REPORT
OF THE
COMPTROLLER
AND
AUDITOR GENERAL
OF
INDIA

FOR THE YEAR
1977-78
(COMMERCIAL)

GOVERNMENT
OF
ORISSA

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SO (Com)

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REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA FOR THE YEAR 1977-78 (COMMERCIAL) GOVERNMENT OF ORISSA

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PREFATORY REMARKS

Government commercial concerns, the accounts of which are subject audit by the Comptroller and Auditor General of India, may be cate- ɔrised as:—

(*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 the accounts of overnment Companies and Statutory Corporations including the Orissa tate Electricity Board. The Report of the Comptroller and Auditor eneral of India (Civil) contains the results of audit relating to the epartmentally managed commercial and *quasi*-commercial undertakings.

3. The cases mentioned in the Report are those which came to the otice of Audit during the year 1977-78 as well as those which had come notice in earlier years but could not be dealt with in the previous eports; matters relating to the period subsequent to 1977-78 have also een included, wherever considered necessary.

4. In the case of Government Companies, audit is conducted by pro- ssional auditors appointed on the advice of the Comptroller and Auditor eneral but the latter is authorised under Section 619 (3)(b) of the Companies ct, 1956 to conduct a supplementary or test audit. He is also empowered comment upon or supplement the report submitted by the professional ıditors. The Companies Act further empowers the Comptroller and ıditor General to issue directives to the auditors in regard to the perfor- ınce of their functions. In November 1962, such directives were issued the auditors for looking into certain specific aspects of the working of overnment Companies. These were revised in December 1965 and in ebruary 1969.

5. There are certain companies wherein Government has invested ds but the accounts of which are not subject to audit by the Comp- ler and Auditor General. Names of two such companies in each of ch Government investment was more than Rs.10 lakhs as on the 31st rch 1978 are given below:—

Name	Investment (Rupees in lakhs)	Percentage of Government investment to the total paid-up capital
)rissa Cement Limited, Rajgangpur ..	40·00	12·9
)rissa Textile Mills Limited, Choudwar, Cuttack	12·75	17·3

6. The Comptroller and Auditor General is the sole auditor of)rissa State Electricity Board and Orissa State Road Transport Corpo- ation, which are Statutory Corporations, while he has the right to conduct udit of Orissa State Financial Corporation and Orissa State Ware- ousing Corporation independently of the audit conducted by professional uditors appointed under the respective Acts.

7. The points brought out in this Report are those which have come o notice during the course of test audit of the accounts of the above under- akings. They are not intended to convey or to be understood as convey- ng any general reflection on the financial administration of the undei akings concerned.

CHAPTER I

GOVERNMENT COMPANIES

SECTION I

1.1. Introduction

There were 49 Government Companies (including two subsidiaries) in the State at the end of March 1978 with an aggregate investment of Rs. 46,19·90 lakhs by Government as share capital (excluding two subsidiaries) as summarised below:

	Number of Government Companies	Government Investment (Rupees in lakhs)
(*i*) Companies wholly owned by Government (excluding subsidiaries)	13	44,15·36
(*ii*) Companies partly owned by Government		
(*a*) Companies floated under the pilot project scheme started in 1958 to promote small scale industries	31	54·80
(*b*) Other than those floated under the pilot project scheme	3	1,49·74
Total		46,19·90

1.2. During 1977-78 Government paid loans aggregating Rs. 13·91 lakhs to two Government Companies. The amount received by Government from Government Companies during the year, on account of repayment of principal of loans, was Rs.1,31·18 lakhs. At the end of the year, loans from Government amounting to Rs.10,42·82 lakhs were outstanding.

1.3. Out of the outstanding balance of Rs.10,42·82 lakhs a Government companies as on 31st March 1978, Rs.4,14·64 lakhs were account of overdue principal from five companies. According to th formation received from three departments, Rs.3,86·38 lakhs on ac of overdue interest were outstanding from four companies. Inform in respect of three Companies from three departments is not ava (June 1979).

The details are given below:

Name of the Company	Balance outstanding as on March 1978		
	Amount of loan	Overdue amount of principal	Ove am of in
	(Rupees in lakhs)		
Orissa Lift Irrigation Corporation Limited	18·28	3·00	
Industrial Development Corporation of Orissa Limited	6,99·70	3,49·86	3,
Orissa Small Industries Corporation Limited	30·63	26·28	
Orissa Agro Industries Corporation Limited	57·50	19·50	
Orissa Construction Corporation Limited	16·00	16·00	
Orissa State Commercial Transport Corporation Limited	2,09·47	..	
Orissa Fisheries Development Corporation Limited	11·24	..	
Total	10,42·82	4,14·64	3,8

1.4. Guarantees by Government

As on 31st March 1978, Government had guaranteed the repayment of loans raised by seven Government Companies against which Rs.16,72·19 lakhs were outstanding as shown below:

	Number of Companies	Maximum amount guaranteed	Amount guaranteed and outstanding on 31st March 1978
		(Rupees in lakhs)	
Wholly owned Companies	5	29,77·80	16,69·69
Partly owned pilot project Companies	2	2·50	2·50
Total ..	7	29,80·30	16,72·19

The Companies are required to pay guarantee commission at rates ranging from 0·01 *per cent* to one *per cent* of the outstanding amount of guarantee. Three out of the five wholly owned Companies defaulted in payment of the commission. The aggregate amount of guarantee commission outstanding from these Companies and nine other Companies (in respect of which the guarantee was liquidated by Government in 1971-72) was Rs.40·82 lakhs on 31st March 1978.

1.5. Accounts in arrears

The particulars of the Companies in respect of which the accounts were in arrears and the extent of arrears (as on March 1979) are given in Appendix I. The matter has been reported to Government from time to time.

1.6. Return on Investment

During 1977-78, Government received a dividend of Rs.0·83 lakh on its investments (Rs.46,19·90 lakhs) in the share capital and Rs.96·93 lakhs as interest on loans to Government Companies.

1.7. A synoptic statement showing the summarised financial results of sixteen Government Companies, on the basis of the latest available accounts, is given in Appendix II.

1.8. There were two Section 619—B Companies in the State as on 31st March 1978 *viz.*, East Coast Breweries and Distilleries Limited, Cuttack and Mamta Drinks and Industries Limited, Rourkela with an aggregate paid up capital of Rs.88·26 lakhs, of which Rs.69·87 lakhs were held by the State Government and Companies and Corporations owned or controlled by Government.

SECTION II

INDUSTRIAL DEVELOPMENT CORPORATION OF ORISSA LIMITED

2.1.1. Introduction

Industrial Development Corporation of Orissa Limited (IDCOL) was incorporated as a wholly owned Government Company on 29th March 1962 with the main object of promoting, establishing and operating industries within the State of Orissa. The Company has seven manufacturing units dealing in different products.

2.1.2. Capital structure

The authorised capital of the Company was Rs.50,00 lakhs and the paid-up capital as on 31st March 1978 was Rs.21,72·79 lakhs.

The Company had obtained loans from time to time and the outstanding loan as on 31st March 1978, was Rs.11,54·20 lakhs as indicated below :

		(Rupees in lakhs)
Government of Orissa	..	*6,99·88
Bank loan	..	2,31·99
Cash credit	..	2,22·33

In May 1972, the State Government consolidated all the loans sanctioned to the Company up to March 1972 into one loan of Rs.8,74·62 lakhs. As per the terms and conditions, the Company was to repay the first instalment of Rs.87·48 lakhs on 1st October 1972 and the balance amount in nine instalments of Rs.87·46 lakhs each on 1st October of each year. The amount of interest, at the rate of 8½ *per cent* per annum, reduced (May 1972) to 6½ *per cent* in case of timely repayment of principal and interest, was to be paid on or before 31st March every year. An amount of Rs.6,99·88 lakhs was outstanding towards loan, of which Rs.3,49·86 lakhs was overdue for repayment at the end of 31st October 1978. An amount of Rs.3,22·37 lakhs towards interest was also payable by the Company to Government up to October 1978. The amounts could not be repaid/paid owing to paucity of funds.

*This differs from the figure indicated in Finance Accounts for 1977-78 (Rs. 699·70 lakhs) and is under reconciliation.

Government had waived (March 1970) payment of Rs.26·25 lakhs towards penal interest up to 31st December 1969 on the loans (Rs.5,40 lakhs) sanctioned up to the end of March 1967. In November 1976, the Company requested for waiver of the penal interest amounting to Rs.17·13 lakhs (approximately) for the period from 1st January 1970 to 31st March 1972 due to non-repayment of instalments of loans on due dates. Government stated (February 1979) that the question of waiving of penal interest is under their consideration. Further developments are awaited (June 1979).

2.1.3. Financial results

Audited accounts of the Company are available up to the year 1975-76 and provisional accounts for the years 1976-77 and 1977-78.

During 1975-76, the Company made a profit of Rs.1,64·37 lakhs before charging Development Rebate Reserve.

The accumulated loss up to the year 1975-76 stood at Rs.5,80·42 lakhs (Development Rebate Reserve and Initial Depreciation allowance Reserve: Rs.5,17·84 lakhs and trading loss: Rs.62·58 lakhs). Rupees 160 lakhs representing interest on loans obtained from the banks and the State Government up to end of March 1973, treated as deferred revenue expenditure in the earlier years, had not been written off up to 31st March 1976, though the units had commenced production.

The accounts/provisional accounts for the three years up to 1977-78, disclosed the following results before charging Development Rebate Reserve:

Year	Profit (Rupees in lakhs)
1975-76	1,64·37
1976-77	1,05·05*
1977-78	1,04·80*

(*Provisional)

The following table gives the details of investment by the Company in seven manufacturing units as on 31st March 1978, and the working results during the three years up to 1977-78:

Unit	Product manufactured	Investment as on 31st March 1978	Profit (+)/Loss (—) 1975-76	1976-77	1977-78
		(Rupees in lakhs)			
Hirakud Industrial Works	Fabrication of tower members and structural works	53·24	(+)33·59	(+)54·40	(+)35·31
Kalinga Iron Works	Pig iron ..	13,60·22	(+)7·64	(—)1,23·19	(—)93·56
Hira Cement Works	Cement ..	1,51·32	(+)93·35	(+)90·64	(+)1,09·76
Choudwar Tile Factory	Roofing and ridge tiles	50·96	(—)1·10	(—)0·46	(—)2·28
Hira Cable Works	ACSR and AAC conductors—Super enamelled aluminium and copper winding wires	3,44·04	(+)17·94	(+)27·04	(+)3·97
Re-rolling mills	Mild steel ..	1,15·09	(—)9·66	(—)24·44	(—)21·72
Ferro-Chrome Project	High carbon ferro-chrome, silico chrome, low carbon ferro-chrome and ferro-silicon	7,13·81	(+)22·76	(+)82·06	(+)73·32

It has been noticed (February 1978) in audit that high cost of production in the case of Kalinga Iron Works and Re-rolling mills and poor demand for the product of the Tile factory were responsible for the unfavourable working results of these units. While high consumption of coke due to its bad quality was the main reason for high cost of production in Kalinga Iron Works, the higher rates paid for billets in open market was the reason in the case of Re-rolling mills.

2.1.4. Investments

With a view to promoting or establishing any industry considered necessary for the development of the State or as a means of profitable investment to improve the financial results of the existing industrial undertakings, the Company decided (1963) that its funds could be utilised to aid, assist and finance industrial undertakings. To enable the Company to finance the industrial undertakings, Government released Rs.1,85·65 lakhs from time to time in the form of share capital to the Company, for the purpose of making investment in the share capital of the companies in which investments were to be made. Out of the above amount the Company invested Rs.1,79·04 lakhs till March 1978 in eight industrial undertakings including a Co-operative society; the balance (Rs.6·61 lakhs) was utilised by the Company for its other activities. The following are the details of amounts (Rs.1,79·04 lakhs) invested:

Serial number	Name of the Company	Date of incorporation	Total paid-up capital of the assisted Company as on 31st March 1978	Amount invested in the share capital by the Company as on 31st March 1978	Remarks
			(Rupees in lakhs)		
(i)	East Coast Breweries and Distilleries Limited, Cuttack	15th April 1969	74·00	29·00	The Company has gone into production (April 1979).
(ii)	East Coast Salt and Chemical Industries Limited, Sumandi	27th October 1965	20·50	20·46	A subsidiary of IDCOL, gone into production in 1967, did not earn any profit. The cumulative loss incurred up to 31st March 1976 by the subsidiary was Rs.22 lakhs.
(iii)	Hira Steels and Alloys Limited, Bhubaneswar	23rd August 1974	26·65	16·65	A subsidiary of IDCOL which has not yet gone into production (March 1979).
(iv)	Jayashree Chemicals Limited, Ganjam	17th April 1962	1,65·00	14·96	The Company paid dividend of Rs.1·50 lakhs for 1976 and 1977 each.
(v)	Kalinga Exporters Limited, Bhubaneswar	26th October 1970	1·26	0·32	This became defunct (1973).
(vi)	Konark Jute Limited, Dhanmandal	27th January 1975	1,59·00	81·00	Expected to go into production in March 1979.
(vii)	Orichem Limited, Bhubaneswar	29th July 1974	26·75	13·65	Expected to go into production in 1980.
(viii)	Aska Co-operative Sugar Industries Limited, Aska	17th August 1963	73·64	3·00	The unit has been incurring losses. The accumulated loss up to June 1973 was Rs. 30·85 lakhs.
	Total		..	1,79·04	

(i) Investment in East Coast Breweries and Distilleries Limited

Mention was made in paragraph 26 (3) of the Report of the Comptroller and Auditor General of India for the year 1972-73 (Commercial) about the investment made by the Company in the equity share capital of East Coast Breweries and Distilleries Limited, Cuttack. The investment of the Company and Government, as on 31st March 1978, were Rs.29 lakhs and Rs.33 lakhs respectively. In addition, the Company advanced Rs.25 lakhs from time to time to enable the brewery company to tide over financial difficulties, the advance carried interest at the rate of 15 *per cent.*

In August 1974, the Company decided to dispose of its shares in the brewery company. The Company could not, however, dispose of the shares on account of non-co-operation on the part of the brewery Company.

(ii) Investment in Orichem Limited

In February 1974 the Company entered into a joint sector collaboration agreement with a private firm of Bhubaneswar for floating a public limited Company for the purpose of producing and marketing sodium dichromite and sodium sulphate and a new Company, *viz.*, Orichem Limited was incorporated in July 1974 with an authorised capital of Rupees one crore consisting of one lakh shares of Rs. 100 each.

The investment of the Company, as on 30th September 1977, was Rs. 13·65 lakhs.

Though the project was scheduled to be commissioned by 1975 the work on the project has started only in April 1979. The Company expected (August 1978) that the project would go into production in July 1980.

2.1.5. Loans to companies

Besides assisting the companies by participating in their share capital, the Company had given loans and temporary advances totalling Rs. 76·82 lakhs to four of them, between October 1974 and March 1978. Interest is to be paid at the ruling bank rate but no schedule for repayment of principal and payment of interest was laid down. As on 31st March 1978, the entire amount was outstanding towards principal and Rs. 15·35 lakhs towards interest from these Companies.

The loanee Companies could not pay due to financial difficulties. The Company has been depending on cash credit from banks for its own working capital requirement and on account of blocking up the funds in these units, the Company has been put to extra expenditure by way of enhanced interest on cash credit.

2.1.6. Industries in Panchayat Samiti areas

Between 1963-64 and 1965-66, on the basis of scheme formulated by Government Rs. 61 lakhs were invested in the share capital of the Company for the specific purpose of establishing industries in some of the panchayat samiti areas. Rupees 1·79 lakhs were spent for development and preliminary expenses in two samiti areas till March 1967. In April 1967, Government informed the Company that due to financial stringency the industries in the panchayat samiti areas may not be set up. The Company utilised the remaining amount of Rs. 59·21 lakhs for its other activities. Specific approval of Government for diversion of the money was not obtained (June 1979).

2.1.7. Investments in short-term deposits

(*i*) As on 31st March 1978, the Head Office of the Company had kept Rs. 26·70 lakhs in short-term deposits with ten banks, for periods ranging from 210 days to 2,205 days. The individual deposits were initially kept for short terms earning lower rates of interest and renewed from time to time.

While the Company had kept Rs. 26·70 lakhs in short-term deposits continuously earning interest at 0·5 to 5·5 *per cent*, it held back repayment of term loans and cash credit obtained from banks at higher rate of interest (14 *per cent per annum*). Had the term loans and withdrawal from cash credit been paid to the extent of Rs. 26·70 lakhs, an additional expenditure on interest amounting to Rs. 6·75 lakhs, calculated for three years up to March 1978, at the differential rate, could have been avoided. The Management stated (May 1978) that the amount was received from Government for implementation of a specific project (Rourkela development area project) and, therefore, the money was kept in short term deposits for drawal as and when the need arose.

The reasons for which the Company could not forecast its periodical requirements and invest the money not immediately required gainfully are not on record.

(*ii*) Hira Cement Works, one of the units of the Company, had a credit balance in its cash credit account in the books of bank **'A'** during the period April 1977 to February 1978, as detailed below:

Period	Number of days for which balance was held in credit	Minimum balance	Maximum balance
		(Rupees in lakhs)	
20th April 1977 to 27th August 1977	130	16·47	63·77
29th October 1977 to 30th November 1977	33	8·32	37·62
6th December 1977 to 19th February 1978	76	2·67	28·89

Further, the unit also invested surplus cash in short-term deposits for periods ranging from 91 days to 6 months as detailed below:

Period	Number of days short-term deposits were kept	Amount
		(Rupees in lakhs)
19th April 1977 to 23rd March 1978	339	10
26th April 1977 to 19th September 1977	177	10
29th April 1977 to 17th September 1977	142	20
29th June 1977 to 3rd September 1977	67	20

While this unit had surplus cash, the other units of the Company availed cash credit and term loans paying interest at higher rates (14 *per cent*) than the interest earned (5·5 *per cent* to 6·18 *per cent*) on short-term deposits. The extra expenditure incurred by the other units by way of interest worked out to Rs. 3·47 lakhs for the period between April 1977 and September 1977.

Government stated (August 1978) that steps had been taken to utilise monies of Hira Cement Works for the purpose of the other units, on temporary basis, in order to save payment of interest at higher rates on cash credit.

Summing up

In pursuance of its objectives, the Company established seven manufacturing units dealing with different products. Working results of three of them (Kalinga Iron Works, Re-rolling Mill and Tile Factory) have not been encouraging. The Company also promoted eight industries and participated in their share capital to an extent of Rs. 1,79·04 lakhs (March 1978). Only one industry paid dividend, the others either have been incurring losses or have not started production.

In the course of audit, instances have come to notice, where due to inadequate arrangements towards forecasting cash availability, optimum utilisation was not made by diversion and expenditure towards payment of interest on borrowings was incurred.

HIRA CEMENT WORKS, BARGARH

2.2.1. The Government of India granted (December 1961) licence to the State Government for setting up a cement factory, with a capacity of 1,200 tonnes per day (by extracting limestone from Dungri mine) by a State Government Company to be incorporated. Government of Orissa made available the licence to the Industrial Development Corporation of Orissa Limited after its incorportion in March 1962. In July 1963, the Company decided to set up the factory at Bargarh in Sambalpur district, giving up the earlier idea of establishing it at Hirakud where preparations were initially made to set up the factory, in view of the economics of transportation of limestone involved in setting up the factory at Bargarh.

2.2.2. Supply, erection and project costs

After making enquiries from indigenous firms and calling for quotations from East European Countries for supply and erection of plant and equipment required for the cement factory, the Company entered into an agreement with two firms—'Y' of France and 'X' of Madras (which

had collaboration with the same French firm), for supply, transport, storage and erection of machinery and equipment for a cement factory capable of producing 1,200 tonnes of cement per day (2 plants, each with capacity of 600 tonnes per day) on turnkey basis. The total consideration agreed to be paid was Rs. 2,84·50 lakhs (inclusive of Rs. 20 lakhs towards charges for erection). The liability to supply the imported equipment, raw material and components (valued at Rs. 80 lakhs) was the responsibility of the French firm and that for the supply of indigenous equipment for the balance value and erection of the factory as a whole rested with the Indian firm. Two *per cent* of the value of machinery was payable as advance in two instalments; the date on which the first instalment was paid (December 1962) was reckoned as the effective date of the agreement. The plant was to be erected and commissioned within 27 months from the effective date of the agreement, *i.e.* by February 1965. For this purpose the Company was to complete the foundation and superstructure on which the machinery was to be erected within 12 to 20 months from the effective date, *i.e.* by July 1964 at the latest.

The project estimate was prepared by the Company in June 1964, which was revised in March 1969. The following table gives the comparative position of the two estimates and actual expenditure up to March 1976:—

Particulars	Original estimate (July 1964)	Revised estimate (March 1969)	Actual expenditure (Up to March 1976)	Excess(+)/ saving(—) over the revised estimate
	(Rupees in lakhs)			
Land and development	14·00	14·47	7·51	(—)6·96
Factory and Administrative Building	90·20	1,23·31	1,11·27	(—)12·04
Housing Colony	21·00	48·74	39·41	(—)9·33

Particulars	Original estimate (July 1964)	Revised estimate (March 1969)	Actual expenditure (Up to March (1976)	Excess(+)/ saving(—) over the revised estimate
	(Rupees in lakhs)			
Plant and machinery imported and indigenous including installations	2,87·05	3,37·81	5,15·22	(+)1,77·41
Other assets including metre gauge Railway system from mine to Factory and broad gauge Railway siding	1,51·95	2,34·53	2,28·12	(—)6·41
Planning and development expenditure	40·80	91·14	..	(—)91·14
Total	6,05·00	8,50·00	9,01·53	(+)51·53

The increase in the actual expenditure as compared to the estimate of March 1969, was mainly due to (*i*) devaluation of Indian rupee in 1966 and consequential increase (Rs. 55·66 lakhs), (*ii*) improvements to railway lines and purchase of locomotives (Rs. 47·35 lakhs), (*iii*) rectification of defects in machinery and improvements to machinery (Rs. 45·82 lakhs) and (*iv*) acquisition of Dungri limestone quarry (Rs. 56·85 lakhs).

2.2.3. Commissioning of the plant

Erection of the plant scheduled to be completed by December 1965 (extended date) was completed for the purpose of trial operation in February 1967; trial production started in January 1968. The Company attributed (April 1976) the delay to (*i*) shifting of the factory site from Hirakud to Bargarh in August 1963, after eight months of the effective date of contract, (*ii*) lack of finance, (*iii*) want of controlled commodities like iron, steel and cement which could not be procured in sufficient quantities as required and (*iv*) late arrival of imported mechinery.

During the trial runs of the plant, carried out between February 1967 and January 1968, 228 mechanical and 91 electrical defects were noticed. These were in the nature of defects in workmanship and choice of materials, for which the supplier was responsible according to the agreement. In order to stabilise the production in the plant, these defects needed rectification which the Company carried out at a cost of Rs. 45·82 lakhs. The supplier firm though agreed (November 1967) to rectify the defects and/or to bear the cost of rectification made by the Company, did not ultimately honour its commitment. The Company initially wanted to forfeit Rs. 14·22 lakhs held by it as security, but finally, in December 1969 refunded Rs. 11·72 lakhs after deducting only Rs. 2·50 lakhs. The Company also got repaired damages (Rs. 1·44 lakhs). They also retained spare parts valued at Rs. 1·00 lakh. The Company did not also levy penalty as contemplated in the agreement for the delay of fourteen months in the execution of the work (at Rs. 25,000 for every completed week over the prescribed period of 27 months for each plant of 600 tonnes capacity) on the ground that the Company was also responsible partly for the delay in that they delayed construction of civil structures for erection of plant and faced financial difficulties hampering the progress of work. It also did not refer the matter to arbitration, in terms of the agreement, for the reason that it would delay matters and cause unnecessary expenditure.

2.2.4. Production performance

The following table indicates the details of capacity and the actual production of cement during the five years up to 1977-78:

Rated capacity : 4·00 lakh tonnes per annum

Year	Actual production (in lakh tonnes)	Percentage of actual production to Rated capacity
1973-74	3·18	79·5
1974-75	3·25	81·3
1975-76	3·95	98·8
1976-77	3·84	96·0
1977-78	4·26	106·5

It will be seen from the above table that the plant in production performance over the years has attained full capacity production in 1977-78.

According to the Management, the fall in production during 1976-77 was mainly due to power failure and repairs to coal mills.

2.2.5. Financial position

The following table indicates the financial position at the end of each of the three years up to 1977-78:—

		1975-76	1976-77	1977-78
		(Rupees in lakhs)		
Liabilities				
Head Office Current Account	..	5,52·05	5,06·61	1,51·32
Subsidy (limestone welfare cess)	..	..	1·23	1·23
Reserves and surplus (Development rebate reserve/profit)		2,11·30	3,01·17	4,10·82
Borrowings	..	43·77	..	35·96
Trade dues and other current liabilities		2,17·86	2,53·43	3,68·37
Total	..	10,24·98	10,62·44	9,67·70
Assets				
Fixed assets (gross)	..	9,01·52	9,17·65	9,29·04
Less depreciation	..	2,94·33	3,35·47	3,75·28
Net fixed assets	..	6,07·19	5,82·18	5,53·76
Capital work-in -progress	..	4·37	7·89	7·71
Refractories plant account	..	0·04	0·04	0·04
Investment	..	0·52	0·32	0·26
Current assets, loans and advances	..	3,51·50	4,04·17	3,34·33
Miscellaneous expenses				
Deferred revenue expenditure	..	59·62	64·62	67·49
Development expenditure	..	1·74	3·22	4·11
Total	..	10,24·98	10,62·44	9,67·70

		1975-76	1976-77	1977-78
		(Rupees in lakhs)		
Capital employed	..	7,40·83	7,35·92	5,19·72
Net worth	..	7,01·99	7,41·17	4,94·09

NOTE:

(*i*) Capital employed represents net fixed assets *plus* working capital.

(*ii*) Net worth represents investment by head office *plus* reserves and surplus *minus* intangible assets.

(*iii*) The figures for 1976-77 and 1977-78 are provisional.

(*iv*) Head office current account represents investment made by the headquarters of the Company in the unit.

2.2.6. Profitability and working results

It was assumed in the report sent alongwith the project estimate to Government in July 1964 for approval, that the project would yield a net return of 8 *per cent* on capital employed from the fifth year after commissioning after providing for depreciation and interest on the loan capital.

From inception up to 1974-75, the net profit before charging development rebate ranged between Rs. 3·24 lakhs (1968-69) and Rs.56·77 lakhs (1974-75); the average being Rs.16·17 lakhs. The accumulated profit up to 1977-78 (before charging development rebate reserve) was Rs.4,06·20 lakhs. The following table indicates the working results of the unit during the three years up to 1977-78 and the percentage of return on capital employed and capital invested at the end of each year:

		1975-76	1976-77	1977-78
		(Rupees in lakhs)		
Net profit (before appropriation)	..	93·35	89·87	1,09·65
Capital employed	..	7,40·83	7,35·92	5,19·72
Percentage of return on capital employed*	..	12·60	12·21	21·10
Capital invested	..	8,07·12	7,38·03	5,50·45
Percentage of return on capital invested*	..	11·56	12·18	19·92

(*For purpose of return, net profit only has been reckoned).

The Company capitalised interest on the loans during construction period. From the year of commissioning, i. e. 1968-69 to the end of March 1973, one-fifth of the amount of interest payable to Government on the loans advanced to the Company was charged to revenue and the balance amount was treated as deferred revenue expenditure. The amount of interest in its entirety should have been charged to revenue each year to ensure disclosure of the correct financial result each year. The amount not charged to revenue to the end of March 1976 was Rs. 44·98 lakhs.

The Unit has been remitting funds to other sister units and head office of the Company from time to time for day to day business. The following are the details :

Unit	Up to 31st March 1976	1976-77	1977-78	Total
	(Rupees in lakhs)			
Kalinga Iron Works ..	80·47	..	30·02	1,10·49
Ferro-chrome Plant ..	47·78	39·08	1,10·43	1,97·29
Tile factory ..	3·30	1·50	4·84	9·64
Hirakud Industrial Works ..	4·00	..	..	4·00
Re-rolling mill ..	92·23	..	..	92·23
Hiracable works ..	69·80	10·01	..	79·81
Head Office ..	..	..	1,86·49	1,86·49
Total ..	2,97·58	50·59	3,31·77	6,79·94

According to the Management, the interest on the funds diverted to other units up to March 1978 worked out to Rs. 26·21 lakhs.

2.2.7. The following are some of the points noticed in audit :—

(*a*). *Quarry operations*—At the time of commissioning the project, the Company did not have a captive mine for limestone and it was obtaining supplies of limestone from a sister undertaking (*viz.* Orissa Mining Corporation Limited) from their mines at Dungri. As the arrangements for supply of limestone were not satisfactory, and with a view to ensuring direct operational control, the Government ordered (February 1969) the transfer of the mines to the Company. The mines were taken possession of in June 1969; lease was transferred in January 1978.

A firm of Chartered Accountants, appointed by the State Government for the purpose of valuing the assets of the quarry assessed (February 1972) the value at Rs. 37·48 lakhs, as against which the Company had paid Rs. 46·00 lakhs to the Orissa Mining Corporation Limited between August 1970 and May 1971, on *ad hoc* basis. Refund of the excess amount paid is awaited (June 1979).

(*b*) *Excess payment of energy charges*

With a view to getting power supply to the mines the Company approached the Orissa State Electricity Board, who agreed to supply power provided a guarantee of 15 *per cent* is given on the total expenditure incurred in laying the lines and giving the connection. The Company on this basis considered 500 KW to be the safe margin for the growing load to operate while ensuring at the same time to the Electricity Board the minimum guarantee stipulated by them.

An agreement was entered into in July 1971 with the Board for the supply of power to the mines at a maximum demand of 500 KW (550 KVA) for five years. Minimum charges on 80 *per cent* of the contracted demand *plus* energy charges calculated for units consumed at 10 *per cent* load factor of the contract demand for an average power factor of 0·8 (raised to 0·9 from January 1975) were payable under the agreement. Rupees 5·01 lakhs were paid as minimum chages for the period July 1971 to June 1976. The actual consumption during the period ranged between 100 KVA and 150 KVA and charges payable on this basis amounted to Rs. 3·32 lakhs.

The contracted demand was reduced to 300 KW (330 KVA) only in July 1976.

(*c*) *Consumption of materials and utilities*

Regular norms for consumption of materials and utilities have not been fixed. The suppliers of plant and equipment had indicated the requirements. Taking into consideration the local conditions prevailing from time to time the Management estimated the requirements for each year. On the basis of details furnished (February 1979) by the Government the details of excess consumption of electricity and coal during five years up to 1977-78 are given on the next page:

	1973-74		1974-75		1975-76		1976-77		1977-78	
	Electricity	Coal	Electricity	Coal	Electricity	Coal	Electricity	Coal	Electricity	Coal
1. Requirement indicated by the supplier per tonne of cement packed/produced	110 kwh	0·30 tonne	110 kwh	0·30 tonne	110 kwh	0·30 tonne	110 kwh	0·30 tonne	110 kwh	0·30 tonne
2. Requirement estimated by the Company per tonne of cement packed/produced	117·14 kwh	0·320 tonne	118·89 kwh	0·324 tonne	117·00 kwh	0·330 tonne	117·00 kwh	0·330 tonne	115·00 kwh	0·350 tonne
3. Actual consumption per tonne of cement packed/produced	127·11 kwh	0·330 tonne	125·50 kwh	0·330 tonne	112·64 kwh	0·34 tonne	112·31 kwh	0·365 tonne	112·21 kwh	0·360 tonne
4. Excess consumption per tonne of cement packed/produced with reference to (2)	9·97 kwh	0·010 tonne	6·61 kwh	0·006 tonne	..	0·010 tonne	..	0·035 tonne	..	0·010 tonne
5. Actual quantity of cement—										
packed	3·20	..	3·30	..	3·93	..	3·86	..	3·80	..
produced	3·18	..	3·25	..	3·95	..	3·84	..	4·26	..
(In lakhs of tonnes)										
6. Total excess consumption— Electricity (in lakh kwh)	23·90	..	13·56	..	..	..	..	..	..	..
Coal (in lakh tonnes)	–	0·032	..	0·020	..	0·040	..	0·134	..	0·043
7. Total extra expenditure (in lakhs of rupees)	3·10	1·86	1·98	1·37	..	3·51	..	12·45	..	4·02

Note: (1) Consumption of electricity was with reference to quantity of cement packed and that of coal was with reference to quantity produced. (2) In addition to coal, 0·159 lakh tonnes of coke has also been utilised having value of Rs.10·36 lakhs.

The Company had attributed (August 1978) excess consumption of electricity to low power factor, power stoppages and power constraints imposed by OSEB and that of coal to (*i*) adoption of primitive rotary coolers with low efficiency, (*ii*) high ash content and moisture in the coal received and (*iii*) short length of the kiln with resultant wastage of heat, outgoing temperature from exhausts. It was also stated that the manufacturer had envisaged a particular type of coal (with 6000 K. Cal/KG.) and if the supply of that coal could have been ensured there would be no difficulty in attaining standard consumptions but in actual practice such coal was not available.

(*d*) *Consumption of gunny bags*

The following table gives details of the actual use of new and old gunny bags *vis-a-vis* the proportion fixed for use during the five years up to 1977-78:

Year		Number of bags actually used		Number of bags to be used according to the proportion	
		(Figures in lakhs)			
		New	Old	New	Old
1973-74	..	43·63	20·35	43·63	20·35
1974-75	..	41·75	24·17	43·84	22·08
1975-76	..	46·50	32·13	46·03	32·60
1976-77	..	49·91	27·30	50·81	26·40
1977-78	..	47·91	37·27	48·92	36·26

The unit effected economy by using more old gunny bags in some years than the proportion stipulated although it was not strictly in accordance with the order given by the Cement Controller.

(*e*) *Cement regulation account*

As per clause 9 of the Cement Control Order 1967, every producer has to pay, soon after the sale of cement, an amount equivalent to the amount, if any by which the f. o. r. destination price exceeds the aggregate of the ex-factory price of the cement and selling agency commission (at the rate fixed by the Government of India from time to time), towards freight etc., to the Cement Controller. Under clause 17 of the said order, the producers are also entitled to get the reimbursement of the freight charges. As per the procedure prescribed by the Cement Controller for reimbursement, an amount equivalent to 90 *per cent* of the reimbursable amount claimed is released as advance and balance on completion of the formalities by the Cement Controller. The following table indicates the claims preferred by the Company, the amounts reimbursed by the Cement Controller and the amounts due at the end of each of the three calendar years up to 1977:—

Year		Amount for which claims were preferred by the Company	Amount received	Amount due
		(Rupees in lakhs)		
1975	..	41·78	37·36	4·42
1976	..	93·71	85·23	8·48
1977	..	28·41	14·81	13·60
Total	..			26·50

Despatches were made by the Company on 'freight to pay' basis. The amount not claimed by the customers (March 1978) and included in the total claim of Rs. 26·50 lakhs was Rs. 18·17 lakhs. The amount was not paid by the Cement Controller pending completion of the formalities (May 1978).

(f) Inventory

The value of inventory of stores and spare parts as on 31st March 1978 was Rs. 1,56·86 lakhs. A review of the details of the inventory revealed that the holding had been heavy under spare parts and fire bricks. The following details indicate the pattern of purchases and consumption under the two categories for the three years up to 1977-78:—

	1975-76		1976-77		1977-78	
	Fire bricks	Spare parts	Fire bricks	Spare parts	Fire bricks	Spare parts
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	(Rupees in lakhs)					
Opening balance ..	8·51	63·86	8·86	70·99	10·15	95·10
Purchases ..	3·99	29·02	6·83	49·61	2·27	26·49
Total ..	12·50	92·88	15·69	1,20·60	12·42	1,21·59
Consumption ..	3·64	21·89	5·54	25·50	3·31	38·72
Closing balance ..	8·86	70·99	10·15	95·10	9·11	82·87
Number of months consumption	29·5	39·0	22·1	44·8	32·5	25·7

According to the Management of the Unit, the stock of spare parts as on 31st March 1978 included insurance spares like motors and heavy gear boxes valued at Rs. 31·66 lakhs. Even after omitting this, the holding was heavy and represented 15·9 months consumption.

An analysis made by the Company in September 1977 and February 1978 of the items in stock, the value of which was more than Rs. 1,000 each, revealed that stores and spares worth Rs. 47·40 lakhs were not issued for consumption for more than two years.

(g) Consumption of high speed diesel oil by diesel engines
The unit is having two metre guage and two broad guage diesel engines for haulage of limestone and other goods like coal, gypsum and cement.

The consultants engaged (November 1975) by the unit for conducting work study in various departments indicated that the standard rate of consumption of diesel should be 0·38 litre per tonne of goods hauled for metre gauge engines and 0·08 litre per tonne for broad guage engines. A review of the consumption of diesel oil by the engines during the years 1975-76 to 1977-78 made in audit showed that the actual consumption ranged from 0·38 litre to 0·46 litre per tonne in respect of metre gauge engines and 0·11 litre to 0·17 litre per tonne in respect of broad gauge engines. Compared with the standards indicated by the consultants, the value of excess consumption (1·27 lakh litres) of diesel oil during the period worked out to Rs. 1·54 lakhs.

Summing up

The cement plant having an annual capacity of 4·00 lakh tonnes of cement per annum to be produced from limestone from Dungri, by wet process till kiln stage and dry process thereafter was set up by IDCOL in 1968 at a cost of Rs. 9,01·53 lakhs (March 1976) at Bargarh. Defects noticed in the operation of the plant were rectified at a cost of Rs. 45·82 lakhs of which only Rs. 4·94 lakhs were recovered from the suppliers. The plant had improved in performance over the period of ten years after commissioning and attained full capacity by 1977-78. A maximum return of 20 *per cent* was attained during 1977-78 on the capital invested.

Excessive consumption of electricity and coal, blocking up of heavy amounts in the Cement Regulation Account, cases of idle stores and equipment, came to notice of audit.

The points raised in the paragraph have also been referred to the Government in August 1978 ; Government endorsed (November 1978) the replies given by the Company.

HIRAKUD INDUSTRIAL WORKS, HIRAKUD

2.3.1. Introduction

Hirakud Industrial Works is a Unit of the Industrial Development Corporation of Orissa Limited. The Central Workshop of the Hirakud dam project was transferred by the State Government to the Company in November 1962, out of which the Unit was formed. The assets taken over by the Company were valued at Rs. 44·20 lakhs in December 1973 by the Chief Engineer, Irrigation who was appointed by Government for the purpose ; approval of the State Government to the valuation is awaited (June 1979). The purchase consideration is yet to be paid to the Government (June 1979). Fabrication of steel structurals and manufacture of machine components are the main activities of the Unit.

The Company had drawn up a programme for modernisation and expansion of the Unit in December 1962 at an estimated cost of Rs. 18·00 lakhs, which was revised to Rs. 19·84 lakhs in November 1963 and to Rs. 44·35 lakhs in June 1964. The increase was attributed (August 1964) by the Management to non-provision for construction of buildings, water supply and power distribution (Rs. 8·56 lakhs), provision of additional machinery and increase in cost of machinery (Rs. 23·41 lakhs) and non-inclusion of items like railway lines (Rs. 3·38 lakhs) in the original estimates. The actual expenditure incurred, as on 31st March 1977, was Rs. 53·95 lakhs. It was seen in audit that the actual expenditure exceeded the estimate because of acquisition of additional assets like crane, locomotive, buildings etc., (value : Rs. 9·63 lakhs).

Eight machines (value : Rs. 10·13 lakhs) like double housing planner, horizontal boring machine, engine lathe, *etc.*, were procured by the Unit between March 1965 and December 1967, for the purpose of fabricating pen stock gates and other accessories for the Balimela Dam Project. The Unit was not able to procure the order for fabricating pen stock gates for reasons not available on record, nor did they get any firm commitment to get the order from the project authorities before action was taken to procure the machines. Four machines (value : Rs. 5·51 lakhs) have been lying unused (March 1979). Management stated (February 1979) that action is being taken for their disposal or utilisation. Further developments are awaited (March 1979). The other machines are either under use or have been disposed of.

2.3.2. Production performance

The Unit had four main production shops, *viz.*, the tower shop to fabricate the members used in the transmission towers and sub-station structures mostly for Electricity Boards (including galvanisation and painting), the machine shop for manufacturing of spare parts and components for assembling machines, the foundry shop for manufacturing iron castings and plates and the carpentry shop to manufacture wooden reels and patterns. The last two shops were closed down in July 1976 and May 1974 respectively. The nature of work done is mainly execution of jobs on specific orders.

The Unit has also a loco-section for the operation, upkeep and maintenance of steam/diesel locomotives used for haulage of consignments meant for the various industrial units located at Hirakud, from the Hirakud railway station to Hirakud on payment of hire charges.

Firm capacities of the different shops have not been fixed (December 1978) by the Management reportedly for the reason that it is a jobbing type of industry. Based on work in hand and orders anticipated, budgeted quantities are fixed for each year. They further stated (February 1979) that as it is not mass producing any 'shelf' items, a firm turnover could not be planned for any of these shops. The table on the next page gives details of budgeted performance, actual achievement and percentages of achievement for the five years up to 31st March 1978, in respect of each shop:

Year	Tower shop			Machine shop*		
	Budget	Actual	Percentage	Budget	Actual	Percentage
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	(In tonnes)			(Number of jobs)		
1973-74 ..	3,000	1,334	44	334	295	88
1974-75 ..	2,700	847	31	85	51	60
1975-76 ..	2,400	2,704	113	182	151	83
1976-77 ..	5,054	4,204	83	161	132	82
1977-78 ..	3,600	4,227	117	123	63	51

Year	Foundry shop			Carpentry shop			Loco section		
	Budget	Actual	Percentage	Budget	Actual	Percentage	Budget	Actual	Percentage
(1)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	(In tonnes)			(Number of reels)			(Tonnage hauled)		
1973-74	504	459	91	4,200	2,150	51	83,340	65,175	78
1974-75	1,200	745	62	3,600	NA	..	70,000	56,707	81
1975-76	511	456	89	..	..	..	60,695	76,517	126
1976-77	420	22	5	..	..	..	71,580	85,390	119
1977-78	+Nil	+Nil	..	..	..	..	71,580	89,627	125

*Figures of these columns represent the number of jobs received and number of jobs fully executed respectively.

+The shop was closed down during the year.

NA : Not available. The carpentry shop was closed down in May 1974.

The Management attributed (August 1976/ April 1977) the shortfall in performance of Tower shop to (*i*) lack of sufficient orders,(*ii*) lack of finance for purchasing tower materials, (*iii*) delay in making the designs and testing of towers by the Electricity Boards and (*iv*) power failure and shortage of steel. Achievements in excess of the budgeted quantities were possible in some cases by overtime working or employment of seasonal labour.

In the machine shop, 160 orders out of 885 received during the five years were either not executed (46 orders) or partly executed (114 orders); the Unit did not furnish the reasons for the same.

The foundry shop was closed down in July 1976. The Management stated (February 1979) that due to general recession in the country with regard to grey iron castings and as suitable orders to utilise full capacity could not be secured it had to be closed down. Fortynine orders out of 150 received for execution during the five years, were either not executed (17 orders) or executed partly (32 orders).

The carpentry shop, which was engaged in manufacture of wooden reels and patterns for use by Hira Cable Works, a sister Unit, was closed down in May 1974 due to uneconomical working.

The points mentioned in the succeeding paragraphs were also noticed (September 1978) in the working of the shops and execution of orders by them.

2.3.3. Supply of towers to 220 KV Balimela Talcher Transmission line

In March 1965, Orissa State Electricity Board (OSEB) placed an order on the Unit for supply of 'P', 'Q', 'R' and 'S' types of towers aggregating to 10,800 tonnes approximately, which included fabrication of stubs, members for super-structures and extensions, at an aggregate value of Rs. 82·52 lakhs. The towers were for use on stage I and II of the Balimela-Talcher transmission scheme. The fabrication was to be done according to the drawing finally approved by the Board's engineers. The towers were to be supplied by September 1968 which was extended from time to time up to July 1970. In case of failure to adhere to the schedule of supply, the Unit was liable to penalty calculated at half a *per cent* of the value of incomplete portion of the order per week subject to a maximum of 10 *per cent* of the value of the unexecuted portion of the order. Steel was to be supplied by the Board. In this connection the following points were noticed (December 1976) :

(*i*) After negotiation firm 'A' of Calcutta was engaged (June 1964) by the Unit for preparation of detailed designs of stub-setting, tower plates, stubs and tower members required for the 'P', Q', 'R' and 'S' towers on the line. No written agreement was entered into with the firm. Fees at 3·5 *per cent* of the total price payable by the Board was agreed to be paid to the firm and Rs. 1·19 lakhs were paid as advance from time to time till 31st March 1967. The firm was to supply an economic and technically sound design capable of withstanding the tests prescribed by the Board. Charges for testing the prototype of each type of tower were payable by the Board in respect of the first test. As the prototypes of 'P', 'Q' and 'R' towers failed (September 1967) in the first tests conducted on them, the Unit had to conduct more tests in January 1968 at its own cost; Rs 1·36 lakhs were spent. As the prototype of 'S' type tower did not stand the test, the Board cancelled (December 1971) the order placed on the Unit. The services of the firm were terminated (December 1971) stating that its design was faulty and unreliable. The firm claimed Rs. 3·23 lakhs in November 1972/September 1973 towards charges for designing, preparation of drawings and for designing test bed. In August 1973, the Unit made a counter claim of Rs. 3·35 lakhs on account of loss in cancellation of orders by the Board for 'S' type towers and additional charges for testing 'P', 'Q' and 'R' towers. No action has been taken by the Company to pursue the matter (March 1979). The Management stated (February 1979) that 'till the settlement of dispute, no further payment would be made to the party'.

(*ii*) The guaranteed weight of each type of tower was prescribed by the Board in the order . Any increase in the weight beyond this limit was to be borne by the Unit, except in cases where the increase in weight was due to non-availability of the particular steel section mentioned in the design, necessitating use of a higher section. In actual execution the weight of the towers exceeded the designed weight of the towers by 1,452·53 tonnes in aggregate. This was attributed (August 1973) by the Management to deficiency in design and use of higher sections of steel than those indicated in design, consequent on the Board not making available the required steel sections. The unit preferred, during 1975-76, claim of Rs. 21·55 lakhs on this account, which has not been settled so far (March 1979).

(*iii*) The following are the details of steel supplied by O. S. E. B. and utilised in respect of Stage I :—

		(In tonnes)
Supplied by O. S. E. B.	..	7,049·543
Utilised by the Unit in fabrication	..	5,920·685
Difference	..	1,128·858

Wastage of steel in fabrication was permissible to an extent of 5 *per cent* of steel utilised, out of which 3 *per cent* was irrecoverable. The 2 *per cent* recoverable steel was to be returned to O. S. E. B. as scrap. The permissible wastage worked out to 296·035 tonnes of which 177·621 tonnes were irrecoverable and 118·414 tonnes was recoverable. The difference of 832·823 tonnes (value : Rs. 9·61 lakhs) has not been reconciled (March 1979).

Steel account in respect of Stage II is stated (October 1978) by the Unit management to be under preparation. Further developments are awaited (March 1979).

(*iv*) As the Unit did not adhere to the delivery schedule for the supply of towers, the Balimela Talcher Transmission Line Construction Division of O. S. E. B. (one of the consignees) deducted, during the years 1967-68 and 1968-69, Rs. 2·56 lakhs towards maximum penalty calculated at 10 *per cent* of the unexecuted portion of the order. Request of the Unit for waiver of the same made in August 1968, has not been agreed to by O. S. E. B. (March 1979). In February 1979, the Management stated that 'to stick to the delivery schedule by Hirakud Industrial Works was not one sided responsibility....that this was the first fabrication order received by Hirakud Industrial Works and with limited experience in the line they had to face teething troubles'.

2.3.4. Supply of towers for 132 KV lines

Against a quotation submitted (July 1974) by the Unit, O.S.E.B. placed an order (value: Rs. 2,06·85 lakhs) in April 1975 for the supply of 132 KV single circuit transmission line towers weighing 4,179 tonnes. The towers were supplied by September 1977 as scheduled. In this connection the following points were noticed in a test check conducted(September 1978) by Audit :

(*i*) The actual weight of towers supplied was 4,477 tonnes. The difference (298 tonnes) between the weight as per the order (4,179 tonnes) and the actual weight (4,477 tonnes) was due to use of steel of higher sections and having shown lower weight in quotation than the designed weight by 5 *per cent*. As the Unit is entitled to receive payment on the basis of weight indicated in the order (4,179 tonnes), it is put to a loss of Rs. 5·02 lakhs in respect of the excess weight of 298 tonnes.

(*ii*) The actual scrap arising was 332 tonnes, being 6·9 *per cent* of steel used (4,809 tonnes) as against 5 *per cent* normally permitted. The value of excess scrap, i. e.. 91 tonnes was Rs. 0·62 lakh. Non-receipt of standard size of steel was mentioned (March 1979) by Management as the reason for the excess scrap; particulars in respect thereof are awaited.

2.3.5. Galvanisation

The Unit has a tank to galvanise steel structures and tower members. The Unit prepares budgets based on prospective work load and the following table gives the comparative details of quantities budgeted and the actual performance for the five years up to 1977-78 :

		1973-74	1974-75	1975-76	1976-77	1977-78
		(Figures in tonnes)				
Quantity budgeted	..	2,020	2,700	1,695	4,560	4,200
Quantity galvanised	..	1,207	884	2,360	4,207	4,898
Percentage of quantity galvanised to quantity budgeted		60	33	139	92	117

The comparatively poor performance during 1973-74 and 1974-75 was stated (December 1978) by the Management to be due to lack of orders for fabrication by the tower shop.

The following other points were noticed:

(*a*) Zinc used in galvanisation turns out by-products like zinc dross, zinc ash and zinc skimmings having sale value, which can be converted into refined pure zinc for re-use. Till the year 1972-73, the Unit was selling the by-products. From the year 1973-74, the by-products were being converted into pure zinc, through the agency of a firm in Calcutta. Rupees 2,500 were agreed to be paid for conversion of one tonne of zinc dross into 935 kilograms of pure zinc. A study of the economics of conversion of zinc dross *vis-a-vis* cost of purchase was not made before resorting to conversion.

(*b*) Zinc dross recovers higher percentage of pure zinc in conversion (935 kilograms per tonne) against which zinc ash recovers 220 kilograms per tonne only. The following had been the pattern of recovery of both of these by-products over the five years up to 1977-78 :

Year		Total input of zinc (tonnes)	Arising of zinc dross	Percentage to total input	Arising of zinc ash (tonnes)	Percentage to total input
1973-74	..	124·492	42·445	35	23·019	19
1974-75	..	80·346	29·565	36	10·954	13
1975-76	..	139·858	54·511	39	35·037	25
1976-77	..	277·268	84·594	31	60·771	22
1977-78	..	730·852	90·644	27	58·419	17

The Management stated in February 1979 that the fabrication plant of H. I. W. has not in the past worked in a steady and uniform manner to allow scientific analysis of the arising of dross and ash........and that this matter would be kept under watch while using more sophistication in the galvanisation process.

2.3.6. Machine shop

The shop has got 23 machines. The following table gives the details of machine hours available, hours utilised, *etc.*, for the five years up to 1977-78 :

Year		Hours available	Hours utilised	Maintenance hours	Idle hours	Percentage of idle hours to available hours
1973-74	..	1,08,695	70,483	6,299	31,913	29
1974-75	..	1,08,000	62,669	4,113	41,218	38
1975-76	..	1,06,800	53,258	4,513	49,029	46
1976-77	..	1,08,000	53,315	1,858	52,827	49
1977-78	..	1,19,179	58,468	6,838	53,873	45

An analysis of the idle hours revealed the following :

(Figures are in hours)

Year		Idle for want of work	Break-down of machines and power failure	Want of operators	Other reasons like setting time, etc.	Total idle hours
(1)		(2)	(3)	(4)	(5)	(6)
1973-74	..	1,015	4,070	18,182	8,646	31,913
1974-75	..	5,126	9,188	12,779	14,125	41,218
1975-76	..	4,182	12,132	14,618	18,097	49,029
1976-77	..	5,891	11,320	15,834	19,782	52,827
1977-78	..	8,822	11,608	14,467	18,976	53,873

The Management did not evolve a system by which the position of idle time is reviewed with a view to taking remedial action at the appropriate time. In February 1979, the Management stated that some of the machines are old and are therefore taking more maintenance time.

Note: 1. Variation in available hours was due to engagement of machines during third shift.

2. Figures as per machine utilisation statements of the Unit.

2.3.7. Foundry shop

In April 1975 'H' of Bokaro, placed an order on the Unit for supply of 2,000 pieces of cast iron slab at Rs. 340 per piece to be manufactured in accordance with the drawings supplied by them. Supplies were to be completed by June 1975. Out of 2,000 pieces manufactured by July 1975, 'H' accepted only 1,582 pieces and rejected the balance 418 pieces (value: Rs. 1·42 lakhs) as they were found to be defective during inspection. Offer of the Unit made (April 1977) to 'H' to accept the pieces with 5 *per cent* reduction in the rate did not evoke any response. No further action for their disposal was taken (March 1979).

2.3.8. Carpentry shop

This was one of the shops existing at the time of takeover of the workshop from Government. To utilise the facilities available, the Unit had taken up supply of wooden reels to Hira Cable Works (a sister Unit located at Hirakud) reportedly as they were unable to get good reels at competetivs prices. As the procurement of reels from the Unit was later found to be uneconomical, Hira Cable Works discontinued procurement of reels from the Unit. In respect of orders executed by the Unit, Hira Cable Works was paying at the market rates, which however did not cover the cost of production of the unit. In respect of work done between April 1972 and May 1974, Rs. 5·68 lakhs were spent (direct expenses: Rs. 5·22 lakhs) towords cost of production against which Rs. 4·84 lakhs were realised.

2.3.9. Manpower

(*i*) As on 31st March 1978, the Unit employed 283 workers in all the shops. The staff strength was sanctioned from time to time on the basis of working of two shifts of eight hours each. The Unit has, however, been working on a three shift basis since 1975-76 and for the third shift, the staff working in other shifts are engaged on the basis of overtime. An assessment made by the Management of the Unit in June 1978 disclosed that 33 additional workers are required for working the third shift for which Rs.1·36 lakhs (excluding leave and retirement benefit) are required per year against Rs.1·82 lakhs spent presently on overtime.

The Unit has been incurring heavy expenditure on overtime wages. The following are the details for three years up to 1977-78 :

Year		Total wages	Overtime wages	Percentage of overtime wages to total wages
		(Rupees in lakhs)		
1975-76	..	7·37	1·23	17
1976-77	..	8·35	2·10	25
1977-78	..	10·20	3·96	39

A private firm of consultants was engaged in May 1978 for making work-study (December 1978) of different sections of the Unit (with the exception of security, civil engineering and first aid sections) with a view to effecting economy in the working. Rupees 6,000 per consultant month are payable to the consultants towards fees. An amount of Rs. 0·48 lakh was paid to them till December 1978. The study is still (March 1979) continuing. The point relating to incidence of overtime is also being studied by the consultants.

2.3.10. Working results

The following table brings out the working results of the Unit for the three years up to 1977-78:

Particulars		1975-76	1976-77	1977-78
		(Rupees in lakhs)		
Sales	..	1,28·17	2,47·08	2,25·54
Cost of manufacture	..	80·85	1,70·58	1,71·76
Gross profit	..	47·32	76·50	53·78
Percentage of gross profit to sales	..	37	31	24
Net profit	..	33·95	54·40	35·31

The Unit had a cumulative profit of Rs. 1,38·66 lakhs as on 31st March 1978. The Tower shop and the Loco section together contributed the major portion of the profits during the three years up to 1977-78, as per the details given below:

Shop/section		1975-76	1976-77	1977-78
		(Rupees in lakhs)		
Tower shop	..	32·65	52·90	32·45
Machine shop	..	(—)0·47	2·12	1·38
Foundry shop	..	(—)2·07	(—)0·71	..
Loco section	..	1·61	1·72	1·48
Total	..	31·72	56·03	35·31

(The figures are based on cost records)

During 1971-72 to 1977-78, 1743 jobs were executed in the machine shop. An analysis of the expenditure on individual jobs *vis-a-vis* sale prices realised from the jobs revealed (September 1978) that in 105 cases the cost was more than the price realised by a total amount of Rs. 1·68 lakhs. In case of other jobs the Unit made profits.

2.3.11. Sundry debtors and advances

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

Year		Total amount of book debts	Turnover	Percentage of book debts to turnover
		(Rupees in lakhs)		
1975-76	..	59·26	1,28·18	46
1976-77	..	80·92	2,47·07	33
1977-78	..	1,25·29	2,25·54	56

Rupees 5·88 lakhs (Rs. 2·74 lakhs due from Orissa State Electricity Board and Rs. 2·52 lakhs due from the State Government and the balance from other parties) were more than ten years old. The Unit made provision of Rs. 3·12 lakhs towards bad and doubtful debts in their accounts for 1975-76.

Summing up

The Unit primarily deals with fabrication of steel structures and machine components; its major activity since inception was fabrication of tower

members for supply to the State Electricity Boards. The firm capacities of different shops were not fixed. The budgets were also not prepared uniformly for all the years, although orders in sufficient quantities were being received from 1975-76 onwards. There was no system to review performances and and optimise production with the exiting work force and known level of orders to maximise profitability. *Ad hoc* engagement of personnel on overtime basis, absence of any control over usage of steel materials for fabrication job and zinc for galvanisation, delay inexecution of fabrication orders received from Orissa State Electricity Board resulting in payment of penalty, etc., were few of the points noticed in audit. The foundry and carpentry shops were closed down due to uneconomical working.

The paragraphs 2.3.1 to 2.3.11 mentioned above were reported to Government in November 1978; who endorsed the replies of the Management of Industrial Development Corporation of Orissa Limited.

2.4. Investment in a private company

The Company entered into an agreement on 8th July 1975 with 'J', a private limited Company, to subscribe, on direct participation basis, to the extent of Rs. 12·75 lakhs (1,27,500 sha res of Rs. 10 each) in the equity share capital of 'O', a limited Company in the private sector, promoted by 'J', for manufacture of refractory materials. Accordingly, the Company paid (28th July 1975) Rs. 6·38 lakhs to 'O' as part payment for 1,27,500 sharee (total paid-up capital: Rs. 49·83 lakhs). The agreement, *inter alia*, contained the following two main conditions:

(*a*) In the course of six months from the date of public issue made by 'O' (September 1975, by which time the Company would have paid towards direct participation shares to the extent of Rs. 6·38 lakhs, or within nine months from the date of agreement, whichever was earlier, such partly paid-up shares were to be purchased by the entrepreneurs in their own name or in the name or names of their nominees; and (*b*) the entrepreneurs were to purchase back such shares on a further payment of Rs. 1·00 lakh to the Company or the market value of the shares on the date of sale, whichever was higher.

The promoters paid back Rs. 6·38 lakhs (Rs. 2·00 lakhs on 15th March 1976 and Rs.4·38 lakhs on 22nd March 1976) and requested the Company to allow three months' time to pay the further amount of Rs. 1·00 lakh. The Board of Directors of the Company decided in March 1976 to charge interest at 15 *per cent* and granted time for payment up to 23rd June 1976. This was agreed to by 'J' on 29th April 1976. 'O' declared (25th August 1976) a dividend of 10 *per cent* on paid-up share capital for the year ended 14th August 1975 and remitted Rs. 49,087 to the Company on 1st October 1976 after deducting Rs. 14,663 towards income tax. In November 1976, they paid Rs. 36,250 and requested the Company to adjust the amount of dividend (Rs. 63,750) and Rs. 36,250 totalling Rs. 1·00 lakh, towards the further amount payable on the purchase back of the shares in terms of the agreement. The Company accepted (November 1976) the request.

Adjustment of dividend towards the further amount was not in accordance with the terms of the agreement. The Company as a registered share holder during the year for which dividend was declared was entitled to the dividend of Rs. 63,750 in addition to Rs. 1·00 lakh envisaged in the agreement. On this being pointed out in audit in March 1978, the Management replied in May 1978 that the request of the promoters was accepted on the ground that the agreement envisaged a return of Rs. 1·00 lakh on the investment made by the Company either by way of dividend or otherwise. This was found to be not correct as the amount of Rs. 1·00 lakh was received towards further payment in terms of the agrreement, and as a registered shareholder the amount of dividend was received. Further the agreement did not envisage that dividend could be received in lieu of the further payment of Rs. 1·00 lakh.

In terms of the decision (March 1976) of the Board of Directors, the Company is also to receive Rs. 0·29 lakh towards interest, calculated up to December 1978 on the amount remaining unpaid.

Government to whom the matter was referred to in June 1978 endorsed (August 1978) the views of the Company.

SECTION III

ORISSA CONSTRUCTION CORPORATION LIMITED

3.1. Introduction

The Orissa Construction Corporation Limited was incorporated on 22nd May 1962, in pursuance of a decision of the State Government to form a corporate body to break the monopoly of contractors in the execution of departmental works, especially where large capital outlay and use of heavy machinery were involved. Its main objects, as mentioned in the Memorandum of Association, are to construct and execute works of all kinds and to carry on business as quarry masters and stone merchants.

Mention was made about some aspects of working of the Company in the Report of the Comptroller and Auditor General of India for the year 1972-73 (Commercial). Results of subsequent test check (June 1978) are discussed in the succeeding paragraphs.

3.2. Organisational set-up

The Company is managed by a Board of Directors nominated by the State Government. The present strength is eleven (June 1979). The Company has a full-time Chairman and the day-to-day affairs are managed by the Director-in-charge appointed by Government from among the Directors. Powers have been delegated by the Board of Directors to the Chairman and Director-in-charge, for the purpose of managing the Company. The Director-in-charge is assisted by two Project Engineers of the rank of Executive Engineer at the head office of the Company. There are 20 field offices (March 1978) mostly at the sites of work, under the charge of project engineers. There are five Deputy Directors who are of the rank of Superintending Engineers for supervision of the work in the field. There is a Finance-*cum*-Accounting Officer to attend to the matters relating to finance and accounts, who is also the Secretary to the Company.

3.3. Activities

The main activities of the Company are :—

(*a*) construction of civil works in the nature of irrigation and power projects, buildings, roads and bridges, etc., (b) operation of stone quarries and (*c*) fabrication of steel structural works.

The Company operated four quarries at apang, Sunabeda, Hindol Road and Haridaspur and supplied stones for works like construction of Express highway, Paradip Port and buildings for Hindustan Aeronautics Limited at Sunabeda. It is presently oprating the quarry at Haridaspur only.

3.4. Capital structure

The Company was registered with an authorised capital of Rs. 1,00 lakhs which was increased in November 1977 to Rs. 2,50 lakhs. The paid-up capital as on 31st March 1978, was Rs. 1,77·14 lakhs.

3.5. Borrowings and works advances

3.5.1. The main sources of the Company's resources are loans from the State Government and commercial banks and advances from the agencies entrusting the works. Rupees 66·00 lakhs towards loans from the State Government and Rs. 5,37·39 lakhs as advances received for execution of works were outstanding for payment/adjustment as on 31st March 1978.

The debt-equity ratio as on 31st March 1975 was 0·13 : 1 as against 0·06 :1 at the end of the previous year.

In this connection, the following points were noticed :

(*i*) The Company had obtained four loans, totalling Rs. 80 lakhs between May 1976 and April 1977 from the State Government, to meet its working capital requirements. The loans carried interest at 12 *per cent per annum*. Penal interest at 3 *per cent* was chargeable in case of default to repay on due dates. The following are the details of amounts of loans, dates of drawal, due dates for repayment and dates of actual repayment :

Amount of loan (Rupees in lakhs)	Date of drawal	Due date for repayment	Actual date of repayment
10·00	17th May 1976	16th November 1976	24th March 1977
10·00	9th July 1976	31st January 1977	24th March 1977
40·00	10th August 1976	31st January 1977	31st March 1977
20·00	26th April 1977	25th October 1977	31st March 1978 (Rs. 15 lakhs)
			15th February 1979 (Rs. 5 lakhs)

As a result of defaults in repayment of the loans on due dates, the Company paid (March 1977/March 1978) penal interest of Rs. 0·61 lakh.

The Company stated (June 1978) that owing to acute shortage of working capital, repayment of loans had to be delayed. The Company did not prepare any cash budget or periodical cash flow statements to ascertain the availability of cash from time to time (March 1979).

(*ii*) The Company also had availed of cash credit facilities to a limit of Rs. 20 lakhs (reduced by the bank to Rs. 10 lakhs in March 1975) from a commercial bank. The details of the credit availed of from 1973-74 onwards are given below :—

Year		Maximum limit up to which cash credit was availed (Rupees in lakhs)
1973-74	..	20·33
1974-75	..	16·68
1975-76	..	19·62
1976-77	..	12·22
1977-78	..	11·20

Although the limit of cash credit was reduced in March 1975, the Company continued to keep the balance at a level higher than the reduced limit. No balance was outstanding as on 31st March 1978.

3.5.2. Works advances

The total amount of advances received by the Company for execution of works, outstanding as on 31st March 1975, was Rs. 1,52·35 lakhs, the amount outstanding as on 31st March 1978 was Rs. 5,37·39 lakhs (provisional). The Company did not work out year-wise break-up of the amount of advances outstanding. Rupees 31·69 lakhs included in the above pertains to very old works dating back even to 1962-63, which have not been adjusted so far (March 1979).

In their report (March 1978), to the share holders on the accounts for 1974-75, the Statutory Auditors of the Company stated that confirmation/certificates in respect of the advances of Rs. 54·08 lakhs received against nine works were not available.

3.6. Financial position

3.6.1. Audited accounts of the Company are available up to 1974-75. The figures mentioned in the paragraphs in respect of subsequent periods are, therefore, provisional. The position regarding arrears in submission of the accounts was brought to the notice of the Government.

The following table summarises the financial position of the Company under the broad headings for the three years up to 1974-75 :

(Rupees in lakhs)

	1972-73	1973-74	1974-75
Liabilities			
(a) Paid-up capital ..	92·14	92·14	92·14
(b) Reserves and surplus ..	2·23	11·31	4·15
(c) Borrowings including cash credits	12·27	12·73	45·78
(d) Current liabilities and provisions	2,66·72	3,35·14	3,59·28
Total ..	3,73·36	4,51·32	5,01·35
Assets			
(e) Gross block ..	1,61·47	1,79·75	1,90·65
(f) Less : depreciation ..	56·04	73·36	74·63
(g) Net fixed assets ..	1,05·43	1,06·39	1,16·02
(h) Investments ..	4·62	4·62	4·62
(i) Current assets, loans and advances	2,56·52	3,40·31	3,42·65
(j) Profit and loss account (Loss) ..	6·79	Nil	38·06
Total ..	3,73·36	4,51·32	5,01·35
Capital employed ..	95·23	1,11·56	90·44
Net worth ..	87·58	1,03·45	58·23

Note : (i) Capital employed represents net fixed assets *plus* working capital.

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

3.6.2. *Sundry debtors*

The following table indicates the position of book debts and turnover at the end of each of the three years up to 1974-75 :

Year	Total book debts at the end of the year	Turnover during the year	Percentage of book debts to turnover
	(Rupees in lakhs)		
1972-73 ..	92·28	405·48	22·8
1973-74 ..	123·46	419·69*	29·4
1974-75 ..	122·44	390·94*	31·3

(* Includes performance bonus of Rs. 16·81 lakhs received against Balimela dyke works)

Out of Rs. 1,22·44 lakhs due to be received by the Company as on 31st March 1975, Rs. 1,21·21 lakhs constituting 99 *per cent* were due from the State Government; Rs. 38·12 lakhs being more than six months old as indicated below :

Year	Amount (Rupees in lakhs)
Up to 1970-71 ..	18·01
1971-72 ..	0·18
1972-73 ..	0·30
1973-74 ..	6·31
1974-75 ..	13·32

According to an assessment made by the Company in November 1977, Rs. 41·76 lakhs were receivable from different agencies against works completed between July 1964 and March 1978. The age-wise details of the amount are as under :

	Number of works	Amount (Rupees in lakhs)
10—14 years ..	9	9·38
5—10 years ..	21	13·29
3— 5 years ..	7	4·02
1— 3 years ..	7	15·07
Total ..	44	41·76

Out of the 44 works, 25 works were completed by 31st March 1975 (the date up to which accounts are available). In eleven works the Company lost an amount of Rs. 11·20 lakhs ; besides, Rs. 12·16 lakhs for works already done stands receivable. Unadjusted works-advances, drawn by the Company from time to time against five works completed up to 31st March 1975, amounted to Rs. 13·03 lakhs. These cases are not being pursued constantly.

Computed with reference to the date (s) of completion of the works, the amount lost by way of interest on the amount (Rs. 41·76 lakhs) locked up worked out to about Rs. 25·89 lakhs computed up to March 1978 (rate of interest reckoned at 10 *per cent per annum*).

In respect of 40 out of 170 contracts completed between 1967-68 and 1977-78, the Company was unable to assess the amount to be finally received.

3.6.3. At the time of submitting tenders, the Company furnishes earnest money deposit in respect of works other than those of the State Government. Further, security deposits, at rates prescribed in the work agreements, are recovered from the Company's running account and final bills, both in the case of works entrusted by the State Government and other agencies, for due fulfilment of the contracts. The earnest money deposits and the security deposits are refundable after the fulfilment of the contract and the payment of the final bill. In the case of 14 contracts relating to agencies other than the State Government, completed between April 1969 and April 1976, the earnest money deposits could not be got released (amount : Rs. 2·16 lakhs) mainly because the final bills were not settled (June 1979). The details are as follows :

Agency		Number of works	Amount (Rupees in lakhs
Government of India	..	2	0·21
Autonomous bodies	..	12	1·95

Refund of security deposits could not be obtained in 59 cases (amount : Rs. 21·92 lakhs) completed between April 1964 and March 1978, due to non-settlement of final bills (June 1979). The details are as below :

Agency		Number of cases	Amount (Rupees in lakhs)
Government of Orissa	..	48	15·54
Government of India	..	4	1·02
Autonomous bodies	..	7	5·36

In six cases, the Company did not claim the refund of security deposits (amount : Rs. 0·83 lakh), although the final bills were settled (between March 1973 and March 1976), reasons for which are not available (June 1979).

3.6.4. *Management of cash*

According to the pattern of financial management followed in the Company, receipts and utilisation of funds are controlled through Deputy Directors who directly receive payments of running account bills and allot funds to the project engineers as and when needed. Any shortages of funds reported by the Deputy Directors is made good by the head office according to the requirements intimated to it This pattern of financial management is stated to have been followed to facilitate unhindered flow of funds to the project engineers after ascertaining the actual requirements.

Under the system prevailing in the Company, it is not possible for it to know the extent of cash available at a given point of time so that its utilisation can be planned to the best advantage of the Company. The Company stated (November 1978) that "a mechanism for assessing the availability of cash at a given point of time would be most beneficial when the Corporation has surplus funds and when receipts and transfer of funds to projects are completely centralised at Head Office".

During January 1977 to February 1978, the Company made cash credit arrangements (rate of interest : $15\frac{1}{2}$ *per cent per annum*) with a nationalised bank for a limit of Rs.10 lakhs. The maximum lim it to which the credit was availed of was Rs.8·28 lakhs (December 1977). In June 1978, the Company had also defaulted in repayment of the instalments of ways and means loans obtained from the State Government in 1977-78 (rate of interest : 15 *per cent per annum* including 3 *per cent* penal interest). While the Company on the one hand availed cash credit and also defaulted in repayment of loan due, during the corresponding period, it was noticed (July 1978) in audit that heavy cash balances were held in current accounts by the field office at Talcher (range : Rs.8 lakhs to Rs.62 lakhs). In another field office at Rasulgarh, Rs.29 lakhs were kept in short-term deposits for 45 days/90 days earning interest of 3½/4 *per cent per annum*. The Company stated (November 1978) that "diversion of funds from one project to the other always affected the progress of execution and thereafter it was felt necessary that funds of one project should not normally be transferred to the other".

3.7. Working results

The working results of the Company for the three years up to 1974-75 are given below :

	1972-73	1973-74	1974-75
	(Rupees in lakhs)		
A. Works			
Income			
Income from works ..	3,99·75	4,12·32	3,83·08
Other income ..	3·88	37·47	13·96
Total ..	4,03·63	4,49·79	3,97·04
Expenditure			
Expenditure on works ..	3,79·34	4,06·65	4,12·28
Other expenditure ..	25·50	24·17	27·05
Total ..	4,04·84	4,30·82	4,39·33
Profit (+)/Loss (—) ..	(—) 1·21	(+) 18·97	(—) 42·29

	1972-73	1973-74	1974-75
	(Rupees in lakhs)		
B. Quarry operations			
Income (×) ..	7·73	8·01	8·18
Expenditure (×) ..	11·10	11·29	11·24
Profit (+)/Loss(—) ..	(—) 3·37	(—) 3·28	(—) 3·06
Net profit (+)/Loss (—) ..	(—) 4·58	(+) 15·69	(—) 45·35
Adjustment on account of development rebate, provision for tax, provision for doubtful debts, etc.		(+) 1·81	(+) 2·21
Cumulative profit (+)/Loss(—) ..	(—) 12·42	(+) 5·08	(—) 38·06

According to the budget estimates for 1977-78 drawn up in September 1977 by the Company and revised in September 1978, the following are the details of working results estimated for the three years from 1975-76 to 1977-78 :

	1975-76	1976-77	1977-78
	(Rupees in lakhs)		
Revenue ..	3,33·31	3,16·67	4,21·29
Expenditure ..	3,41·02	4,11·09	5,04·07
Loss ..	7·71	94·42	82·78

In the absence of accounts for these years, actual performance against the estimates could not be verified.

(×) Reckoning adjustments on account of stock.

The Company incurred cumulative losses of Rs.38·06 lakhs up to 31st March 1975 which amounts to 40 *per cent* of the paid-up capital and reserves and surplus. During 1973-74, a net profit of Rs.15·69 lakhs was made on a turnover of Rs. 4,19·69 lakhs, representing 4 *per cent* of the turnover. The profit was mainly due to receipt of performance bonus (Rs.11·82 lakhs) in respect of Balimela Dam dykes II and III works, bulk of the expenditure in respect of which was debited in earlier years. During 1974-75, the net loss had been substantial. The Company stated (September 1978) that "increase in loss during 1974-75 was due to reduced turnover without any reduction in fixed expenses and due to low rates at which the corporation was compelled to execute some works; price escalation was also another reason". An analysis of the works expenditure, made in audit (June 1978), showed that there had been increase in the cost of labour and site administration expenses, disproportionate to the income, as indicated below, which has not been investigated (June 1979).

	1972-73	1973-74	1974-75
	(Rupees	in	lakhs)
Income ..	3,99·75	4,12·32	3,83·08
Cost of labour ..	1,09·29 (27)	1,21·03 (29)	1,35·79 (35)
Site administration expenses ..	42·56 (11)	41·45 (10)	57·57 (15)

(Figures in brackets indicate the percentage of the expenditure to income)

In February 1978, the Board of Directors of the Company, while approving the accounts for the year 1974-75, observed, *inter alia*, as follows with a view to improving its profitability :

(i) The turnover of the company should be increased to at least Rs.10·00 crores during 1978-79 ;

(ii) the quarry at Haridaspur should be closed ;

(iii) the Company should concentrate on works at Rengali dam project and Talcher Thermal Power Station ;

(*iv*) Cash-flow statements based on specific programmes and budgets for the projects, should be prepared and submitted to Government for providing necessary finance to the Company;

(*v*) as the geographical distribution of works undertaken was making effective supervision difficult, no new project should be taken up in isolated locations;

(*vi*) the accounts of the projects should be computed and processed at the site offices and the project engineers and Deputy Directors-in-charge should take responsibility for profit/loss on the projects.

Further developments are awaited (June 1979).

Details of the works executed by the Company since inception up to 31st March 1975 and the financial results thereof, as compiled by the Company, indicated that in the 54 completed works and the 20 incomplete works the Company incurred loss in 32 works (Rs.1,23·05 lakhs) and earned profits in the balance 42 works (Rs.2,64·49 lakhs). The cases in which losses were incurred have not been reviewed by the Company with a view to locate the reasons for such losses, and to take remedial measures.

3.8. Construction performance

3.8.1. The Company participates in the tenders floated by the State Government and other agencies. The State Government also calls upon the Company to quote its rates for specific works, and awards these works after mutual negotiation.

In March 1972, the State Government decided that the Company, being a State owned undertaking with large investment of public funds, it was essential to give it a minimum annual work load of Rs.2½ crores worth of contracts by negotiation at the prevailing rates to ensure its survival as a viable economic unit. In April 1974, Government observed that complicated works yielding practically no profit, for which private contractors were not readily available, were being allotted to the Company. It was also observed that while competing with private contractors the Company worked with certain disadvantages. Government, therefore, decided that the Company would be allowed a price preference up to 3 *per cent* for works allotted to it by different departments of Government.

Since its inception in 1962, the Company had undertaken 195 contracts up to March 1978 and completed 170 of them till that date. The details are as follows:

	Contracts obtained after negotiation		Contracts secured by participating in open tenders	
	Number	Value (Rupees in lakhs)	Number	Value (Rupees in lakhs)
Contracts taken up ..	134	31,22·07	61	16,41·76
Contracts completed ..	113	21,03·49	57	9,17·19

Customer-wise details of the contracts undertaken up to March 1978 are given below:

Customer	Number of contracts	Value (Rupees in lakhs)
Government of Orissa ..	153	35,07·85
Government of India ..	10	1,02·83
Government Companies and Autonomous bodies	30	11,44·03
Others ..	2	9·12

The Company had not maintained records to show the number of tenders in which it participated and the number of tenders in which it was not successful with reasons therefor. The Management stated (November 1978) that it did not find any necessity to maintain such a register. Out of 153 contracts (value: Rs.35,07·85 lakhs) taken up by the Company for the State Government, 125 contracts (value: Rs 30,64·38 lakhs) were received as a result of mutual negotiation.

Out of the 170 completed contracts, 54 were completed by 31st March 1975. The following table summarises the financial results of the contracts completed/in progress as on 31st March 1975:

	Number of contracts	Value of work done	Profit (+) Loss (—)
		(Rupees in lakhs)	
Completed contracts on which profit was made	33	17,26·21	(+)2,24·63
Completed contracts on which loss was incurred	21	5,30·03	(—)52·23
Contracts in progress on which profit was indicated	9	3,29·58	(+)39·86
Contracts in progress on which loss was indicated	11	4,13·65	(—)70·82

3.9. Execution of works

3.9.1. *Works procedure*

The works are executed by Company's own establishment, by engaging job workers. The Design Cell of the Company deals with all the matters pertaining to processing of tenders and generally it follows the procedures prescribed in the State Public Works Department in arriving at rates, etc. The rates to be quoted against tender or the rates for negotiation are prepared by them. The rates are either based on the schedule of rates of the State Public Works Department or lumpsum rates; the basis on which the lumpsum rates are arrived at are not available in many cases. A sub-committee consisting of the Director-in-charge, Additional Chief Engineer (Irrigation), Chief Engineer (Irrigation) and Chief Engineer (Roads and Buildings) scrutinises the tenders before these are submitted to the Board of Directors. Detailed project estimates indicating financial ceiling for completing the work, rate of return and time schedule for completing the different stages of work are not prepared in a majority of cases. There is no procedure by which a systematic review of performance of the project is done at any level in the Company, either while the work is in progress or on its completion. In December 1972, a standing committee was constituted to study, after every three months, the physical and financial performance of the projects and to report the results to the Board of Directors. No review report has been submitted (June 1979).

The Management stated (November 1978) that "..........there can be an improvement by a check-back of actual unit rates while in execution. This is a function of cost analysis, the Corporation at present have no machinery to do this cost analysis". The Management further stated that instructions have been issued to the project engineers for preparation of the project estimates and getting the same approved by the Board and to make periodical performance reviews.

Normally, an agreement in writing, detailing the rates, quantities of work to be executed and other terms and conditions regulating the award and execution of the work is to be entered into in respect of every work undertaken by the Company. The terms and conditions for eleven works (contract value: Rs.69·20 lakhs) which were completed between April 1973 and April 1977 were not finalised; specific reasons for this are not available (March 1979). In the case of a number of works, copies of agreements are not available and for want of such agreements the Company has not been able to finalise the final bills. It was stated by the Company in November 1978 that "finalising the terms and conditions for works that have already been executed will not be possible now".

A register of contracts detailing the salient particulars of each contract, the agency which entrusted the same, date(s) scheduled for completion and the value of the contract was not maintained in the Company. As a result, the Management stated (July 1978), it was difficult to review the performance in execution, completion with reference to scheduled dates, *etc.*, and to initiate corrective action in time.

Under the procedure followed in the Public Works Department of Government, measurement of work done by the contractor is taken by the officers of the department and it is signed by the contractor in token of acceptance; on the basis of the measurements the running account/final bills are prepared by the Department itself. As a contractor, it is also open to the Company, under the terms of the agreement to record the measurements on its own, both in the case of Government works as well as works of other agencies. There was no system of reconciling the quantity of work done by the Company itself and submitting the bills. The Company found (July 1977) that there were a number of cases where final measurements were not recorded, by the agency for whom the work was executed. As measurements were not recorded by the agencies entrusting the work at the appropriate time, the Management in a report to the Board of Directors, expressed doubt whether at the distance of time, the final bills to be prepared would really cover the actual work done. It was noticed (August 1978) in audit that the completion drawings duly signed by the agencies who entrusted the works were also not kept on record.

The Company does not have a procedure to ascertain the amounts finally due to it in respect of completed works and to prefer claims within a reasonable time after the works are completed. It waits till the agency which entrusted the works takes final measurements and prepares the final bill. In cases where the agencies did not prepare the bills, no action was initiated at the project level of the executing units of the Company. Regular and systematic follow-up action on final bills presented but dues remaining unsettled was not taken. The Management informed Government (November 1977) that it considered it difficult to present to their Board of Directors the monetary value of the final bills in some cases as no dependable record based on which the figures could be correctly ascertained could be found. In cases where projects were closed and the concerned project engineers who were in charge had left the service of the Company, without processing the final bills, it was noticed by the Management that necessary records or information to process the bills were not available. In such cases, the records of the head office of the Company were also not complete or clear.

Materials-at-site accounts are not maintained, both in respect of materials issued by the Government departments on the works and those drawn from the Company's stores. The agencies which had entrusted the works claimed Rs.21·49 lakhs towards the cost of materials drawn in excess, in respect of three works, at penal rates (value at normal rate: Rs.6·05 lakhs). In the absence of stores accounts having been kept properly, the Company was unable to get the final bills settled in these cases (July 1978). The matter is stated (November 1978) to be under correspondence (March 1979).

Materials issued by the contractees against works were not routed through the stores accounts of the Company at the project level. The Management reported to Government in June 1978 that in cases where the issue of materials by Government departments was much in excess of the permissible consumption and permissible wastages, it was not in a position to investigate the same in the absence of availability of adequate records.

Works were executed through the agency of job-workers or through labour engaged directly but record of the quantity of work done by them was not kept. Personal ledger accounts of piece workers and the account of work executed by such agencies have not been kept. The following table indicates the details of expenditure on labour including payments to job workers *vis-a-vis* the total works expenditure during the three years up to 1974-75:

	1972-73	1973-74	1974-75
	(Rupees in lakhs)		
Expenditure on works ..	3,79·34	4,06·65	4,12·28
Expenditure on labour including payments to job-workers	1,09·29	1,21·03	1,35·79
Percentage ..	29·00	30·00	33·00

Norms in terms of work load have not been laid down for keeping establishments at site of work. Periodical assessment of work load, depending on the progress of work, with a view to regulating the requirement of staff at a given point of time is not done. Staff were allowed to

continue for considerable periods at site even after the work was completed. The Management stated (September 1978) that it was not always possible nor desirable to wind up the establishment totally, immediately after the physical completion of a job. However, a review conducted by a committee constituted by the Board of Directors to locate surplus personnel in site establishments, identified (October 1977) 306 persons as surplus under the category of work charged staff (220) and persons on nominal muster roll (86) against a total strength of 1,670. Of 306 persons, ninety belonged to works completed between April 1974 and March 1977. Rupees 0·72 lakh are being spent on the surplus staff of 306 persons each month. The Company stated (November 1978) that some of the staff have since been transferred to some other works and some had left the Corporation; details thereof are awaited (June 1979).

Works are executed in longer periods than schedules fixed by the contractees. The delays ranged from 2 months to 60 months in respect of 23 works completed between June 1973 and March 1978. As a result of delays in completion of the works, the Company had to incur expenses on site establishment for longer periods than what was estimated while fixing the rates tendered. In the 23 cases referred to above the additional expenditure so incurred amounted to Rs.50·17 lakhs. The reasons normally adduced for such delays are (*i*) lack of finance, (*ii*) lack of proper appreciation of site conditions before tendering for the work, (*iii*) delays in supply of designs and drawings, (*iv*) change of design while the works are under execution and (*v*) delays in supply of materials like cement and steel by the contractees. In the absence of any escalation clause in the agreement in respect of the works, the Company had to bear the additional expenditure.

There have been inordinate delays in the compilation and finalisation of the accounts, both at the projects and the head office. The financial results of works completed or works in an advanced stage of completion for the period beyond 1974-75 are not available (March 1979).

The Company stated (September 1978) that "methodology for achieving greater control was under study".

3.9.2. The records pertaining to six works completed and five works under execution have been reviewed in audit. Points noticed are discussed in the succeeding paragraphs:

3.9.2.1. *Balimela Dam Project*

The work relating to construction of dykes II and III of Balimela dam project was initially (October/November 1968) awarded by the Department of Irrigation and Power, Government of Orissa to private contractors. The work was to be completed by October/November 1971. As the progress of work was slow, the contracts were terminated (January 1971/February 1971) by Government and the remaining work was entrusted to the Company in February 1971. A mention about this was made in paragraph 4.1.15 of the Report of the Comptroller and Auditor General of India for the year 1974-75 (Civil). The position of execution of work abandoned by the contractors was as under:—

	Quantity to be executed	Quantity actually executed	Percentage
	(In lakh cubic metres)		
Dyke II Earthwork ..	11·70	1·30	11·11
Dyke III Earthwork ..	33·22	8·80	26·50

The works were entrusted to the Company and accepted by it at the same rates, terms and conditions as in case of the private contractors, at Rs. 99·85 lakhs and Rs. 2,14·88 lakhs for dykes II and III respectively. The works which were to be completed by June 1974 were completed by the Company in June/October 1975.

A working estimate prepared (February 1971) by the Company before taking up the work indicated a possible loss of Rs. 40·67 lakhs (Rs. 20·36 lakhs on dyke II and Rs. 20·31 lakhs on dyke III). In the absence of the accounts after 1974-75, the actual loss incurred finally could not be

assessed. According to the provisional figures compiled (October 1975) by the Company, the total loss was Rs. 99·60 lakhs, as under :

	Value of the left over work	Actual expenditure on work done	Value of work done as per agreement rates	Loss
	(Rupees in lakhs)			
Dyke II ..	99·85	1,21·48	79·85	41·63
Dyke III ..	2,14·88	2,69·23	2,11·26	57·97
			Total ..	99·60

The actual expenditure mentioned did not include overhead expenses. In September 1977, the Company assesed the overhead expenses to be provided as Rs. 24·98 lakhs, which would further enhance the loss on the works to Rs. 1,24·58 lakhs. In consideration of heavy losses incurred by the Company and in recognition of having completed the work enabling the project to impound water in the reservoir in time, Government granted performance bonus from time to time between June 1972 and April 1978, totalling Rs. 90·52 lakhs.

One of the reasons for the heavy losses was that the Company was not able to estimate its expenditure on different items accurately when it tendered for the work in February 1971. To cite an instance, 24·94 lakh cubic metres of earth work was executed in dyke III, for which an expenditure of Rs. 1,70·45 lakhs (at Rs. 6·72 per cubic metre) was incurred. The rate per cubic metre estimated was Rs. 4·11 and the rate obtained was Rs. 5·74. The additional amount spent in executing 24·94 lakhs cubic metres of earth work in dyke III worked out to Rs. 24·44 lakhs, computed with reference to the rate obtained against the item of work.

The following further points were noticed in audit :

(*a*) Work valued at Rs. 1,17·94 lakhs (dyke II : Rs. 64·12 lakhs and dyke III : Rs. 53·82 lakhs) was got executed through job workers. No competitive quotations were called for. The value of each work so entrusted ranged between Rs. 0·01 lakh and Rs. 3·68 lakhs. The rates paid to job-workers were found to be more as compared to the rates obtained by the Company from the department; a few instances are given below :

Item of work		Rate paid (both dykes II and III)	Rate obtained Dyke II	Dyke III
		(In rupees per cubic metre)		
Coarse sand	..	24·20	18·00	20·00
Stones aggregate	..	27·50	22·00	22·00
Rock fill-*cum*-rip-rap	..	27·50	17·00	15·00 16·00

The Management stated (September 1978) that the rates paid for some items were in excess of the rates that were obtained from the department, as the Company was offered unworkable rates by the department.

(*b*) A test-check of job-workers' bills showed that the Company paid them a through rate for works connected with supply, carriage and dumping stones without deducting for voids. The rate paid (Rs. 19 per cubic metre) to job-workers was higher than that received (Rs. 17 per cubic metre) from the department; this accounted for a difference of Rs.1·65 lakhs on 8,659 cubic metres being one sixth of the total quantity of 51,955 cubic metres of total work done. Reasons for not deducting voids in case of job workers are not available.

(*c*) Consequent on delay in execution, the reasons for which are not on record, the Company was put to additional expenditure by way of escalation in job-worker's, rates (Rs. 1·86 lakhs) and additional expenditure on site establishment (Rs. 1·48 lakhs).

(*d*) After closure of the work, site establishment was continued during July 1975 to October 1976 at an expenditure of Rs. 0·40 lakh.

(*e*) The final bills relating to work completed in June/October 1975 for Rs. 10·89 lakhs on the works had not (June 1979) been settled, as certain details in respect of recovery statements of materials were under reconciliation/correspondence between the Company and the department (June 1979).

3.9.2.2. *Construction of high level bridge over river Subarnarekha*

Against a request made by the Chief Engineer (Roads and Buildings) Government of Orissa in November 1972, for the construction of a high level bridge over the river Subarnarekha between Balasore and Kharagpur on National Highway No. 5, the Company submitted its tender for Rs. 65·50 lakhs, with provision for escalation in costs. During negotiations (January 1973), the Company agreed to withdraw the escalation clause. The work was accordingly awarded to the Company in March 1973, at the firm price of Rs. 65·50 lakhs, to be completed by February 1975 subsequently amended to June 1975. The work involved casting of concrete steining and sinking of 12 wells of 24′ diameter up to *minus* 48 RL, construction of 11 spans (excluding shore spans) and laying of reinforced concrete deck slab to a length of 1870 feet supported on prestressed concrete girders. By March 1978, the Company executed work valued at Rs. 41·85 lakhs in terms of the contract value, and incurred expenditiure of Rs. 54 lakhs (provisional). The work was in progress (March 1979). According to the Company, the delay was due to the following reasons :

(*i*) Delay in acquisition of land by the Department and eventual handing over to the Company for execution of work;

(*ii*) release of inadequate funds by the Department; and

(*iii*) while the work on wells was in execution, it was found by the Department that the safe bearing capacity of the soil at *minus* 48 RL was inadequate. There was delay (about 26 months) on the part of the Department in communicating the final foundng levels. While the work was stopped in December 1974, the final founding levels were communicated in February 1977.

In the case of this work, the Company assumed the responsibility of procuring steel and cement, contrary to the normal practice followed by the Company of getting supplies through the Department. The reasons for deviation from the normal practice are not on record. Because of withdrawal of the escalation clause in January 1973, there was no safeguard for escalations in costs of cement and steel. Against the rates of Rs. 250 and Rs. 1,630 per tonne of cement and steel reckoned, the average cost of procurement till March 1978 worked out to Rs. 301 and Rs. 1,856 per tonne respectively; the extra cost in respect of 1,703 tonnes of cement and 354 tonnes of steel procured till March 1978 worked out to Rs. 1·67 lakhs.

The Company spent Rs. 10·63 lakhs on site establishment charges till March 1978 (27·4 *per cent* of works expenditure of Rs. 38·82 lakhs), against a provision of Rs. 3·00 lakhs (5·6 *per cent*) made in the lumpsum contract value.

In the lumpsum contract value, the Company made provision towards carriage of rock products from quarry to site of work at Rs. 75 per 100 cubic feet. The rate actually paid, on an average, worked out to Rs. 107 per 100 cubic feet; resulting in an extra cost of Rs. 0·95 lakh in respect of 2·97 lakh cubic feet of products transported till March 1978.

In July 1975, the Company preferred a claim for Rs. 25·65 lakhs as extra costs because of price escalation in the context of the delay in execution of work for reasons attributable to the Department, which was rejected (July 1976) on the ground that there was no provision for payment of escalation in the agreement. In September 1977, the Board of Directors of the Company decided to abondon the work in view of mounting losses. The matter was discussed (October 1977) between Government and the Company and it was decided that the Department would pay interest free advance of Rs. 25 lakhs, defer recovery of advances outstanding (Rs. 19·22 lakhs) and interest thereon (Rs. 1·53 lakhs up to 31st March 1978) and to supply steel and cement (value/quantity not indicated) for the balance portions of the work. The work was to be completed by December 1978. The Department has been supplying cement and steel and also deferred recovery of outstanding advance and interest as decided earlier. An advance of Rs. 25 lakhs was also paid to the Company in December 1977 to be repaid in March 1978. This was interest bearing at 12 *per cent per annum*, which was contrary to the decision taken earlier but the Company did not take up the matter with the Department. The Company had not repaid (June 1979) the advance. No interest was also paid (June 1979).

The liability on account of interest on the works advances up to 31st March 1978 amounted to Rs. 5·50 lakhs (including Rs. 0·80 lakh on the amount of Rs. 25·00 lakhs) against Rs. 1·50 lakhs provided in the agreement.

3.9.2.3. *Rengali Dam Project Works*

(*a*) *Excavation of foundation*—In December 1972, Government asked the Company to furnish its rates for the composite work of Rengali Dam project. On the basis of the rates submitted by the Company in January 1973, Government entrusted (March 1974) a part of the work, namely excavation of foundation, to the Company at a cost of Rs. 81·71 lakhs. While awarding the work, the Irrigation and Power Department did not include the work of carriage of excavated rock between a lead of 100 metres to one kilometre, which was incidental to the work of excavation. On this being pointed out (January 1973) by the Company, the Department included (February 1974) the same in the scope of the work which increased its cost to Rs. 1,15·00 lakhs. An agreement was entered into with the Department on 3rd March 1974.

The work, commenced in March 1974, was scheduled to be completed by January 1976. The work was, however, completed in February 1978. The delay was attributed (November 1977) by the Company to the following :

(*i*) belated supply of explosives by the Department; and

(*ii*) non-completion in time of the coffer dam and diversion channel by the Department.

The details of actual expenditure incurred on the work are not available, in the absence of the accounting records being up to date (June 1979).

The following points were noticed in respect of execution of the work :

(*i*) According to the terms of the agreement, the rates were valid till 30th June 1975; the Company and the Department might arrive at enhanced rates for balance work and if no such agreement was reached, the contract could be determined without any liability on either side subject to completion of proportionate quantity with reference to time stipulated in the agreement. Work valued at Rs. 54·47 lakhs was to be completed by June 1975; the work completed by that date was of the value of Rs. 19·60 lakhs. No enhanced rates were arrived at in terms of the agreement; the contract was also not determined and the Company continued to do the work. Only in October 1977, the Company, claimed towards increase in rates of the items based on the percentage increase in cost of labour over that reckoned while submitting quotation. The claim was not made with reference to the actual increase in expenditure and the total money value of the claim was not indicated.

(*ii*) As a result of the delay in execution, the Company incurred additional expenditure of Rs. 5·84 lakhs; Rs. 3·44 lakhs on site office expenses and Rs. 2·40 lakhs on interest up to February 1978 paid to the Department.

(*iii*) The Company received Rs. 98·06 lakhs till March 1978 on running account. The final bill has not been preferred (June 1979).

(*b*) *Masonry dam*—The work of construction of masonry dam of the Rengali Project was entrusted (July 1975) by the Irrigation and Power Department to the Company for Rs. 3,36·50 lakhs on the basis of willingness conveyed by the Company in May 1975. An agreement was entered into with the Department on 29th July 1975. The work involved 2,13,100 cubic metres of masonry work and 1,19,830 cubic metres of concrete work, to be completed by May 1978. Up to March 1978, the Company completed 46,271 and 16,490 cubic metres of masonry and concrete works respectively. In view of the slow progress of work reportedly due to lack of finance, the Department excluded (April 1978) 1,02,000 cubic metres of concrete work (value : Rs. 1,10·40 lakhs approximately) from the scope of the work entrusted to the Company and decided to execute the same departmentally. The value of the balance work retained with the Company was Rs. 2,26·10 lakhs.

Till March 1978, the Company executed work of the value of Rs. 63·80 lakhs as per contract. It obtained works advances amounting to Rs. 98 lakhs bearing interest at 10 *per cent per annum*. Rs. 33·35 lakhs were also received against running account bills. The records of the Company relating to booking of the actual expenditure is not complete (March 1979).

In this connection, the following points were noticed :

(*i*) The Company selected and developed two quarries at Salemundi and Palemunda for supply of stones required in masonry work. Subsequently (February 1976), the Department rejected the stones from these

quarries as not suitable for the masonry work. The Company is obtaining stones from alternative sources, taken on lease, which are located at a distance of about 2 to 3 kilometres farther than these quarries.

The cost of development of quarries and the cost of raising stone products from the quarries was about Rs. 4 lakhs. According to the Company, the rejected stones, lying partly at dam site and partly at quarry site, would be utilised elsewhere on works.

(*ii*) The rate quoted for the masonry work was Rs. 85·15 per cubic metre. On the basis of the actual expenditure, the rate worked out to Rs.125 per cubic metre, mainly due to increase in the cost of stone by Rs. 28·95 per cubic metre of which Rs. 9·84 were on account of extra transportation involved. The money value of the difference over 45,271 cubic metres of masonry work done up to March 1978 worked out to Rs. 18·04 lakhs.

Similarly, for coarse rubble stone masonry work, the actual cost in execution worked out to Rs.209·13 per cubic metre against Rs.106·86 quoted. On 1,000 cubic metres of work done up to March 1978 the difference worked out to Rs. 1·02 lakhs. The increase in the cost and transportation of stone alone was Rs.124·19 per cubic metre, which is mainly attributable to change in the quarries.

(*iii*) In terms of the agreement, after completion of 50 *per cent* of each item of work, Government might negotiate with the Company for revision of rates. The Company claimed (August 1977) upward revision ranging from 34·5 *per cent* to 71·4 *per cent* over the quoted rates, although it completed only 19 *per cent* of the work in terms of money value. Decision of Government is awaited (June 1979).

3.9.2.4. *Construction of non-overflow masonry dam and spillway of Dadaraghati Project*

In response to invitation of tenders by Government, the Company submitted (September 1974) its offer for construction of non-overflow masonry dam and construction of spillway for the Dadargahati Irrigation Project. Item-wise rates were quoted by the Company, based on the State schedule of rates of 1972 to which 30 *per cent* was added towards overheads. In November 1974, the Company during negotiations agreed to reduce the rates, and the following was the comparative position:

	Tendered value	Reduced value
	(Rupees in lakhs)	
Masonry dam ..	52·89	50·03
Spillway ..	72·63	67·61

Reasons and basis for reduction are not on record. The works were awarded to the Company in April 1975. The works were scheduled to be completed in 24 working months (July to October are considered as non-working months). The works commenced in May 1975 and to be completed by May 1978, are in progress (June 1979). In the progress reports sent to Government from time to time, the Company attributed the delay to shortage of working capital and stoppage of work at the instance of Government from July to October 1977. It is, however, seen in audit that the Company was paid works advances (Rs. 20·81 lakhs) in terms of the agreement during the period May 1975 to January 1977 and the work was required to be stopped only in two out of sixteen blocks and the period of stoppage was reckoned as non-working season for the purpose of time for completion of the work.

The progress of work done up to December 1978 was as under:

	Tender value	Value of work done	Balance work to be done
		(Rupees in lakhs)	
Masonry dam ..	50·03	10·20	39·83
Spillway ..	67·61	37·65	29·96
Total ..	1,17·64	47·85	69·79

The total expenditure incurred on the work is not available (June 1979) in the absence of the accounting records being up-to-date.

A study of the reports made by the Company to the Chief Engineer, Irrigation in October 1977 regarding the actual expenditure incurred showed that the rate per unit against the main items had shown sharp increase as compared to the rates quoted. The money value of the increase over the quantities executed up to March 1978 worked out to Rs. 9·09 lakhs, details are as follows:

Item	Quantity executed till March 1978 (cubic metres)	Rate quoted @	Rate as per actual expenditure @	Difference in rate per cubic metre	Loss (Rupees in lakhs)
		(In rupees per cubic metre)			
(1)	(2)	(3)	(4)	(5)	(6)
Excavation in rock ..	28,614	24·68	39·75	15·07	4·31
Cement concrete (1:3:6) ..	8,897	180·17	212·72	32·55	2·90
Randam rubble stone masonry (1:4)	3,100	131·00	183·22	52·22	1·62
Cement concrete (1:2:4) ..	565	254·79	300·35	45·56	0·26
				Total ..	9·09

(@ excludes overheads)

Computed with reference to the rates worked out on the basis of actual expenditure, the execution of the balance of work against the four items would result in extra expenditure of Rs. 14·75 lakhs over the tendered rates, as detailed below:

Item	Total quantity as per agreement	Quantity of work done up to March 1978	Balance quantity	Value at rates quoted	Value on the basis of expendture incurred up to March 1978
	(In	cubic	metres)	(Rupees in lakhs)	
Excavation in rock ..	35,641	28,614	7,027	1·73	2·79
Cement concrete (1:3:6) ..	14,700	8,897	5,803	10·46	12·34
Randam rubble stone masonry (1:4)	20,909	3,100	17,809	23·33	32·63
Cement concrete (1:2:4) ..	6,078	565	5,513	14·05	16·56
			Total ..	49·57	64·32

Further analysis made by the Company in October 1977 showed that there has been steep increase in the prices of rock products and sand as indicated below:

Material		Rate adopted	Rate of actual procurement
		(In rupees per cubic metre)	
Chips	..	57·00	78·00
Metal	..	33·60	63·00
Boulders	..	29·00	46·35
Sand	..	15·50	28·00

The agreement entered into with the Department did not contain any clause enabling the Company to claim escalation in costs; request of the Company for revision in rates to compensate for the increases is stated to be under consideration of the Department (June 1979).

In this connection the following points were also noticed :

(*a*) In May 1977, the Department asked the Company to postpone execution of work in two out of sixteen blocks in the construction of masonry dam for the purpose of rehabilitating the people living in the areas which would be submerged by water. The Company stopped the work in all the blocks from July 1977 to February 1978. They incurred expenditure of Rs. 3·27 lakhs on idle establishment. The work was stated (September 1978) by the Company to have been stopped beyond October 1977 for want of funds. The work was resumed from March 1978.

(*b*) The work involved construction of coffer dam. Out of three seasons involved in construction, the Department constructed the coffer dam for one season and the Company had to construct the coffer dam during the other two seasons in terms of the agreement. The rate in the agreement did not provide for the same. According to information given by the site office, the expenditure involved was approximately Rs. 0·19 lakh.

The work scheduled to be completed by May 1978 has not been completed (December 1978). The work done up to December 1978 was about 41 *per cent* of the total value of the work.

3.9.2.5. *Talcher Thermal Power Station Expansion works* (*Stage* II)

In November 1975, the Company submitted a tender (Rs. 8,25·30 lakhs) for the construction of civil and structural works (two units of 110 MW each) connected with Talcher Thermal Power Station Expansion (stage II) of the Orissa State Electricity Board. In April 1976, negotiations were carried out with the Board, at the instance of the State Government; the Company reduced the tender value to Rs. 6,75·73 lakhs, the items of reduction being structural steel work (Rs. 90·08 lakhs), form * work for reinforced concrete (Rs. 21·97 lakhs), road work and yard subgrade (Rs. 26·50 lakhs) and grounding installation (Rs. 11·02 lakhs). Justification and the basis adopted for reducing the rates against the various items were not available (June 1979).

The work was awarded to the Company in May 1976 to be completed by September 1978. On 17th July 1976, an agreement was entered into with the Board. The progress of work was to be in accordance with the project construction schedule to ensure commissioning of the first unit by 31st July 1978 and the second unit by 31st January 1979. The value of the work executed till March 1978 was Rs. 2,23·58 lakhs (33 *per cent*), computed in terms of the tender value, leaving work valued at Rs. 4,52·15 lakhs to be executed. Details of actual expenditure incurred are not available as the accounts have not been compiled.

In terms of the agreement, the Company was entitled for an advance of Rs. 90 lakhs. It, however, obtained Rs. 1,40 lakhs as works advance, during September 1976 to March 1978, bearing interest at 11 *per cent per annum* or the bank rate plus 2 *per cent* whichever was higher.

Out of this amount, Rs. 1,32·40 lakhs were outstanding (besides Rs. 3·64 lakhs as interest) as on 31st March 1978.

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* Centering and shuttering for R. C. C./plain concrete work.

The following table indicates physical progress of work in respect of certain important items executed up to March 1978:

Item of work	Quantity to be executed as per agreement	Quantity executed till March 1978	Percentage of work executed
Excavation in rock inclusive of lead up to 500 metres (cubic metres)	44,000	62,139	141
Concrete work (cubic metres)			
(*i*) Plain vibrated concrete	7,755	1,061	14
(*ii*) Controlled concrete M-150 (1: 2: 4)	12,870	888	7
(*iii*) Controlled concrete M-200 (1:1½: 3)	21,100	4,641	22
Form work (square metres) ..	1,16,000	5,282	5
Grouting (cubic metres) ..	220	2·2	1

In October 1977, the Company informed the Board that it was not possible to execute certain items of work at the rates mentioned in the agreement owing to price rise for both materials and labour and claimed revision of rates. The increase claimed ranged between 9 *per cent* and 1,273 *per cent* over the rates included in the agreement. Computed with reference to the agreed quantities the aggregate financial impact of the increase in respect of these items worked out to Rs. 43·71 lakhs. Decision of State Electricity Board in the matter is awaited (June 1979).

According to the information furnished by the Company in June 1978, the rates in respect of certain important items, in actual execution were substantially more, when compared to the rates stipulated in the agreement and the revised rates claimed.

The following are the details:—

Item of work	Rate as per tender	Rate as claimed in October 1977	Rate on the basis of actual analysis made by the Company*
	(In rupees per cubic metre)		
Excavation in rock inclusive of lead up to 500 metres	30.00	52.60	48·56
Concrete work :			
(*i*) Controlled concrete M-150 (1:2:4)	237·00	297·86	301·00
(*ii*) Controlled concrete M-200 (1:1½:3)	288·00	349·36	353·00
Grouting ..	500·00	3,850·00	4,075·00

The agreement entered into with the Board stipulated that price adjustments towards variation in cost of labour and material would be made on the basis of the formulae prescribed therein. No price variation was applicable to work done beyond the originally scheduled period of completion, *viz.*, September 1978. The Company has not so far (March 1979) preferred any claim on account of escalation in the cost of labour and material computed with reference to the formulae laid down in the agreement in respect of the work done up to the date scheduled for completion. The Company stated (November 1978) that efforts are being made to prefer a claim as early as possible.

Abandonment of the work regarding construction of stack

The work of construction of stack at a cost of Rs. 20·03 lakhs was entrusted to the Company as part of the main contract. This involved construction of a 125 metres high shell chimney with 11·146 metres internal diametre

(*Excludes overhead charges)

at the bottom and gradually tapering to 7·600 metres internal diametre at the top. The R.C.C. shell is 500 mm. thick at the bottom and 180 mm. at the top. The detailed designs of the work were to be furnished by the Company, for the purpose of which it appointed firm 'A' of Calcutta at a remuneration of Rs. 0.40 lakh. The consultants furnished (June 1977) foundation designs which were submitted (June 1977) to the Board for approval. In July 1977, the Company assessed that it would lose Rs. 11·97 lakhs, in case the job was executed. The Company, therefore, decided (December 1977) to abandon the work. The Board in April 1978 has taken away the same from the scope of the work to be executed by the Company. A sum of Rs. 0·20 lakh has been paid (January 1977) as advance by the Company to the consultants and Rs. 0·20 lakh are payable to them. Besides, Rs. 0·20 lakh were spent towards investigating the soil condition.

3. 9. 2. 6. *Works for Paradip Port Trust*

The Paradip Port Trust entrusted (February 1970) the work of construction and sinking of monoliths and construction of the remaining portion of slipway (left in the middle by a private contractor) to the Company at its quoted amount of Rs. 22·20 lakhs. Details as to whether the Company had made any assessment and appreciation of the work before the same was taken up are not available with the Company. In November 1978, the Company stated that assessment and appreciation of the work to the extent possible was certainly made before the Company submitted its tender, but as the case was pretty old and due to change of hands it was possible that some of the relevant details were not easily available from the existing records. The work scheduled to be completed by April 1971 was actually completed by April 1976, reportedly due to the following reasons:

(*i*) Proximity of sea to the site of the work necessitating constant dewatering;

(*ii*) stiffness of clay in the lower strata making sinking of monoliths difficult; and

(*iii*) difficulties in driving box sheet piles.

Because of delay in completion of work, the Port Trust recovered (April 1976) Rs. 0·52 lakh towards liquidated damages. The final bill prepared in November 1976 for Rs. 3·99 lakhs was pending settlement (July 1978) for want of regularisation of delay in execution by grant of extension of time and settlement of rates for extra items (value : Rs. 3·82 lakhs).

According to provisional figures compiled, the Company incurred an expenditure of Rs. 31·82 lakhs up to June 1976. The contract amount received / receivable is Rs. 19·36 lakhs; thereby the Company incurred a loss of Rs. 12·46 lakhs. In this connection, the following points came to notice:

(*a*) Due to proximity of the sea to the site of work (50 feet as against 300 feet assumed while tendering for the work), constant dewatering, strengthening of coffer dam with sheet piles and construction of a sheet pile cut-off trench for the entire width of slipway at a cost of Rs. 4·73 lakhs became necessary.

(*b*) Due to longer time taken for construction, additional expenditure of Rs. 6·06 lakhs was incurred towards site establishment.

(*c*) Due to non-availability (reasons not on record) of "LARSEN 4—A" sheet piles for use in construction of slipway (estimated to cost Rs. 200 per square metre), the Company utilised a costlier alternative (composite box section made out of ISPS 2021 'Z' section sheet piles at Rs. 641·67 per square metre) resulting in an extra cost of Rs. 1·27 lakhs. The Company included it in their final claim against the Port Trust; decision of Port Trust is awaited (June 1979).

3.9.2.7. *Works for the Fertiliser Corporation of India Limited*

The Company submitted (May 1971 / January 1972) offers for three works in response to invitation of tenders by the Fertiliser Corporation of India Limited, Talcher (F. C. I.). Negoitations had taken place (June 1971/March 1972) between the two companies in which the Company agreed to reduce the rates quoted. It was also agreed to withdraw the escalation clause included in the tender submitted. The particulars relating to the works are given below:

Work	Tendered cost	Negotiated cost	Scheduled date of completion	Actual date of completion
	(Rupees in lakhs)			
Execution of Civil works of R. C. C. urea storage silo and transfer towers for urea silo	2,05·08*	82·87 (excluding portion deleted by F. C. I.).	November 1973	February 1975
Construction of boundary wall	14·11	7·68	August 1972	February 1975
Construction of temporary sheds	6·12	2·65	August 1972	May 1973

*Note: Although F. C. I. invited tenders for work valued at Rs. 2,05·08 lakhs, in negotiations it reduced the scope to Rs. 82·87 lakhs by eliminating certain portions.

Against Rs. 93·20 lakhs being the value of contracts, the Company executed work valued at Rs. 73·67 lakhs only, for which it incurred an expenditure of Rs. 92·81 lakhs. In November 1978, the Company stated that the tender was based on tentative drawings and during execution quantities in respect of certain items were reduced. In this connection, the following points were noticed :

(*i*) The Company entrusted work valued at Rs. 30·76 lakhs to the job workers without inviting quotations. As compared to the rates obtained from the F. C. I. in respect of procurement of materials like bricks, stone chips, *etc.*, the payments made to job workers were more and resulted in extra expenditure of Rs. 1·23 lakhs.

(*ii*) The delay in the execution ranged between 9 and 30 months. As against provision of Rs. 3·25 lakhs made in the working estimates towards expenditure on establishment for contracts valuing

Rs. 93·20 lakhs, the Company spent Rs. 5·93 lakhs on establishment for a turnover of Rs. 73·67 lakhs, resulting in an extra expenditure of Rs. 3·36 lakhs proportionately.

(*iii*) The sites of different works were scattered involving heavier cost on transportation between them. Rupees 3·69 lakhs were spent on transportation against a provision of Rs. 1·19 lakhs made in the estimates.

(*iv*) Due to heavy rains, the compound wall, 205 metres in length, collapsed on 13th June 1972 while under construction. Rupees 0·20 lakh were claimed by the Company towards its value on the ground that the provision made in the design towards cross drainage was insufficient. This was rejected by the F. C. I. stating that had timely action been taken by the Company to keep the waterways clear of extraneous materials, in terms of the agreement, the collapse would have been avoided.

(*v*) In respect of construction of civil work, the Company had claimed (August 1975) Rs. 11·20 lakhs on account of escalation in the cost of materials and wages. The claim was rejected (September 1977) on the ground that there was no provision in the agreement. The Company had earlier withdrawn the escalation clause during negotiations with F. C. I. before award of the work and the claim for escalation was made long after execution of the work.

3.9.2.8. *Construction of low cost model houses*

In October 1975, the Company had taken up for the State Government (Political and Services Department) on the basis of negotiation, construction of 300 low cost model houses in nine flood affected areas, at a lumpsum cost of Rs. 9·66 lakhs. Out of these, 182 houses were to be constructed in accordance with the design evolved by the Company and the remaining 118 as per a design developed by an architect of Delhi. Cost estimates per house in the different areas were drawn up by the Company, on the basis of which the lumpsum cost was fixed. The construction was scheduled to be completed by June 1976, but was completed between

September 1976 and March 1977. In November 1978, the Company replied that "as completion dates of the houses vary it is not possible to exactly pin point the reasons for delay in completion of each house or groups of houses".

The following table indicates the estimated cost *vis-a-vis* the actual cost per house in the nine areas:

Area		Number of houses	Estimated cost per house (Rupees)	Actual cost per house (Rupees)
Napanga	..	60	2,712	4,768
Kumargaon	..	30	2,987	3,583
Kuansar	..	28	2,987	4,554
Paneilo	..	20	3,548	4,408
Nababinga	..	16	3,547	3,514
Adva	..	14	3,547	2,814
Chammkin	..	50	3,427	2,957
Rachipur	..	40	3,427	3,057
Jagannathprasad	..	42	3,426	3,366

The total expenditure incurred by the Company in the construction of the 300 houses amounted to Rs. 11·17 lakhs, thus incurring a loss of Rs. 1·51 lakhs. In this connection, it was noticed (July 1978) in audit that :

(*i*) Consequent on the delay in execution, there was excess expenditure towards overheads; Rs. 1·83 lakhs against Rs. 0·88 lakh estimated.

(*ii*) At Napanga, the Company had to incur (June 1976) expenditure to rectify defects in all walls which showed signs of collapse during rains. Expenditure incurred thereon was not available. The Company stated in November 1978 that as the expenditure on rectifications is not easily identifiable, the actual expenditure cannot be furnished readily.

The Company preferred (October 1977) a claim for Rs.1·51 lakhs being the expenditure incurred over and above the amount received from Government, but Government rejected (December 1977) the claim on the ground that the lumpsum cost was based on the estimates drawn up by the Company itself. It was stated by the Company (November 1978) that the claim would be pursued. Further developments are awaited (March 1979).

3. 9. 2. 9. *Construction of water treatment plant*

On the basis of a tender submitted by the Company in January 1970, the Public Health Department entrusted (April 1971) the work relating to design, construction and erection of a water treatment plant at Rourkela of one plant of three million gallons capacity per day, at a lumpsum cost of Rs.9·44 lakhs. According to the agreement (April 1972), the Company was to furnish to the Chief Engineer, Public Health, for approval, the designs and detailed drawings by 30th May 1971. The execution of the work including erection was to be completed within 12 and 16 calendar months respectively from the date of receipt of approved drawings from the Chief Engineer. The drawings were sent to the Chief Engineer in June 1972 and received back between 22nd November 1974 and 22nd March 1975. The civil works were completed in August 1976 and other works (including supply and erection of mechanical equipment, piping for mechanical and filter houses and electrical installation) in June 1977 after delay of 51 months and 57 months respectively (calculated with reference to the time schedule in the agreement). The delay was attributed (May 1977) by the Company to the unusual conditions of the soil, change of design and rectification of clean water base slab, difficulty in procurement of cast iron pipes and mild steel pipes and fittings and delay in supply of cement by the Department. The following points were noticed :

(*a*) The clean water base slab already laid lost its water tightness. The design of the same was, therefore, changed by the Department. This had necessitated rectification of work already done. The Company was put to an extra expenditure of Rs.1·25 lakhs in rectification. A claim made (December 1975) by the Company in this regard was rejected (April 1978) by the Department on the ground that adequate precautionary measures were not taken by the Company in the course of execution of the work, as a result of which revision of design was found necessary. The Company did not pursue the matter further (June 1979).

(*b*) Rupees 0·11 lakh were withheld by the Department for want of sanction to extension of time.

(*c*) Site establishment was continued to be maintained till February 1978, although the work was completed in June 1977. An extra amount of Rs.0·13 lakh was spent on this account.

(*d*) The Department did not clear the final bill preferred by the Company in March 1978, stating that the defects in the construction were to be rectified. The Company requested (May 1978) the Department to have the defects rectified and debit the cost to them. Further developments are awaited (June 1979).

3. 9. 2. 10. *Construction of a canal syphon across river Biluakhai*

In response to invitation of open tenders by Government in the Irrigation and Power Department, the Company submitted (November 1974) a quotation of Rs.28·97 lakhs for the aforesaid work. During negotiations (July 1975), the Company reduced the rates and brought down the value of tender to Rs.22·16 lahkhs. The work was awarded (September 1975) to the Company at the reduced value. The work was to be completed by September 1977, but it was still in progress (June 1979). The Company attributed (November 1978) the following reasons for the delay in construction :

(*i*) Delay in finalisation of the designs by the Department;

(*ii*) delay in supply of cement by the Department;

(*iii*) shortage of funds ;

(*iv*) execution of extra items of work; and

(*v*) strike by workmen of the Company at the project.

An analysis of the expenditure made in audit showed the following:

(*i*) The Company had executed 12·75 lakh cubic feet of earthwork up to March 1976, according to a claim preferred by it in September 1976. The department paid (May 1976) for 6·07 lakh cubic feet. When the Department prepared the running account bill in May 1976, the Company did not protest. The Company claimed in September 1976 for the balance quantity, but the Department rejected the claim on the ground that such quantities were not found at site nor were brought to its notice. This resulted in a loss of Rs.0·95 lakh on 6·68 lakh cubic feet of earth work (0·19 lakh cubic metres). No further action was taken nor responsibility fixed for the lapse.

(*ii*) On account of delayed execution of work, the Company had to incur an additional expenditure of Rs.2·32 lakhs on site establishment and additional interest (Rs.0·90 lakh) on work advance up to July 1978.

(*iii*) The Company executed eight extra items not contemplated in the agreement and claimed Rs.10·21 lakhs but Rs.6·74 lakhs were paid by the Department. No supplementary agreement was concluded for these items. The Company stated (November 1978) that the Department would be moved to accept the rates quoted by them for the extra items of work. Further developments are awaited (June 1979).

(*iv*) Advances to job workers amounting to Rs.3·44 lakhs were given up to 31st March 1978. Adjustments by recovery were made to an extent of Rs.1·27 lakhs leaving a balance of Rs. 2·17 lakhs (June 1979). No register showing the position of advances was maintained to pursue the recoveries effectively. Advances to job workers were given without reference to the work to be done.

(*v*) The internal audit wing of the company pointed out (1977-78) in relation to the transactions relating to the period the 5th December 1975 and the 30th October 1977, irregular excess payments (Rs. 0·23 lakh), wrong entries in the cash book, payments without supporting sub-vouchers (Rs.0·89 lakh), payment without orders of the Project Engineer admitting the claim and pay orders(Rs.3·71 lakhs), payments without approval of competent authority for purchases (Rs.2·74 lakhs), payments without acknowledgement (Rs.2·18 lakhs) and payments without indicating any reference to the receipt of the materials (Rs.4·38 lakhs). Cash payments were also made to a tune of Rs0·06 lakh during December 1976 to October 1977 while advances taken for the purpose were pending adjustment. No acknowledgement for direct payments were obtained. They also pointed out instances where cash received on the Company's account by the Project Engineer were taken into the cash book (amounts ranging from Rs.1,000 to Rs.2,000) with delays ranging from 27 to 55 days.

(*vi*) An amount of Rs.6,840 realised on the 5th July 1976 on sale of 5,200 empty cement bags to a firm was accounted for as receipt in the cash book on the 1st March 1977, *i.e.* after lapse of 8 months.

The Company replied (November 1978) that action to investigate the irregularities and to recover the excess payments is being taken and that the concerned Project Engineer has been asked to explain the irregularities. Further developments are awaited (June 1979).

3.10. Operation of quarries

The Hindol Road quarry and the Sunabeda quarry, worked by the Company, were closed in 1966-67 and 1968-69 respectively due to uneconomic working. The Tapang quarry was surrendered in October 1968 on expiry of the lease.

Certain aspects concerning the Haridaspur quarry were discussed in paragraph 25 of the Report of the Comptroller and Auditor General of India for the year 1972-73 (Commercial). The working of this quarry resulted in cumulative loss of Rs.21·92 lakhs (provisional) as on 31st March 1978, which according to the Company was mainly due to poor turnover. It was assessed (May 1978) by the Company that a turnover of

Rs.23·00 lakhs per annum is necessary for the quarry to break-even; the maximum turnover attained was Rs.8·45 lakhs during past five years. Attempts made by the Company to transfer the quarry back to Government did not materialise; the Company as per the directive of Government (April 1978) resumed working of the quarry from June 1978. Rupees 0·49 lakh was spent on idle establishment during April and May 1978, when the quarry did not work.

The quarry has three crushers (value: Rs. 0·81 lakh) and their utilisation had been poor; it ranged between 4 to 20 *per cent* of actual production capacity as the production was regulated based on demand for the rock products. The Company did not consider the desirability of putting them to alternative and profitable use.

The Company after conducting a study of establishment, the expenditure on which constituted 39 *per cent* of the turnover during 1972-73 to 1977-78, withdrew the Project Engineer and the Mines Manager from the establishment of the Mines, in September 1978 leaving the quarry in charge of a Deputy Project Engineer.

3.11. Central Workshop

A work-shop to design, manufacture and erect hydraulic gates, pen stocks, heavy structurals and mechanical handling equipment required for the irrigation and power projects of the State was established (May 1976) at Rasulgarh near Bhubaneswar; at a cost of Rs.23·87 lakhs.

During the period of its working from June 1976 to March 1978, the work-shop fabricated 2,287 tonnes of structurals of different varieties against its capacity of 2,100 tonnes for the period on the basis of a two shift working; the extra utilisation was found by working third shift for sometime.

Three works were completed since inception viz. (*i*) gates for Salandi Project, (*ii*) gates for Darjanga Project and (*iii*) gates for Ghodahada Project.

The Company did not evolve (March 1979) a system of costing to enable it to control expenditure and to quote for tenders. The work shop had also not maintained job cards, time records, log books and history cards for machinery. The following other points were noticed:

(*i*) In April 1974, the Board of Directors approved the following ceilings on expenditure, which were exceeded in actual execution in 1976-77:

	Ceiling approved	Actuals
Expenditure per tonne fabricated ..	Rs. 500	Rs 571
Personnel for fabrication of 100 tonnes ..	242	387
Expenditure on personnel for fabrication of 100 tonnes	Rs. 0·84 lakh	1·05 lakhs

While the reasons for increase in case of expenditure on personnel was stated (November 1978) by the Company to be due to escalation in wage rates, the increase in number of personnel was not explained. Reasons for overall increase in expenditure are also not available (June 1979).

(*ii*) No records of scrap arising in fabrication were maintained though a recoverable portion (5 *per cent*) was to be accounted for to the clients as per conditions of tender.

(*iii*) In case of the work "fabrication of gates for Salandi dam", as against the negotiated tender rate of Rs.20·86 lakhs accepted (January 1973), the Company completed the work in June 1976 at Rs.25·12 lakhs (excluding depreciation and overheads). The Company could not contain the costs within rates tendered, as for example, against Rs.3·86 lakhs provided for transportation and erection of gates expenditure incurred was Rs.5·90 lakhs. Reasons for excess have not been analysed.

In August 1977, the Company claimed Rs.6·92 lakhs from the Department, towards wastage at 10 *per cent* of output (Rs.0·29 lakh), expenditure on cleaning, painting etc. (Rs.0·16 lakh) and escalation in wages and materials (Rs.6·47 lakhs); these items were not covered by the terms of agreement, and reasons for their omission were not available. The Company stated that the Department had accepted the claims to an extent of Rs.3·80 lakhs.

(*iv*) In the case of the work "fabrication of gates for Darjanga project", as the Department had supplied skin plates of 1250 mm. width against the stipulated requirement of 2500 mm width, the Company had to do extra work in fitting them into the fabrication for which an extra expenditure of Rs.0·27 lakh was incurred.

The Company claimed Rs.6·75 lakhs extra; Rs.2·00 lakhs for completion of fabrication works earlier than scheduled (there was saving of 8 months), Rs.1·15 lakhs towards the extra work referred to above and loss of interest on advance for the period of delay in supply of materials by the Department and keeping work site ready and Rs.3·60 lakhs for escalation in prices of materials and labour. These items are not covered by the terms of agreement. Decision of department in the matter of these claims is awaited (March 1979).

3.12. Purchases, inventory and internal control

3.12.1. The Company has not compiled a purchase manual detailing the procedure to regulate purchase of stores and equipment.

There is no centralised purchasing system for taking advantage of making bulk purchases.

3.12.2. Stores are kept at site. There is also a central store at Bhubaneswar which serves as a transit store for receipt of materials and transfer the same to site. It also deals with collection and disposal of surplus/unserviceable stores and equipment.

No manual detailing the procedure for handling stores has been compiled (June 1979).

A test audit of stores accounts at Bhubaneswar and two site stores accounts revealed the following:

Central Stores, Bhubaneswar ..	4,145 items of stores (book value : Rs.7·37 lakhs) which consist of shuttering materials, pylon towers, etc., have been lying undisposed (March 1979). These were received from the sites of closed projects between 1966-67 and 1974-75.

Site Stores, Chitrakonda ..	Spares of shovels, dozers, jeeps, trucks (value : Rs.6·07 lakhs), and unserviceable tyres and batteries, have been lying undisposed (March 1979). These were received at site stores between 1970-71 and 1975-76.
Civil stores, Talcher Thermal Expansion Project	Copper pipes, galvanised mild steel pipes (value : Rs.0·85 lakh) purchased between September 1976 and August 1977 for use on work relating to construction of stack (vide sub-paragraph 3.9.2.5.) could not be utilised as the work was not finally taken up. Their disposal or utilisation otherwise, is awaited (March) 1979).

3. 12. 3. The Company started preparing budgets from 1975-76 There is no system of controlling expenditure against specific budget provisions, reportedly due to the fact that accounts have been in arrears.

3. 12.4. The Company has not prepared an accounts manual (June 1979).

The accounts are centralised. Compilation of annual accounts have been in arrears since 1975-76; Company stated (September 1978) that special steps are being taken to cover the arrears.

Developments are awaited (March 1979).

3.12.5. There is no system of cost accounting to know the cost of each item of work executed for comparison with tendered rate and to help cost reduction.

3.12.6. An internal audit cell has been functioning since June 1975. The scope and extent of work to be done by the cell has not been defined (March 1979). The cell has not taken up any of the major projects for audit; only four (Biluakhai project, Kalo project, Central stores and Haridaspur quarry) out of 20 field units were audited till March 1978.

Summing up

During the period of sixteen years of its existence, the Company has mostly executed works for the State Government (74 *per cent* of the total value of the works taken up having been executed for them). The compilation of accounts has been in arrears and as such the results of working are not known precisely at the appropriate time. The lastest audited account available are for the year 1974-75. In respect of the works taken up for execution up to March 1975 for the State Government, the Company made a net gain of Rs.1,77·65 lakhs. However, according to estimates of the Management, the cumulative loss for the Company, as on 31st March 1978, would be Rs.2,23 lakhs against the paid-up capital of Rs.1,77 lakhs.

Cases of defective estimation, defective tendering and consequent adverse effect on performance had resulted in heavy losses year after year. Delays in execution of the works, processing of claims and settlement of final claims were also noticed. Absence of systems and procedures for proper execution of works have caused these deficiencies.

SECTION IV

ORISSA FOREST CORPORATION LIMITED

4.1 Introduction

The Orissa Forest Corporation Limited was incorporated on 28th September 1962 as a wholly owned Government Company, with a view to undertaking scientific exploitation of the forest resources of the State and to establish industries based on forest products and to market them. The forest area in Orissa State is 67,925 square kilometres, which constituted 43·5 *per cent* of the total land area (1,55,845 square kilometres). The Company had taken up extraction and sale of timber, sale of *kendu* leaves, collection and sale of *sal* seeds and other minor forest produce and operation of saw mills.

Certain aspects of working of the Company were indicated in Section E of Chapter I of the Report of the Comptroller and Auditor-General of India for the year 1973-74 (Commercial).

The Company prepared accounts for the year ended 31st October 1973. Thereafter, the Company switched over to the accounting year from April to March. The figures shown for 1972-73 and 1973-75 in this Report, therefore, actually relate to the periods November 1972 to October 1973 and November 1973 to March 1975, respectively. Only provisional accounts for the period November 1973 to March 1975 and for 1975-76 have been compiled by the Company (May 1979). They have not yet been approved by the Board of Directors of the Company (May 1979). The position in regard to the arrears in accounts has been brought to the notice of the Government from time to time.

The delay in finalisation of accounts has been atributed (February 1978) by the Management to the following factors :

(*a*) non-completion of valuation of closing stocks of timber lying in various divisions in the coupes and in depots; and

(*b*) non-finalisation of the amounts reimbursable by Government towards administrative charges, reduction in royalty, *etc.*, on *Kendu* leaf trading.

The figures for 1973-75 and 1975-76 are based on the provisional accounts and for subsequent two years they are the 'actuals' shown in the budgets.

4.2 Organisational set-up

The Management of the Company is vested in a Board of Directors. There are eight Directors in the Board, all of whom are appointed by the State Government. It had a part-time Chairman till July 1978 and full time Chairman thereafter. It's day to day affairs are managed by a Managing Director who is assisted by a Secretary. The Financial Adviser and Chief Accounts Officer looks after the financial and accounting matters under the control of the Managing Director. As on 31st March 1978, the Company was having 13 divisions dealing with timber trade, six divisions dealing with trading in *Kendu* leaves and a *bidi* manufacturing unit, each under the charge of a Divisional Manager/Deputy Divisional Manager. The transactions in *sal* seeds are dealt with by the timber divisions. The Company has four sales centres at Madras, Tirunelvelly, Calcutta and Aurangabad for disposal of *Kendu* leaves (March 1979).

4.3 Capital structure

The Company was registered with an authorised capital of Rs. 200 lakhs, divided into two lakhs equity shares of Rs. 100 each. The paid up capital of the Company as on 31st March 1978 was Rs. 93·00 lakhs, wholly contributed by the State Government.

To finance its activities , the Company obtained cash credit from different banks from 1972-73. The cash credit facility availed of by the Company as on 31st March 1978 amounted to Rs. 2,41.05 lakhs from three banks against the maximum limit of Rs. 4,90·00 lakhs.

4.4. Financial position

4.4.1. The following table shows the financial position of the Company at the end of the three years up to 1975-76 :

		1972-73	1973-75	1975-76
		(Rupees in lakhs)		
Liabilities				
Paid-up capital	..	93·00	93·00	93·00
Reserves and surplus	..	1·69	1·69	1·69
Borrowings	..	1,83·30	1,05·22	1,57·47
Trade dues and other liabilities		4,32·81	4,75·72	4,52·08
Total	..	7,10·80	6,75·63	7,04·24
Assets				
Gross block	..	34·40	38·32	39·74
Less : depreciation	..	17·90	20·39	22·09
Net fixed assets	..	16·50	17·93	17·65
Investments	..	2·26	2·26	2·25
Current assets, loans and advances		6,05·05	5,97·34	6,70·52
Accumulated loss	..	86·99	58·10	13·82
Total	..	7,10·80	6,75·63	7,04·24
Capital employed	..	1,88·74	1,39·55	2,36·09
Net worth	..	7·70	36·59	80·87

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

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

4.4.2. *Working results*

The following are the working results of the Company for each of the three years up to 1975-76 :

		1972-73	1973-75	1975-76
		(Rupees in lakhs)		
Gross income				
(*i*) Sales	..	5,22·05	16,36·94	13,24·71
(*ii*) Other income	..	2·01	16·84	12·55
Total	..	5,24·06	16,53·78	13,37·26
Gross expenditure				
(*iii*) Working expenses including purchases		4,81·30	15,35·91	12,18·47
(*iv*) Other expenses and provisions		38·52	78·98	73·36
Total	..	5,19·82	16,14·89	12,91·83
Net profit	..	4·24	38·89	48·43

There was cumulative loss of Rs. 86·99 lakhs up to 31st October 1973. The cumulative loss for the period up to 31st October 1972 was Rs. 87·50 lakhs. The losses up to 1971-72 were attributed (May 1978) to enormous production of timber in Balimela submersible area during 1963-64 and 1969-70 which could not be absorbed in the market and deteriorated, belated assessment of royalty by Government at rates higher than that absorbed in the prices, allotment of inaccessible coupes and serious labour troubles in saw mills.

The working results in subsequent years improved on account of taking up of trading in *kendu* leaves. The market for timber also had picked up, resulting in profits to the Company.

The working results in respect of the individual activities of the Company, *viz.*, timber operations, trading in *kendu* leaves and collection and trading in *sal* seeds are indicated below :

	1972-73	1973-75	1975-76	1976-77	1977-78
			(Rupees in lakhs)		
Timber operations					
Receipts from sale of timber and other related income	2,11·66	3,74·53	3,03·46	4,12·89	6,16·92
Cost of operations * ..	2,42·17	4,73·66	2,93·08	3,50·16	5,77·71
Gross difference ..	(—)30·51	(—)99·13	(+)10·38	(+)62·73	(+)39·21
Stock adjustments ..	(+)1·94	(+)88·80	(—)2·50	(—)28·54	(+)50·27
Surplus (+) Deficit (—) ..	(—)28·57	(—)10·33	(+)7·88	(+)34·59	(+)89·48
Trading in Kendu leaves					
Income from sales ..	2,50·36	12,85·56	9,84·46	11,26·00	11,86·29
Expenditure * ..	226·31	1,218·00	958·62	1,047·07	1,196·22
Surplus (+) Deficit (—) ..	(+)24·05	(+)67·56	(+)25·84	(+)78·93	(—)9·97
Collection and trading in sal seeds					
Income from sale ..	..	..	40·89	43·27	99·24
Expenditure * ..	..	..	25·48	20·48	1,39·29
Surplus (+) Deficit (—) ..	..	..	(+)15·41	(+)22·79	(—)40·05

* (These do not include head Office overhead expenses.)

4.4.3. *Sundry debtors*

The table below indicates book debts as compared to sales during each of the three years ending 1975-76 :

	1972-73	1973-75	1975-76
		(Rupees in lakhs)	
Book debts at the end of the year	90·86	1,16·26	1,16·63
Sales during the year ..	5,22·05	16,36·94	13,24·71
Percentage of book debts to sales	17·4	7·1	8·6

The following points were noticed in audit :

(*i*) Rupees 16·50 lakhs out of Rs. 20·22 lakhs due from 239 private parties were more than three years old. The Company stated (January 1979) that the position is under review and steps are being taken for recovery.

(*ii*) Two Government Companies, *viz.*, Orissa Timber Products Limited and Orissa Wood Products Limited, which are under liquidation since 1972, owed to the Company Rs. 2·46 lakhs and Rs. 0·27 lakh respectively (May 1979).

(*iii*) The amount recoverable from Government departments like Public Works, Industries, Railways and DGS &D relating to the period 1963-64 to 1968-69 stood at Rs. 16·79 lakhs (March 1979).

The Statutory Auditors observed in their report on accounts for 1972-73 that debts were not adequately pursued, confirmation of debtors were not obtained and that deductions made by customers were not written off. They also stated that out of the total outstanding of Rs. 8·04 lakhs against Orissa Agro and Small Industries Corporation Limited, the debtor had disowned liabilities on account of different Panchayat Industries Officers aggregating Rs. 5·82 lakhs.

4.4.4. *Observations of the statutory auditors*

The important observations of the statutory auditors on the accounts of the Company for the year ending 31st October 1973 were that (*i*) the system of accounting as followed by the Corporation failed in its basic objective of providing relevant information to the management and the books of accounts did not provide the detailed financial information as required under the Companies Act, (*ii*) advance from customers as well as advance to contractors, staff and others remain unadjusted for several years, (some of them related to the years as far back as 1963-64) and (*iii*) shortages and unsaleables revealed in physical verification at forest, depot and at saw mills valued at Rs. 5·68 lakhs had not been disclosed in the books of accounts and stood automatically written off without specific approval of the Board for the write off (May 1979).

4.5. Timber operations

4.5.1. The main object of establishing the Company was to undertake proper and scientific exploitation of the forest resources of the State to obtain the maximum financial return from forests and to bring exploitation of the entire forest area progressively under the public sector. As on 31st March 1978, the Company had been operating about 25 *per cent* of the total forest area of the State. The revenue contributed by the Company during the year 1977-78 to the State on account of royalty on timber was Rs. 192·34 lakhs out of a total of Rs. 11,79·34 lakhs and constituted about 17 per cent of total receipts on account of royalty.

Forest coupes are allotted by the State Government, each year, on the recommendations of the Chief Conservator of Forests, Orissa.

The working season for operating the coupes starts in October each year and ends in June. According to the instructions of Government, the Company has to submit its proposals for allotment of coupes in April each year so that all formalities can be completed by May or first week of June to enable the Company to plan and take up operation in time for the working season.

4.5.2. *Targets and performance*

The Company commenced its timber operations with four divisions in 1962-63, increased to 12 divisions by 1970-71 and had 13 divisions as on 31st March 1978. The target for annual production of timber was fixed by the Company at 50 lakh cubic feet (1·42 lakh cubic metres) up to 1969-70, which was increased to 60 lakh cubic feet (1·70 lakh cubic metres) from the year 1970-71.

As against a target of 1,41,580 cubic metres per annum fixed by the Company prior to 1969-70, the actual production ranged from 41,114 cubic metres to 1,16,142 cubic metres except for the year 1965-66 when 1,62, 446 cubic metres were produced.

The following table gives the details of targets and actual performance for the five years up to 1977-78 :

Period	Target	Achievement	Shortfall	Percentage of shortfall
	(Figures in cubic metres)			
1972-73 ..	1,69,900	87,745	82,155	48
1973-75 ..	2,40,690	1,82,555	58,135	24
1975-76 ..	1,69,900	72,836	97,064	57
1976-77 ..	1,69,900	98,072	71,828	42
1977-78 ..	1,69,900	1,78,507	..	..

The table below gives the details of working of coupes during 1972-73 to 1977-78 :

Period	Number of coupes at the beginning	Coupes allotted during the year	Total	Number of coupes in which operations completed during the year	Number of coupes carried over to next year	Percentage of coupes carried over to coupes available
1972-73	240	370	610	457	153	25
1973-75	153	820	973	564	409	42
1975-76	409	221	630	269	361	57
1976-77	361	264	625	276	349	56
1977-78	349	*517	866	(Position is	not	available)

*Excluding coupes relating to Bhanjanagar, information in respect of which is awaited (March 1979).

In connection with shortfall, the Management stated (March 1976) that the system of granting leases on annual basis and the protracted method of settlement of royalty created uncertainities preventing the Company to plan the timber extraction and sales programme.

The efficiency of forest operations depends on timely initiation of proposals for allotment of coupes (in April each year) to Government, allotment (during May or first week of June each year) and exploitation including transporation of the felled timbers to the nearest depots of the Company during the working season (October to June). There were delays on the part of the Company in initiating proposals for allotment of coupes as per details given below :

Year		Month of initiation	Month of allotment
1972-73	..	July 1972	September 1972
1973-74	..	June 1974	September 1974
1974-75	..	June 1975	September 1975
1975-76	..	August 1975	September 1975
1976-77	..	July 1976	October/November 1976
1977-78	..	August 1977	August 1977

As the allotment of coupes is received just before the commencement of the working season, the Company has been losing a substantial portion of the season as operation in the forest could be started in December every year. Owing to the delay in submission of the proposals by the Company and consequent delay in allotments by Government, 25 to 57 *per cent* of the available coupes remained unexploited at the end of each working season.

The reasons for delay in submission of proposals, as stated (February 1978) by the Management, were procedural formalities and review of coupes to locate unprofitable ones for excluding the same. The records of the Company and the Government did not indicate any specific action taken to avoid such delays.

The working of a coupe comprises felling the trees, converting them into logs, dragging the logs through the extraction paths constructed for the purpose, stacking at suitable sites in the coupes and transportation

to depots where logs are stocked and sold. The transportation of the logs from forest to the depots is made through contractors while the other processes are done by the Company itself through contract labour.

Every year, at the end of the working season, large quantities of timber were left in the forest owing to failure of the contractors to lift fully the timber felled during the season. These were transported later at the beginning of the next working season by taking extensions for working of the coupes.

According to the Company's assessment (December 1971) it loses about Rs. 0·50 per cubic foot (Rs. 17·66 per cubic metre) of timber left in the forest due to deterioration in quality. Computed at this rate, loss to the Company on 1·04 lakh cubic metres of timber left in the forest at the end of the different seasons from 1973-75 to 1977-78 worked out to Rs. 18·29 lakhs. The following points were also noticed :

The Company did not take any action against the transport contractors for their failure to transport all the timber felled in each season.

'A' a transport contractor under Bhubaneswar division was to transport an estimated quantity of 83,420 cubic feet (2,362·17 cubic metres) of timber from Betabi group of coupes to Gangadharpur depot by 31st October 1978 at the rate of Rs. 1·65 per cubic foot. In April 1978, 'A' after transporting 13,259 cubic feet (375·45 cubic metres) of timber approached the Divisional Manager for enhancement of the transport charges as the untimely rains had created hazards in transportation. The rate was revised by the Regional Marketing Executive, Bhubaneswar, in June 1978, to Rs. 1·90 effective from 27th April 1978 on the condition that the entire quantity of timber felled should be transported before the onset of monsoon. A quantity of 35,831 cubic feet (1,014.61 cubic metres) of timber was left in the forest by the contractor at the end of July 1978 and there was no transportation of timber thereafter. There was a loss of Rs. 0·34 lakh on the timber left in the forest. Action was also not taken against 'A' for his failure to perform his portion of the contract, reasons for which are not available.

The divisional managers send progress reports to headquarters office every month which, *inter alia*, contain the details regarding the quantities of timber felled in the forest and quantities transported to depots. At the depots, the receipt register of timber is written from the transit challans sent from the forest indicating quantities despatched. A test check (June 1978) of the progress reports and receipt registers relating to one division (Sambalpur) for the period April 1975 to March 1978 and those of 6 other divisions (Rourkela, Jeypore, Nowrangpur, Balliguda, Berhampur, Potteru) for the year 1977-78 revealed that the quantity of timber accounted for in the receipt registers was short by 2,112 cubic metres (value : Rs. 6.65 lakhs) as compared to quantities indicated in the progress reports. The discrepancies have not been investigated (January 1979). Reply of the Managenent is awaited (May 1979).

4.5.3. *Cost of operations*

The Company has not formulated a system of costing with a view to ascertaining the cost per cubic metre of timber produced and the costs of various operations involved in producing the timber . An analysis has been made in audit to ascertain the costs of operation for the period of five years ending 31st March 1978 with the help of the financial accounting records. The direct expenditure involved in producing timber can broadly be classified under forest expenses, royalty, costs of transportation and depot expenses. Royalty is fixed by Government from time to time and it is, therefore, an item of expense over which the Company does not have any control. The following are the details of cost per cubic metre of timber (on simple average basis) under the three other items of direct expenses during the period of five years up to 1977-78:

Year		Forest expenses	Expenditure on transportation	Depot expenses	Total
		(Figures in rupees)			
1972-73	..	29·30	56·17	15·05	100·50
1973-75	..	28·86	68·52	10·89	108·27
1975-76	..	43·06	71·91	19·90	134·87
1976-77	..	34·77	73·58	25·07	133·42
1977-78	..	34·81	73·51	17·34	125·66

The following table gives division-wise costs per cubic metre of timber :

Name of the Division		1972-73	1973-75	1975-76	1976-77	1977-78
		(Figures in rupees)				
Nowrangpur	..	85·28	81·08	121·57	91·37	105·30
Jharsuguda	..	98·86	92·89	126·20	137·81	147·99
Sambalpur	..	81·25	107·40	127·35	262·30	104·03
Jajpur Road	..	119·28	142·50	147·33	199·86	154·51
Rourkela	..	101·54	118·72	122·61	114·73	161·29
Bhubaneswar	..	109·73	122·59	189·54	147·08	128·68
Dhenkanal	..	156·72	138·07	173·67	223·94	105·82
Jeypore (North)	..	89·03	90·03	118·15	116·65	103·88
Jeypore (South)	..	141·58	116·20	..	..	..
Kesinga	..	384·99	99·37	270·13	..	..
Baliguda	..	..	..	..	82·60	133·61
Bhanjanagar	..	..	..	..	113·52	128·69
Berhampur	..	..	..	..	..	114·48
Baripada	..	..	125·70	49.46	146·46	177·52
Potteru	..	..	..	..	..	114·77

There had been wide variations in costs as between the various divisions in an year and as between the different years in the same division.

A further analysis of costs made with reference to expenditure in forest, transportation and depot revealed very wide variation. The pattern of costs per cubic metre under any item had not been uniform even in the division as between the five year period. The following position emerged :

	1972-73	1973-75	1975-76	1976-77	1977-78
		(Figures in	rupees per cubic	metre)	
Forest expenses					
For the Company ..	29·30	28·86	43·06	34·77	34·81
Maximum expenses recorded	79·11 (Dhenkanal)	58·37 (Dhenkanal)	131·64 (Kesinga)	105·76 (Dhenkanal)	54·48 (Rourkela)
Minimum expenses recorded	12·95 (Jeypore North)	17·30 (Nowrangpur)	25·90 (Jeypore North)	21·73 (Nowrangpur)	24·55 (Jeypore North)
Transportation					
For the Company ..	56·17	68·52	71·91	73·58	73·51
Maximum expenses recorded	283·28 (Kesinga)	101·19 (Jajpur Road)	100·05 (Baripada)	113·49 (Sambalpur)	121·12 (Baripada)
Minimum expenses recorded	44·81 (Sambalpur))	49·80 (Jeypore North)	62·41 (Jharsuguda)	36·07 (Balliguda)	52·71 (Sambalpur)
Depot expenses					
For the Company ..	15·05	10·89	19·96	22·27	17·34
Maximum expenses recorded	73·86 (Ksinga)	20·09 (Jeypore North)	58·78 (Kesinga)	51·39 (Bhubaneswar)	45·88 (Bhubaneswar)
Minimum expenses recorded	6·74 (Sambalpur)	6·04 (Kesinga)	5·82 (Dhenkanal)	13·70 (Baripada)	5·44 (Dhenkanal)

While the Management explained (January 1979) the increasing trend in costs to general escalation in the prices of materials, specific reasons for variations in the same division during different years and in the same year among different divisions have not been indicated.

The depot expenses did not bear any relative proportion either to timber receipts or to turnover. For example, in Nowrangpur division, there was substantial increase in quantity of timber transported and also turnover, during 1977-78; the expenditure came down substantially. In the Dhenkanal division, the expenditure recorded Rs. 16·30 per cubic metre during 1976-77, against Rs. 5·82 and Rs. 5·44 during 1975-76 and 1977-78 respectively

although there was no substantial variation in receipts and turnover during the period. Norms of cost for the different operations have not been fixed by the Company.

In June 1975, the Chairman of the Company circulated division-wise information compiled about the rates for different operations relating to conversion and extraction of timbers among the divisional managers. He pointed out that in many cases the variations as amongst the divisions did not appear to have *prima facie* justifications especialy in cases where conditions of working were similar. This data was compiled with reference to estimates drawn up for the year 1975-76.

He proposed to fix norms for different operations. Instructions were also issued for maintenance of detailed records showing the places and estimates of each coupe and a register showing the expenditure incurred thereon. These records were not, however, maintained (January 1979) in any of the divisions. The matter regarding fixation of norms, has also not been pursued. Reasons for the same are not available.

4.5.4. *Shortage of timber*

Shortages of timber valued at Rs. 20·68 lakhs (12,979 cubic metres) and excesses of Rs. 10·67 lakhs (4,663 cubic metres) were noticed in physical verification of stocks for the years 1972-73 to 1975-76. Out of Rs. 20·68 lakhs, shortages of Rs. 8·47 lakhs related to Rourkela and Jeypore South (now defunct) divisions. Physical varification of stocks for the years 1976-77 and 1977-78 has been conducted (April 1979); the results thereof are stated to be awaited (May 1979).

The shortages have not been investigated. According to the procedure followed, the shortages are eliminated from the value of the closing stocks and thus stand written off. Sanction of the competent authority has not been obtained before write off of the shortages.

Mention was made in paragraph 93(1) of the Report of the Comptroller and Auditor General of India for the year 1970-71 about shortages of timber valuing Rs. 53·95 lakhs and appointment of a special officer for investigation into the shortages and to fix responsibility. The investigating officer inspected three out of the nine divisions where shortages occurred and had given a report in 1971. He did not cover other divisions as he was given other assignment by Government in May 1971. The matter regarding appointment of another officer to enquire into the shortages in the other six divisions for 1967-68 and also shortages of 1968-69, 1969-70 and 1970-71 has been under correspondence since 1971 with the Government. In January 1977 Government approved creation of a post for the purpose by the Company; the Company has not appointed any person to the post. During discussions with Audit (January 1979), the Management stated that "regarding the appointment of a Special Officer to investigate cases for shortages........ previously certain charges were framed against certain officers and these were sent to Government for action. The Government considered the charges and decided to drop the charges.................... In view of the Government's decision it was felt that no useful purpose would be served in appointing a Special Officer to investigate similar cases. However, the matter would be placed before the Board of Directors to apprise them of the Government's decision for treating the matter as closed".

4.5.5. *Royalty on Timber*

Forest coupes are leased out by Government to the Company on payment of royalty.

While there had been delays on the part of Government in finalising the royalty, the Company in its turn had been in arrears in payment of royalty assessed, reportedly due to paucity of funds.

The amount of arrears payable by the Company, according to the records of the Forest Department, was Rs. 2,31·17 lakhs as on 31st March 1977, whereas the Company's books show (January 1979) an amount of Rs. 2,03·86 lakhs. The difference was under reconciliation (April 1979).

The Company was not paying interest on the amount of arrears outstanding. In February 1977, Government ordered that interest has to be charged from the Company for default in payment. A provision of Rs. 9·69 lakhs has been made in the accounts of the Company for 1975-76.

4.5.6. *Average sale price* vis-a-vis *cost of sales*

A comparison of the figures of costs of sales, compiled in the Company, with average sale price realised in respect of four divisions for the period November 1973 to March 1976 in respect of round timber, revealed that sales realisation was less by Rs. 26·36 lakhs on 19,651 cubic metres of timber sold. Details are as follows:

Division		Quantity sold (Cubic metres)	Cost of sales	Sales realisation	Difference
			(Rupees in lakhs)		
Rourkela (1972-73)	..	9,911	44·69	34·02	10·67
Bhubaneswar (1972-73)	..	255	1·69	1·05	0·64
Sambalpur (1972-73)	..	3,171	18·75	14·43	4·32
Dhenkanal (1975-76)	..	6,314	26·06	15·33	10·73

A study made in Audit about the comparative position of average sales realisation with reference to cost of sales for the years 1976-77 and 1977-78 revealed that in the case of the following divisions, the sales realisation per cubic metre of timber sold was less:

Division		Cost of sales per cubic metre	Average sale price realised per cubic metre	Difference per cubic metre	Quantity sold	Total difference
		(Figures in rupees)			(Cubic metre)	(Rupees in lakhs)
1976-77						
Jharsuguda	..	296·91	271·91	25·00	9,974	2·49
Sambalpur	..	1,096·49	221·48	875·01	8,082	70·72
Dhenkanal	..	584·55	200·77	383·78	4,418	16·96
Bhanjanagar	..	988·60	391·99	596·61	3,495	20·85
1977-78						
Sambalpur	..	327·21	247·68	79·53	4,841	3·85
Dhenkanal	..	327·67	279·13	48·54	5,965	2·90
Bhanjanagar	..	482·53	420·68	61·85	5,919	3·66
Berhampur	..	364·61	331·93	32·68	3,317	1·08
Baripada	..	390·66	367·07	23·59	4,081	0·96

The difference between the cost of sales and average sale price realised over 50,092 cubic metres of timber sold amounted to Rs. 1,23·47 lakhs of which the divisions at Bhanjanagar, Sambalpur and Dhenkanal accounted for Rs. 1,18·94 lakhs over the two years. These abnormal variations have not been investigated (October 1978) nor any reply to the paragraph has been furnished to audit (May 1979).

4.5.7. *Working of saw mills*

With a view to maximising proper utilisation of timber and supplying sleepers to the Railways, the Company established/acquired from time to time saw mills at different places. The Company is operating (January 1979) eight saw mills at Sambalpur, Bamra, Jagannathpur, Boipariguda, Mathili, Cuttack, Berhampur and Papadahandi through contractors who are required to saw only logs for the Company at an agreed price. The saw mills at Rourkela, Kalunga and Nowrangpur are operated by the Company directly by engaging workers. In places where the Company had no saw mills of its own, sawing work was done in private saw mills, after inviting tenders/ quotations.

Pro forma accounts are not compiled to work out the financial results of the working of the saw mills.

A study of the working of the three saw mills operated by the Company at Rourkela, Kalunga and Nowrangpur divisions revealed that the percentage utilisation was low, the maximum utilisation attained during the period of five years up to 1977-78 being 70 *per cent* as per details given below :

Year		Percentage of outturn		
		Rourkela	Kalunga	Nowrangpur
1972-73	..	59	57	49
1973-75	..	66	55	56
1975-76	..	70	53	57
1976-77	..	61	52	52
1977-78	..	65	67	51

The Management stated (April 1977/July 1978) that low utilisation in different years was due to the following reasons :

1973-75 Want of timber for sawing.

1975-76 (Rourkela and Kalunga)

(*i*) Mechanical and labour troubles, and

(*ii*) Want of round logs for sawing.

1977-78 Want of round timber for sawing due to increased sale of round timber.

The Management stated (April 1977) that the outturn mostly depends on the quality of the logs fed into the saw mill.

Comparative cost of sawing per cubic metre in the saw mills operated by the Company (at Rourkela and Nowrangpur during 1972-73 to 1975-76) and those run through contractors is shown below :

	Range of cost (Rupees per cubic metre)	
	From	To
Rourkela	79·45	102·41
Nowrangpur	40·54	95·66
Mills run through contractors	37·07	52·97

The variations have not been investigated.

4.6. Trading in Kendu leaves

4.6.1. *Kendu* (Dyos pyres mela noxylon) grows in the *Sal* forests in Orissa, mostly in the districts of Sambalpur, Bolangir and Kalahandi. *Kendu leaf* is used as the wrapper in the manufacture of *bidis*. From January 1973, Government nationalised the *Kendu leaf* operations (hitherto done through private agencies) ; under which the collection and processing of *Kendu leaves* were taken up departmentally and the Company was entrusted with the marketing of processed *Kendu* leaves purchased from Government as their sole selling agent. Agreements are entered into between Government and the Company which contained the various terms and conditions in regard to delivering of *Kendu* leaves by Government and their disposal by the Company.

As per the agreements for 1973-74 and 1974-75, the Company was getting Rs. 25 lakhs each year towards administrative expenses, bank interest on loans obtained for the operations at actuals, besides a margin of Rs. 25 per quintal towards sale operations carried out by the Company. Effective from 1975-76 the Company was allowed a margin of Rs. 25 per quintal; reasons for stopping payment of administrative expenses and reimbursement of bank interest are not on record. The following are the details of quantities of *Kendu* leaves disposed, amount received/receivable from Government, expenses incurred by the Company on the operations and the amount of surplus left for the period from 1973-74 to 1977-78 :

Year	Quantity	Amount received/ receivable	Actual expenditure incurred	Surplus
	(In lakh quintals)	(Rupees in lakhs)		
1973-74	3·52	1,33·26	62·71	70·49
1974-75	3·39	1,11·50	49·39	62·11
1975-76 ..	3·98	99·50	56·47	43·03
1976-77 ..	4·13	1,03·25	98·14	5·11
1977-78 ..	3·90	97·50	91·16	6·34

Reasons for abnormal increase in actual expenditure progressively are not available (March 1979).

In terms of the agreement, the Company is required to lift the processed *Kendu* leaves proposed for delivery by the Forest Department within 45 days from receipt of such intimation from the Deputy Conservator of Forests in charge of production failing which the Company is liable to pay godown rent, expenditure on watch and ward, insurance charges and other incidental expenses in respect of the stocks so intimated. A test check revealed that the Forest Department claimed Rs. 3·36 lakhs towards such expenses during May 1974 to December 1977 in respect of the period from 1973-74 to 1975-76; out of which Rs. 0·24 lakh was paid between March 1977 and May 1978.

4.6.2. *Sale of Kendu leaves*

Kendu leaves are sold by conducting periodical auctions, 8 to 10 times in a year. Sale to bulk consumers is conducted through negotiations and also for exports to countries like Sri Lanka and Pakistan. The sales centres at Calcutta and Madras also arranged sale of Kendu leaves.

Although, *Kendu* leaves are taken delivery of by the Company during a particular year, the entire quantities were not disposed of in the same year and, therefore, carried over to subsequent years for sale. As the quality of leaves deteriorate during long storage, the average sales realisation was found to be less when compared to average realisations of the particular years when they were taken delivery of.

The following table shows the quantity avilable for sale, quantity sold during the year, quantity carried over and sold during subseqent years:

Year	Quantity available for sale	Quantity sold	Quantity Carried over	Percentage of quantity carried over to quantity available for for sale	Year of sale of quantity carried over
(1)	(2)	(3)	(4)	(5)	(6)
			(Quantities in lakh quintals)		
1973-74 ..	3·50	2·42	1·08	31	1974-75
1974-75 ..	4·45	3·53	0·92	21	1975-76
1975-76 ..	4·85	3·67	1·15	24	1976-77
			0·03		1977-78
1976-77 ..	5·25	4·25	0·95	19	1977-78
			0·05		1978-79
1977-78 ..	4·94	3·84	1·10	22	1978-79

The Management did not furnish any reasons for not effecting sales during the same year in which they were taken delivery. In respect of 5·28 lakh quintals of stocks carried over and disposed of in subsequent periods, the Company realised Rs. 224·26 lakhs less computed with reference to the average prices obtained in the respective crop years. (Simple average prices were taken into consideration for comparison).

4.6.3. *Export of Kendu leaves*

4.6.3.1. The Company had taken up export of *Kendu* leaves directly to Sri Lanka and through State Trading Corporation of India Limited (STC) to Pakistan. The following are the details :

Country	Year	Quantity exported (Quintals)
Sri Lanka	1972-73	25,000
	1973-74	35,000
	1976-77	24,000
Pakistan	1975-76	2,500
	1977-78	5,000

Points noticed in the export of *Kendu* leaves are indicated below :

4.6.3.2. *Export to Sri Lanka*

The Company entered into three agreements with 'S' of Sri Lanka for supply of 0·84 lakh quintals *Kendu* leaves (mixed grade).

The following points were noticed in connection with the execution of the agreements :

(*i*) 'S' claimed (January 1976) Rs. 2·09 lakhs from the Company on account of short receipt of 587·50 quintals of *Kendu* leaves against the agreement of April 1972. The Company did not investigate into the shortages. The claim has not been finally settled (May 1979).

(*ii*) According to the terms and conditions stipulated in the agreement of July 1973, the Company was required to despatch *Kendu* leaves to Madras by rail and from Madras to Tuticorin by road for onward shipment. The Company was entitled to reimbursement of transportation charges. The Company despatched (during September 1974 to December 1974) 9,360 quintals of *kendu* leaves from Orissa to Tuticorin directly by road (due to shortage of wagons) involving an additional expenditure of Rs. 22·56 per quintal. Of the quantity despatched 8,788 quintals of *kendu* leves were shipped (during December 1974 to March 1975) and the Company claimed (June 1975) Rs. 1·98 lakhs towards additional transportation charges.

The claims were discussed during January 1976 between 'S' and the Company. The Chairman of the Company indicated in the discussions that he would place the suggestion of 'S' to set off their claim for shortages against the Company's claim for transportation charges before the Board of Directors for obtaining their approval. Further developments are awaited (May 1979).

(*iii*) Due to delay on the part of 'S' in opening letters of credit with State Bank of India in terms of the agreement of July 1973, the leaves which arrived at Tuticorin had to be stored for longer periods. In the meantime, there was also increase in freight rates. The Company incurred expenditure of Rs. 0·84 lakh towards additional railway freight, insurance and additional godown rent for the period November 1974 to June 1976. Claims made between January 1976 and June 1977 against 'S' in this regard have not been settled (May 1979). Specific reasons for non settlement are not available.

(*iv*) Three hundred and sixty *quintals* of *Kendu* leaves of mixed grade (value : Rs. 0·93 lakh), rejected by the representative of 'S' at Tuticorin on the ground that they were inferior in quality, were sold (June 1975) to a private party at Rs. 0·41 lakh by auction. The reasons for despatching inferior quality of *kendu* leaves to Tuticorin by the Divisional offices were not investigated by the Company (January 1979).

4.6.3.3. *Export to Pakistan*

The Company supplied (December 1977) 508 tonnes of *kendu* leaves (254 tonnes of Grade I and 254 tonnes of Grade II) to 'T' of Pakistan through the STC at US$ 507 per tonne, F. O. B. Paradip against the rates offered by the Company in June 1977, as indicated below. Four *per cent* commission on F. O B. price was payable to the ST C.

Quality	Price F. O. B. Paradip Port	Freight to Karachi	C & F on liner terms
	(Per tonne in US dollars)		
Grade I	450	65	515
Grade II	400	65	465

Two contracts, one between the STC and 'T' and the other between the STC and the Company were concluded on the 27th September 1977 and 10th October 1977 respectively. According to the terms of the contracts, the Company completed the shipment by 31st December 1977 and negotiated the documents on 10th January 1978. In this connection the following points were noticed (October 1978) in audit:

(*i*) As against ocean freight of US $65 per tonne anticipated from Paradip Port to Karachi, the Company paid US$73·72 per tonne, resulting in an additional expenditure of US$4432·64 (Rs. 0·38 lakhs) on 508·330 tonnes of leaves despatched.

(*ii*) There was delay of sixty nine days in realising the sale proceeds of Rs. 19·72 lakhs due to certain descrepancies in the shipping documents. Loss of interest for the period of delay computed at 13·75 *per cent per annum* (the borrowing rate), amounted to to Rs. 0·51 lakh.

(*iii*) 'T' had lodged a claim for US $73,158 in May 1978 towards short-receipt of 61·571 tonnes and towards damage of 82·725 tonnes of leaves. The claim is yet to be settled (May 1979). The shortage has also not been investigated.

4.6.4. *Non-forefeiture of earnest money deposit*

The general terms and conditions indicated in tender notice stipulate that every intending bidder has to deposit Rs. 1,000 as earnest money deposit. The successful bidder is required to deposit 15 *per cent* of the value of the lot as security deposit, failing which the earnest money deposit would be forfeited. A review of the auction sales in one division (Jharsuguda) for the years 1976-77 and 1977-78 revealed that in case of 118 lots (7,816·32 quintals) the successful bidders did not pay the 15 *per cent* security deposit and lift the stocks; earnest money deposit amounting to Rs. 0·12 lakh was not forfeited. No reasons have been furnished. (June 1979).

4.6.5. *Non-realisation of interest*

As per auction sale notice of *kendu* leaves, in cases where payment of sale price in full is delayed beyond a period of two months (where the buyer had furnished bank guarntee) / one month from the date of issue of ratification order, interest at the rate of 15 *per cent per annum* is to be

collected on the amount of sale value. In the course of test check of the auction sales during June 1976 to March 1978, in two divisions (Jharsuguda and Sambalpur) it was noticed (June 1978) that interest charges amounting to Rs. 0·35 lakh were not levied in 53 cases; delay ranged between 15 days to 18 months. The Divisional Manager of one division (Jharsuguda) stated (July 1978) that interest charges were not recovered to keep up business relationships with the purchasers.

4.6.6. *Avoidable expenditure on interest*

The Company entered (February 1976) into an agrement with State Trading Corporation of India Limited for supply of 250 tonnes of *kendu* leaves (Grade I) to 'T' of Pakistan at US $703·74 per tonne F. O. B. Paradip. Commission at 2 *per cent* on F. O. B. price was payable to the STC which should pay the Company the sale proceeds less their commission on negotiation of shipping documents. The Company completed the shipments of the entire quantity in one lot on 27th March 1976 and negotiated the documents on 3rd April 1976. Although the STC obtained the payment on 5th April 1976 from 'T', it released the amount (Rs. 15·45 lakhs) on 7th June 1976 to the Company due to certain discrepancies in the shipping documents like want of import licence number and discrepancy in weight. Had the amount been credited into the cash credit account of the Company as soon as it was received by the STC, Rs. 0·38 lakh being interest paid on cash credit, at 13·75 *per cent per annum* for the period 5th April 1976 to 6th June 1976 could have been saved.

4.6.7. *Sales centres*

For augmenting the sale of *kendu* leaves outside the state, the Company opened sales centres at Calcutta and Madras in July 1975 and July 1976, respectively.

The following table shows the turnover, the expenditure and the percentage of expenditure to the turnover at the two centres, for 1976-77 and 1977-78 :

Name of the sales centre	Turnover		Expenditure of the centre		Percentage of expenditure to the turnover	
	1976-77	1977-78	1976-77	1977-78	1976-77	1977-78
	(Rupees in lakhs)					
Calcutta ..	85·88	79·00	6·50	2·97	7·60	3·76
Madras ..	26·37	74·52	4·25	7·24	16·00	9·70

(Figures are provisional)

The percentage of expenses to turnover was high in Madras centre compared to Calcutta in both the years. The Company did not investigate the reasons for high incidence of expenditure on the Madras centre (January 1979).

4.6.8. *Insurance of kendu leaves*

The Company functions as the sole selling agent of the State Government for trading in the *kendu* leaves.

As per terms of the agreements entered into between the State Government and the Company regarding sale of *kendu* leaves, Government undertook to insure all stocks of processed leaves and leaves packed in *phali* bags kept in different central godowns of Government. The Company was to insure the stocks delivery of which is taken by it. The central godowns of Government are insured against fire, generally, for a period of one year, the insurance coverage for the *kendu* leaves stored therein was not always linked to the value of the leaves, with the result that the stocks of leaves were under-insured. Again, when the *kendu* leaves were delivered to the Company, the responsibility for taking insurance devolved on them from the point of time the delivery had taken place. The Company did not formulate any system by which the extent of coverage in insurance made by Department was reviewed at the time of taking delivery so that in cases where such review revealed under-insurance or non-insurance, the same could be made up. Cases have come to notice, where the Company was put to loss consequent on under-insurance and non-insurance of stocks by Government and failure on the part of the Company to cover the stock adequately after they had taken delivery. In three such cases noticed in audit pertaining to the period April 1974 to March 1976, the Company was put to loss of Rs. 4·38 lakhs.

4.6.9. *Bidi factory, Angul*

With a view to providing employment to people of the area and to facilitate disposal of *kendu* leaves by the Company, a *bidi* factory was set up at Angul, which started functioning from May 1977.

Only one out of ten units of the factory was organised in which production started in May 1977. Up to June 1978, the unit manufatured 129·03 lakh *bidis*, giving an average of 9·22 lakhs against 25 lakhs per month

envisaged in the scheme report prepared in connection with establishment of the factory. The unit employed 28 to 70 workers in different months against 100 as envisaged. The Company incurred a total expenditure of Rs. 1·87 lakhs up to June 1978. A quantity of 25·36 lakh *bidis* were sold at Rs. 0.24 lakh, against which the cost of production worked out to Rs. 0·37 lakh. The stock of *bidis* lying unsold as on 30th June 1978 was 103·67 lakhs (value : Rs. 1·50 lakhs). Since *bidi* will become brittle with passage of time, thereby losing its quality, the stocks are likely to result in total loss.

4.7. Collection and trading in sal seeds

Sal trees abound in the forests of Orissa. They blossom in the middle of April and the seeds fall in May and June when they are collected. '*Sal* fat', is used in soap making and as a substitute to vegetable oil. The Forest department leases out the right of collection of *Sal* seeds on payment of royalty.

The following table gives details of *Sal* seeds collected by the Company directly, seeds sold and the balance for four years from 1974 to 1977 :

Crop year		Numberof divisions taken on lease	Seeds collected	Seeds sold	Balance
			(In	tonnes)	
1974	..	12*	70	70	..
1975	..	5	6,282	6,039	243
1976	..	2	3,717	3,505	212
1977	..	10	23,681	23,681	..

* The Company directly collected seeds in one division only, the others having been sub-leased.

In this connection the following points were noticed (April—October 1978) in audit.:

(*i*) The balances of 243 tonnes and 212 tonnes against 1975 and 1976 crops were shortages, which have not been investigated (May 1979). Computed with reference to the sale price realised (Rs. 6,67 and Rs. 1,200 per tonne respectively) during the years 1975 and 1976, the value of the shortages worked out to Rs. 4·16 lakhs.

(*ii*) In the crop year 1977, the Nowrangpur division had collected 16,600 tonnes of seeds which constituted 70 *per cent* of the total collection of the Company for the year. An analysis of the transactions, made in Audit (April 1978), revealed the following points :

(*a*) In terms of the agreement entered into with 'H' in October 1977 for sale of seeds, the moisture content and refraction content of the seeds should not exceed 10 *per cent* and 4 *per cent* respectively. In case the analysis shows higher percentage in this regard, rebate calculated *pro rata* is payable to 'H'. As the refraction percentage was higher (up to 17·5 *per cent*) than the prescribed percentage (4 *per cent*)in respect of 1,492 tonnes, a rebate of Rs. 0·40 lakh had to be given;

(*b*) There was shortage of 83 tonnes (value : Rs. 0·66 lakh) during transit by railway, which has not been pursued; (March 1979)

(*c*) in connection with the supply of seeds to 'H' the Company purchased during January to April 1978, 56,507 second hand gunny bags at Rs. 1·41 lakhs. 5,660 bags (value : Rs. 0·14 lakh) received were found to be torn and damaged. No action was taken against the supplier.

The internal audit wing of the Company pointed out (February / March 1978) the following irregularities in connection with the transactions in two subdivisions of the division (Nowrangpur and Debugaon) :

(*i*) 19·27 tonnes (value : Rs. 0·60 lakh) of seeds were not accounted.

(*ii*) 'A' in-charge of Dongra collection centre misappropriated Rs. 0·23 lakh.

(*iii*) Amounts were advanced to field staff without insisting on rendering of complete accounts for advances drawn earlier.

(*iv*) Petrol purchased was not accounted for.

(*v*) Collection centres were opened without approval of competent authority / late in the season.

(*vi*) Excess collection of seeds of 3·40 tonnes was noticed in one sub-division (Nowrangpur).

(*vii*) Expenditure exceeded cash balances held.

The internal audit reports were under consideration of Management (May 1979).

4.8. Budgets and internal audit

4.8.1. *Preparation of budgets*

The preparation of annual budgets and watching the expenditure thereagainst was not in vouge prior to 1975-76. The Company started preparing budgets from 1975-76. In the absence of the initial accounts like ledgers and journal and final accounts whose compilation has been in arrears, the Company consolidates the figures called for and received from the field units for preparation of budgets. No attempt is made to analyse the actuals and investigate the variations with reference to budgets for the reason that the final figures of actuals are not available.

4.8.2. *Internal audit*

The internal audit cell has been functioning since May 1970, under the charge of an Audit Officer who reports to the Financial Advisor. The internal audit of all the timber and *kendu* leaf divisions and headquarters were completed only up to March 1975. The audit of *sal* seed transactions for the 1977 season was also completed. The progress of internal audit of the divisions for the subsequent years is as under :

Timber divisions	..	Audit completed for all divisions except in case of Jharsuguda and Nowrangpur where it is in arrears since 1975-76.	
Kendu leaf divisions	..	Audit in arears since 1976-77.	
Sales centres	..	Madras, Tirunelvely	In progress (April 1979).
		Calcutta, Aurangabad	Audit in arrears since inception.

Important points are brought to the notice of the Managing Director/Chairman. There is no procedure by which important findings of internal audit are brought to the notice of the Board of Directors.

4.9. Other points of interest

4.9.1. *Vouchers withheld*

A test check made during 1977-78 in four divisions of the Company revealed that vouchers amounting to Rs. 1·00 lakh remained unadjusted as on 31st March 1978, as detailed below :

Name of the Division		Amount (Rupees in lakhs)	Period to which the amounts relate
Kesinga Division (Now defunct)	..	0·08	1972-73
Rourkela	..	0·67	1967-68 to 1975-76
Sambalpur	..	0·15	1975-76
Jeypore	..	0·10	1972-73 to 1973-75
Total	..	1·00	

The matter is not being pursued by the Company with the concerned sub-divisional officers (March 1979). Reasons for this are not available on record.

4.9.2. *Misappropriation of cash*

(*i*) A senior accountant of a division who was handling cash in the absence of a regular cashier entered in the cash book payment of Rs.6,227·50 to a customer in February 1975 as Rs. 16,227·50 and this was detected (8th July 1976) by the Divisional Manager while checking the cash book and other connected records. He reported (July 1976) the matter to the Police who expressed (5th August 1976) their inability to take up the case on the ground that there was no concurrance from the District Magistrate and the report of the internal auditors was not available. The internal audit party which conducted a detailed audit during December 1976 to March 1977 reported, *inter alia*, that the said officer, while in-charge of cash (from April 1973) misappropriated Rs. 10,044·25 (Rs. 10,000 in February 1975 and Rs. 44·25 during April 1975). According to them, physical verification of cash had never been done by the Divisional Manager and the duplicate

keys of the cash chest were allowed to be kept with the officer handling cash. It was also pointed out that no security for handling cash was obtained from him. He was under suspension since February 1976.

A copy of the report of the internal auditors was sent to the Police (Vigilance) in May 1977 and the case is still under Police investigation (March 1979).

(*ii*) While reconciling the bank balance as per the cash book and the bank pass book, the Bhubaneswar Division detected (July 1976) misappropriation of Rs. 19,400 in the Bhubaneswar Sales Depot during March 1975 to November 1975. Against amounts indicated in the cash book as remitted to the bank, lesser amounts were actually remitted on five occasions by changing the figures in the pay-in slips. The matter was reported to the Police on 15th July 1976 and the official concerned was placed under suspension. Further developments were awaited (May 1979). The cases were detected late due to delay(s) in reconciling bank balances with those in cash book.

(*iii*) Thirteen other cases of misappropriation of money by falsification of vouchers, etc., during the period 1972-73 to 1975-76 involving an aggregate amount of Rs. 4·98 lakhs were reported to the Company's head office by different Divisional Officers/internal audit from time to time. In one case misappropriation of Rs. 3·30 lakhs by falsification of vouchers came to notice in November 1972 ; no enquiry was made as the delinquent official had left India (1973). The other cases were in different stages of investigation/finalisation (January 1979).

4.9.3. *Inter-divisional transfer*

During 1970-71 to 1973-74 the Kesinga Division despatched 221·58 cubic metres (cost : Rs. 0·94 lakh) of teak wood, in the form of logs, to the Sales Division, Cuttack for the purpose of manufacture of furniture for sale to public. In April 1975, the Sales Division complained to Kesinga Division that all the logs received were either hollow, burnt or defective and the outturn on conversion was only 20 *per cent* of the quantity sent. The Divisional Manager, Cuttack, therefore, paid only Rs. 0·45 lakh (during

December 1971 to September 1973) for 44·32 cubic metres of sawn sizes. Although the Management contemplated (September 1976) to investigate the matter, no action has been taken in this regard (March 1979).

Summing up

The main features regarding the working of the Company, as brought out in the preceding paragraphs, are summed up below :

The Company has been primarily engaged in timber operations, trading in *kendu* leaves and collection and trading in *sal* seeds. Audited accounts are available only up to 1972-73. The final working results in respect of subsequent periods are not available. The accounts at the head office of the Company had been in arrears. Although budgets are drawn up, variations are not investigated. The Company has been losing and the cumulative loss up to October 1973 was Rs. 86·99 lakhs against the paid-up capital of Rs. 93·00 lakhs.

About 25 *per cent* of the total forest area is worked by the Company which contributes about 17 *per cent* of the total royalty on account of timber to the state. The timber operation is the main activity of the Company but due to its inability to work the coupes taken on lease fully in a year and to transport the timber felled in the forest fully at the end of the season, the working results in timber had not been favourable. There was also no system to ascertain cost and monitor it to the various executing authorities working in the field, with the result that wide variations were noticed in costs of operation. No norms or ceilings were fixed for various elements of cost involved in forest operations. Shortages noticed in physical verification remain without investigation. Costs of sales in several divisions were more than average sale price realised.

Trading in *kendu* leaves has been the primary source of surplus to the Company. The Company, however, could not get the quantities as stipulated in the agreements for sale with consequent repurcussions on turnover. Stocks also accumulated at the end of each year, with the result that disposals at a later stage yielded lesser revenue.

In 1974, the Company had taken up collection and trading in *Sal* seeds. Although initially, the working result was encouraging, the Company lost in 1977.

The para was referred to Government in January 1979 ; they replied (April 1979) as follows :

> "As regards comments by Governmnt on the Draft Review it may be mentioned that the Orissa Forest Corporation is an autonomous body managed by a Board of Directors. As such, Government are not directly associated with the day-to-day affairs of the Corporation and therefore, refrain from offering comments on the individual irregularities pointed out in the draft review. The observations of the audit in regard to important lapses and involving management policy is, however, taken note of and the Corporation is being advised to avoid the omissions and commissions as pointed out in the Draft Review in future".

SECTION V

INDUSTRIAL PROMOTION AND INVESTMENT CORPORATION OF ORISSA LIMITED

5.1. Introduction

For rapid industrialisation of the State by providing financial and technical assistance to entrepreneurs, Industrial Promotion and Investment Corporation of Orissa Limited was incorporated as a wholly-owned Government Company in April 1973. The other objects, according to the Memorandum of Association of the Company, are to carry on the business of an investment Company for providing finance to industrial enterprises in the State, to undertake or assist investigation of problems concerning any industry in particular or concerning industrialisation in general and to prepare or cause to be prepared project and other reports useful to such entreprises.

In pursuance of these objectives the Company has undertaken the following activities:—

(*i*) feasibility studies to identify profitable projects,

(*ii*) preparation of project reports to offer them to prospective entrepreneurs for implementation,

(*iii*) participation in the equity capital of the companies and grant term loans,

(*iv*) technical assistance to entrepreneurs in the project implementation,

(*v*) development of infrastructure facilities for industries in potential growth centres and

(*vi*) setting up joint sector projects.

In August 1974, Government directed the Company that it should confine itself to developing medium and large scale industries ; the small scale industries should be provided only with technical guidance including preparation of feasibility reports.

The overall management of the Company is vested in a Board of Directors. As on 31st March 1978, the Board consisted of ten directors ; nine of the Directors were nominees of the State Government and one of

Industrial Development Bank of India (IDBI). Out of the directors nominated by Government, one is appointed as full time Chairman and another as Managing Director to attend to day to day management. The financial matters are attended to by the Secretary.

5.2. Capital structure

The authorised capital of the Company is Rs. 5,00 lakhs divided into 5 lakh equity shares of Rs. 100 each ; the paid-up capital as on 31st March 1978 was Rs. 2,33·62 lakhs.

In August 1976, the Company made arrangements with IDBI for refinancing loans. The Company sanctions term loans to the industrial concerns and disburses the money in the first instance and applies in turn to IDBI for refinance. IDBI in its turn reimburses the amount to the Company subject to the norms fixed by them and the usual terms and conditions regulating the number of instalments of repayment, rate of interest, *etc*. The total amount of refinance loans availed of from IDBI during 1977-78 was Rs. 14·11 lakhs. These loans are repayable in instalments over a period of 8 to 10 years and carry interest at 6 *per cent per annum* for backward areas and 9 *per cent per annum* for others. As on 31st March 1978, Rs. 4·89 lakhs disbursed by the Company under these arragements were awaiting reimbursement from IDBI.

5.3. Financial position

The financial position of the Company for the three years up to 1977-78 is shown below:—

		1975-76	1976-77	1977-78
		(Rupees in lakhs)		
Liabilities				
(*a*) Paid -up capital	..	1,10·50	1,54·37	2,33·62
(*b*) Reserves and surplus	..	2·83	4·74	5·14
(*c*) Borrowings	..	..	..	14·11
(*d*) Current liabilities and provisions	..	14·19	13·07	20·10
Total	..	1,27·52	1,72·18	2,72·97

	1975-76	1976-77	1977-78
	(Rupees in lakhs)		
Assets			
(*e*) Fixed assets ..	3·29	4·24	4·38
(*f*) Less : depreciation ..	0·49	0·94	1·35
(*g*) Net fixed assets ..	2·80	3·30	3·03
(*h*) Investment in shares of companies	2·99	8·12	26·99
(*i*) Loans to industries ..	10·85	41·84	94·96
(*j*) Cash and bank balance including short-term deposits	1,05·97	1,05·02	1,09·40
(*k*) Other current assets ..	3·00	13·15	37·92
(*l*) Miscellaneous expenses ..	1·91	0·75	0·67
Total ..	1,27·52	1,72·18	2,72·97
Capital employed ..	76·00	1,36·22	2,05·99
Net worth ..	1,11·42	1,58·36	2,38·09

Note : 1. Capital employed represents the mean of the opening and closing balances of paid-up capital, reserves and surplus and borrowings.

2. Net worth represents the paid-up capital, reserves and surplus *minus* intangible assets.

5.4. Working results

The working results of the Company for the three years up to 1977-78 are summarised below :—

	1975-76	1976-77	1977-78
	(Rupees in lakhs)		
Income			
Interest on loans and advances and short-term deposits	10·03	12·71	15·53
Other receipts ..	0·51	0·79	1·58
Total ..	10·54	13·50	17·11

	1975-76	1976-77	1977-78
	(Rupees in lakhs)		
Expenditure			
Administration and other expenditure	7·73	10·24	14·45
Depreciation ..	0·28	0·44	0·41
Total ..	8·01	10·68	14·86
(*a*) Profit before tax ..	2·53	2·82	2·25
(*b*) Provision for tax ..	..	0·60	0·97
(*c*) Profit after tax ..	2·53	2·22	1·28

The Company had a cumulative net profit of Rs. 3·99 lakhs as on 31st March 1978. It had incurred loss of Rs. 3·61 lakhs in the first two years of its working which was cleared in the subsequent years. The main source of income for the Company during the four years was from interest on investments and short-term deposits of which the latter amounted to Rs. 27·91 lakhs.

5.5. Procedure for rendering financial assistance

5.5.1. The Company follows the following procedure for processing the applications received from industrial entrepreneurs for financial assistance :

The entrepreneurs requiring financial assistance either in the form of participation in equity share capital or as a term loan are to submit applications giving details about the installed capacity and estimated cost of the project, location and availability of the infrastructure facilities, marketability of the products, the existing financial arrangements, etc. The Company makes technical and financial appraisals to ascertain the feasibility of the project and also ascertains the background of the entrepreneur. Sanction for financial assistance is accorded after satisfying iteself about the viability of the project. Disbursement of the finance sanctioned is made after entering into an agreement with the entrepreneurs. Till 1976, share capital contributions were disbursed on the basis of the matching contributions agreed to be made by the entrepreneurs ; thereafter, it is being made only after the entrepreneurs have actually brought in their contributions. In cases where financial assistance is rendered in the form of term loan, security of fixed assets is insisted upon.

As a measure of follow-up action, the entrepreneurs in terms of the agreement are required to furnish half yearly reports indicating progress of construction, achievement of production and copies of annual accounts. The Company reserves the right to nominate persons on the Board of Directors of the concern to which assistance is rendered and inspect their plant and accounts periodically.

5.5.2. *Financial assistance to Industries*—Although the Company commenced business in July 1973, the first case of financial assistance was processed in September 1974, reportedly due to lack of applications. During the period from September 1974 to March 1978, the Company received 42 applications for participation in share capital and loan assistance for amounts totalling Rs. 2,84·04 lakhs, all of which were sanctioned. In eight cases, sanctions were given for reduced amounts. The total amount of share capital and loan sanctioned was Rs. 2,76·60 lakhs. The following are the yearwise details :—

Year	Applications received		Applications sanctioned				Amount disbursed		
	Number	Amount	Number	Share capital	Loan	Total	Share capital	Loan	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	(Rupees in lakhs)			(Rupees in lakhs)					
1974-75	6	13·72	5	2·22	5·85	8·07	..	3·00	3·00
1975-76	9	29·50	9	17·00	13·50	30·50	2·99	6·85	9·84
1976-77	13	94·71	10	9·13	34·39	43·52	4·83	3·34	8·17
1977-78	14	1,46·11	18	25·70	1,68·81	1,94·51	3·87	25·24	29·11
Total	42	2,84·04	42	54·05	2,22·55	2,76·60	11·69	38·43	50·12

5.5.3. *Participation in share capital*—Till 31st March 1978, the Company subscribed to the share capital in 23 companies for Rs.54·05 lakhs, in three cases Rs. 2·52 lakhs were disbursed towards full subscription and in 8 cases Rs. 9·17 lakhs were disbursed towards part of the share money.

The amounts (Rs. 33·06 lakhs) have not been disbursed for reasons like the promoters not having brought in their own contributions fully and some companies under construction not availing of the funds in full.

In the case of three companies, sanction (amount : Rs. 9·30 lakhs) for subscriptions were withdrawn and sanctions were given for revised amounts.

Rupees 23·20 lakhs due for full disbursement in nine cases and Rs. 9·86 lakhs due for partial disbursement in eight cases as on 31st March 1978 have not been disbursed (February 1979).

The following points were also noticed :—

(*a*) Share certificates from the Companies (total share subscription: Rs.3·79 lakhs) have not been received (December 1978) even though full share value was paid between April 1976 and January 1978.

(*b*) Out of eleven Companies to which the Company had disbursed share subscription either full or partly, seven were under various stages of construction (December 1978) and the other four had gone into production; one in 1973, two in 1975 and one in 1978. Two out of these four Companies had already started production by the time the Company participated in their share capital. Out of these, one incurred loss of Rs.11·87 lakhs and another Rs.13·67 lakhs since the date (*s*) when the Company invested in the share capital till 31st October 1977 and 31st July 1977 respectively, being the year (*s*) up to which accounts are available. None of the four Companies which had gone into production had declared dividends (April 1979).

5.5.4. *Loan assistance*—Between April 1974 and March 1978, the Company sanctioned Rs.2,22·55 lakhs as term loans to 33 institutions of which sanctions in two cases (amount : Rs.7·80 lakhs) were cancelled subsequently, leaving 31 cases (amount: Rs.2,14·75 lakhs). The loans carrying interest ranging between 14 and 14·5 *per cent per annum*; and are repayable in 16 to 18 half-yearly instalments.

Loans amounting to Rs.38·43 lakhs were disbursed in 11 cases; fully in seven cases (Rs.19·76 lakhs) and partly in four cases (Rs.18·67 lakhs). In 20 cases (amount: Rs.1,76·32 lakhs), disbursements had not been made (March 1978) as the loanees did not commence construction.

5. 5. 5. *Recovery of principal and interest*—Out of Rs.38·43 lakhs disbursed up to 31st March 1978, recovery of principal (Rs.4·95 lakhs) and interest (Rs.4·52 lakhs) had fallen due; details of the amounts due, amount recovered and balance are given below:—

Year of disbursement of loan	Amount due up to 31st March 1978		Amount recovered up to 31st March1978		Balance as on 31st March 1978	
	Principal	Interest	Principal	Interest	Principal	Interest
			(Rupees in lakhs)			
1975-76 ..	Nil	0·51 (2)	Nil	0·51 (2)	Nil	Nil
1976-77 ..	3·35 (2)	1·30 (7)	0·75* (1)	1·20** (7)	2·60 (2)	0·10 (1)
1977-78 ..	1·60 (2)	2·71 (8)	2·35 (2)	1·61*** (7)	1·85 (1)	1·20 (5)

(Figures in brackets indicate number of loanees)

In this connection, the following points were noticed:—

(*a*) 'M' a soft drink manufacturing company at Rourkela, which went into production in April 1973, approached the Company for a loan of Rs. 1·85 lahkhs towards working capital assistance for the year 1975. While sanctioning the loan in February 1975, it was anticipated by the Company that there was adequate market potential for the loanee's product in the various districts in the State as also in the neighbouring industrial areas including Jamshedpur. It was also anticipated in the feasibility study made (February 1975) by the Company before sanctioning the loan that the loanee would start earning profits from 1975

*One party paid part amount

**One party paid part amount

***Three parties paid part amount

onwards. The loan amount was disbursed in July 1975 with the condition that the amount should be kept in fixed deposit with a bank to serve as lien against advance to be made by the bank to the loanee towards working capital. The amount was repayable in July 1976. This was not repaid on the due date and the Company also did not pursue the matter. In November 1975, the Company had also invested Rs.1 lakh in the loanee company towards equity. In June 1978, on a representation from the loanee about its difficult financial position, the Company converted the amount of working capital asssistance (Rs.1·85 lakhs) together with interest accrued up to 30th June 1978 (Rs.0·49 lakh) into a term loan repayable in eighteen half-yearly instalments beginning from 31st December 1979.

Though it was expected that the sale of the product of the loanee company would pick up and the loanee would make profit from 1975 onwards, the actual sales during 1975 to 1977 were only between 14 and 25 *per cent* of the sales projected (by the loanee in the application) at the time of sanction of loan; the accumulated loss up to the year ended 31st October 1977 was Rs.20·51 lakhs against the paid-up capital of Rs.14·26 lakhs. While reviewing the case of the loanee in June 1978, the Company concluded that the loanee's product could not meet the competition from the other bottling company functioning in the neighbouring areas which included one at Jamshedpur. The circumstances under which this aspect could not be foreseen while sanctioning the loan and participation in the equity capital are not on record.

(*b*) A term loan of Rs.1·80 lakhs was sanctioned (June 1976) to a Company engaged in motor cycle assembling at Dhenkanal, repayable in 16 half-yearly instalments commencing from December 1978. The rate of interest was 14 *per cent per annum* payable every half year. The loan was disbursed in two instalments, Rs.0·52 lakh in December 1976 and Rs.1·12 lakhs in February 1977. The balance amount of Rs.0·16 lakh has not been disbursed (February 1979). There is no mention in the loan agreement about the target dates for completion and commencement of production. According to the schedule given by the loanee for the implementation of the project, production should have commenced by January 1977. On the ground that the loanee had not completed construction and commenced production, the interest of Rs.0·30 lakh accrued and due as on 30th June 1978 but not paid, was converted (June 1978) into a term loan and made payable along with the loan.

(c) Firm 'Z' was formed to produce carbon electrode paste in a project to be established at Khandagiri (near Bhubaneswar). The firm approached the Company for financial assistance. According to agreement entered into in August 1976, the Company agreed to provide assistance of Rs.1·90 lakhs in the form of share capital and Rs.2·50 lakhs in the shape of loan. The Company paid (August 1976) Rs.0·95 lakh towards share capital and Rs.1·89 lakhs as loan up to December 1977. The loan is repayable within a period of five years in five equal half-yearly instalments, the first instalment being payable two -and -a -half years after the registration of loan agreement. According to the time schedule indicated by the loanee, the project should have gone into production within six months from the date of acquisition of land (*i. e.*) by December 1976, land having been acquired by June 1976. In terms of the agreement, half-yearly progress reports are to be furnished by the firm about progress on the project to the Company, besides the annual accounts. The firm has not gone into production; half-yearly progress reports are not being furnished. Annual accounts for period beyond 30th June 1976 have also not been furnished. The firm also did not repay the first instalment of loan due in February 1979 and also did not pay the interest (March 1979).

5. 5. 6. *Providing bridge finance*

'U' is an engineering firm at Talcher dealing with the manufacture of ferrous, non-ferrous and alloy castings, with an installed capacity of 2,000 tonnes *per annum*. On the basis of an estimate made by 'U' in 1972-73 in the project report that it would produce and market castings of

2,000 tonnes *per annum*, the Company invested Rs1·00 lakh in the share capital of 'U', during June 1975/September 1976. In September 1976, 'U' reported that it received and executed only small orders, which did not even enable it to meet the expenses on salaries and wages. It further represented that it had procured orders for manufacture of castings valued at Rs.10·15 lakhs from some major consumers. To enable 'U' to meet the working expenses connected with execution of these orders, a short-term loan of Rs.1·50 lakhs, repayable within four months and bearing interest at 14 *per cent per annum*, was paid in November 1976, against bank guarantee. It was anticipated by the Company that execution of the orders purported to have been received by 'U' would enable it to repay the loan in four months.

The loanee defaulted in repaying the loan and paying the interest on the due dates; it repaid up to March 1977 only Rs. 0·31 lakh towards principal and Rs.0·06 lakh towards interest. In March 1977, the date of repayment was extended till 10th July 1977 on the ground that the loanee could not get alternative finance and it did not attain the level of production as estimated. The loanee reported in July 1977 that owing to lack of machinery, orders valued at Rs.3·94 lakhs only could be executed during November 1976 and May 1977. On 11th July 1977, the Company sanctioned a further loan of Rs.3·91 lakhs to the loanee towards working capital repayable in eight equal half-yearly instalments commencing from 31st December 1978 in view of the investment already made in the project, its stage of progress, potentialities and the promotional role that the Company was expected to play. The loan was secured by charge against assets, besides personal guarantee by a solvent guarantor. The amount was disbursed in August 1977. Recovery of the balance amount of loan (Rs.1·19 lakhs) sanctioned in November 1976 and interest thereon was further postponed. Rupees 0·85 lakh were recoverable as interest from the loanee firm up to June 1978 on the two loans (April 1979). Up to 31st July 1977, accumulated loss incurred by the loanee was Rs.20·32 lakhs against capital and reserves amounting to Rs.11·29 lakhs.

5.6. **Promotion of projects in the joint sector**

The Company had (September 1978) 21 letters of intent issued by the Government of India for implementation of projects in the joint sector; nine were obtained by the Industrial Development Corporation of Orissa Limited between February 1969 and February 1974 and transferred to the Company for implementation, 11 were obtained by the Company between November 1975 and December 1977 and one was taken from a private party in April 1974. Five out of the 21 projects, on which Rs.0·51 lakh were spent on preliminary work were not pursued. Reasons for not pursuing the projects are awaited (May 1978). The progress on the remaining 16 projects up to September 1978 is indicated in Appendix III. The position is summarised below:—

	Number of projects	Date of issue of letters of intent	Estimated cost of the projects	Expenditure incurred by the Company up to March 1978
			(Rupees in lakhs)	
Projects for which financial collaboration has been tied up and separate companies formed for implementation	5	Between December 1970 to November 1975	47,52	18·02
Projects for which financial collaboration has not been finalised	10	Between February 1969 and December 1977	55,92	10·98
Projects for which financial collaboration has been tied up but no separate company has been formed for implementation	11	September 1970	23,60	3·81

None of the five companies formed have started construction. They are still in preliminary stages of arranging finance, acquisition of

schedule for the completion of two of these projects. The progress made by each of them is indicated below :—

Project	Progress
Project for manufacture of automobile tyres and tubes at Bhubaneswar	Rupees 15·00 lakhs were contributed (November 1974) by the Company and the collaborator towards share capital. 92·04 acres of land were acquired from the State Government at Bhubaneswar in February 1975 and godown and fencing were constructed (June 1978) at a cost of Rs.2·92 lakhs. In June 1978, the leading financial Institution (IDBI) advised, that in view of the lack of demand for the product, implementation of the project might be deferred to 1980. Revised project is estimated (December 1977) to cost Rs.33,59 lakhs against the initial estimate of Rs.26,00 lakhs.
	Rupees 16·92 lakhs were spent up to March 1978 on establishment, assests and other charges.
Refractory project	Registered in September 1977, the project (estimated cost : Rs.700 lakhs) in collaboration with a private company is to come up at Dhenkanal. Land acquisition is in progress (September 1978). The Company spent Rs. 0.80 lakh till March 1978.
Tool room and engineering project	This is a joint venture of the Company, Orissa Small Industries Corporation Limited (a Government of Orissa Company) and a private entrepreneur, registered in March 1974 and located at Sunabeda. The project is estimated to

Project	Progress
	cost Rs. 100 lakhs. It went into partial production in August 1978. Company spent Rs. 0·81 lakhs on the project till March 1978.
Project for the manufacture of electrolytic manganese dioxide	A company at Bhubaneswar in collaboration with a private entrepreneur was incorporated in January 1978 (estimated cost of the Project at Rairangpur : Rs. 350 lakhs). Both parties contributed (January/March 1978) Rs.2 lakhs each towards share capital. The Company spent Rs. 0·46 lakh during 1976-77. The project report is under preparation (September 1978).
Fatty acid complex project	This is promoted in the place of a synthetic detergent project, letter of intent in respect of which lapsed in April 1975. The collaboration is with a private entrepreneur (estimated cost : Rs.2,43 lakhs). The Company contributed (March 1977) Rs. 0·20 lakh in the share capital of the new company.

5.7. Development of infrastructure

With a view to attracting entrepreneurs to set up industries, Government transferred between September 1976 and July 1977, 45·89 acres of land to the Company in Cuttack and Dhenkanal districts. Infrastructure facilities like water-supply, electricity, sewerage, road communications and affluent discharge were to be provided by the Company in the land. A separate branch to deal with the connected matter was formed in the Company from June 1976.

Up to March 1978, the Company had also received Rs. 14·17 lakhs from Government; Rs. 10·50 lakhs in November 1975 for developing about 86 acres of la nd in Bhubaneswar area, Rs. 3·67 lakhs towards share capital

contribution. Out of Rs. 3·67 lakhs, Rs. 1·00 lakh was for erecting an electrical sub-station at Rairangpur. The balance was for use as margin money for obtaining financial assistance from IDBI for developing land in Dhenkanal area. The money could not be used and no development work was carried out (May 1979) for the following reasons:—

(*i*) At Bhubaneswar, the money received for development work was found to be inadequate as the cost of the project was estimated at Rs.66·72 lakhs against which only Rs.10·50 lakhs were received; and (*ii*) at Dhenkanal the Company anticipated matching assistance from IDBI for developing land and providing infrastructural facilities which it was not able to secure, as IDBI indicated that it would not assist schemes that did not envisage construction of sheds for factories. Rs. 2·44 lakhs (provisional) were spent by the Company up to March 1978 on salaries and allowance of staff connected with this work. Rupees 1·32 lakhs were spent in purchase of vehicles and other assets for this branch.

5.8. Incentive scheme for preparation of feasibility reports

According to its Industrial Policy (1971) the State Government was to contribute up to 50 *per cent* of the cost of preparation of feasibility report or project report prepared in connection with the establishment of new industries in the State. In October 1974, Government decided that this scheme, which was hitherto operated by the Director of Industries, would be operated through the Company.

Under the scheme, an entrepreneur desirous of availing asssistance is to approach the Company with details of the proposal. The Company, on being satisfied about *prima facie* viability of the proposed project is required to get a feasiblity report prepared by a reputed consultant. It is to realise 50 *per cent* of the cost of the report from the entrepreneur and 50 *per cent* from Government. The feasibility report becomes the property of the Company in the event of non-implementation of the project by the entrepreneur. If the project is implemented, the share of the cost of the report borne by Government would be treated as the contribution of the Company to the equity capital of the newly formed company for implementation of the project; in case the organisation so formed is not a company Government's share of cost of the report would be treated as loan by the company.

The Company operated the scheme from 1974-75 onwards. Up to March 1978, 15 feasibility reports, at a total cost of Rs.4·08 lakhs, were got prepared (13 for private entrepreneurs, one for Orissa Agro Industries Corporation Limited, a Government company, and one for a co-operative society). Of these, eight (including the one prepared for the Government Company) were not taken up for implementation by the concerned entrepreneurs for reasons, like lack of inerest on its part after the preparation of the reports, lack of assured supply of raw materials, etc.. Rupees 2·58 lakhs were spent on preparing the reports, of which Rs. 1·29 lakhs were paid by Government.

In this connection, it was noticed that out of seven reports taken up for implementation, companies were formed in the case of five and one is a co-operative society. Fifty *per cent* of the cost of these six reports (Rs.62,500) borne by Government has not (December 1978) been treated as share capital contribution/loan by the Company to the newly formed units as envisaged in the scheme. As a result, no dividend/interest could be earned (May 1979).

5.9. Other services

Besides the services rendered to the industries mentioned in the above sub-paragraphs, scheme for package consultancy services to small industrialists was taken up from January 1974. 174 project profiles were prepared till March 1978. Under another scheme, the Management Consultancy Programme was launched in December 1975, and it serviced 24 industries till March 1978 and prepared seven feasibility reports.

Summing up

The Industrial Promotion and Investment Corporation of Orissa Limited was incorporated to industrialise the State rapidly by providing financial and technical assistance and to develop infrastructure

in identified areas to attract entrepreneurs. Since its inception in April 1973, the Company subscribed to the share capital of 23 companies, gave loan assistance to 31 institutions and provided bridge finance. It formed five companies in the joint sector to start different industries, which are yet to go on stream (April 1979). Eleven industries proposed to be started in joint sector are in different stages of processing. The projects range from refractories, sponge iron, caustic soda to tool room and electrolytic manganese dioxide.

The Company made a start for developing infrastructure facilities in the districts of Cuttack and Dhenkanal in September 1976, but not much progress could be made so far.

From October 1974, the Company had taken up the scheme for preparation of feasibility reports for entrepreneurs desirous of starting industries and prepared 15 reports till March 1978; eight of them were not taken up for implementation by the entrepreneurs.

SECTION VI

ORISSA SMALL INDUSTRIES CORPORATION LIMITED

6.1. Loan to a private firm

The Company paid on the 28th April 1975 a short-term loan of Rs. 1·50 lakhs to a private firm, for a period of six months against hypothecation of 1,500 bags of soda ash imported (value : Rs. 1·75 lakhs) and kept in the godown of the loanee. The loan carried interest at 14·5 *per cent per annum* and penal interest of 25 *per cent per annum* was leviable in case of default in repayment of principal and payment of interest on the due date (27th October 1975). The firm paid Rs. 0·20 lakh in June 1976, which was adjusted by the Company towards interest. The balance amount of interest and the amount of loan was not paid even though the firm was given extension of time till December 1977. Rupees 2·46 lakhs were outstanding ; Rs. 1·50 lakhs towards principal and Rs.0·96 lakh towards interest (May 1978). In terms of the loan agreement the Company was at liberty to have the goods inspected and valued at any time by the Company's officers or appraisers appointed for the purpose. The first inspection was conducted in December 1975, and according to the Management, stocks were in order. The second inspection was conducted in February 1977 and the Management stated that only approximate calculation was done this time as the exact number of bags could not be counted. Inspection of stocks of soda ash by the officers of the Company in March 1977 revealed that against 1,500 bags hypothecated, only 600 bags (value : Rs. 0·75 lakh) were lying in stock. According to the terms and conditions of loan agreement, the firm, when it needs for utilisation any quantity of soda ash hypothecated against the loan, was to intimate the requirement to the Company and obtain a written release order of the quantity from its godown before utilising it. The Management stated (April 1978) that "the firm appears to have utilised some quantity of soda ash without permission of O. S. I. C. and thereby violated the terms and conditions of the agreement".

Government stated in September 1978, that "the O. S. I. C. has not realised its loan and interest from the firm. It has recently issued legal

notice under Section 434 of the Companies Act, 1956 to the firm as well as to the Managing Director of the firm".

In this connection, reference is invited to paragraph 2.4.1 of the Report of the Comptroller and Auditor General of India for 1976-77 (Commercial) in which case the same firm defaulted in paying the dues of another Government Company and a civil suit for recovery of Rs. 1·02 lakhs was filed in January 1978.

6.2. Investment in short-term deposits

The Company has been drawing funds from the State Government, for financing various schemes, in the shape of equity capital and loans. The amounts found surplus after meeting the requirements are invested in short-term deposits. A review of the investments made by the Company in short-term deposits between March 1974 and August 1977, revealed the following :—

(*i*) Investment of Rs. 18 lakhs, initially for a period of 12 months from 7th March 1974(interest : 6 *per cent per annum*), was renewed for periods ranging from 45 days to 12 months on eight occasions up to 24th February 1978, interest on which ranged from $3\frac{1}{2}$ to 8 *per cent per annum.*

(*ii*) Investment of Rs. 8 lakhs , initially for 12 months from 19th December 1974 (interest : 8 *per cent per annum*), was renewed on four occasions up to December 1976, for three months each time at interest of $5\frac{1}{2}$ *per cent per annum.*

(*iii*) Investment of Rs. 10 lakhs, initially for 46 days from 22nd April 1976 (interest $3\frac{1}{2}$ *per cent per annum*), was renewed, Rs. 5 lakhs on two occasions up to 31st March 1977 for 91 days each time and Rs. 5 lakhs on four occasions up to 27th August 1977, for periods ranging from 45 days to 6 months, interest on renewed investment ranged from $3\frac{1}{2}$ to 6 *per cent per annum.*

Had the Company invested the funds in term-deoposits for longer periods, four years in case of item (*i*) and for over one year to two years in case of items (*ii*) and (*iii*) an additional interest of Rs. 2·75 lakhs (at higher rates of 8 to 9 *per cent*) would have been earned.

The Management stated (June 1978) that the funds continued to remain surplus due to external factors such as lack of adequate demand for industrial sheds and lack of matching finance for the entrepreneurs from banks to enable them to avail facility of seed capital loan from the Campany. Government to whom the matter was referred in March 1978, endorsed (August 1978) the views of the Company. In this connection it may be stated that even if the funds were required to meet unanticipated demands, it was always open for the Company to obtain loans against the term deposits or even encash the same prematurely. The course would have been more beneficial to the Company than investing in deposits of very short durations.

6.3. Seed Capital loan

Mention was made in paragraph 3.6. of the Report of the Comptroller and Auditor General of India for the year 1975-76 (Commercial) that the Company received loans from the State Government, totalling Rs. 50·61 lakhs up to March 1976, in connection with the scheme of assistance to educated unemployed entrepreneurs. The loans were repayable by the Company in ten or fifteen equal annual instalments commencing from the first anniversary of disbursement of the loan and carried interest of 6·25 to 6·5 *per cent per annum*. The Company was entitled to a rebate of 2 to 2·5 *per cent* for timely repayment of the loans and payment of interest. Loans amounting to Rs. 76·00 lakhs were sanctioned by the Company to the entrepreneurs (351 parties) of which Rs. 67·97 lakhs were disbursed up to December 1978.

Rupees 13·11 lakhs became due from the entrepreneurs towards interest up to 31st December 1978, but Rs. 2·05 lakhs only were received (December 1978).

The Company stated (September 1978) that "the reasons for non-payment of the dues varies from case to case. Many of the units are not doing well and as such are not in a position to make any repayment. A few of them are however capable but do not make payment of our dues. In such cases we may have to take more vigorous steps of pursuing with them".

Government to whom the matter was referred to in March 1978, endorsed (January 1979) the views of the Company.

6.4. Theft of brass ingots

The Company keeps its stock of raw materials for sale to industrial consumers in five of its depots in the State. Physical verification of the stock held at the Cuttack depot, conducted on 16th April 1976, revealed shortage of 95 pieces of brass ingots (weight : 1·167 tonnes valued at Rs. 0·25 lakh). The police, with whom a complaint of theft of ingots from the store was lodged by the store-keeper on 18th April 1976, reported in July 1976 that the complaint was false. Police, however, reopened the case at the instance of the complainant subsequently in August 1977 and reported (December 1977) that no clue could be found.

The Company had lodged (May 1976) a claim for Rs. 0·25 lakh with the insurers; the settlement of the claim was awaited (February 1979).

No security was taken from the Store-keeper. Departmental proceedings against the store-keeper were instituted in July 1976; Government stated (September 1978) that the Enquiry Officer had completed his enquiry and was yet to submit his report. Further developments are awaited (May 1979).

6.5. 'Utkalika'

'Utkalika', the sales emporium of the State Government at New Delhi for marketing handloom and handicraft articles produced in Orissa, was taken over by the Company in October 1974. The Emporium also took up marketing of television sets manufactured in one of the units of the Company and attended to it up to August 1977, when the Company made alternative arrangements for the purpose. Certain aspects concerning the Emporium were mentioned in paragraph 3.9 of the Report of the Comptroller and Auditor General of India for the year 1975-76 (Commercial).

The Company did not formulate and prescribe any procedure to be followed in the Emporium in regard to maintenance of books of account for cash and stocks, or for submission of periodical returns to the head office of the Company.

The Emporium was placed in charge of an Officer taken on deputation from the State Government from November 1974, who was designated as Manager. He continued to be in charge of the Emporium till August 1977, when he reverted to Government and another official was posted in his place.

In April 1974, the Company opened a current account with the State Bank of India, New Delhi, for the Emporium, to be opetated by its Manager. Detailed instructions as to the money limits for cash to be kept in hand, the extent to which the sale proceeds could be utilised for day to day expenses, limits for drawal of funds by the Manager from the current account for different purposes, etc., were not issued by the Company to the Manager. It was only in February 1977, the headquarters of the Company opened another current account (No. 2) with the same bank. The existing account was called account No. 1, into which all sale proceeds of the Emporium were to be credited and this account was to be operated by the head office of the Company. Funds were to be transferred periodically by the head office from account No. 1 into account No. 2 to be operated by the Manager towards the day to day requirement of the Emporium.

Audit of the records of the Emporium conducted in December 1977 and April 1978 showed the following points :

(*i*) The Manager incurred expenditure for the Emporium out of the sale proceeds of articles and also drew funds from the current account. He did not maintain a cash book or any other record indicating receipts of cash and expenditure incurred. The Company got the cash book written by the Accountant and Senior Auditor from its head office for the period October 1974 to March 1975. A Senior Auditor was deputed to the Emporium between January 1976 and April 1976 who compiled the cash book for the period April 1975 to March 1976 with the help of the vouchers, bank scrolls and cash memoranda. It was found that no details for an amount of Rs. 16,116·57 were available.

Government stated (January 1979) that the Manager, Utkalika could not maintain proper accounts during 1975-76 for want of suitable hands.

(*ii*) Funds were drawn from the bank and kept in the cash chest without reference to the anticipated expenditure. Daily cash balance

ranged from Rs. 3,000 to Rs. 44,000 during the period from June 1975 to February 1976.

(*iii*) The Manager drew advances from time to time on his personal account for purpose of salary, travelling allowance. Rupees 32,000 drawn by him during the period April 1976 to August 1977 had not been recovered/adjusted (July 1978). Government stated in January 1979 that the salary and other benefits of the ex-manager are yet to be finalised. After this is done the advance shall be adjusted. Final action in the matter is awaited (June 1979).

(*iv*) During 1975-76 and 1976-77, the Manager sold articles on credit out of which an amount of Rs. 0·46 lakh is stated (January 1979) to be outstanding against five parties. In addition, Rs. 0·07 lakh were outstanding to be recovered from two parties (July 1978), in respect of television sets sold to them. The Management stated (June 1978) that the Assistant Financial Manager of the Company was deputed to the Emoprium in August 1977 to ascertain the position regarding dues and to collect them to the extent possible. Rupees 0·04 lakh out of the amount outstanding is stated (January 1979) to have been recovered and that legal proceeding have been initiated against the defaulters.

The Management stated (August 1978) that a team of officers consisting of General Manager, Assistant Manager (Handloom and Handicraft) of the Company, and two officers belonging to a sister organisation had been sent (July 1978) to the emporium to check its transactions in the light of audit observation. It was further stated (December 1978) that their report is under the consideration of the Company.

SECTION VII

ORISSA AGRO INDUSTRIES CORPORATION LIMITED

7.1. Supply of machinery to educated unemployed

A scheme for supply of machinery to the educated unemployed, sponsored by the Government of India in March 1971, was entrusted by the State Government to the Company for implementation. Mention about the scheme was made in paragraph 2.12 of the Report of the Comptroller and Auditor General of India for the year 1975-76 (Commercial) wherein it was stated that Rs. 10 lakhs was obtained as loan by the Company from the State Government and machinery worth Rs. 10 lakhs was supplied on hire-purchase basis to 33 entrepreneurs. According to the terms of agreements entered into with the entrepreneurs, the value of machinery supplied is to be repaid together with interest in 13 equal instalments.

In this connection the following points were noticed :—

(*i*) Three entrepreneurs to whom machinery valued at Rs. 0·93 lakh was supplied between February 1975 and July 1977, returned the same to the Company between May 1976 and January 1978, as they were not able to start business. According to the terms of agreement governing the hire-purchase, the Company is to sell the machinery by auction or by other means and if the resale value of the machines falls short of the balance outstanding on the hirer's account, the resultant loss is to be made good by the hirer. Action on these lines had not been taken by the Company and the machines were kept in store. The Company stated (December 1978) that they are endevouring to identify fresh entrepreneurs to dispose of the machinery. Further developments are awaited (June 1979).

(*ii*) Ten entrepreneurs repaid partly the instalments due and defaulted thereafter. Out of Rs. 2·01 lakhs due to be received from them towards principal and interest, as on 31st March 1978, Rs. 0·43 lakh were paid by them leaving a balanee of Rs. 1·58 lakhs. The Company stated (February 1979) that legal action has been intitated against the parties. Further developments are awaited (June 1979).

(*iii*) Twenty entrepreneurs, from whom Rs. 5·20 lakhs were to be received towards principal and interest as on 31st March 1978, did not pay even a single instalment. The Company issued demand notices to the parties. The machines supplied have not also been taken possession of by the Company as stipulated in the agreements. The Company stated (December 1978) that they are examining the matter to file suits. Further developments are awaited (June 1979).

The matter was reported to Government in August 1978; who offered (June 1979) no remarks.

7.2. Disposal of raw materials

Mention was made in paragraph 2.17 of the Report of the Comptroller and Auditor General of India for the year 1975-76 (Commercial) about the establishment of cattle and poultry feed-mix centres by the Company at Bhubaneswar and Berhampur. The Company procured during 1973-74 and 1974-75, maize, *kulthi* and *jowar* for use as raw materials at the centres, basing the requirement on the capacity of the plants installed at the centres, without, however, making any survey of the market for the finished product. As the off-take for the feed-mix prepared at the centres was poor, the raw materials procured turned out to be surplus to requirements, and were disposed of between September 1976 and August 1977, after inviting open tenders at rates below procurement cost, resulting in a loss of Rs. 0·55 lakh; details of which are given below :—

Material		Quantity procured	Quantity found surplus and disposed	Cost of procurement of the quantity found surplus	Amount realised	Loss
		(In tonnes)		(Rupees in lakhs)		
Maize	..	525	201	2·04	1·71	0·33
Kulthi	..	200	100	1·28	1·15	0·13
Jowar	..	25	22	0·32	0·23	0·09
					Total ..	0·55

The Management stated in June 1978 /August 1978 that the stocks were disposed of to prevent higher losses on account of infestation and loss in quantity/ quality and that assessment of the requirement of raw materials was made on the basis of production capacity. They further stated in December 1978 that "fluctuation of this kind are inherent in manufacturing and trading activities of this nature despite minute and detailed planning of materials". Reasons for procuring the raw materials without reference to demand for the finished product are not available (May 1979).

The matter was reported to Government in September 1978, who endorsed (January 1979) the reply of the Company given in December 1978.

7.3. Dues recoverable

Under the scheme for establishment of Agro-service centres sponsored (1970) by the Government of India and implemented by the Company, training in operation and servicing of agricultural machinery was imparted to 50 educated unemployed engineers at 11 centres, between June 1971 and March 1976. According to the arrangements made by the Company, the engineers after completion of training which ranged from 2 to 3 months, were to work for a period of one year at the service centres, during which period they were to be on the pay roll of the Company. Their work at the service centre included sale of agricultural implements and hiring of tractors to agriculturists. Although these engineers were in the employ of the Company on a purely temporary basis, the Company entrusted to them with cash transactions, without collecting any kind of security from them. The Company also did not formulate any procedure by which the monies collected by them at the centres as sale proceeds and hire charges were to be remitted periodically into the bank/to headquarters of the Company.

Four engineers stationed at the service centres at Kendrapara, Pattamundai, Balasore and Athabira collected Rs. 1·19 lakhs towards sale proceeds of agricultural implements and hire charges of tractors while

in charge of the service centres between June 1971 and March 1976 as per the details given below :—

Centre		Amount (Rupees in lakhs)
Kendrapara	..	0·42
Balasore	..	0·48
Athabira	..	0·18
Pattamundai	..	0·11
Total	..	1·19

They did not remit the same to the Company. They left the service of the Company between September 1972 and April 1976. The Company did not take action to recover the monies before they were allowed to leave the Company. Money suits for recovery of the dues have been filed (between December 1977 to April 1978) against them in the Munsiff Court, Cuttack.

The Company stated in February 1979 that this is one of the developmental activities of the Corporation for building of entrepreneurial skills of the educated unemployed and also for creating employment opportunities in the rural areas. Reasons for omitting to take action to recover the dues from the individuals before relieving them from the service of the Company have not been intimated.

The matter was referred to Government in July 1978, and they endorsed (March 1979) the reply of the Company.

SECTION VIII

ORISSA STATE COMMERCIAL TRANSPORT CORPORATION LIMITED

8·1. Transportation of iron ore

Ironore is exported by the Minerals and Metals Trading Corporation of India Limited (MMTC) from Paradip Port. With the opening of a railway line between Cuttack and Paradip port in July 1973, iron ore is transported by rail up to Atharbanki railway siding (the railway terminal for Paradip port, from where it has to be transported to iron ore stacking yard near the iron ore berth at the port for loading ships through the iron ore handling plant. The distance between Atharbanki railway siding and the iron ore stacking yard in the port area is about six kilometres.

In September 1973, the Company had taken up the work of transportation of iron ore from Atharbanki railway siding to the port at Rs. 3·15 per tonne on the basis of tenders, for MMTC; the loading into and unloading from the tractor-trailers of the Company were to be done by MMTC. The Company estimated the rate on the basis of transportation of nine lakh tonnes of ore by 15 Mitsubishi tractor-trailers for 250 days in a year, involving fixed expenses of Rs. 20·10 lakhs *per annum*.

After working for a period of about four months from January 1974 to April 1974 and transporting 0·19 lakh tonnes of ore, the operations were suspended temporarily due to non-arrival of iron ore rakes at the railway siding. The operations were resumed in May 1974. In the meantime, in April 1974, on a request made by the Company, consequent on the increase in the direct running costs, MMTC increased the rate for transportation to Rs. 5·35 per tonne. An agreement was executed in May 1974. The agreement did not, however, provide for compensation to the Company for future escalation in costs or for losses arising out of failure on the part of MMTC in keeping in readiness iron ore at the railway siding in adequate quantities to ensure uninterrupted transportation and for providing smooth and adequate facilities for loading and unloading.

The Management stated (October 1978) that the agreement with MMTC was one sided and the Company had accepted the terms and conditions of MMTC for transportation of iron ore from Atharbanki railway siding to Paradip port as otherwise the vehicles had to remain idle. Therefore, it had no alternative than to depend on the supply of iron ore arranged by MMTC. In case of failure in supply of sufficient quantity of iron ore for transportation, the Company had to sustain loss as the terms and conditions did not envisage provision for reimbursement in the event of such losses.

The following are the details of the tractor-trailors actually utilised on the operations and the extent of their actual utilisation during the period May 1974 to November 1976, when the operations were actually carried out with tractor-trailors :—

Particulars	1974-75 (From May 1974)	1975-76	1976-77 (Up to November 1976)
Number of tractor trailers deployed on the work	11	12	6
Number of trips available at 20 trips a day reckoning 250 days in a year	50,417@	60,000	20,000@
Capacity of each vehicle (tonnes)	30	30	30
Tonnage that could have been carried (in lakh tonnes)	15·13	18·00	6·00
Tonnage actually transported during the period (in lakh tonnes)	4·71	3·75	1·25
Percentage of utilisation ..	31	21	21

@NOTE:—The figures are worked out on proportionate basis for period of operation.

During the period May 1974 to November 1976 the Company transported 9·71 lakh tonnes of iron ore earning a revenue of Rs. 51·95 lakhs. The particulars of actual running costs and fixed costs as estimated were as under :

Period		Quantity transported (In lakh tonnes)	Running cost	Fixed costs as estimated by the Company in April 1974
			(Rupees in lakhs)	
May 1974 to March 1975	..	4·71	4·07	18·43
April 1975 to March 1976	..	3·75	4·48	20·10
April 1976 to November 1976		1·25	1·25	13·40
Total	..	9·71	9·80	51·93

After meeting the running cost of Rs. 9·80 lakhs the Company was left with Rs. 42·15 lakhs for contribution towards fixed costs of Rs. 51·95 lakhs, resulting in under-recovery of Rs. 9·78 lakhs. The short-fall in transportation was attributed (October 1978) by the Management to non-availability of pay-loader of MMTC. The agreement did not provide for regular supply of pay-loader by MMTC. The Company had not also made regular arrangements with MMTC to ensure prompt supply of pay-loader.

Transportation through private agencies

To supplement transportation of iron ore by its own vehicles, the Company engaged 21 private transport agencies between February 1975 and February 1977 at Rs. 5·10 per tonne. No tenders were invited. The rate was settled on the consideration that even after paying Rs. 5·10 per tonne, an amount of Rs. 0·25 per tonne would be left with the Company

as margin out of the rates contracted for with the MMTC. An aggregate quantity of 3·04 lakh tonnes (in addition to the quantity trasnsported by tractor-trailors) was transported during the period for which Rs. 15·50 lakhs were paid by the Company to the private transporters. The matter regarding entrusting the work to the private operators was not placed before the Board of Directors of the Company. The feasibility of utilising the tractor-trailors deployed on these operations fully by making necessary arrangements for pay-loader, instead of entrusting the work to private agencies, was not considered, with the result that the tractor-trailors continued to be under-utilised to a great extent. Had this been done, the operation would have resulted in a gain of Rs. 3·42 lakhs as shown below :—

		(Rupees in lakhs)
Total income on transportation of 3·04 lakh tonnes		16·27
Less total running costs on 3·04 lakh tonnes at Rs. 1·01 per tonne		3·07
Balance	..	13·20
Less fixed costs left uncovered	..	9·78
Balance profit	..	3·42

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

8.2. Shortages of high speed diesel oil

High speed diesel oil required for use in the vehicles of the Company is procured from Indian Oil Corporation Limited and stored in the underground tanks at Baliparbat and Paradip units of the Company. The oil is delivered by the suppliers in tankers of nine to ten kilo-litres capacity. According to the terms of sale, if the dip and seal of the tanker is found intact at the time of delivery, the suppliers do not entertain claims towards short deliveries.

A test check of the records of the Paradip unit of the Company, made by Audit in July 1977, for the years 1972-73 to 1975-76, showed that there were discrepancies between the quantities of oil shown in the delivery challans of the suppliers and the actual quantities shown on the office copies of the delivery challan-*cum*-invoices retained with the unit office as received from the supplier, after dip measurement of the underground tanks. Although the unit recorded the acutual quantities received on the copies of the delivery challan-*cum*-invoices, retained with it, the quantities, as indicated by the supplier in the delivery challan-*cum*-invoices, were acknowledged and paid for. There was no record to indicate whether at the time of taking delivery, the dip and seal of the tankers were verified and found to be intact. The unit also did not measure the tanker by dip-measurement, instead the dip-measurement was taken of the underground tank. Reasons for the same are not available. The total shortages during the said period worked out to 25,355 litres (value : Rs. 0·26 lakh). The shortages were not investigated.

The Company stated (August 1978) that the Manager of Paradip unit was being directed to make a thorough investigation of the shortages. Further developments are awaited (June 1979).

Reply from Government to whom the matter was reported in July 1978 is awaited (June 1979).

SECTION IX

ORISSA MINING CORPORATION LIMITED

9. Payment of penalty

An agreement for a period of five years, for supply of cartridges soaked in liquid oxygen, for machine-mining blasting purpose at Daitari Iron Ore Project, was entered into in September 1975 by the Company with Firm 'I' of Calcutta. Competitive tenders were not invited. The agreement stipulated that a minimum quantity of 400 full cartridges or its equivalent would be lifted every month for the first two years and the quantity to be increased to 500 such cartridges or its equivalent per month thereafter.

In the event of failure to lift the minimum guaranteed quantity, the agreement stipulated that the Company was liable to pay penalty at the rate of 50 *per cent* of the value of the shortfall. The minimum off-take was reduced to 300 cartridges per month from October 1977 by mutual agreement.

While the requirement indicated in the agreement was based on an anticipated annual production of 7/8 lakh tonnes of ore, the actual production during 1974-75 was only 1·48 lakh tonnes and the annual production by Ore Handling Plant budgetted for 1975-76 and 1976-77 was only 3·00 lakh tonnes.

It was noticed (April 1978) in audit that during the thirty months ending March 1978, the Company lifted the minimum quantities only in December 1976, March 1977 and November 1977; the average monthly consumption being 249 full cartridges or equivalent between September 1975 and August 1976 and 280 full cartridges or equivalent between September 1976 and August 1977. A penalty of Rs. 1·71 lakhs was paid during January 1976 to August 1978 in view of the low off-take in the remaining months.

The Management stated in June 1978 that the Company was not able to produce more than three lakh tonnes of ore per year, resulting in low off take of the cartridges.

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

CHAPTER II

STATUTORY CORPORATIONS

SECTION X

10.1. General

There were four Statutory Corporations in the State as on 31st March 1978, namely (*i*) Orissa State Electricity Board, (*ii*) Orissa State Financial Corporation, (*iii*) Orissa State Warehousing Corporation and (*iv*) Orissa State Road Transport Corporation.

10.2. Orissa State Electricity Board

10.2.1. *Loan Capital*—The Orissa State Electricity Board was formed in March 1961 by transfer of the assets and liabilities of the then Electricity Department. The value of the assets transferred to the Board up to 31st March 1978, according to the declarations issued by Government under section 60 (2) of the Electricity (Supply) Act 1948 was Rs. 65,99·47 lakhs;‡ this amount has been treated as a loan from Government under section 60 (2) of the Electricity (Supply) Act 1948.

The State Government granted loans in cash also to the Board. Further the Board has raised funds from time to time by issuing bonds and borrowing from the Life Insurance Corporation of India, the Rural Electrification Corporation Limited, the Industrial Development Bank of

‡ The figure differs from that shown (Rs. 65·50 crores) in sub-para (c) under para 1·10 of the Report of the Comptroller and Auditor General of India Government of Orissa (Civil) for 1977-78, due to difference (Rs. 1·49 lakhs) between the value as declared by Government and actual expenditure booked in Government accounts and also on account of withdrawal of Rs. 51·01 lakhs from Government account subsequently.

India and the Agricultural Refinance Development Corporation. The long-term loans outstanding as on 31st March 1978 were Rs. 2,48,87·30 lakhs, the break-up of which by the source of finance is given below :—

	As on 31st March 1977	As on 31st March 1978	Increase over the previous year
	(Rupees in lakhs)		
(*a*) Loans from Government* Value of assets transferred	63,75·78	63,75·78	Nil
Cash loans ..	45,15·92	64,94·22	19,78·30
Investment in loan bonds	48,97·34	57,62·51	8,65·17
Total (*a*) ..	1,57,89·04	1,86,32·51	28,43·47
(*b*) Other Loans—			
Life Insurance Corporation of India	23,81·75	26,71·50	2,89·75
Rural Electrification Corporation Limited	25,60·47	31,98·66	6,38·19
Industrial Development Bank of India	2,49·82	3,56·18	1,06·36
Agricultural Refinance Development Corporation	12·50	28·45	15·95
Total (*b*) ..	52,04·54	62,54·79	10,50·25
Total (*a*)+(*b*) ..	2,09,93·58	2,48,87·30	38,93·72

* Differs from details of loans shown in Finance Accounts for 1977-78 (Rs. 1,31,33·97 lakhs). The difference (Rs. 54,98·54 lakhs) is under reconciliation.

10.2.2. *Guarantee*—Under the Electricity (Supply) Act, 1948, the State Government have to guarantee the repayment of principal and payment of interest in respect of loans raised by the Board. Government had guaranteed the repayment of loans aggregating Rs. 93,98·16 lakhs raised by the Board up to 31st March 1978 and payment of interest. The guarantee commission payable to Government but not paid was Rs. 0·17 lakh as on the 31st March 1978.

10.2.3. *Working results*—The working results of the Board for 1977-78, with comparative figures for the preceding two years, are shown below :—

	1975-76	1976-77	1977-78
	(Rupees in lakhs)		
(*i*) Revenue receipts ..	31,53·86	34,05·94	35,35·69
(*ii*) Expenses on revenue account	30,07·68	34,31·87	32,54·48
(*iii*) Net surplus (+) deficit (—) as per consolidated revenue account	(+)1,46·18	(—)25·93	(+)2,81·21
(*iv*) (*a*) Subsidy receivable from Government for power intensive industries	0·17	..	..
(*b*) Subsidy claimed for loss on rural electrification	5,00·00	6,70·00	5,00·00
(*v*) Amount available for appropriation under section 67 of the Electricity (Supply) Act, 1948	6,46·35	7,48·07	7,81·21
(*vi*) Appropriation towards interest on loans, general reserve and other reserves	6,21·23	7,48·07	7,81·21
(*vii*) Balance available for appropriation towards interest on loans from Government	25·12	Nil	Nil
(*viii*) Deficit for the year	3,82·61	4,84·07	11,80·38
(*ix*) Progressive deficit at the end of each year			
(*a*) Arrears of interest due to Government	15,72·55	20,56·62	28,61·64
(*b*) Arrears of depreciation	..	..	2,97·29

10.3. Other Statutory Corporations

Out of the remaining three Corporations, the accounts of Orissa State Road Transport Corporation for the years 1976-77 and onwards are in arrears (June 1979).

10.3.1. *Orissa State Warehousing Corporation*

The authorised capital of the Corporation is Rs 1 crore, consisting of one lakh shares of Rs. 100 each. The paid-up capital of the Corporation as on 31st March 1978 was Rs. 47·76 lakhs contributed by the State Government and the Central Warehousing Corporation as follows :—

	Number of shares of Rs. 100 each	Amount (Rupees in lakhs)
State Government ..	25,880	25·88
Central Warehousing Corporation ..	21,880	21·88

10.3.2. *Orissa State Road Transport Corporation*

The total paid -up capital of the Corporation as at the end of 1975-76, was Rs. 8,61·11 lakhs contributed as follows :—

	(Rupees in lakhs)
Government of Orissa ..	8,07·59*
Government of India ..	53·52

* Differs from Finance Accounts (Rs. 334·00 lakhs). The differeace (Rs. 473·79 lakhs) is under reconciliation.

The Corporation obtained (July 1975) ways and means loans amounting to Rs. 30 lakhs from the State Government which were repaid in February 1976. The Corporation sustained a loss of Rs. 83·22 lakhs during the year 1975-76.

10.3.3. *Orissa State Financial Corporation*

(1) *Share Capital*—The authorised capital of the Corporation is Rs.3 crores consisting of three lakh shares of Rs. 100 each. The paid-up capital as on 31st March 1978 was Rs. 1,41·50 lakhs consisting of 1·415 lakh shares of Rs. 100 each. The composition of share capital is as under :

	As on 31st March 1977	Percentage of paid-up capital	As on 31st March 1978	Percentage of paid-up capital
	(Rupees in lakhs)		(Rupees in lakhs)	
State Government	66·17	63·6	85·66	60·5
Industrial Development Bank of India	22·00	21·2	40·00	28·3
Others ..	15·83	15·2	15·83	11·2
Total ..	1,04·00	100·0	1,41·50	100·0

(2) *Loans*—Long term loans, including bonds, debentures and deposits obtained by the Corporation, were as follows :—

Source	On 31st March 1977	On 31st March 19 78
	(Rupees in lakhs)	
Open market loans by issue of bonds and debentures	5,75·00	6,85·00
Reserve Bank of India	..	50·00
Industrial Development Bank of India	4,65·99	6,34·67
Total	10,40·99	13,69·67

Government have guaranteed the repayment of open market loans obtained and payment of interest thereon under section 7 (1) of the State Financial Corporations Act, 1951. As on 31st March 1978, Government had guaranteed the repayment of loans aggregating Rs. 7,75 lakhs, besides payment of interest.

The State Government had also guaranteed the repayment of capital and payment of minimum dividend at 3·5 *per cent* on the share capital of Rs. 82 lakhs (initial share capital of Rs. 50 lakhs and additional share capital of Rs. 32 lakhs) and at 4 *per cent* on the additional share capital of Rs. 50 lakhs.

10.4. A synoptic statement showing the summarised financial results of the Statutory Corporations, on the basis of the latest available accounts, is given in Appendix IV.

SECTION XI

ORISSA STATE ELECTRICITY BOARD

11.1. Billing and Collection

11.1.1. *Introduction*—The Board supplies energy to various categories of consumers. The number of consumers increased from 2,65,537 on 31st March 1976 to 3,08,171 on 31st March 1977 and 3,50,677 on 31st March 1978.

Charges are collected from all the consumers through monthly bills prepared on the basis of consumption of energy as recorded in the meters. The tariff schedule of the Board was once revised in November 1974, effective from 1st January 1975; and again revised in August 1978, effective from 1st October 1978.

The Board has introduced a manual called "Revenue Accounting Procedure" from the year 1968, which was supplimented by orders issued from time to time, regulating the procedure to be followed in the matter of billing, collection and accounting of the revenues of the Board from sale of energy.

The figures of demand raised and collection of revenue for the five years up to 1977-78 are given below :—

Year	Balance outstanding at the beginning of the year	Demand raised during the year	Total amount due for collection	Amount collected during the year	Closing Balance	Percentage of collection to total dues
	(Rupees in lakhs)					
1973-74 ..	4,46'77	15,74'97	20,21'74	14,89'83	5,31'91	74
1974-75 ..	5,31'91	18,54'25	23,86'16	17,86'50	5,99'66	75
1975-76 ..	5,99'66	30,35'73	36,35'39	27,29'50	9,05'89	75
1976-77 ..	9,05'89	32,49'01	41,54'90	31,33'16	10,21'74*	75
1977-78 ..	10,21'74	33,93'05	44,14'79	33,63'18	10,51'61*	76

NOTE—Electricity Board has not prepared year-wise break-up of sundry debtors.

* Rs. 381'12 lakhs during 1976-77 and Rs. 441'65 lakhs during 1977-78 not accounted for as revenue but taken to 'Bills receivable' by the Board was not included in the closing balance.

The trend of arrears of revenue has not shown any improvement.

11.1.2. The work of assessment, billing and collection of revenue in respect of all the categories of consumers is dealt with by the various distribution divisions of the Board. There were 21 such divisions as on 31st March 1978. Besides, this work is also dealt with, to a limited extent, in the 13 construction divisions entrusted with execution of the works under rural electrification schemes.

11.1.3. *Billing procedure*—Meter readings in respect of largei ndustrial consumers are to be taken by the sub-divisional officers concerned and those in respect of categories other than domestic and commercial are to be taken by meter readers, on the last day of every month.

In the case of domestic and commercial consumers, spot billing system was introduced from August 1969 in urban areas; later the system was extended progressively to other areas. This system is prevailling in all the distribution divisions except in the divisions at Bhawanipatna, Jeypore and Jajpur Road.

11.1.4. *Billing and collection*—A study of the detailed procedure for billing and collection of energy charges with reference to the tariff of the Board and other related orders issued from time to time, has been made (August 1978) in the following three distribution divisions of the Board :—

(*i*) Sambalpur Electrical Division, Sambalpur.

(*ii*) Sundargarh Electrical Division, Rajgangpur.

(*iii*) Rourkela Electrical Division, Rourkela.

The points noticed in the study, together with those noticed on the subject in the course of audit of other divisions conducted from time to time in 1977-78, are discussed in the succeeding paragraphs :

A. *Billing*

(*a*) Soon after a new service connection is given, a test report is prepared in duplicate by the field officers responsible for giving service connections and sent to the divisional office concerned for allotment of consumer number and for bringing the consumer to billing. In 474 cases delays ranging between one month and sixtyfive months occurred in sending the test reports to the divisional offices in the three divisions. These cases were noticed in audit during the period October 1975 and June 1978.

(*b*) Even after receipt of test reports, there was delay in the divisional office in allotment of consumer numbers, and arranging for issue of first bills to the consumer.

In 1,573 cases (1,372 domestic and commercial consumers, 201 industrial consumers) delays ranging from 45 days to 605 days, (period: April 1977 to March 1978) occurred in the three divisions in issuing the first bill, reckoned from the date of receipt of test reports.

The reason for the delay in billing the consumers was attributed (August 1978) by the divisional offices to paucity of staff.

(*c*) Energy bills are to be issued to the consumers either on the dates allotted beforehand under the spot billing system or immediately after taking the reading as the case may be. A review of the bills issued by the three divisions between April 1977 and March 1978 revealed that in 1,86,538 cases the delays ranged from 15 days to 365 days.

Inadequacy of staff and non-sanctioning of leave reserve were attributed by the divisional offices (August 1978) as reasons for delay in issue of bills.

(*d*) Meter rent at Re. 0·50 per month is recoverable in the case of domestic and commercial consumers, which is to be included in the energy bills of the consumers each month. In Bhubaneswar Division, during January 1975 to December 1977, 10 bills were issued to all the domestic and commercial consumers in a year as against 12 bills. Since there was delay in issue of monthly bills, the bills when issued covered consumption of energy for periods of more than 30 days. Consequently, meter rent was recovered for 10 months in a year and the under recovery amounted to Re. 1 per consumer per year. For the three years, the under recovery amounted to Rs. 0·66 lakh.

(*e*) Assessment of revenue for the energy consumed by a consumer is to be made on the basis of the units recorded in the meter installed in the premises of the consumer and demand raised there against.

If the meter becomes defective, energy consumed is charged on the basis of average meter readings for three months prior to its becoming defective or the minimum charges as per tariff, whichever is more. The

defective meter is required to be replaced as soon as possible. Out of 50,361 accounts of consumers, 9,682 accounts (19 *per cent*) were subjected to test check in the three divisions. It showed that 1,036 consumers were continued to be billed on the basis of average consumption, continuously for periods ranging from 3 months to 36 months.

In Bhawanipatna Electrical Division, 62 defective meters were not replaced since 1972 and 27 since 1973 (June 1979).

The divisional offices stated (August/September 1978))that defective meters could not be replaced due to short supply of meters.

(*f*) Industrial consumers are required to maintain average power factor of not less than 90 per cent. Failure to maintain the power factor at this level attracts penalty. In the case of large industrial consumers, the Board has to fix trivector meters or the consumer may provide for it for recording power factor. A test check of bills of large industrial consumers for March 1978 revealed that power factor could not be ascertained, in 74 out of 109 large industrial consumers in four divisions (at Bhubaneswar, Sambalpur, Rajgangpur and Rourkela) as trivector meters to record power factor were not fixed.

Penalty for overdrawal of power over contract demand is leviable in case of large industrial consumers at Rs. 10 per KVA of excess drawal per month. Maximum demand indicators are to be fixed by the Board to record the demand. In 23 out of 109 cases of large industrial consumers drawing supply reviewed for March 1978 in the four divisions, maximum demand indicators were not fixed.

(*g*) During the course of test check of energy bills in six divisions at Bhubaneswar, Rajgangpur, Rourkela, Ganjam South, Jeypore and Dhenkanal for the period April 1977 to December 1977, 25 cases of under-billing/non-billing of charges were noticed. Details are as follows :—

Reasons		Number of cases	Amount (Rupees)
Application of wrong tariff	..	11	29,714
Non-levy of power factor penalty	..	2	1,062
Incorrect levy or non-levy of delayed payment surcharge		5	4,76,277
Arithmetical inaccuracies	..	7	3,852

The cases were reported to the Board from time to time.

(*h*) According to the revised tariff effective from 1st January 1975, in the case of large industrial consumers, delayed payment surcharge of one fifteenth part of one *per cent* on the amount remaining unpaid for each day is to be levied, in case of default in making payment of the bill within the prescribed period of 15 days, computed with effect from the date (*s*) of issue of the bill. In four cases, two in the Cuttack Electrical Division, one each in Sambalpur Electrical Division, and Rourkela Electrical Division there was short levy of surcharge aggregating Rs. 0·64 lakh during the period May 1976 to June 1978.

(*i*) An agreement entered (August 1977) into with a power intensive consumer at Hirakud provided for levy of interest at 15 *per cent per annum* if the bills for energy charges are not paid within 25 days from the date of the delivery of the bill. A test check of the consumer's account for 1977-78 revealed that the consumer delayed payment of energy bills of April, May and June 1977 by 94,90 and 34 days respectively. Interest amounting to Rs. 1·62 lakhs was not levied by the Sambalpur Division.

(*j*) In the case of medium and small industrial consumers the energy charges are payable within 15 days from the date of the bill failing which delayed payment surcharge of 2 paise per unit is recoverable on the total units supplied during the month. This is to be levied in the month next to the month for which payment has been delayed by the consumers. In 20 cases in the Rourkela Electrical Division, delays ranging from 2 months to 14 months had taken place in the levy of the surcharge (Rs. 0·31 lakh) during 1977-78.

B. Collection

(*a*) Energy charges are collected by bill collectors and section officers in sub-divisional offices, revenue cashiers in divisional offices and by authorised banks. Amounts collected by bill collectors are to be remitted on the same day or on the next day into the sectional office or subdivisional office as the case may be. A test check of records for March 1978 in three divisions (at Sambalpur, Rajangpur and Rourkela) revealed that the delay in remittance ranged from 2 to 13 days.

(*b*) In Sambalpur Division the delays in remittance of the day's collection into the bank by the revenue cashier ranged from 2 to 7 days.

(*c*) Each collecting bank in the *mofussil* areas was instructed (April 1969) by the Board, to transfer the daily collections on the day following the day of collection into the central account of the Board at the branches of the banks at Bhubaneswar, keeping a balance of Rs. 500. A test check of bank pass books of two collecting banks in Sambalpur division for 1977-78 disclosed that the collections were not transferred accordingly. During the period November 1977 to March 1978 delays ranging between one day and forty-eight days occurred in transfer of the balances.

(*d*) In Jharsuguda sub-division (under Sundergarh Electrical Division, Rajgangpur) 'X' a 'B' grade clerk entrusted with collection of revenue, did not remit into the sub-division, the amount of revenue collected by him between 31st May and 26th June 1976, amounted to Rs. 36,274. This was rendered possible as 'X' did not remit monies on the same or the following day after collection and its remittance into the sub-division was also not watched by the sub-divisional officer. On 24th July 1976, 'X' remitted Rs. 16,024 leaving a balance of Rs. 20,251 which has not been recovered (June 1979).

In the same sub-division, 'Y' another 'B' grade clerk working as cashier received monies remitted into the sub-division by the bill collectors between 30th June and 19th July 1976, amounting to Rs. 8,232, but did not account for the same in the sub-divisional cash book and misappropriated the same. The sub-divisional officer who was responsible for maintaining the cash book and check the revenue receipts daily did not comply with these requirements. On a complaint made in August 1976 to the Police, 'X' was arrested in September 1976. 'Y' was reported to be absconding. Investigation by the Police was in progress (June 1979).

According to the information furnished by the Board in September 1978, the fidelity guarantee insurance taken for 'X' expired by 31st July 1975 and the same was not renewed thereafter; no insurance was taken for 'Y'. The reasons for these omissions have not been furnished (June 1979). The Board stated (September 1978) that "the various lapses of different functioneries associated with the collection, custody, accounting and deposit of Board's money are under exmination and final responsibility in this regard will be fixed after due consideration of the responsibilities and duties devolved upon them". Further developments are awaited (June 1979).

Reply from Government, to whom the matter was referred to in March 1978, is awaited (June 1979).

11.1.5. *Security Deposits* —Consumers of electricity have to pay security deposit at the following rates :—

Type of consumers		Rate per KVA/ KW of maximum demand contracted (Rupees)
Large industrial	..	103 per KVA
Medium and small industrial	..	72 per KVA
Commercial (Power)	..	32 per KW
Bulk supply	..	34 per KW
Commercial (Light and fan)	..	20 } Up to 1 KW
Domestic (Light and fan)	..	20 } Up to 1 KW

The Revenue Accounting Procedure of the Board stipulates that the amount of security deposit of each consumer should be reviewed once in every year, say in October, with reference to the energy consumption in any three or two consecutive months in which the maximum amount of energy was consumed during the previous 12 months and demand for enhanced deposit made and collected wherever necessary. No such review has, however, been conducted in any of the three divisions (at Sambalpur, Rajgangpur and Rourkela) subjected to test audit. A review of the energy bills of the three divisions by audit, for the period from October 1976 to September 1977, revealed that Rs. 2,23·97 lakhs were due to be reailised towards shortfall of security deposits from 43 large industrial consumers. It was stated (August -September 1978) by the divisional officers that the annual review could not be conducted due to shortage of staff.

Security deposits can be made by large industrial consumers in the form of bank guarantees which should be kept current from time to time. In respect of 20 large industrial consumers in three divisions (at Sambalpur, Rajgangpur and Rourkela) the validity period of bank guarantees had expired and the same were not renewed (August 1978).

11.1.6. *Sundry Debtors for energy supplied*—The following are the details regarding the total gross revenue and the total book-debts at the end of each of the five years up to 1977-78 :—

Year		Total gross revenue during the year	Total book-debts at the end of the year	Percentage of book-debts to gross revenue
		(Rupees in lakhs)		
1973-74	..	15,74·97	5,31·91	33·77
1974-75	..	18,54·25	5,99·66	32·33
1975-76	..	30,35·73	9,05·89	29·84
1976-77	..	32,49·01	10,21·74	31·44
1977-78	..	33,93·05	10,51·61	30·99

In 1973, the Planning Commission had indicated that arrears in collection of revenue should not generally be more than 6 *per cent* of the annual assessment. The arrears during the period of five years, however, ranged between 29·84 *per cent* and 33·77 *per cent* of the annual assessment during the years. While party-wise analysis has been made in the case of large industrial consumers, it is not available for other categories. Old cases of arrears have not been reviewed with a view to initiating legal action before the dues became time-barred. Provision for bad and doubtful debts is being made on *ad hoc* basis without reference to the age of debts and prospects of their recovery. As against the arrears of Rs. 10,51·61 lakhs as on 31st March 1978, the total provision for bad and doubtful debts was Rs. 3·10 lakhs.

The Revenue Accounting Procedure stipulated that the figure of sundry debtors appearing in the general ledger and the sum total of outstanding balances lying in consumers ledgers as on 31st March each year should be reconciled. There was a difference of Rs. 106·15 lakhs as on 31st March 1978 between the two sets of figures.

There were 111 large industrial consumers and bulk consumers against whom the dues outstanding were Rs.10,29·86 lakhs as on 31st March 1978. In four cases (Rs.7,66·58 lakhs), the dues outstanding were as under :—

		(Rupees in lakhs)
(i) Andhra Pradesh State Electricity Board	..	97·27
(*ii*) Indian Metals and Ferro-alloys Limited	..	174·67
(*iii*) Jayasree Chemicals Limited	..	299·93
(*iv*) Ferro-Chrome Plant	..	194·71
Total	..	766·58

Claims in respect of 33 consumers (aggregate amount due : Rs.9,33·49 lakhs) including three cases (amount due : Rs.1,23·78 lakhs) of supply to other States were under dispute. The points of dispute are summarised below :—

(*i*) Applicability of revised tariff introduced with effect from 1st January 1975;

(*ii*) levy of surcharge for delayed payment, and levy of coal surcharge;

(*iii*) defective meter reading and imposition of penalty for low power factor than prescribed;

(*iv*) drawal of power in excess over the quota fixed;

(*v*) quantum of power drawn by Andhra Pradesh State Electricity Board from joint projects of Machkund and Balimela.

The cases were discussed in paragraph 24 and 26 of the Report of the Comptroller and Auditor General of India for the year 1973-74 (Commercial) and paragraph 11 of the Report of the Comptroller and Auditor General of India for the year 1975-76 (Commrcial). These continue to be under dispuite June 1979).

Summing up

The Board was serving 3·51 lakh consumers of all categories as on 31st March 1978; the demand raised during the year 1977-78 was Rs. 33·93 crores. Revenue is billed and collected by field divisions. A test-check of the records relating to billing and collection in three divisions and general review of records conducted in other divisions disclosed the following:—

(*i*) Consumers to whom new service connections were given are not brought to billing promptly; there were delays in assessing the energy charges and raising the bills.

(*ii*) Cases of under assessment of energy charges, non-levy of charges in accordance with the stipulations in tariff were noticed.

(*iii*) Energy charges collected were not credited immediately into the Board's account.

(*iv*) Security deposits collected from the consumers were not adequate.

(*v*) Cases of non-payment of energy charges were not properly pursued.

11.2. Avoidable expenditure on staff

The assests of Hirakud power house were transferred by Government to the Board in 1969. These included a wireless station (value not known). The power house Management closed the wireless station in October 1973 after they established carrier communication system at the power house for transmitting messages. One foreman, one chargeman and two operators attached to the wireless station continued to be employed even after October 1973. The Board stated (August 1978) that from May 1977, their services were utilized in the teleprinter section of the Hirakud

Power station. The specific purposes on which their services were utilized till April 1977 have not been indicated by the Board. Expenditure incurred on their pay and allowances (up to April 1977) amounted to Rs. 1·12 lakhs (approximately).

The matter was referred to Government in June 1978; reply is awaited (June 1979).

11.3. Recovery of house rent

Nine staff quarters at Bhubaneswar, belonging to the State Electricity Board, were under occupation of officials of the State Government from different dates during the period from April 1962 to May 1974. The officials came on deputation/transfer from the State Government to the Board and returned back to their parent departments. The departments of the State Government, where the officials had been working, were to recover rent from the salaries of the officials on the basis of demands raised by the Board from time to time and remit the same to the Board. Although demands for recovery of rent were raised monthly by the Board and sent to the concerned departments, amounts were not received. According to the information compiled by the Board, an amount of Rs. 0·71 lakh was pending to be received towards rent up to January 1979. In respect of two officials from whom Rs. 0·25 lakh were due to be recovered, the head of the department (Chief Engineer, Electricity-*cum*-Electrical Projects) expressed (April 1976) inability to recover the amount on the ground that the officials were not in occupation of State Government quarters.

No legal action has been taken (December 1978) either for recovery of rent or ejection of tenants.

The matter was referred to the Board and Government in March 1978 who replied (May 1979) that action to evict the occupants/launch civil suits is being taken; further developments are awaited (June 1979).

SECTION XII

ORISSA STATE ROAD TRANSPORT CORPORATION

12.1. Tyre retreading plant

With a view to achieving self sufficiency in retreading used tyres, the erstwhile State Transport Service had set up a tyre retreading plant at Sambalpur in July 1964. The plant has three moulds for retreading tyres of 9·00 × 20 size (two moulds added in June 1972), one mould for tyres of 8·25 × 20 size and three sectional repair moulds, besides other ancilliary equipment like boiler, air compressors, stitching machine, etc. Rupees 3·32 lakhs have been invested on the plant including cost of building (Rs. 2·97 lakhs on plant and machinery and Rs.0·35 lakh on buildings). The plant is under the charge of Works Engineer of Central Workshop of the Corporation at Sambalpur.

The plant has been working on single shift of 8 hours a day. It has a rated capacity to retread 4,800 tyres *per annum* on the basis of one shift. During the period from 1964-65 to 1972-73, the plant retreaded a total number of 12,708 tyres; percentage of actual retreading to the rated capacity each year ranged between 32 and 65 *per cent*.

The folloing table gives the details of tyres retreaded *vis-a-vis* the rated capacity during the five years up to 1977-78:—

Year		Rated capacity	Tyres retreaded	Percentage of tyres retreaded to capacity
1973-74	..	4,800	1,443	30
1974-75	..	4,800	1,210	25
1975-76	..	4,800	989	21
1976-77	..	4,800	992	21
1977-78	..	4,800	876	18

Each mould is to retread four tyres in an eight hour shift. The table below indicates details of outturn of the four moulds during the five years up to 1977-78 :—

Year	No. of shifts available	Retreading of tyres in Mould-I 8·25 X 20		Mould-II 9·00 X 20		Mould-III 9·00 X 20		Mould-IV 9·00 X 20	
		Target	Actual	Target	Actual	Target	Actual	Target	Actual
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
		(Number of tyres)							
1973-74	287	1,148	134	1,148	462	1,148	459	1,148	388
1974-75	291	1,164	34	1,164	424	1,164	420	1,164	412
1975-76	304	1,216	..	1,216	392	1,216	380	1,216	307
1976-77	302	1,208	..	1,208	280	1,208	348	1,208	364
1977-78	306	1,224	..	1,224	263	1,224	308	1,224	305

Note—The increase in number of shifts over 300 during 1975-76 to 1977-78 was due to working the plant beyond shift hours on different occasions.

The short-fall in out-turn as stated by the Works Engineer in July 1978, was due to :

(*i*) non-receipt of casings (used tyres) for retreading from zones,

(*ii*) transport problems for bringing the used tyres from zonal headquarters for retreading and taking them back after retreading,

(*iii*) short supply of new tyres,

(*iv*) non-receipt of tyres of 8·25 × 20 size from zones for retreading, as the old makes of vehicles like Dodge, Fargo, etc. for which tyres of this size were required had gone out of the fleet. Tata and Leyland makes now in use require tyres of 9·00 × 20 size.

Based on the experience, it was found by the Management that the quantity of slab rubber (the main raw-material) required for retreading one tyre of 9·00×20 size is 9·5 kg. and for tyre of 8·25 × 20 size, it is 8 kg. The actual consumption has not been uniform. Computed with reference to this requirement, there had been excess consumption of 5,048 kg. valued at Rs.0·73 lakh during five years up to 1977-78, as detailed below:—

Year	Number of tyres retreated		Requirements with reference to production	Actual consumption	Excess consumption	Rate per kilogram	Value of the excess consumption
	8·25 (size)	9·00	(Kilograms)				(Rupees)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1973-74 ..	134	1,309	13,507	14,351	844	10·79	9,107·00
1974-75 ..	34	1,176	11,444	12,875	1,431	14·85	21,250·00
1975-76 ..	..	989	9,396	10,116	720	17·71	12,751·00
1976-77 ..	..	992	9,424	9,784	360	14·85	5,346·00
1977-78 ..	..	876	8,322	10,015	1,693	14·52	24,582·00
							73,036·00

The Management stated in December 1978 that the excess consumption was under investigation.

Cost of production

No cost records to arrive at the actual cost of retreading a tyre or batch of tyres are maintained. The Management did not examine the economics of the cost of retreading tyres in their plant *vis-a-vis* rates prevailing outside.

The Works Engineer, Central Workshop submitted proposals in October 1975/December 1975/April 1976 to the head office for the closure of the unit due to its uneconomical working consequent on inadequate work load. Efforts made (November 1976) to sell the plant by advertisement in papers, did not bring any result. Further developments are awaited (May 1979).

SECTION XIII

ORISSA STATE FINANCIAL CORPORATION

13.1. Financing the purchase of fishing trawlers

In the year 1972-73, the Corporation had taken up financing the purchase of fishing trawlers by sanctioning loans to the interested parties. The applicants were not many till 1974-75. A study was made (November 1975) by the Director of Fisheries, Government of Orissa, according to which exploitation of 13,000 tonnes of fish *per annum* from the sea by introducing 200 mechanised fishing trawlers was feasible. Thereupon applications started forthcoming. The Corporation sanctioned loans on the recommendation of the Director of Fisheries in regard to the technical feasibility of proposals made by the applicants for loans. The amount of loans sanctioned was to be limited to the estimated cost of the trawlers; estimates having been drawn up by a sub-committee consisting of the Chief Technical Officer and the Mechanical Engineer of the Corporation and a Deputy Director and an Assistant Director from the Small Industries Services Institute. Loans were to be sanctioned in such a way that the loanees finance 30 *per cent* cost of the trawler (s) and the Corporation finances the balance. The trawlers were to be hypothecated to the Corporation till repayment of the loan and payment of interest and the loanees were to insure them against fire and cyclone. The loanees were to be partnership firms with each partner furnishing personal guarantee for repayment of loan and payment of interest and other dues, if any, to the Corporation.

The Corporation sanctioned Rs.4,37·89 lakhs as loans to 153 parties till March 1978 for purchasing trawlers. The following are the year-wise details of loans sanctioned and disbursed :—

Year		Number of applications	Amount of loans sanctioned	Amount of loans disbursed
			(Rupees in	lakhs)
1972-73	..	1	12·00	Nil
1973-74	..	Nil	Nil	11·65
1974-75	..	2	5·15	0·70
1975-76	..	18	50·18	11·70
1976-77	..	132	3,70·56	1,36·45
1977-78	..	Nil	Nil	1,49·46
Total	..	153	4,37·89	3,09·96

The amount of total loans disbursed constituted 71 *per cent* of the total loans sanctioned during the above period.

A test check (August 1978) of the accounts of the Corporation revealed the following points :

(*i*) Out of 128 cases reviewed in audit, 38 loanees did not insure the trawlers. The Corporation itself insured the trawlers and paid premium totalling Rs. 2·17 lakhs from time to time up to March 1978; the accounts of the loanees were debited with the amount, but recovery was not made (December 1978). The Corporation stated in January 1979 that "in the case of trawlers the hypothecated assets are susceptible to sea-hazards and the Corporation having a major share of the insurable interest in the assets had no other alternative than to pay the premia in all the defaulting cases. As such the payment of premia was in the best interst of the Corporation".

(*ii*) In July 1975, the Corporation estimated that each trawler would earn Rs. 1,325 per day (net earning) and taking 200 operating days in an year, the total earnings would be Rs. 1·33 lakhs per trawler, which would enable the loanee to repay the loan and pay the interest.

Loans were repayable within a period of 7½ to 8 years, in half-yearly instalments commencing from the second year after registration of loan agreement and carried interest at 15·5 *per cent per annum*, subject to rebate of 2 *per cent* for prompt payment. Interest was payable every quarter. The position of overdue instalments of principal and interest as on 31st March 1978 is indicated below:—

	Principal	Interest	Total
	(Rupees	in lakhs)	
Amount due for payment	21·19	61·55	82·74
Amount repaid/paid ..	7·56	13·32	20·88
Amount overdue ..	13·63	48·23	61·86

The Corporation stated in January 1979 that Rs. 14·14 lakhs had been collected up to November 1978 out of the overdue amounts. The entire amount was adjusted by the Corporation towards interest.

In January 1978 the Board of Directors decided to seize the trawlers from the parties chronically defaulting in payment of dues and give them on hire to third parties. But the decision was not implemented by the Management. A review (September 1978) by the Corporation of the cases of loanees from whom the amounts were overdue disclosed that default on the part of loanees was wilful and that they were adopting various devices in evading the payment of dues. It was again decided by the Board of Directors in September 1978 to seize the trawlers from the defaulting loanees; further developments are awaited (June 1979.)

(*iii*) The Corporation did not fix any ceiling on the amount of loan to be sanctioned or on the number of trawlers to be sanctioned to any single party; one party was sanctioned Rs. 12·00 lakhs for acquiring six trawlers. Review (July 1978) made by the Corporation revealed that loans of Rs. 17·07 lakhs were sanctioned between November 1974 and November 1976 to seven partnership firms which were controlled by the same family. Of this, Rs. 16·04 lakhs were disbursed; Rs. 7·80 lakhs were over due (December 1978) on account of principal (Rs. 3·60 lakhs) and interest (Rs. 4·20 lakhs). The trawlers were built in the boat building yard owned by the same family at Paradip. It was also found by the Corporation that this group of firms indulged in over-invoicing the price of trawlers.

Government to whom the above points were referred in September 1978 for comments, endorsed the replies (January 1979) of Corporation.

13.2. Loan to a Company

The Corporation sanctioned (February 1973) a loan of Rs. 8·70 lakhs to a partnership firm, later converted (May 1973) into a private limited company, for setting up a three star hotel at Bhubaneswar. The site for the hotel situated at Station Bazar, Bhubaneswar, was inspected by the Industrial Engineer and the Assistant Secretary (Processing) of the Corporation in November 1973 and was recommended as suitable for location of the hotel. An amount of Rs. 0·70 lakh being the first instalment of the loan was disbursed in March 1974 against the mortgage of land. Finding that there was no progress in construction of hotel, the Corporation staff inspected the site again in June 1974 and found that there was a saw mill on the land. The Corporation asked (June 1974) the Company to take up construction of hotel building and to show cause as to why action should not be taken to sell the land mortgaged in terms of the mortgage. The Company stated (August 1974) that it had already purchased cement and steel materials for construction and that the saw mill would be shifted. In Augut 1974 the Inspecting Officer of the Corporation reported that the owners of the saw mill were in possession of the land for the last 8/9 years. The Corporation gave (September 1974) 30 days' time to the Company for starting construction work failing which the loan was to be recalled. In November 1974, the owners of the saw mill informed the Corporation that they had taken the lease of the land under reference since 1966 and that their lawful possession of the land could not be disturbed. The Corporation recalled the loan in December 1974 and asked the Company to repay the loan and pay interest due, before 10th December 1975. The Company did not pay back the instalment of the loan and interest. The Corporation filed a money suit in June 1977 in the court of Subordinate Judge, Cuttack.

The matter is sub-judice (June 1979).

Rupees 1·27 lakhs is recoverable as on 31st December 1978, from the Company.

It was noticed (August 1978) in audit that the site inspection in November 1973 before disbursement of the loan was not done properly as the existence of the saw mill which was reported to be there for past 8/9 years was not brought out. The Corporation could not sell the land mortgaged to recover its dues, as a third party held the lawful possession on lease.

Govenment stated (January 1979) that legal action has been taken by the Corporation againsnt the loanee for recovery of the loan.

13. 3. Delay in processing issue of loan bonds

Under section 7 (*i*) of the State Financial Corporations Act, 1951 the Corporation can issue or sell bonds and debentures carrying interest for the purpose of increasing its working capital. Prior permission of the Industrial Development Bank of India (IDBI) is necessary for the purpose. As there is certain time lag between receipt of the permission from IDBI and the issue of bonds and collection of monies to be available for use, the Corporation obtains *ad hoc* loans form the Reserve Bank of India

at rates of interest which are higher than the rate of open market loans; the *ad hoc* loans are repaid out of the open market borrowings. The process normally takes about a month.

The Corporation has been borrowing from the open market through issue of bonds every year form 1974-75.

A review of the bonds issued during the three years up to 1977-78 showed that the Corporation had taken very long time in issuing the bonds after obtaining permission from the Industrial Development Bank of India; the details are as follows:—

	Amount of issue (Rupees in lakhs)	Date when permission was accorded	Date of issue	Delay in months
1975-76				
First issue	27·50	May 1975	November 1975	6
Second issue	55·00	November 1975	March 1976	4
1976-77	1,65·00	May 1976	October 1976	5
1977-78	1,60·00	June 1977 and October 1979 (Rs. 75 lakhs plus ten *per cent* each time)	February 1978	8/4

The *ad hoc* loans obtained from the Reserve Bank of India during the intervals carried interest at 9 *per cent per annum* against 6·25 *per cent* on the borrowings made through the issue of loan bonds. Had the Corporation processed the issue of loan bonds within one month during the above years as was actually done in the year 1978-79, it could have avoided extra expenditure of about Rs. 2·00 lakhs on account of higher rate of interest paid on *ad hoc* loans. The Management stated (September 1978) that the delay was procedural which was beyond their control. The reply was endorsed (December 1978) by the Government. A review of the records of the Corporation, however, revealed that the Corporation had taken 60 to 183 days at its level in finalising the issue of loan bonds during the years 1975-76 to 1977-78. The time taken at the level of Corporation could, however, be reduced to 20 days in 1978-79, which shows that the procedural delays were avoidable.

SECTION XIV

ORISSA STATE WAREHOUSING CORPORATION

14.1. Unauthorised delivery of stocks

The Corporation has a warehouse at Jagatsinghpur (capacity: 450 tonnes), and depots at Dihasatri, Balikuda and Biridi (capacity: 100 to 200 tonnes) attached to this warehouse, where rice and wheat belonging to Government, sugar of Food Corporation of India and fertilisers and pesticides of other parties are kept in storage. The warehouse and the depots were in charge of Shri 'M' Superintendent from September 1974. Shri 'M' received 3,600 bags of paramphos (value: Rs. 3·75 lakhs) and 720 bags of calcium ammonium nitrate (value: Rs. 0·38 lakh) from 14 parties during the period March 1976 to June 1976 and issued warehouse receipts in token thereof. According to warehousing rules the stocks are to be delivered only after getting back the warehouse receipts from the parties who deposited the stocks.

Thirteen parties had taken advances totalling Rs. 2·60 lakhs from a nationalised bank against the security of the warehouse receipts relating to 3,600 bags of paramphos. In December 1977 and January 1978, the bank deputed its official to the warehouse/depots for identification and physical verification of stocks. As no stocks were available, the bank requested (January 1978) the Corporation to ascertain the exact position and confirm availability of stock. Normally, in cases where warehouse receipts were pledged with a bank, the stock covered by that werehouse receipt should not be issued without the original warehouse receipt being released from the bank and surrendered or without a written release order from the banks. Investigation conducted by the Corporation consequent on the request received from the bank in January 1978, revealed that 3,260 bags of paramphos were delivered to a party 'T' who was one of the depositors but not the actual depositor of the entire stock. No acknowledgement was obtained from 'T' nor was the return of warehouse receipts from the actual parties who deposited the stock ensured. Similarly, 720 bags of calcium ammonium nitrate were also released to persons other than the depositors without obtaining acknowledgement and without return

of the warehouse receipt by the actual depositors. Inquiries made by the Corporation in January 1978 revealed that 'T' was a local dealer in fertilizers and the other parties who kept the stocks in the warehouse and obtained advances against the security of werehouse receipts were either the employees of 'T' or labourers working under him. At the instance of the Corporation, 'T' remitted (between February 1978 to August 1978) Rs. 1·35 lakhs into the bank, against advances drawn by the thirteen parties.

The Corporation placed the warehouse Superintendent Shri 'M' under suspension from January 1978 for misappropriation of stocks and started criminal case against him. FIR was also lodged (April 1978) with the local police whose report is awaited (May 1979). Internal audit of the transactions of the warehouse for the period September 1974 to January 1978, was completed and their report is awaited (June 1979). The Corporation notified the insurers about the loss in March 1978.

The Corporation is liable to pay Rs. 3·78 lakhs to the actual depositors towards the cost of 3,240 bags of paramphos and 720 bags of calcium ammonium nitrate, besides Rs. 1·26 lakhs to the bank being the balance of the advances against stocks kept with the Corporation, drawn by the parties.

The Management stated (August 1978) that the Corporation had claimed (March 1978) Rs. 4·77 lakhs from the insurance company. It was, however, seen that a detailed claim, which was required to be lodged within three months of the date of notification in terms of the policy, had not been perferred, pending assessment of the exact loss by internal audit (June 1979).

It was noticed in the course of audit that the Superintendent of the warehouse did not maintain the stock records and accounts correctly and the receipts and issues were not recorded in the order of their occurrence. He manipulated the figures showing erroneous issues without reference to receipts. Periodical verification and/or surprise verification of the warehouse stocks, by deputing staff from headquarters, as is the parctice with the Corporation was not done.

The Corporation replied (September 1978) that "they will be liable to pay Rs.3·77 lakhs to depositors and they are not liable to pay to the bank because if the depositors demand the stocks they should first release the warehouse receipt". The fact is that Corporation had released stocks unauthorisedly.

Government to whom the matter was referred in September 1978 endorsed (December 1978) the reply of the Corporation management.

14.2. Inadmissible shortages

Under the grain purchase scheme of the State Government, the Corporation was appointed as storage agent for the *kharif* years 1975-76 and 1976-77. In terms of the agreement, the Corporation undertook storage of rice procured by Government and delivery of the stocks to retailers in accordance with the orders issued by the Civil Supplies Department from time to time. The Corporation was entitled to shortage charges of Re.1 per quintal towards shrinkage and driage of stock during storage on final disposal of stock by way of delivery to retailers. Value of shortages, if any, has to be fully paid with penalty at Rs.50 per quintal. No penalty is leviable on shortages up to the permissible limit of 0·625 kg. per quintal.

The Corporation delivered 10,71,800 quintals of different varieties of par boiled and raw rice during the *kharif* years 1975-76 and 1976-77. In all, 19,813 quintals of rice were found short in physical verification after delivery of stocks, against the permissible shortage of 6,699 quintals. The Corporation thus became liable to pay the value of the total shortages (Rs.34·18 lakhs) and penalty (Rs.6·56 lakhs) on the excess shortages of 13,114 quintals. The Corporation was entitled to get only Rs.10·72 lakhs as shortage charges. Government withheld the bills of the Corporation for Rs.36·77 lakhs from time to time with a view to adjusting the value of shortages and penalty.

The Corporation attributed the shortages to excessive moisture content in the stock received and represented to Government (between June 1976 and December 1977) for waiver of the recoveries on account of the shortages. Government, in the Food and Civil Supplies Department, rejected (August 1978) the representation as the excessive moisture content of stock received was not substantiated by the Corporation.

The Corporation stated (September/December 1978) that certain other outstanding issues, like non-payment of second storage commission, problem of carry over stocks of rice connected with storage agency business were pending settlement with the Government and negotiations were continuing with the Food and Civil Supplies Department. Further developments are awaited (June 1979).

BHUBANESWAR

The 12 JUL 1979

(R. K. CHANDRASEKHARAN)
Accountant General, Orissa

Countersigned

NEW DELHI

The 25 JUL 1979

(GIAN PRAKASH)
Comptroller and Auditor General of India

APPENDICES

S.K. Chattopadhyay
SO (Com)

APPENDIX I

(Reference: Paragraph 1·5, Page 3)

Statement showing arrears in accounts (as in March 1979)

Serial number	Name of the Company	Year from which accounts were in arrears
	(a) Companies fully Owned by Government—	
1	Industrial Development Corporation of Orissa Limited	1976-77
2	Orissa Small Industries Corporation Limited ..	1975-76
3	Orissa Construction Corporation Limited ..	1975-76
4	Orissa Lift Irrigation Corporation Limited ..	1974-75
5	Orissa Mining Corporation Limited ..	1976-77
6	Orissa Forest Corporation Limited ..	1973-75*
7	Orissa State Commercial Transport Corporation Limited	1973-74
8	Orissa Fisheries Development Corporation Limited	1969-70
9	Leather Corporation of Orissa Limited ..	1976-77
10	Film Development Corporation of Orissa Limited	1977-78
11	The Orissa State Handloom Development Corporation Limited	1977-78
12	New Mayurbhanj Textiles Limited ..	1977-78
	(b) Companies partly owned by Government (other than Pilot Project Companies)—	
13	Orissa Road Transport Company Limited ..	1977-78
14	Orissa Agro Industries Corporation Limited ..	1974-75
15	Mayurbhanj Textiles Limited ..	1971-72

*The Orissa Forest Corporation Limited adopted the financial year as its accounting year from April 1975. The year 1973-75 therefore covers period from November 1973 to March 1975.

Serial number	Name of the Company	Year from which accounts were in arrears
	(c) Subsidiary Companies—	
16	Hira Steel and Alloys Limited ..	1976-77
17	East Coast Salt and Chemical Industries Limited	1975-76
	(d) Pilot Project Companies—	
	(i) Companies working—	
18	Utkal Foundry and Engineering Company Limited	1976-77
19	Orissa Instruments Company Limited ..	1975-76
20	Spark Battery Manufacturing Works Limited ..	1972-73
21	Orissa Boat Builders Limited ..	1971-72
22	Orissa Agrico Limited ..	1969-70
23	Cuttack Iron and Steel Products Limited ..	1968-69
	(ii) Companies whose assets were sold—	
24	Eastern Acquatic Products (India) Limited ..	1973-74
25	Gajapati Steel Industries Limited ..	1969-70
26	Orissa Electrical Manufacturers Limited ..	1967-68
27	Orissa Board Mills Limited ..	1968-69
28	Manufacturer Electro Limited ..	1962-63
	(iii) Companies under revival—	
29	Premier Bolts and Nuts Company Limited ..	1967
30	Modern Electronics Limited ..	1965-66
31	Orissa Foundry Company Limited ..	1968-69
32	Orissa Tiles Limited ..	1971-72

Serial number	Name of the Company	Year from which accounts were in arrears
	(iv) Companies under liquidation—	
33	Modern Malleable Casting Company Limited (March 1976)	1973-74
34	Manorama Foundry Works Limited (March 1972)	1968-69
35	Orissa Timber Products Limited (September 1972)	1968-69
36	Kalinga Steel and Wire Products Limited (August 1971)	1968-69
37	Chilika Cashew Manufacturing Works Limited (August 1971)	1967-68
38	Orissa Wood Products Limited (March 1972) ..	1967-68
39	Utkal Fruit Products Limited (July 1966) ..	1966-67
40	Balanga Iron Works Limited (July 1971) ..	1965-66
41	Orissa Sports Manufacturing and Fabricators Limited (January 1972)	1963-64
42	Cocacola (India) Limited (May 1964) ..	1963-64
43	Hansanath Ceramic Industries Limited (May 1972)	1963-64
44	Kalinga Fruit Products Limited (January 1964) ..	1963-64
45	Madhusudan Chemical Industries Limited (January 1971)	1963-64
46	Orissa Trunk and Enamel Works Limited (January 1971)	1963-64
47	Konark Processing Works Limited (January 1971)	1963-64
	(v) Companies in which Government shares were sold—	Year for which accounts were in arrears
48	Jagannath Chemical and Pharmaceutical Works Limited	1965-66 to 1975-76
49	Kalinga Foundry Limited ..	1970-71 and 1971-72
50	Utkal Metal Products Limited ..	1970-71

Note—The dates within brackets indicate when the Companies went into liquidation.

APPENDIX II

(Reference : Paragraph 1·7 page 4))

Summerised Financial results of working of Government Companies on the basis of latest available accounts

(Rupees in lakhs))

Sl. No.	Name of the Company	Name of the Department	Date of incorporation	Year of account	Total capital invested	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 return on capital employed
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	(A) Companies wholly owned by the State Government—												
1	Orissa Forest Corporation Limited	Forest, Fisheries and Animal Husbandry	28th September 1962	1972-73	94·90	(+)4·24	0·50	0·15	4·39	4·63	1,88·74	4·74	2·51
2	Orissa State Commercial Transport Corporation Limited	Commerce and Transport	7th January 1964	1972-73	3,77·53	(—)43·43	23·11	20·52	(—)22·91	..	2,94·90	(—)20·32	..
3	New Mayurbhanj Textiles Limited	Industries	2nd June 1976	June 1976 to March 1977	0·93	(—)0·03	..	..	(—)0·03	..	1·16	(—)0·03	..
4	Orissa Construction Corporation Limited	Works	22nd May 1962	1974-75	1,03·86	(—)45·35	2·58	0·63	(—)44·72	..	90·44	(—)42·77	..
5	Industrial Development Corporation of Orissa Limited	Industries	29th March 1962	1975-76	32,37·84	(+)1,64·37	1,62·44	1,11·76	(+)2,76·13	8·53	32,79·09	(+)3,26·81	9·97
6	Industrial Promotion and Investment Corporation of Orissa Limited	Industries	12th April 1973	1977-78	2,51·61	(+)2·25	0·34	0·34	2·59	1·03	2,05·99	(+)2·59	1·25
7	Film Development Corporation of Orissa Limited	Industries	22nd April 1976	1976-77	3·00	(—)0·12	..	..	(—)0·12	..	2·75	(—)0·12	..
	(B) Companies partly owned by the State Government—												
8	Orissa Road Transport Company Limited	Commerce and Transport	1st October 1950	1976-77	1,37·41	(—)9·53	1·86	1·65	(—)7·88	..	1,51·70	(—)7·67	..
9	Orissa Agro Industries Corporation Limited	Agriculture	20th October 1961	1973-74	1,93·54	(—)7·79	3·62	3·55	(—)4·24	..	1,65·23	(—)4·17	..

Sl. No.	Name of the Company	Name of the Department	Date of incorporation	Year of account	Total capital invested	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 return on capital employed
1	2	3	4	5	6	7	8	9	10	11	12	13	14
						(Rupees in lakhs)							
	(C) Subsidiary Companies—												
10	East Coast Salt and Chemical Industries Limited	Industries	27th October 1965	1974-75	24·14	(—)1·81	0·52	0·52	(—)1·29	..	17·80	(—)1·29	..
	(D) Companies floated under Pilot Project Scheme—												
11	Orissa Instruments Company Limited	Industries	14th March 1961	1974-75	1·28	(+)0·36	0·01	..	(+)0·36	28·12	1·36	0·37	27·20
12	Orissa Tiles Limited ..	Industries	1st September 1959	1970-71	14·63	(—)0·79	0·72	0·34	(—)0·45	..	5·40	(—)0·07	..
13	Cuttack Iron and Steel Products Limited	Industries	15th March 1959	1967-68	0·78	(+)0·06	0·04	..	(+)0·06	7·69	0·71	0·10	14·10
14	Orissa Boat Builders Limited	Industries	18th March 1958	1970-71	3·40	(—)0·32	0·02	..	(—)0·32	..	1·30	(—)0·30	..
15	Spark Battery Manufacturing Works Limited	Industries	17th March 1958	1971-72	3·10	(+)0·23	0·33	..	(+)0·23	7·42	5·35	(+)0·56	10·47
16	Rourkela Fabrications Limited	Industries	27th October 1965	1977-78	24·14	(—)1·81	0·52	0·52	(—)1·29	..	17·80	(—)1·29	..

NOTE:—(1) Capital invested represents paid up capital *plus* long-term loans *plus* free reserves.

(2) Capital employed represents net fixed assets (excluding capital works-in-progress) *plus* or *minus* working capital.

(3) In case of Industrial Promotion and Investment Corporation of Orissa Limited, capital employed represents the mean of opening and closing balances of paid-up capital, reserves and surplus and borrowings.

APPENDIX III

(Reference : paragraph 5.6 page 128)

Stage of implementation of Joint Sector projects for which letters of intent have been received from the Government of India.

Serial number	Name of the project	Date of letter of intent	Estimated capital cost of the project	Amount invested up to 31st March 1978	Position as in September 1978
1	2	3	4	5	6
				(Rupees in lakhs)	
	(a) Letters of intent obtained by Industrial Development Corporation of Orissa Limited and transferred to the Company for implementation				
1	Ferro-Vanadium project ..	11.2.1969	25,00	10·95	Norwegian collaboration is being sought.
2	Sponge iron project ..	8.9.1970	28,60	3·81	Clearance of the Government of India for foreign collaboration awaited.
3	Tyres and tubes project ..	12.12.1970	33,59	15·74	A company was registered in October 1974. The project has been deferred.
4	Calcium carbide project ..	11.11.1971	5,00	0·03	Project report under preparation. Tie up with collaborator has not been finalised.
5	Refractory project ..	28.1.1974	7,00	0·81	New Company formed. Sanction for finance is under consideration and land acquisition in progress.
6	Electrolytic manganese dioxide ..	8.2.1974	3,50	2·46	New Company formed. Project report under preparation.
	(b) Letters of intent obtained by the Company				
7	Tool room project ..	16.11.1975	1,00	0·81	Project gone into partial production with existing machinery. Finance and land to be arranged.
8	Refined vegetable oil ..	5.6.1976	2,00	Nil	Negotiation under way with potential collaborators.
9	Acetic acid ..	5.8.1976	1,50	Nil	
10	Export oriented bicycle ..	29.9.1976	2,42	Nil	
11	Acetylene black ..	18.11.1976	2,00	Nil	This is proposed to be an integrated project with the calcium carbide project. Foreign technical know-how is being sought.
12	Maleic anhydride ..	13.12.1976	3,50	Nil	Negotiation for joint venture collaboration in progress.
13	Fibre glass project ..	24.11.1977	10,00	Nil	Negotiation under way with potential collaborators.
14	Sulphuric acid and oleum ..	31.12.1977	1,50	Nil	
15	Conveyor belting ..	31.12.1977	3,00	Nil	
	(c) Letter of intent obtained by a private party				
16	Synthetic detergent ..	6.4.1974	2,43	0·20	Company registered in March, 1977, but the project was given up as the letter of intent was not revalidated by the Government of India.

APPENDIX

(Reference : Paragraph 10.4

Summarised financial results of working of Statutory Corporations on the basis of

Serial number	Name of the Corporation	Name of the Department	Date of incorporation	Year of accounts	Total capital invested
1	2	3	4	5	6
1	Orissa State Electricity Board.	Irrigation & Power	March 1971	1977-78	254,40·72
2	Orissa State Financial Corporation.	Industries ..	March 1956	1977-78	..
3	Orissa State Warehousing Corporation.	Agriculture and Co-operation	March 1958	1977-78	54·33
4	Orissa State Road Transport Corporation.	Commerce and Transport	May 1974	1975-76	8,61·11

NOTE—(1) Capital invested represents paid-up capital *plus* long-term loans *plus* free

(2) In case of Orissa State Financial Corporation, capital employed capital, (*ii*) bonds and debentures, (*iii*) reserves, (*iv*) borrowings including

(3) In case of other statutory corporations, capital employed represents