,000 of 25 KVA, 6,000 of 63 KVA and 800 of 100 KVA) required for rural electrification programme during 1973-74 and for replacement of damaged/stolen transformers. In response to this enquiry, 59 offers were received of which the offers of 31 firms (17 located within the State and 14 located outside the State) were found technically acceptable. The rates offered by the firms, however, varied widely. The lowest offers were made by firm 'XX' of Meerut (located within the State) for transformers of 25 KVA (Rs.3,050) and 63 KVA (Rs.5,175) and by firm 'Y' of Bombay for 100 KVA (Rs.6,660). As decided by the CSPC, all the 31 firms were called for negotiations by the Chief Engineer (Rural Electrification). No reasons are on record as to why such a procedure was adopted. As a result of negotiations conducted in March to May 1973 and taking into account further demand that had arisen in the meantime, 25 of the above 31 firms were requested to make supplies of 13,400 transformers of 25 KVA, 8,275 of 63 KVA and 850 of 100 KVA at the rates of Rs.3,150, Rs.5,250 and Rs.6,800 respectively or their quoted rates whichever were lower. The rates offered in the negotiations were not acceptable to six firms located within the State (A, B, C, D, E and F) and one firm located outside the State. While placing orders (June 1973) on the 25 firms, these seven firms were given higher rates of Rs.3,270 and Rs.3,307 for 10,900 transformers of 25 KVA, Rs.5,354 to Rs.5,511 for 7,100 transformers of 63 KVA and Rs.7,140 for 200 transformers of 100 KVA. The higher rates so allowed to the six firms of the State were due to grant of five *per cent* price preference (Rs.29·56 lakhs) over the lowest technically acceptable rates quoted by the firms located within the State.

The offers made during negotiations by eleven firms to supply 7,675 transformers (4,500 of 25 KVA, 2,975 of 63 KVA and 200 of 100 KVA) at lower rates, over and above the number of transformers originally offered by them, were ignored. No reasons for such action were recorded. The purchase of these 7,675 transformers at the higher rates resulted in an extra expenditure of Rs.17·59 lakhs.

The following further points were also noticed in Audit:—

(i) Nineteen firms ('A', 'B', 'C', 'D', 'E' and 'F' and 13 others) failed to supply 4,289 transformers of 25 KVA, 2,186 transformers of 63 KVA and 45 transformers of 100 KVA by the due date (March 1974). The supplies were completed by them in the extended delivery period between April 1974 and July 1975. In spite of the delay in the supplies they were allowed (March 1975) price increase aggregating Rs.44·26 lakhs on the plea of increase in the price of transformer oil during the extended delivery period, although the purchase orders were placed on them on 'firm' price basis. The price increase allowed (March 1975) to the various suppliers was, however, limited to the rise in the price of oil or half of the total increase in the aggregate cost of manufacture of transformers (including oil) whichever was less except firm 'A' which had already been allowed (December 1974) full rise in the price of transformer oil and was paid Rs.18·08 lakhs on this account for the supplies of 2,667 transformers (value: Rs.99·51 lakhs). It had stopped supplies from April 1974 and had resumed the same in December 1974 only after the above price rise was allowed to it. The supplies of the 2,667 transformers were completed by the firm during extended delivery period up to March 1975. Formal approval of the Board granting extension in delivery periods to various firms was not on record.

(ii) Firm 'D' was also allowed (January 1975) full increase in price of transformer oil. On the basis of limited price increase approved by the Board in March 1975, recovery of Rs.4·15 lakhs became due from the firm in respect of 309 transformers of 25 KVA and 624 of 63 KVA. The consignees were asked to recover the amount from the firm. The recovery could not, however, be effected as full payments for the transformers supplied by the firm had already been made. In January 1976, the Electricity Store Procurement Circle I advised the consignees not to press for the recovery of the excess payment till a decision was taken on a representation (December 1975) of the firm. After examination of the firm's representation the Circle asked the firm (December 1976) to refund the excess payment but the firm has not refunded the amount (March 1979).

(iii) After completion of supplies (March 1975), firm 'A' submitted (March 1975) its revised drawings of 25 KVA and 63 KVA transformers, showing use of more transformer oil than provided for in its original drawings and on that basis it obtained extra payment of Rs.1·32 lakhs in respect of 830 transformers.

(iv) The orders placed on various firms stipulated supply of 'conventional' type transformers. Supplies of 600 'sealed' type transformers of 25 KVA (500) and 63 KVA (100) were taken by the Board from firm 'A' during December 1974 to March 1975 in extended delivery period at an extra charge of Rs·2.25 lakhs (Rs·350 and Rs·500 per transformer of 25 KVA and 63 KVA respectively) for the change in the design of the transformers from 'conventional' to 'sealed' type. Two small scale industrial concerns, each having orders for 100 transformers of 25 KVA, were, however, asked by the Board (November/December 1976) to supply 137 'sealed' type transformers without any extra charge for the above change in the design of the transformers, which were supplied by the two firms in the extended delivery period up to May 1978.

(c) *Delay in taking decision on tenders*

On the basis of requirement intimated by the Rural Electrification Design and Planning Circle, a tender enquiry of November 1971, for purchase of 11,200 distribution transformers of 25 KVA, 63 KVA and 100 KVA, stipulated that the tenders should be valid for three months from the date of opening (14th December 1971). Out of 52 offers received, only 14 tenders were considered technically valid. The lowest technically acceptable rates of Rs.3,000 and Rs.5,300 quoted by firm 'K' of Meerut for 25 KVA and 63 KVA transformers respectively were rejected on the ground that the firm was a new unit. The second lowest tenderer, *viz.* firm 'I' of Sonepat (having works at Ghaziabad also), quoted two sets of rates, one valid for two months and the other valid for three months for supply of transformers from its Sonepat and Ghaziabad works respectively, as under :

Capacity of transformer (in KVA)	Sonepat works		Ghaziabad works	
	Two months validity	Three months validity	Two months validity	Three months validity
	(Rates in Rupees per transformer)			
25	3,300	3,420	3,320	3,440
63	5,625	5,850	5,655	5,880
100	7,200	7,350	7,240	7,390

The lower rates were valid up to 14th February 1972. But the tenders were not decided within the validity period of the lower rates. As per recommendations (4th March 1972) of the CSPC, the Board decided on 9th March 1972 to place orders on six firms having their factories within the State (including firm 'I' at Ghaziabad) for purchase of 5,180 transformers of 25 KVA, 4,050 transformers of 63 KVA and 990 transformers of 100 KVA at the rates quoted by them or the higher of the two sets of rates of firm 'I' for supply from its Sonepat factory (*viz.* Rs.3,420, Rs.5,850 and Rs.7,350), whichever were lower. The Chief Engineer (Maintenance and Commercial) was also required to assess the capacity of these six firms and if they were not in a position to supply all the transformers by March 1973, he was authorised to distribute the quantity in excess of their capacity amongst other firms with the approval of the Chairman.

The capacity of the six firms was accordingly assessed by the Chief Engineer (Maintenance and Commercial) and purchase orders for 10,220 transformers were placed (March 1972) on twelve firms at the higher rates of firm 'I' and on firm 'P' of Calcutta at its quoted rates of Rs·5,695 and Rs·7,250 (with one *per cent* discount) per transformer of 63 KVA and 100 KVA respectively (value : Rs·8.58 crores). The delay of 23 days in finalising the tenders after 14th February 1972 resulted in placing order on the various firms at the higher rate of firm 'I' (validity period of the lower rate having already expired) and consequential extra expenditure of Rs·16.42 lakhs to the Board in the supply of 10,220 transformers.

In terms of the orders placed with the various firms, the supply of transformers against these orders was to be completed between October 1972 and March 1973. But six firms supplied 62 transformers of 25 KVA and 593 transformers of 63 KVA after the expiry of the delivery period (July 1973). Additional supplies of 200 transformers of 25 KVA and 75 transformers of 63 KVA were also received from one of the twelve firms between December 1972 and April 1973, as per instructions (November 1972) from the Electricity Store Procurement Circle. In the meantime, lower rates of Rs·3,200 and Rs·5,400 for transformers of 25 KVA and 63 KVA respectively were available to the Board in September 1972 against another tender enquiry floated in August 1972. Orders at these lower rates were placed in December 1972. Had the Board cancelled the unexecuted part of the order of March 1972 for transformers not supplied within the delivery period (62 transformers of 25 KVA and 593 transformers of 63 KVA), it could have purchased these transformers including the additional requirement of 200 transformers of 25 KVA and 75 transformers of 63 KVA at the lower rates available in September 1972 and avoided an extra expenditure of Rs.3·58 lakhs. The reasons for acceptance of supplies beyond the scheduled delivery period, when lower rates were available, were not on record.

(d) *Purchase at rates derived from the computed price of another tender*

On the basis of requirement intimated by the Rural Electrification Design and Planning Circle for energisation of 50,000 tube-wells during 1971-72, the Superintending Engineer, Electricity Store Procurement Circle I invited tenders (September 1970) for purchase of 19,000 distribution transformers of 15 KVA (2,000), 25 KVA (6,000), 63 KVA (8,000) and 100 KVA (3,000). Before the enquiry was floated, the Superintending Engineer had proposed (August 1970) to the Chief Engineer (Hydel) to consider the desirability of discontinuing the existing practice of capitalising the iron and copper losses for the purposes of comparison of the quoted rates in respect of distribution transformers (up to 100 KVA) purchased in bulk. The proposal was made since it was not practicable to check the actual losses either in the manufacturers' works or in actual use of these transformers. No decision on the proposal was available on record. The practice was, however, discontinued from the subsequent tender enquiry of November 1971.

Meanwhile, on the basis of limited quotations obtained (March 1971) from 33 firms which had submitted (December 1970) their offers against the tender enquiry of September 1970, the Board decided (October 1971) to purchase 9,520 transformers from firm 'A', 'B', 'C', 'D' and 'E' at the following rates derived from the computed prices of firm 'I' (*viz.* Rs.7,285 for 25 KVA, Rs.13,280 for 63 KVA and Rs. 17,822 for 100 KVA transformers):

	25KVA		63KVA		100 KVA	
Firm	Number	Rate	Number	Rate	Number	Rate
			(Rates in Rupees)			
'A'	2,000	3,848	3,000	6,700	500	8,652
'B'	1,000	3,876	10	7,067	..	..
'C'	1,000	3,840	10	7,019	..	..
'D'	500	3,435	500	5,720	..	..
'E'	500	3,890	500	6,910	..	..
Total	5,000		4,020		500	

No order was placed for 15 KVA transformers as their use was found uneconomical.

Purchase orders were accordingly placed in October 1971 on these five firms for supply of 9,520 transformers. The price so allowed to four firms (excluding firm 'D') for purchase of 8,520 transformers was higher than the quoted rates of firm 'I' (Rs.3,750 for 25 KVA, Rs.6,350 for 63 KVA and Rs.7,900 for 100 KVA transformers). The capitalisation of the iron and copper losses thus resulted in an extra expenditure of Rs.22·02 lakhs in the purchase of 8,520 transformers (value: Rs.4·54 crores), as compared to the rates quoted by firm 'I'.

Even on the basis of the capitalised value of iron and copper losses, the technically acceptable computed prices of firm 'U' of Calcutta (Rs. 12,784 for 63 KVA and Rs. 16,829 for 100 KVA transformers) and that of firm 'I' for 25 KVA transformers (Rs. 7,285) were the lowest. The quoted prices of firm 'U' were Rs. 6,204 and Rs. 7,694 for 63 KVA and 100 KVA transformers respectively. In spite of the fact that, like other tenderers, the firm 'U' had indicated in the tender that its rates were exclusive of any increase in sales-tax and other statutory levies, the quoted rates of the firm were loaded with five *per cent* for statutory variations for the purpose of comparison, due to which its computed prices became higher (Rs. 13,103 and Rs. 17,225 for transformers of 63 KVA and 100 KVA respectively). The offer of firm 'U' was rejected on the ground that the firm was a small scale industry and had no experience in the manufacture of aluminium wound transformers. The firm in its tender had, however, given a long list of supplies of transformers (up to 2,500 KVA) made to various State Electricity Boards (Madhya Pradesh, Punjab, Rajasthan, Maharashtra and Uttar Pradesh during 1967-68 and 1969-70) and other undertakings/projects. The purchase of 4,040 transformers of 63 KVA and 500 transformers of 100 KVA at the rates derived from the higher computed prices of firm 'I' (Rs. 13,280 and Rs. 17,822 per transformer of 63 KVA and 100 KVA respectively) resulted in an extra expenditure of Rs. 24·90 lakhs, as compared to the rates payable on the basis of the computed rates of firm 'U' (Rs.12,784 for 63 KVA and Rs.16,829 for 100 KVA transformers).

The purchase orders of October 1971 stipulated completion of supplies by March 1972. The supplies of 1,531 transformers of 25 KVA, 1,290 transformers of 63 KVA and 128 transformers of 100 KVA were, however, made between April 1972 and April 1973, during which purchases of similar transformers were made from the same firms at lower rates of Rs·3,420, Rs·5,850 and Rs·7,350 against a tender enquiry floated in November 1971. Compared to these lower rates available to the Board during that period, acceptance of supplies after the expiry of the stipulated delivery period at the higher rates resulted in an extra expenditure of Rs.18·66 lakhs. The reasons for acceptance of supplies after the expiry of the stipulated delivery period, when lower rates were available, were not on record.

8.07. *Purchase of distribution transformers (above* 100 *KVA) on the basis of higher computed price*

(*a*) A tender enquiry was floated by the Electricity Store Procurement Circle I in September 1972 for purchase of 490 distribution transformers of 160 KVA to 1,000 KVA for use in rural electrification works during 1972-73. The validity of the tenders was got extended twice up to 30th April 1973. The CSPC decided on 26th April 1973 to purchase 140 transformers of 400 KVA to 1,000 KVA on the basis of these tenders and to invite limited quotations from the tenderers for supply of aluminium wound transformers of 160 KVA (200) and 250 KVA (150) as purchase of copper wound transformers up to 300 KVA was not permissible against orders placed after March 1973, in view of the Government of India directive dated 12th February 1972. Accordingly, limited quotations were invited in May 1973 and opened on 4th June 1973 for purchase of 350 aluminium wound transformers of 160 KVA and 250 KVA. In response, 28 offers were received, which were valid up to 5th September 1973 but no decision was taken by that date although three months' time was available for finalisation of the limited quotations. The tenderers were asked on 3rd September 1973 to extend the validity of their offers up to 4th November 1973, which was accepted by all of them except one firm of Bombay. The lowest quoted rates of Rs.10,200 (computed price: Rs.24,277) for 160 KVA and Rs.14,800 (computed price: Rs.33,234) for 250 KVA transformers, offered by firms 'U' of Calcutta and 'X' of Dhanbad respectively were rejected (October 1973) on the ground that firm 'X' of Dhanbad had not started supply of transformers against an earlier order of June 1973 and firm 'U' of Calcutta did not adhere to the delivery schedule of the order placed on it in June 1973. It may be stated that owing to price rise, similar defaults were made by other firms in the supplies against the orders placed in June 1973 and the supplies were resumed by them in 1975 after the Board allowed them price increases in December 1974. Their tenders were, however, not rejected on this ground.

The Chief Engineer (Hydel) was authorised by CSPC on 31st October 1973 to negotiate with seven firms to bring down their prices to that of the second lowest offers by firm 'M' of Baroda (computed price: Rs.25,276) and firm 'B' of Lucknow (computed price: Rs.36,135) for 160 KVA and 250 KVA transformers respectively and to distribute the order amongst the firms which agreed to those prices.

In the negotiations held by the Chief Engineer on 3rd November 1973, the rate of firm 'M' offered to other firms was not accepted by them. Five firms, *viz.* 'B', 'D', 'E', 'I' and Government Electric Factory (GEF) of Bangalore demanded higher rates which were to be worked back from computed prices varying from Rs.26,084 to Rs.28,900 for 160 KVA transformers. Firm 'E' of Mirzapur and GEF of Bangalore demanded rates to be worked back from their higher computed prices of Rs.37,710 and Rs.38,120 respectively for 250 KVA transformers but firm 'I' accepted the rate offered in the negotiation. No decision was, however, taken in the matter. On 7th December 1973, the five firms were again asked to extend the validity period of their tenders up to 22nd December 1973. While extending the validity period of its offer, firm 'B' of Lucknow increased its quoted rate for 160 KVA transformers from Rs.11,150 to Rs.12,700 and for 250 KVA transformers from Rs.15,350 to Rs.17,200. Firms 'D' and 'E' did not extend the validity of their offers. The remaining two firms ('I' and GEF) agreed to the extension It was, however, decided (December 1973) by CSPC to purchase 170 transformers of 160 KVA from firm 'B' at the higher rates of Rs.12,148 (derived from the computed price of Rs.27,711 of firm 'D') and from firms 'D' and 'I' at their quoted rates of Rs.11,950 and Rs.11,500 respectively. It was also decided to purchase 70 transformers of 250 KVA from GEF of Bangalore at its quoted rate of Rs.15,900. Purchase orders were, accordingly, placed on the various firms between December 1973 and August 1974 on 'firm' price basis, except in the case of firm 'D' which was allowed variable rates. No order was given to firm 'I' of Sonepat and reasons for the same were not on record.

The long time thus taken in deciding the tenders and rejection of the lowest rates in the circumstances explained earlier in the paragraph resulted in an extra expenditure of Rs.8·33 lakhs (Rs. 3·98 lakhs for rejection of the rates offered by 'X' and 'U' and Rs.4·35 lakhs on account of delay in deciding the tenders).

(*b*) In September 1975, indents were received from the Controller of Stores and Agra Electric Supply Undertaking for early purchase of 415 distribution transformers of 250 KVA to 1,000 KVA. Tenders were invited in September 1975 for supply of 300 transformers within six months from the date of order. After negotiations conducted with the firms of the State, who had submitted tenders, orders were placed in July and December 1976 for purchase of 610 transformers (value: Rs.2.24 crores).

(i) The lowest technically acceptable rates were as indicated below:

Tenderer	Capacity of transformer (in KVA)	Rates (In Rupees)	
		Quoted	Computed
'R' of Mathura	250	21,000	43,200
'R' of Mathura	400	30,500	60,340
'R' of Mathura	630	44,000	86,720
'HH' of Calcutta	1,000	70,680	1,34,570

The lowest offers were passed over on the ground that the firms had not manufactured and supplied transformers of these ratings in the past. Representatives of firm 'A', 'D' and 'G' were called for negotiations with CSPC on 5th March 1976, on the ground of their experience, although their computed prices were not competitive as indicated below:

Transformer capacity (in KVA)	Comparative position of computed prices of the firm		
	'A'	'D'	'G'
250	28th	25th	27th
400	16th	23rd	30th
630	22nd	17th	26th
1,000	22nd	15th	28th

During negotiations, these firms were asked to supply 250 KVA and 400 KVA transformers at the prices derived from the second lowest computed prices of Rs. 44,038 (quoted price: Rs. 22,000) and Rs. 63,820 (quoted price: Rs.36,000) respectively offered by firm 'V' of Cuttack. Firm 'A' did not accept the offer while firms 'D' and 'G' accepted only for supply of 250 KVA transformers subject to grant of five *per cent* price preference on the basic price of Rs.22,000 quoted by Firm 'V' of Cuttack. In the case of 400 KVA transformers, the three firms held that the iron and copper losses of 600 watts and 4,200 watts quoted by the Cuttack firm were very low and impracticable. The computed price payable to them for 4000 KVA transformers were, therefore, revised. The revised price worked out to Rs. 68,887 which was arrived at from the aggregate quoted price of firm 'V' of Cuttak (Rs.36,000) plus five *per cent* price preference (Rs. 1,800) and the value of higher iron and copper losses of 635 watts and 5,200 watts respectively quoted by firm 'D' of Meerut (Rs.31,087). On this basis, the prices payable to firms 'G' and 'D' for 250 KVA transformers worked out to Rs. 22,148 and Rs. 22,038 while the same for 400 KVA transformers amounted to Rs. 38,813, Rs. 37,800 and Rs. 38,250 for firms 'G', 'D' and 'A' respectively.

Accordingly, orders for purchase of 225 transformers of 250 KVA and 255 transformers of 400 KVA were placed in July 1976 and December 1976 on nine firms (includidng the three firms mentioned above) at the higher rates so worked out in the negotiations. The largest number of transformers of 400 KVA (170) were purchased from firm 'A' at the rate of Rs.38,250. An order for 35 transformers of this rating at Rs.37,923 was also given to firm 'C' of Lucknow although as indicated in the tender note the firm had not till then manufactured transformers above 100 KVA.

CSPC decided to negotiate again with firms 'D' and 'G' for purchase of 630 KVA transformers at Rs.51,810 and Rs.52,080 respectively. The rates were derived from the third lowest computed price of Rs.97,161 offered by firm 'W' of Bombay. Similarly, 1,000 KVA transformers were decided to be purchased from firms 'D' and 'G' at the rates of Rs.75,690 and Rs.73,836 derived from the computed price of Rs.1,42,784 offered by firm 'W' of Bombay. On that basis, orders for purchase of 80 transformers of 630 KVA and 30 transformers of 1,000 KVA were placed on the two firms at these rates. Orders were also placed on firm 'B' of Lucknow for supply of five transformers each of 630 KVA and 1,000 KVA at Rs.50,723 and Rs.72,104 respectively and on firm 'E' of Mirzapur for supply of five transformers each of 630 KVA and 1,000 KVA at Rs.52,799 and Rs.78,970 respectively, which were worked out on the same basis. These transformers were received by the Board during November 1976 to July 1977. Compared with the lowest technically acceptable offers the Board incurred an extra expenditure of Rs.38·27 lakhs in purchase of these 610 transformers (value: Rs.2·24 crores).

(ii) Besides, the construction design indicated by the suppliers in their tenders were subsequently changed by them when they submitted their drawings after receipt of the orders. All of them reduced the quantity of transformer oil by which they made a saving of Rs.2·11 lakhs. Firm 'A' reduced the weight of tank and fittings by 305 kg whereby it saved about Rs.1·56 lakhs in the supply of 170 transformers. Firm 'C' of Lucknow reduced the weight of leg coils by 45 kg and also of the tank and fitting by 35 kg per transformer. According to the details given in the tenders, the drawings of the firm and the purchase orders, the saving effected by the firm on this account worked out to Rs.0·97 lakh on 35 transformers. Electricity Store Procurement Circle I became aware of these variations while examining the revised drawings for approval. No price reduction was effected on the ground that the construction design of the transformers was left to be decided by the manufacturers.

8.08. *Extra expenditure in purchase of power transformers*

(*a*) *Undue loading of lowest computed rates*

Tenders were invited in April 1975 for purchase of twelve transformers of 3 MVA and eight of 5 MVA for increasing the capacity of the existing sub-stations and also for new sub-stations, to augment the irrigation facility for the *rabi* crop of 1975-76. On the basis of the tenders received in response to the enquiry, orders were placed in August 1975 on firms 'A' and 'D' for purchase of 15 transformers of 3 MVA (value: Rs.33·21 lakhs) and in October 1975 on firm 'A' for 10 transformers of 5 MVA (value: Rs.37·62 lakhs). The purchase orders stipulated delivery of 3 MVA transformers by December 1975 and 5 MVA transformers by March 1976. Firm 'A' supplied 12 transformers of 3 MVA between 30th September and 31st December 1975. All the transformers of 5 MVA and three transformers of 3 MVA were supplied by the two firms between 31st March 1976 and 21st June 1976, which were, thus, not available for the 1975-76 *rabi* crop. *Ex-post facto* extension of delivery period was granted to firm 'A' (March 1978) up to 30th June 1976 and to firm 'D' (April 1978) up to 21st April 1976.

The prices payable to firm 'A' under the orders placed in August and October 1975 were Rs.2,23,300 per transformer of 3 MVA and Rs.3,76,200 per transformer of 5 MVA while firm 'D' of Meerut was allowed Rs.2,13,789 per transformer for three transformers of 3 MVA. In both the cases, the rates were *f.o.r.* destination on 'firm' price based on the iron and copper losses as quoted by the two firms. Four lowest quoted rates were ignored (June 1975) by unduly loading them for assumed price and statutory variations (calculated at 25 and 10 *per cent* respectively in the case of the lowest tender and 25 *per cent* for price variation in the case of the other three tenders) without consideration of the fact that there was a general downward trend in prices of materials used in manufacture of transformers as per the monthly list of raw material prices circulated by the Indian Electrical Manufacturers' Association (IEMA). Such loading in the case of subsequent tender enquiries of August and September 1975 was, however, made at 10 *per cent* and five *per cent* respectively. As per the periodical circulars of IEMA, the prices of electrolytic copper bars and strips declined from September 1974 onwards and remained the same in the calender year 1975 and thereafter it continued to be low up to March 1976. The increase of 25 *per cent* in prices of materials and 10 *per cent* for statutory variations were also on higher side as the maximum limit for price increase in the materials as per the existing IEMA formula, was 10 *per cent*. Besides, the question of statutory variations (on finished product) was to be considered at par in all the cases as the rates tendered by all the firms were exclusive of taxes and duties. Thus, loading of the lowest rates made them look higher than the seventh lowest 'firm' rate of 'A' which formed the basis for placing of the orders for 3 MVA transformers. This resulted in an extra expenditure of Rs.5·46 lakhs in the purchase of 15 transformers of 3 MVA compared to the lowest quoted rate of Rs.1·85 lakhs per transformer quoted by a firm of Bombay.

The tender specification required submission of drawings of the transformers along with the tender. Firm 'A' did not submit any drawing for 3MVA transformers with its tender. Its drawing for 5 MVA transformer, received in the Circle office (after placement of the order), provided for manufacture of each transformer with 4,700 litres of transformer oil as against 4,900 litres given in the technical particulars of its tender. No price reduction for 2,000 litres of transformer oil (value: Rs.0·20 lakh) so saved by the firm in the supply of 10 transformers of 5 MVA was enforced.

After inspection of the transformers at the works of firms 'A' and 'D' the Board's Inspecting Officer reported about the deficiencies in the works and the transformers manufactured for the Board. The reports of the Inspecting Officer and the points noticed in that connection are discussed below:

(i) Firm 'D' (inspected in January and February 1976) had no arrangement for recording high tension resistence. Test certificates in respect of oil, bushing relay and radiator used in the transformers were not available with it, welding of the radiator fins required improvement, painting of the transformer tanks was not even, and in heat-run tests temperature rise of oil was more than that permissible under the contract. The three transformers were again inspected on 11th/13th April 1976 and it was found that welding of the radiators was still unsatisfactory. The firm was, however, allowed to despatch the transformers.

One of the transformers supplied by the firm in Moradabad district was installed on 19th January 1977. It was damaged on 4th May 1977. Another transformer supplied in Bulandshahr during May 1976 developed defects in off-load tap changer switch in June 1976.

(ii) Against the orders placed on firm 'A' in August and October 1975 for 12 transformers of 3 MVA (value: Rs.26·80 lakhs) and 10 transformers of 5 MVA (value: Rs.37·62 lakhs), the firm offered for inspection one 3 MVA transformer on 15th/17th December 1975. The Inspecting Officer of the Board conducted only routine and heat-run tests and allowed the firm to despatch the same. Supplies of the remaining 11 transformers of 3 MVA were completed by the firm in December 1975, out of which only three transformers were inspected and inspection of eight transformers was neither carried out nor waived by the Board.

(iii) One transformer of 5 MVA was offered by firm 'A' for inspection on 23rd May 1976. During the inspection, a number of defects were noticed in the parts used in the transformer, but on the ground of urgent requirement indicated by the Board, the firm despatched this and five other (5 MVA) transformers and their inspection was waived by the Member (Commercial).

(iv) Impulse tests were not carried out on any of the transformers of the two capacities supplied by firm 'A' though the same were not waived by the Board.

According to the reports from two consignees, received in the Electricity Store Procurement Circle I between September 1976 and May 1977, various defects like leakage of oil, rise in the oil and winding temperature, cracks in conservator tank, *etc.* were noticed on installation/commissioning of one transformer of 3 MVA and three transformers of 5 MVA supplied by firm 'A'. Report about performance of other transformers supplied by the firm under this order were not available. The Superintending Engineer, Electricity Store Procurement Circle I, stated (September 1977) that the firm had been asked to remove the defect noticed in a couple of transformers. According to the information compiled by the Board in August 1977, there were 322 damaged power transformers of various capacities which included 87 power transformers supplied by firm 'A' against various orders.

(b) Rejection of lowest technically acceptable tender

On the basis of tenders invited in August 1975, an order was placed (July 1976) on firm 'A' for supply of two transformers of 5 MVA 33/11 KV and two transformers of 5 MVA 33/66 KV at its quoted rates of Rs.3,58,734 and Rs.3,95,697 respectively (total value: Rs.15.09 lakhs). The lowest offer of firm 'M' of Baroda at Rs.2,95,000 per transformer of both the ratings was rejected on the ground that it had not executed an earlier order placed on it in December 1973 for 30 transformers of 160 KVA. It was, however, noticed in the course of audit that the firm had not accepted the order for 160 KVA transformers as the terms of delivery and payment had not been settled. In fact, several other firms had also not supplied transformers against orders placed on them in June/December 1973 on the grounds of rise in the price of raw materials. By ignoring the lowest technically acceptable offer, the Board incurred an extra expenditure of Rs.3·29 lakhs in purchase of the four transformers (value: Rs.15·09 lakhs).

In terms of the contract, firm 'A' was required to carry out impulse and heat-run tests on one unit of each rating, for which Rs. 0.20 lakh were included in the price. No such tests were, however, carried out and Rs. 0.40 lakh paid to the firm on this account have not been recovered March 1979. Performance of these transformers was also not watched by the Board.

(c) Conditional enhancement of order quantity

Tenders for purchase of 40 transformers of 3 MVA and 22 transformers of 5 MVA were invited in September 1975 for increasing the capacity of the existing 33 KV sub-stations, replacement of damaged transformers and feeding the new sub-station. CSPC, however, decided (5th March 1976) to purchase 20 transformers of 3 MVA and 40 transformers of 5 MVA on the ground that most of the sub-stations having 3 MVA transformers were getting over-loaded. Although the rates quoted by firm 'A' were the ninth lowest, the proposal of the Electricity Store Procurement Circle I to place orders on it for bulk of the requirement was accepted by CSPC on the ground that the firm had supplied, in the past, a large number of transformers to the Board. It may be stated that some of the firms which quoted lower rates were well established and had also supplied transformers to the Board in the past.

Accordingly, an order was placed on firm 'A' in March 1976 for purchase of 15 transformers of 3 MVA and 22 transformers of 5 MVA at Rs. 2,12,220 and Rs. 3,42, 682 each, respectively on 'firm' price basis (value: Rs. 1.07 crores). In June 1976, the firm approached the then Member (Commercial) with the request to place an additional order for 15 transformers of 3 MVA and 22 transformers of 5 MVA. Taking into consideration the programme of construction of new sub-stations and increasing the capacity of the existing sub-stations, the Member (Commercial) proposed (11th June 1976) to the Chairman of the Board that additional 15 transformers of 3 MVA and 22 transformers of 5 MVA shoul be purchased from firm 'A' (value: Rs. 1.07 crores). The Chairman approved (24th June 1976) the proposal on the condition that the order for the additional supply should not interfere with the repair work of damaged transformers entrusted to the firm and that a clear stipulation should be made that for each transformer supplied under the additional order the firm should repair one damaged transformer, failing which the additional order would become invalid. Order for the additional supply was placed on the firm in July 1976 with the aforesaid stipulation, according to which 37 power transformers were to be repaired by the firm up to July 1977. The firm completed the supply of all the transformers by July 1977 under the original as well as additional orders but it had repaired only five power transformers by that time. Owing to its failure to undertake repair of matching number of transformers, the Board posted in its works an Executive Engineer from August 1977 to work as a Liason Officer for arranging repairs of the transformers. Under the contract the firm, however, repaired in all

21 power transformers up to February 1979. The balance 16 transformers have neither been got repaired nor recovery for damages effected from the firm.

The following points were also noticed:

(i) While the ninth lowest offer of firm 'A' was accepted for placing the order, the third lowest (but lowest technically acceptable) offer (valid for four months as per the tender conditions) of firm 'M' of Baroda at Rs. 1.88 lakhs and Rs. 2.88 lakhs per 3 MVA and 5 MVA transformer respectively on 'firm' price basis was rejected on the ground that the firm had failed to supply 30 transformers of 160 KVA against an order placed on it in December 1973. As already stated earlier, firm 'M' had not accepted the order because the terms of delivery and payment had not been settled. As regards capacity of firm 'M' to manufacture and supply power transformers, the report of the Executive Engineer, who inspected its works at Baroda in November 1973, showed that the firm had a big industrial establishment manned by highly technically qualified staff for manufacture of transformers and that it had exported power transformers to foreign countries. It had also supplied 10 transformers of 5 MVA to the Board against an order placed in May 1975 by the Electricity Sub-station Design Circle. Rejection of the lowest technically acceptable offer of this firm resulted in an extra expenditure of Rs. 31.33 lakhs in the purchase of 74 power transformers (value: Rs. 2.14 crores) from firm 'A'.

(ii) After the order was placed on firm 'A' incorporating its design particulars submitted by the firm in November 1975, it changed the following technical particulars in the final design submitted in June 1976 for approval:

	Original design of November 1975		Revised design of May 1976	
Item	3 MVA	5 MVA	3 MVA	5 MVA
Transformer oil (in kgs.)	1,900 (2,200 litres)	3,900 (4,500 litres)	1,697 (1,950 litres)	2,915 (3,350 litres)
Tank and fittings (in kgs.)	3,100	4,400	2,153	4,385
Cores and windings (in kgs.)	5,000	6,700	5,000	6,700
Total weight (in kgs.)	10,000	15,000	8,850	14,000

In reply to an objection raised by the Board on the revised design (June 1976), the firm explained that while accepting the order on 'firm' price basis it had changed the design of the transformer owing to which the quantity of oil, weight and dimensions of the transformers were slightly revised. No such revision was, however, recorded in the minutes of CSPC meeting in which the purchase was decided and the rates were accepted by the firm. Transformers of the revised design were accepted by the Board between August 1976 and July 1977 without any price reduction for the saving of about Rs. 5.96 lakhs made by the firm by reducing the quantity of transformer oil and tank and fittings in the supply of 30 transformers of 3 MVA and 44 of 5 MVA.

(*d*) *Purchase on limited negotiation basis*

Tenders were invited in December 1976 for purchase of 100 transformers of 3 MVA for rural electrification work in 1977-78. CSPC decided (May 1977) to purchase only 50 transformers for which orders were placed in June 1977. The lowest *f. o. r.* destintion rate of firm 'G' of Calcutta at the computed price of Rs.3,76,222 (quoted price: Rs. 1,95,000) on 'firm' price basis was ignored on the ground that the firm had not gained experience in manufacture of transformers and had not supplied power transformers to the Board. The firm's tender, however, indicated that it had supplied 3 MVA transformers to the West Bengal and Bihar State Electricity Boards in 1976-77 and it was also registered with DGS & D for supply of power transformers.

After limited negotiations with the manufacturers in the State. CSPC decided to place orders for 30 transformers on firm 'A' (15th lowest) and for 20 transformers on firm 'D' (18th lowest) at the second lowest computed price of Rs. 3,86,438 offered by firm 'O' of Baroda (quoted price: Rs. 2,11,500) *plus* five *per cent* price preference. This decision was taken by CSPC on the ground that performance of the power transformers of firm 'A' was found "generally satisfactory" and firm 'D' had since improved the quality of its power transformers.

The computed prices of the offers of firms 'A' and 'D' were Rs. 4,28,116 and Rs. 4,40,916 (quoted price: Rs. 2,35,100 and Rs. 2,15,000) respectively as against Rs. 3,97,000 (quoted price: Rs. 2,11,500) offered to them. In subsequent negotiations with the

Member (Commercial), firm 'A' offered transformers of lower iron and copper losses. The capitalised value of the reduction in the iron and copper losses amounted to Rs. 3,333 and on that basis the price of Rs. 2,09,097 per transformer was accepted by firm 'A'. Similarly, the price payable to firm 'D' was worked out to Rs. 1,94,364 per transformer after deducting the presumptive value of iron and copper losses, *etc.* On the basis of the lowest computed price of firm 'G' (Rs. 3,76,222), the firms 'A' and 'D' should have been given the rates of Rs. 1,98,075 and Rs. 1,83,336 (including five *per cent* price preference). Thus, by ignoring the lowest computed price of firm 'G', the Board incurred an extra expenditure of Rs. 5.51 lakhs in purchase of 50 transformers from firms 'A' and 'D' besides allowing them extra benefit of Rs. 0.41 lakh in price preference.

8.09. *Higher evaluation of purchase price*

Tenders were invited by the Electricity Sub-station Design Circle in June 1976 for purchase of four transformers each of 20 MVA. The lowest computed price offered by firm 'Z' of Lucknow for four transformers alongwith accessories, two sets of spare parts, 10 *per cent* reserve oil as well erection and commissioning charges was Rs. 95.21 lakhs. But the computed price was Rs. 96.16 lakhs as worked out in the Circle office by adding Rs. 0.91 lakh for extra transformer oil, which had already been included in the quoted price. Besides, the value of guaranteed tolerance in losses of electricity was added at 15 *per cent* instead of 10 *per cent* offered by the firm, which resulted in higher evaluation of the firm's computed price by another Rs. 0.04 lakh.

CSPC decided (31st January 1977) to purchase the transformer from firm 'A' provided it agreed to reduce its computed price of Rs. 103·99 lakhs to the level of the computed price of firm 'Z' (Rs. 96.16 lakhs). On that basis, the firm became entitled to a total price of Rs. 57.82 lakhs for four transformers including the price of extra oil, two sets of spare parts and accessories. While accepting the offer of CSPC, firm 'A' reduced (February 1977) its guaranteed iron and copper losses of 18.5 KW and 104 KW to 17.5 KW and 98 KW respectively.. The capitalised value of the reduction in the guaranteed iron and copper losses resulted in financial benefit of Rs. 2.06 lakhs to the firm as the purchase price worked out from the computed price of Rs.96.16 lakhs was increased from Rs.57.82 lakhs to Rs.59.88 lakhs. Accordingly, purchase order for four transfermers was placed on the firm 'A' in March 1977 for Rs.59.88 lakhs. Thus, the firm got total additional benefit of Rs.3.01 lakhs.

8.10. *Excess payments owing to technical variations*

The technical specifications of the tender enquiries floated by the Electricity Store Procurement Circle I in November 1971 and September 1972 for purchase of 25 KVA, 63 KVA and 100 KVA transformers included provision of low tension cable box and maximum temperature rise of 50°C in windings and 40°C in oil at full load of the transformers. The orders placed on various firms against these enquiries at the rates quoted by firm 'I' of Sonepat, stipulated supply of transformers of these specifications except that orders placed on firm 'E' of Mirzapur stipulated supply of transformers as under:

Month of purchase order	Transformer on order		Temperature	Rates
	Capacity (in KVA)	Number	rise (In centigrade)	(In Rupees)
March 1972 (against the enquiry of November 1971)	25	250	55°/45°	3,420 (without cable box)
	63	250	55°/45°	5,850 (without cable box)
	100	50	55°/45°	7,350 (without cable box)
June 1973 (against the enquiry of September	25	1,000	50°/40°	3,270 (without cable box)
1972)	63	1,000	50°/40°	5,400 (with cable box)
		2,550		

Against the order of June 1973 also, the firm supplied 2,000 transformers of the temperature rises of 55°/45° C and without providing the cable box. In a similar case of orders placed (December 1972) on firms 'T' of Bombay and 'U' of Calcutta against another tender enquiry of September 1972 for *ex*-stock supply of transformers of the same specifications, the rates allowed by the Board to the two firms were reduced by Rs.150 per transformer for non-provision of the cable box and another Rs.150 per transformer for higher temperature rise up to 55°/45° C. No such price reduction was, however, effected while accepting supplies against the two orders on firm 'E' of Mirzapur. This resulted in grant of financial benefit of Rs.7.65 lakhs to firm 'E' in supply of 2,550 transformers of higher temperature rises and without the cable box.

8.11. *Extra payment for aluminium wound transformers*

The Central Water and Power Commission (CWPC) advised the States Electricity Boards in February 1971 that no orders for purchase of copper wound transformers above 100 KVA and up to 300 KVA should be placed after 1st April 1971. In respect of transformers up to 100 KVA, the CWPC also advised the Boards to call for tenders and place orders at composite rates for supply of copper wound transformers and aluminium wound transformers in the ratio of 75 : 25 up to March 1972 and 40 : 60 during 1972-73. Only aluminium wound transformers were to be purchased from 1st April 1973 onwards.

A tender enquiry was floated in September 1972 for supply of copper wound transformers and aluminium wound transformers in the ratio of 40 : 60 in 1973-74 when only aluminium wound transformers should have been purchased in accordance with the advice of the CWPC. Orders were placed (March/June 1973) for supply of 11,200 transformers of 25 KVA, 7,475 transformers of 63 KVA and 700 tranformers of 100 KVA with stipulation for supply of copper wound transformers and aluminium wound transformers in the ratio of 40:60. However, under instructions of the Chief Engineer (Hydel), the firms were permitted between January 1974 and March 1975 to supply 683 transformers of 25 KVA, 596 of 63 KVA and 135 transformers of 100 KVA with aluminium winding in place of copper winding. No price reduction was effected due to this material change in the construction design of these transformers.

Under this tender enquiry, three firms of Calcutta, Faridabad and Ghaziabad had quoted composite rates for copper wound transformers and aluminium wound transformers in the ratio of 40 : 60 and also for only aluminium wound transformers as under:

Transformer capacity (in KVA)	Composite rates	Rates for aluminium wound transformers
	(In Rupees)	
25	3,150	3,050
63	5,250	5,150
100	6,800	6,700

The composite rates quoted by these firms were allowed to various firms with whom orders were placed against this enquiry. The price difference between the composite rates for supply of transformers in the ratio of 40:60 and the rate for aluminium wound transformers only was Rs.100. On this basis, the difference in the prices of copper and aluminium wound transformer works out to Rs.250 per transformer. The financial benefit derived by the various firms in the supplies of 1,414 aluminium wound transformers in place of copper wound transformers, against the various orders under reference, thus, works out to Rs.3.54 lakhs. There is no recorded reasons for allowing composite rate for aluminium wound transformers.

8.12. *Inspection and testing*

(a) The tender specifications as well as the purchase order provided, *inter alia,* for inspection and testing of transformers as under:

(i) The Board's Inspecting Officers were authorised to inspect and examine the materials used in manufacture of transformers and workmanship of the transformers, for which suppliers were required to give 15 days' notice to the Electricity Stores Inspection Circle in respect of every lot of transformers ready for despatch.

(ii) The transformers were to be subjected, *inter alia,* to the following tests:

Routine tests on all the transformers in regard to resistance capacity of windings, impedance voltage, ratio polarity, phase relationship and iron and copper losses.

Impulse voltage withstand test on a transformer of a particular type, design and capacity.

Temperature rise test on one transformer of a particular type, design and capacity from each batch of transformers offered for inspection.

(iii) The suppliers were to submit invoices, test certificates, *etc.* in respect of the materials used in the transformers.

(b) The following points in this regard were noticed in course of test audit:

(i) Inspection and routine testing of transformer was limited to small proportion of the supplies, as per the instances given below:

	October 1971		March 1972		March/June 1973	
Capacity (in KVA)	Number purchased	Number inspected	Number purchased	Number inspected	Number purchased	Number inspected
25	5,000	24	5,580	220	13,400	1,569
63	4,020	98	4,125	600	8,275	1,105
100	500	..	990	400	975	151

(ii) Inspection and testing were waived without recorded reasons in the case of the following supplies:

Waiving authority	Month of order	Supplier	Number of transformers	Capacity (in KVA)
Electricity Stores Inspection Circle	October 1971	Firm 'E'	195	63
Electricity Stores Inspection Circle and Electricity Store Procurement Circle	June 1973	13 firms	4,132 2,353 142	25 63 100
Member (Commercial)	January 1974	Firm 'S'	7 1	3,000 5,000
Member (Commercial)	July 1975	Firm 'A'	600	25 and 63

(iii) The following firms supplied transformers without any intimation to the Electricity Stores Inspection Circle for their inspection and testing:

Supplier	Capacity (in KVA)	Number	Period of supply
Firm 'C'	25	1,043	1972-73
	63	222	1972-73
Firm 'A'	25 and 63	1,800	1973-74
Firm 'I'	25 and 63	250	1972-73

(iv) Supplies of 22,525 transformers of 25 KVA, 63 KVA and 100 KVA, made by 16 firms up to July 1975 against orders placed on them in March/June 1973, were accepted without conducting impulse and temperature rise tests on any transformer, on the ground that there was cut or interruption in power supply to their factories.

(v) On testing a transformer each from a lot of 30 transformers of 63 KVA, offered by firm 'O' of Baroda in November 1972 and two lots each of three transformers of 25 KVA and 16 transformers of 63 KVA, offered by firm 'C' of Lucknow in April 1973, the Board's Inspecting Officer reported that the temperature rise in the tested transformers was higher than the maximum limits of 50°C in windings and 40°C in oil specified in the purchase orders. But only the tested transformers were rejected and the supply of the others was accepted without conducting temperature rise tests on any other transformer.

(vi) The suppliers' invoices and manufacturers' test certificates in respect of the materials used were not on record in all the cases. Large scale damage of distribution transformers was reported in paragraph 8.06 of the Report of the Comptroller and Auditor General of India for 1976-77 (Commercial).

8.13. *Repair of power transformers against central contracts*

On the basis of tenders received in July 1975 for repair of power transformers (115 of 1.5 MVA, 55 of 3 MVA and 32 of 5 MVA), CSPC approved (May 1976) labour charges of Rs.9,000, Rs.17,250 and Rs.24,000 per transformer respectively as quoted by firm 'A'. The rates in respect of new leg coils to be supplied and the old leg coils to be retained by the repairers were decided at Rs.75 and Rs.21 per kg respectively. The lowest technically acceptable rates for labour charges at Rs.3,500 for 1.5 MVA, Rs.4,000 for 3 MVA and Rs.5,000 for 5 MVA transformers and Rs. 60 per kg for the new leg coils, offered by a firm "M" of Baroda, were not accepted on the ground that in lieu of earnest money the Baroda firm had submitted only the certificate of registration with Director General, Supplies and Disposals (DGS&D). In this connection it may be stated that certificates of registration with DGS&D was accepted by the Board in lieu of earnest money in other cases also and the firm had already been given orders by the Board for supply of 10 transformers of 5 MVA in July 1975 against a tender enquiry without insisting for earnest money.

An analysis made in the Electricity Store Procurement Circle I and submitted to CSPC in October 1975, revealed the price of new leg coils as Rs.60 per kg which was the same as quoted by the firm of Baroda. This rate was raised to Rs.75 in January 1976 as firm 'A' contended that labour charges in the manufacture of leg coils accounted for 50 *per cent* of their total cost. In this connection it may be pointed out that according to the IEMA cost analysis, adopted by the Circle (October 1974) in the case of a tender enquiry for repair of copper wound distribution transformers, the labour cost was taken at 10 *per cent* of the price of the copper wire used in the leg coils.

Firms 'A' and 'D' were awarded (May 1976) contracts for repair of 50 and 35 power transformers respectively at the rates approved by CSPC. The repair cost, inclusive of the price of leg coils, oil and labour at the rates provided in the contracts, together with the cost of stampings (at Rs.25 per kg quoted by firm 'D' of Meerut), worked out to Rs.1.45 lakhs, Rs.2.29 lakhs and Rs.3.29 lakhs per transformer of 1.5 MVA, 3 MVA and 5 MVA respectively. As against these, the price for a new 1.5 MVA transformer was Rs. 1.30 lakhs (estimated by the Electricity Store Procurement Circle I in March 1977) and the prices of 3 MVA and 5 MVA transformers, at which purchases were made by the Board from these firms during 1976-77 and 1977-78, were Rs.1.94 lakhs and Rs.3.23 lakhs respectively.

Non-acceptance of the technically lowest offer of the firm of Baroda in the circumstances mentioned earlier resulted in extra expenditure of Rs.0.21 lakh, Rs.0.35 lakh and Rs.0.50 lakh on leg coil and labour charges per transformer of 1.5 MVA, 3 MVA and 5 MVA respectively.

Against these contracts, firm 'A' repaired only 16 transformers (1.5 MVA-10, 3 MVA-2 and 5 MVA-4) and firm 'D' repaired 12 transformers of 1.5 MVA, 31 of 3 MVA and four of 5 MVA, up to September 1978. The extra expenditure in repair of these 63 transformers amounted to Rs.20.17 lakhs.

8.14. *Repair contracts by field units*

Under instructions (April 1975) of his Superintending Engineer, the Executive Engineer of Electricity Maintenance Division, Allahabad arranged (May 1975) inspection of one distribution and four power transformers at Naini works of firm 'A' for their repairs. As a result, the firm estimated (July 1975) the repair charges of these damaged transformers at Rs.5.04 lakhs which was reduced (December 1975) by Rs.0.22 lakh on account of the price of spare parts to be supplied by the Board. No credit for the salvaged materials valuing Rs.1.13 lakhs (including 4,380 kgs. of damaged copper leg coils and 4,200 litres of used transformer oil to be retained by firm) was given in the estimates for repair charges. The estimates of the firm were approved by the Member (Commercial) in February 1976 although tenders for repairs of power and distribution transformers at lower charges had already been opened in July 1975 and February 1976 respectively. Transformer-wise details of the repair charges allowed to the firm and the cost of repair calculated at the rates provided in the centrally executed contracts for repair of power transformers (May 1976) and distribution transformers above 100 KVA (June 1976) are as under:

Transformer capacity (in MVA)	Number of transformer repaired	Total repair charges paid	Cost of repair at the rates of centrally executed contract
			(In lakhs of Rupees)
5	1	2.00	1.51
1.5	1	1.10	0.84
1.5	1	0.99	0.83
1.5	1	0.51	0.34
0.25	1	0.22	0.10
Total	5	4.82	3.62

For repair of the five transformers, payments of Rs.5.11 lakhs (including Rs.0.29 lakh towards excise duty and sales tax) were made by the Executive Engineer during 1976-77.

Similarly, a power transformer of 1.5 MVA (value : Rs.1 lakh approximately) was given to firm 'A' for repairs from the Electricity Distribution Division I, Varanasi in March 1975. The firm charged Rs.0.90 lakh and retained the salvaged materials valuing about Rs. 0.17 lakh without any adjustment in the repair charges.

In almost all these cases, the repair charges were more than the economical limits fixed (March 1977) by the Board for the repair work under the centrally executed agreements (Rs.0.13 lakh for 250 KVA, Rs.0.60 lakh for 1.5 MVA and Rs.1.65 lakhs for 5 MVA transformers).

The matter indicated in paragraphs 8.01 to 8.14 was reported to the Board and Government in September 1978; replies are awaited (February 1979).

8.15. *Summing up*

(a) In some cases decision on tenders was delayed in spite of seeking extensions. Validity of the technically acceptable lowest tenders was not kept in view for timely decision on the tenders to avail of the benefit of the lowest technically acceptable rates.

(b) In many cases, lower technically acceptable tenders were rejected and orders were placed on firms whose tenders were higher.

(c) In certain cases supplies beyond scheduled delivery periods were accepted and *ex-post facto* extensions in delivery periods were granted even though offers had been received by the Board for supply of transformers at lower rates during such extended delivery periods.

(d) Price preference was granted to medium and large industries which was not in conformity with the price preference policy of the State Government.

(e) No procedure was laid down by the Board to obtain performance reports from the field about the serviceability of transformers supplied by various firms.

(f) The actual iron and copper losses of electricity were not watched after installation of the transformers. Capitalisation of such losses for comparison of tendered rates for deciding purchase prices, thus, became academic.

(g) In some cases supplies of transformers were accepted without exercising even routine tests (including check on iron and copper losses) while in some cases inspection and testing of the transformers supplied by various firms were waived on the ground that the Board's inspection wing was not adequately staffed.

(h) While purchase orders were placed on certain firms which had not in the past manufactured or even repaired transformers (firms 'B' and 'C' of Lucknow and 'F' of Allahabad), the lower tenders of some other firms (firms 'K' of Meerut, 'L' of Varanasi and 'R' of Mathura) which had the experience in repair of the Board's damaged transformers of different makes, construction design and capacity were rejected on the ground that they had not supplied transformers to the Board in the past.

SECTION IX

UTTAR PRADESH STATE ELECTRICITY BOARD

LOSS OF REVENUE

9.01. *Non-segregation of circuits*

According to the tariff applicable to large and heavy power consumers, if the energy supplied for consumption in a factory is utilised for domestic purpose also, such consumption should be segregated and metered separately. Consumption so recorded separately should be charged under the appropriate rate schedule. In case separate metering is not arranged, the entire consumption should be charged at the higher rate applicable to mixed load.

Test chek of the records of seven divisions showed that seven consumers (six heavy and one large power) were, however, not billed at higher rate schedule for use of electricity for purposes other than for which it was sanctioned. The amount of undercharge aggregated Rs.29.24 lakhs as detailed below:

Name of division	Number of consumers	Period of undercharge	Amount of undercharge
			(In lakhs of Rupees)
Electricity Commercial Division, Faizabad	1	12th October 1974 to January 1978	21 .04
Electricity Commercial Division, Roorkee	1	December 1974 to March 1978	2 .61
Electricity Commercial Division, Bulandshahr	1	March 1976 to March 1977	2.10
Electricity Distribution Division, Barabanki	1	26th December 1976 to 29th September 1977	1 .88
Varanasi Electric Supply Undertaking, Varanasi	1	July 1977 to April 1978	1 .02
Electricity Distribution Division, Rampur	1	March to September 1977	0 .30
Electricity Commercial Division, Ghaziabad	1	December 1976 to October 1977	0 .29
			29 .24

The Board/Government stated (January/February 1979) that in respect of Electricity Commercial Division, Faizabad, light and fan consumption was being billed on the basis of average consumption which was 214 units as recorded by the meters of Irrigation Department during March to September 1969. In respect of Electricity Distribution Division, Barabanki it was further stated (February 1979) that the energy bill of the consumer had been revised taking the average monthly consumption of colony as 0.39 lakh units for the period from December 1976 to September 1977 and that in this case fault for non-segregation of circuits was on the part of the officers of the Board against whom necessary action was proposed to be taken.

9.02. *Non-levy of additional charge*

According to the tariff applicable to licensees and heavy, large and mixed load (above 100 KW) consumers, if the monthly bill is not paid by the due date specified therein, the consumer is liable to pay an additional charge of seven paise per Rs.100 or part thereof, per day of delay, on the unpaid amount of the bill. In test audit, it was noticed that the following divisions did not levy the additional charge for such delayed payments which aggregated Rs. 11.01 lakhs, as detailed below:

Name of division	Number of consumers	Period	Amount (In lakh of Rupees)
Electricity Distribution Division, Mau (Azamgarh)	2	October 1974 to August 1977	4.52
Electricity Commercial Division, Dhampur (Bijnor)	1	September 1974 to March 1978	2.90
Electricity Distribution Division, Rampur	14	March 1974 to March 1978	0.98
Electricity Commercial Division I, Moradabad	2	February 1975 to March 1978	0.76
Electricity Distribution Division, Barabanki	3	May 1975 to February 1978	0.74
Electricity Commercial Division, Bijnor	3	November 1975 to March 1978	0.64
Electricity Test and Commercial Division, Rae Bareli	6	October 1977 to February 1978	0.47
			11.01

While accepting the non-levy of surcharge for delayed payments as pointed out by Audit, the Board stated (September 1978/ February 1979) that the consumers had since been assessed and amounts aggregating Rs. 5.10 lakhs had been recovered. It was also stated, in respect of Electricity Distribution Division, Barabanki, that action was proposed to be taken against the officer/ officials responsible for delay in issue of bills.

Government endorsed the views of the Board (March 1979).

9.03. *Non-levy of surcharge*

According to the tariffs applicable to small and medium power consumers, effective from 12th October 1974 and private tube-wells, effective from 1st November 1974, in the event of the monthly bills not being paid by the due date specified therein, the consumer is liable to pay a surcharge of 12 *per cent* on the amount of the bill, excluding arrears, if any. In case the payment is delayed beyond six months reckoned from the first day of the month following the due date of payment, the consumer is also liable to pay a surcharge of another two *per cent* per month or part thereof for the period so delayed. It was noticed in the course of test audit during 1977-78 that the following eleven divisions of the Board did not levy surcharge for delayed payments, resulting in undercharge of revenue aggregating Rs.2·96 lakhs:

Name of division	Number of consumers	Period	Amount under-charged (In lakhs of Rupees)
Electricity Distribution Division II, Ballia	36	November 1974 to February 1978	0.44
Electricity Commercial Division, Bijnor	29	November 1974 to January 1978	0.56
Electricity Distribution Division, Rampur	50	October 1974 to August 1977	0.44
Electricity Commercial Division, Dhampur (Bijnor)	43	November 1974 to July 1977	0.28

Name of division	Number of consumers	Period	Amount undercharged (In lakhs of Rupees)
Electricity Commercial Division, Bulandshahr	130	November 1974 to March 1978	0 51
Electricity Commercial Division I, Moradabad	5	October 1974 to October 1977	0.24
Electricity Commercial Division II, Moradabad	16	November 1974 to September 1977	0.15
Electricity Distribution Division, Sultanpur	15	November 1974 to November 1976	0 11
Electricity Distribution Division I, Azamgarh	25	October 1974 to June 1977	0.09
Electricity Test and Commercial Division, Rae Bareli	20	September 1975 to May 1977	0.03
Electricity Distribution Division, Mau (Azamgarh)	37	March 1976 to January 1977	0 06
			2.96

While accepting the fact of non-levy of surcharge for delayed payments as pointed out by audit, the Board stated (February 1979) that all the field officers had again been pressed to levy surcharge according to the provisions in rate schedule in future and that assessment amounting to Rs.2·69 lakhs had been made out of which Rs.0·08 lakh had been recovered.

The matter was reported to Government in August 1978; reply to awaited (February 1979).

9.04. *Levy of penalty*

Under the Uttar Pradesh Electricity (Regulation of Supply, Distribution, Consumption and Use) Order, 1977 , Government imposed 'power cut' during 1977-78 for regulating the supply, distribution, consumption and use of electrical energy. The order, *inter alia,* envisaged a power cut at varying percentage in respect of large, heavy, medium and continuous process industries, based on the average of the three highest monthly consumptions during the calendar year 1976 and prescribed weekly closures. Every excess demand created by the consumer over and above this limit was subject to a penalty at the rate of Rs.50 per KVA in addition to the governing rate.

In the course of test check, it was noticed that during April 1977 to March 1978 penalty aggregating Rs. 6.13 lakhs was not levied in the following divisions in respect of excess consumption by 11 consumers:

Name of division	Number of consumers	Amount (In lakhs of Rupees)
Electricity Distribution Division, Rampur	1	3.18
Electricity Commercial Division I, Moradabad	2	1.35
Electricity Commercial Division, Budaun	4	1.10
Electricity Commercial Division, Bijnor	4	0.50
		6.13

The Board stated (February 1979) that out of Rs.6·13 lakhs, recovery of Rs.3·61 lakhs had since been effected from five consumers and action against others was being taken.

The matter was reported to Government in September 1978; reply is awaited (March 1979).

9.05. *Unrecovered dues*

Electricity charges are required to be paid by the consumer by the due date specified in the bill. If a consumer fails to make payment of a electricity dues by the due date, his supply may be cut off after giving him seven days' notice. A notice of demand may be served on him after the expiry of 30 days from the due date of payment specified in the bill. If, however, the consumer fails to pay the bill within 30 days of service of the notice of demand, the electricity dues are to be recovered as arrears of land revenue, and recovery certificates therefor are sent to the Collector for realising the dues.

In respect of the undermentioned cases, the Executive Engineers issued recovery certificates after two or five years of due date of payment. In these cases, the Collectors expressed their inability to realise the amount as either the consumers were not traceable or they did not own any property:

Name	Number of consumers	Amount (In lakhs of Rupees)
Electricity Distribution Division, Sitapur	6	0.31
Electricity Distribution Division III, Gorakhpur	345	1.19
Electricity Distribution Division, Pilibhit	1	0.33
Electricity Distribution Division, Shamli	118	1.69
Electricity Distribution Division, Hardoi	23	0.77
	493	4.29

The Board stated (February 1979) that the field units had again sent 491 recovery certificates for Rs.4.23 lakhs to the Collector for effecting recovery, progress of which was awaited.

The matter was reported to Government in July 1978; reply is awaited (February 1979).

9.06. *Excess load*

The physical verification squad of the Board conducted (January to June 1976) verification of sites of the private tubewells/pumping sets and found that 288 consumers of Electricity Commercial Division, Bijnor and 27 consumers of Electricity Distribution Division, Etah were using motors of higher load (BHP) than sanctioned to them. These divisions, however, continued to bill the consumer on the basis of their sanctioned load instead of at the load found on physical verification. This resulted in undercharge of revenue to the extent of Rs. 2.69 lakhs (Rs. 2.43 lakhs in case of Bijnor division and Rs. 0.26 iakh for Etah division).

On being pointed out by Audit the Board stated (October 1978/January 1979) that assessment amounting to Rs. 2.69 lakhs for the excess load had been made. Recovery is awaited (January 1979).

9.07. *Defective meter*

(*a*) Supply of electricity to Government Polytechnic, Azamgarh, as per records of the Electricity Distribution Division I, Azamgarh was given with effect from 24th September 1967 (information about sanctioned load and the agreement were not available). An agreement for 100 KW was entered into with the consumer on 10th February 1977. The consumer, on account of defective meter, was charged only meter rent up to March 1975 and the minimum charges from April 1975 to November 1977. The actual energy consumed during the period from 24th September 1967 to November 1977 was not determinable as the meter remained defective during that period. The minimum charges leviable during the period from September 1967 to November 1977 aggregated Rs. 1.29 lakhs against which Rs. 0.19 lakh only was billed by the division, resulting in short assessment of Rs. 1.10 lakhs.

(*b*) Similarly, Secondary Technical School, Azamgarh continued to be billed during the period from April 1970 to November 1977 by the Electricity Distribution Division I, Azamgarh on the basis of readings of defective meter, instead of the minimum charges as provided for in the rate schedule. The undercharge during that period aggregated Rs. 0.24 lakh.

The Divisional Officer stated (April 1978) that the short assessment of Rs. 1.10 lakhs and Rs. 0.24 lakh in those cases had been billed. The Board/Government stated (October/December 1978) that the Principals of both these institutions had requested their higher authorities for release of necessary funds to liquidate these bills. Recovery was awaited (February 1979).

(*c*) The meter installed (25th February 1974) at the premises of a large power consumer receiving energy at a contracted load of 122 KW was reported (27th April 1976) by the Sub-divisional Officer of Electricity Distribution Division I, Moradabad to be defective and its performance found doubtful. On installation (28th May 1976) of a check meter at the premises of the consumer, it was reported (2nd June 1976) by the Assistant Engineer (Meters) that the regular meter was running slow by 77.9 *per cent*. Electricity Commercial Division I, Moradabad did not assess the consumer for slow running of the meter for the period of six months (from 28th October 1975), as required under section 24(6) of the Indian Electricity Act, 1910. On being pointed out by Audit (November 1977) the Division raised (November 1977) bill for the short assessment (Rs.0.51 lakh); recovery was awaited (March 1979).

The matter was reported to the Board in February 1978 and to Government in August 1978; replies are awaited (March 1979).

9.08. *Non-recovery of dues*

(*a*) According to the rate schedule, a consumer is required to pay a specified amount as minimum consumption guarantee in case the amount payable for actual consumption is less than the minimum consumption guarantee. Two consumers of Ghaziabad, who were billed for Rs. 0.40 lakh and Rs. 0.31 lakh for the period from March 1974 to February 1975 and January 1975 to December 1975 respectively for the minimum consumption guarantee, filed (January 1976) suits in a court of law against the levy of minimum consumption guarantee.

In July and August 1976, the Court gave *ex parte* decisions against the Board as these cases were not pursued by the Board. Appeals filed by the Board in the High Court were dismissed in May 1977.

The matter was reported to the Board in March 1978 and to Government in July 1978; replies are awaited (December 1978).

(*b*) In a surprise raid conducted by the Assistant Executive Engineer (Raids) on 25th October 1975, a heavy power consumer firm of Allahabad Electric Supply Undertaking (AESU), having a contracted load of 1,000 KVA, was found using electricity for its residential colony from the power load. According to the rate schedule applicable to large and heavy power consumers, if the electrical energy supplied to a factory is utilised for non-industrial purposes, such circuits should be segregated by the consumer and metered separately. Consumption so recorded separately is to be charged under the appropriate rate schedule. In case the consumer fails to record non-industrial consumption separately, the entire consumption is to be charged at the higher rate applicable to mixed load. Accordingly, AESU issued (November 1975) a supplementary bill for Rs. 1.40 lakhs for the period from April 1975 to September 1975.

The consumer thereupon approached (November 1975) the Board against this assessment and instructions were issued (November 1975) by the Chairman not to disconnect the supply to the consumer and to continue to bill him under the lower rate at heavy power tariff pending further instructions.

In December 1976 (*i.e.* after 13 months), the Chairman, during his inspection at Allahabad, re-checked the consumer's premises and observed that the consumer was using his own diesel generating sets to meet the requirement of residential colony. In January 1977, the consumer intimated that consumption in the colony was always met out of its own generation from diesel generating sets. In this connection it was observed that the consumer was permitted in April 1973 to use its diesel generating set for generating power and that too in case of emergency when the Board's supply failed and not for residential colony in the normal course. AESU again approached the Board in February 1977 for issue of final orders which were awaited (March 1979).

It may be added that the consumer had obtained in February 1977 additional load of 25 KW for meeting the consumption of its colony. The amount due from the consumer (*i.e.* the difference between the amount payble under the mixed load tariff and the tariff applicable to heavy power consumers) for the period from April 1975 to February 1977 works out to Rs. 3.85 lakhs.

The matter was reported to the Board in March 1978 and to Government in July 1978; replies are awaited (December 1978).

(*c*) For organising an exhibition in the *Kumbh Mela* held at Allahabad in January-February 1977, a temporary connection of 200 KW was sanctioned to a consumer in December 1976 by the Allahabad Electric Supply Undertaking. The energy was released to the consumer in December 1976 without obtaining any security (Rs.0.40 lakh) and connection charges (Rs. 0.34 lakh) as provided in the schedule of tariff applicable to temporary supply of power. In March 1977, the consumer wound up the exhibition without paying energy and connection charges amounting to Rs. 0.51 lakh. The amount has not been recovered (December 1978).

The matter was reported to the Board in March 1978 and to Government in July 1978; replies are awaited (December 1978).

(*d*) In paragraph 10(4) (*a*) (ii) of the Report of the Comptroller and Auditor General for the year 1973-74 (Commercial) it was stated that in July 1974 the Board issued orders to sell the turbo-generating sets and boilers at Chandausi power house (value: Rs. 105.06 lakhs) to a firm of Lucknow which was allowed to run the sets at the existing site. The firm started generation from 26th August 1974. In September 1974, the Board allowed the firm to consume electricity free of charge in its arc furnaces and re-rolling mills at Lucknow to the extent of units generated *minus* the consumption in power station auxiliaries and line losses and fed to grid at Chandausi.

The Executive Engineer, Electricity Maintenance Division, Budaun informed (September 1974) the Superintending Engineer, Lucknow Electric Supply Undertaking (LESU) that the firm had not paid the full amout of the plant and requested the latter not to supply further electricity to the firm, on account of generation in Chandausi power station, unless the full amount was deposited by the firm. The firm was requested (October 1974) by the Resident Engineer, LESU to deposit the entire amount, but the firm not only did not pay but also stopped generation in its power house from 17th December 1974.

The firm, however, continued to get power supply from LESU without making any payment from July 1974 to April 1975, when the supply was disconnected. In August 1975, the power supply was restored without obtaining outstanding energy charges (Rs. 12.86 lakhs). As agreed to by the Board, an arbitrator was appointed (September 1975) to adjudicate disputes of making payments of cost of plant and energy charges, *etc*. This arbitration did not make any headway since then. In February 1978, the State Government decided that Chandausi power station was to be restored back to the Board by the firm. Agreement to this effect was signed in February 1978 between both the parties.

Consequent upon these developments, the Superintending Engineer, LESU revised (April 1978) the outstanding monthly assessment bills of the firm to Rs. 3.31 lakhs, after adjusting the power generated by the firm at Chandausi, with 29th April 1978 as due date of payment. The payment is still awaited (March 1979).

The matter was reported to the Board in February 1978 and to Government in July 1978; replies are awaited (December 1978).

9.09. *Non-accountal of cash*

Mussoorie-Dehra Electric Supply Undertaking, Dehradun was taken over by the Board in January 1976. The undertaking did not maintain proper account of receipt books till March 1977. The Executive Engineer of the undertaking detected (April 1977) that in respect of four receipt books issued (December 1976 to January 1977) to a cashier, amounts aggregating Rs.0.17 lakh realised by him from the consumers against receipts issued from these books were not deposited in the undertaking's cash chest. It was also detected by the Executive Engineer from October 1976 to March 1977 that Rs.0.63 lakh realised by three cashiers from consumers between January 1976 and May 1976 and acknowledged by issue of receipts on counterfoil of the bill (as per the prevalent system of the *ex*-licensee, which continued up to May 1976) to the consumers was also not taken in the Board's account.

It was stated by the Board (December 1978) that as a result of special audit conducted by the Board during October 1977 to March 1978, suspected embezzlement of Rs. 1.08 lakhs by five cashiers was detected, out of which Rs. 0·58 lakh related to the pre-takeover period. Rupees 0·14 lakh were deposited by the three cashiers. First information reports about the suspected misappropriation against the persons concerned were lodged (October 1976—2; April 1977—1 ; December 1977—1 and January 1978—1), and they were placed under suspension (August 1976—2 ; April 1977—2 and January 1978—1). Departmental proceedings against these officials were in an advanced stage (January 1979).

SECTION X

UTTAR PRADESH STATE ELECTRICITY BOARD

OTHER POINTS OF INTEREST

10.01. *Extra expenditure*

During the period from April 1959 to March 1970, the annual requirement of paper for use in the offices of the Board were included in the indent of the Superintendent, Printing and Stationery, Allahabad. The latter used to arrange for the paper for the Board either through the Director General of Supplies and Disposals (DGS & D) rate contract or direct from mills. The Board's requirement for the year 1970-71 could not be arranged by the Superintendent, Printing and Stationery as the DGS&D had excluded this item from its rate contract for the period from July 1971 to March 1972. Thereafter, the Board made its own arrangement for purchase of paper up to September 1978.

In response to a tender notice of 12th March 1974 the offer (21st April 1974) of a firm of Lucknow, which got itself registered with the sales-tax authorities on 15th April 1974 as a paper dealer, was accepted and four supply orders were placed (May 1974) for supply of 91,000 reams of paper of different varieties of the value of Rs.21·61 lakhs.

The rates at which orders were placed on the Lucknow firm for different types of paper were higher by Rs. 5·48 to Rs. 34·90 per ream as compared to the DGS&D rate contract price valid during the year 1974-75 and thus the purchase resulted in an extra expenditure of Rs. 12·50 lakhs.

The Board's Purchase Committee reduced (May 1974) the firm's security from ten *per cent* (Rs. 2·16 lakhs) of the value of the order to one *per cent* (Rs. 0·22 lakh) and also waived (April 1976) the penalty of Rs. 0·14 lakh imposed earlier on the firm for late delivery of material. The Board neither approached the DGS&D nor made any effort to arrange for paper from the mills at its own level or through the Superintendent, Printing and Stationery.

The Board stated (September 1977) that documents pertaining to the orders placed on the above firm had been handed over (2nd August 1977) to the Vigilance Department for investigation.

The matter was reported to Government in July 1978; reply is awaited (December 1978).

10.02. *Sale of generating sets*

The Superintendening Engineer, Electricity Stores Inspection Circle, Lucknow invited in March 1973 tenders for sale of 'retired' diesel generating sets lying in various divisions of the Board. The sale of two sets of 300 KW capacity was finalised in April 1973 with the Uttar Pradesh State Textile Corporation Limited (a State Government Undertaking). The Company took delivery of the two generating sets (value: Rs. 6·42 lakhs) in July 1973 from the Executive Engineer, Electricity Maintenance Division, Meerut but did not make any payment. After the sick textile mills of the company were taken over in April 1974 by the National Textile Corporation Limited (a Government of India Undertaking), the Division requested (May 1976) the latter company to pay the value of the sets. The National Textile Corporation Limited informed (May 1976) the Board that under the provisions of the Sick Textile Undertakings (Nationalisation) Act, 1974 the company was not liable to make payment for these sets and that the claim should have been filed within the prescribed period with the Claims Commissioner.

The matter was reported to the Board in March 1978 and to Government in July 1978; replies are awaited (December 1978).

10.03. *Non-recovery of instalments*

In July 1972, the Board introduced a scheme for supplying electricity for private tubewells and pumping sets on priority basis, subject to recovery of Rs. 700 (where expenditure to be incurred by the Board was up to Rs. 4,000) and Rs. 1,050 (where expenditure to be incurred by the Board was above Rs. 4,000 and not exceeding Rs. 6,000) as priority charges (non-refundable) in ten annual instalments, recoverable each year in April. The first instalment was recoverable before energising the pumping sets. The Electricity Distribution Divisions, Etah and Chandausi did not, however, recover the second and subsequent instalments falling due between April 1973 and April 1977 from 1,103 and 136 consumers respectively who were given connections during 1972-73, 1973-74 and 1974-75 under the priority scheme. The unrecovered instalments from the consumers up to April 1978 aggregated Rs. 5·69 lakhs (Etah—Rs. 5·29 lakhs and Chandausi—Rs. 0·40 lakh).

The Board stated (February 1979) that in respect of Etah Division Rs. 1·79 lakhs had since been realised. In respect of Chandausi Division it was reported that assessment amounting to Rs. 0.37 lakh had been made on 124 consumers, out of which Rs. 0.06 lakh had been recovered and the whereabouts of remaining 12 consumers were being traced.

The matter was reported to Government in July 1978; reply is awaited (February 1979).

10.04. *Non-recovery of construction cost*

In May 1975, the Board ordered the Lucknow Electric Supply Undertaking (LESU), a unit of the Board, to take up the work of shifting the distribution lines along the roads, which were being widened in connection with beautification programme of Lucknow city. Deposit of the estimated cost was not obtained from the Nagar Mahapalika, Lucknow. During 1976-77 and 1977-78, an expenditure of Rs. 6·14 lakhs was incurred by LESU. In November 1977, the Superintending Engineer, LESU requested the Nagar Mahapalika, Lucknow to deposit Rs. 6·14 lakhs to enable them to take up further work in hand.

The Board/Government stated (December 1978/January 1979) that the work of shifting of distribution line was imposed on the Board and that it had reluctantly agreed to bear the cost of dismantling of existing poles and lines only. The cost of new lines, laying underground cables and erection of poles was to be borne by the Nagar Mahapalika. However, the entire amount of Rs. 6·14 lakhs was debited to the Board's account and for further work on the above project an estimate for Rs. 1·56 lakhs was sent to Nagar Mahapalika in July 1978. The reasons for which the expenditure of Rs. 6.14 lakhs was borne by the Board were not on record.

10.05. *Infructuous expenditure*

An agreement for laying the foundation and setting the stubs of six towers required for re-alignment of 132 KV Mau-Gorakhpur line was executed (March 1977) by Electricity Transmission Division II, Gorakhpur with a firm of Varanasi. Under the agreement the firm was responsible for setting of stubs in accordance with the specification and drawing supplied by the division. Full payment of Rs.0·91 lakh (after deducting the price of cement supplied departmentally) was made to the firm in three instalments in March, June and December 1977.

At the time of erection of towers in January 1978, it was found that in case of one of the locations there was a difference of 10″ in the diagonals of stub setting work and on this account the stub setting work was unfit for erection of towers. The cost of recasting this location through another contractor amounted to Rs.0·33 lakh against which the division had adjusted the contractor's security deposit of Rs. 0·16 lakh

The Board stated (January 1979) that sister divisions/circles had been requested to recover Rs. 0·17 lakh. It was further stated by the Board that the contractor had filed a civil suit demanding the refund of his security deposit.

Government endorsed the views of the Board (March 1979).

10.06. *Accounts receivable, shortages, etc.*

(*a*) Shortages in stores, when detected, unauthorised/excess issues of stores, inadmissible expenditure, *etc.* are accounted for under "Accounts Receivable" against the officials *prima facie* held responsible, thereby clearing the stock or inadmissible expenditure accounts. Further follow up action to investigate and fix responsibility and/or to effect recovery is to be taken under orders of competent authority. It was, however, seen in the course of test audit that the amounts debited under this head of account have not been cleared even after expiry of long periods. In many cases, after booking the amount against the official concerned no further action has been taken to fix responsibility and recover/write off the amounts. Some examples are as under:

Name of unit	Number of officials	Month/year of accounting	Total amount (In lakhs of Rupees)
Electricity Distribution Division, Budaun	7	March 1968 to June 1978	3.87
Electricity Distribution Division I, Azamgarh	23	March 1960 to March 1976	1.80
Electricity Distribution Division, Sultanpur	23	1966-67 to 1975-76	1.77
Electricity Distribution Division I, Moradabad	18	March 1958 to August 1976	0.97
Electricity Distribution Division, Barabanki	7	April 1967 to August 1976	0.84
Electricity Distribution Division, Gonda	19	1958-59 to 1975-76	0.78
Electricity Distribution Division, Mau (Azamgarh)	10	June 1974 to September 1976	0.71
Electricity Transmission Division, Faizabad	3	August 1972 to December 1976	0.37
Rural Electrification Division, Gonda (merged in Electricity Distribution Division, Gonda)	21	1973-74 and 1974-75	0.25

Two officials of the Electricity Distribution Division, Budaun, against whom Rs.0·18 lakh and Rs.0·59 lakh were shown as outstanding, had retired from service in October 1970 and December 1976 respectively. In case of the shortage of Rs. 0·18 lakh, gratuity amounting to Rs. 1,514 payable to the employee has been withheld by the Management.

(*b*) An Assistant Storekeeper of the Electricity Distribution Division I, Moradabad, placed under suspension in April 1975 on the basis of a report of the Police, did not hand over charge of stores though he was specifically asked (May 1975) by the Divisional Officer to do so. In July 1975, when the stores was opened by breaking its lock, shortages of stores and tools and plants valuing Rs. 1·53 lakhs were noticed. On receipt of the final report from the Police, the official was reinstated in May 1976. Neither the amount of shortages has been booked to "Accounts Receivable" as required under the rules of the Board, nor was any recovery effected (January 1979). It was stated (June 1978) by the Divisional Officer that chargesheet for the shortage had been served (January 1977) on the official. Further developments are awaited (December 1978).

(*c*) An Assistant Storekeeper of Distribution Division I, Moradabad was placed under suspension in November 1970 on account of shortage of stores (Rs. 1·56 lakhs) and 'manipulations' in records (Rs. 0·09 lakh). After final investigation in May 1978, the official was held responsible for shortage of stores valued at Rs.0·64 lakh and excess issue of stores of Rs.0.09 lakh. Total shortages, thus, worked out to Rs. 0·73 lakh. Recovery for the shortages at the rate of Rs.154 per month had started from his pay for July 1978.

(*d*) In Electricity Distribution Division II, Moradabad shortage in stores were accounted for against a Storekeeper under "Accounts Receivable" during December 1959 to March 1975. The shortages aggregated Rs. 0·73 lakh at the end of September 1975. The Storekeeper was placed under suspension on 13th March 1975 and chargesheeted (July 1975) for shortages, bad maintenance of store records, *etc*. The inquiry officer who was to inquire into the charges against the Storekeeper in his report of 19th November 1976 held the Storekeeper guilty of 'negligence and dereliction of duties' and established 'misappropriation' of stores amounting to Rs.0.30 lakh. The Storekeeper retired from service on 31st August 1978. An amount of Rs. 0·28 lakh was outstanding against him (January 1979).

The matter in respect of cases under (*a*), (*b*), (*c*) and (*d*) above was reported to the Board in May to August 1978 and to Government in September 1978; replies are awaited (December 1978).

10.07. *Avoidable payment of interest*

In terms of Uttar Pradesh Electricity (Duty) Rules, 1952, as amended, electricity duty is required to be paid into treasury by the Board within two months of completion of the month in which meter reading is taken by the supplier. If the amount of electricity duty is not paid within the prescribed period, interest at 18 *per cent* per annum is leviable on the unpaid electricity duty.

Several units of the Board either failed to deposit the amount of duty or there was delay in deposit and submission of challans to the Chief Electrical Inspector. The particulars of duty outstanding, interest thereon and other penalty paid/payable were as under:

Particulars	Period Up to 31st March 1976	April 1976 to March 1977	Total
	(In lakhs of Rupees)		
Electricity duty			
As per the Board's assessment	797.11	522.68	1,319.79
Additional demand raised by Chief Electrical Inspector	45.98	..	45.98
Total duty	843.09	522.68	1,365.77
Interest at 18 *per cent* per annum on outstanding duty	212.57	43.44	256.01
Penalties for late submission of challans	0.68	..	0.68
Total dues	1056.34	566.12	1,622.46
Less—Paid	900.00	468.00	1,368.00
Balance outstanding	156.34	98.12	254.46

In March 1977, a sum of Rs. 184·48 lakhs (Rs. 156·34 lakhs *plus* subsequent interest up to the date of payment Rs.28·14 lakhs) outstanding up to 31st March 1976 was adjusted by Government against loans sanctioned to the Board.

The interest and penalty paid (Rs. 241·39 lakhs) and still payable (Rs. 43·44 lakhs) could have been avoided by timely remittance of electricity duty.

The matter was reported to Government/Board in July 1978; replies are awaited (December 1978).

10.08. *Employees' Provident Fund Scheme*

Under the provisions of the Employees' Provident Fund Act, 1952, the employees' contributions towards provident fund and family pension fund, together with the employer's contribution and administrative charges, are required to be deposited with the Regional Provident Fund Commissioner by 15th of the month following the month to which the contributions relate, failing which damages are leviable. The following divisions of the Board did not, however, deposit the contributions (including administrative charges) within the prescribed period and the Regional Provident Fund Commissioner, Uttar Pradesh, Kanpur levied 'damages' of Rs. 3·61 lakhs, as shown below:

Name	Period of contributions	Amount of damages levied
		(In lakhs of Rupees)
Electricity Distribution Division I, Moradabad	March 1967 to December 1969	0 .92
Electricity Distribution Division II, Moradabad	March to September 1968 and March to December 1969	0 .83
Electricity Distribution Division, Gonda	March 1965 to January 1974	1 .47
Electricity Distribution Division, Bahraich	September 1961 to February 1969	0 .39
	Total	3 .61

The amounts of penalties have not yet been paid and the cases for waiving the penalty are under correspondence with the Regional Provident Fund Commissioner, Uttar Pradesh, Kanpur (February 1979).

The Board stated (March 1979) that delay in deposit of contributions was due to delay in issue of orders regarding scope of applicability of the scheme and conditions for eligibility of the different categories of staff. It was further stated that one of the important factors for delay in remittances of amounts was that the division had to keep pace with the availability of funds and that State Government had been moved to exempt the Board's establishment from the levy of damages.

The matter was reported to Government in August 1978; reply is awaited (February 1979).

SECTION XI

UTTAR PRADESH STATE ROAD TRANSPRORT CORPORATION

Stores control and purchases

11.01. *Introduction*

The Corporation was formed on 1st June 1972. Mention was made about the working of the Corporation in Section VI of the Report of the Comptroller and Auditor General of India for the year 1974-75 (Commercial).

On its formation, the Corporation took over from the erstwhile Uttar Pradesh Government Roadways, stores valuing Rs. 270·38 lakhs at the various regional Stores and Rs.224.99 lakhs at the two Central Stores located at Kanpur. One Central Stores is located at the Central Workshop, Rawatpur, under the charge of Deputy General Manager, Central Workshop and the other at Allen Forest premises under the charge of Deputy General Manager, Material Management. The former store mainly caters to the requirements for use of the Central Workshop and the latter is for catering to the needs of the various regions. At each region there is a regional store under the charge of a Service Manager. There are also depot stores for meeting day-to-day requirement at depots and way-side stations.

The total inventory of the Corporation at the end of each of the four years up to 1977-78 was as under:

Year	Regional stores	Central stores	Total
	(In lakhs of Rupees)		
1974-75*	894.50	189.30	1,083.80
1975-76*	1,061.35	184.28	1,245.63
1976-77*	524.04	160.05	684.09
1977-78*	329.97	228.93	558.90

*Figures are provisional subject to finalisation of accounts.

11.02. *Consultancy service and inventory control scheme*

In May 1975, a firm of Bombay was appointed by the Corporation as consultants for material management and inventory control, for a period of one year, on a retainer fee of Rs. 1,500 per month *plus* ACC/air travel expenses for the journeys performed in connection with the job of the Corporation, and daily allowance at the rate of Rs. 150 per day. The consultants were to survey and provide the system of effective inventory control, training of staff and to solve allied problems of the stores department. Due to non-completion of the work within the stipulated period, the term was extended up to September 1977. A sum of Rs. 0.53 lakh was paid to them as retainer fee and travelling expenses for the period from May 1975 to September 1977. The consultants also imparted training to selected staff of different regions and central stores at Lucknow.

In a reply to the audit query about the quantum of work/job completed by the consultants, the Management stated (May 1978) that out of 4,500 items of stores, only 2,149 items have been covered under Inventory Control. The Chief Accounts Officer of the Corporation also held (March 1977) that the progress of the consultant's work was not satisfactory as only a few items had been brought under inventory control up to that date.

(*a*) With a view to meeting the day-to-day requirement of spare parts and accessories for vehicles without interruption and with minimum investment on inventory, an inventory control scheme was introduced in September 1975. The salient features of the scheme were as under:

(i) Introduction of stock control cards indicating stock position, outstanding purchase orders issued and monthly consumption forecast.

(ii) Watching the lead time taken in replenishment of stores.

(iii) Preparation of stock review statements and watching stock levels on the basis of monthly consumption forecast.

(iv) Proper categorisation of items of stores, issue of reallocation orders on surplus regions, proper and up to date maintenance of bin cards, watching the progress of action reports and fixation of issue rates.

(v) Fixation of minimum, maximum and re-ordering levels of different store items.

(*b*) The consultants framed guidelines for purchase of store items from manufacturers and firms on rate contract with the Association of State Road Transport Undertakings. They issued instructions for maintenance of stores accounts and records, in addition to imparting of training to officers and staff. They also recommended application of Inventory Control Scheme to depots of different regions.

(*c*) Deficiencies noticed during test audit (March 1978) in regard to implementation of the Inventory Control Scheme were as under:

(i) Records indicating the time taken by suppliers for completing supply of different items was not maintained. Minimum, maximum and re-ordering levels were, thus, not related to the actual lead time for the different items but fixed on *ad hoc* basis.

(ii) Recommendations made by the consultants in October 1975 for application of the scheme to depots of different regions was not implemented (March 1979).

(iii) Non-availability certificates were issued by the storekeepers without linking the receipt of material already arrived but not posted in bin cards, *e.g.* (*a*) non-availability certificate was issued on 4th March 1978, for 100 double gears (value: Rs. 0.36 lakh) although 50 units were available in stock of Central Workshop Stores; (*b*) non-availability certificate was issued on 24th Jnuary 1978 for full quantity of 100 main shafts (value: Rs. 0.19 lakh) indented, although there was a balance of 17 shafts on that date; (*c*) non-availability certificate for 500 sets of clutch facing with rivets (value: Rs.0.12 lakh) was issued on 31st March 1978 although 100 sets had already been received on 13th March 1978 and posted in the bin card on 31st March 1978.

(iv) First-in-first-out system for issue of material was not adopted uniformly for all items and postings in bin cards were not completed simultaneously.

(v) At the Central Workshop and Central Stores, Kanpur, issue rates were fixed on *ad hoc* basis, without complying with the provisions of the Financial Hand Book Volume—VI of the State Government, adopted by the Corporation. These rates were not revised half-yearly with reference to market rates, as provided in the Financial Hand Book.

(vi) At Central Stores, Kanpur, stores were purchased in excess of the maximum level.

(vii) In respect of the items of stores which reach re-ordering level during the week, action reports are required to be sent by stock control section weekly to purchase section to initiate action for fresh purchases.

Out of 110 action reports, involving 3,281 items, sent to the purchase section at Lucknow during September 1975 to September 1977 by the Inventory Control Cell at Kanpur, action for purchase was taken on 1,448 items.

(viii) Detailed forecast of periodical requirement of steel was not prepared by purchase section during 1976-77 and 1977-78.

11.03. *Purchase procedure*

(*a*) Mention was made in paragraph 72 of the Report of Comtroller and Auditor General of India for the year 1974-75 (Commercial) about purchase procedure of the Corporation.

A test check of the purchases made during the last four years revealed the following shortcomings:

(i) The Purchase Rules of the Corporation provided for making purchases against rate contracts of the Director General of Supplies and Disposals (DGS & D). But purchases were not made against rate contracts. Government orders declaring the Corporation as Direct Demand Officer against (DGS & D) rate contracts could not be obtained as the Corporation did not agree to pay a revolving lump sum advance of Rs.10 lakhs to the (DGS & D).

(ii) List of approved manufacturers and dealers of repute, small scale manufacturers and their authorised distributors for different stores was not maintained properly and orders for insertion/deletion of new/old names were not obtained.

(iii) Purchase order register did not contain full details of actual supply received against the order, action taken for incomplete and defective supplies, *etc.*

(b) *Purchase on the basis of single tender*

(i) Against tenders invited for the supply of four blacksmith hearths required by Allen Forest Workshop (opened on 31st December 1975), a single tender of Rs.3,000 each (for Bardson make) of a local firm of Kanpur was received. Before any decision could be taken, the requirement of blacksmith hearths of all the regions was assessed by a technical committee which recommended (March 1976) for purchase of 30 blacksmith hearths.

Without inviting fresh tenders or making reference to the manufacturer of Bardson Hearth, the matter was negotiated with the Kanpur firm which offered (April 1976) a quantity discount of two *per cent*. Accordingly, order for the supply of 36 hearths (value: Rs.1·06 lakhs) was placed on this firm on 28th May 1976. Subsequently, another order for three hearths (value: Rs.0·09 lakh) was placed on 29th June 1976 at the same rate on the same firm.

Reasons for non-invitation of fresh tenders were not on record.

(ii) Without inviting any quotation/tender, twelve piecemeal orders of the value of Rs.2·75 lakhs were placed on a firm of Kanpur between July 1976 and July 1977 for the supply of piston assembly and rings. While placing the orders, the firm which was only a marketing agent, was indicated as a manufacturer in the records of the Corporation. While in use in the Central Workshop, it was found that the finishing of piston and gudgion pin hole, and the oil grain holes were rough. Ridges were also noticed in the holes. Fifty *per cent* of the material received at Central Workshop was fitted in 70 engines reconditioned at Central Workshop and the rest was supplied to the regions. Performance reports received from regions in respect of 15 engines reconditioned with above material were not satisfactory. Three engines failed before giving service for less than 12,000 kms. and 12 engines could be used for 12,000 kms. to 82,000 kms., against normal average life of 80,000 to 90,000 kms. Performance reports for rest 55 engines and the material issued to regions were not obtained. Reasons for treating the supplier as manufacturer instead of marketing agent were not intimated and the files were reported to be with Vigilance Department.

(c) *Payment for material not received*

An order for supply of toughened glass was placed (October 1974) on a firm of Bhopal. The documents were retired (November 1974) on payment of Rs.0·35 lakh to the bank and goods receipt dated 24th October 1974 was obtained but local premises of the transporter were not traceable at Kanpur. Neither the material was received by the Corporation nor the money could be got refunded. First information report was lodged with the Police on 20th February 1976. The case is reported to be under investigation by the State Vigilance Department (March 1979).

(d) *Extra expenditure*

On 27th March 1974, tender for supply of 0·80 lakh metres of *khaki* cellular cloth at Rs.3·15 per metre was finalised by the Director of Industries, on behalf of the Corporation, in favour of a local firm. The validity period for placing orders was up to 27th April 1974. The intimation thereof was received by the Corporation from the Director of Industries on 2nd April 1974. The supply order was placed by the Corporation on 22nd May 1974 but the firm refused to supply the material at the original rates as the validity period had already expired.

In August 1974, the Corporation issued another supply order for one lakh metres of cloth of the same specification at Rs. 4·26 per metre on the basis of another tender finalised by the Director of Industries on 17th August 1974, which resulted in an extra expenditure of Rs. 0·89 lakh (on the purchase of 0·80 lakh metres).

(e) *Extra payments*

(i) An order for supply of 400 tonnes of mild steel angles and 75 tonnes of mild steel flats, at a uniform rate of Rs.1,848 per tonne '*f.o.r.* destination' was placed in October 1976 on a local firm of Kanpur.

Cartage charges at the rate of Rs.22 per tonne for 475 tonnes were paid (Rs. 10,450) to the firm for transportation of the material from the firm's premises at Kanpur to the Central Workshop, Kanpur (about six kms), although it was not provided in the purchase order.

The Management stated (March 1978) that '*f.o.r.* destination' mentioned in the suply order meant delivery at supplier's godown and not purchaser's premises. This view is not in consonance with the accepted commercial practice.

(ii) A sum of Rs. 41.87 lakhs was paid by the Corporation to a firm of Lucknow on 13th August 1974 towards 98 *per cent* of the anticipated price of 50 TMB chassis for supply against an order placed in June 1974.

Although 30 chassis were supplied before 2nd October 1974, from which date there was price increase from Rs.85,455 to Rs.95,660 per chassis, the firm accepted payment at the old rate for 19 chassis, and the remaining 11 chassis were paid for by the Corporation at increased rates, resulting in an extra payment of Rs.1·12 lakhs. In May 1978, the suppliers stated that these chassis were delivered after 2nd October 1974, although in their earlier communication of September 1974 it was mentioned by them by mistake that 30 chassis had already been supplied before that date. The matter was reported (September 1978) to the Criminal Investigation Department for enquiry after the matter was raised by Audit in May 1978.

11.04. *Stores accounting*

(*a*) No store accounting manual has been compiled by the Corporation. The shortcomings in store accounting noticed in audit, were as under :

(i) Adequate arrangements do not exist for proper and timely disposal of obsolete and unserviceable stores, with the result that obsolete stores valuing Rs. 28.64 lakhs and unserviceable stores vauling Rs. 20·92 lakhs were awaiting disposal in January 1978.

The Management stated (January 1979) that the value of obsolete spare parts and stores lying in seven regions, *viz.* Kumaon, Agra, Allahabad, Aligarh, Dehradun, Tanakpur and Varanasi and the Central Workshop, Kanpur and awaiting disposal was Rs. 11·84 lakhs (December 1978). Figures for the other regions and Allen Forest Workshop, Kanpur were not available.

(ii) Costly parts were issued without return of old parts. From 26th September 1977 to 26th February 1978, 301 crankshafts (value: Rs.3,600 each) were issued in Roadways Central Workshop against 259 old and rejected crankshafts received back.

(iii) Details of old material retrieved from vehicles received for repairs were not recorded on the job cards.

(iv) Records did not indicate that reconciliation of stores ledgers of Stores Section and Accounts Section in the regions was done periodically and regularly.

Similarly, in the Central Stores and Central Workshop, such reconciliation of store ledgers of Accounts Section was not done with bin cards of Stores Section.

(v) Job cards were not closed for four to six months after completion of jobs in many cases, for making subsequent adjustment of material not available in stores and taken out of other unserviceable engines/assemblies. 624 job cards were lying unclosed for more than one year (including 63 job cards for more than 5 years).

(b) *Irregular issue of material*

Defective engines are repaired centrally at the Roadways Central Workshop, Kanpur. Separate work orders are opened for each engine received for repairs, and particulars of spare parts and stores required as per indent, and not the actual consumption, are being recorded thereon.

A test check of 54 work orders for the period from April 1976 to December 1976 showed that stores and spares of the value of Rs. 4·94 lakhs were shown to have been issued against these work orders after the date of transfer of the repaired engines from the workshop.

The workshop Management stated (May 1978) that due to non-availability of parts required for repair of these engines in the stores at that time, such parts were taken out from the idle engines lying for repairs and, when such parts were available, these were utilised in the engines from which these parts were taken out earlier. This irregular practice can lead to misappropriation of stores in the absence of records for parts actually taken out and replaced in other idle engines.

(c) *Outstanding advances*

A sum of Rs.546·58 lakhs representing advances paid to suppliers was pending adjustment/recovery for more than five years as on 31st December 1977. Year-wise break-up of these outstandings was not available.

(d) *Physical verification of stores*

There is a perpetual inventory system of physical verification in Central Stores, Central Workshop and regions. During the period from 1973-74 to 1977-78, shortages of Rs. 29·50 lakhs and excesses of Rs. 12·73 lakhs, as detailed below, were noticed :

Year	Value	
	Shortages	Excesses
	(In lakhs of Rupees)	
1973-74	1.34	2.29
1974-75	1.92	1.90
1975-76	19.13	4 87
1976-77	7.05	3.60
1977-78	0.06	0.07
	29.50	12.73

NOTE—Figures for Bareilly, Gorakhpur, Kumaon, Meerut Regions and Allen Forest Workship, Kanpur were not furnished.

The shortages and excesses were under investigation (December 1978). No recovery has been made in any of these cases.

(e) *Cases of shortages against retired officials*

Two officials of the Roadways Central Workshop, against whom cases of shortages of stores and other losses of Rs. 0·37 lakh (Rs. 0·31 lakh and Rs. 0·06 lakh) were pending, had retired in July 1966 and March 1976 respectively. These cases were pending in the headquarters of the Corporation for final orders (December 1978).

(f) *Loss due to theft/damages*

Losses due to theft and damages in various regions of the Corporation during the five years up to 1977-78 were as under :

Year		Total number of cases		Amount of loss	
		Thefts	Damages	Thefts	Damages
				(In lakhs of Rupees)	
1973-74		508	138	2 .67	0 .09
1974-75		504	187	1 .78	0 .22
1975-76		616	169	1 .78	0 .17
1976-77		537	233	1 .18	0 .80
1977-78		602	200	1 .91	0 .84
	Total	2,767	927	9 .32	2 .12

NOTE—Figures for Kanpur Region and Allen Forest Workshep, Kanpur were not furnished by the Corporation.

Out of 3,694 cases, only 1,530 cases (1,172 theft cases and 358 damages cases) had been decided up to December 1978.

(g) *Duplicate supply of material*

During 1973 and 1974, the Corporation placed orders on a firm of Delhi for supply of nuts and bolts, *etc.* which were duly received and paid for. During December 1975 to March 1976, this firm again supplied nuts and bolts to seven regions referring to the earlier supply orders against which supplies had already been received in 1973 and 1974. The supplies were accepted by the regions without linking earlier receipts/payments.

In the duplicate supply, the firm obtained (December 1975 to January 1977) 98 *per cent* advance payment (Rs. 7·45 lakhs) against despatch documents sent through bank or delivered personally by the representative of the firm.

In Tanakpur Region, where 98 *per cent* payment (Rs.0·46 lakh) was made (January 1977) to the representative of the firm, which had delivered despatch documents personally, the material (Rs.0·46 lakh) had not been received (June 1978). The matter was referred to (January 1976) the vigilance section of the Corporation. Further developments are awaited (March 1979).

11.05. *Other points of interest*

Receipt of damaged engines

Ten Leyland engines valued at Rs.3·59 lakhs were received from a manufacturer of Madras in January 1975 in a damaged condition. The insurance company has not accepted (November 1978) the claim for the damage on the plea that the Corporation failed to lodge claims with the transporters.

These engines were issued to regions two and half years later (during 16th June 1977 to 25th June 1977) without repairs. Reports regarding expenditure incurred on repairs and their proper utilisation in the regions were not obtained by the Central Workshop from respective regions.

The matter was reported to the Corporation/Government in September 1978; replies are awaited (March 1979).

11.06. *Summing up*

The U. P. State Road Transport Corporation, formed on 1st June 1972, inherited a total inventory of Rs.495·37 lakhs which has since gone up to Rs.558·90 lakhs as on 31st March 1978. The consultants on 'Inventory Control' appointed (May 1975) by the Corporation for one year could not complete the work. In some cases, the Corporation made purchases on the basis of a single quotation and that too from the intermediaries and not directly from the manufacturers. The Corporation has not enlisted itself as a Direct Demanding Officer for DGS & D rate contracts and as a result, the benefits of lower rates could not be obtained.

Adequate arrangements did not exist for proper and timely assessment and disposal of obsolete and unserviceable stores, with the result that the same accumulated to the value of about Rs.50 lakhs in January 1978. There is no reconciliation between the stores ledgers maintained by the Accounts Wing and Bin Cards maintained in the Stores Sections. Cases of shortages and loss of stores due to theft and damages were not investigated timely. A sum of Rs.546·58 lakhs was outstanding as advances to suppliers as on 31st December 1977, pending adjustment of bills or recovery from them. Shortages and excesses found on physical verification of stores have not been finalised in a number of cases. In some cases, the officials against whom shortages and losses are outstanding have since retired.

SECTION XII

UTTAR PRADESH STATE ROAD TRANSPORT CORPORATION

OTHER POINTS OF INTEREST

12.01. *Auction of aluminium scrap*

In an auction held (February 1977) in the Regional Workshop, Varanasi for disposal of a lot of aluminium scrap, estimated to contain two tonnes, the highest bid of a local party for Rs.11,375 per tonne was accepted. Scrap weighing 1,630 kgs. was reportedly delivered to the party during June to October 1977. In calculating the net quantity (1,630 kgs.) of scrap delivered to the party, the weight of two empty trucks deducted from the weight of loaded trucks was more than the actual weight recorded in the registration documents of these trucks. This resulted in extra delivery of 3,478 kgs. of aluminium scrap (value: Rs.0·40 lakh) to the bidder. Weighment records about the receipt of scrap from the various depot workshops in the Regional Workshop were, however, not maintained.

Government stated (January 1979) that the matter was under investigation.

12.02. *Non/short realisation of sales tax*

Under the Uttar Pradesh Sales Tax Act, 1948 (as amended in February 1973), the Corporation is liable to pay sales tax, on the goods sold by auction or otherwise with effect from 22nd January 1973. During the period from 22nd January 1973 to 31st March 1973, Rs.1·81 lakhs were not realised as sales tax from purchasers of goods auctioned by the Corporation. The realisation of sales tax for 1973-74 (Rs.5·29 lakhs), 1974-75 (Rs.6·08 lakhs) and 1975-76 (Rs.4·12 lakhs) were deposited (January 1977) with the sales tax authorities after the Corporation got itself registered in July 1975 under the Sales Tax Act. In January 1977, the Corporation accorded *ex-post-facto* sanction for payment of the aforesaid amounts of sales tax alongwith Rs.1·78 lakhs being the approximate liability towards sales tax for the year 1972-73. The sales tax authorities finally assessed (March 1977) that the sales tax payable for the year 1972-73 was Rs.1.81 lakhs (including Rs.1,385 as Central sales tax) and interest payable at the rate of two *per cent* per month amounted to Rs.0·72 lakh. The Corporation deposited the balance of Rs.0·75 lakh with the sales tax authorities in March 1977.

On completion (March 1977) of assessments for 1973-74 to 1975-76, the sales tax authorities demanded from the Corporation short deposits of sales tax, not realised from purchasers of goods auctioned, for the years 1973-74 (Rs.1·29 lakhs), 1974-75 (Rs.1·15 lakhs) and 1975-76 (Rs.0·60 lakh) which were also deposited on 31st March 1977 alongwith interest charges of Rs.1·79 lakhs at the rate of two *per cent* per month for the delay in deposit of sales tax for those years. The delay in getting the Corporation registered, non/short realisation of sales tax from the purchasers and the consequential delay in remitting the sales tax resulted in an extra payment of Rs.7·36 lakhs.

It was stated (January 1978) by the Corporation that non/short realisation of sales tax occurred due to ignorance of correct sales tax rates.

The matter was reported to the Corporation/Government in August 1978; replies are awaited (December 1978).

12.03. *Penalty for late payment of passenger tax*

Under section 7 of the Uttar Pradesh Motor Vehicles (Passenger Tax) Act, 1962, passenger tax realised is required to be deposited in the treasury by the 15th day of the succeeding month. Under section 10 *ibid,* in the event of delayed payment, penalty up to 25 *per cent* of the tax remaining unpaid could be levied in addition to the tax so payable.

During the years 1974-75 and 1976-77, payment of passenger tax of Rs.45·84 lakhs, Rs.64·98 lakhs and Rs.78·94 lakhs was delayed in Allahabad, Gorakhpur and Kanpur regions and penalties of Rs.1.10 lakhs, Rs.0.42 lakh and Rs.1.03 lakhs respectively were levied by the Passenger Tax Officer. Appeal for waiver of penalties was reported (September 1978) by the Regional Managers to be under consideration of the Deputy Transport Commissioner (Passenger Tax).

The matter was reported to the Corporation in January 1978 and to Government in July 1978; replies are awaited (March 1979).

SECTION XIII

UTTAR PRADESH STATE WAREHOUSING CORPORATION

13.01. *Misappropriation.*

On 30th December 1976, while preparing a cheque, it was noticed by the drawing officer that a blank cheque was missing from the cheque book. Investigation revealed that the missing cheque was encashed by a private party for Rs.24,050 on 23rd December 1976. Further investigations conducted by the Management revealed (January 1977) that, in another case, on 26th April 1976 an 'account payee' cheque for Rs.11,700 was issued, under the signatures of the authorised drawing and countersigning officers, fraudulently in favour of a private party to whom no payment was due.

The Management stated (August 1978) that the former cheque for Rs.24,050 bore forged signatures but the latter cheque for Rs.11,700 was signed by the drawing officer in the normal course after being put up by the concerned Accountant who was responsible for the safe custody of cheque books. The latter cheque was encashed through a bank of Lucknow on 28th April 1976 for Rs.11,700. The first information reports in the two cases were lodged with the Police on 31st December 1976 and 19th January 1977. The cases were referred (March 1977) by the State Government to the Criminal Investigation Department; final report was awaited (December 1978).

Government stated (October 1978) that a claim for the loss of Rs.35,750 was filed (August 1978) with the insurance company with whom the Company had a fidelity guarantee policy for Rupees one lakh and that matter is under correspondence with them (December 1978).

ALLAHABAD:
THE 25 MAY 1979

(O. P. GOEL)
Accountant General, Uttar Pradesh-II

Countersigned

Prakash

NEW DELHI:
THE 2 JUN 1979

(GIAN PRAKASH)
Comptroller and Auditor General of India

APPENDICES

APPEN

(Reference: Para

Statement showing summarised financial

Serial number	Name of the Company	Name of the administrative department	Date of incorporation	Period of accounts	Total capaital invested
1	2	3	4	5	6
1	The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited	Industries	29th March 1972	1977-78	..
2	Prayag Chitrakoot Krishi Evam Godhan Vikas Nigam Limited	Animal Husbandry	7th December 1974	1977-78	50 06
3	Harijan Evam Nirbal Varg Avas Nigam Limited	Harijan Samaj Kalyan	25 June 1976	1977-78	17.40
4	Uttar Pradesh Electronics Corporation Limited	Industries	30th March 1974	1977-78	144·18
5	Auto Tractors Limited	Industries	28th December 1972	1977 78	56·51
6	Sharda Sahayak Samadesh Kshettra Vikas Nigam Limited	Kshettriya Vikas	4th March 1975	1st April to 8th August 1977	48·94
7	Uttar Pradesh Export Corporation Limited	Industries	20th January 1966	1976-77	145.00
8	Uttar Pradesh State Agro Industrial Corporation Limited	Agriculture	29th March 1967	1976-77	746·85
9	Uttar Pradesh State Textile Corporation Limited	Industries	22nd December 1969	1977-78	3,291·72
10	Uttar Pradesh State Sugar Corporation Limited	Industries	26th March 1971	Year ended 30th September 1977	2,558·09
11	Kumaon Mandal Vikas Nigam Limited	Parvatiya Vikas	30th March 1971	1976-77	214·74
12	Ramganga Samadesh Kshettra Vikas Nigam Limited	Kshettriya Vikas	15th March 1975	1976-77	68·06
13	Uttar Pradesh State Handloom and Powerloom Finance and Development Corporation Limited	Industries	9th January 1973	1976-77	234·95
14	Agra Mandal Vikas Nigam Limited	Kshettriya Vikas	31st March 1976	1977—78	104.80
15	Meerut Mandal Vikas Nigam Limited	Kshettriya Vikas	31st March 1976	1977-78	104·63

DIX I

graph 1.02 *page* 1)

results of working of Government Companies

(Figures in columns 6 to 10, 12 and 13 are in lakhs of Rupees)

Profit(+)/ Loss(—)	Total interest charged to profit and loss account	Interest on long-term loans	Total return on capital invested (7+9)	Percentage of total return on capital invested	Capital employed	Total return on capital employed (7+8)	Percentage of total return on capital employed
7	8	9	10	11	12	13	14
(+)42 29	52·72	51·92	94·21	..	1,725·62	95·01	5·51
(—)0·57	..	..	(—)0·57	..	47·69	(—)0·57	..
(+)4·77	..	..	4·77	27·41	38·54	4·77	12·38
(—)1·07	2·49	1·55	0·48	0·33	119·08	1·42	1·19
(—)0·70	0·03	..	(—)0·70	..	8·78	(—)0·67	..
(+)1·17	..	..	1·17	2·39	48·94	1·17	2·39
(+)13·36	6·57	2·32	15·68	10·81	219·56	19·93	9.08
(—)91·31	89·35	3·87	(—)87·44	..	1,196·65	(—)1·96	..
(—)239·37	50·52	31·31	(—)208·06	..	1,935·99	(—)188·85	..
(—) 369·88	172·46	94·12	(—)265·76	..	932·45	(—)187·42	..
(+)8·35	0·86	0·86	9·21	4·29	197·38	9·21	4·67
(+)2·18	0.79	..	2·18	3·19	85·78	2·97	3·46
(+)1·31	4.84	4.82	6·13	2·61	211·85	6·15	2·90
(+)8·04	..	..	8·04	7·67	104·63	8·04	7·68
(+)6·53	8·01	..	6·53	6·26	105·39	14·54	13·80

APPEN

Serial number	Name of the Company	Name of the administrative department	Date of incorporation	Period of accounts	Total capital invested
1	2	3	4	5	6
16	Garhwal Mandal Vikas Nigam Limited	Parvatiya Vikas	31st March 1976	1976-77	168 00
17	Uttar Pradesh Nalkoop Nigam Limited	Irrigation	25th May 1976	1976-77	200.00
18	Uttar Pradesh Development Systems Corporatin Limited	Planning	15th March 1977	1977-78	60.43
19	Uttar Pradesh State Leather Development and Marketing Corporation Limited	Industries	12th February 1974	1976-77	25.00
20	Uttar Pradesh State Bridge Corporation Limited	Public Works	18th October 1972	Year ended 30th September 1975	125.00
21	Garhwal Anusuchit Janjati Vikas Nigam Limited	Parvatiya Vikas	30th June 1975	1976-77	5·00
22	Uttar Pradesh Madhya Kshettra Vikas Nigam Limited	Kshettriya Vikas	31st January 1976	1976-77	50 35
23	Uttar Pradesh State Industrial Development Corporation Limited	Industries	29th March 1961	1977-78	
24	Uttar Pradesh State Brasswares Corporation Limited	Industries	12th February 1974	1977-78	84.30
25	Uttar Pradesh Rajkiya Nirman Nigam Limited	Public Works	1st May 1975	1976-77	104.80
26	Varanasi Mandal Vikas Nigam Limited	Kshettriya Vikas	31st March 1976	1977-78	46.02
27	The Indian Turpentine and Rosin Company Limited	Industries	22nd February 1924	1977-78	177.70
28	Uttar Pradesh Chalchitra Nigam Limited	Information	10th September 1975	1977-78	50·31
29	Uttar Pradesh (Rohilkhand-Tarai) Ganna Beej Evam Vikas Nigam Limited	Co-operative	27th August 1975	1977-78	57·91
30	Uttar Pradesh (Pashchim) Ganna Beej Evam Vikas Nigam Limited	Co-operative	27th August 1975	1977-78	11·31
31	Uttar Pradesh (Poorva) Ganna Beej Avam Vikas Nigam Limited	Co-operative	27th August 1975	1977-78	8·28
32	Uttar Pradesh (Madhya) Ganna Beej Evam Vikas Nigam Limited	Co-operative	27th August 1975	1977-78	15 13
33	Uttar Pradesh State Cement Corporation Limited	Industries	29th March 1972	1977-78	4,660·96

DIX I (*Continued*)

(**Figures in Columns 6 to 1o, 12 and 13 are in lakhs of Rupees**)

Profit(+)/ Loss(—)	Total interest charged to profit and loss account	Interest on long-term loans	Total return on capital invested (7+9)	Percentage of total return on capital invested	Capital employed	Total return on capital emplyed (7+8)	Percentage of total return on capital employed
7	8	9	10	11	12	13	14
(—)1.52	..	..	(—) 1.52	..	162.28	(—) 1.52	..
(—)0.87	..	..	(—)0.87	..	188.49	(—) 0.87	..
(+)0.82	..	..	0.82	1.36	112.20	0.82	0.73
(—)0.44	..	..	(—)0.44	..	42.02	(—) 0.44	..
(—)20.04	0.69	0.69	(—)19.35	..	130.39	(—)19.35	..
(—)0.13	..	..	(—)0.13	..	4.84	(—)0.13	..
(+)0.82	..	..	0.82	1.63	50.04	0.82	1.64
(+)69.51	40.63	40.63	..	..	2,172.43	110.14	5.07
(+)3.28	0.30	..	3.28	3.89	91.02	3.58	3.93
(+)15.80	..	..	15.80	15.08	104.71	15.80	15.08
(+)0.50	0.02	..	0.50	1.09	46.51	0.52	1.12
(+)11.61	7.24	0.47	12.08	6.80	171.02	18.85	11.02
(—)2.79	0.01	..	(—)2.79	..	42.95	(—)2.78	..
(+)2.64	5.73	5.73	8.37	14.45	57.83	8.37	14.47
(+)0.13	6.09	..	0.13	1.15	43.38	6.22	14.34
(+)0.06	1.63	..	0.06	0.72	33.52	1.69	5.04
(+)2.86	6.62	..	2.86	18.90	58.10	9.48	16.32
(—)70.19	2.73	1.81	(—)68.38	..	1,852.42	(—)67.46	..

APPEN

Serial number	Name of the Company	Name of the administrative department	Date of incorporation	Period of accounts	Total capital invested
1	2	3	4	5	6
34	Gorakhpur Mandal Vikas Nigam Limited	Kshettriya Vikas	31st March 1976	1976-77	36·07
35	Uttar Pradesh Instruments Limited	Industries	1st January 1975	1977-78	107·73
	Subsidiary Companies				
36	Kichha Sugar Company Limited	Industries	17th February 1972	Year ended 30th September 1977	504·11
37	Uttar Pradesh Spinning Mills Company (No. 1) Limited	Industries	20th August 1974	1977-78	2,222·10
38	Uttar Pradesh Spinning Mills Company (No. II) Limited	Industries	20th August 1974	1977-78	0·01
39	Transcables Limited	Parvatiya Vikas	29th November 1973	1976-77	19·34
40	Uttar Pradesh Prestressed Products Limited	Industries	30th September 1972	1975-76	2·80
41	Uttar Pradesh Textile Printing Corporation Limited	Industries	5th December 1975	1976-77	16·01
42	Handloom Intensive Development Project (Bijnor) Limited	Industries	13th September 1976	1976-77	24·88
43	Handloom Intensive Development Corporation (Gorakhpur and Basti) Limited	Industries	26th May 1976	1976-77	48.75
44	The Turpentine Subsidiary Industries Limited	Industries	11th July 1939	1977-78	13.46
45	Nandganj Sihori Sugar Company Limited	Industries	18th April 1975	Year ended 30th June 1978	1,063.00
46	Chhata Sugar Company Limited	Industries	18th April 1975	Year ended 31st July 1978	714·60

NOTES—(i) Capital invested represents paid-up caapital *plus* long-term loans *plus* free
(ii) Capital employed (except in case of Companies at serial numbers 1 and 23) represents
(iii) In case of Companies at serial numbers 1 and 23 capital employed represents the and debentures, (iii) reserves, (iv) borrowings including refinance and (v) deposits.
(iv) Companies at serial numbers 38, 40 and 45 have not gone into production.
(v) The Company at serial number 6 is under liquidation from 9th August 1977.

DIX I (*Concluded*)

(Figures in Coulmns 6 to 10, 12 and 13 are in lakhs of Rupees)

Profit(+)/ Loss(—)	Total interest charged to profit and loss account	Interest on long-term loans	Total return on capital invested (7+9)	Percentage of total return on capital invested	Capital employed	Total return on capital employed (7+8)	Percentage of total return on capital employed
7	8	9	10	11	12	13	14
(+)0·98	0·47	..	0·98	2·72	57·46	1·45	2·52
(—)21·82	7·06	6·31	(—)15·51	..	82·07	(—)14 76	..
(—)87·37	86·11	47·06	(—)40·31	..	346·51	(—) 1·26	..
(—)195·56	104·20	83·34	(—)112·22	..	1,759·66	(—)91·36	..
(—)0·01	..	..	(—) 0·01	..	(—)0·79	(—)0·01	..
(—)2·57	0·67	0·67	(—)1·90	..	16·69	(—)1·90	..
..	..	..	..	..	0·35	..	..
(+)0·01	..	..	0·01	0·06	15·67	0·01	0·06
(—)0·70	0·81	0·81	0·11	0·44	24·11	0·11	0·46
(—)2·84	2·85	2·85	0·01	0·02	58·27	0·01	0·02
(—)1·91	0·38	..	(—)1·91	..	11·64	(—)0·47	..
..	..	..	..	..	214·51	..	..
(—)218·73	21·96	17·11	(—)201·62	..	540·77	(—)196·77	..

reserves.

net fixed assets (excluding capital works-in-progress) *plus* working capital.

mean of the aggregate of opening and Closing balances of (i) paid-up capital, (ii) bonds and

APPEN

(Reference: Paragraphs 6.01

Statement showing summarised financial results

Serial number	Name of the Corporation	Name of the administrative department	Date of incorporation	Period of accounts	Total capital invested
1	2	3	4	5	6
				(a)	*Uttar Pradesh*
1	Uttar Pradesh State Electricity Board	Power	1st April 1959	1977-78*	170,846 58
				(b) *Other*	*Statutory*
2	Uttar Pradesh Financial Corporation	Industries	1st November 1954	1977-78	..
3	Uttar Pradesh State Warehousing Corporation	Co-operative	19th March 1958	1976-77	643·86
4	Uttar Pradesh State Road Transport Corporation	Transport	1st June 1972	1973-74 1974-75 1975-76*	3,540·82 3,743·62 4,308·39

NOTES—(i) Capital invested represents paid-up capital *plus* long-term loans *plus*

(ii) Capital employed (other than Uttar Pradesh Financial Corporation) represents net

(iii) In the case of Uttar Pradesh Financial Corporation, capital employed represents debentures, (iii) reserves, (iv) borrowings including refinance, (v) deposits and (vi) funds

*Figures are provisional.

DIX II

and 6.02 of Section VI, page 89, 91)

of working of Statutory Corporation

(Figures in columns 6 to 10, 12 and13 are in lakhs of Rupees)

Profit(+)/ Loss(—)	Total interest charged to profit and loss account	Interest on long-term loan	Total return on capital invested (7+9)	Percentage of total return on capital invested	Capital employed	Total return on capital employed (7+8)	Percentage of total return on capital employed
7	8	9	10	11	12	13	14
State Electricity Board							
(—) 2,309·35	2,119·30	2,119·30	(—)190·05	..	1,60,171·05	(—)190·05	..
Corporations							
(+)105·49	192·54	192·54	298·03	..	3,815·59	298·03	7·81
(+) 165·29	..	..	165·29	25·64	465·89	165·29	35·48
(+) 0·45	269·25	259·75	260·20	7·34	3,486·22	269·70	7·74
(—)251·82	281·33	271·83	20·01	0·53	3,549·81	29·51	0·83
(+)176·86	321·69	312·19	489·05	11·35	4,371·10	498·55	11·40

free reserves.

fixed assets *plus* working capital.

mean of the aggregate of opening and closing balances of (i) paid-up capital, (ii) bonds and for special schemes advanced by the State Government.

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