



**REPORT**  
**OF THE**  
**COMPTROLLER**  
**AND**  
**AUDITOR GENERAL OF INDIA**  
**FOR THE YEAR**  
**1978-79**

**GOVERNMENT OF ORISSA**  
**( COMMERCIAL )**



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## PREFATORY REMARKS

Government commercial concerns, the accounts of which are subject to audit by the Comptroller and Auditor General of India, comprise

Government Companies;

Statutory Corporations; and

Departmentally managed commercial and *quasi-commercial* undertakings.

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

3. The cases mentioned in the Report are those which came to the notice of Audit during the year 1978-79 as well as those which had come to notice in earlier years but could not be dealt with in the previous Reports; matters relating to the period subsequent to 1978-79 have also been included, wherever considered necessary.

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

5. There are certain companies wherein Government has invested funds but the accounts of which are not subject to audit by the Comptroller and Auditor General. Particulars of two such companies in each of which Government investment was more than Rs. 10 lakhs as on 31st March 1979 are given below :

Name	Investment (Rupees in lakhs)	Percentage of Government investment to the total paid-up capital
Orissa Cement Limited, Rajgangpur	40.00	12.9
Orissa Textile Mills Limited, Choudwar, Cuttack	12.75	17.3

6. The Comptroller and Auditor General is the sole auditor of Orissa State Electricity Board and Orissa State Road Transport Corporation, (Statutory Corporations) while he has the right to conduct audit of Orissa State Financial Corporation and Orissa State Warehousing Corporation independently of the audit conducted by Chartered Accountants appointed under the respective Acts.

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

## CHAPTER I GOVERNMENT COMPANIES SECTION I

### 1.1. Introduction

As on 31st March 1979, there were 52 Government Companies (including three subsidiaries) in the State with an aggregate investment of Rs. 50,81.57\*, lakhs by Government (as share capital) as summarised below:

	Number of Government Companies	Government investment (Rupees in lakhs)
(i) Companies wholly owned by Government (excluding subsidiaries).	16	48,62.19
(ii) Companies partly owned by Government —		
(a) Companies floated under the Pilot Project Scheme started in 1958 to promote small scale industries	30**	53.39
(b) Others	3	1,65.99
<b>Total</b>		<b>50,81.57</b>

\* Rupees 51,08.52 lakhs as per the Finance Accounts; the difference of Rs. 26.95 lakhs transfer of shares by 5 companies to private parties (Rs. 7.90 lakhs), refund of shares to a Company under liquidation (Rs. 12 lakhs), 5 liquidated companies (Rs. 5.40 lakhs) and non-Government companies (Rs. 1.65 lakhs) is under reconciliation.

\*\*Out of total share holding of Rs. 2,34,000 shares valued at Rs. 1,48,095 held in Utkal Foundry and Engineering Company Limited (a pilot project company) were transferred to the private entrepreneur between November 1969 and March 1978. It was also decided (March 1979) to transfer the balance holding of Rs. 85,905, receipt of amount from the entrepreneur is awaited.

During the year, three new companies were incorporated as per details given below :

	Date of incorporation
Orissa Maritime and Chilika Area Development Corporation Limited	August 1978
Orissa Seed Development Corporation Limited	March 1979
State Cashew Development Corporation Limited	March 1979

1.2. During 1978-79, Government disbursed loans aggregating Rs. 35.49 lakhs to 3 Government Companies and received Rs. 100.10 lakhs by way of repayment of principal from Government Companies.

1.3. At the end of the year, loans from Government amounting to Rs. 978.21 lakhs were outstanding against 8 Government Companies. This included Rs. 658.89 lakhs \* on account of overdue principal from five Companies. The interest overdue as on the 31st March 1979 from 6 Companies was Rs. 576.55 lakhs\*. The details are given below :

Name of the Company	Balance outstanding as on the 31st March 1979		
	Amount of loan	Overdue Principal	Amount Interest
	(Rupees in lakhs)		
Industrial Development Corporation of Orissa Limited	612.24	349.86	324.63
Orissa State Commercial Transport Corporation Limited	209.47	209.47	181.81
Orissa Agro Industries Corporation Limited	57.50	50.70	37.42
Orissa Small Industries Corporation Limited	34.78	32.86	15.54
Orissa State Handloom Development Corporation Limited	18.43	..	..
Orissa Construction Corporation Limited	16.00	16.00	6.15
Orissa Fisheries Development Corporation Limited	15.80	..	11.00
Orissa Lift Irrigation Corporation Limited	13.99	..	..
<b>Total</b>	<b>978.21</b>	<b>658.89</b>	<b>576.55</b>

\* Information regarding overdue principal from 3 companies and interest from 2 Companies was not available.

#### 1.4. Guarantees by Government

As on 31st March 1979, Government had guaranteed the repayment of loans (maximum amount : Rs. 21,75.71 lakhs) raised by 5 Government Companies against which Rs. 17,19.32 lakhs were outstanding.

The Companies are required to pay guarantee commission at rates ranging from 0.01 to 1 per cent of the guaranteed amount outstanding. Details of guarantee commission paid are awaited (August 1980). Government paid Rs. 14.54 lakhs (during 1970-71 to 1974-75) in discharge of guaranteed liabilities on behalf of 8 Government Companies of which 5 are under liquidation. The amount has not been recovered from these Companies so far (August 1980).

#### 1.5. Accounts in arrears

The accounts of all the 49 companies (excludes 3 Companies incorporated in 1978-79) were in arrears and the extent of arrears (as in January 1980) are given in Appendix-I. The matter has been reported to Government from time to time.

#### 1.6. Return on investment

During 1978-79 Government received a dividend of Rs. 0.28 lakh on its investments (Rs. 50,81.57 lakhs) in the share capital of Government Companies.

A synoptic statement showing the summarised financial results of 11 Government Companies, on the basis of the latest available accounts, is given in Appendix—II

There were three Companies in the State which came with in the ambit of section 619-B of the Act, as on March 1979, viz. East Coast Breweries and Distilleries Limited, Cuttack, Mamta Drinks and Industries Limited, Rourkela and Orissa Tool Room and Engineering Company Limited, Sunabeda, with an aggregate paid-up capital of Rs 117.26 lakhs, of which Rs. 91.87 lakhs were held by the State Government and Companies and Corporations owned or controlled by Government.

## SECTION II

## ORISSA SMALL INDUSTRIES CORPORATION LIMITED

## 2.1. Supply of plant and machinery to educated unemployed

The scheme for assisting the educated unemployed in the procurement of machinery and equipment on hire—purchase basis for starting small scale industries was taken up by the Company in September 1973. Mention was made in paragraph 3.4 of the Audit Report (Commercial) for the year 1975-76 about the supply of machinery and equipment to 97 entrepreneurs by the Company. The cost of the machinery and equipment supplied was treated as loan. The Company had spent Rs. 72.63 lakhs in supplying machinery and equipment to these entrepreneurs up to 31st March 1977. A sum of Rs. 70 lakhs was obtained from Government (Rs. 40.00 lakhs, bearing interest at 6.25 per cent per annum), State Bank of India (Rs. 30.00 lakhs, bearing interest at 11 per cent per annum) and the balance, Rs. 2.63 lakhs was met from its own resources. The loan assistance to the educated unemployed carried interest at 13.5 per cent per annum up to November 1974 and at 16 per cent thereafter. The scheme was discontinued from June 1975; disbursements, however, continued till March 1977 against sanctions accorded up to June 1975.

The following points were noticed:

(a) The loans are repayable by the entrepreneurs in 13 half-yearly instalments after an initial moratorium of 18 months. The position of the recoveries of loans is tabulated below :

Year	Overdue instalment at the beginning of the year	Instalments falling due during the year	Total	Amount collected	Overdue instalments at the end of the year	Percentage of default to total dues
1974-75	Nil	0.03	0.03	Nil	0.03	100
1975-76	0.03	1.62	*1.65	0.38	1.27	77
1976-77	1.27	16.08	17.35	1.59	15.76	91
1977-78	15.76	15.27	31.03	2.09	28.94	93
1978-79	28.94	15.78	44.72	3.46	41.26	92

\* Differs from Rs. 4.07 lakhs mentioned at page 27 of the Audit Report (Commercial) for the year 1975-76. The discrepancy is under reconciliation.

It will be seen that against a total amount of Rs. 72.63 lakhs advanced during the period 1974-75 to 1976-77, the default as on 31st March 1979 amounted to Rs. 41.26 lakhs. A review in audit (October 1979) indicated that the poor realisations were mainly due to inadequate follow-up action. The Company stated (October 1979) that an officer had been appointed for proper follow-up (June 1979) and recoveries would improve.

(b) The overdue amount of Rs. 41.26 lakhs related to 69 entrepreneurs. A review by the Board of Directors (October 1979) revealed the following :

- (i) Seven entrepreneurs to whom Rs. 8.34 lakhs were disbursed (during January 1974- June 1975) had not commenced business due to lack of power (4 cases), lack of working capital (1 case), non-receipt of machinery (1 case) and non-sanction of industrial licence by the Greater Cuttack Improvement Trust (1 case).
- (ii) Against Rs. 1.43 lakhs disbursed to 5 parties, in 4 cases machinery was seized (during September 1974-September 1975) due to prolonged default and 1 entrepreneur surrendered the machinery. In 1 case the machinery was disposed of at a loss of Rs. 0.15 lakh; the Management stated (January 1980) that legal action was being initiated to recover this loss from the entrepreneur.
- (iii) Twenty-two units to whom Rs. 19.56 lakhs had been disbursed (during December 1973-August 1975) were either sick or closed. No action had been taken by the Company for their revival (October 1979), reasons for which were not available. The Management stated during discussions (January 1980) that action for the revival of the units had since been initiated.
- (iv) Thirty-five units to whom Rs. 20.56 lakhs were disbursed (during May 1974-November 1975) were running below capacity.

(c) As the Company did not realise the dues from the entrepreneurs, it also defaulted in repayment of instalments of the principal and payment

of interest on the loans obtained from Government and the State Bank of India. Details of default as on 31st March 1979 are as follows :

	Government	State Bank of India	Total
	(Rupees in lakhs)		
Principal ..	19.66	30.00	49.66
Interest ..	13.66	9.50	23.16
	<hr/>	<hr/>	<hr/>
Total ..	33.32	39.50	72.82

(d) Machinery and equipment supplied on hire is required to be insured by the entrepreneurs in the name of the Company against fire, loss, damage or destruction, etc. The Company did not have any information about the actual insurance cover taken by the entrepreneurs (August 1980).

While the scheme contemplated a target of assisting 800 entrepreneurs, it covered only 97 entrepreneurs of which 34 (35 per cent) had ceased to function and 35 (36 per cent) were working below capacity.

The Management stated (January 1980) that "the poor recovery of the loans is mainly due to unsatisfactory working of the units". The reply was endorsed (March 1980) by the Government.

## 2.2. Show room-cum-sales centre at Paradip

The Company set up a show room-cum-sales centre at Paradip port (January 1977) for publicising and marketing handloom textiles and handicrafts. The centre was to be run on a 'no-profit-no-loss' basis. The Company had not undertaken any survey of the market before setting up the sales centre. The sale prices were fixed by adding a margin to the purchase cost to cover all incidental expenses. The margin was fixed at 5 per cent up to October 1977 and thereafter raised to 20 per cent on handlooms, 15 per cent on filigree items and 10 per cent on leather goods.

The following are the working results of the centre :

	1976-77 (January-March 1977)	1977-78	1978-79 (April-December 1978)
	(Rupees)		
Purchase ..	26,597	1,16,182	Nil
Expenditure on staff and interest on capital invested	5,725	62,442	35,626
Sales ..	715	32,276	41,581
Closing stock ..	25,881	1,08,549	66,642
Loss ..	(—)5,726	(—)63,680	(—)35,952

(Figures are based on provisional accounts)

After a review of the performance of the centre in July 1978 the Board of Directors decided that the results may be watched till December 1978 for a decision whether it should be continued or not. The General Manager of the Company inspected the centre in August 1978 and reported that there was no possibility of improving the turnover and that the centre's sales had been affected by the opening of a sales centre of Orissa Handloom Weavers Co-operative Society Limited, at Paradip, in May 1978. Considering the uneconomic working of the centre, the Board decided (October 1978) to close it down with immediate effect. The centre was closed down on 31st December 1978. The working of the centre resulted in a total loss of Rs. 1.18 lakhs (including a loss of Rs. 0.13 lakh on the disposal of furniture and fixtures). The closing stock of Rs. 0.67 lakh was transferred to the store at Bhubaneswar, of which stocks worth Rs. 0.50 lakh were transferred to the sales emporium at New Delhi, and the balance (Rs. 0.17 lakh) was awaiting transfer / disposal (August 1980).

The Company stated (March 1979) that "with a view to boost exports and to encourage the artisans in consonance with the policy decided by the Government of India, opening of sales emporia was considered but unfortunately the sales centre was not able to make the desired impact in generating the export promotion".



### 2.3. Sale of television sets from sales office at Calcutta

The Company opened a sales office (April 1975) at Calcutta, under the charge of a Sales Manager, for marketing television sets and to provide after-sales service to the customers. The monthly sales returns revealed that the Sales Manager had been selling television sets on credit for which he had no authority. The head office of the Company advised the Sales Manager (December 1976) to stop the credit sales and to collect the outstanding dues.

The Sales Manager was transferred (February 1977) from the sales office, Calcutta to the head office at Cuttack and was entrusted with sundry jobs till November 1977 and thereafter he was assigned no work until 24th October 1978 when his services were terminated. An amount of Rs. 0.21 lakh was paid to him towards salary and allowances during the period he remained idle. Between July 1976 and February 1977, the Sales Manager had sold television sets on credit (Rs. 7.79 lakhs) of which a sum of Rs. 0.33 lakh is yet to be recovered (August 1980).

Government stated (September 1979) as follows:

"As a general trade practice the Sales Manager was delivering the sets against requisition from dealers and collecting the payment afterwards by cheque or cash. In fact there are certain prestigious dealers at Calcutta who disapprove the idea of sending advance payments before getting the sets. The Sales Manager, however, was found to be indiscreet in his approach rather than selective and the fact remains that he was not authorised to do so".

Regarding unrecovered dues the Management stated (August 1979) that "steps are being taken to realise the same through money suits." The reply has been endorsed (September 1979) by Government.

### 2.4. Loss of interest

In order to assist the new small scale industrial units of the State in meeting their working capital requirements, the Company formulated a "Bridge Loan Scheme" in August 1977. The Company drew a loan of Rs. 7.50 lakhs from the State Government (September 1978) carrying

interest at 10 per cent per annum with a rebate of 1½ per cent for timely repayment. The loan together with interest was repayable within a maximum period of one year.

Facilities under the scheme were intended for new small scale industrial units registered with the Director of Industries, Orissa, preference being given to graduate engineers and diploma holders in engineering. The advances limited to Rs. 50,000, could be raised to Rs. 1.00 lakh in special cases and were to be repaid (with interest at 10 per cent) within a maximum period of six months. The Company advertised in the press and circulated the Schemes to the district industries centres (August 1978) but there was no response. While the amount could not be utilised, the loan (Rs. 7.50 lakhs) had not yet been repaid (August 1980). Meanwhile Rs. 0.81 lakh had accrued as interest up to October 1979.

The Company stated (October 1979) that the loan was diverted towards the normal business of the Company. No approval of Government was, however, taken for the diversion (December 1979). It was further stated (November 1979) that Government had been requested (July 1979) to consider conversion of the loan amount into equity and that Government decision was awaited (August 1980).

### 2.5. Conversion of square bars into rods

In pursuance of the policy of the Government to supply scarce raw materials to small scale industrial units at fair prices, the Company procures these from the producers and distributes them among the small scale units within the State. The requirements of these units are periodically assessed by the Director of Industries (on the basis of information furnished by the units) and intimated to the Company on the basis of which it procures the required raw materials. No agreements are, however, executed with the indenting units (binding them to purchase the materials from the Company) nor any advances or security deposits obtained from them.

In August 1975, the Company procured 99.7 tonnes of 50 mm. iron square bars at a cost of Rs. 1.82 lakhs (at Rs. 1,825.48 per tonne) for a small scale unit at Rourkela. The unit did not lift the material, the reasons for

which were not available. The Company sold 6 tonnes (at Rs. 1,975 per tonne) to other agencies (November 1976) but could not dispose of the balance as the highest rate obtained against the offer to sell was only Rs. 1,238 per tonne. As the Company was in need of round bars of 6 mm.—16 mm. for civil construction work, 91.163 tonnes of square bars were got converted into round bars (September 1977 to February 1978) at a cost of Rs. 0.48 lakh (including the cost of 7.576 tonnes lost in conversion). A quantity of 2.537 tonnes (value : Rs. 0.05 lakh) was lost in storage. The Company was thus put to an avoidable expenditure of Rs. 0.53 lakh in the transaction.

Government stated (August 1979) that there was no policy decision for executing agreements with small scale industries for procurement of iron and steel materials on their behalf.

#### 2.6. Loss due to non-collection of sales tax

The Company procures scarce and controlled raw materials like iron and steel, zinc sheets, paraffin wax, mutton tallow, etc. on the basis of assessments made by the Director of Industries, Orissa, and supplies them to small scale industrial units in the State. The Company is registered as a dealer under the Orissa Sales Tax Act, 1947. The following are the details of the Company's taxable turnover, the tax collected from the customers and paid to the Sales tax authorities, and the amount of sales tax for which the Company was assessed for the four years up to 1975-76. (Assessments in respect of subsequent years are pending).

Year	Assessment made in	Taxable turnover	Sales tax collected and paid	Sales tax assessed	Short realisation
(Rupees in lakhs)					
1972-73	.. May 1976	84.94	3.01	3.11	0.10
1973-74	.. January 1977	184.16	5.87	6.01	0.14
1974-75	.. February 1978	198.63	4.93	6.27	1.34
1975-76	.. February 1979	36.95	1.29	1.42	0.13

After taking into account a rebate of Rs. 0.08 lakh allowed by the sales tax authorities, the Company had to pay, from its own resources, Rs. 1.63 lakhs (June 1976—March 1979) due to short/non-collection of sales tax. The Company appealed to the Assistant Commissioner of Sales Tax, Cuttack (June 1976/March 1978) against the assessment of additional tax amounting to Rs. 1.38 lakhs. The Company stated (May 1980) that the balance amount was being adjusted from the surplus deposits of the customers.

A review revealed that the difference of Rs. 1.63 lakhs between the amount of sales tax assessed and that collected was on account of the following :

Particulars	Number of cases	Amount (Rupees in lakhs)
Non-production of declaration forms ('D' forms) by the Company to tax authorities	229	1.31
Collection of tax at rates lower than those applicable	52	0.16
Declaration forms ('D' and 'E') not obtained from customers	57	0.12
Acceptance of invalid 'D' forms from customers	14	0.04
Total	352	1.63

No attempt was made to collect the tax in the above cases except in case of 16 customers (Rs. 0.09 lakh), from whom also there was no response.

On being pointed out (July 1979) by Audit the Company stated (May 1980) that they would, on finalisation of the appeal, collect the amount of tax actually payable by them from the customers. Government endorsed the statement of the Company (June 1980).

#### 2.7. Procurement of mica capacitors

Against an order placed (March 1974) at a negotiated rate of Rs. 22 each, the Company procured 5,000 mica capacitors from firm 'P' (April 1974—July 1975) for use in the manufacture of television sets. The procurement was based on a production target of 2,500 TV sets per annum for

1974-75 and 1975-76. Due to slippages in production, the Company had utilised only 1,462 capacitors up to July 1977. Meanwhile, a study in cost reduction revealed that the mica capacitors could be substituted by ceramic capacitors (cost : Re. 0.60 each). The use of the former was, therefore, discontinued and the Company is still holding 3,538 mica capacitors (value : Rs. 0.78 lakh) in stock (August 1980).

The Company stated (August 1979) that it had plans to utilise the stock in a phased manner in the more expensive models which were proposed to be marketed during the current year.

Reply of Government to whom the matter was referred in July 1979, is awaited (August 1980).

#### 2.8. Dues recoverable

In July 1975, the Company appointed firm 'N' of Calcutta as a distributor for its television sets. According to the terms of appointment the firm had to take delivery of 50 television sets per month against full payment in advance. In March 1976, with a view to promote sales, the Board of Directors decided to extend credit facilities to the distributors (at their request) against bank guarantees, and this facility was also extended to firm 'N'.

The normal procedure was not followed in the case of firm 'N' which was allowed to furnish the bank guarantee (from a nationalised bank) after taking delivery of the television sets from the Company. The Company stated (August 1979) that this deviation was allowed as a goodwill gesture to firm 'N'.

In June 1976, the firm took delivery of 17 television sets (Value: Rs. 47,777) on credit for which bank guarantees were furnished during June-July 1976. On 6th July 1976, firm 'N' took delivery of 4 television sets (Value: Rs. 12,580) on credit but failed to furnish the bank guarantee. Meanwhile, the distributorship of the firm was terminated effective from 20th July 1976 on the ground of poor

performance. The firm filed a suit in the City Civil Court, Calcutta (July 1976) challenging the termination and obtained a temporary injunction restraining the bank from paying the guaranteed amount of Rs. 47,777. While the temporary injunction was later vacated the bank refused to make the payment (August 1976) on the ground that the case was *sub-judice*. The Company approached the court (March 1977) to direct the bank to make the payment which was refused by the court (June 1979). Thereafter the Company filed a suit (June 1979) against the bank for the recovery of Rs. 47,777 and another suit against the firm (July 1979) for the recovery of Rs. 12,580. Further developments are awaited (August 1980).

The Company stated (August 1979) that there was nothing unusual in the transactions and these can be considered as normal hazards in commercial activity like sale of T. V. sets. Government to whom the matter was reported in July 1979 endorsed (June 1980) the views of the Company.

## SECTION III

## ORISSA MINING CORPORATION LIMITED

## 3.1. Avoidable expenditure due to delay in payment of power surcharge

The Company started drawing power at 2,000 KVA from the State Electricity Board for its iron ore handling plant (Daitari Iron Ore Project) from 15th September 1970. In October 1970 (during the trial runs of the plant) consequent on disputes with the contractors for the project the Company received an injunction order from Calcutta High Court restraining it from working the plant. As power could not be fully used, the Company requested the State Electricity Board (2nd February 1971) to charge for the power actually consumed and not on the basis of 2,000 KVA. While there was no response from the Board, the Company paid the bills (as received) for the minimum charges, on the basis of 2,000 KVA. An amount of Rs. 6.88 lakhs was paid for the period October 1970 to June 1972 as against Rs. 2.20 lakhs computed on the basis of actual consumption. In July 1972 the Company stopped further payments and requested the Board for adjustment of the amount paid in excess (Rs. 4.68 lakhs) against future consumption charges. The injunction order was vacated by the Court on 8th December 1973 and the Company resumed the operation of the plant. Arrear dues up to February 1974 amounting to Rs. 7.12 lakhs were paid in June 1974 after deducting the amount of Rs. 4.68 lakhs which the Company had considered to be the excess payment. Thereafter the energy bills were paid regularly as per demands raised by the Board from time to time.

As the Company had not been paying (during July 1972 to June 1974) the energy charges as billed, the Board levied from time to time a delayed payment surcharge (at one-fifteenth of one per cent per day). The request of the Company for waiver having been rejected (October 1978) by the Board, payment of Rs. 11.77 lakhs was made (May 1979) towards the delayed payment surcharge (for the period July 1972 to October 1978) in respect of the demand for the period July 1972 to June 1974.

The Company stated (December 1979) that "it was rather unfair and unreasonable on the part of the OSEB to have billed the OMC to pay delayed payment surcharge...and that OMC could have contested the claim of OSEB in a Law Court. But the OSEB being a State Government undertaking, OMC decided to pay the delayed payment surcharge.....". The reply was endorsed (February 1980) by Government.

## 3.2. Electrical shovel

On the basis of an annual production programme of 1.6 million tonnes of washed ore, the Company procured (1967-68) 4 (including 2 electrical) shovels for mechanised mining at the Daitari Iron Ore Project. One electrical shovel (capacity : 4.5 tonnes ; cost : Rs. 8.30 lakhs) was found to be surplus to requirements and was not erected/commissioned. When the Company decided to start second shift operations of the ore handling plant (September 1978) and to commission this shovel, it was found (February 1979) that the shovel was not in a usable condition and many of its parts were missing. At the request of the Company, a service engineer of the suppliers visited the mines (February 1979) and after inspection recommended purchase of 107 items of parts (cost : Rs. 10.02 lakhs approximately) for commissioning the shovel. The Company, however, estimated the cost of spares and parts needed to erect and commission the shovel at Rs. 2.28 lakhs.

The local management stated (July 1979) that as many as 54 items of parts of this shovel were taken out and utilised from time to time in the operation of the other shovels, and other parts had become unserviceable due to exposure to the weather. The Company stated (December 1979) that "the project authorities have been instructed to prepare a list of spares and parts taken out from the uncommissioned electrical shovel and utilised elsewhere." Government endorsed (March 1980) the reply of the Company. The electrical shovel purchased in 1967-68 at a cost of Rs. 8.30 lakhs remains unutilised.

## 3.3. Sale of Manganese ore

In January 1977, the Company entered into an agreement with firm 'S' of Visakhapatnam for the supply of 2,500 tonnes of manganese ore

(manganese content : 38-40 per cent and maximum phosphorus content : 0.35 per cent) at Rs. 65 per tonne f.o.r. Rayagada. The price was subject to adjustment on the basis of actual manganese content. Consignments were to be booked by rail, 'freight to pay' in the name of the buyer, to Visakhapatnam port. Supplies were made in 39 consignments during 6th April—19th May 1977. The following points were noticed in audit :

(i) The cost of production and transportation to the loading point of 1,885.44 tonnes of ore sold was Rs. 2.17 lakhs against which the Company realised Rs. 1.10 lakhs, resulting in a loss of Rs. 1.07 lakhs. The price realised did not even cover the pit-head cost (Rs. 1.28 lakhs). The Company stated (November 1979) that Nishikal ore had to be marketed under peculiar circumstances, for export.

(ii) There were no arrangements for quality control either at the mine head or at the loading point. In a meeting with the buyers (17th May 1978), it was decided that the buyer would accept ore with 0.45 per cent phosphorus with a flat deduction of Rs. 5 per tonne for phosphorus content exceeding 0.40 per cent. The actual percentage of phosphorus in the supplies varied from 0.428 to 0.449 as a result of which a penalty of Rs. 0.13 lakh had to be paid by the Company.

Government intimated (June 1980) that they have no comments to offer.

#### 3.4. Payment of pay and allowance of an officer on foreign service

A Superintending Engineer of the Irrigation and Power Department was on Foreign service with the Company from September 1975 initially for one year, later extended for another year. He was relieved from the service of the Company on 12th October 1977 with instructions to report to his parent department. According to the orders of the State Government (16th August 1973), no officer on deputation/foreign service is to be relieved from his post before issue of posting orders by the concerned Government department. The parent department issued orders on 24th

June 1978, posting him as Superintending Engineer (Mechanical) in the office of the Chief Engineer, Roads and Buildings. On 26th August 1978, the Irrigation and Power Department issued a notification extending the period of deputation of the officer with the Company up to 26th June 1978 and requested the Company to disburse his pay and allowances (as well as leave salary and pension contributions) for the extended period of foreign service. Though the Company was not agreeable to pay the same, the Mining and Geology Department (administrative department for the Company), stated (November 1978) that there was some administrative problems and that the Company could claim reimbursement of the amount from the Irrigation and Power Department later. The Company paid Rs. 0.22 lakh towards the pay and allowances and leave salary and pension contributions of the officer from 13th October 1977 to 26th June 1978, although the officer had not performed any duties for the Company. The Company also did not claim reimbursement from Government.

The Company stated (November 1979) that the officer was paid in pursuance of the orders of the Government (July 1979) instructing the Company to make payment and in view thereof the question of claiming reimbursement from Government did not arise.

Government, while accepting the above facts, stated (November 1979) that the officer was relieved without due notice to the Irrigation and Power department and as the instructions of the Finance Department dated 16th August 1973 had not been followed while relieving this officer, the Company was requested to pay the arrear dues.

## SECTION IV

## ORISSA ROAD TRANSPORT COMPANY LIMITED

## 4.1. Avoidable expenditure

On the basis of an unsolicited offer received from a firm of Calcutta (October 1975), the Company placed an order on the firm (March 1976) for the supply of a fuel injection pump testing bench at Rs. 66,000. No period of delivery was stipulated, reasons for which were not available. The firm stated (June 1976) that it had temporarily discontinued marketing of testing benches and expected to resume supplies by about September 1976 but the prices would be revised upwards. No supply was, however, made. In November 1976, the Orissa Lift Irrigation Corporation Limited (OLIC), another State Government Company, having learnt about the Company's requirement offered to supply an imported bench which was surplus to their requirement. The Company's Works Engineer inspected the bench and recommended its purchase (December 1976). OLIC was asked to intimate the price, but no reply was received. The Works Engineer later reported that OLIC was agreeable to supply the same at Rs. 32,876. The works Engineer suggested (February 1977) cancellation of the order on the Calcutta firm and procuring the bench from OLIC. For reasons not on record, no action was taken on this recommendation and the firm supplied the bench in September 1977 for Rs. 70,342, resulting in an avoidable expenditure of Rs. 37,466 as compared to price payable to OLIC.

The Company stated (November 1979) that they would have faced difficulties in spares and after-sales service for the OLIC bench. It may be mentioned, however, that dealers in this particular make of bench are available in the country who could render these services.

The matter was referred to Government in July 1979; the view of the Company was endorsed (March 1980) by the Government.

## 4.2. Non-recovery of Sales tax

The Company periodically disposes of old and unserviceable spare parts, tyres and tubes, bus bodies etc., by auction. These transactions became liable for assessment of sales tax by an amendment in 1974 to the Orissa Sales Tax Act, 1947. The Company, however, neither registered itself as a 'dealer' nor did it collect any sales tax on such sales. For the three years up to 1976-77 the Company was assessed (December 1976-February 1979) to sales tax aggregating Rs. 0.56 lakh (on a turnover of Rs. 8.32 lakhs) besides a penalty of Rs. 0.21 lakh for not registering itself as a dealer. Against the total liability of Rs. 0.77 lakh, the Company paid Rs. 0.30 lakh (Rs. 0.16 lakh in March 1977 and Rs. 0.14 lakh in March 1978) and obtained stay orders (March 1977/August 1978) to the extent of Rs. 0.27 lakh in respect of assessments for 1974-75 and 1975-76. Final orders are awaited (August 1980). In respect of 1976-77, the Company was assessed to a tax of Rs. 0.18 lakh and a penalty of Rs. 0.02 lakh. As the appeal filed before the Assistant Commissioner of Sales Tax, Berhampur, failed, the Company paid the tax and penalty (August 1979). The assessment from 1977-78 onwards is pending.

The Company stated (September 1979) that steps were being taken to incorporate a clause for the collection of sales tax in the tender notices. It also got itself registered as 'dealer' under Orissa Sales Tax Act, in September 1979.

## SECTION V

## ORISSA STATE COMMERCIAL TRANSPORT CORPORATION LIMITED

## 5. Disposal of tractor-trailers

The Company had acquired (June 1967) 19 Hippo tractors (value : Rs. 28.87 lakhs) and 21 (30 tonne) trailers (value : Rs. 17.85 lakhs) for transportation of iron ore from the Daitari iron ore mines of Orissa Mining Corporation Limited (OMC) to Paradip port over the express way specially constructed for the purpose. While there was no firm commitment from OMC it was anticipated that 2 million tonnes of ore per annum would have to be transported. The tractor-trailers were not put to adequate use reportedly due to inadequate work load besides certain problems in their maintenance and operation like bad cabins, defective steering mechanism, etc. The vehicles were progressively withdrawn from service between January 1968 and December 1974; the effective period for which each vehicle was in service ranged between 1—10 months and the vehicles had covered between, 1,003—21,122 km each.

In March 1976, the Board of Directors decided that these uneconomical vehicles should be disposed of since there was no possibility of their utilisation. The vehicles were accordingly disposed of in October 1977 against the highest offer of Rs. 11.67 lakhs resulting in a loss of Rs. 25.92 lakhs as compared to the book value of Rs. 37.59 lakhs.

The Company stated (November 1979) that since the vehicles could not be used for a considerable period and were deteriorating as a result, it was decided to sell them as quickly as possible at whatever rate could be obtained in open tender.

The matter was referred to Government in August 1979; reply is awaited (August 1980).

## SECTION VI

## ORISSA LIFT IRRIGATION CORPORATION LIMITED

## 6. Loss on account of payment of interest

On 27th December 1978, the Company obtained a temporary ways and means advance (for a minimum period of 3 months) of Rs. 75 lakhs from the State Bank of India for use as bridging finance for Lift Irrigation Projects sanctioned by the Agricultural Refinance and Development Corporation. The advance carried interest at 1 per cent above the Bank's advance rate, subject to a minimum of 14 per cent per annum with quarterly rests. The amount was invested the same day in a short term deposits with the same Bank for 91 days with interest at 4 per cent per annum. The advance was repaid on the maturity of the deposit in March 1979. While the Company paid interest amounting to Rs. 2.17 lakhs to the State Bank of India, it received Rs. 0.76 lakh on the short term deposit, resulting in an avoidable expenditure of Rs. 1.41 lakhs.

Government stated (September 1979) that the loan was obtained to mitigate the difficulties faced by the Company in meeting working finance and the State Bank of India had stipulated that the loan should be drawn by 31st December 1978. However, as the money was not immediately required the same was invested in short term deposit with a view to recoupe a part of the interest payable to State Bank of India.

## SECTION VII

## ORISSA CONSTRUCTION CORPORATION LIMITED

## 7. Idle investment

The Company was awarded the work of "construction of circulating concrete water duct" along with other civil works connected with Talcher Thermal Power Station (Expansion project) of the Orissa State Electricity Board (OSEB) in July 1976. The work was withdrawn by OSEB in October 1978 due to delay in execution by the Company which was stated by the Company (December 1979) to be due to increase in the quantity of rock excavation over what was originally envisaged and the priorities fixed by the Board. As a result, 'Acrow' steel shutters procured by the Company for the work in May 1978 at a cost of Rs. 1.23 lakhs could not be utilised. These shutters could also not be disposed of to OSEB as the latter had switched over to steel structures. The Company having failed to dispose of the shutters, these were still lying in stock (April 1980).

The Company stated (December 1979) that the Chief Construction Engineer and Additional Chief Engineer (Irrigation) in charge of major irrigation projects would be requested to find out possible use for these surplus materials in other projects.

The Government to whom the matter was referred in November 1979 stated (April 1980) that they do not have any remarks to offer on the reply furnished by the Company.

## SECTION VIII

## ORISSA FISHERIES DEVELOPMENT CORPORATION LIMITED

8. Mention was made in paragraph 9 of the Audit Report (Commercial) for the year 1973-74 about certain aspects of the working of the Company.

The Government had taken a decision for the liquidation of the Company in August 1969. The decision was, however, not implemented pending finalisation of the accounts. The Company stopped its activities in February 1970. The audited accounts for the year 1970-71 (approved by the Board in October 1978) revealed a cumulative loss of Rs.35.28 lakhs. According to the accounts for the year 1977-78 approved by the Board in May 1979 (not yet audited), the cumulative loss up to 31st March 1978 amounted to Rs. 48.83 lakhs as against Government's investment of Rs. 44.73 lakhs. (Share Capital: Rs. 35.00 lakhs; and loans Rs. 9.73 lakhs). The Company's net fixed assets amounted to Rs. 0.35 lakh and its net worth as at 31st March 1978 was (—) Rs.0.14 lakh.

(i) The current assets (Rs.7.24 lakhs) included Rs.1.08 lakhs representing damaged stock of fish meal and dry fish, nets, etc. Of this, the Board had written off Rs. 0.46 lakh (May 1979) in respect of fish meal and dry fish as the persons responsible for the loss had either expired or left service. An amount of Rs. 0.32 lakh in respect of nets was written off (May 1979) as no responsibility could be fixed on any single person.

(ii) Outstanding dues amounting to Rs. 0.33 lakh on account of sale proceeds, hire charges, outstanding advances, etc. were written off by the Board (December 1978) as these had become time-barred. No responsibility was fixed. Besides, there were debts amounting to Rs.1.64 lakhs which were doubtful of recovery.

The matter was referred to the Company/Government in November 1979; and the factual position was accepted (January 1980) by them.



## SECTION IX

## ORISSA FOREST CORPORATION LIMITED

## 9.1 Non-realisation of depot rent

The Company sells round timber through periodical public auctions at its sales depots. As per the terms of auction sale notice, the successful tenderer has to take delivery of the timber within 30 days of the auction which, in exceptional cases, can be extended by the Divisional Manager by 15 days under intimation to the Managing Director. In case of default the party has to pay depot rent at 5 paise per cft. per day.

A test check of the records in Bhanjanagar and Bhubaneswar divisions revealed that in 103 cases of auction sales (quantity: 16,817 cum.) held between April 1978 and January 1979, the parties did not lift the timber within the prescribed grace period. The delays ranged between 3 and 105 days involving a recovery of Rs.0.59 lakh from the defaulting parties. The Divisional Managers did not report, the extension allowed, to the Managing Director. Neither were recoveries effected nor were any reasons recorded for not recovering the depot rent. The Divisional Manager at Bhanjanagar stated that rent was not collected in order to maintain good relations; no reasons were furnished by the Bhubaneswar Division. The Divisional Managers are not competent to waive recovery of such charges.

The matter was referred to the Company/Government in November 1979; replies are awaited (August 1980).

## 9.2 Avoidable payment of interest

The Company has a sales depot at Aurangabad for the sale of kendu leaves which functions under the Regional Office at Calcutta. The sale proceeds of kendu leaves are deposited into a separate account (No. IV) in the State Bank of India at Aurangabad. The Company had instructed the bank (November 1976) to transfer telegraphically the funds (retaining a balance of Rs. 1,000) from time to time into their account in the Burrabazar branch (Calcutta), and the latter was in turn required to telegraphically

transfer the amounts (retaining a balance of Rs. 50,000) to the Company's kendu leaf current account (No. IV) with the Bhubaneswar branch of the bank. These arrangements were intended to reduce the balances of the cash-credit facility availed of by the Company at Bhubaneswar for which interest was payable at Rs. 13.75 per cent per annum.

A test check of the transactions in bank account No.IV at Aurangabad for 1977-78 and 1978-79 revealed that the period in the transfer of balances in excess of Rs. 1,000 to the Burrabazar branch (Calcutta) ranged between 25 to 126 days between one transfer and the next with consequential delays in the transfer of funds from Calcutta to the Bhubaneswar branch. Computed with reference to the delayed transfers of balances at the rate of interest applicable to the cash-credit account, the Company had made an avoidable payment of interest of Rs. 0.46 lakh during July 1977 to February 1979.

Government stated in March 1980, that it was reported by the Company that they had asked their officer, stationed at Calcutta to check up the remittance position from the concerned Bank and his report was awaited. They further stated that the Company could only depend on the bank for faithfully carrying out its instructions.

CHAPTER II  
STATUTORY CORPORATIONS  
SECTION X

## 10.1. General

There were four Statutory Corporations in the State as on 31st March 1979 ; Orissa State Electricity Board, Orissa State Financial Corporation, Orissa State Warehousing Corporation and Orissa State Road Transport Corporation.

The accounts of Orissa State Road Transport Corporation for 1977-78 and 1978-79 are in arrears (August 1980).

## 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 Electricity Department. The value of the assets transferred to the Board up to 31st March 1979, 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 also granted loans in cash to the Board. Further, the Board raised funds from time to time by issuing bonds and obtaining loans from the Life Insurance Corporation of India, the Rural Electrification Corporation Limited, the Industrial Development Bank of India and the Agricultural Refinance Development Corporation. The long-

\* The figure differs from that shown (Rs. 65.50 crores) in sub-para (c) under para 1.12 of the Audit Report Government of Orissa (Civil) for 1978-79, 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.

term loans outstanding as on 31st March 1979 were Rs. 2,92,62.53 lakhs, the break-up of which, by the source of finance, is given below :

	As on 31st March 1978	As on 31st March 1979	Increase over the previous year
(Rupees in lakhs)			
<b>(a) Loans from Government</b>			
—Value of assets transferred ..	63,75.78	63,75.78*	..
—Cash loans ..	64,94.22	82,10.46	17,16.24
—Investment in loan bonds ..	57,62.51	67,82.92	10,20.41
Total (a) ..	1,86,32.51	2,13,69.16**	27,36.65
<b>(b) Other loans</b>			
—Life Insurance Corpora- tion of India ..	26,71.50	29.79.58	3,08.08
—Rural Electrification Cor- poration Limited ..	31,98.66	45.03.64	13,04.98
—Industrial Development Bank of India ..	3,56.18	3,40.20	(—)15.98
—Agricultural Refinance Development Corpora- tion ..	28.45	69.95	41.50
Total (b) ..	62,54.79	78,93.37	16,38.58
Total (a)+(b) ..	2,48,87.30	2,92,62.53	43,75.23

\* Differs from the figure of Rs. 65,99.47 lakhs mentined earlier under loan capital. The difference is under reconciliation.

\*\* Differs from details of loans shown in Finance Accounts for 1978-79 (Rs. 13,270.95 lakhs). The difference (Rs. 80,98.21 lakhs) is under reconciliation.

10.2.2. *Guarantees*

Government had guaranteed the repayment of loans aggregating Rs. 10,535.27\* lakhs raised by the Board up to 31st March 1979 and payment of interest thereon. The guarantee commission payable to Government but not paid was Rs. 0.48 lakh as on 31st March 1979.

10.2.3. *Working results*

The working results of the Board for 1978-79, with comparative figures for the preceding two years are shown below :

	1976-77	1977-78	1978-79
	(Rupees in lakhs)		
(i) Revenue receipts ..	34,05.94	35,35.69	48,11.23
(ii) Expenses on revenue account	34,31.87	32,54.48	40,87.43
(iii) Net surplus (+)/Deficit (—) as per consolidated revenue account	(—)25.93	(+)2,81.21	(+)7,23.80
(iv) Subsidy claimed for loss on rural electrification	6,70.00	5,00.00	1,90.00
(v) Amount available for appropriation under Section 67 of the Electricity (Supply) Act, 1948	7,48.07**	7,81.21	9,13.80
(vi) Appropriation towards interest on loans, general reserve and other reserves	7,48.07**	7,81.21	9,10.15
(vii) Balance available for appropriation towards interest on loans from Government	..	..	—3.65
(viii) Deficit for the year ..	4,84.07	11,80.38	16,72.51
(ix) Progressive deficit at the end of each year			
(a) Arrears of interest due to Government	19,78.55**	28,61.64	38,90.72
(b) Arrears of depreciation	..	2,97.29	9,40.72

\* The figure as per Finance Account for 1978-79 is Rs. 73,68.16 lakhs and the difference of Rs. 31,67.11 lakhs is under reconciliation.

\*\* These figures have been arrived at after adjusting Rs. 78.07 lakhs out of General Reserve.

## 10.3. Orissa State Financial Corporation

10.3.1. *Share capital*

The Corporation has an authorised capital of Rs. 3 crores consisting of 3,00,000 shares of Rs. 100 each. The paid-up capital as on 31st March 1979 was Rs. 176 lakhs :

Contributed by	As on 31st March 1978 (Rupees in lakhs)	Percentage of paid-up capital	As on 31st March 1979 (Rupees in lakhs)	Percentage of paid-up capital
State Government..	85.66	60.5	117.15	66.57
Industrial Development Bank of India.	40.00	28.3	43.00	24.43
Others ..	15.84	11.2	15.85	9.00
<b>Total ..</b>	<b>141.50</b>		<b>176.00</b>	

10.3.2. *Loans*

Long term loans (including bonds and debentures) obtained by the Corporation, were as follows :

Source	As on 31st March 1978	As on 31st March 1979
	(Rupees in lakhs)	
Open market loan by issue of bonds and debentures	685.00	937.50
Reserve Bank of India	50.00	..
Industrial Development Bank of India	634.67	800.12
<b>Total ..</b>	<b>1,369.67</b>	<b>1,737.62</b>

Government has guaranteed the repayment of the open market loan and payment of interest thereon under section 7 (1) of the State Financial Corporations Act, 1951.

Government has also guaranteed the repayment of capital and payment of minimum dividend at 3.5 per cent on the share capital of Rs. 104 lakhs and at 4 per cent on the additional share capital of Rs. 50 lakhs. Repayment of the balance share capital of Rs. 22 lakhs raised up to March 1979 (State Government : Rs. 15.00 lakhs ; IDBI, : Rs. 7.00 lakhs) and payment of minimum dividend thereon is not covered by State Government guarantee. The Corporation made a net profit of Rs. 0.25 lakh during 1978-79 as against the net profit of Rs. 0.24 lakh during 1977-78.

#### 10.4 Orissa State Warehousing Corporation

The Corporation has an authorised capital of Rs. 1 crore, consisting of 1,00,000 shares of Rs. 100 each. The paid-up capital of the Corporation as on 31st March 1979 was Rs. 59.76 lakhs contributed by the State Government and Central Warehousing Corporation as follows :

Contributed by	Number of shares	Amount (Rupees in lakhs)
State Government	.. 31,880	31.88*
Central Warehousing Corporation	.. 27,880	27.88
Total	.. 59,760	59.76

The Corporation made a net profit of Rs. 2.42 lakhs during 1978-79 as against the net profit of Rs. 2.31 lakhs during 1977-78.

\* The figures as per the Finance Accounts is Rs. 64.90 lakhs; the difference of Rs. 33.02 lakhs is under reconciliation.

#### 10.5 Orissa State Road Transport Corporation

The total paid-up capital of the Corporation as on 31st March 1977 was Rs.961.11 lakhs contributed as follows :

	Amount (Rupees in lakhs)
State Government	.. 807.59*
Government of India	.. 153.52
Total	.. 961.11

The Corporation obtained (April 1976) long term loans from the Industrial Development Bank of India under the bills rediscounting scheme. A total amount of Rs.99.79 lakhs (including interest) was outstanding as on 31st March 1977. The Corporation sustained a loss of Rs.55.20 lakhs during 1976-77 as against Rs.83.22 lakhs in 1975-76.

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

\* The figures as per the Finance Accounts is Rs. 334.00 lakhs; the difference of Rs. 473.59 lakhs is under reconciliation.

## SECTION XI

## ORISSA STATE ELECTRICITY BOARD

## TALCHER THERMAL POWER STATION (EXPANSION PROJECT)

## 11.1.1. Introduction

To meet the anticipated growth in the demand for power (795 MW) by 1975-76, in December 1971 the State Government submitted a project report to the erstwhile Central Water and Power Commission (now Central Electricity Authority) for the expansion of the 250-MW thermal power station (4x62.5-MW) at Talcher by installing 2 more units (V and VI) of 120-MW each. Certain aspects of this project were mentioned in paragraph 9.7 of the Audit Report (Commercial) for 1976-77. The expansion of the thermal power station was preferred to hydel power in view of a relatively shorter gestation period. The Planning Commission cleared the project in November 1972 for the setting up of 2 units of 110-MW each. The total cost of the project was estimated at Rs. 38.40 crores with a projected return of 9.32 per cent on the capital cost from the fifth year of operation. The plant and equipment was to be procured indigenously and the project was expected (November 1972) to be completed by March 1978. Supply of coal (estimated requirement: 7.20 lakh tonnes per year) was to be obtained from the Jagannath mines of Talcher coal fields.

The State Government entrusted (July 1972) the execution of the expansion project to the Orissa State Electricity Board (OSEB) as a Plan scheme whereby the Central Government places funds at the disposal of the State Government from time to time on the recommendation of the Planning Commission. The State Government in turn places the Board in funds by sanction of cash loans under Section 64 of the Electricity (Supply) Act, 1948, carrying specified rates of interest.

## 11.1.2. Execution of the project

The Chief Engineer (Generation) is overall charge of the project and is assisted by a Superintending Engineer (Planning, Procurement and Co-ordination). The execution of the project is under the charge of a Project Manager who is assisted by three Superintending Engineers.

## (i) Consultancy services

In May 1974 the Board appointed, on the basis of tenders, firm 'D' of New Delhi as the Consultants on a remuneration of Rs. 33.23 lakhs for engineering and design services (Rs. 25.75 lakhs) and construction supervision, liaison, start-up testing and commissioning of the project (Rs. 7.48 lakhs). An agreement with the Consultants was entered into in March 1975. The remuneration in respect of engineering and design services (Rs. 25.75 lakhs) was to remain firm till the commissioning of the project. The remuneration for other services was variable after May 1979 (date stipulated by the Consultants) according to a specified formula, subject to a ceiling of 5 per cent of the total remuneration (Rs. 33.23 lakhs). Up to June 1979, the Consultants had been paid Rs. 24.73 lakhs (Rs. 19.29 lakhs on account of engineering and design services and Rs. 5.44 lakhs for other services).

## (ii) Construction Programme

As against the original schedule of March 1978 for commissioning both the units, the target dates were revised from time to time (on the basis of actual progress of work) as follows :

Date of revision	Date for commissioning	
	Unit V	Unit VI
April 1975	.. July 1978	January 1979
June 1976	.. September 1978	March 1979
October 1977	.. December 1979	June 1980
December 1979	.. March 1981	September 1981

## (iii) Civil works

The execution of plant civil works was entrusted (July 1976) to the Orissa Construction Corporation Limited (OCC) and the works were

to be completed within 27 months (October 1978). The following was the actual progress of civil works by OCC as on 31st March 1979 :

Item	Quantity		Percentage of execution
	Estimated	Executed	
Excavation (Cum.) ..	1,19,910	1,08,937	91
Concreting (Cum.) ..	41,890	12,528	29
Erection of structural steel (tonnes)	4,780	2,332	49

(iv) Supply, erection and instrumentation works

Letters of intent for the supply, erection and commissioning of the boilers and turbo generators were placed on Bharat Heavy Electricals Limited (BHEL) in December 1975, and for instrumentation and control equipment on Instrumentation Limited, Kota, earlier, in March 1973. The letters of intent did not, however, stipulate any dates for delivery/completion.

The following table indicates the physical progress of erection work in respect of boilers and turbo generators and other critical items of work as at the end of August 1979 :

Item	Target dates for completion		Quantity/ value of work involved	Quantity/ value of work done	Percentage of work done	Remarks
	Original	Revised (October 1977)				
1	2	3	4	5	6	7
1. Erection of boilers						
Unit—V ..	June 1978	December 1979	5300 tonnes	4144 tonnes	78	Initial delay by the contractors for civil works
Unit—VI	August 1978	June 1980	5300 tonnes	945 tonnes	18	
2. Erection of turbo generators						
Unit—V ..	October 1977	December 1979	960 tonnes	350 tonnes	36	
Unit—VI	August 1978	June 1980	960 tonnes	..	..	

Item	Target dates for completion		Quantity/ value of work involved	Quantity/ value of work done	Percentage of work done	Remarks
	Original	Revised (October 1977)				
1	2	3	4	5	6	7
3. Water treatment plant						
Unit—V ..	June 1978	October 1979	Rs.118.72 lakhs	..	..	The work remained suspended during March-November 1979 due to non-finalisation of the sub-soil water level.
Unit—VI	September 1978	December 1979				
4. Coal handling plant (Plant end)						
Unit—V	August 1978	October 1979	Rs.60.00 lakhs	..	..	Delay in approval of construction drawings by consultants approved in October 1979.
Unit—VI	February 1980	May 1980				
5. Coal handling plant (Mine end)						
Unit—V	September 1978	October 1979	Rs.180 lakhs	Rs.70.38 lakhs.	39	Delay in award of the work.
Unit—VI	March 1979	May 1980				
6. Instrumentation and control equipments						
Unit—V	October 1977	September 1979	Rs.510.77 lakhs	Rs.70 lakhs	14	Delay in finalisation of specifications.
Unit—VI	August 1978	March 1980				
7. Low pressure piping						
Unit—V ..	May 1978	December 1979	Rs.88.50 lakhs	Rs.7.16 lakhs	8	Delay in award of the work and finalisation of drawings.
Unit—VI	August 1978	June 1980				
8. Ash handling system						
Unit—V	April 1978	October 1979	Rs.143 lakhs	Rs.65.90 lakhs	46	Delay in award of the work.
Unit—VI	September 1978	May 1980				

## (v) Other works

In respect of the following items, orders for supply and erection were placed between July 1978 to February 1979 (delays ranging from 16 to 18 months) with the delivery periods extending upto February 1980:

Item and Value	Due date for placement of orders		Actual date of placement of orders	Scheduled date for completion
	Original	Revised		
1. Water treatment plant (Rs. 118.72 lakhs)	March 1977	January 1978	July 1978	January 1980
2. Coal handling plant (mine end) (Rs. 180.00 lakhs)	August 1977	August 1978	February 1979	January 1980
3. Low pressure piping (Rs. 88.50 lakhs)	August 1977	February 1978	December 1978	December 1979
4. Ash handling system (Rs. 143.00 lakhs)	April 1977	February 1978	September 1978	February 1980

In May 1979, the Board requested the Consultants to revise the PERT charts for Unit V to be commissioned by June 1980 and Unit VI by October 1980. The PERT charts were, however, not revised, and in December 1979 the dates for commissioning were revised again. Unit V is to be commissioned in March 1981 and Unit VI in September 1981 as against March 1978 originally envisaged.

## 11.1.3. Utilisation of funds received for the project

The following table gives the year-wise details of plan outlay, loans given by the State Government to the Board and actual utilisation thereof:

Year	Plan outlay	Loans advanced by Government	Amounts utilised	Shortfall in utilisation
		(Rupees in lakhs)		
1973-74	1,20.00	1,20.00	1,20.00	..
1974-75	3,30.00	3,30.00	2,91.64	(-)38.36
1975-76	3,52.00	3,52.00	1,48.26	(-)2,03.74
1976-77	24,50.00	24,50.00	23,02.88	(-)1,47.12

Year	plan outlay	Loans advanced by Government	Amounts utilised	Shortfall in utilisation
1977-78	25,00.00	20,73.50	20,84.35	(+)10.85
1978-79	16,96.00	18,72.60	8,15.00	(-)10,57.60
1979-80 (up to December 1979)	6,26.00	..	5,47.42	(+)5,47.42
<b>Total</b>	<b>80,74.00</b>	<b>71,98.10</b>	<b>63,09.55*</b>	<b>(-)8,88.55</b>

The cumulative shortfall in the utilisation of loans for the expansion project (due to slow progress) worked out to Rs. 8.89 crores (December 1979) and these funds were diverted by the Board to other works.

## 11.1.4. Capital cost estimates

The following are the details of the original project estimates of November 1972 (Rs. 38.40 crores), as revised in December 1975 (Rs. 72.26 crores), and the actual expenditure incurred up to December 1979:

Item	Original estimates (November 1972)	Revised estimate (December 1975)	Increase	Actual expenditure (December 1979)
			(Rupees in crores)	
Land, buildings and roads	0.58	0.86	(+)0.28	0.99
Plant civil works	2.76	6.10	(+)3.34	8.04
Electrical, mechanical and other equipment	33.11	61.70	(+)28.59	49.98
Special and ordinary tools and plant	0.40	1.35	(+)0.95	0.50
Establishment, contingencies, etc.	1.55	2.25	(+)0.70	3.59
<b>Total</b>	<b>38.40</b>	<b>72.26</b>	<b>33.86</b>	<b>63.10</b>

\* Includes Rs. 13.86 crores paid as advances to contractors/suppliers of plant and equipment.

In December 1978, the Chief Engineer (Generation) estimated that the capital cost of the project would go up further to Rs.78.59 crores (excluding interest).

The estimates did not include interest on loans obtained from the State Government. The amount of interest accrued up to March 1979 worked out to Rs. 11.55 crores.

#### 11.1.5. Consultancy and design services

(i) The Consultants were to prepare and submit (within 4—6 months of the receipt of complete information and drawings from the suppliers of boilers and turbo generators) the project report including the general layout plan for plant and equipment.

Prior to the final project report, the Consultants were to submit the draft project report in 4 sections, the scope and content of which were not defined in the agreement. The Consultants submitted only two sections of draft project report in August 1975; the other sections and the final project report were not submitted (August 1980).

(ii) Soon after the issue of the letter of intent to them (May 1974), the Consultants were to prepare an overall project construction schedule including a detailed time schedule for the preparation of specifications and drawings, bid invitation, review of vendors' drawings, deliveries, civil works, erection, commissioning, performance tests and commercial operation. They were to review the progress of work periodically, revise the schedule, and report on any delays with recommendations for remedial action. The Consultants submitted the first composite chart only in November 1976 indicating the commissioning dates as September 1978 for unit V and March 1979 for Unit VI. The Consultants were paid Rs. 0.70 lakh (March 1977) for this work. This chart did not, however, indicate the schedule for civil works and delivery of some plant and equipment like hydrogen plant, double circuit system and plant communication system, station lighting, etc. The time schedule was revised by the Consultants in October 1977 with December 1979 and June 1980 as the targets for commissioning of Unit V and Unit VI respectively. This too

did not indicate the programme for civil works. The Consultants did not analyse the delays nor did they make any specific suggestions, to avoid or minimise delay in the execution of the works.

(iii) The agreement envisaged a payment of Rs. 2.16 lakhs to the Consultants' Liaison Engineer at the rate of Rs. 6000 per month for 36 months. The Liaison Engineer had started his work on initial planning and procurement action from November 1974 whereas the project organisation at the site was set up in April 1976. The Liaison Engineer had been paid Rs. 3.00 lakhs for 50 months commencing from November 1974 resulting in a payment of Rs. 0.84 lakh for the excess (14 months) over the stipulated period.

(iv) As per clause 21 of the agreement, the Consultants were to provide training to six engineers of the Board (period of training not specified) in their Design Office at Delhi. It was noticed, however, that no training had been arranged so far (August 1980).

(v) According to the terms and conditions of the agreement the Consultants were required, *inter alia* to have no interest whatsoever in any of the suppliers' firms or contractors. The Board found (December 1977) that the Consultants, had not disclosed their interest in one of the firms to whom work connected with the Ash Handling System (value : Rs. 143 lakhs) was awarded on their recommendation.

(vi) It was noticed that there were delays in the finalisation of specifications for instrumentation and control equipment, bid recommendations for certain items like cables, and approval of drawings for the coal handling equipment at the plant end.

#### 11.1.6. Execution of plant civil works

Mention was made in paragraph 9.7.5 (2) of the Audit Report (Commercial) for the year 1976-77 about the award of the plant civil works to the Orissa Construction Corporation Limited (OCC) and the extra cost of Rs. 115.29 lakhs.



The agreement executed with OCC (July 1976) stipulated the completion of all the plant civil works within a period of 27 months. The tentative dates for completion of certain important items of civil works ranged between August 1976 and January 1978 to facilitate commissioning of Unit V and Unit VI in September 1978 and March 1979 respectively. A detailed schedule for completion was to be drawn up in consultation with OCC.

The following were the details of work done by OCC up to March 1979 :

Item of work	Stipulated quantity (cubic metres)	Scheduled date for completion	Actual progress (March 1979) (cubic metres)	Remarks
(i) Boiler and auxiliary foundations				
Excavation	8,610		5,930	Boiler foundation for Unit V was completed in February 1977 and for Unit VI in August 1978
Concreting ..	4,250	August 1976	3,173	
(ii) Circulating water duct				
Excavation	7,700		7,300	
Concreting	1,260	March 1977	128	
(iii) Turbine bay, control room and bunker bay				
Excavation ..	26,750		25,067	Turbo generator foundation of unit V was completed in May 1978
Concreting	14,500	August 1977	7,222	
(iv) R. C. C. stack				
Excavation ..	1,110		1,110	
Concreting ..	1,855	January 1978	Nil	
(v) Other works				
Pre-treatment plant cooling tower basin and raw water reservoir				
Excavation ..	75,740	October 1976	69,530	
Concreting ..	20,025	January 1978	2,005	

In view of poor progress of work, it was decided in a meeting with the Secretary, Irrigation and Power Department (September 1977) to withdraw the work of RCC stack from OCC, and the following programme was drawn up for the completion of the residual works by OCC :

	Original schedule	Revised schedule
Concreting and structural fabrication of turbine bay.	August 1977	September/October 1977
Erection of turbine bay structure	August 1977	January 1978
Roofing and side walls	January 1977	March 1978

In addition to Rs. 90 lakhs already paid in terms of the agreement, OCC desired a further advance of Rs. 50 lakhs to be able to adhere to the aforesaid target dates which was accordingly paid (September 1977). The OCC did not, however, adhere to the revised target dates either. The progress was again reviewed by the Irrigation and Power Department in January 1978 and the schedule was revised to facilitate the commissioning of Unit V by December 1979. While this was accepted by OCC, a site inspection in June 1978 revealed continuing poor performance by OCC. It was then agreed that the Board could make alternative arrangements for concreting (in areas which could be segregated from OCC's field of activities) and for structural erection. Alternative agencies were to be finalised at the earliest so that the slippages could be made good. In February 1979, it was decided that works other than structural works and civil works in A to D row for Unit V and VI be withdrawn from OCC. Soon after (March 1979), Government agreed to the withdrawal of all the works from OCC on the following conditions :

- No penalty would be levied on OCC;
- OCC would hand over all materials and facilities at the site to the Board; and
- The Board would take all necessary steps to resume work and complete it as quickly as possible.

The works were accordingly withdrawn from OCC (March 1979) and entrusted to various other contractors (May/July—1979), on the basis of tenders/negotiations, with a view to ensuring the commissioning of Unit V by December 1979.

This resulted in an extra cost of Rs. 57.93 lakhs (20.4 per cent on the value of work withdrawn from OCC without taking into account works connected with roads, yards and culverts which were yet to be awarded to other agencies (August 1980). The works relating to the Ash Handling system and Hydrogen Generation plant were awarded in February/March 1980; the financial implications have not been worked out by the Board (August 1980).

The following points were noticed in connection with the execution of works by OCC:

(i) *Advance payments*

As per the terms of the agreement the OCC was to be paid an advance up to a maximum of Rs. 90 lakhs; Rs. 45 lakhs against State Government/Bank guarantee or hypothecation of assets and the balance against the hypothecation of construction equipment brought to site. The advance was to be recovered at the rate of 20 per cent from each running bill, and interest was recoverable at the bank rate plus 2 per cent or 11 per cent whichever was higher.

Advances aggregating Rs. 140 lakhs were paid to OCC (September 1976 and September 1977); Rs. 50 lakhs having been paid (September 1977) with the approval of Board on the specific condition that the advance would be utilised for meeting the expenses for the project and would not be diverted for any other purposes. It was noticed (December 1977) that OCC had diverted Rs. 24.45 lakhs for their other works.

Of the total advance of Rs. 140 lakhs, only an amount of Rs. 16.52 lakhs had been recovered until January 1979 leaving a balance of Rs. 123.48 lakhs besides Rs. 0.20 lakh accrued as interest up to March 1979. As a result of not recovering the advance at the rate of 20 per cent of the running bills by the Board, there was a short recovery of Rs. 13.23 lakhs.

Bank/Government guarantees furnished by OCC for Rs. 115 lakhs had lapsed during March—November 1979, but had not been invoked/renewed (August 1980).

(ii) *Non-recovery towards cost of materials supplied*

In terms of the Agreement, the Board had supplied 99,624 bags of cement and 7,604 tonnes of steel (January 1979) to OCC of which the cost of only 83,936 bags of cement and 5,186 tonnes of steel had been recovered (up to December 1979) leaving a balance of Rs. 52.74 lakhs.

Although the contract with OCC was rescinded in March 1979, the accounts have not been finalised so far (August 1980).

(iii) *Temporary sheeting*

The OCC had executed brick work in Unit V up to a height of 19 metres (against 26 metres required) when the work was withdrawn. As the brick work in the remaining portion would take considerable time, stop-gap arrangements had to be made to cover the portion up to 26 metres with galvanised corrugated iron sheets through a private contractor at a cost of Rs. 0.61 lakh (including Rs. 0.29 lakh, being the cost of materials).

(iv) *Defective concreting work*

The concreting work in the turbo generator foundation (unit V) was done during April/May 1978. The project authorities noticed (May 1978) loose concreting in the columns. The matter was referred to the Central Water and Power Research Station (CWPRS), Pune for expert advice. Non-destructive tests were conducted (June/August 1978) by CWPRS but the nature of defects could not be identified. At a meeting of the Board and CWPRS and CEA officials (October 1978), it was decided that while the concreting could be regarded as good, guniting should be done (to take care of hair cracks, etc.) wherever honey-combing was visible. The guniting was completed in November-December 1978 (cost not assessed). For the vibration and repeat ultrasonic tests of the repaired portion (as advised by CEA), the project deposited a sum of Rs. 1.07 lakhs with CWPRS, which amount has not yet been recovered from OCC in terms of the agreement. The tests have also not been carried out (August 1980).

(v) It was noticed that hire charges amounting to Rs. 0.85 lakh for concrete mixers, drills and pumps given on hire to OCC (September 1977 to January 1979) had not been recovered so far (August 1980).

(vi) *Circulating water duct*

The Consultants assessed (June 1977) the total requirement of steel for the 'circulating water duct' at about 400 tonnes, including 90 tonnes for headers. This estimate was based on steel duct instead of RCC as envisaged in the specification given by the Consultants in February 1975. The delay in estimation was attributed by the Project Manager to the fact that the Board was considering to have steel instead of RCC duct.

Against tenders invited in June 1977 for the construction of steel duct (397 tonnes), 15 offers were received. Since no decision had been taken by then whether to switch over to steel duct or to stick to RCC duct, the firms were asked to confirm their rates for the reduced quantity of 90 tonnes for steel headers. The lowest tenderer (rates for fabrication and erection ranging from Rs. 599 to Rs. 899 per tonne) withdrew his offer because of the reduction in quantity. The project authorities, therefore, awarded (September 1977) the work (after negotiations) to firm 'S' of Bhubaneswar, at rates ranging from Rs. 1,605 to Rs. 1,972 per tonne.

Finally in July 1978, it was decided to switch over to steel duct for speedier execution of work and for ensuring economy. Tenders were invited for the construction of steel duct (265 tonnes) and the work was awarded (October 1978) to the same firm 'S' (being the lowest valid offer) at rates ranging from Rs. 1,200 to Rs. 1,890 per tonne.

The delay in taking a decision to switch over to steel duct resulted in an extra expenditure of Rs. 6.10 lakhs. The work scheduled to be completed in August 1979 is still in progress (August 1980). Thus the objective of speedier execution of work had also not been realised.

11.1.7. Supply and erection of boilers and turbo generators

Against an enquiry by the Board, BHEL offered (April 1973) to supply two 110-MW generating sets so as to commission Unit V by October 1977

and Unit VI by March 1978. Mention was made about the extra expenditure in the supply of this plant and equipment by BHEL in paragraph 9.7.5 of the Audit Report (Commercial) for the Year 1976-77.

The lumpsum price (Rs. 34.83 crores) for the supply and erection of boilers and turbo-generators was settled in November 1975. The price for the furnace safeguard supervisory system was to be the same as accepted by the Andhra Pradesh State Electricity Board. For other items, prices were to be quoted extra by BHEL.

In March 1977, the Board placed a letter of intent (total value : Rs. 177.13 lakhs) on BHEL for other items subject to negotiation of prices for certain items. The prices were negotiated in March 1978 and the total value worked out to Rs. 194.42 lakhs. The letter of intent did not specify the terms of payment, nor has any agreement been entered into with BHEL so far (August 1980).

As regards the furnace safeguard supervisory system, BHEL had demanded Rs. 109.17 lakhs (March 1978) as against Rs. 104 lakhs for which similar equipment was supplied to Andhra Pradesh State Electricity Board. The Board has not taken up the matter with BHEL so far (August 1980).

*Execution*

(i) BHEL had indicated in July 1978 that the erection of the boiler would take about 82 weeks and the erection of the turbo generators a minimum of 68 weeks. The dates as indicated in the initial PERT charts by the Consultants were as under :

	Unit V	Unit VI
<u>Boilers</u>		
Erection	.. March 1977	September 1977
Hydraulic test	.. November 1977	May 1978
<u>Turbo generators</u>		
Erection	.. October 1977	May 1978
Check test	.. May 1978	March 1979

In order to facilitate erection of the boilers and turbo generators by these dates, the civil works (foundation) for the boilers and turbo generators were to be got ready by January and May 1977 respectively.

The boiler foundations for unit V and Unit VI were made available to BHEL in February 1977 and August 1978 respectively, and the turbo generator foundation for Unit V was made available in January 1979. The progress of work by BHEL up to August 1979 was as follows :

	Quantity of work involved (tonnes)	Date of starting erection work	Number of weeks spent	Quantity of work done (tonnes)	Percentage of work done to total quantity
<u>Boilers</u>					
Unit V	5,300	March 1977	122	4,144	78
Unit VI	5,300	December 1978	32	945	18
<u>Turbo generators</u>					
Unit V	960	January 1979	30	350	37

The delay in the erection of boilers of Unit V was attributed by BHEL (August 1977 / July 1979) to an accident to their crane and consequent suspension of work for about 6 months and the demise of the sub-contractor for erection of boilers and consequent stoppage of work for 5 months (February—July 1979). As regards delay of 4 months in the commencement of work of Unit VI, BHEL stated (December 1978) that this was due to litigation with the boiler contractor leading to the cancellation of the contract and appointment of a new contractor for the job.

(ii) During a joint inspection of the columns of the boiler in Unit V (February 1978) it was observed that all the main columns had a tilt of 70 mm. against the permissible limit of 18mm. Since this was unusual, BHEL was requested (February 1978) to assess the probable reasons for the tilt and suggest method for rectification. The design engineers of BHEL deputed to the site (April 1978) indicated that the deviation was not adverse. The Consultants, however, observed (May 1978) that the design engineers' report did not offer any solution and was not acceptable. The project authorities requested

BHEL (May 1978) to indicate the cause for difference in alignment/ deflection (since the same occurred after loading the structure) so as to avoid repetition of a similar problem in Unit VI and desired a categorical assurance that the structure would be safe inspite of the tilt. BHEL could not pin-point the reasons for the tilt, but stated (June 1978) that the primary reason could be the unevenness of loading between the furnace area and the second pass. BHEL, however, provided four extra bracings at their cost and agreed (February 1979) to give a guarantee for the safe performance of the unit. The guarantee is still awaited (August 1980). The project authorities also requested BHEL (September 1978) to post a quality control engineer at the site to work independently of BHEL's site organisation. While BHEL promised (September 1978) to consider the matter, no quality control engineer has yet been posted (December 1979). Meanwhile BHEL furnished a computer computation (June 1979) indicating that the structure would be safe under working conditions. This was forwarded to the Consultants for check and comment (July 1979) who stated (April 1980) that "it is not possible to categorically comment whether the structures with additional bracings will be adequate under all conditions of loading". In view of this the Board informed (May 1980) BHEL that the question of acceptance of structures with additional bracings would be considered only after the boiler, fully loaded with water, had been in operation for a period of at least twelve months from the date of commissioning.

(iii) In November 1975, the following terms of payment were agreed upon

- 10 per cent of the value of order as advance
- 88 per cent in proportion to the actual value of the work done, and
- 2 per cent after satisfactory completion and commissioning of the plant

The Board had indicated to BHEL that since the job was to be handled as a 'works contract' the terms of payment were to be linked to erection events rather than to supplies as the latter would result in blocking of substantial funds for equipment despatched to site ahead of the erection requirements. BHEL, however, maintained (November 1975) that it would

not be possible for them to deviate from their standard procedure of on account payments for material despatched to the site; the power project division of BHEL would ensure, however, that manufacture and despatch matched the mutually agreed erection schedule.

(iv) The break up of the prices for the supply of boilers and turbo generators was fixed in March 1976, and the rates for erection in March 1978 as follows :

		Supply	Erection
		(Rupees)	
Boilers	..	14.70 per Kilogram	2,759 per tonne
Turbo generators	..	61.73 per Kilogram	43,94,220 each

The price for the supply of boilers was increased in March 1978 to Rs. 15.97 per kilogram on the ground that the value of boilers had gone up due to additional equipment, the weight remaining the same.

(v) The original dates of erection and commissioning of the units were revised from time to time, the latest (December 1979) revised dates being March 1981 for unit V and September 1981 for unit VI. The power project division of BHEL was to reschedule the manufacture/despatch of equipment to match the erection schedule. The following table indicates the year-wise quantity supplied and erected for the years 1976-77 to 1978-79:

Year	Boilers		Turbo generators	
	Quantity supplied	Quantity erected (In Tonnes)	Quantity supplied	Quantity erected
1976-77	..	5,571	22	1,170
1977-78	..	3,142	2,101	Nil
1978-79	..	1,236	2,083	40
Total	..	9,949	4,206	1,858

It was noticed that BHEL had started supplies for the boilers/turbo generators from June/October 1976 respectively. The amount paid to BHEL for the supplies awaiting erection as on March 1979 worked out to Rs. 20.61 crores. Delay in erection was mainly due to the non-availability of the boiler and turbo generator foundations in time.

(vi) Advances aggregating Rs. 368.51 lakhs (against the letter of intent) were paid to BHEL during the period 1973-74 to 1976-77. Further advances (free of interest) aggregating Rs. 663.18 lakhs (outside the terms of the letter of intent) were paid in March 1978. This included Rs. 65.92 lakhs against 2 per cent payable after the commissioning of the units.

These advances were paid (at BHEL's request) to utilise the funds placed at the disposal of the Board by Government.

#### 11.1.8. Control and instrumentation equipment

The Board, on the basis of an *ad hoc* offer, placed a letter of intent (March 1973) on Instrumentation Limited, Kota (ILK) for the supply, erection, testing and commissioning of control and instrumentation equipment at Rs. 131.28 lakhs as quoted by ILK even before the specifications were finalised by the Consultants. In July 1976, ILK revised the prices to Rs. 303.38 lakhs (an increase of Rs. 172.10 lakhs or 131 per cent) on the grounds that (i) the specifications in the revised offer were based on those of similar unit of Kothagudem thermal power station (Stage IV) and (ii) there was about 20 per cent increase in the cost. Complete specifications were finalised only in May/June 1978. As a result, in November 1978, the prices were again revised by ILK to Rs. 510.77 lakhs—a further increase of Rs. 207.39 lakhs or 68 per cent on the July 1976 prices. No information was available as to how the Board satisfied itself about the nearly three-fold increase (Rs. 379.49 lakhs) in the cost of the equipment over that of March 1973 (Rs. 131.28 lakhs). Formal order for the supply of equipment has yet to be placed (August 1980).

(i) As per the terms of letter of intent ILK was to be paid an advance of 10 per cent of the value of equipment at the time of placing the order. The Board paid Rs. 13.13 lakhs in March 1974 and Rs. 17.21 lakhs in March 1977. The Planning Commission had, during annual plan discussion for 1978-79, indicated (December 1977), that ILK be paid an *ad hoc* amount of Rs. 100 lakhs. However, on a request from ILK in February 1978 the Board, paid Rs. 150 lakhs (March 1978) making a total of Rs. 180.34 lakhs or 59.4 per cent of the July 1976 offer and 35.3 per cent of the offer as later revised in November 1978.

(ii) The price (July 1976) included Rs. 16 lakhs towards engineering charges (including protection and inter-locking for two units) and Rs. 25 lakhs for erection and commissioning charges. Ten per cent advance (Rs. 4.10 lakhs) was paid on these elements also though this was not covered by the terms of the letter of intent.

(iii) The equipment was to be supplied by ILK within a period of 36 months from the date of the letter of intent (*i. e.* March 1973). The following time schedule was drawn up for ILK by the Consultants (October 1977) keeping in view the revised target dates for commissioning the units in December 1979/June 1980:

	Unit V	Unit VI
Delivery of equipment	.. May 1979	July 1979
Completion of erection	.. September 1979	November 1979
Commissioning of control and instrumentation equipment	November 1979	March 1980

There was no definite commitment from ILK as to the date of supply and erection of equipment. The scope of supply of instrumentation equipments was finally decided in May/June 1978. The site organisation was set up by ILK in November 1979 and the final specifications are yet to be made available to the Board. The value of equipment supplied up to August 1979 amounted to Rs. 70 lakhs *i. e.* 38.8 per cent of the advances aggregating Rs. 180.34 lakhs paid to ILK during March 1974—March 1978

#### 11.1 9. Other plant and equipment

##### (a) Purchase of air compressors

Scaled tenders were invited (February 1976) by the Chief Engineer (Generation) for the supply of 4 numbers each of service air compressors

and control air compressors with a discharge pressure of 7 kg/cm<sup>2</sup>. Out of 7 valid offers received (March/April 1976) the rates of firm 'K' of New Delhi, were the lowest for both types of compressors.

The Board officials found (August 1976) several errors in the Consultants' evaluation and prepared a revised comparative statement (October 1976) for the consideration of the Contract Scrutiny Committee (CSC). During discussion (October 1976) of the tenders by the CSC it was noticed that the specified discharge pressure of service air compressor had been changed by the Consultants from 7kg/cm<sup>2</sup> to 8.4kg/cm<sup>2</sup>. The CSC suggested that the selected tenderer be asked to confirm the suitability of their service air compressors for the increased discharge pressure. The Chairman of the Board, however, decided in favour of retendering (December 1976) due to the change in the specifications. Fresh tenders were accordingly invited (February 1977) for supply of 4 service air compressors with a discharge pressure of 8.4kg/cm<sup>2</sup> and 4 control air compressors with a discharge pressure of 7kg/cm<sup>2</sup>. Tenders were received in March 1977. Orders were placed (April 1978 *i. e.* two years after the original offers were received on the lowest offer of firm 'K' for 4 compressors of each type. The compressors were received in May 1979.

Had the order for 4 air compressors (in which case there was no change in specifications) been placed on the basis of the earlier tender the Board would have saved an extra expenditure of Rs. 0.47 lakh.

##### (b) Coal supply

(i) As against the annual requirements of 9.10 lakh tonnes of coal for the existing power station, the quantity of coal supplied by Central Coal Field Limited (CCL) for the three years up to 1978-79 was as under :

Year	Quantity supplied (In lakh tonnes)	Per cent
1976-77	.. 6.84	75.2
1977-78	.. 4.42	
1978-79	.. 5.50	60.4

The arrangements for supply of the overall requirements of 16.30 lakh tonnes of Coal (including 7.20 lakh tonnes for the expansion project) were discussed in a meeting with CCL in May 1976. The General Manager, CCL stated that the annual production of Jagannath mines being 10 lakh tonnes they would take steps to open up new mines to meet the entire requirement of the Board. Neither has CCL so far indicated the programme of expansion of Jagannath mines nor has any agreement been executed to cover the total requirement of coal. (August 1979).

(ii) Against an enquiry Bharat Earth Movers Limited (BEML) had quoted (January 1978) a price of Rs. 12.46 lakhs per bulldozer and Rs. 11.84 lakhs per scraper (both inclusive of excise duty). While prices were firm up to March 1978 (for acceptance), any variation in excise duty was to be to the purchaser's account. No decision was taken on this offer and it was only in November 1978 that the Board approved the purchase of 3 bulldozers and 1 scraper for immediate use in the existing power station (where the existing bulldozers were not functioning) and for eventual use on the expansion project. Orders were placed in December 1978, on the basis of the revised (September 1978) prices of BEML (Rs. 13.91 lakhs per bulldozer and Rs. 13.20 lakhs for the scraper) involving an extra expenditure of Rs. 5.71 lakhs.

The bulldozers were supplied in March 1979 and the scraper in April 1980.

#### 11.1.10. Other topics of interest

##### (a) Construction of staff quarters

The project estimate envisaged the construction of 367 staff quarters at an estimated cost of Rs. 58.40 lakhs. The construction of 260 quarters (first phase) was taken up at a cost estimated (January 1975) by the Chief Engineer (Generation) at Rs. 45.90 lakhs. After inviting tenders (May 1975) the work was awarded to 5 contractors (under 10 separate agreements) between November 1975—February 1976 at Rs. 56.31 lakhs.

The following table indicates the estimated cost and the actual expenditure on the construction of quarters:

Type of quarters	Total number	Estimated cost	Actual cost	Excess	Percentage of excess
(Rupees in lakhs)					
C ..	12	6.03	8.28	2.25	37
D ..	32	8.28	10.56	2.28	28
E ..	72	11.66	17.02	5.36	45
F ..	56	8.84	12.56	3.72	42
G ..	88	11.09	13.53	2.44	22
<b>Total</b>	<b>260</b>	<b>45.90</b>	<b>61.95</b>	<b>16.05</b>	<b>35</b>

The excess over the estimated cost was attributed (December 1977) to (i) the estimates having been framed without proper investigation of site conditions, (ii) improper design of foundations, (iii) error in the original estimates and (iv) changes in design.

##### (b) Use of higher section of steel in staff quarters

The Board procured 448 tonnes of different sizes of steel material in January 1976. Soon after (March 1976), the Executive Engineer at Talcher indicated the actual requirements of different sizes of steel material (440 tonnes) as follows:

	As procured		As required
	Quantity (Tonnes)	Rate (Rs. per tonne)	Quantity (Tonnes)
<b>M. S. Rounds</b>			
12 mm ..	300	2,200	..
10 mm ..	..	..	50
6 mm ..	..	..	..
<b>Tor Steel</b>			20
16 mm ..	..	..	10
12 mm ..	98	2,400	..
10 mm ..	50	2,400	..
<b>Total</b>	<b>448</b>	<b>..</b>	<b>440</b>

The Executive Engineer stated further that 12 mm. M. S. rounds and 12 mm. Tor steel could not be suitably used and would result in a wastage of 30 per cent. No clarification was received by the Executive Engineer regarding the use of higher sections of steel in lieu of lower sections. Meanwhile, 269.34 tonnes of 12 mm. M. S. rounds were issued to the works against the requirement of 10 mm. M. S. rounds involving an extra expenditure (wastage at 30 per cent) of Rs. 1.78 lakhs.

(c) *Idle capital outlay*

On the basis of the advice given by the Consultants (March 1976) for setting up a workshop, a lathe (value: Rs. 1.10 lakhs) was purchased in March 1977. The machine had not been put to use on the project works (August 1980) as the workshop planned initially did not come up.

Summing up

(i) The setting up of two 110—MW units at Talcher at an estimated project cost of Rs. 38.40 crores was approved by the Planning Commission in November 1972. The project cost was revised to Rs. 72.26 crores (December 1975) and is expected to increase to Rs. 78.59 crores. This does not include interest which, as of 31st March 1979, amounted to Rs. 11.55 crores.

(ii) As against Rs. 71.98 crores received from Government from time to time since 1973-74 the actual expenditure (up to December 1979) amounted to Rs. 63.09 crores. Thus there was a cumulative shortfall of Rs. 8.89 crores which had been diverted to other works.

(iii) The orders for consultancy services, civil works, supply, erection and commissioning of boilers and generators and instrumentation equipment works were placed during 1973 to 1976 and orders for certain critical items were placed in 1971. The project originally scheduled for completion by March 1978 is now planned for completion by September 1981.

(iv) The Consultants did not furnish the final project report and delayed the finalisation of the specifications and drawings.

(v) The plant civil works were entrusted to OCC a Government Company, involving an extra cost of Rs. 115.29 lakhs. Some of the works withdrawn (due to continuing poor progress) were given to other agencies at higher rates involving an additional cost of Rs. 57.93 lakhs. Only Rs. 16.52 lakhs had been recovered (January 1979) against advances aggregating to Rs. 140 lakhs paid to OCC. Besides, Rs. 52.74 lakhs were recoverable for cement and steel.

(vi) While the Board was being billed for the supply by BHEL of equipment of boilers and turbo generators on proportionate weight basis the supply of equipment had not been matched with erection requirements and substantial funds of the Board were locked up in plant and equipment received at site but lying unereected. The amount paid to BHEL for supplies awaiting erection as on 31st March 1979 amounted to Rs. 20.61 crores.

(vii) Due to delay in taking decision to switch over to steel duct (in circulating water duct) the Board had to pay Rs. 6.10 lakhs extra in awarding work at a later stage at higher rates.

(viii) A letter of intent was placed on the basis of an *ad hoc* offer by Instrumentation Limited for the supply of control and instrumentation equipment at Rs. 131.28 lakhs (March 1973). The price was increased to Rs. 303.38 lakhs (July 1976) and again to Rs. 510.77 lakhs (November 1978). Advances aggregating Rs. 180.34 lakhs were paid to the firm during March 1974—March 1978 against which supplies effected up to August 1979 amounted to Rs. 70 lakhs (38.8 per cent). Formal order for the supply of equipment had not yet been placed (August 1980).

(xi) Firm arrangements for the supply of coal in requisite quantities have yet to be finalised.

(x) Due to delay in placing order for one scraper and 3 bulldozers Board had to incur an additional expenditure of Rs. 5.71 lakhs.



### 11.2. Procurement of stores and equipment

The Chairman of the Board is empowered to make purchases up to Rs. 10 lakhs. The Contract Scrutiny Committee (CSC) constituted by the Board for examination/recommendation of tenders is empowered to take final decision in respect of purchases up to Rs. 25 lakhs and recommends to the Board cases of purchases exceeding Rs. 25 lakhs. The Heads of departments/Field officers are also authorised, under powers delegated to them, to make direct purchases.

The following points were noticed in audit in the matter of procurement of stores and equipment :

#### (i) Extra expenditure

In May 1977, the Superintending Engineer (Stores and purchase) invited tenders for the supply of the following ACSR conductors :

Conductors	Quantity (Kilometres)
Panther	1,453
Zebra	719

Eight out of 22 offers were found to be commercially and technically suitable. The offers were valid until 13th September 1977. Firm 'J' of Calcutta had quoted the lowest rates (excluding excise duty and sales tax) f.o.r. destination as under :

Conductor		Quantity (Kilometres)	Rate per kilometre (Rupees)
Panther	.. First	700	11,107
	Next	753	11,247
Zebra	.. First	300	20,757
	Next	200	21,145
	Next	219	21,567

The rates quoted were firm. The tenders were, however, not finalised and the firms were asked thrice (September-November 1977) to extend the validity up to the end of October 1977/November/December 1977.

The firms revised their rates while extending the validity period, the lowest revised rates being as follows :

Conductor	Firm	Quantity (Kilometres)	Rate per kilometre (Rupees)	
Panther	'A'	1,453	11,217	
Zebra	'J'	First	300	20,757*
		Next	320	20,776*

In December 1977, the Contract Scrutiny Committee recommended that orders be placed on firm 'H' of Hirakud (a State Government Company) at the above rates for 910 Km. of Panther and 620 km. of Zebra conductors to cover the requirements up to March 1979. While approving the proposal the Board decided (December 1977) to place the orders on firm 'H' at rates 4 per cent above the rates offered by 'A' and 'J'. Orders involving an extra cost of Rs. 8.34 lakhs were placed accordingly on 24th January 1978.

The reasons for allowing the increase of 4 per cent were not on record. Firm 'H' had supplied 907 km. of Panther and 466 km. (out of 620km) of Zebra conductors up to December 1979.

It was stated by the Board (April 1980) that as firm 'H' was a State Government undertaking, 4 per cent price preference on lowest offer was applicable in accordance with Government order of November 1970. These orders envisaged a price preference to local small scale industries in purchase of articles required for Government use and were not applicable to State Government undertakings.

The reply of the Government to whom the matter was reported (October 1979), is awaited (August 1980).

#### (ii) Price preference

In response to tenders invited (June 1976) by the Superintending Engineer (Stores and Purchase) for the supply of different types of ACSR and AA conductors, the following were the lowest rates received from different

\*Rates variable according to IEMA formula.

firms, and the rates quoted by firm 'H' (a State Government Company).

Type of conductor	Firm	Lowest rate per kg. (Rupees)	Rate per kg. Firm 'H'	Quantity in kg
Weasel (ACSR)	.. 'A'	12.44	13.64	10,24,000
Rabbit (ACSR)	.. 'B'	12.30	13.49	5,13,600
Raccoon (ACSR)	.. 'B'	12.30	13.49	3,18,000
Ant (AA)	.. 'C'	15.39	16.02	57,600
Gnat (AA)	.. 'B'	15.50	16.30	1,53,300

The lowest offers were not accepted by the Board (November 1976) for reasons not on record and orders were placed (December 1976—February 1977) on firm 'H' at the lowest quoted rates, for a total of 13,90,900 kgs of different types of conductors.

Firm 'H' without accepting the orders, represented (March 1977) for an increase in the rates to the level of the rates it had quoted. In December 1977, the Board decided, as a special case, to allow a price preference up to 4 per cent over and above the lowest quoted rates. This resulted in an extra cost of Rs. 7.31 lakhs on the quantities ordered. The Company had supplied the following quantities up to March 1978 :

	Quantity ordered (kg)	Quantity supplied (kg)	Variance (kg)
Weasel	3,64,800	3,64,783	— 17
Rabbit	5,13,000	4,28,795	—84,205
Raccoon	3,18,000	2,82,403	—35,597
Ant	1,44,000	1,18,085	—25,915
Gnat	51,100	52,394	+1,294
<b>Total</b>	<b>13,90,900</b>	<b>12,46,460</b>	<b>(—)1,44,440</b>

In July 1978 firm 'H' requested the Board to cancel the order for balance quantities ; the Board cancelled the orders in June 1980. The extra cost to the Board on the quantities supplied was Rs. 6.37 lakhs.

It was stated by the Board (April 1980) that firm 'H' being a State Government Company, it was considered essential that while placing orders

for materials manufactured by such units, weightage be allowed in pursuance of the Industries Department letter of August 1976 and planning and Co-ordination Department letter of July 1976.

The reply of the Government to whom the matter was reported in September 1979 is awaited (August 1980).

(iii) *Delay in placing the order*

The Superintending Engineer (Rural Electrification) invited open tenders in August 1973 for the supply of 1,900 (25/63/100 KVA) distribution transformers.

The lowest acceptable offer of firm 'K' was valid for 90 days (i. e. up to 19th January 1974) and the prices quoted were firm. A letter of intent was placed on firm 'K' on the 2nd February 1974 followed by a regular purchase order on the 2nd March 1974 for the following :

Capacity	Numbers	Rate f.o.r. destination (Rupees)
25 KVA	.. 240	3,480
63 KVA	.. 300	6,040
100 KVA	.. 200	7,800

As per the terms of the order, 250 transformers (100 of 25 KVA and 150 of 63 KVA) were to be delivered ex-stock and the balance by July 1974. In case of delay in supply, the firm was liable to pay penalty at 1/2 per cent per week, limited to a maximum of 5 percent of the value of the delayed supplies.

The firm did not accept the order (March 1974) and demanded price escalation as per IEMA formula. In respect of 250 transformers to be supplied ex-stock, the firm sought price variation for transformer oil, which had escalated since the date of the tender. The Board agreed to price escalation for the transformers in September 1974 and for the transformer oil in November 1978.

The firm supplied 740 transformers during May—December 1974 and a total amount of Rs. 9.03 lakhs was paid by way of price escalation (Rs. 7.90 lakhs for transformers in September 1976 and Rs. 1.13 lakhs for transformer oil in December 1978). This extra expenditure would have been avoided

had the Board placed the order within the validity period of the offer. Besides, although a penalty of Rs. 1.35 lakhs was leviable on account of delayed supplies, no penalty was levied.

The matter was reported to Board / Government in September 1979. The Board has accepted (May 1980) the factual position; the reply from Government was awaited (August 1980).

(iv) *Procurement of air pre-heater baskets*

In response to an enquiry by the General Superintendent of Talcher Thermal Power Station (March 1976) for the supply of air pre-heater baskets for stocking and eventual replacement of the existing baskets in the power station, BHEL, Tiruchirapalli quoted a price of Rs. 11.83 lakhs per set (April 1976). In June 1976, the Central Electricity Authority (CEA) informed the Board that a firm of Calcutta had developed air pre-heater baskets of the type required at Talcher and had successfully supplied these to other power stations. On enquiry, the firm quoted a price of Rs. 6.80 lakhs per set (August 1976). The Board did not make any enquiry from other power stations about the performance of these baskets. As decided by the Contract Scrutiny Committee (January 1977) an order was placed for the supply of one set each on the Calcutta firm (March 1977) and BHEL (November 1977) on the ground that the Board had no experience of the baskets of either of the firms. The baskets were supplied in June 1978/November 1978 and were put to use in December 1978 / February 1979 respectively. Considering the assessment of CEA and the fact that urgency was not a consideration, placement of an order on BHEL resulted in an avoidable extra expenditure of Rs. 5.03 lakhs.

The matter was reported to Board / Government in September 1979; replies are awaited (August 1980).

(v) *Defective insulator discs*

A purchase order for the supply of 1,87,086 suspension/ tension insulator discs for use on 132/220 KV lines was placed (April 1975) by the Superintending Engineer (Transmission) on firm 'J' of Rishra, West Bengal.

Some of the discs received by one of the consignee divisions (Extra High Tension Construction Division, Joda) during May 1977—January 1978 failed, when used in stringing the lines and were rejected as per details given below :

	Quantity received	Found defective	Per cent
(in numbers)			
132—KV tension insulator discs	3,400	2,831	83.3
220—KV tension insulator discs	4,875	703	14.4
220—KV suspension insu- lator discs	14,200	651	4.6
Total ..	22,475	4,185	14.2

In January 1978, the firm agreed to replace the damaged and defective discs. The firm had, however, replaced only 2,040 numbers of 132-KV tension insulator discs up to October 1979, leaving a balance of 2,145 discs, (Value: Rs. 1.03 lakhs). According to the consignee division, materials like conductors, insulators, fittings used in stringing the lines (value : Rs. 2.29 lakhs) were also damaged (burnt) consequent on the failure of the discs. The supplier, on whom a claim was made for the losses sustained by the Board, rejected the same (November 1978) on the ground that the failure was not due to bad workmanship or defective materials. The matter was not pursued further.

It was noticed that similar failures of the discs had occurred in Rourkela and Angul divisions also but the information regarding the extent of defective supplies called for in May 1979, was still awaited (August 1980).

The matter was referred to the Board / Government in September 1979; replies are awaited (August 1980).

### 11.3 INVENTORY CONTROL

#### 11.3.1. Introduction

The Orissa State Electricity Board holds inventories at 3 stores divisions located at Cuttack, Berhampur and Burla, each under the charge of the Executive Engineer working under the control of Superintending Engineer (Stores and Purchase) at the headquarters. There are 20 stores depots and sub-depots (March 1979) attached to these divisions which mainly stock operation and maintenance stores and stores for certain capital works received against orders placed by the Head Office and field offices.

The Board had introduced a detailed Stores Accounting Procedure in April 1966 for the receipt, custody and issue of stores.

The following table indicates the budgeted and actual value of receipts, issues and closing stocks for the three years up to 1978-79:

Year	Receipts		Issues		Closing Stock *	
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
	(Rupees in lakhs)					
1976-77	1,118.98	954.14	1,385.00	1,276.68	545.00	465.89
1977-78	948.00	1,250.46	955.70	1,214.64	384.55	501.71
1978-79 (Provisional)	2,379.64	1,252.42	2,206.32	1,322.29	604.75	431.84

The closing stock represented 4 months', 5 months' and 4 months' issues of stores in 1976-77, 1977-78 and 1978-79 respectively.

No separate records are maintained (as required) in respect of materials procured for capital works and for operation and maintenance requirements.

\* Excludes capital stores procured for generation and transmission schemes (from borrowed funds).

#### 11.3.2. Stock limits

The Stores Accounting procedure requires the Chief Engineer to fix the stock limits for each stores depot/sub-depot as well as the maximum and minimum levels of stores to be held by different units. No stock limits have, however, been fixed so far (August 1980).

#### 11.3.3. Delay in verification/inspection of stores

The Stores Accounting procedure requires the stores received to be inspected by the officers incharge at the depot / sub-depots within seven days. A test check of stores records for the three years up to 1978-79 disclosed that in 237 out of 343 cases checked, there were delays ranging from 2 days to 1375 days beyond the stipulated period of 7 days as follows :

Name of the division	Number of cases test checked	Number of cases of delay	Period of delay in inspection/verification (days)
Cuttack	110	61	7 to 224
Berhampur	135	100	5 to 1,375
Burla	98	76	2 to 881

The reasons for delays had not been recorded in the stores receipt vouchers as required.

Instances were also noticed (30 cases) where materials received in the store, for which 90 per cent payments had been made (Rs. 13.14 lakhs), were not taken on the stores records in two stores divisions for considerable periods extending from 1973-74 to 1978-79 either because inspection was not conducted (16 cases; value : Rs. 7.43 lakhs; materials; paints, metering and non-metering kiosks, cables, etc.) or materials were not tested (9 cases; value : Rs. 4.65 lakhs; materials: meters and ring type transformers), or there were disputes regarding damages/shortages (5 cases; value: Rs. 1.06 lakhs; materials; meters; cables, etc.).

Reasons for delays in completing the formalities have not been furnished (August 1980).

### 11.3.4. Physical verification of stores

The Stores Accounting procedure prescribes the following schedule for physical verification of stores held in the depots and sub-depots ::

Officer-in-charge	.. Twice a year
Sub-Divisional Officer	.. 10 per cent items annually
Executive Engineer	.. 5 per cent items annually and surprise checks

In addition, physical verification of stores balances in a depot / sub-depot is also to be conducted independently by officers belonging to other depots.

The following are the particulars of actual physical verification done during the three years up to 1978-79 in respect of 8 depots and 12 sub-depots:

	Depots (Number)	Sub-Depots (Number)	Total
By Officers-in-charge			
1976-77	6	9	15
1977-78	6	6	12
1978-79	3	5	8
By Sub-Divisional Officer			
1976-77	..	6	6
1977-78	..	6	6
1978-79	..	6	6
By Executive Engineer			
1976-77	6	8	14
1977-78	6	11	17
1978-79	6	9	15

Surprise verifications by the Executive Engineers and verifications of depots/sub-depots independently by Officers of other depots as required were not carried out during any of the three years (August 1980).

### 11.3.5. Periodical stock taking

A stores verification party under the charge of an Executive Engineer at the headquarters (since January 1972), is required to conduct an annual

stock taking in respect of each depot / sub-depot. During the three years up to 1978-79, the actual stock taking was done as per details given below:

Year	Total depots and sub-depots	Depots/sub-depots covered
1976-77	.. 20	5
1977-78	.. 20	9
1978-79	.. 20	3

It was noticed that 3 out of 20 depots/sub-depots were not covered even once during these three years. The number of items held and value thereof in these three depots/sub-depots are given below:

Depot/sub-depots	Number of items	Value as on 31st March 1979 (Rupees in lakhs)
Berhampur	.. 999	67.06
Tulsipur	.. 348	4.21
Kesinga	.. 160	2.79
Total	.. 1,507	74.06

### 11.3.6. Shortages and excesses

The following table indicates the value of shortages and excesses noticed during physical verification which had remained unadjusted to the final heads at the close of each of the three years up to 1978-79:

Year	Value of	
	Shortages	Excess
	(Rupees in lakhs)	
1976-77	.. 7.86	17.84
1977-78	.. 11.62	18.86
1978-79	.. 17.90	26.66

In the case of depots at Balasore, Choudwar and Berhampur shortages (value: Rs. 5.07 lakhs) and excesses (value: Rs. 1.01 lakhs) noticed at the time of change of incumbency of the officers-in-charge (May 1976—January 1977) have not been investigated so far (June 1979). The Divisional Officers stated (July 1979) that the handing over reports were under scrutiny.

### 11.3.7. Slow moving, non-moving and unserviceable items

(i) A review of the stores priced ledgers revealed that there were 7,173 items (value: Rs. 400.36 lakhs) of slow moving or non-moving stores (May/June 1979). Details are as follows:

No issues for	Number of items	Value (Rupees in lakhs)
1—5 Years	1,933	17.66
5—10 years	1,341	29.63
Over 10 years	3,899	353.07

In respect of stores (cables, transformers, relay panels, steel angles, etc.) valuing Rs. 33.94 lakhs, there were no issues at all ever since the dates of their receipt (between 1966 and September 1978).

(ii) The Stores Accounting Procedure requires a survey report to be prepared for sanction by the competent authority whenever any item of stores becomes unserviceable.

A review by the Board headquarters in July 1978 revealed 876 items of stores (value: Rs. 24.54 lakhs) which were unserviceable. Details are as follows:

Stores division	Number of items	Value (Rupees in lakhs)
Cuttack	322	19.34
Berhampur	190	2.92
Burla	364	2.28
Total	876	24.54

Survey reports in respect of 716 items of stores valuing Rs. 22.26 lakhs were still awaited (December 1979).

### 11.3.8. Purchase of Transformer Oil

A quantity of 118.387 KL of transformer oil (Value: Rs. 8.41 lakhs, was received during August 1974—November 1975 from a Bombay firm

by the Electrical Stores Division, Burla, against an order placed by the Superintending Engineer (Rural Electrification). After using the transformer oil, 3 field divisions (one at Rourkela and two at Burla), complained to the Stores Division (February 1976) that (i) the oil was mixed with water, (ii) its insulation value was very low and (iii) its dielectric strength was only 30 KV per minute and did not improve even after circulation. The Superintending Engineer (Rural Electrification) took up the matter with the suppliers (May 1976) for the replacement of the entire quantity. The firm rejected (June 1976) the claim on the ground that deterioration was due to long storage in drums in open yards and that it was the normal tendency of the oil to absorb moisture. The firm stated further that the other users at Balasore, Jajpur and Bhubaneswar had made no complaint as to its quality. The Deputy Director of Inspection, New Delhi, who had inspected the supplies before despatch stated (June 1976) that (a) the Board had lodged the complaint after 19 months as against 45 days stipulated in the order, (b) there were no complaints from other consignees and (c) the samples tested at the firm's laboratory were found to be according to specification. When the Board pursued the matter further, the firm took (February 1977) 5 litres of transformer oil for laboratory test. Neither were the results of tests made available to the Board nor was the matter pursued further (December 1979). After issue of 96.091 KL of oil to 14 divisions (83.866 KLs) for reclamation (12.225 KLs) and excluding 1.035 KLs towards shortage, a quantity of 21.261 KLs of defective oil (value: Rs. 1.51 lakhs) was still lying at the Stores Division, Burla (December 1979).

### 11.3.9. Diversion of materials

Despatch instructions regarding the consignees are given on the advice of the Superintending Engineer (Stores and Purchase) at the time of placing orders and sometimes at the time of inspection of materials at the firm's premises. A review revealed 50 cases (July 1979) in which stores were diverted to other locations (November 1977—April 1979) within a very short period of their receipt involving an infructuous expenditure of Rs. 1.07 lakhs. As the supplies were FOR destination the Board could have saved transportation charges on inter-depot transfers had the materials been consigned to the ultimate destination in the first instance.

## 11.3.10. Debits raised by stores divisions

(i) Whenever stores are issued to a user division, debits are raised for the value of stores issued and the amounts are held in a 'suspense' account until acceptance is received. The amount of gross debits to the suspense account and awaiting clearance (for the period since 1966-67) aggregated Rs. 1,198 lakhs (31st March 1979):

Division	Amount (Rupees in lakhs)
Cuttack ..	600
Berhampur ..	319
Burla ..	279
<b>Total</b>	<b>1198</b>

The reasons for non-acceptance of debits (which results in an understatement of capital/revenue expenditure), have not been furnished.

(ii) Debits are raised on the basis of quantities indicated on the store issue vouchers. A test check (July 1979) of issue vouchers with relevant gate passes for 1977-78 and 1978-79 revealed cases in which materials were shown in the gate passes in excess of the quantities indicated on the store issue vouchers.

Divisions	1977-78		1978-79		Total value of Excess (Rupees)
	Number of cases	Value of Excess (Rupees)	Number of cases	Value of Excess (Rupees)	
Cuttack ..	2	15,041	21	27,422	42,463
Berhampur ..	10	1,766	12	10,866	12,632
Burla ..	12	1,02,039	..	..	1,02,039
<b>Total</b>	<b>24</b>	<b>1,18,846</b>	<b>33</b>	<b>38,288</b>	<b>1,57,134</b>

The Divisional Officers stated (June/July 1979) that the matter was being investigated. Results of investigations are awaited (August 1980).

## 11.3.11. Payment of demurrage/wharfage charges.

(a) Mention was made in paragraph 9.3 of the Audit Report (Commercial), for the year 1976-77 regarding payment of demurrage/wharfage charges up to 1975-76. During the three years up to 1978-79 the Board paid demurrage and wharfage charges amounting Rs. 0.80 lakh, Rs. 0.85 lakh and Rs. 1.51 lakhs respectively.

According to an analysis made by the Board (September 1978), out of total demurrage and wharfage of Rs. 1.65 lakhs for 1976-77 and 1977-78, an amount of Rs. 0.55 lakh was the liability of the suppliers. No such analysis has been made for the year 1978-79 (August 1979).

Out of Rs. 0.55 lakh, a sum of Rs. 0.31 lakh was recovered from the suppliers and recovery of the balance amount was pending (August 1980).

The demurrage and wharfage of Rs. 1.10 lakhs was attributed to the following:

- late receipt of funds by the consignees from the headquarters/Pay and Accounts Officers,
- late receipt of railway receipts from the Liaison Officer, Calcutta, and,
- delay in release of documents due to other reasons

(b) The Board appointed a firm of Calcutta (May 1977) as clearing and forwarding agents for a period of 2 years for the clearance of plant and machinery, raw materials, spares etc., received by air/sea at Calcutta. The terms of appointment contained no provision for any penalty for delays in clearance. A review in audit revealed that the clearing agents handled 10 consignments (June 1976 to November 1977), which were released (September 1976 to May 1978), after 17 to 195 days of the

arrival of the cargo, (against 3 effective days allowed), resulting in a demurrage of Rs. 2.25 lakhs. An analysis of four cases revealed the following:

Date of arrival of ship	Date of intimation to the Board	Time* taken (Days)	Date of payment of customs duty	Time taken (Days)	Amount of demurrage (Rupees)
3rd July 1977	27th August 1977	54	3rd October 1977	36	23,436
3rd July 1977	23rd July 1977	20	9th August 1977	16	11,770
1st November 1977	22nd March 1978	141	4th May 1978	42	31,169
5th June 1977	15th June 1977	9	23rd August 1977	68	20,949
Total					87,324

The Liaison Officer, Calcutta attributed (November 1979) the demurrage mainly to delays in clearance of consignments and late payment of customs duty.

#### 11.3.12. Claims against railways and insurance companies

(i) As on 31st March 1979, an amount of Rs. 4.79 lakhs was pending recovery on account of claims against suppliers (Rs. 1.00 lakh), insurance companies (Rs. 0.65 lakh) and the Railways (Rs. 3.14 lakhs) in respect of stores received short or in damaged condition. Age-wise details were not available in the divisions.

(ii) In March 1977, the Divisional Officer, Berhampur withdrew claims amounting to Rs. 2.14 lakhs from 'Claims Suspense' account on the ground that claims to that extent were not admitted by the Railways. Supporting details were, however, not available.

(iii) The Superintending Engineer (Stores and Purchase) placed an order on a Hyderabad firm (October 1974) for the supply of insulators of different specification by December 1975. 21 insulators (value: Rs. 1.91 lakhs) were found short on receipt (March 1976), which have not yet been made good (August 1980). Bank guarantees furnished by the supplier for Rs. 3.83 lakhs (September 1975/January 1976) against 100 per cent payment made by the division were not invoked and had lapsed by March 1979.

\* Reasons for delay in intimation were not available.

#### 11.3.13. Theft cases

(a) Mention was made in paragraph 27.5 of the Audit Report (Commercial) for the year 1973-74 about theft of stores. During the period 1974-75 to 1977-78, 2,420 cases of theft of materials (copper scrap, conductors, transformers, etc.) of the value of Rs. 27.18 lakhs were reported:

Year	Number of cases	Amount (Rupees in lakhs)
1974-75	806	8.10
1975-76	553	6.81
1976-77	539	6.48
1977-78	522	5.79
Total	2,420	27.18

The cases were in various stages of investigation by the Department/Police (August 1980).

#### 11.3.14. Other topics of interest

##### Reclamation of used transformer oil

In September 1975, the Superintending Engineer (Stores and Purchase) instructed all the field officers to preserve the used transformer oil for reclamation and re-use. It was noticed, however, that no system had been devised to ensure the return of used oil to the Stores Divisions.

In July 1978, the Superintending Engineer (Stores and Purchase) placed an order on a firm of Jharsuguda for the reclamation of 45 KL. of used oil at the rate of Rs. 1.60 per litre. This was followed by another order on a Cuttack firm (September 1978) for the reclamation of 10 KL. Although 71 KL. of used oil was available at the Stores Division Cuttack, no oil was issued to the Jharsuguda firm. Only 4.2 KL. of oil was delivered



to the Cuttack firm (27th December 1978). The reclaimed oil has not been received so far (December 1979). Had the used oil been reclaimed an amount of Rs. 2.56 lakhs could have been saved.

#### Summing up

- (i) The Orissa State Electricity Board has (March 1979) 3 stores divisions and 20 attached stores depots/sub-depots. The Chief Engineer had not fixed any stock limits so far.
- (ii) Against the stipulated period of 7 days allowed for inspection of stores received, a review revealed a large number of cases of abnormal delays. Besides, in 30 cases (90 per cent payment made; Rs. 13.14 lakhs) stores received from 1973-74 onwards had not been taken on charge.
- (iii) The shortages and excesses revealed during stock verification and remaining unadjusted (31st March 1979) amounted to Rs. 26.66 lakhs and Rs. 17.96 lakhs respectively. The stores in 3 depots/sub-depots (value of stores as on 31st March 1979: Rs. 74.06 lakhs) had not been physically verified even once during the previous 3 years.
- (iv) There were 7,173 items of slow moving or non-moving stores of the value of Rs. 4.00 crores, of which stores worth Rs. 3.53 crores (3,899 items) had not moved for more than 10 years.
- (v) The Board was holding (July 1978) stores valuing Rs. 24.54 lakhs (876 items) which were unserviceable including stores valuing Rs. 22.26 lakhs for which survey reports were still awaited.
- (vi) A sum of Rs. 11.98 crores was outstanding on account of stores debits not accepted by the receiving divisions. The transactions pertained to the period from 1966-67 onwards.
- (vii) There were 2,420 cases of theft of material valuing Rs. 27.18 lakhs relating to the period of 4 years upto 1977-78, which were in various stages of investigation.

#### 11.4. Construction of control room of 220-KV sub-station at Tharubali

(On the basis of tenders invited in May 1972 and after negotiations by the Executive Engineer, Electrical Construction Division, the work of construction of the control room for the 220-KV sub-station (part of the Balimela Transmission Scheme) was entrusted (November 1972) to contractor 'K' at Rs. 2.57 lakhs (against his lowest quoted rate of Rs. 2.92 lakhs). The work was to be completed by October 1973. No written agreement was, however, entered into with the contractor. In February 1973 the work was transferred to the Executive Engineer, Civil Works division who drew up a programme (June 1973) in consultation with the contractor for completing the work by March 1974. There was delay in giving the approved design to the contractor by the Board. In June 1973, it was apprehended that the contractor would not be able to complete the work in time. The matter was discussed by the Board and it was decided (19th June 1973) to award the work to Orissa Construction Corporation Limited (OCC) at rates to be negotiated by the Secretary to the Government of Orissa, Irrigation and Power Department. The work was entrusted to OCC in August 1973. In October 1973, OCC indicated a programme to complete the work by June 1974 and in April 1974 the price payable to OCC was finalised at Rs. 3.29 lakhs. The work was completed by OCC in 1976. The purpose of withdrawing the work from 'K' and entrusting it to OCC at an extra expenditure of Rs. 0.75 lakh was not served. The final bill of OCC has not yet been settled (November 1979); a claim of 'K' for Rs. 1.78 lakhs towards the loss sustained by him on account of withdrawal of the work is also awaiting settlement (August 1980).

The matter was referred to Board/Government in August 1979; replies are awaited (August 1980).

#### 11.5. Manual clearance of ash

Mention was made in paragraph 9.7.9 of the Audit Report (Commercial) for the year 1976-77 about the failure of the mechanical ash handling system and removal of ash through contract labour by the Talcher Thermal

Power Station. During the period April 1977 to January 1979, the power station had incurred an expenditure of Rs. 0.69 lakh on manual removal of ash through contract labour. In January 1979, the power station procured two ash water pumps (value: Rs. 7.28 lakhs) with a view to avoiding manual clearance. The pumps have, however, not been installed so far (August 1980). Expenditure on manual clearance between February 1979 to September 1979 amounted to Rs. 0.46 lakh.

The matter was referred to the Board/Government in October 1979. The Board stated (July 1980) that the manual clearance of ash was inevitable since all the installations of the system were mechanical and there could not be any guarantee that all mechanical systems would run smoothly without breakdowns. Reply from Government was awaited (August 1980).

#### 11.6. Expenditure on idle establishment

The Electrical Construction Division at Aska (under the Electrical Circle, Berhampur) with three sub-divisions at Bhanjanagar, Hinjilicut and Aska, started functioning from December 1975 for the construction, *inter alia*, of 132-KV single circuit transmission line and associated sub-station and low tension lines between Berhampur and Aska.

In July 1976, the construction works were transferred (from the Hinjilicut Sub-division) to the Executive Engineer, Extra High Tension division, Bhubaneswar, to be executed by the Extra High Tension Construction Sub-division at Aska, set up in June 1976. The Construction Sub-division at Hinjilicut was not allotted any alternative work and the staff remained idle until September 1977 (14 months) when it was transferred to another division at Jeypore. The expenditure on the Sub-division for the period July 1976 to September 1977 amounted to Rs. 0.56 lakh.

Government stated (December 1979) that the delay was due to the fact that the proposal for the transfer of the Construction Sub-division, Hinjilicut received in July 1976 was linked with the reorganisation of Electrical circles at Berhampur and Jeypore which took time.

#### 11.7. Idle teleprinter

At the request of the Thermal Power Station Talcher, the Posts and Telegraphs Department installed a point to point teleprinter circuit

(December 1975) from the office of the General Superintendent to the Board's headquarters at Bhubaneswar, on an annual rental of Rs. 9,125, payable in advance each year, for a minimum period of 6 years. The teleprinter has not been put to use so far for want of an operator (September 1979). An amount of Rs. 0.36 lakh had been paid towards rent up to September 1979; besides there is a liability of Rs. 0.20 lakh for the balance minimum period of installation.

The matter was referred to Board/Government in September 1979; replies are awaited (August 1980).

#### 11.8. Delay in realising value of bonds

In September 1963, the Board purchased 4.75 per cent Andhra Pradesh State Electricity Board Bonds 1975 of the value of Rs. 4.50 lakhs. The Board did not realise the amount on maturity in September 1975. The amount was realised in February 1977, after the omission was pointed out in audit in January 1977. Loss of interest for the period from October 1975 to February 1977 worked out to Rs. 0.83 lakh (computed at the rate of 13 per cent per annum, being the rate of interest applicable on cash credit availed of by the Board). It was noticed further that the Board had not been receiving the interest periodically from the Andhra Pradesh State Electricity Board from September 1970 and an amount of Rs. 1.07 lakhs on this account was yet to be received (August 1980).

The Board stated (January 1980) that the delay in the realisation of the investment was due to a number of formalities involved and change in the incumbency of the Chairman. Reply from Government to whom the matter was referred in August 1979, is awaited (August 1980).

#### 11.9. Issue and management of loan bonds

The Board has, since 1962, been raising funds required for its developmental works by the issue of loan bonds to the public. The work relating to the issue and management of loan bonds and payment of interest to the

bond holders has been entrusted to the State Bank of India since inception on payment of commission as detailed below:

	Commission per Rs. 1 crore per annum
For issue	Rs. 2,500 (subject to a minimum of Rs. 2,500)
For management	Rs. 5,000 (subject to a minimum of Rs. 5,000)
When the commission exceeds Rs. 10,000 in respect of old/new loans	Rs. 3,750 (both for issue and management)
When the commission exceeds Rs. 20,000 in respect of old/new loans	Rs. 2,500 (both for issue and management)

In August 1967, with a view to effecting a saving in expenditure the Board decided that this work be managed departmentally by the Board. The decision was, however, not implemented for reasons not on record. The matter was considered again in May 1974 and it was assessed that if the work was managed by the Board the cost would be Rs. 0.25 lakh per annum. The matter was, however, not pursued further. The Board had incurred an expenditure of Rs. 4.13 lakhs over a period of 3 years up to 1977-78 (an average of Rs. 1.38 lakhs per annum).

The matter was referred to the Board/Government in August 1979; replies are awaited (August 1980).

#### 11.10. Defective Meter

According to the Revenue Accounting Procedure of the Board, the Divisional Office should review the consumption in each case and any abnormally low or excess consumption should be investigated. A rice mill under the Bolangir Electrical Division, Bolangir (transferred in July 1978 to the Electrical Construction Division, Bargarh) had been drawing power as a large industrial consumer, with a connected load of 141 KW from November 1971 to November 1977 and, as a medium industrial consumer

with a load of 99 KW thereafter. The KWH meter fixed at the consumer's premises was found to be defective (January 1977) by the Sub-divisional Officer, Burla, in that the error was not within the permissible limits and the meter was recording lower consumption. The meter was replaced after a delay of about 7 months (August 1977). The average monthly consumption after the replacement (August 1977 to September 1978) was 6,621 units as against the average monthly consumption of 10,780 units prior to the replacement (April 1976 to July 1977). A check of the installation by the Executive Engineer, Bargarh, in December 1978 revealed defects in connecting the meter with the current transformers, which resulted in low consumption; the defective connection was rectified in December 1978. The bills for the months of October and November 1978 were raised in June 1979 on the basis of an average monthly meter reading of 21,641 units for the period December 1978 to March 1979.

Although the meter replaced in August 1977 was recording abnormally low consumption corrective action was taken, belatedly, after one year. Computed with reference to the average consumption during the period December 1978 to March 1979 the short billing for the period August 1977 to September 1978 amounted to Rs. 0.52 lakh (including electricity duty, excise duty and fuel surcharge).

The matter was referred to Board/Government in September 1979; replies are awaited (January 1980).

## SECTION XII

## ORISSA STATE FINANCIAL CORPORATION

## 12.1. Introduction

In pursuance of the provisions of Section 3 (i) of the State Financial Corporations Act, 1951, the Government of Orissa established the Orissa State Financial Corporation on 20th March 1956 with an authorised capital of Rs. 2 crores comprising 2,00,000 shares of Rs. 100 each.

## 12.2. Functions

The Corporation is empowered under the Act, to transact the following kinds of business:

- guaranteeing the loans raised by industrial concerns in the open market or from the scheduled banks or State co-operative banks, and deferred payments due from the industrial concerns for purchase of capital goods;
- underwriting the issue of shares, bonds and debentures by industrial concerns;
- subscribing to the stocks, shares, bonds or debentures of industrial concerns;
- acting as an agent of the Central or the State Government or financial institutions in respect of loans or advances granted or debentures subscribed to by them; and
- granting loans and advances and subscribing to debentures of industrial concerns.

The Corporation offers long term loans, repayable within a period of 3—20 years for the setting up and extension of small scale/medium industrial concerns for purchase of land or machinery, construction of buildings, renovation and modernisation of plant and machinery, etc. In deserving cases the Corporation also provides margin money for working capital.

## 12.3. Organisational structure

The overall management of the Corporation is vested in a Board of Directors headed by a part-time Chairman. The Managing Director looks after the day to day management of the Corporation. The Board is assisted by an Executive Committee consisting of six members (March 1979) with the Managing Director as its Chairman. The Corporation has 14 branches (at 13 district headquarters and at Paradeep), each under the charge of a Branch Manager.

## 12.4. Capital structure

The authorised capital of the Corporation was raised from Rs. 2 crores to Rs. 3 crores in 1977-78. The Corporation had a paid-up capital of Rs. 1.76 crores as on 31st March 1979:

	Number of shares	Amount of holding (Rupees)	Percentage of holding
Government of Orissa	1,17,145*	1,17,14,500	66.57
Industrial Development Bank of India (IDBI)	43,000	43,00,000	24.43
Scheduled banks, insurance corporations, investment trust, co-operative banks and other financial institutions	15,700	15,70,000	8.90
Others	155	15,500	0.10
Total	1,76,000	1,76,00,000	100.00

Under Section 6 (1) of the Act, the State Government has guaranteed the repayment of the principal and payment of dividend at (a) 3.5 per cent per annum on the initial share capital of Rs. 50 lakhs, (b) 4 per cent per annum on the additional share capital of Rs. 50 lakhs raised during 1962-63 and (c) 3.5 per cent per annum on Rs. 32 lakhs and Rs. 22 lakhs raised during 1977-78 and 1978-79 respectively.

\* Including 4,165 shares allotted under Section 4 (5) of the State Financial Corporation Act.

Under Section 4-A of the State Financial Corporations Act, 1951, special share capital of Rs. 22 lakhs (Rs. 15 lakhs from the State Government and Rs. 7 lakhs from IDBI), raised up to March 1979 was meant for providing short-term assistance to projects in the small scale sector which, though basically viable, face difficulties in implementation because of financial handicap of promoters, locational disadvantages, etc. The table below gives the details of applications sanctioned and the amount disbursed out of the special share capital up to 1978-79:

	Number	Amount (Rupees in lakhs)
Applications received ..	45	16.83
Applications sanctioned ..	45	16.83
Disbursements made ..	17	3.14
Awaiting disbursements ..	28	13.69

During the period April 1979—July 1980, a further amount of Rs. 3.11 lakhs was disbursed (24 cases) leaving a balance of Rs. 15.75 lakhs (August 1980).

### 12.5. Financial analysis

#### (a) Sources and uses of funds

The position regarding the resources available and the pattern of their utilisation for the five years up to 1978-79 is indicated below:

	1974-75	1975-76	1976-77	1977-78	1978-79
	(Rupees in lakhs)				
<b>A. SOURCES</b>					
1. Increase in paid-up capital ..		4.00	..	37.50	34.50
2. (a) Increase in reserves ..	7.59	11.84	14.24	21.29	..
(b) Interest suspense account ..	..	0.68	..	..	..
3. (a) Reserve Bank of India (against <i>ad hoc</i> bonds)	40.00	110.00	75.00	196.00	40.00
(b) IDBI (Refinance) ..	51.93	160.90	272.22	263.62	370.98
4. Borrowings by way of bonds and debentures issued	27.50	82.50	165.00	160.00	302.50
5. Sale of investments in shares and debentures	1.50	..	..	..	0.98
6. Repayment by loanes ..	28.26	42.91	48.67	52.89	113.20
7. Others ..	30.74	10.20	74.68	52.00	172.43
Total ..	187.52	423.03	649.81	783.30	1,034.59

	1974-75	1975-76	1976-77	1977-78	1978-79
	(Rupees in lakhs)				
<b>B. USES</b>					
1. Loans ..	111.15	219.33	321.21	338.03*	524.21
2. Shares and debentures ..	1.00	..	..	..	..
3. Guarantee ..	3.47	3.80	4.14	1.86	..
4. Deposit with Banks ..	..	0.50	..	1.90	..
5. Repayment of loans to — Reserve Bank of India	20.00	90.00	115.00	146.00	90.00
— I. D. B. I. ..	16.13	29.84	37.82	94.94	205.54
6. Refund of Bonds ..	..	..	50.00	50.00	50.00
7. Others ..	35.77	79.56	121.64	150.57	164.84
Total ..	187.52	423.03	649.81	783.30	1,034.59

#### (b) Bonds

The Corporation floated 14 series of bonds (May 1964 to March 1979) aggregating Rs. 1,087.50 lakhs at interest rates varying from 5 to 6.5 per cent per annum. The repayment of the principal and payment of interest is guaranteed by the State Government.

(i) Eleven out of the 14 series were floated at discount ranging from 0.25 to 2.00 per cent (Rs. 7.78 lakhs).

(ii) The management of the issue of bonds was entrusted to State Bank of India (SBI), Calcutta and Rs. 2 lakhs were paid as management expenses to the Bank. The IDBI's suggestion (January 1977) that the Corporation should itself take up the management of issue of bonds was implemented 3 years later in January 1980.

#### (c) Ad hoc bonds

In addition to the regular bonds, the Corporation borrowed Rs. 4.07 crores (April 1974—April 1979) from the Reserve Bank of India [under Section 7 (2) (b) of the Act] against *ad hoc* bonds to meet its working capital requirements. These bonds were repayable within 12—18 months in one instalment and carried interest rates of 7 to 9 per cent per annum as against 5—6.5 per cent per annum applicable to bonds in the open market

#### (d) Borrowing under refinance by IDBI

In order to augment its resources for term loans to entrepreneurs at a concessional rate of interest, the Corporation started availing of the refinance

\* The amount actually disbursed was Rs 337.89 lakhs; the difference of Rs. 0.14 lakh is yet to be reconciled by the Corporation.

facilities from IDBI (March 1963). The maximum borrowing limit was Rs. 3 crores up to February 1978. This was increased to Rs. 7.73 crores in March 1978 and to Rs. 9.04 crores in February 1979.

(i) Refinance facilities are available only against actual disbursements. The table below indicates the amount of refinance sanctioned, disbursed and actually utilised during the five years up to 1978-79 :

Year	Refinance sanctioned by IDBI	Amount disbursed by the Corporation	Refinance availed of by the Corporation	Balance unutilised	Shortfall in utilisation (per cent)
	(Rupees in lakhs)				
1974-75	64.63	20.64	51.93	12.70	20.0
1975-76	473.00	177.94	160.90	312.10	66.0
1976-77	798.34	296.19	272.22	526.12	65.9
1977-78	387.67	261.74	263.62	124.05	32.0
1978-79	1,062.62	371.95	370.98	691.64	65.1

The shortfalls were due to (i) non-completion of legal formalities like agreements hypothecation deeds, etc. and (ii) delays in the procurement of plant and machinery.

(ii) In case refinance assistance is not drawn by the Corporation within a period of 6 months (extended to 9 months from January 1974), IDBI levies a commitment charge at 1 per cent per annum. IDBI had, up to December 1978, claimed a sum of Rs. 15.42 lakhs towards commitment charges against which the Corporation had paid (February 1977) Rs. 1.10 lakhs and had requested IDBI (January 1979) for a waiver of the balance of Rs. 14.32 lakhs. IDBI asked (January 1979) the Corporation to analyse individual cases to enable it to consider a waiver. On the basis of details furnished (February 1979) IDBI waived payment of Rs. 0.31 lakh. Details for the balance amount (Rs. 14.01 lakhs) were yet to be furnished to IDBI (August 1980).

A test check of cases in which commitment charges Rs. 1.10 lakhs were paid by the Corporation (February 1977) revealed that in 48 cases a sum of Rs. 0.59 lakh was actually recoverable from the loanees, of which only Rs. 0.11 lakhs had been recovered (September 1973-November 1976), resulting in a short realisation of Rs. 0.48 lakh, reasons for which were not available.

(iii) Under the scheme of refinance the Corporation is required to make timely repayment of the instalments of the principal together with interest accrued thereon, irrespective of whether the dues are recovered from the borrowers or not. Payments made to IDBI in respect of defaulting borrowers during the five years up to 1978-79 were as follows :

Year	Payments to IDBI in respect of defaulting borrowers (Rupees in lakhs)
1974-75	58.40
1975-76	111.42
1976-77	145.59
1977-78	115.48
1978-79	199.14

This necessarily affected the Corporation's resources which had to be made good through borrowings from Reserve Bank of India and by the issue of bonds.

(iv) The Corporation was to charge the loanees its normal rate of interest (13 to 15.5 per cent per annum) from the date of disbursement to the date of refinance and at the refinance rate (10 to 14.5 per cent per annum) thereafter. In February 1977, the Corporation decided to levy the (lower) refinance rate uniformly with retrospective effect from October 1976 on the ground of facility of interest calculations.

A test check in audit of 150 cases of loans disbursed during April 1976 to April 1979 revealed that in 19 cases the time lag between the disbursement of loans and refinance from IDBI ranged from 1 to 25 months and resulted in a short levy of Rs. 0.43 lakh by way of interest.

(v) Under the Automatic Refinance Scheme introduced in July 1978, the Corporation had during the period from July 1978 to July 1979 submitted 329 disbursement request notes of the aggregate value of Rs. 201.59 lakhs to the IDBI. A test check in audit (August 1979) revealed that refinance assistance of Rs. 151.49 lakhs (258 cases) was actually availed of by the Corporation after a lapse of 30-349 days (reckoned from the date of the request note). With the Corporation having extended the benefit of refinance rate of interest from the date of disbursement of the loan, the loss of revenue on account of interest amounted to Rs. 0.62 lakh.

## 12.6. LOAN OPERATIONS

## (a) Sanction and disbursements

The table below indicates the loan applications received, loans

Particulars	1974-75	1975-76
	(Rupees in	
(a) Applications pending at the beginning of the year	1,76.38 (47)	3,79.54 (215)
(b) Applications received ..	6,45.21 (395)	14,03.78 (889)
(c) Total (a+b) ..	8,21.59 (442)	17,83.32 (1104)
(d) Loans sanctioned ..	3,05.56 (210)	6,21.12 (509)
(e) Applications rejected, lapsed and withdrawn	1,36.49 (17)	3,70.79 (155)
(f) Applications pending at the close of the year	3,79.54 (215)	7,91.41 (440)
(g) Loans disbursed ..	1,11.15 (98)	2,19.33 (184)
Percentage of pending applications to total applications	46.8	44.4

(The figures in the brackets indicate the number of applications)

sanctioned, amounts disbursed etc. during the five years up to 1978-79

1976-77	1977-78	1978-79	Progressive figures up to 31st March 1979
(lakhs)			
7,91.41 (440)	4,91.18 (271)	1,62.31 (109)	..
9,15.81 (472)	7,85.79 (508)	19,60.48 (1841)	82,71.38 (5570)
17,07.22 (912)	12,76.97 (779)	21,22.79 (1950)	82,71.38 (5570)
8,49.10 (484)	5,42.44 (425)	12,58.94 (1260)	45,39.12 (3579)
3,66.94 (157)	5,72.22 (245)	2,54.05 (130)	31,22.46 (1431)
4,91.18 (271)	1,62.31 (109)	6,09.80 (560)	6,09.80 (560)
3,21.21 (133)	3,37.89 (273)	5,24.21 (515)	21,65.43 (1678)
28.8	12.7	31.1	10.1

As against an amount of Rs. 21,65.43 lakhs disbursed (1,678 loanees) as loans up to March 1979, a sum of Rs 16,63.65 lakhs (76.8 per cent) was outstanding (1,607 loanees) as on 31st March 1979.

The Board had directed (December 1974) that loan applications should be processed within 3 months, and the applications pending beyond 6 months should be reported to them with reasons. The following is the age-wise analysis (October 1979) of the pending applications as on 31st March 1979:

	Number	Amount (Rupees in lakhs)	Remarks
Below 3 months ..	281	251.36	Pending pre-sanction appraisal
3 to 6 months ..	127	158.34	
6 to 12 months ..	141	174.59	Pending allotment of trucks to loanees
12 to 18 months ..	11	25.51	Parties not interested
<b>Total ..</b>	<b>560</b>	<b>609.80</b>	

The above position was reported to the Board in October 1979 but without any indication of the reasons as to why these were pending.

#### (b) Procedure

The parties seeking financial assistance are required to submit applications with the requisite fees and information about the capital cost, margin money for working capital, entrepreneurs' bio-data, and past performance record, if any, besides technical and financial feasibility of the project. While the Corporation has to make pre-sanction technical and financial appraisals it does not have a market intelligence cell of its own and information is generally collected from others in similar business.

The loans are sanctioned after keeping a margin of up to 30 per cent of the capital cost except in the case of technocrats and trained entrepreneurs for small scale units. After the loan sanctions, the borrowers are required to furnish title-deeds, non-encumbrance certificates, hypothecation and/or mortgage deeds, and to execute a formal agreement. The loans

sanctioned are disbursed in instalments taking into account the matching capital contributions by the entrepreneurs and the progress in implementation of the projects/schemes. The disbursements in respect of machinery are made as follows:

- (i) against machines purchased, payment is made on the basis of documentary evidence and physical verification;
- (ii) for machines sent through approved carriers, payment is made to the suppliers through the bank against despatch documents; and
- (iii) for machines delivered *ex-factory*, payment is made directly to the suppliers in the presence of the Corporation officials.

After the loan is disbursed in full the Corporation officials carry out periodical inspections at the loanee's premises.

#### (c) Lead time

The following is an analysis of the lead time taken by the Corporation in sanctioning the loans from the dates of application:

Time taken	Sanctions									
	1974-75		1975-76		1976-77		1977-78		1978-79	
	Appli- cations (number)	Per- cent- age to total	Appli- cations (number)	Per- cent- age to total	Appli- cations (number)	Per- cent- age to total	Appli- cations (number)	Per- cent- age to total	Appli- cations (number)	Per- cent- age to total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Up to 3 months ..	125	59.5	299	58.9	306	63.1	227	53.4	907	72.0
3 to 6 months ..	45	21.4	55	10.8	71	14.7	88	20.7	235	18.7
6 to 12 months ..	36	17.1	150	29.5	73	15.1	52	12.2	113	9.0
12 to 36 months	4	2.0	4	0.7	34	7.1	58	13.7	5	0.3
<b>Total ..</b>	<b>210</b>	<b>..</b>	<b>508</b>	<b>..</b>	<b>484</b>	<b>..</b>	<b>425</b>	<b>..</b>	<b>1,260</b>	<b>..</b>

The percentage of applications sanctioned after a period of over 6 months ranged from 9.3 (1978-79) to 30.3 (1975-76). Delays in processing the applications were stated to be due to non-completion of formalities by the entrepreneurs.

#### (d) Other points of interest

(i) The Corporation sanctioned a loan of Rs. 9.00 lakhs (August 1971) for the construction of an air conditioned hotel at Cuttack. The Corporation had not obtained any Project report or satisfied itself about the approval of the Improvement Trust for constructing the hotel building. Against a provision of Rs. 2.70 lakhs in the sanction a sum of Rs. 3.58 lakhs was



disbursed in January 1972 in one instalment for the construction of the building. The site was inspected in June 1972 and January 1973, but it was only in April 1973 that the inspecting staff reported that a cinema hall was being constructed at the site instead of a hotel building. After obtaining advice from the Reserve Bank of India the Corporation called back the loan and cancelled the balance of Rs. 5.42 lakhs (November 1973).

The amount already disbursed was repayable in 22 half-yearly instalments commencing from January 1973 but it was rephased for payment during December 1975 to December 1979. No instalment of loan was paid and there was no further progress until July 1976 when the loanee at the instance of the Board of Directors offered to submit a concrete proposal to form a separate Company to run the hotel and was allowed one month's time up to August 1976. In March 1977, the loanee submitted a revised proposal (along with feasibility report/revised plan etc.) with an estimated total requirement of Rs. 14.55 lakhs. The Board considered the proposal (June 1977) and decided (February 1978) to release further instalments. Further amounts totalling Rs. 5.42 lakhs were paid to the loanee between March 1978 and March 1980 raising the total disbursements to Rs. 9.00 lakhs. The construction of the hotel (scheduled for completion by October 1978) had not yet been completed (August 1980), and an amount of Rs. 12.68 lakhs (principal: Rs. 9.00 lakhs; interest: Rs. 3.68 lakhs) was outstanding at the end of March 1980.

(ii) Two loans totalling Rs. 21.33 lakhs were sanctioned (Rs. 16.80 lakhs in March 1973 and Rs. 4.53 lakhs in June 1975) to a firm set up (September 1965) for the manufacture of ferrous/non-ferrous alloy castings and fabrication/manufacture of steel structures at Talcher (District Dhenkanal). An amount of Rs. 18.97 lakhs was disbursed during July 1973—May 1978, leaving an undisbursed balance of Rs. 2.36 lakhs.

The firm executed small orders of 277 tonnes during the three years up to 1976-77, the reasons for the low production, as attributed by the Management (May 1979), being lack of orders, shortage of materials, high rate of energy charges and intermittent power failure. The firm incurred losses (Rs. 20.32 lakhs as on 31st March 1977) and the Corporation agreed to its request (March 1979) to rephase the repayment schedule for the loans from May 1976—May 1982 to June 1979—December 1990.

As against the total amount of Rs. 28.14 lakhs (including interest of Rs. 9.17 lakhs accrued up to October 1979) outstanding, the value of the security available (net fixed assets) as on the 31st December \* 1978 was Rs. 24.70 lakhs.

(iii) The Corporation sanctioned/disbursed loans to two Co-operative sugar mills as per details given below

Loanee	Date of sanction	Amount (Rupees in lakhs)	Date of disbursement	Amount (Rupees in lakhs)	Rate of interest ** per cent per annum	Repayment schedule	
						Original schedule for repayment	Revised schedule for repayment
'X'	April 1966	0.97	December 1967	0.97	8.5	December 1969 to December 1978	April 1974 to April 1980
	December 1966	0.17	November 1967	0.17	8.5	July 1968 to July 1976	
'Y'	October 1972	20.00	May 1973 September 1973	15.00 5.00	10 10	February 1975 to June 1985	July 1980 to July 1989

The loans (secured by a guarantee from Government) were given on the strength of the sugar mills' claim that sufficient sugarcane would be available within a 10 km. radius.

The output of the mills, however, has been low and irregular mainly for want of sugarcane. A Committee (headed by the Agricultural Production Commissioner) observed (July 1976) that the basic promise (at the time the project was conceived) that the farmer would shift from paddy to sugarcane was unrealistic because of farmers ability to produce two crops of paddy in a year and non-availability of irrigation during May and June. The Committee suggested various measures for boosting sugarcane production and also suggested rephasing of the loan repayments. The repayments were, accordingly, rephased (January 1977) without any change in the rate of interest.

Because of continuing default by 'Y', in March 1979 the Board of Directors decided to invoke the Government guarantee. Rupees 28.25 lakhs were due from 'Y' (principal : Rs. 20.00 lakhs, interest : Rs. 8.25 lakhs) and Rs. 1.84 lakhs from 'X' (principal : Rs. 1.02 lakhs, interest : Rs. 0.82

\* The value of net fixed assets as on 31st October 1979 was not available.

\*\* Subject to a rebate of  $\frac{1}{2}$  per cent for timely repayment.

lakh) as in July 1979. The Corporation issued a reminder to the sugar mills (July 1979) to repay the dues but no action had been taken to invoke the Government guarantee as decided by the Board (August 1980).

(iv) A loan of Rs. 8.00 lakhs was disbursed (February 1976) to a firm of Rourkela engaged in breaking rejected ingot moulds into smaller sizes for use as raw materials. The loan was repayable in 20 half-yearly instalments commencing from August 1976. The loan was sanctioned on the basis of the firm's contention that raw materials required for their plant (45,900 tonnes per annum) were available in abundance from Rourkela Steel Plant and that the operation would result in an annual profit of Rs. 0.95 lakh to Rs. 1.94 lakhs.

The Corporation did not make any independent verification or appraisal before sanctioning/dispersing the loan nor did it monitor the progress thereafter. In March 1978, the firm represented that due to short supply of raw materials, defect in the machinery received and competition in the field, production did not reach full capacity, and requested for rephasing the schedule for repayment of loan (and interest).

In March 1979 the Corporation re-scheduled the repayment of the loan including interest (Rs. 11.30 lakhs), with repayment of principal to commence from February 1981 and payment of interest from March 1980.

(v) An entrepreneur 'YP' applied (February 1978) for a loan of Rs. 0.19 lakh for the establishment of a pickle and squash manufacturing unit at Bhubaneswar. Considering that the scheme could not be implemented at that low cost, a loan of Rs. 0.71 lakh was sanctioned in July 1978 for the procurement of machinery and equipment. As 'YP' could not hire a suitable building (as envisaged in the scheme), he applied (January 1979) for an additional loan of Rs. 0.18 lakh for the purchase of an industrial shed (Rs. 0.09 lakh) besides procurement of additional machinery (Rs. 0.09 lakh). This further loan was sanctioned in February 1979. A sum of Rs. 0.36 lakh was released to the local supplier of machinery (September 1978) on the basis of 4 *pro forma* bills for Rs. 0.40 lakh furnished by him. A further sum of Rs. 0.10 lakh was released in March 1979 to 'YP' for down payment to the Orissa Small Industries Corporation Limited for the purchase of the industrial shed (on hire-purchase basis).

In January 1979, 'YP' intimated that the machinery worth Rs. 0.18 lakh had not been supplied by the local firm. During discussion with both the parties in May 1979 it transpired that out of Rs. 0.36 lakh, received by it the firm had paid Rs. 0.30 lakh to 'YP' in cash and kind. 'YP' stated (May 1979) that he had obtained machinery worth Rs. 0.14 lakh which was kept in the shed allotted to him. Considering the collusion between the entrepreneur and the firm to defraud the Corporation by submission of false bills, the Board authorised the Managing Director (June 1979) to initiate legal action in the matter. Further developments are awaited (August 1980).

The following points were noticed:

(a) In cases of payment against *pro forma* bills/invoices the draft/cheque is to be delivered to the supplier on physical verification of the machinery delivered to the party. This procedure was not observed in this case.

(b) An amount of Rs. 0.10 lakh for an industrial shed was disbursed in March 1979, after it was known (January 1979) that the entrepreneur had not received the machinery against the disbursement (Rs. 0.36 lakh) made in September 1978.

(vi) In August 1973, a loan of Rs. 0.23 lakh was sanctioned to 'NB' an entrepreneur for the construction of a building and purchase of equipment for the manufacture of bricks at Sambalpur. A sum of Rs. 0.18 lakh was disbursed in September 1973 (Rs. 0.11 lakh) and January 1974 (Rs. 0.07 lakh) against mortgage of land (6.64 acres) without verification of title. In February 1974, it came to notice that the entrepreneur neither owned the land nor had he constructed the building or purchased the equipment. Legal proceedings were initiated in December 1975 but the suit could not be maintained as the loanee did not possess the title to the mortgaged land. The State Vigilance Department which enquired into the matter, recommended (February 1977) action against three Corporation officials connected with the inspection of the site, its valuation and disbursement of loan. In June 1977, the Board asked the Managing Director to enquire into the matter. There was no indication, however, of the matter having been pursued further (August 1980).

(e) *Default in repayment of loans.*

The loans are repayable within 5-10 years except for transport loans which are repayable in 3½ years.

The table below indicates the amounts outstanding, amounts realised, and the extent of default for the last five years up to 1978-79.

Year	Amount due and outstanding			Amount realised			Amount in default		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
	(Rupees in lakhs)								
1974-75	139.37	122.73	262.10	28.26	27.36	55.62	111.11	95.37	206.48
1975-76	211.61	158.75	370.36	63.12	48.64	111.76	148.49	110.11	258.60
1976-77	294.66	213.25	507.91	48.67	44.46	93.13	245.99	168.79	414.78
1977-78	384.05	267.14	651.19	52.87	55.12	107.99	331.18	212.02	543.20
1978-79	635.75	402.71	1,038.46	129.66*	144.22*	273.88*	506.09	258.49	764.58

The amount in default as on 31st March 1979 was Rs.764.58 lakhs which included amounts due in respect of (suit-filed) cases (Rs.82.24 lakhs) and units taken over by the Corporation by invoking the provisions of Section 29 of the State Financial Corporations Act, 1951 (Rs. 44.20 lakhs). It also included Rs.202.56 lakhs (interest : Rs.142.22 lakhs) recoverable from parties to whom loans were given for purchase of trawlers, mention about which was made in paragraph 13.1 of the Audit Report (Commercial) for the year 1977-78. In the case of 57 fishing trawler operators (amount due Rs.79.07 lakhs), the Corporation proposed (August 1979) to seize the trawlers from the defaulters. The Corporation accordingly seized (January 1980) 14 trawlers (amount due: Rs.7.50 lakhs). Further action is awaited (April 1980).

\* Includes bad debts written off: Principal Rs.16.46 lakhs Interest Rs.14.94 lakhs.

The following are some of the deficiencies and shortcomings noticed:

- (i) inadequate post sanction and follow-up inspections;
- (ii) pace of utilisation of the sanctioned assistance was not reviewed regularly;
- (iii) inadequate appraisal of the time for completion of projects, capacity utilisation, marketing of products and working capital, etc.;
- (iv) guarantees available under the credit guarantee scheme were not availed of; and
- (v) the Corporation does not prepare/review an age-wise analysis of the cases of default.

Section 29 of the State Financial Corporations Act, 1951, empowers the Corporation to take over the management or possession of the mortgaged properties or both, with the right to transfer by way of lease or sale of the industrial concern and realise the property pledged, mortgaged, hypothecated or assigned to the Corporation. Up to March 1979, the Corporation had invoked these provisions in respect of 10 cases (amount: Rs.85.45 lakhs), of which 7 cases (amount: Rs.40.96 lakhs), were disposed of at a loss of Rs.4.18 lakhs. In one case (amount due : Rs.14.97 lakhs) the assets were sold through the High Court of Orissa (October 1979) for Rs.18.30 lakhs but the sale proceeds have not yet been realised (December 1979). The remaining two cases (amount Rs.29.52 lakhs) are awaiting disposal (August 1980).

Section 31 of the State Financial Corporations Act, 1951, provides for special remedies for realisation of debts through Court proceedings where by the Corporation can apply to the District Judge concerned for one or more of the following reliefs :

- an order for sale of security for the loan or advance;
- transfer of the management of the industrial concern to the Corporation;
- an *ad interim* injunction, restraining the concern from transferring or removing its machinery or plant or equipment from its premises without the permission of the Board of Directors of the Corporation.

The Corporation had, since inception, initiated legal action in 66 cases (Rs.83.49 lakhs) up to August 1979 of which two cases filed in 1976-77 (Rs.1.25 lakhs) were with-drawn after full recovery of the dues. The analysis of the remaining 64 cases (Rs.82.24 lakhs) is given in the next page.

Year of filing of Court cases	Number of cases filed	Amount (Rupees in lakhs)	Cases decided amicably	
			Number	Amount (Rupees in lakhs)
(1)	(2)	(3)	(4)	(5)
Up to				
1973—74	18	23.49	6	2.21
1974—75	3	1.12	..	..
1975—76	16	9.10	1	0.76
1976—77	15	26.96	..	..
1977—78	11	14.35	..	..
1978—79	1	7.22	..	..
<b>Total</b>	<b>64</b>	<b>82.24</b>	<b>7</b>	<b>2.97</b>

Cases decreed; execution petitions pending in the court		Cases decreed but execution petitions are not filed		Cases pending in the Courts	
Number	Amount (Rupees in lakhs)	Number	Amount (Rupees in lakhs)	Number	Amount (Rupees in lakhs)
(6)	(7)	(8)	(9)	(10)	(11)
..	..	7	5.41	5	15.87
..	..	..	..	3	1.12
..	..	7	1.96	8	6.38
6	16.52	2	2.81	7	7.63
1	2.30	1	0.19	9	11.86
1	7.22	..	..	..	..
<b>8</b>	<b>26.04</b>	<b>17</b>	<b>10.37</b>	<b>32</b>	<b>42.86</b>

The following other points were also noticed:

(1) A loan of Rs. 1.00 lakh was sanctioned to a foundry unit at Cuttack in December 1966. The loanee defaulted in the repayment of the loan and payment of interest. A decree was obtained by the Corporation in August 1977 for realisation of the dues of Rs. 1.92 lakhs (including interest) but no action was taken by the Corporation for the sale of the mortgaged properties valued at Rs. 1.60 lakhs. The Corporation stated (October 1979) that the matter was being processed.

(2) A loan of Rs. 0.87 lakh was disbursed between November 1967 and January 1970 to a firm at Kushpangi (District Cuttack) set up for the manufacture of aluminised wire. The plant did not come up as the promoters could not raise sufficient funds of their own, could not obtain power from the Orissa State Electricity Board, and the buildings were also damaged during the cyclone in 1971.

In December 1976, the Corporation took over the firm's immovable assets with a view to realising the loan through their sale. The factory building collapsed in a tornado in April 1978. The case for the disposal of the land was being processed (August 1980). The amount outstanding for realisation up to 31st March 1979 was Rs. 1.97 lakhs (principal: Rs. 0.87 lakh, interest: Rs. 1.04 lakhs and other charges: Rs. 0.06 lakh).

(f) *Bad debts*

During the period from March 1977 to March 1979, the Board of Directors had written off Rs. 31.77 lakhs as bad debts in respect of 4 cases, 2 of which are detailed below:

(i) Mention was made in paragraph 92 (ii) of the Audit Report for 1969-70 about the decree obtained by the Corporation in September 1967 for Rs. 19.27 lakhs being the amount realisable from a textile mill of Bhakalpur (District Cuttack).

With a view to disposing of the assets of the loanee the Corporation published sale notices in the press thrice during the period April 1968 to April 1971. The sales did not, however, materialise as the Court did not accept

the Corporation's valuation of assets. The textile mill was taken over by the National Textile Corporation Limited (November 1972). The Board decided (January 1976) to ask the Vigilance Department to ascertain whether the old assets procured by the loanee had been valued as new at the time the loan was sanctioned in October 1963. Action taken, if any, in pursuance of this decision has not been intimated in audit so far (August 1980). Claims preferred by the Corporation for Rs. 31.62 lakhs (April 1977) before the Commissioner of payments had not been paid. As the Corporation found it difficult to enforce the guarantee given by the Directors of the textile company, a sum of Rs. 31.36 lakhs (principal: Rs. 16.43 lakhs, interest and other charges; Rs. 14.93 lakhs) was written off in 1979 leaving a balance of Rs. 0.26 lakh (August 1980).

(ii) In another case it was found that the party held no title to the property mortgaged (September 1973) to the Corporation. An amount of Rs. 0.26 lakh due could not be realised and was written off (June 1978). No action was taken against the concerned officials responsible for not verifying the title to the property.

(g) *Rephasing the loans*

During the three years up to 1978-79 there were 93 cases (Rs. 173.26 lakhs) in which the Corporation had agreed to rephase the repayment schedule to suit the convenience of the loanees. Of these 93 cases it was noticed that 51 loanees had defaulted in the repayment of the principal and payment of interest (amount: Rs. 39.07 lakhs) even according to the revised schedule.

There was no particular pattern (for uniformity) in the rates of interest levied at the time of rephasing the loans. It was noticed that lower rates of interest, ranging from 8.25 to 11.5 per cent per annum, had been allowed in 38 cases whereas higher rates of interest ranging from 10 to 15.5 per cent per annum were charged in respect of the remaining cases. The loss of revenue up to 1978-79 due to lower rates of interest charged in 38 cases worked out to Rs. 2.20 lakhs. Eventhough the loans were rephased at lower rates of interest, 13 loanees continued to default in repayment of loans and payment of interest.

The Corporation stated (September 1979) that the rephasing of loans at lower rates of interest was done keeping in view the capacity of the parties to repay and to reduce the default position of the individual industrial concerns.

(h) *Post disbursement follow-up*

The hypothecation deed executed by the loanees provides for inspection, verification and valuation of the assets mortgaged, etc., by the officers of the Corporation. They are also required to verify that the loan sanctioned has been utilised for the purpose for which it was sanctioned, that the production is according to the programme envisaged and that there is no violation of the terms and conditions of the hypothecation deed. It was only in November 1976, that the Board of Directors decided that the assisted units should be inspected at least once a year with priority accorded to the units to which assistance sanctioned exceeded Rs. 5 lakhs.

(i) A review in audit disclosed the following position in regard to inspections:

Year	Number of units	Number of units inspected	Percentage
1974-75	572	4	0.17
1975-76	756	9	1.2
1976-77	890	72	7.7
1977-78	1,163	9	0.8
1978-79	1,678	24	1.4

It would be apparent that most units had not been inspected even once. Out of 1,120 defaulting units as on 31st March 1979, as many as 1,002 units had not been inspected at all. The Corporation attributed this (September 1979) to insufficient staff and stated that the inspection wing had been augmented from (June 1979). During the period June 1979 to December 1979, the wing had inspected 50 units only.

The Inspection reports indicated that the units had been facing difficulties like shortage of raw materials, power, working capital etc. An analysis of the 118 defaulting cases (Rs. 193.66 lakhs) which had been inspected revealed that in 38 cases no reasons for default had been recorded. Details of the 118 cases are given below:

Particulars	Number of cases	Amount of assistance involved (Rupees in lakhs)
Wilful default	20	51.02
Lack of demand	12	36.99
Non-commencement of production	6	13.26
Shortage of raw materials	7	11.83
Irregular running, frequent breakdown, etc.	10	9.23
Paucity of funds (working capital)	13	9.10
Shortage of power	4	3.83
Default of negligible amounts	8	5.79
Reasons for default not recorded	38	52.61
<b>Total</b>	<b>118</b>	<b>193.66</b>

(ii) As on 31st March 1979, the Corporation had extended assistance (Rs. 606.45 lakhs) to 142 public/private limited companies. In terms of Section 27 (2) of State Financial Corporations Act, 1951, the Corporation can have its nominee (s) on the Boards of the companies receiving financial assistance. The Corporation started only from January 1978 to have its nominees on 26 such Boards and had nominated its representatives on the Boards of 26 companies (August 1980).

(iii) The agreement with the borrower envisages that the borrower should submit the audited accounts within 6 months from the date of closing of such accounts. The number of assisted units as on 31st March 1979 was 1,607 against which the loans outstanding amounted to Rs. 1,663.65 lakhs. It was noticed that the Corporation had not kept track of the receipt of audited accounts.

The Corporation stated (September 1979) that most of the units were either running as a one man show or with one or two skilled workers who were not conversant with the preparation of balance sheets and it was difficult for the units to comply with this requirement.

(iv) A loan of Rs. 0.37 lakh was sanctioned in September 1973 to 'N' to set up a brick field and a brick kiln to manufacture bricks at Angul (District Dhenkanal). A sum of Rs. 0.22 lakh was disbursed between December 1973 and June 1974. An inspection by the Corporation in March 1979 revealed that the loanee had closed the business and left Angul two years earlier and there was nothing at the site of the kiln except two damaged chimneys.

A sum of Rs. 0.40 lakh (principal : Rs. 0.22 lakh and interest : Rs. 0.18 lakh) was outstanding (December 1979) against which the loanee had pledged securities worth Rs. 0.24 lakh. Further action taken/proposed in the matter is awaited (April 1980).

(i) Interest rates

The Corporation regulates its lending rates on the basis of refinance rates fixed by the IDBI and bank rate fixed by the RBI. The following are the interest rates charged by the Corporation from time to time:

Particulars	Rate of interest per annum from			
	12th August 1972	31st July 1973	1st August 1974	1st January 1976
	(per cent)			
1. Backward areas				
Before refinance	..	9.5	10.5	12.5
After refinance	..	7.0	7.5	9.0

Particulars	Rate of interest per annum from			
	12th August 1972	31st July 1973	1st August 1974	1st January 1976
	(per cent)			
2. Small scale industries (SSI) excluding Hotels and Transport				
Before refinance	..	9.5	10.5	13.5
After refinance	..	9.0	9.5*	11.5
3. Other than SSI				
Before refinance	..	10.0	11.0	13.5
After refinance	..	6.0	9.0	13.0
4. Hotels and Transport				
Before refinance	..	11.0	11.5	13.5
After refinance	..	..	..	13.0
5. Industrial estates				
Before refinance	..	9.0	9.0	12.5
After refinance	..	..	..	12.0
6. Foreign exchange loan				
Small scale industries	..	..	9.5	11.0
Other than SSI	..	..	10.0	11.5

The Working Group (IDBI) in its report on reduction of arrears (December 1978) has given an illustrative list of interest rates and rebates which could be fixed by State Financial Corporations on the basis of the current refinance structure:

	Gross rate	Effective rate not to exceed refinance ceiling rate	Rebate for prompt payment
	(per cent)		
Backward areas	..	10.5	9.5
Small scale industries	..	12.0	11.0
Transport operators	..	12.5	11.5
Other cases	..	13.5	12.5

\* 12.5 per cent for loans up to Rs. 25,000.

	Gross rate	Effective rate not to exceed refinance ceiling rate (per cent)	Rebate for prompt payment
Foreign Exchange loans			
Small Scale Industries ..	12.5	11.5	1
Others ..	13.5	12.5	1

The Corporation had not taken any decision on the report of the Working Group so far (August 1980).

(j) Analysis of assistance

Category-wise classification of effective sanctions, disbursements and outstandings up to the end of 31st March 1979 is indicated below:

Classification of recipient	Small scale units*			Other than small scale units		
	Sanctioned	Disbursed	Outstanding	Sanctioned	Disbursed	Outstanding
	(Amount rupees in lakhs)					
Public limited companies	102.53 (24)	36.90 (20)	22.36 (19)	483.37 (47)	324.40 (39)	192.90 (31)
Private limited companies	269.14 (93)	150.61 (71)	116.35 (63)	386.27 (28)	94.54 (12)	89.03 (11)
Registered societies ..	..	..	..	11.50 (4)	11.50 (4)	1.03 (1)
Co-operative societies ..	93.07 (117)	87.21 (115)	35.67 (101)	20.00 (1)	20.00 (1)	20.00 (1)
Partnership concerns ..	827.54 (481)	577.07 (281)	515.98 (273)	61.25 (7)	38.97 (5)	14.47 (5)
Joint Hindu Family ..	1.59 (2)	1.59 (2)	1.30 (2)	..	..	..
Proprietary concerns ..	1,757.53 (2,333)	802.69 (1,124)	652.55 (1,100)	46.86 (3)	15.28 (1)	..
Trusts ..	4.67 (3)	4.67 (3)	2.00 (1)	..	..	..
Total	3,056.07** (3,053)	1,660.74 (1,616)	1,346.22 (1,558)	1,009.25** (90)	504.69 (62)	317.43 (49)

(The figures in brackets indicate the number of cases)

\* A unit where investment in plant and machinery did not exceed Rs. 5.00 lakhs up to May 1971, Rs. 7.50 lakhs up to December 1974, and Rs. 10.00 lakhs thereafter.

\*\* Excludes loans for Rs. 473.80 lakhs (436 cases) subsequently cancelled or reduced.

12.7. Joint financing

Under Section 26 of State Financial Corporations Act, 1951, the Corporation is statutorily restricted to certain financial limits in providing loan assistance to industrial concerns. It has, therefore, not been able to meet the entire loan requirements in the case of medium industrial units. To obviate this difficulty the Corporation had evolved a scheme (August 1976) of Joint appraisal with the Industrial Promotion and Investment Corporation of Orissa Limited (IPICOL) for cases involving loans of over Rs. 10.00 lakhs.

The table below indicates the loans jointly sanctioned by the Corporation and IPICOL and the amounts disbursed to the loanees during the period from August 1976 to 31st March 1979.

Year	Sanction		Disbursement	
	OSFC	IPICOL	OSFC	IPICOL
	(Rupees in lakhs)			
1976-77	365.86 (21)	75.10 (17)	168.52 (15)	70.35 (15)
1977-78	245.52 (14)	74.22 (18)	53.11 (6)	30.86 (7)
1978-79	89.10 (7)	46.40 (7)	39.07 (3)	4.67 (3)
Total	700.48 (42)	195.72 (42)	260.70 (24)	105.88 (25)

(The figures in the brackets indicate the number of cases)

Out of the 42 joint sanction cases disbursements were made jointly in 23 cases. Due to procedural formalities, in 4 cases financed by the Corporation, IPICOL finance was pending and in 2 cases financed by IPICOL the Corporation's finance was pending (August 1980).



### 12.8. Assistance to technical entrepreneurs

Under a scheme introduced in December 1970, loan assistance is given to persons having a degree, diploma or certificate in engineering, chartered/cost accountants, and to persons who have undergone a recognised technical training programme. Assistance is provided with 15 per cent margin; besides, the entrepreneurs are eligible for soft loan assistance towards working capital; the maximum assistance towards term loan and soft loan is Rs. 2.50 lakhs. A moratorium of 1—3 years in repayment (based on cash generation) is permissible. During the five years up to 1978-79 assistance amounting to Rs. 416.33 lakhs was given (227 cases) against which an amount of Rs. 226.52 lakhs (principal: Rs. 133.80 lakhs; interest: Rs. 92.72 lakhs) was in default in 138 cases.

### 12.9. Assistance to backward districts

In May 1970, the IDBI decided to allow refinance assistance (on concessional terms) to eligible financing institutions in respect of loans (not exceeding Rs. 20 lakhs) sanctioned to new industrial units for small/medium projects in specified backward areas provided the investment in fixed assets and the total tangible assets did not exceed Rs. 50 lakhs and Rs. 75 lakhs respectively. In January 1972, IDBI decided to extend this assistance to existing industrial units in specified backward areas. The scheme envisages moratorium on repayment, concessional rates of interest, concessional rate of commitment charges, etc.

Eight districts in Orissa viz., Balasore, Bolangir, Phulbani, Dhenkanal, Kalahandi, Koraput, Keonjhar and Mayurbhanj have been declared as industrially backward districts for the IDBI Schemes. Up to 1978-79, the Corporation had sanctioned loans aggregating Rs. 1,160.25 lakhs (1,131 cases) and disbursed Rs. 535.67 lakhs (522 cases). The amount in default as on March 1979 was Rs. 367.88 lakhs (280 cases; principal: Rs. 223.10 lakhs; interest: Rs. 144.78 lakhs).

### 12.10. Assistance to educated unemployed

According to a scheme introduced in May 1971, a matriculate entrepreneur below 35 years of age is provided financial assistance up to Rs. 2

lakhs with 10 per cent margin of security. The moratorium is 1—3 years (based on cash generation of the unit) with no change in the rate of interest. During the five years up to 1978-79 the Corporation had sanctioned loans aggregating to Rs. 852.81 lakhs (629 cases) and disbursed Rs. 322.77 lakhs (250 cases). The amount in default as on March 1979 was Rs. 213.80 lakhs (principal: Rs. 123.65 lakhs; interest: Rs. 85.15 lakhs).

### 12.11. State-aid loans

The Government of Orissa appointed the Corporation as its agent (March 1962) for granting loans, to the small scale industries. Out of Rs. 7.75 lakhs (including Rs. 5 lakhs for financing Oriya feature films) received from the State Government up to 1972-73, the Corporation had sanctioned loans aggregating Rs. 8.97 lakhs to 18 cases and disbursed Rs. 7.30 lakhs against which Rs. 7.43 lakhs (principal: Rs. 4.64 lakhs and interest: Rs. 2.79 lakhs) was outstanding (15 cases). This included Rs. 7.24 lakhs (13 cases) towards overdue instalments of principal (Rs. 4.53 lakhs) and interest (Rs. 2.71 lakhs). In 6 cases involving Rs. 2.82 lakhs (principal: Rs. 1.29 lakhs; interest: Rs. 1.53 lakhs), either the units were closed down or the schemes had not been implemented. Money suits had been filed against 7 parties for recovery of Rs. 2.50 lakhs due as on 31st March 1979.

### 12.12. Co-ordination with commercial banks

The Corporation was set up mainly to arrange for the flow of credit in adequate measure and on reasonable terms to meet the cost of acquisition of block assets. While the working capital requirements have to be obtained essentially from the commercial banks, in certain deserving cases the Corporation also provides margin money. Certain other State Financial Corporations (e. g. Himachal Pradesh, Assam and Delhi) have made collateral arrangements with the commercial banks whereby units assisted by the Corporation are assured of working capital finance when they go into production. While the State Financial Corporation holds the first charge on the fixed assets, the banks secure the second charge.

A Working Group appointed by the IDBI had in its report (August 1977) suggested co-ordination meetings between the SFCs and the banks particularly in regard to (i) joint/concurrent appraisal; (ii) common application forms; (iii) bridging loans; (iv) documentation; (v) sharing of securities, (vi) exchange of information; (vii) follow-up of loans; (viii) joint inspection of the assisted units; (ix) recovery of overdues; and (x) follow-up inspection of sick units.

The Board of Directors decided (July 1978) to implement the suggestions in toto. While the Corporation had implemented the suggestion regarding common application forms (for loans up to Rs. 2.00 lakhs), no action had so far been taken on the other recommendations (August 1980).

#### 12.13 Underwriting of shares

The Corporation started the underwriting operations from June 1963. As on 31st March 1979, the Corporation had underwritten equity/preference shares in 7 cases as indicated below:

Company	Year	Number of shares under-written	Share value	Corporation's liability
(Rupees in lakhs)				
'A'	.. 1963-64	3,300*	3.30	0.40
'B'	.. 1965-66	9,829*	9.83	9.83
'C'	.. 1965-66	7,295*	7.30	2.75
'D'	.. 1973-74	1,800*	1.80	1.80
'E'	.. 1971-72	4,000*	4.00	4.00
'F'	.. 1975-76	22,959	2.30	2.30
'G'	.. 1977-78	3,370	3.37	3.37
Total		52,553	31.90	24.45

\* Preference shares

The following points were noticed:

- (i) No dividend has been received by the Corporation from 5 out of the 7 companies so far (August 1980).
- (ii) The company 'E' referred to in the table above in which the Corporation's investment was Rs. 4 lakhs, stopped production in 1968. As the Government had made heavy investment in the company a further investment was made (October 1969) to help in its revival. The company was again closed in June 1974 for want of sufficient working capital and labour problems. Two petitions (from creditors) for liquidation of the company are pending before the Orissa High Court (August 1980).
- (iii) The IDBI's approval (in terms of Section 25(1)(f) of the State Financial Corporation Act, 1951) has not been obtained (August 1980) in respect of 17,524 shares (value: Rs. 12.98 lakhs) held in 3 companies ('A': Rs. 0.40 lakh; 'B': Rs. 9.83 lakhs; and 'C': Rs. 2.75 lakhs) for more than 7 years. The Corporation stated (January 1980) that the IDBI was approached for necessary permission in respect of 2 companies ('A' and 'B') which is awaited (August 1980).

#### 12.14. Outright grant/subsidy

With a view to promoting the growth of industries in selected backward districts in the State, the Government of India introduced a scheme (August 1971) for payment of subsidy for setting up of new industrial units and for substantial expansion of existing units in selected areas with retrospective effect from October 1970. The existing units were eligible for subsidy if their fixed capital investment was increased by more than 25 per cent (revised to 10 per cent from January 1977). The subsidy was admissible at 10 per cent (raised to 15 per cent from March 1973) of the fixed capital investment in the case of new units and of the additional fixed capital investment in the case of existing units subject to a maximum of Rs. 5 lakhs (revised to Rs. 15 lakhs from March 1973). The units were to be selected by a State Level Committee (constituted in March 1972) headed by the Secretary of the Industries Department.

The scheme originally envisaged disbursement of the subsidy when the unit went into production. From March 1973, this was relaxed and, in suitable cases, payment in advance (not exceeding 50 per cent up to December 1976 and 85 per cent thereafter) was permitted. The balance was payable only after the commencement of production. In cases of units set up with the assistance of financial institutions, the subsidy was payable through the financing institutions for release, in instalments, along with the release of the loan.

The subsidies paid to eligible units were reimbursable by the Government of India (against claims) on actual disbursement.

The scheme initially (October 1970) operated in 2 districts (Kalahandi and Mayurbhanj) was later (September 1972) extended to 4 more districts (Dhenkanal, Keonjhar, Bolangir and Koraput) retrospectively from August 1971.

The table below indicates the disbursements made by the Corporation up to 1978-79:

Year	Sanctions by the State Level Committee		Disbursement by the Corporation	
	Units	Amount (Rupees in lakhs)	Units	Amount (Rupees in lakhs)
Up to 1973-74	76	11.36	6	3.72
1974-75	43	8.92	39	6.57
1975-76	87	12.69	35	9.06
1976-77	77	33.93	53	9.37
1977-78	40	35.68	76	9.30
1978-79	97	43.38	105	55.78
Total	420	145.96	314	93.80*

\*Rs. 104.07 lakhs was received from Government of India as on March 1979.

The following points were noticed:

- (i) The time lag between sanction and disbursement in 10 out of 30 cases test checked (July 1979) ranged from 3 to 42 months due to reasons such as non-submission of required certificates, documents and agreements, and non-compliance by the industrial concerns with the terms of sanction orders.
- (ii) Under instructions issued by the Government of India (June 1978) the admissibility of subsidy is limited to Rs. 15.00 lakhs to any individual/group of companies. The Corporation had, however, sanctioned a subsidy of Rs. 24.54 lakhs, to a group of private companies between November 1976 and October 1977 which was disbursed in August 1978. Government of India, therefore, reimbursed Rs. 15.00 lakhs and disallowed balance of Rs. 9.54 lakhs (December 1978). The Corporation took up the matter with the Government of India (November 1979) who decided (May 1980) that the concept of group will not be relevant to such of the units as are set up/assisted by the State Industrial Development Corporation in selected backward areas. However, this decision was applicable only from 1st May 1980.
- (iii) A sum of Rs. 0.69 lakh disbursed to 15 industrial concerns between October 1970 and August 1971 had not been reimbursed by the Government of India for want of details like dates of purchase, cost of machinery, etc. The Corporation stated (August 1979) that information was awaited from the District Industries Officers.
- (iv) The Corporation had disbursed Rs. 4.30 lakhs (in 4 instalments between February 1974 and October 1978) to one new unit as against an amount of Rs. 3.86 lakhs admissible under the scheme at 15 per cent of the fixed assets (Rs. 25.76 lakhs) on the date of payment of the last instalment of subsidy.
- (v) A sum of Rs. 1.85 lakhs towards Central subsidy was disbursed to 2 companies between June 1977 and June 1978 for the establishment of a Motor Cycle complex in district Dhenkanal.

It was later found that the technical collaboration did not materialise. As a result, the amount of Central subsidy had been called back (November 1979).

### 12.15. Working results

The following are the working results of the Corporation for the three years up to 1978-79:

Particulars	1976-77	1977-78	1978-79
	(Rupees in lakhs)		
a. Income ..	104.18	114.72	195.61
b. Expenditure ..	74.41	78.07	195.01
c. Profit before tax as per profit and loss account	29.77	36.65	0.60
d.— provisions for Income tax ..	12.28	12.70	0.35
— Reserve under Section 36 (1) (viii) of the Income Tax Act, 1961	8.51	14.66	0.40
— Reserve for bad and doubtful debts ..	4.03	4.84	1.64
— General reserve ..	0.20	0.20	..
e. Add: Excess provision for tax during the previous year	..	0.50	..
f. Add: Transfer from Reserve for bad and doubtful debts	..	..	5.62
g. Amount available for dividend ..	4.75	4.75	5.87
h. Dividend liability ..	3.75	3.75	3.75
i. Subvention received from Government but not repaid up to the end of the year	14.87	13.87	12.87
j. Capital employed ..	1,051.26	1,406.76	1,800.63
k. Total return on capital employed (profit and interest on long term loans)	83.71	92.70	130.30
Percentage of return on capital employed ..	7.96	6.59	7.23

NOTE:—Capital employed represents the mean of the opening and closing balances of paid-up capital, bonds and debentures, reserves and borrowings including refinance.

While the Corporation's income during 1978-79 registered an increase of 70.5 per cent over the previous year, expenditure went up by Rs. 116.94 lakhs or 149.8 per cent. As a result, the Corporation's profit before tax dropped to Rs. 0.60 lakh as compared to Rs. 36.65 lakhs in the previous year.

The main reasons for the increase in expenditure during 1978-79 were (i) adjustment of Rs. 32.67 lakhs as interest relating to the previous year (up to 1977-78) and increased rate of interest on bonds; (ii) write off of bad debts of Rs. 31.90 lakhs for which no reserve was created earlier; (iii) 82.32 per cent increase in the establishment expenditure as compared to the previous year due to augmentation of the field organisation.

### 12.16. Credit guarantee

The Government of India formulated a credit guarantee scheme during 1961-62/1962-63 for partial guarantee of losses in respect of advances granted by specified credit institutions to the small scale industrial units. The scheme is operated through the Reserve Bank of India except (since July 1978) for those engaged in transport, hotels, construction of industrial estates and generation and distribution of power, which are covered by Deposit Insurance and Credit Guarantee Corporation.

Guarantee is effected against payment of prescribed guarantee fee from the date of first disbursement, up to the date of repayment of the last instalment of loan by the party. Credit institution can invoke the guarantee in the event of default after recalling the loan from the party, before resort to legal remedies, and without waiting for the outcome of the efforts to recover the dues. The amount recoverable under the guarantee scheme is 75 per cent of the amount in default subject to a maximum amount of Rs. 2.50 lakhs in case of term loans and Rs. 7.50 lakhs in case of working capital loans, deferred payments, etc.

The Corporation had, up to end of March 1968, invoked the guarantee in 31 cases (amount : Rs. 31.60 lakhs) and received Rs. 2.32 lakhs (4 cases) between April 1965 and March 1971 from the guarantor. The Corporation had not analysed the reasons for non-recovery of the balance of Rs. 29.28

lakhs. While the Corporation had paid Rs. 5.19 lakhs by way of guarantee fees during April 1968 to March 1979 it has not been invoking the guarantees since April 1968 for reasons not on record.

### 12.17. Internal control

#### (i) Accounting manual

No manual prescribing the accounting procedure has been compiled so far (August 1980).

#### (ii) Internal audit

The Board of Directors decided (July 1978) to set up an internal inspection wing at the Headquarters for a close watch over the timely sanction, documentation and disbursement of loans by the branches. The decision was implemented (August 1980).

#### (iii) Control Over branches

In January 1979, the IDBI observed in its inspection report that the Corporation should evolve a satisfactory system to control its branches and establish a centralised branch/department/cell for follow-up on all the prescribed returns and to monitor the working of branch offices. The suggestion has not yet been implemented (August 1980).

### 12.18. Other topics of interest

#### (a) Payment of incentive allowance and ex-gratia to employees

While the payment of Bonus Act, 1965, is not applicable to the Corporation, it has since 1969-70 been paying its employees an incentive allowance (in lieu) at  $8\frac{1}{2}$  per cent of the pay and allowances. During the years 1973-74, 1974-75, and 1977-78, the Corporation had, in addition, paid ex-gratia bonus at the rate of  $8\frac{1}{2}$  per cent of pay and allowances. Such payments are to be regulated under general staff regulations to be framed by the Corporation in consultation with the IDBI and with the approval of the State Government. These regulations came into effect only from May 1978. Specific approval of the State Government for the payment of Rs. 1.89 lakhs as incentive allowance and ex-gratia bonus (Rs. 0.62 lakh) paid up to 1977-78 was not available.

#### b) Loan to oil extraction unit at Bhubaneswar

A sum of Rs. 0.63 lakh was paid (between August 1975 and September 1976) as loan to 'S' for the construction of a building and erection of machinery for extraction of oil.

During an inspection (May 1979), it was found that the value of machinery and equipment available at site was about Rs. 0.29 lakh and that the borrower had removed machinery and equipment valued at about Rs. 0.69 lakh from the factory premises without informing the Corporation. It was decided by the Board of Directors (June 1979) to start criminal proceedings after further enquiries and to take over possession of the unit. An amount of Rs. 1.09 lakhs (including interest of Rs. 0.46 lakh) is due from the party (March 1980). Further developments are awaited (August 1980).

#### (c) Loans to Motor cycle complex

In order to establish a motor cycle complex in Dhenkanal, loans totalling Rs. 104.74 lakhs were sanctioned to 4 different companies during April/May 1976 against which an amount of Rs. 17.22 lakhs was disbursed as follows :

Name of the Company	Sanction		Disbursement	
	Date	Amount (Rupees in lakhs)	Date	Amount (Rupees in lakhs)
'A'	April 1976	28.00	November 1976	1.58
'B'	May 1976	22.74	November 1976	2.14
'C'	April 1976	30.00	November 1976	1.50
'D'	April 1976	24.00	June 1976 to October 1978	12.00
	Total	104.74		17.22

'D' was the main company and the production of the other three depended on it. The units were scheduled to commence commercial production in January 1977. In all the cases loans were sanctioned for construction of building, acquisition of plant and machinery and electrical fittings and

installations. The companies were proposed to be established in collaboration with firm E. As Company 'D' could not get the disbursement from the Corporation during (i) July 1976—April 1977 (for want of information required by the IDBI) and (ii) January—September 1978 (due to seizure of documents in August 1977 by the State Vigilance Department) there was delay in the construction and installation of machinery.

It was stated by company 'D' (November 1978) that due to delay in disbursement by the Corporation the plans for production of motor cycles had been dislocated which was accepted by the Corporation (December 1978) and it decided to waive the interest of Rs. 1.79 lakhs for the period from November 1976 to May 1977 and December 1977 to October 1978.

As company 'D' delayed the commencement of production, the other 3 companies could also not go into production as scheduled. On this consideration, the Board decided (February 1979) to waive the interest of Rs. 1.48 lakhs accrued and due from November 1976 to February 1979, with the condition that the 3 companies should repay the principal amount in three equal annual instalments commencing from March 1979. The repayment schedule for 'D' was not rephased (August 1980). The three companies 'A', 'B' and 'C' repaid the principal (Rs. 5.22 lakhs) during March 1979—March 1980 but 'D' had not repaid Rs. 3.00 lakhs (2 instalments of Rs. 1.50 lakhs each due in November 1979 and May 1980) so far (August 1980).

#### Summing up

Some of the important points mentioned in the above review are summarised below:

- (i) The Corporation was set up in March 1956 with an initial paid-up capital of Rs. 50 lakhs which was increased to Rs. 176 lakhs by March 1979. The average turnover during the three years up to 1978-79 was Rs. 394.45 lakhs. The capital employed increased from Rs. 1051.26 lakhs in 1976-77 to Rs. 1800.63 lakhs during 1978-79, and the return on capital employed amounted to 7.96, 6.59 and 7.23 per cent respectively during the three years up to 1978-79.

- (ii) The activities of the Corporation covered assistance to small and medium industrial units, acting as the agent of the State Government in assisting small entrepreneurs financially, and underwriting operations. It is yet to enter the field of subscribing directly to shares and stock, debentures etc. of industrial entrepreneurs.

- (iii) The main deficiencies noticed were:

—delays in availing of refinance facilities sanctioned by IDBI resulting in expenditure on commitment charges,

—long lead time in the sanction/disbursement of loans, inadequate pre-sanction pre-disbursement appraisal and post-sanction follow-up,

—absence of any tie-up with commercial banks to help the assisted entrepreneurs raise the margin money,

—guarantees under the credit guarantee scheme had not been invoked from April 1968 to March 1979. Out of 31 cases (Rs. 31.60 lakhs) where guarantees had been invoked up to March 1968, the Corporation had received only Rs. 2.32 lakhs (4 cases),

—delays in the disbursement of subsidy under the scheme for promoting the growth of industries in selected backward districts. In one case subsidy of Rs. 9.54 lakhs (in excess of permissible limits) was paid to a group of private companies. The reimbursement of this amount was disallowed by the Government of India.

- (iv) The amount in default as on 31st March 1979 was Rs. 764.58 lakhs (principal: Rs. 506.09 lakhs; interest: Rs. 258.49 lakhs) which included amounts due in respect of suit filed cases (Rs. 82.24 lakhs) and units taken over by the Corporation under the provisions of Section 29 of the State Financial Corporation Act, 1956 (Rs. 44.20 lakhs).

(v) Against two loans aggregating Rs. 21.33 lakhs sanctioned to a firm for manufacturing ferrous/non-ferrous alloy castings and fabrication/manufacture of steel structures at Talcher, a sum of Rs. 18.97 lakhs was disbursed during July 1973—May 1978. The firm did not repay the loan or pay interest because of heavy losses incurred by it. An amount of Rs. 28.14 lakhs (including interest) was due from the firm (October 1979) against which the Corporation had a security of Rs. 24.70 lakhs.

The various points mentioned in the paragraph were referred to the Corporation in September 1979 and to Government in October 1979; replies are awaited (August 1980).

### SECTION XIII

#### ORISSA STATE ROAD TRANSPORT CORPORATION

##### 13.1. Avoidable extra expenditure

On the basis of negotiations carried out during October-November 1978 the Corporation entered into firm price contracts with 8 firms (between 30th March to 31st May 1979) for the fabrication of 12 bus bodies; 8 on Leyland chassis at Rs. 45,000 each and 4 on Tata chassis at Rs. 42,000 each.

The firms represented to the Corporation (from 30th April—15th May 1979) for an increase in the contract rate on account of increased levies in the Central budget. The bus bodies were delivered to the Corporation between 13th May and 15th July 1979. The Corporation agreed (October 1979) to pay an increase of Rs. 4,000 per body (excluding taxes) involving an extra expenditure/liability of Rs. 0.58 lakh, of which Rs. 0.41 lakh was paid in October 1979.

The Corporation stated (October 1979) that "prayer for increase in the rate of bus bodies built after price hike of bus body materials from March 1979 due to effect of 1979-80 Central budget presented on 28th February 1979 was taken into consideration and rates of bodies were revised". It may be mentioned, however, that the firm price contracts were concluded (between 30th March 1979 and 31st May 1979) well after the incidence of the budgetary levies was known, and as such the increase in rates allowed was not only outside the scope of the contractual obligations, but also not justified.

##### 13.2. Idle equipment

It was noticed that a surface grinding machine, a milling machine and a shaping machine (value : Rs. 0.74 lakh) procured by the erstwhile State Transport Service during February 1962-December 1964 for use in the Central Workshop at Sambalpur had not been put to any use and were lying idle, awaiting disposal (December 1979).

The General Manager stated (October 1979) that it was not possible to say why these machines were not utilised. It was stated further that attempts made for their disposal had not been successful.

The matter was referred to Government in May 1979; reply is awaited (August 1980).

## SECTION XIV

## ORISSA STATE WAREHOUSING CORPORATION

## 14. Loss on storage of rice

The Orissa State Warehousing Corporation was appointed as an agent by the Food and Civil Supplies Department for the storage of rice for kharif years 1975-76 and 1976-77 on a commission of Rs. 1.25 per quintal (regardless of the period of storage). The rice was to be delivered for sale under the public distribution system or transfer to other places in accordance with the instructions of the Department. A quantity of 11,461 quintals of rice received by the Corporation between July 1976 to November 1977 was stored at 20 warehouses/store depots and due to delays in release of instructions the entire stock was delivered only by July 1979.

In February 1978 the Corporation found that the rate of commission for (indefinite storage) was uneconomical and did not cover its actual cost. The Corporation requested Government (February 1978) to revise the rate of storage commission to Rs. 0.33 per quintal per month. Government agreed to revise the rate (May 1978) and to consider the applicability of the revised rate to the stocks held during 1975-76 and 1976-77 and carried over thereafter. The rate of commission was finally revised (September 1978) to Rs. 0.30 per quintal per month for the kharif year 1977-78 onwards, but Government did not agree to give it retrospective effect.

As against Rs. 1.43 lakhs received by way of commission, the Corporation had incurred an expenditure of Rs. 8.73 lakhs on storage of rice during the period (July 1976 to July 1979) involving a loss of Rs. 7.30 lakhs.

The Corporation stated (August 1979) that in spite of repeated requests the stocks were not released by the department and due to long storage the Corporation had to incur a heavy financial liability.

The Government in the administrative department (Department of Agriculture and Co-operation) stated (September 1978) that the Corporation

had been put to loss on account of low storage commission of Rs. 1.25 per quintal irrespective of the period of storage and non-applicability of the revised rate to the prior period. It was stated further (December 1979) that storage of rice had "almost been thrust" upon the Corporation and by the time the income and expenditure were compared, it was too late.

BHUBANESWAR  
The

(M. RAMACHANDRAN)  
Accountant General, Orissa

*Countersigned*

NEW DELHI  
The

(GIAN PRAKASH)  
Comptroller and Auditor General of India



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APPENDICES

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## APPENDIX I

(Reference : Paragraph 1.5, Page....3.... )

Serial No.	Name of the Company	Year from which accounts were in arrears
<i>(a) Companies fully owned by Government</i>		
1	Orissa Fisheries Development Corporation Limited ..	1971-72
2	Orissa State Commercial Transport Corporation Limited	1974-75
3	Orissa Forest Corporation Limited ..	1975-76
4	Orissa Lift Irrigation Corporation Limited ..	1975-76
5	Orissa Construction Corporation Limited ..	1976-77
6	Industrial Development Corporation of Orissa Limited	1976-77
7	Leather Corporation of Orissa Limited ..	1976-77
8	Orissa Small Industries Corporation Limited ..	1976-77
9	Orissa Mining Corporation Limited ..	1977-78
10	New Mayurbhanj Textile Limited ..	1977-78
11	The Orissa State Handloom Development Corporation Limited	1977-78
12	Film Development Corporation of Orissa Limited ..	1978-79
13	Industrial Promotion and Investment Corporation Limited	1978-79
<i>(b) Companies partly owned by Government</i>		
14	Mayurbhanj Textiles Limited ..	1971-72
15	Orissa Agro Industries Corporation Limited ..	1975-76
16	Orissa Road Transport Company Limited ..	1977-78

Serial No.	Name of the Company	Year from which accounts were in arrears
<i>(c) Subsidiary Companies</i>		
17	East Coast Salt and Chemical Industries Limited	.. 1975-76
18	Hira Steel and Alloys Limited	.. 1976-77
<i>(d) Pilot project Companies</i>		
<i>(i) Companies working</i>		
19	Cuttack Iron and Steel Products Limited	.. 1968-69
20	Orissa Agrico Limited	.. 1969-70
21	Orissa Boat Builders Limited	.. 1971-72
22	Spark Battery Manufacturing Works Limited	.. 1972-73
23	Orissa Instruments Company Limited	.. 1976-77
24	Utkal Foundry and Engineering Company Limited	.. 1976-77*
25	Rourkela Fabrication Limited	.. 1978-79
<i>(ii) Companies whose assets are sold</i>		
26	Manufacturer Electro Limited	.. 1962-63
27	Orissa Electrical Manufacturers Limited	.. 1967-68
28	Orissa Board Mills Limited	.. 1968-69
29	Gajapati Steel Industries Limited	.. 1969-70
30	Eastern Aquatic Products (India) Limited	.. 1973-74
<i>(iii) Companies under revival</i>		
31	Premier Bolts and Nuts Company Limited	.. 1967
32	Modern Electronics Limited	.. 1967-68
33	Orissa Foundry Company Limited	.. 1968-69
34	Orissa Tiles Limited	.. 1974-75

\* The Company ceased to be a Government Company during 1978-79 with the transfer of majority shareholding of Government to the private entrepreneur.

Serial No.	Name of the Company	Year from which accounts were in arrears
<i>(iv) Companies under liquidation</i>		
35	Cocacola (India) Limited (May 1964)	.. 1963-64
36	Hansanath Ceramic Industries Limited (May 1972)	.. 1963-64
37	Konark Processing Works Limited (January 1971)	.. 1963-64
38	Madhusudan Chemical Industries Limited (January 1971)	.. 1963-64
39	Kalinga Fruit Products Limited (January 1964)	.. 1963-64
40	Orissa Trunk and Enamel works Limited (January 1971)	1963-64
41	Orissa Sports Manufacturing and Fabrication Limited (January 1972)	1963-64
42	Balanga Iron Works Limited (July 1971)	.. 1965-66
43	Utkal Fruit Products Limited (July 1966)	.. 1966-67
44	Chilka Cashew Manufacturing works Limited (August 1971)	1967-68
45	Orissa Wood products Limited (March 1972)	.. 1967-68
46	Kalinga Steel and Wire products Limited (August 1971)	1968-69
47	Manorama Foundry Works Limited (March 1972)	.. 1968-69
48	Orissa Timber Products Limited (September 1972)	.. 1968-69
49	Modern Malleable Casting Company Limited (March 1976)	1973-74
<i>(v) Companies in which Government shares were sold</i>		
50	Jagannath Chemical and Pharmaceutical works Limited	1965-66 to 1975-76
51	Kalinga Foundry Limited	.. 1970-71 to 1971-72
52	Utkal Metal Products Limited	.. 1970-71

NOTE—The dates within brackets indicate when the Companies went into liquidation.

## APPENDIX

(Reference : Paragraph 1.6

## Summarised financial results of working of Government

Sl No.	Name of the Company	Name of the Department	Date of incorporation	Year of account	Total capital invested (a)
(1)	(2)	(3)	(4)	(5)	(6)
<b>(A) Companies wholly owned by State Government—</b>					
1	Orissa Small Industries Corporation limited	Industries	1st April 1972	1975-76	193.10
2	Orisa Construction Corporation Limited	Works	22nd May 1962	1975-76	113.86
3	Orissa Lift Irrigation Corporation Limited	Irrigation and Power	21st September 1973	1974-75	130.53
4	Orissa Mining Corporation Limited	Mining and Geology	16th May 1956	1976-77	1,393.11
5	Orissa Fisheries Development Corporation Limited	Forest, Fisheries and Animal Husbandry	8th August 1962	1970-71	39.88
6	Orssa Forest Corporation Limited	Ditto	28th September 1962	1st Novem-ber 1973 to 31st March 1975	93.10
7	Orissa State Commercial Transport Corporation Limited	Commerce and Transport	7th January 1964	1973-74	462.97
8	Film Development Corporation of Orissa Limited	Industries	22nd April 1976	1977-78	6.00
<b>(B) Companies partly owned by the State Government—</b>					
9	Orissa Agro Industries Corporation Limited	Agriculture	20th October 1961	1974-75	209.14
<b>(C) Companies floated under Pilot Project Scheme—</b>					
10	Orissa Instrument Company Limited	Industries	14th March 1961	1975-76	1.55
11	Orissa Tiles Limited	Ditto	1st September 1959	1973-74	15.65

NOTE—(a) Capital invested represents paid-up capital plus long term

(b) Capital employed represents net fixed assets (excluding capital

\* The Company had switched over to financial year

## II

Page 3 )

Companies on the basis of latest available accounts

Profit (+) Loss (—)	Total interest charged to profit and loss account	Interest on long term loan	Total return on capital invested (7+9)	Capital employed (b)	Total return on capital employed (7+8)	Percentage of total return on capital invested	Percentage of return on capital employed
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(Rupees in lakhs)							
(—)16.28	11.71	5.07	(—)11.27	250.83	(—)4.63	..	..
(—)37.97	4.21	1.41	(—)36.56	103.44	(—)33.76	..	..
(—)39.39	13.58	..	(—)39.39	(+)21.42	25.81	..	..
(+)524.77	51.32	51.32	576.09	1,387.29	576.09	41.35	41.58
(—)0.32	0.31	0.31	(—)0.01	4.74	(—)0.01	..	..
(+)1678	25.73	..	16.78	118.70	42.51	18.02	35.81
(—)52.32	22.79	17.37	(—)34.95	271.42	(—)129.53	..	..
(+)0.02	..	..	0.02	5.77	0.02	0.33	0.34
(—)3.43	4.42	3.77	0.34	188.79	0.99	0.16	0.52
(+)0.29	0.01	..	0.29	1.71	0.30	18.24	17.00
(+)0.29	0.81	0.78	1.07	9.38	1.10	6.84	11.41
loans plus free reserves							
work-in-progress) Plus or Minus working capital							
from 1975-76, hence the account was for 17 months							

## APPENDIX

(Reference : Paragraph 10.6)

## Summarised financial results of working of Statutory

Sl. No.	Name of the Corporation	Name of the Department	Date of incorporation	Year of account	Total capital invested
(1)	(2)	(3)	(4)	(5)	(6)
					(Rupees)
1	Orissa State Electricity Board	Irrigation and Power	March 1961	1978-79	29,702.34
2	Orissa State Financial Corporation	Industries	March 1956	1978-79	..
3	Orissa State Warehousing Corporation	Agriculture and Co-operation	March 1958	1978-79	66.88
4	Orissa State Road Transport Corporation	Commerce and Transport	May 1974	1976-77	1,060.91

Note :—(1) Capital invested represents paid-up capital plus long term loans plus free

(2) In case of Orissa State Financial Corporations, Capital employed capital, (ii) bonds and debentures, (iii) reserves, (iv) borrowings

(3) In case of the other Statutory Corporations, capital employed represents

## III

Page 31)

## Corporations on the basis of latest available accounts

Profit (+) Loss (—)	Total interest charged to profit and loss account	Interest on long term loan	Total return on capital invested (7+9)	Capital employed	Total return on capital employed	Percentage of total return on capital invested	Percentage of return on capital employed
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(+)3.65	910.15	910.15	913.80	21,944.69	913.80	3.08	4.17
(+)0.60	129.70	129.70	130.30	1,800.63	130.30	..	7.23
(+)2.42	..	..	2.42	77.23	2.42	3.62	3.13
(—)55.20	61.01	61.01	5.81	845.68	5.81	0.55	0.69

reserves.

represents the mean of aggregate of opening and closing balances of (i) paid-up including refinance and (v) deposits.

net fixed assets (excluding capital works-in-progress plus working capital.