REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR 1981—82

(COMMERCIAL)

GOVERNMENT OF KERALA

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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, may be categorised as:

—Statutory Corporations;

—Government Companies; and

—Departmentally-managed commercial undertakings.

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

3. The cases mentioned in the Report are those which came to the notice of Audit during the year 1981-82 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 1981-82 have also been included, where-ever 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. Such directives were issued to the auditors from time to time.

5. There are, however, certain Companies where Government have invested funds but the accounts of which are not subject to audit by the Comptroller and Auditor General. A list of 7 such undertakings where Government investment is more than Rs. 10 lakhs as on 31st March 1982 is given in Annexure—A.

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

7. The points mentioned in this Report are those which came to notice during 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

1.01. Introduction

There were 77 Government Companies (including 23 subsidiaries) as on 31st March 1982 as against 75 Government Companies (including 22 subsidiaries) at the close of the previous year. The following two Companies were incorporated during the year:—

	Name of the Company	*Date of incorporation*	*Authorised capital (Rupees in lakhs)*
1.	Kerala Wood Industries Limited*	8th September 1981	5,00.00
2.	Kerala Artisans' Development Corporation Limited	1st October 1981	50.00

1.02. Compilation of accounts

49 Companies (including 20 subsidiaries) finalised their accounts for the year 1981-82. In addition, 17 Companies finalised their accounts for the earlier years. A synoptic statement showing the summarised financial results of 66 Companies based on the latest available accounts is given in Annexure—B.

*Subsidiary Company

The accounts of the following 28 Companies (including 3 subsidiaries) were in arrears for the period noted against each:—

Sl. No.	*Name of the Company*	*Extent of arrears*		
1.	The Kerala State Coir Corporation Limited	1978-79	to	1981-82
2.	Kerala State Small Industries Development and Employment Corporation Limited	1978-79	to	1981-82
3.	Kerala Livestock Development and Milk Marketing Board Limited	1979-80	to	1981-82
4.	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	1979-80	to	1981-82
5.	The Kerala State Civil Supplies Corporation Limited	1979-80	to	1981-82
6.	The Kerala Premo Pipe Factory Limited	1980-81	and	1981-82
7.	The Kerala State Cashew Development Corporation Limited	1980-81	and	1981-82
8.	Kerala Tourism Development Corporation Limited	1980-81	and	1981-82
9.	The Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited	1980-81	and	1981-82
10.	Kerala State Construction Corporation Limited	1980-81	and	1981-82
11.	Sitaram Textiles Limited	1980-81	and	1981-82
12.	The Kerala State Financial Enterprises Limited	1980-81	and	1981-82
13.	Meat Products of India Limited*			1981-82

* Subsidiary Company

Sl. No.	Name of the Company	Extent of arrears
14.	Kerala Agro-Machinery Corporation Limited*	1981-82
15.	Kerala State Handloom Development Corporation Limited	1981-82
16.	Kerala Fishermen's Welfare Corporation Limited	1981-82
17.	Pallathra Bricks and Tiles Limited	1981-82
18.	The Plantation Corporation of Kerala Limited	1981-82
19.	The Kerala Agro-Industries Corporation Limited	1981-82
20.	The State Farming Corporation of Kerala Limited	1981-82
21.	Kerala State Drugs and Pharmaceuticals Limited*	1981-82
22.	Kerala Forest Development Corporation Limited	1981-82
23.	Kerala State Coconut Development Corporation Limited	1981-82
24.	Scooters Kerala Limited	1981-82
25.	Kerala State Engineering Works Limited	1981-82
26.	Foam Mattings (India) Limited	1981-82
27.	Kerala State Handicapped Persons' Welfare Corporation Limited	1981-82
28.	Kerala State Development Corporation for Christian Converts from Scheduled Castes and the Recommended Communities Limited	1981-82

* Subsidiary Company

The position of arrears in the finalisation of accounts was last brought to the notice of Government in October 1982.

1.03. Paid-up capital

Out of 49 Companies which finalised their accounts up to 31st March 1982, the total investment by Government by way of share capital was Rs. *1,03,33.78 lakhs in 36 Companies (including 7 subsidiaries) as against Rs. 88,47.48 lakhs as at the end of the previous year in these Companies. The aggregate paid-up capital of 49 Companies as on 31st March 1982 was Rs. 1,18,50.32 lakhs as detailed below:—

Particulars	*Number of Companies*	*Investment by*			
		State Government	*Central Government*	*Others*	*Total*
			(Rupees in lakhs)		
(i) Companies wholly owned by State Government	18	78,21.86	..	..	78,21.86
(ii) Companies jointly owned with the Central Government/ Others	31	25,11.92	2,19.85	12,96.69	40,28.46
Total	49	1,03,33.78	2,19.85	12,96.69	1,18,50.32

1.04. Loans

Out of 49 Companies which finalised their accounts up to 31st March 1982, long-term loans outstanding aggregated Rs. 1,55,33.49 lakhs (State Government: Rs. 25,80.35 lakhs, other parties: Rs. 1,29,53.14 lakhs) in 39 Companies (including 17 subsidiaries) as against Rs. 1,05,44.98 lakhs as on 31st March 1981 in respect of these Companies.

*The amount as per Finance Accounts is Rs. 91,44.69 lakhs and the difference of Rs. 11,89.09 lakhs is under reconciliation.

1.05. Guarantees

1.05.1. The State Government had guaranteed the repayment of loans and payment of interest thereon for 25 Companies. The amount guaranteed and the amount outstanding there-against as on 31st March 1982 in respect of 18 Companies whose accounts have been finalised for the year 1981-82 were Rs.‡ 72,29.09 lakhs and Rs.† 66,74.79 lakhs respectively as detailed below:—

	Name of the Company	*Amount guaranteed*	*Amount outstanding as on 31st March 1982*
		(Rupees in lakhs)	
1.	Kerala State Industrial Development Corporation Limited	12,22.50	11,71.00
2.	Traco Cable Company Limited	55.00	19.25
3.	Oil Palm India Limited*	50.00	50.00
4.	United Electrical Industries Limited	33.98	18.58
5.	The Metropolitan Engineering Company Limited	48.75	48.75
6.	Kerala Garments Limited*	9.00	4.20
7.	Kerala Electrical and Allied Engineering Company Limited*	45.00	29.25
8.	The Chalakudy Refractories Limited	71.00	71.15
9.	Kerala Urban Development Finance Corporation Limited	12,22.50	17,09.14
10.	Kerala State Bamboo Corporation Limited	15.00	..

‡ The amount as per Finance Accounts is Rs. 71,64.09 lakhs and the difference of Rs. 65 lakhs is under reconciliation.

† The amount as per Finance Accounts is Rs. 61,91.56 lakhs and the difference of Rs. 4,83.23 lakhs is under reconciliation.

* Subsidiary Company

	Name of the Company	*Amount guaranteed*	*Amount outstanding as on 31st March 1982*
		(Rupees in lakhs)	
11.	The Kerala Land Development Corporation Limited	15,96.36	9,37.35
12.	Malabar Cements Limited	26,00.00	23,77.97
13.	Keltron Rectifiers Limited*	25.00	28.00
14.	Keltron Crystals Limited*	30.00	37.49
15.	Keltron Magnetics Limited*	30.00	15.40
16.	Trivandrum Spinning Mills Limited	88.00	86.86
17.	Steel Industrials Kerala Limited	70.00	46.82
18.	The Kerala Ceramics Limited*	17.00	23.58
	Total	72,29.09	66,74.79

1.05.2. In consideration of the guarantees given by Government, the Companies have to pay guarantee commission to Government at the rate varying from 0.75 *per cent* to 1 *per cent* per annum on the amount guaranteed with a rebate of 0.25 *per cent* for prompt payment. In 6 cases, the payment was in arrears to the extent of Rs. 15.54 lakhs as per details given below:-

	Name of the Company	*Amount in arrears as on 31st March 1982 (Rupees in lakhs)*
1.	Oil Palm India Ltd.*	0.33
2.	Kerala Electrical and Allied Engineering Company Limited*	0.60
3.	The Chalakudy Refractories Limited	1.24
4.	Keltron Magnetics Limited*	0.14
5.	The Metropolitan Engineering Company Limited	0.19
6.	Malabar Cements Limited	13.04
	Total	15.54

* Subsidiary Company

1.06. Performance of Companies

1.06.1. The following table gives details of 24 Companies (including 8 subsidiaries) which earned profit during 1981-82 and the comparative figures for the previous year:—

Sl. No.	Name of the Company	Paid-up Capital 1980-81	Paid-up Capital 1981-82	Profit (+)/Loss (—) 1980-81	Profit (+)/Loss (—) 1981-82
		(Rupees in lakhs)			
1	The Metropolitan Engineering Company Limited	..	19.17	..	(+) 6.49
2	Forest Industries (Travancore) Limited	17.71	17.71	(+) 2.64	(+) 16.07
3	Travancore Titanium Products Limited	1,69.75	1,69.75	(+)1,08.90	(+) 1.23
4	United Electrical Industries Limited	99.90	1,11.90	(+) 22.47	(+) 23.55
5	The Travancore-Cochin Chemicals Limited	6,59.75	6,59.75	(+)1,29.76	(+)2,71.55
6	Traco Cable Company Limited	1,29.92	1,29.92	(+) 35.05	(+) 43.45
7	Kerala State Industrial Development Corporation Limited	5,21.00	5,49.00	(+) 0.44	(+) 2.91
8	Steel Complex Limited*	2,24.43	2,24.44	(+) 26.66	(+) 10.00
9	Kerala State Textile Corporation Limited *	1,24.00	2,13.00	(+) 6.56	(+) 0.53
10	Astral Watches Limited*	8.00	8.00	(+) 5.79	(+) 8.51
11	Kerala Urban Development Finance Corporation Limited	19.16	19.16	(+) 2.94	(+) 2.84

* Subsidiary Company

Sl. No.	Name of the Company	Paid-up capital		Profit(+)/Loss (—)	
		1980-81	1981-82	1980-81 (Rupees in lakhs)	1981-82
12	Kerala State Bamboo Corporation Limited	49.00	62.15	(+) 3.27	(+) 2.68
13	The Kerala Minerals and Metals Limited	19,79.01	21,51.27	(+) 22.72	(+) 19.71
14	Keltron Crystals Limited*	24.01	35.01	(—) 0.62	(+) 0.47
15	Travancore Plywood Industries Limited *	48.59	48.59	(+) 30.13	(+) 27.46
16	Kerala Soaps and Oils Limited*	1,49.97	1,49.97	(+) 12.90	(+) 9.62
17	Kerala Electrical and Allied Engineering Company Limited *	1,22.16	1,22.16	(+) 19.97	(+) 68.74
18	Kerala State Detergents and Chemicals Limited*	89.00	1,24.00	(+) 1.25	(+) 1.09
19	Kerala Shipping Corporation Limited	1,71.18	1,71.18	(+)1,88.29	(+) 10.53
20	Steel Industrials Kerala Limited	3,48.40	5,23.40	(—) 6.81	(+) 5.86
21	Kerala Inland Navigation Corporation Limited	32.00	52.00	(—) 1.23	(+) 0.79
22	The Rehabilitation Plantations Limited	2,19.52	2,19.52	(+) 1.43	(+) 12.05
23	Kerala State Industrial Products Trading Corporation Limited	11.30	11.30	(+) 7.10	(+) 8.01
24	Overseas Development and Employment Promotion Consultants Limited	31.29	35.29	(—) 4.23	(+) 3.42
	Total	52,49.05	58,27.64	6,15.38	5,57.56

* Subsidiary Company

1.06.2. Three Companies declared dividend for the year 1981-82 as detailed below:—

	Name of the Company	Distributable surplus	Amount retained in business	Dividend declared	Percentage of dividend to paid-up capital
		(Rupees in lakhs)			
1	Forest Industries (Travancore)Limited	6.62	3.96	2.66	15
2	Traco Cable Company Limited	49.54	40.73	8.81	6.8
3	Kerala State Industrial Products Trading Corporation Limited	5.64	3.38	2.26	20

1.06.3. The following table gives the details of 20 Companies (including 10 subsidiaries) which incurred loss during the year 1981-82 and the comparative figures for the previous year:—

Sl. No.	Name of the Company	Paid-up capital as on 31st March 1981	Paid-up capital as on 31st March 1982	Profit(+) / Loss(—) during 1980-81	Profit(+) / Loss(—) during 1981-82
		(Rupees in lakhs)			
1	The Travancore Sugars and Chemicals Limited	51.00	51.00	(—) 1.49	(—)33.15
2	Oil Palm India Limited *	2,19.20	2,19.20	(—) 29.07	(—)41.26
3	Trivandrum Spinning Mills Limited	1,84.99	1,84.99	(+) 12.85	(—)43.18
4	The Kerala Fisheries Corporation Limited	4,52.75	4,66.25	(—)1,11.08	(—)85.23
5	Kerala Garments Limited*	20.00	20.00	(—) 4.50	(—) 6.96

* Subsidiary Company

Sl. No.	Name of the Company	*Paid-up capital as on 31st March*		*Profit (+)/Loss(—) during*	
		1981	1982	1980-81	1981-82
		(Rupees in lakhs)			
6	Handicrafts Development Corporation of Kerala Limited	99.86	1,24.86	(+) 3.11	(—) 3.09
7	The Chalakudy Refractories Limited	52.25	63.25	(—)21.77	(—)21.03
8	Kerala State Electronics Development Corporation Limited	9,09.86	12,56.61	(—)27.23	(—) 2.12
9	Keltron Counters Limited *	1,17.27	1,17.27	(+) 2.01	(—)46.38
10	Dielectro Magnetics Limited*	16.33	30.00	(—) 7.35	(—)20.39
11	Keltron Magnetics Limited*	15.01	15.01	(+) 8.75	(—) 3.91
12	Keltron Resistors Limited*	15.00	25.00	(—) 7.00	(—) 9.39
13	Kerala State Industrial Enterprises Limited	8,93.44	10,68.44	(+) 0.13	(—) 0.01
14	Keltron Rectifiers Limited*	22.00	40.00	..	(—) 8.03
15	Keltron Power Devices Limited*	50.00	89.99	(—)55.08	(—)57.32
16	Kerala Land Development Corporation Limited	3,60.00	4,62.40	(—)42.43	(—)19.81
17	Trivandrum Rubber Works Limited *	2,13.62	2,13.62	(—)29.49	(—)94.58

* Subsidiary Company

Sl. No.	Name of the Company	Paid-up capital as on 31st March		Profit(+)/Loss(—) during	
		1981	1982	1980-81	1981-82
		(Rupees in lakhs)			
18	The Kerala Ceramics Limited *	1,07.95	1,07.95	(—)66.32	(—)67.75
19	Kerala Inland Fisheries Development Corporation Limited	..	8.00	..	(—) 2.59
20	Kerala State Film Development Corporation Limited	2,63.46	3,13.46	(—) 0.95	(—)60.64
	Total	40,63.99	48,77.30	(—)3,76.91	(—)6,26.82

1.06.4. The accumulated loss based on latest available accounts in respect of 51 Companies (paid-up capital: Rs. 84,44.03 lakhs) amounted to Rs. 69,83.83 lakhs. Particulars of 18 Companies the accumulated loss of which had exceeded their paid-up capital are given below:—

Sl. No.	Name of the Company	Year	Paid-up capital	Accumulated loss
			(Rupees in lakhs)	
1	Kerala Livestock Development and Milk Marketing Board Limited	1978-79	1,48.76	1,67.73
2	The Kerala State Civil Supplies Corporation Limited	1978-79	71.00	1,66.71
3	Kerala State Construction Corporation Limited	1979-80	55.50	87.59
4	The Kerala State Cashew Development Corporation Limited	1979-80	1,54.00	17,37.05

* Subsidiary Company

Sl. No.	*Name of the Company*	*Year*	*Paid-up capital* (*Rupees in lakhs*)	*Accumulated loss*
5	Meat Products of India Limited*	1980-81	24.60	32.05
6	Kerala Agro-Machinery Corporation Limited*	1980-81	1,17.00	1,52.48
7	Kerala State Engineering Works Limited	1980-81	9.00	30.03
8	Pallathra Bricks and Tiles Limited	1980-81	25.06	35.25
9	The State Farming Corporation of Kerala Limited	1980-81	1,25.00	2,32.00
10	Kerala Fishermen's Welfare Corporation Limited	1980-81	38.00	41.43
11	Trivandrum Rubber Works Limited*	1981-82	2,13.62	4,42.51
12	The Kerala Fisheries Corporation Limited	1981-82	4,66.25	9,07.66
13	Keltron Power Devices Limited*	1981-82	89.99	1,15.24
14	The Kerala Ceramics Limited*	1981-82	1,07.95	4,55.31
15	The Chalakudy Refractories Limited	1981-82	63.25	74.55
16	Keltron Counters Limited*	1981-82	1,17.27	1,63.66
17	Steel Complex Limited*	1981-82	2,24.44	2,61.47
18	The Metropolitan Engineering Company Limited	1981-82	19.17	56.00
	Total		20,69.86	51,58.72

*Subsidiary Company

1.06.5. The following table gives the details of 5 Companies under construction and the total expenditure incurred during the year and the previous year which had been capitalised:—

Sl. No.	Name of the Company	Paid-up capital 1980-81	Paid-up capital 1981-82	Expenditure 1980-81	Expenditure 1981-82
		(Rupees in lakhs)			
1	Kerala Automobiles Limited	62.00	1,27.00	21.96	82.24
2	Malabar Cements Limited	7,35.00	8,00.00	12,53.65	22,55.38
3	Sideco Mohan Tools Kerala Limited	17.00	17.00	1.86	9.10
4	Kerala Wood Industries Limited	..	1,45.22	..	1,22.63
5	Kerala Artisans' Development Corporation Limited	..	..	..	0.18

1.07. In addition, there were 7 Companies covered under Section 619 (B) of the Companies Act, 1956. The details of their paid-up capital, investment of Government in their paid-up capital, working results, *etc.*, are as given below:—

Sl. No.	*Name of the Company*	*Accounts for the year ending*	*Paid-up capital*	*Investement by*				*Profit (+)/ Loss(—)*	*Accumulated loss*
				State Government	*Government Companies*	*Corporations*	*Others*		
					(Rupees in lakhs)				
1.	Travancore Cements Limited	31st December, 1981	50.00	25.07	..	15.90	9.03	(+) 1,43.05	..
2.	Transformers and Electricals Kerala Limited	31st March, 1981	3,99.40	1,61.29	49.20	..	1,88.91	(+) 27.99	..
3.	Kerala Rubber and Reclaims Limited	31st March, 1979	24.89	..	9.00	8.00	7.89	(—) 5.32	38.88
4.	Excel Glasses Limited	30th September, 1981	69.75	..	23.06	18.62	28.07	(+) 18.06	58.15
5.	Vanjinad Leathers Limited	31st March, 1982	59.94	...	17.59	25.42	16.93	(—) 39.26	1,63.95
6.	Keltron Component Complex Limited	31st March, 1982	1,61.01	—	73.00	52.74	35.27	(+) 9.86	1,51.60
7.	Kunnathara Textiles Limited	30th September, 1981	60.00	12.00	24.00	..	24.00	(—) 42.19	94.76

The State Government had also guaranteed the repayment of loans and payment of interest thereon for 2 out of 7 Companies, the details of which are given below:—

Name of the Company	*Amount guaranteed*	*Amount outstanding as on 31st March 1982*
	(*Rupees in lakhs*)	
Transformers and Electricals Kerala Limited	2,53.00	1,99.00
Kunnathara Textiles Limited	1,01.00	1,15.33

1.08. The Companies Act, 1956 empowers the Comptroller and Auditor General of India to issue directives to the auditors of Government Companies in regard to performance of their functions. In pursuance of the directives so issued, special reports of the Company auditors on the accounts of 11 Companies were received during the year. The important points noticed in these reports are summarised below:—

Nature of defects	*Number of Companies where defects were noticed*	*Reference to serial number of Companies in Annexure-B*
Absence of accounts manual	5	5, 31, 35, 45, 61
Absence of regular costing system	4	10, 20, 45, 61
Absence of internal audit manual	4	31, 35, 45, 61
Absence of internal audit system	1	35
Internal audit system not commensurate with the nature and size of business	3	20, 45, 61
Sales below cost of production	2	45, 60
Absence of system of ascertaining idle time for labour and machinery	4	5, 10, 45, 61
Non-fixation of maximum/minimum limits of stores and spares	5	10, 20, 31, 45, 61
Failure to obtain confirmation of balances under sundry debtors	5	5, 20, 31, 45, 61

1.09. Under Section 619 (4) of the Companies Act, 1956, the Comptroller and Auditor General of India has a right to comment upon or supplement the audit report of the Company auditors. Under this provision, review of the annual accounts of Government Companies is conducted in selected cases. Some of the errors/omissions, *etc*., noticed in the review of annual accounts are detailed below:—

Name of the Company and the period to which the accounts relate	*Particulars of comments*
Keltron Component Complex Limited—1980-81	Loss for the year (Rs. 36.46 lakhs) is understated by Rs. 2.53 lakhs due to taking credit of duty drawback which is not admissible as per the existing rules and orders.
Keltron Crystals Limited—1980-81	Current assets include Rs. 1.32 lakhs being value of 9892 crystals manufactured in 1977 as per specific orders but not accepted due to failure to tests. The realisable value of these crystals has not been ascertained.
Steel Industrials Kerala Limited—1980-81	Net loss (Rs. 9.35 lakhs) is understated by Rs. 0.67 lakh due to non-provision of certain liabilities.
Transformers and Electricals Kerala Limited—1980-81	Profit for the year (Rs. 27.99 lakhs) is overstated to the extent of Rs. 6.07 lakhs on account of non-provision of certain liabilities and accountal of income not legitimately belonging to the Company.
The Plantation Corporation of Kerala Limited—1980-81	Net profit (Rs. 32.81 lakhs) is overstated to the extent of Rs. 8.22 lakhs due to non-provision of depreciation, misclassification of certain charges to capital account, *etc*.
Kerala State Electronics Development Corporation Limited—1980-81	The actual working results of the Company for the year was a loss of Rs. 14.86 lakhs as against a profit of Rs. 18.23 lakhs as shown in the accounts on account of over-valuation of finished stock, non-provision of liability, *etc*.

Name of the Company and the period to which the accounts relate	*Particulars of comments*
Keltron Component Complex Limited—1981-82	Profit for the year (Rs. 9.86 lakhs) is over-stated by Rs. 6.89 lakhs due to over-valuation of closing stock and work-in-progress.
Keltron Crystals Limited — 1981-82	Depreciation on account of extra shift amounting to Rs. 1.10 lakhs was neither provided for nor disclosed in the accounts.

1.10. In addition, the following Companies had adopted the accounts (for the year specified against each) and reports thereon in the annual general meeting without the comments of the Comptroller and Auditor General of India under Section 619 (4) of the Companies Act, 1956 thereby contravening the provisions of Section 619(5) *ibid*.

1.	Dielectro Magnetics Limited*	1981-82
2.	Keltron Magnetics Limited *	1981-82
3.	Kerala Inland Fisheries Development Corporation Limited	1981-82
4.	The Kerala Fisheries Corporation Limited	1980-81

SECTION II

MALABAR CEMENTS LIMITED

Execution of Project

2.01. Introduction

In 1974, the State Government engaged the Mineral Exploration Corporation Limited, Nagpur (MEC) to conduct a detailed exploration of limestone deposits in Palghat district. The MEC

* Subsidiary Company

estimated in August 1975 the limestone reserves in the district at 23 million tonnes. A feasibility report for establishing a cement plant by utilising the limestone reserves was got prepared (February 1976) from a firm of New Delhi on a fee of Rs. 0.75 lakh by the Kerala State Industrial Development Corporation Limited (KSIDC)—a State Government Company. In November 1976, the KSIDC obtained an industrial licence for establishing the cement plant with a capacity of 1200 tonnes per day (4.2 lakh tonnes per annum) and entrusted (August 1977) the preparation of a detailed mining plan and a contour survey of the limestone reserves area to the Indian Bureau of Mines, Nagpur (IBM) on a fee of Rs. 1.31 lakhs. The mining plan and the contour survey were obtained from IBM in March 1979. In the meantime the State Government decided (January 1977) to establish the cement project at Walayar (Palghat district) and directed KSIDC to take expeditious steps for the implementation of the project through a Public Limited Company. Accordingly Malabar Cements Limited was incorporated in April 1978 with the object of establishing the cement plant and of manufacturing and dealing in all varieties of cement and the industrial licence was transferred to it in January 1979.

The authorised capital of the Company at the end of March 1982 stood at Rs. 10 crores. The paid-up capital of the Company at the end of March 1982 stood at Rs. 8 crores (excluding Rs. 50.86 lakhs advanced by the State Government towards share capital for which shares were pending allotment) entirely subscribed by the State Government.

2.02. Organisational set-up

At the end of 1981-82, the Board of Directors of the Company consisted of 11 members of whom 4 were Government officials and the rest were non-officials representing Cement Corporation of India (one) financial institutions (two) and individuals (four) including an expert in mining, the Managing Director and the Chairman of the Company.

The Managing Director is the Chief Executive of the Company and is assisted by a Project Manager, Mines Manager and three Chief Engineers each for Civil, Mechanical and Electrical branches respectively. As there was no one in the Company experienced in cement industry, a technical adviser, to assist the Managing Director was also appointed in December 1981 initially for a period of one year and since extended up to June 1983. He is to be paid besides fees, expenses for maintaining office at Madras, reimbursement of expenses relating to travelling, lodging, out of pocket expenses and medical expenses. A sum of Rs.0.15 lakh had been paid to him up to 31st March 1982.

The Board constituted (June 1979) a permanent sub-committee for taking decisions on purchases and contracts at periodical intervals. Government directed (January 1980) that public undertakings should not delegate administrative/financial powers to such permanent sub-committees on matters relating to recruitment, purchase, sales, staff *etc.*, as the creation of intermediate authorities exercising specified delegated powers was not only inconsistent with the responsibility vested in the Chief Executive and his answerability but would also result in avoidable expenditure and delay. The Board of Directors, however, did not implement the directions and decided (March 1980) to take up the matter with Government. There was, however, no indication that the matter was at all taken up with the State Government.

2.03. Preparation of project report

2.03.1. *Appointment of technical consultants*

The Company appointed (June 1978) the same firm which prepared the feasibility report, as the technical consultants, for preparation of detailed project report in two phases, planning and control, supervision and commissioning of the project and rendering assistance in the procurement of machinery and equipment and their inspections.

The consultants were to be paid for the above services, a fee of Rs. 34.58 lakhs. According to clause 3.2.3 of the agreement (June 1978) the fee was fixed on the assumption that the assignment would be completed within 56 months from 1st June 1978. In case of delay in completion due to reasons beyond the control of the consultants, additional fee at mutually agreed basis was payable. The consultants submitted the project report in February 1979 and continued to render technical consultancy services. A sum of Rs. 31.85 lakhs has been paid as fee to the consultants up to 31st March 1982. Although 56 months from 1st June 1978 expired by 31st January 1983, additional fee payable to consultants from 1st February 1983 has not been settled (March 1983). The Management stated (December 1982) that the payment of consultancy fees beyond the period of contract had to be finalised after negotiation with the consultants. Further developments in the matter were awaited (March 1983).

For the project supervision and commissioning exceeding 36 months from the date of posting the consultants' Resident Engineer with supporting staff at site, due to reasons beyond the control of consultants, additional payment of fees to the consultants, would have to be made as per mutually agreed terms. The period of project supervision by the consultants' Resident Engineer and his staff expired by December 1982. The Management stated (April 1983) that the question of payment of fees from January 1983 to the site representatives of the consultants was under negotiation.

2.03.2. *Project estimates*

The detailed project report submitted (February 1979) by the consultants envisaged an outlay of Rs. 34,00 lakhs on the project. This was recast (October 1979) to Rs. 33,50 lakhs and further revised in March 1981, November 1981 and June 1982 at the instance of the financial institutions to take care of the increased over run in the estimates due to several factors.

The table below compares the actual expenditure up to 1981-82 with the estimate (October 1979) and the revised estimates:—

Sl. No.	*Particulars*	*Original estimate* (*October* 1979)	*Revised estimates* (*March* 1981)	(*November* 1981)	(*June* 1982)	*Actual expenditure up to* 31*st March* 1982
			(*Rupees in lakhs*)			
1	Land and site development	8.88	35.00	24.41	10.32	12.27
2	Buildings	4,48.09	6,40.00	7,45.54	7,80.31	5,62.25
3	Plant and machinery	16,56.79	18,10.35	19,16.57	19,06.72	17,38.41*
4	Technical know-how fee	36.20	40.00	36.20	39.00	36.29
5	Miscellaneous fixed assets	4,30.00	5,39.70	5,98.88	5,94.82	4,63.69
6	Pre-operative expenses					
	(a) Interest and commitment charges	2,46.66	4,66.99	4,71.46	5,10.70	1,17.28
	(b) Other expenses	3,19.58			2,93.38	2,42.12
7	Preliminary and Capital issue expenses	18.00	4.58	5.00	5.01	5.26
8	Contingency	1,38.38	0.76	24.50	45.52	..
9	Margin money	47.42	47.42	47.42	39.22	20.18
	Total	33,50.00	35,84.80	38,69.98	42,25.00	31,97.75

The increase in the cost of project by Rs. 8,75 lakhs over the estimate (October 1979) was attributed (June 1982) by the Management mainly to—

(i) increase in the cost of construction of buildings amounting to Rs. 3,32.22 lakhs on account of extra quantities under excavation (Rs. 6.82 lakhs), concreting (Rs. 8.48 lakhs), reinforced and structural steel (Rs. 38.50 lakhs); price variation in respect of material, labour and transportation (Rs. 1,70.08 lakhs); increase in cost of construction at mine site

* Includes cost of steel and cement (Rs. 95.77 lakhs) in stock at the end of March 1982, a portion of which was allocable to buildings.

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(Rs. 11 lakhs); additional works (Rs. 27.81 lakhs) and construction of additional staff quarters and other amenities (Rs. 69.53 lakhs);

(ii) increase in the cost of procurement and erection of plant and machinery amounting to Rs. 2,49.93 lakhs on account of price variation (Rs. 78.25 lakhs), change in specifications (Rs. 35 lakhs), additional equipments (Rs. 40.23 lakhs), additional taxes, duties and freight (Rs. 46.05 lakhs), increase in cost of erection (Rs. 18.13 lakhs) and increase in cost of spares (Rs. 32.27 lakhs); and

(iii) increase in interest and commitment charges amounting to Rs. 2,64.04 lakhs on account of delay in execution of the project.

2.03.3. *Profitability forecast*

According to the forecast made in the project estimate (June 1982), the Company would suffer an operational loss of Rs. 45 lakhs in 1982-83 (from January 1983) and Rs. 1,74 lakhs in 1983-84 on 60 *per cent* utilisation of capacity and would earn profit of Rs. 1,09 lakhs in 1984-85 and Rs. 2,56 lakhs in 1985-86 with 80 and 90 *per cent* utilisation of the capacity in the respective two years. The cost per tonne of limestone mined by the Company assumed in the above profitability forecast was at Rs. 16 per tonne. However 78,461 tonnes of limestone were mined during 1981-82 after commissioning of the mines from 1st April 1981, at a cost of Rs. 14,34,631 giving an actual cost of Rs. 18.28 per tonne.

2.03.4. *Project finance*

The projected outlay of Rs. 33,50 lakhs as per project estimate (October 1979) was to be met out of share capital (Rs. 7,50 lakhs) and long-term loans (Rs. 26,00 lakhs) the entire share capital being contributed by the State Government. Against Rs. 26,00 lakhs sanctioned by financial institutions as long-term loans, the Company could obtain Rs. 22,69 lakhs only.

The Management stated (September 1982) that contrary to Company's expectations, some of the banks were unable to release the loan amounts due to their difficult financial position.

As per the revised estimate (June 1982) the Company required additional funds amounting to Rs. 8,75 lakhs to complete the project. According to the Management (December 1982) arrangements for financing the entire over-run of Rs. 8,75 lakhs have since been completed by obtaining additional contribution towards share capital from State Government (Rs. 3,00 lakhs), additional loan from financial institutions (Rs. 1,55 lakhs) and funding of arrears of interest due to the financial institutions and commercial banks (Rs. 4,20 lakhs) for the period up to December 1982.

The long-term loans were sanctioned by the financial institutions against a first charge on immovable properties and a charge by way of hypothecation of all the movable properties of the Company present and future in addition to guarantees from the State Government for repayment of principal and payment of interest. The loans carried interest at rates varying from 11.85 to 12 *per cent*. Due to delay in creation of charge on the assets of the Company and furnishing guarantee by State Government, the Company had to obtain bridge loans at higher rates of interest (ranging from 12.85 to 15 *per cent)* resulting in an extra expenditure of Rs. 10.85 lakhs for the period from July 1980 to May 1981.

2.03.5. *Delay in completion of works under the project*

According to the detailed project report (February 1979) the project was to be completed within 42 months from June 1978 (month of commencement of work on the project). To ensure completion of the project in 42 months, the consultants expected dynamic project management technique such as programme evaluation and periodical review, effective co-ordination and concerted effort on the part of all agencies involved in the execution of the project. The table below compares the time limit specified for the completion of the various stages in the execution of the project with actuals up to June 1982:—

	Stages in the execution of the project	*As specified in the detailed project report*	*Time taken for actual completion*	*Delay (months)*
		Months from June 1978		
1	Evaluation of tenders and placement of orders for main machinery	12	13	1
2	Award of civil contracts	20	21	1
3	Starting of construction	21	23	2
4	Starting of mechanical erection	27	46	19
5	Starting of trial production and commissioning	34-41	Not commenced so far (April 1983)	9

According to an assessment made by the Management at the time of revising the estimate (June 1982), sustained cement production was expected from January 1983 *i.e.*, after a delay of 13 months from the originally expected scheduled date. This delay was attributed by the Management (June 1982) *inter alia*, to the slow progress in execution of civil works (paragraph 2.04.4) and mechanical erection works (paragraph 2.05) and strike by workmen of civil works contractor and contractor for mechanical erection. The Company is yet (April 1983) to start trial production and commission the plant.

2.04. Contract for the execution of civil works

2.04.1. *Payment of extra rates for work at mine site*

The Company invited (September 1979) tenders from reputed contractors for civil and structural works for the plant and quarry (mines) sites. The work was awarded (January 1980) to

National Building Construction Corporation Limited (NBCC)—a Government of India Undertaking—after negotiations (January 1980) for a contract value of Rs. 5,29 lakhs. According to agreement concluded (February 1980) with NBCC the rates quoted by the latter were to hold good till the works were completed. After commencing the work in March 1980, NBCC requested (July 1980) the Company to define the exact scope of the work to be carried out on the plea that the drawings supplied to them along with the tender documents did not give particulars of work to be done at the quarry site.

The Company clarified (August 1980) that all civil and structural works connected with the crusher house at the mine site and all the works at plant site except those which were being executed through other contractors would come within the scope of work awarded to them. This was not acceptable to NBCC and they informed (September 1980) the Company that the construction of crusher house and other connected works at mine site (11 kms. away from the plant site) were not included in the scope of the work awarded to them as they were expected to do the work only in accordance with the drawings appended to the original tender documents. NBCC, however, was agreeable to carry out the works at the mine site, only if they were paid 40 *per cent* more than the rates for the works at plant site. Discussions with NBCC led to a settlement (October 1980) under which the scope of the work was to be referred to arbitration and pending the award of the arbitrator, NBCC was to be paid at 40 *per cent* above the plant site rates for works carried out at the mine site. The arbitrators were appointed between August and November 1982 and their proceedings which commenced (December 1982) was in progress (January 1983). As against the estimated extra commitment of Rs. 11 lakhs in the revised project estimate (June 1982), the actual extra payment made by the Company up to January 1983 amounted to Rs. 16.09 lakhs.

2.04.2. *Escalation claims*

NBCC demanded increase in rates (July 1980, February 1981 and March 1981) to compensate for the increase in cost of materials and hike in the price of petroleum products, eventhough there was no provision in the agreement for escalation claims. They also informed (July 1981) the Company that they might not be able to proceed with the work unless they were paid an advance of Rs. 25 lakhs pending a decision on escalation of rates. The Company granted (between September 1981 and November 1981) Rs. 20 lakhs as interest-free advance which was adjusted in March 1982.

The Company entered (April 1982) into a supplementary agreement with the NBCC agreeing to pay escalation charges on the basis of a specified formula for all the works done (excluding works at mine site for which arbitration was agreed upon) from the commencement of work till the extended period of completion subject to completion of work on the revised schedule by March-June 1982. It was noticed in this connection that one of the main considerations for awarding the work to NBCC (though they were not the lowest tenderer) was the withdrawal of the escalation clause during negotiations. Thus the reintroduction of the escalation clause had deprived the Company of the advantage in accepting their offer.

None of the works had been completed by NBCC so far (August 1982) and yet they were paid escalation charges (from the commencement of work including all completed works) amounting to Rs. 29 lakhs up to August 1982. The failure of the NBCC to complete the works as scheduled, resulted in delay in making available the foundations to the contractors for mechanical erection (vide paragraph 2.05). Thus the benefit anticipated by the Company in getting the works completed by the contractor on specified due dates by the grant of escalation charges could not be derived.

2.04.3. *Extra expenditure*

The Company incurred an extra expenditure of Rs. 7.10 lakhs to enable NBCC to complete the various items of works vide instances given below:—

(i) During discussions (December 1981) NBCC demanded that an early decision should be taken on their claim for escalation of rates or alternately a further advance should be given to enable them to mobilise additional resources required to carry out certain works before the onset of monsoon. No further advance was, however, given. One of the purposes for which NBCC required additional funds was for the procurement of 3000 sq.m. of 12mm. plywood shuttering. Though NBCC required only additional advance for the procurement of plywood shuttering, the Company supplied (December 1981) plywood shuttering (2995 sq.m; cost: Rs. 3.54 lakhs) to NBCC on the condition that the plywood shuttering should be returned to the Company after use. The Management informed Audit (April 1983) that the plywood shuttering returned by NBCC would not be of any use to the Company and hence would have to be auctioned. As the used plywood shuttering would fetch only a nominal value, the supply of plywood shuttering resulted in extra expenditure of Rs. 3.54 lakhs (approximately) to the Company and unintended benefit to the contractor.

(ii) A review of progress of civil works carried out by the Company (January 1982) revealed that there was delay in the construction of three main structures in the flow stream *Viz.*, Primary Crusher House, Raw Mill House, and Blending and storage silos and that the action taken by NBCC for improving the inputs was not effective and they had not increased the manpower to complete the works as scheduled. The Managing Director of the Company, therefore, suggested (January 1982) certain modifications in the scheme of construction by introducing certain additional structural platforms, converting a few complicated RCC beams to structural steel beams, *etc.*, with a view to commencing clinkerisation early in June 1982. The estimated cost for this work was about Rs. 4 lakhs, but taking into account the cost of RCC work to be replaced, the Management anticipated the additional cost at Rs. 2 lakhs only. The Company had informed Audit (April 1983) that the extra expenditure on account of the revised proposal would be Rs. 3.56 lakhs approximately.

2.04.4. *Delay in completion of work*

As per the original agreement (February 1980) with NBCC, the period of completion of the work was 18 months from

March 1980 (*i. e.* before 1st September 1981). There were delays ranging from 20 days to 7 months in commencement of 17 items of work; similarly the delays ranged from 15 to 26 months in respect of 15 items of work which were not completed in all respects as at the end of November 1982. According to the terms mutually agreed between the Company and NBCC (February 1982), the works required for clinkerisation should be completed by 31st March 1982, blending and storage silos by 30th June 1982. A supplementary agreement incorporating the above terms was executed in April 1982. None of these works had been completed so far (December 1982). The Management informed (February 1982) NBCC that the delay in construction of civil works due to insufficiency of inputs, inefficient utilisation of available resources of inputs and short comings in the management of labour had caused huge losses to the Company. In case of delay attributed to NBCC they were liable to pay liquidated damages equivalent to one *per cent* of the contract value of the work or portion of the work delayed for each week of delay subject to a maximum of 10 *per cent* of the value of contract. However, the Management informed (February 1983) Audit that no action was proposed to be taken against NBCC for the recovery of liquidated damages as the delay could not be attributed solely to NBCC. The circumstances under which NBCC could not be held responsible for liquidated damages for delay attributable to their failure were not made known to Audit (February 1983).

The failure of NBCC to complete the various items of civil works on scheduled dates prevented the Company from handing over the foundations in time to the contractor for erection of machinery. Consequently the Company had to extend the period of execution of work of mechanical erection and became liable to pay the erection contractor, hire charges for erection equipment, tools and tackles retained at site, increase in cost of labour and consumables *etc*., for the extended period from 15th March 1982 (Paragraph 2.05).

2.05. Contract for erection of mechanical plant and equipment

The Company invited (July 1980) tenders for the erection of mechanical plant and equipment (estimated value: Rs. 60 lakhs).

Of the 9 offers received (July 1980), one was not acceptable to the consultants as it was not accompanied by earnest money deposit. Negotiations were held (November 1980) by the Company with the remaining 8 tenderers in the presence of the consultants. After technical and commercial evaluation, 6 offers were rejected by the consultants. Of the remaining 2 offers, the offer of a Calcutta firm was considered more favourable on grounds of price and other terms and conditions like commercial terms and conditions than that of a Bombay firm –Associated Cement Company (ACC) and the consultants recommended (28th November 1980), the acceptance of the offer of the Calcutta firm at a cost of Rs. 79.01 lakhs. Meanwhile, ACC which had not quoted rates for a particular work (brick lining) included in the tender, quoted for that work also and informed (30th November 1980) the Company of their offer to carry out the entire work at a cost of Rs. 81.38 lakhs. The Company decided (January 1981) to award the work to ACC as according to it, ACC "had a much richer experience in commissioning cement plants and are much better known in the field". The decision of the Company not to award the work to the Calcutta firm which was found suitable by the consultants to execute the work resulted in an extra commitment of Rs. 2.37 lakhs.

While the offer of ACC provided that the rates quoted were firm for 14 months, the rates quoted by the Calcutta firm were firm for a period of 16 months. Both the parties demanded for compensating them for delay in carrying out the work due to reasons not attributable to them. The tender notification issued provided for making available the foundations for erection on certain specified dates which depended upon the contractor of civil works (NBCC) completing the works as scheduled. Even by the time the contract for erection work was awarded (January 1981) to ACC, several items of civil works were lagging behind the schedule. Two major items of civil work, *viz.* primary crusher and secondary crusher which ought to have been taken up in July/August 1980 and completed by January/June 1981 were not even taken up by then. These works were actually taken up in February 1981. Taking these factors and also the longer firm period of the contract, the terms offered by the Calcutta firm were more favourable to the Company. These factors were not taken into account when the Company decided (January 1981) to award the work to ACC.

As the period of execution of work had to be extended beyond 15th March 1982 up to 15th September 1982 the Company became liable to pay to the contractor (ACC) the daily hire charges for the erection equipment, tools and tackles remaining at site, increase in the cost of labour and the consumables for the period beyond 15th March 1982.

There was a strike by the workers of ACC during the period from 16th March 1982 to 14th April 1982. The ACC claimed (May 1982) Rs. 2.59 lakhs towards hire charges for tools and tackles even for the strike period though there was no provision in the agreement for effecting such payments. ACC also informed (March 1982) that claims for increase in cost of consumables and labour will be preferred separately. The Company is yet to take a final decision on the claims of the contractor. Management indicated (December 1982) that pending a negotiated settlement with ACC on the rate of hire charges, an *ad hoc* sum of Rs. 0.40 lakh was admitted for payment to ACC towards hire charges.

The contractor was relieved (April 1982) of the responsibility of erection of primary and secondary crushers at the mine site and the work was being carried out by the Company through two other contractors at a cost of Rs. 0.70 lakh on the plea (June 1982) that the Company was virtually forced to take up the work themselves due to the refusal of ACC to start the work.

According to the Company (June 1982) even in cases where foundations were made available to the contractor (ACC) for erection there was a delay of about 5 months due to inadequate mobilisation of men, tools and tackles. No action had been initiated by the Company to levy liquidated damages (at the rate of 1 *per cent* of the contract price) for delays attributable to ACC so far (December 1982).

2.06. Contract for construction of aerial rope way

2.06.1. The construction of aerial rope way from the mines to the plant was entrusted (November 1979) to a contractor of Calcutta at a cost of Rs. 142.31 lakhs and an agreement with him was executed in July 1980. The quantity of steel required for the construction of aerial rope way system was estimated at 500 tonnes. As per the terms of the contract, there was no obligation on the part of the Company to procure and supply steel for the work. However, the contractor requested on several occasions, the Company to supply steel on loan basis on the plea that it was difficult to procure steel.

Under the arrangement for issue of steel, the contractor was to deposit with the Company the cost of steel plus 20 *per cent* before taking delivery from the stock yard at Walayar and in the event of failure of the contractor to return the material, the cost of steel at market rate was to be recovered. In actual practice, the field officers issued steel as per the requisition of the contractor without insisting on advance deposits in all cases. Cost plus 20 *per cent* was recovered from the contractor in some cases. Between October 1980 and August 1982, the Company supplied (in 32 cases) 323.130 tonnes (value: Rs. 13.23 lakhs) to the contractor. Of this, in 15 cases where recovery was made after the issue of materials, there were delays ranging from 5 to 471 days (193.851 tonnes; value: Rs. 7.69 lakhs) . The delay in 17 cases where no recovery at all had been made till 30th November 1982 ranged from 121 to 617 days (129.279 tonnes; value: Rs. 5.54 lakhs). The loss of interest to the Company, consequent on the delay in recovery (Rs. 0.39 lakh) and non-recovery (Rs. 0.74 lakh) of deposit amounted to Rs. 1.13 lakhs (computed at the rate of 11.85 *per cent* per annum on the value of material) for the period up to 30th November 1982.

The failure of the contractor to return some steel items supplied to him on loan basis, necessitated the Company to purchase steel for its own use from open market at higher rates. Steel issued to the contractor on loan basis was to be returned within one month of notifying the Company's requirements, failing which the contractor was liable to pay the cost of steel at open market rates plus transportation and handling charges. A test check in Audit (August 1982) revealed that the Company had purchased 20 tonnes of steel during October 1981 at higher rates resulting in an extra expenditure of Rs. 0.43 lakh. There was however, no indication in the Company's records as to whether the Company notified its requirements to the contractor. No recovery on the basis of market rate and transportation and handling charges had been effected from the contractor. The Company however, informed (December 1982) Audit that the extra expenditure on this account would be recovered from the contractor.

2.06.2. As per the terms of contract, erection, commissioning and handing over of the entire rope way system was to be completed before 1st March 1981. Any delay in commissioning was subject to payment of liquidated damages at 0.5 *per cent* of the total value of contract per week of delay subject to a maximum of 5 *per cent* of the total contract price. The rope way has not been commissioned so far (March 1983). The Company has not initiated any action for the recovery of liquidated damages. The Management stated (September 1982) that action to recover liquidated damages had not been taken as the commissioning of the cement factory was not specifically affected on account of the delay in completion of the rope way.

2.07. Other points of interest

2.07.1. *Pre-production development works*

The Indian Bureau of Mines (who were the consultants for detailed mining plan for the supply of limestone to the project) reported (March 1979) that during the pre-production development of mines 9.82 lakh cum., of overburden (waste) would have to be removed before reaching limestone mineable limit. The removal of overburden would involve excavation in hard rock for 4.11 lakh cum., which required blasting and common excavation for 5.71 lakh cum., without blasting. The Company invited (April 1979) tenders for pre-production development works and awarded (July 1979) the contract to a contractor at an estimated cost of Rs. 266 lakhs. The accepted rate for common excavation was Rs. 110 per 10 cum. The work was to commence in October 1979 and to be completed within 15 months by December 1980.

While the work was in progress, the contractor claimed (April 1980) a separate rate for removing a portion of the overburden from Reduced Level (RL) 509 to 500 metres on the plea that this portion contained disintegrated rock which according to him, could be removed only by blasting. The claim was not acceptable to the Company on the ground that the overburden from RL 509 to 500 metres would come only within common excavation and therefore, did not deserve any special treatment. This view was upheld by the team of specialists who studied the site in April 1980 and the Director of Mining and Geology in May 1980.

The Board of Directors of the Company reviewed (July 1980) the slow progress of the work executed by the contractor and formed a sub-committee to hold discussions with the contractor. The sub-committee after discussions with the contractor had dismissed (August 1980) the claims of the contractor and observed that "the disintegrated rock need not necessarily be drilled and blasted, but can be removed after ripping or by the use of showels. The contractor proposes to drill and blast for ease of operation and for use of available equipments like scrappers". According to the sub-committee (August 1980) "the contractor agreed during discussions that he had no claim for increase in rate for excavation of disintegrated rock. But on account of low rates, he had originally quoted, the loss he had already suffered and increase in prices of spare parts, cost of labour and other extenuating circumstances and conditions, it will not be possible for him to carry on the work unless a reasonable increase in rate is given for excavation of disintegrated rock". The sub-committee therefore, recommended termination of the contract on the expiry of the contract period *i.e.* 31st December 1980 and thereafter to carry out the balance works departmentally. However, the contract was extended (December 1980) up to 31st March 1981 and no arrangements were made by the Company to carry out the work thereafter departmentally. Since then there was a shift in the stand taken by the Company. The new Managing Director(appointed in December 1980) who studied the issue afresh disagreed with the earlier assessments made by the team of specialists and the Director of Mining and Geology and recommended (February 1981) that the contractor be granted extension of time by 3 months from 1st April 1981 subject to his guaranteeing total excavation of 9 lakh cum., and that he be paid the rate of Rs. 204 per 10 cum., for excavation in the disintegrated rock.

A sub-committee of the Board specially constituted (March 1981) to go into these questions, after holding discussions, negotiated with the contractor a rate of Rs. 210 per 10 cum., (as against Rs. 232.50 per 10 cum., claimed by the contractor) for the excavation of disintegrated rock and extension of period up to 30th June 1981. A supplementary agreement was executed (April 1981) with the contractor, incorporating the revised terms and conditions. As against the guaranteed excavation of 9 lakh cum., the contractor had actually excavated 7.12 lakh cum., at the time of termination of contract on 30th June 1981. Thereafter the excavation was done departmentally by the Company.

The extra expenditure on treating common excavation (which was to be paid at Rs. 110 for 10 cum.) as excavation in disintegrated rock (at Rs. 210 per 10 cum.) amounted to Rs. 31.14 lakhs (on 3,11,359 cum. of excavation).

2.07.2. *Purchase of spares*

It was noticed (August 1982) in audit that orders for essential spares required for operation/maintenance of machinery/equipments were not placed along with the orders for machinery/equipments. There was delay in processing the orders for spares to be placed with the manufacturers of machinery/equipments and in some cases orders were placed after the expiry of the validity period of the quotations resulting in an extra expenditure to the Company.

(a) In one case the Company placed orders (August 1980) for 7 vibratory feeders with a Bangalore firm after inviting (February 1980) competitive quotations. No orders were placed for spares though quotations for spares were also called for along with the vibratory feeders and the Bangalore firm had quoted Rs. 45,001 for the spares. After expiry of the validity period (30th August 1980) the Company placed (February 1981) an order with the firm for the supply of spares at the quoted price of Rs. 45,001. The Bangalore firm rejected (February 1981) the order as it was not placed within the validity period. An amended order for spares was placed (May 1981) by the Company with the firm at their enhanced price of Rs. 63,712. This resulted in an extra expenditure of Rs. 18,711.

The Management stated (December 1982) that the order for spares could not be finalised within the validity period of the offer as final recommendations of the consultants were not received by the Company in time. It was, however, noticed in audit (December 1982) that though the recommendations of the consultants in respect of feeders were received in July 1980, the Company did not call for their recommendations for spares until December 1980.

(b) In another case, the Company issued (June 1980) a letter of intent to a Calcutta firm for the manufacture, supply, erection and commissioning of Programmable Logic Controls (PLC). In October 1980, the Company also obtained from the same firm, quotations (valid up to 15th November 1980) for the supply of spares to the PLC system at a cost of Rs. 3.31 lakhs. The firm indicated in their quotation that they had considered concessional import duty at 40 *per cent* for the project utilisation and that countervailing duty *etc*., had not been taken into account. The Company placed (February 1981) an order on the firm for the supply of spares costing Rs. 3.31 lakhs and indicated in the "prices clause" of the order that the prices of imported items were exclusive of customs duty at concessional rate and countervailing duty, *etc*., which would be paid extra. The firm telegraphically intimated (July 1981) the Company that the order was not acceptable to them in respect of terms and price and requested (without mentioning the revised terms and price) an order with revised terms and price. A representative of the firm visited the Company (August 1981) and requested that the order for spares be issued as a supplementary to the original order for the PLC system so as to enable them to obtain project import concession. Accordingly the Company issued (August 1981) an amendment to the effect that the order placed on the firm for the supply of PLC systems would include the supply of spares also at an increased cost of Rs. 4.80 lakhs. The Management stated (August 1982) that the amendment had been issued only to incorporate the element of customs duty/import duties in the prices. Even this amended order was not acceptable (August 1981) to the firm on the ground that there was a total price increase of 45 *per cent* on the value of spares since their quotation (October 1980) and that the order was placed after the expiry of the date of validity of offer. The firm further intimated (August 1981) the Company that the order could be executed only if a price increase by 15 *per cent* over the revised price of Rs. 4.80 lakhs was given to them. Accordingly the Company allowed (September 1981) the increase in price and revised the value of the order to Rs. 5.52 lakhs on the ground that they had no other alternative except to agree to the revised price.

The contention of the Management (August 1982) that there was no increase in price was not correct. Even though it was clearly stated in the quotation (October 1980) that the price was inclusive of import duty, the order placed by the Company in February 1981 stipulated the price as exclusive of concessional customs duty. The failure to issue the purchase order in accordance with the quotation of the firm before the expiry of the date of validity of offer resulted in an avoidable extra expenditure of Rs.2.21 lakhs.

(c) In yet another case, the Company invited tenders (March 1980) for the supply of instruments and control system and based on the tendered rates an order was placed (June 1980) with a State Government Company at a cost of Rs. 39.94 lakhs. At the time of inviting tenders, offers were also invited for the supply of essential spares to the instruments and control system. The firm agreed (19th June 1980) to supply the spares for two years trouble free operation at a cost of 3.76 lakhs and keep the offer valid for 180 days from 26th May 1980. The Company, however, placed an order with the supplier only on 10th January 1981, by which time the validity period of the offer expired. The Company, had, therefore, to place a fresh order (5th October 1981) for the revised price of Rs. 4.69 lakhs. The failure to place the order within the validity period resulted in an extra expenditure of Rs. 0.93 lakh.

2.07.3. *Purchase of gear boxes*

The Company placed (September 1979) an order on a Madras firm for the supply of 6 gear boxes at a cost of Rs. 39.39 lakhs. All the internal components were to be imported from Germany under the import licence of the supplier. After receipt of the order, the firm requested (May 1981) the Company to address the Director General for Technical Development (DGTD) for sanction of import concession for components as the import was meant for a project in the priority list. According to the Company (August 1982) the recommendations to DGTD were sent on the understanding that the full benefit of the concessions would be passed on to them by the firm. DGTD allowed (July 1981) facilities for the import of components valued at Rs. 11.07 lakhs. The estimated benefits availed of by the firm on account of project concession was to the order of Rs. 3.87 lakhs (approximately) based on the customs tariff rates (35 *per cent* of Rs. 11.07 lakhs). When the Company requested (March 1982) the firm to pass on the benefits, the firm paid (April 1982) a part of the benefits amounting to Rs. 0.15 lakh only to the Company. The Company accepted (April 1982) the payment without verification of the amount of concession actually secured by the firm.

According to the terms of supply order there was no obligation on the part of the Company to approach DGTD for import concessions. The passing on of the major portion of the benefit of import concessions to the firm without obtaining any undertaking to reduce correspondingly the price of the materials to be supplied resulted in an unauthorised financial aid to the firm.

2.07.4. *Payment of price escalation on delayed supplies*

The purchase contracts in some cases included provisions for payment of price escalation. In the following cases, price escalation was paid though the supplies were effected after the contracted delivery period.

(a) The Company invited (December 1979) quotations from 7 firms for conversion of billets into torsteel and MS rounds of various sizes. Of the 6 quotations received the lowest was that of a Madras firm and an order was placed (January 1980) for conversion of 2,000 tonnes of billets into torsteel and MS rounds of various sizes within a period of three months from the date of receipt of billets at specified rates [5,75 tonnes at Rs. 425 per tonne; 1,225 tonnes at Rs. 450 per tonne; a wastage of 10 *per cent* (200 tonnes) was also allowed by the Company]. The rates were to remain firm till the contract is completed, except for escalation on account of increase in cost of furnace oil. As per the terms of the contract, the Company was provided with facilities to store the billets within the factory premises of the firm and release the billets in limited quantities of 200 tonnes at a time for conversion into steel. Though release of billets commenced from 22nd February 1980, the firm did not keep up the schedule of delivery of converted material on the plea that there was acute power cut in their plant. The entire converted material should have been delivered by the firm before the end of May 1980. The firm supplied only 317.680 tonnes of converted material up to 9th June 1980 and demanded (June 1980) increase in the rate by Rs. 49 per tonne towards increase in cost of furnace oil (effective from 8th June 1980) for 1,474.197 tonnes of converted material delivered between 16th June 1980 and 7th January 1981. As the Company was not bound to pay escalation in price of furnace oil in respect of delivery effected after the contracted delivery period, the payment of escalation charges in respect of 1,474.197 tonnes of the material delivered after the agreed delivery dates, resulted in an extra expenditure of Rs. 0.72 lakh (approximately).

(b) The Company placed (September 1980) an order for the supply of 12 Motor Control Centres and other accessories at a cost of Rs. 42.37 lakhs on a Madras firm. According to the purchase order, the supplier was to supply the Motor Control Centres during the period from December 1980 to August 1981. The material was actually supplied between August 1981 and December 1981.

The purchase order provided for the levy of liquidated damages for belated supplies. It was however, noticed that though the delay was on the part of supplier (as per the records of the Company), no liquidated damages were levied.

The supplier was entitled to escalation in prices for supplies during the period of contract according to variation in prices of raw materials as per IEMA variation formula with a ceiling of ± 15 *per cent* of the value of contract. It was, however, noticed in audit that price variation claims of Rs. 3.88 lakhs of the supplier for the supply completed after the stipulated delivery period was also admitted by the Company (between August 1981 and January 1982) for which no clarification was available from the Company.

2.07.5. *Avoidable expenditure on power line works*

The Company required power at 66 KV for carrying on various activities in the mine site at Pandarathu Nalla. The Kerala State Electricity Board promised (July 1980) to supply power to mine site by December 1980 but postponed (April 1981) the supply to May 1981. Later on the Board informed (October 1981) the Company that their contractor for the construction of 66 KV line demanded exorbitant rates against the agreed rate of Rs. 100 per cum., for the construction of revetments at locations 25, 26 and 27 and suggested (October 1981) that if the Company could execute these works on their behalf, the balance works could be executed through their original contractor and that such an arrangement would facilitate the speedy commissioning of the power line. The Company accepted (November 1981) the suggestion of the Board to reimburse the Company the cost of completing the work at Rs. 100 per cum. The construction of revetments was arranged by the Company (December 1981) through another contractor at a rate of Rs. 300 per cum. The payment of enhanced rate by the Company over that reimbursed by the Board resulted in an extra expenditure of Rs. 0.22 lakh to the Company. The power supply which was expected to commence by 15th February 1982 actually commenced only from 26th May 1982. Thus the object of speedy commissioning of line in spite of taking over responsibility of the Board to complete the work, at extra cost was not achieved.

2.07.6. *Appointment of consultants*

The Company invited (January 1982) quotations from some Chartered Accountants for rendering services relating to (i) filing of income tax returns and allied matters; (ii) conduct of internal audit and (iii) drawing up a comprehensive accounting system.

Three firms submitted (March 1982) their quotations. In respect of tax consultancy, firm 'A' quoted Rs. 5,000 per annum, firm 'B' quoted Rs. 2,500 per annum and firm 'C' quoted Rs. 7,500 per annum. The offer of firm 'A' was accepted by the Company on the ground that their reputation in the field was widely accepted and their senior partners would be available for consultation.

Firm 'B' had quoted the lowest fee of Rs. 9,000 for internal audit and firm 'C' had quoted the lowest fee of Rs. 5,000 for drawing up a comprehensive accounting system. Firm 'A' had quoted Rs. 25,000 each for internal audit and drawing up a comprehensive accounting system. However, the Company after negotiations with firm 'A' entrusted internal audit and the work of drawing up a comprehensive accounting system at Rs. 18,000 and Rs. 20,000 respectively resulting in an extra expenditure of Rs. 0.24 lakh to the Company. The reason for the rejection of the lowest offer of firms B and C for the above assignments were neither disclosed to Audit nor put on record when the Board resolved (June 1982) to appoint firm 'A' for securing their services.

2.07.7. *Purchase of passenger-cum-freight elevator*

The Company invited (April 1980) limited tenders for the supply and erection of a passenger-cum-freight elevator. Of the two quotations received, the price of Rs. 1.96 lakhs quoted by firm 'A' was lowest. The validity period of the offer was 90 days from 15th May 1979 which expired on 15th August 1979. The Company did not place the orders within the validity period and had, therefore, to place orders (September 1979) with the firm at their revised price of Rs. 2.45 lakhs at an extra expenditure of Rs. 0.49 lakh.

Summing up

(i) The Company was incorporated in April 1978 with the object of establishing a cement plant and of manufacturing and dealing in all varieties of cement with an authorised capital of Rs. 10 crores. The paid-up capital at the end of March 1982 was Rs. 8 crores (excluding Rs. 50.86 lakhs advanced by the State Government for the issue of shares) wholly subscribed by the State Government. The industrial licence obtained by the KSIDC in November 1976 for establishment of a cement plant with a capacity of 1200 tonnes per day was transferred to the Company in January 1979.

(ii) The affairs of the Company are managed by a Board of Directors consisting of eleven members. As there was no one in the Company experienced in cement industry, a technical adviser was appointed in December 1981 to assist the Managing Director. A permanent sub-committee of the Board of Directors was constituted in June 1979 for taking decision on purchases and contracts at periodical intervals. In spite of Government's directions of January 1980 that public undertakings should not delegate the administrative/financial powers to such permanent sub-committees, the Company did not implement the decision of the Government.

(iii) As per the detailed project report prepared by the consultants in February 1979 the project was scheduled to be completed in 42 months from June 1978, the month of commencement of the work on the project, *i.e.* by December 1981.

The Company is yet (April 1983) to start trial production and commission the plant.

(iv) The detailed project report of February 1979 envisaged an outlay of Rs. 34 crores on the project. To take care of the increased over-runs in the estimates due to several factors, the estimates were revised in March 1981, November 1981 and June 1982 to Rs. 35.85 crores, Rs. 38.70 crores and Rs. 42.25 crores respectively. The actual expenditure to end of March 1982 was of the order of Rs. 31.98 crores. The increase of Rs. 8.75 crores in the estimated cost was due to increase in cost of construction of building, cost of steel, machinery and electrical and electronic equipment and also due to the increase in interest and commitment charges to the extent of Rs. 2.64 crores on account of delay in execution of the project.

(v) Due to delays in creation of charges on the assets of the Company and furnishing guarantee by the State Government to obtain long-term loans sanctioned by the financial institution the Company had to avail bridge loans at higher rates of interest resulting in an extra expenditure of Rs. 10.85 lakhs for the period from July 1980 to May 1981.

(vi) (a) The civil and structural works for the plant and quarry (mine) sites were awarded to NBCC. As the drawings appended to tender documents did not give particulars of work to be done at mine site, a dispute arose regarding the scope of work to be carried out in the mine site which was referred to arbitration. Pending the award of the arbitrator, the contractor was paid for works carried in mine site at 40 *per cent* above the rates for work in plant site. The extra payment made by the Company up to January 1983 amounted to Rs. 16.09 lakhs.

(b) Though there was no provision in the contract with NBCC for payment of escalation charges on account of increase in cost of material and hike in price of petroleum products, the Company paid Rs. 29 lakhs up to 31st March 1982 on account of such escalations.

(c) The concessions extended to NBCC outside the scope of the contract involved an extra expenditure of Rs. 7.10 lakhs (Rs. 3.54 lakhs on plywood shuttering and Rs. 3.56 lakhs on construction of RCC beams for structural steel works).

(d) According to the original agreement with NBCC the work was to be completed within 18 months from March 1980 *i.e.* before September 1981. None of the works entrusted to NBCC were completed so far (December 1982) though according to the subsequently mutually agreed terms between the Company and NBCC, works would be completed by March/June 1982. No action was also taken for the recovery of liquidated damages from NBCC.

(e) The failure of NBCC to complete the various items of civil works on scheduled dates prevented the Company from handing over the foundations in time to the contractor for erection of machinery. As such the period of contract of the erection contractor had to be extended up to 15th September 1982 from 15th March 1982, with consequent liability to pay the contractors towards daily hire charges for erection equipments, tools and tackles and increase in labour and consumables for the period beyond 15th March 1982.

(vii) (a) The non-acceptance of the tender of a Calcutta firm recommended by the consultants for the erection of mechanical plant and equipment resulted in an extra commitment of Rs. 2.37 lakhs to the Company.

(b) Though there was no provision in the agreement with the erection contractor for payment of hire charges for equipments retained at sites, tools and tackles during the period of strike by the workers of the contractor, yet for the period March/April 1982 of the extended period of the contract, an *ad hoc* claim of Rs. 0.40 lakh was admitted towards hire charges for the strike period as against a claim of Rs. 2.59 lakhs pending a negotiated settlement.

(viii)(a) The erection, commission and handing over of the entire rope way system from the mine to the plant entrusted to a contractor at a cost of Rs. 142.31 lakhs was to be completed before 1st March 1981. The rope way has neither been commissioned so far (March 1983) nor any action initiated by the Company for recovery of liquidated damages as provided for in the agreement.

(b) According to the agreement entered into with the rope way contractor it was not obligatory on the part of the Company to procure and supply steel for the work. However, on the request of the contractor on several occasions, steel was supplied by the Company. Though under arrangement for the supply of steel, the contractor was to deposit with the Company the cost of steel plus 20 *per cent* before taking delivery, failure to recover such deposits immediately before the issue of materials resulted in loss of interest consequent on delay in recovery and non-recovery amounting to Rs. 1.13 lakhs for the period up to November 1982.

(ix) (a) The classification of common excavation of soil as excavation in disintegrated rock resulted in extra expenditure of Rs. 31.14 lakhs to the Company.

(b) Failure to place the order for spares for machinery/equipments, within the validity period of offer in three cases and to detect a mistake in the purchase order in one case resulted in extra expenditure of Rs. 3.31 lakhs.

(c) Failure to insist on the supplier of gear boxes, to pass on the full benefit of concessional duty on import of spares to the Company, enabled the supplier to appropriate the full concession (Rs. 3.87 lakhs approximate) to himself. At the request of the Company, the supplier gave Rs. 0.15 lakh only to them.

(d) Escalation in price allowed on delayed supplies after contracted delivery period, resulted in an extra expenditure of Rs. 0.72 lakh in one case. In another case, the escalation charges of Rs. 3.88 lakhs on account of price variation, was admitted by the Company even though the supply was completed after expiry of the contracted date.

SECTION III

KERALA STATE FILM DEVELOPMENT CORPORATON LIMITED

3.01. Introduction

The Kerala State Film Development Corporation Limited was incorporated on 23rd July 1975 with the main object of carrying on cinematograph trade and industry and its allied business, particularly, construction and running of studio, laboratory, theatres for the production of films.

The entire paid-up capital of Rs. 2,78.46 lakhs (authorised capital: Rs. 3,00 lakhs) as on 31st March 1982 was subscribed by the State Government. The Company also obtained term loans from Government which stood at Rs. 1,43.67 lakhs as on 31st March 1982. The term loans bear interest at 10.75/11 *per cent* per annum with provision for penal interest at 2.5 *per cent* for belated payment of interest and repayment of principal. The term loans were repayable in 13 equal annual instalments commencing from the second/third anniversary of the date of sanction/ drawal of the loans. Seven instalments amounting to Rs. 11.56 lakhs as at the end of March 1982 remained unpaid. Interest and penal interest amounting to Rs. 23.48 lakhs and Rs. 2.70 lakhs respectively were due for payment as on 31st March 1982. The Management stated (January 1983) that it had requested Government to grant moratorium for repayment of loan and payment of interest up to 1986-87. The Company had also availed of a loan of Rs. 68.50 lakhs till 31st March 1982 with Government guarantee, out of the loan of Rs. 100 lakhs sanctioned (September 1978) by Kerala Toddy Workers' Welfare Fund Board for the completion of the theatre project.

3.02. Working results

The Company was working at a loss since its inception. During the three years ended 1981-82, the Company incurred a loss of Rs. 0.60 lakh, Rs. 0.95 lakh and Rs. 60.64 lakhs respectively. The accumulated loss of the Company which stood at Rs. 7.97 lakhs by the end of 1980-81 increased to Rs. 68.61 lakhs by the end of 1981-82. The increase in loss during the year 1981-82 was mainly due to (i) charging of interest on loans (Rs. 14.48 lakhs) to revenue which was till then capitalised (ii) increase in depreciation (Rs. 27.97 lakhs) on assets acquired during the year and (iii) increase (Rs. 12.14 lakhs) in establishment charges.

3.03. Performance

In October 1975, the Company proposed to take up the following works as part of its immediate programme:—

(a) Construction of a fully self-sufficient film studio complex

(b) Setting up of out-door film shooting units

(c) Construction of theatres, financing and distribution of films

(d) Organisation of a modest school of film acting to be attached to the film studio complex

(e) Organisation of film archive

(f) Organisation of a research and reference section to be ultimately developed into motion picture research centre

(g) Production of specialised films such as documentary films, news reels and educational films.

The company had taken up so far works at a, b, c, e and g above.

The first out-door film unit was set up in May 1976. Three other units were set up during the period September 1978 to January 1979. The Company had also organised a film archive containing film documentaries valued at Rs. 1.54 lakhs as on 31st March 1982.

The Company undertook production of documentaries, short films required by the State Government and semi-Government organisations. The table on the next page gives details of the number of documentaries, *etc.*, produced and the income from the sale of documentaries and short films during the period from 1976-77 to end of 1981-82:—

Year	*Number of documentaries and short films produced*			*Income from documentaries and short films (Rupees in lakhs)*
	Colour	*Black and white*	*Total*	
1976-77	..	2	2	0.81
1977-78	2	1	3	1.90
1978-79	2	2	4	2.05
1979-80	6	3	9	4.26†
1980-81	8	3	11	8.71
1981-82	2	13	15	7.12
Total	20	24	44	24.85

The annual rates for production of documentaries and films entrusted to the Company were to be worked out by the Company and accepted by the Government. The annual rates estimated by the Company and accepted by the Government during the five years ended 1981-82 varied between Rs. 50,000 and Rs. 78,000 for a 35 mm colour film (one reel of ten minutes) and between Rs. 30,000 and Rs. 48,000 for a 35 mm black and white film. The Company had not ascertained the actual cost of production for each film. An assessment made by the Company (August 1981) for the purpose of fixing the annual rates for 1981-82 revealed that the actual cost of production of one colour film during 1980-81 was Rs. 38,134 as against the accepted rate of Rs. 72,000. Reckoned at this rate the amount charged in 1980-81 on 8 colour films exceeded the cost by Rs. 2.71 lakhs.

3.04. Studio complex

The basic objective of establishing the studio complex was to attract film makers to produce Malayalam films in Kerala State

† After adjusting Rs. 0.25 lakh accounted for in excess.

itself by providing facilities for indoor and outdoor shooting of films, recording and re-recording, editing, dubbing, processing and printing of films, all in one location.

3.04.1. *Project estimate*

Though the cost of the project was estimated by the Company at Rs. 2,28 lakhs in 1978, the estimates were not placed for the consideration of the Board. The project estimate was revised to Rs. 4,20 lakhs in June 1980 and to Rs. 4,88.49 lakhs in March 1982. The table below gives details of these estimates under broad headings and the expenditure up to March 1982.:—

	Particulars	*Initial estimate of project in 1978*	*Revised Estimates* I (*June* 1980)	*Revised Estimates* II (*March* 1982)	*Expenditure up to March 1982*
			(*Rupees in lakhs*)		
1.	Land and land development	12.00	22.00	22.00	19.15
2.	Buildings	85.00	85.20	95.20	1,45.61
3.	Electricity, Water supply, Air-conditioning	..	39.25	42.25	30.87
4.	Equipments	1,20.00	1,90.33	2,35.33	2,05.36
5.	Other fixed assets	..	11.95	21.95	29.49
6.	Outdoor units	..	21.38	21.38	24.92
7.	Pre-operational expenses and interest	11.00	46.38	46.38	**
8.	Improvements	..	..	..	..
	Total	2,28.00	4,16.49*	4,84.49†	4,55.40

** Pre-operational expenses and interest amounting to Rs. 59.38 lakhs up to March 1981 have been allocated among the various assets.

* The detailed estimate was short of the total estimate by Rs. 3.51 lakhs.

† The detailed estimate was short of the total estimate by Rs. 4 lakhs.

The project estimate was again revised to Rs. 6,37.54 lakhs in September 1982. The increase of Rs. 4,09.54 lakhs constituting 179.6 *per cent* increase over the estimated cost in 1978 was attributed (January 1983) by the Management to additional equipments ordered (Rs. 1,54.65 lakhs), and escalation in cost of labour, equipment, *etc.*, (Rs. 1,82.09 lakhs) and provision of additional facilities (Rs. 72.80 lakhs) during the course of execution of the project.

3.04.2. *Schedule of completion*

The work on the construction of studio complex at Thiruvallam, located about 6 kilometres away from Trivandrum city was started in July 1976. The first stage of the complex consisting of construction of laboratory, editing section, recording theatre and one studio floor was expected (November 1976) by the Management to be ready by March 1978. In June 1978, the Board of Directors reported to the shareholders that the first stage would be completed only by September 1978. When the revised project estimate of Rs. 4,20 lakhs was placed before the Board in June 1980, it was reported by the Management that the earlier hope to complete the first stage in September 1978 was in fact based on some miscalculations.

When the studio complex was inaugurated in June 1980, it was expected that full production would be attained by October 1980 when all facilities for film production such as recording, re-recording, processing and printing of films would be ready. These facilities were added between September 1980 and February 1981.

The second and third stages of studio complex involving construction of an additional studio floor, office building, shopping centre, operation of school of acting, *etc.*, were expected to be completed in 1979 and 1980 respectively. Even in September 1982, the works connected with these stages had not been commenced. The Management stated (January 1983) that these works were not taken up due to limited availability of resources which necessitated priority to other important items of work.

3.05. Civil works

Mini Theatre-cum-Technical Office

Two works (cost: Rs. 15.66 lakhs) for the construction of mini theatre and technical office were awarded (August 1978) to a contractor of Trivandrum at 29.3/27 *per cent* above estimates. The construction of the technical office was to be completed by February 1979 and the mini theatre by August 1979. The contractor who commenced the work in September 1978 discontinued it in December 1980 on the ground that he was not getting proper co-operation and supervision and there was delay in furnishing the drawings and materials by the Company. The demand (August 1980) of the contractor for enhanced rate was not accepted by the Company. The contract was terminated (December 1980) at his risk and cost. The matter was, therefore, referred (May 1981) to arbitration by the contractor. The Company could not successfully contest the arguments put forth by the contractor and the arbitrator gave an award in favour of the contractor. According to the award of the arbitrator, the Company had to pay 30 *per cent* increase (Rs. 1.26 lakhs) on the agreed rate. The balance portion of the work was entrusted to another contractor in July 1981 at 191 *per cent* above estimate involving an additional cost of Rs. 2.66 lakhs. In view of the lapses on the part of the Company as established in terms of the award it could not recover the additional cost from the previous contractor.

3.06. Idle equipment

In November 1979, the Company purchased two 500 KV transformers at a cost of Rs. 1.32 lakhs for the 11 KV sub-station to be constructed in the studio premises. In addition, one oil circuit breaker costing Rs. 0.73 lakh was purchased in April 1980. One of the transformers (cost: Rs. 0.66 lakh) and the oil circuit breaker were not commissioned (September 1982) due to non-approval of the drawings of the erecting agents by the Electrical Inspectorate. The Management stated (January 1983) that though the total power requirement of the completed studio complex was 1000 KVA the initial requirement was only 500 KVA and that the other transformer is used as a standby equipment. It was, however, noticed that the second transformer was not electrically connected.

3.07. Purchases

The following points were noticed on a review of purchases:—

3.07.1. *Delay in inspection of goods*

In August 1979, the Company imported one photographic area recording channel including control rack and accessories from a firm of London at a cost of £ 20,715 c.i.f. Madras, *ie.*, Rs. 3.85 lakhs (approximately). The ship arrived with the equipment at Madras on 12th August 1979. Due to delay in receipt of documents of title to goods and completion of customs formalities, the equipment was cleared only on 12th November 1979 incurring a demurrage of Rs. 6,100. Customs duty at 40 *per cent* plus 8 *per cent* countervailing duty amounting to Rs. 1,93,019 was paid on clearing the goods.

When the packing cases were opened and examined at Trivandrum in December 1979, one case containing the control rack was found 'weather beaten'. The damage was reported to the Lloyd's agents at Cochin on 4th January 1980. As the insurance cover expired on 12th November 1979 (60 days after the discharge of the goods at Madras after giving allowance for the delay in presenting the documents), the claim was rejected by the insurers. At the request (March 1980) of the suppliers, the defective rack valued at £ 5,000 for customs purposes was air freighted to London in April 1980 at a cost of Rs. 7,736. The suppliers met the cost of repairs. The Company had to pay the return air freight of Rs. 30,096 in April 1981. The repaired rack was cleared at Madras in May 1981 on payment of customs duty amounting to Rs. 82,698. The customs duty originally paid for this rack was not got refunded at the time of return to London for repairs.

The failure of the Company to complete the customs formalities and to inspect the damaged case and to lodge a claim with the insurers within the prescribed period resulted in an additional expenditure of Rs. 1.27 lakhs.

3.07.2. *Purchase of equipment for recording theatre*

On the basis of an offer received in January 1977 and subsequent negotiations made by the Company with a firm of New York for the supply of equipments for recording theatre, the suppliers agreed (July 1978) to hold their prices quoted in September 1977 valid till 30th September 1978 for magna tech equipments. As regards certain other items of equipments which the firm did not manufacture, it agreed to charge on actual cost basis. The Company opened a letter of credit on 27th September 1978 for US $ 1,26,128.50 (f.o.b. price: US $ 1,17,878.50; packing: US $ 1,250; and freight and insurance: US $ 7,000) in favour of the supplier and the fact was intimated to them immediately. However, as a result of discussions the Chairman had with the foreign supplier between 24th and 29th October 1978 at Bombay, the quoted price was enhanced to US $ 1,54,532 (f.o.b. price: US $ 1,44,532; packing charges: US $ 1,250 and estimated handling, freight and insurance: US $ 8,750). In this connection, it was noticed that—

(a) Computed with reference to the original quoted price after making allowance for items deleted/added the additional price agreed to for the equipments was US $ 14,505.50 (Rs. 1.23 lakhs) approximately. Since the letter of credit was opened on the assurance that price of magna tech equipments would be retained at the price quoted (U S $ 1,26,128.50) in September 1977, the consent given by the Chairman for enhancement in price for these items during the discussions with the supplier in October 1978 on the basis of their demand for enhanced price due to increased cost of production was against the original terms agreed upon.

(b) The Company did not obtain documentary proof in support of prices for non-magna tech items to ensure that the prices charged were at actuals.

(c) The equipment which reached Cochin in August 1979 was not cleared for want of write up indicating actual function, working and value of the individual items. Though the write up was obtained in October 1979 and item-wise value in November 1979, the equipment was cleared in December 1979 on payment of demurrage of Rs. 8,568.

(d) The supplier drew (June 1979) the entire value of US $ 1,54,532 against letter of credit, but, later, in September 1979, refunded US $ 4,323.42 being difference between the actuals (US $ 4,426.58) and estimated (US $ 8,750) charges of handling, freight and insurance. The failure on the part of the Company to bring this to the notice of the Customs authorities at the time of clearing the equipment in December 1979 resulted in an excess payment of duty to the extent of Rs. 0.37 lakh (approximately).

3.07.3. *Repair of modules*

In August 1979, the Company imported a Ward Beck System Audio Mixer Console at a cost of US $ 22,000 (f.o.b. New York). During the trial run (April 1980), it was found that 13 modules (value: Rs. 41,600) were faulty. On the advice (January 1981) of the representative of the foreign supplier who installed the equipment in the studio, the faulty modules were despatched (January 1981) to the manufacturers of the equipment. The repaired modules which arrived at Cochin in April 1981 were cleared in June 1981 after incurring an expenditure of Rs. 29,900 towards air freight, repair charges, customs duty, insurance, *etc.*

The original price paid for the equipment was inclusive of insurance and freight up to Cochin. According to the Management (September 1982), the extra expenditure could not be got reimbursed from insurers/suppliers as it could not be said that the damage to the modules was caused while in transit. The Company had no knowledge as to the stage at which the damage occurred. As transit/erection insurance for the equipments from Cochin to the studio site was not arranged, the Company could not prefer any claim on this account.

At the time of clearing the repaired modules, the Company executed (June 1981) a bond, as demanded by the Customs authorities, for Rs. 62,000 to facilitate provisional assessment of the goods re-imported pending submission of a certificate from the Director General of Technical Development (Instrument Directorate), New Delhi to the effect that the repairs to the goods imported could not be carried out in India. The certificate which was to be submitted to the Customs Department within 3 months from the date of importation of the repaired goods had not been submitted so far (September 1982) as the DGTD had not given the certificate applied for in June 1981. The Management stated (September 1982) that they had no knowledge that they should have obtained such a certificate before despatching the modules for repairs.

3.07.4. *Payment of commission outside the terms of contract*

The Company was negotiating with a Japanese firm since March 1977 for procurement of seiki 35 mm continuous contact printer with accessories, sensitometer and densitometer. The offer received (June 1977) stipulated among other things that the prices quoted did not include any commission to the Indian agent which was payable extra by the purchaser. The Company did not accept the condition relating to payment of commission to the Indian agent as the supplier had not made this a condition for supply and orders were issued directly to the supplier. Neither the purchase order placed in August 1978 nor the sale order issued by the foreign firm in October 1978 provided for the payment of commission to the Indian agent.

The contact printer with other items were shipped in January 1979 and March 1979. For determining the assessable value for purposes of customs duty, the Company, in February 1979 issued a certificate to the Assistant Collector of Customs, Cochin that no local agency commission was paybale as orders were placed direct on the foreign firm. In February-June 1979, the Indian agent claimed commission at the rate of 10 *per cent* on the f.o.b. value of the goods imported. The Board of Directors authorised (March 1981) the Managing Director to pay the commission for the sake of maintaining good relationship with the agent and a sum of Rs. 29,860 was accordingly paid in March 1982. The payment of commission was contrary to the conditions of supply, the certificate furnished to the Customs authorities and to the note recorded (February 1979) by the Chairman of the Company, *viz.*, that there was no commitment on the part of the Company for payment of the commission.

3.07.5. *Purchase of colour processor*

Based on the expert advice (June 1980), the Company placed (March 1981) order with a British firm for supply of one Filmline Micro Demand Drive 50 feet per minute Colour Negative Processing Machine, and one Filmline Micro Demand Drive 100 feet per minute Colour Positive Processing Machine to meet the requirements of processing colour films at a cost of US $ 2,35,025 f.o.b. New York. Due to certain defects in the letter of credit opened in February 1981 and as the processors did not take up the manufacture even in August 1981, the letter of credit was cancelled in November 1981.

The Company meanwhile held discussions with the Indian agent of the British firm for procurement of the equipments. Pursuant to this, the Company received (September 1981) an offer for supply of one Filmline Micro Demand Drive 50 feet per minute colour negative processing machine and one Filmline Micro Demand Drive 50 feet per minute colour positive processing machine with spares, vacuum pumps and silver recovery system at US $ 1 lakh each c.i.f. Bombay and one Filmline Micro Demand Drive 100 feet per minute colour positive processing machine at US $ 1,28,000 f.o.b. New York. The offer was accepted (September 1981) and order was placed (September 1981) with an American firm at a total cost of US $ 3,28,000. No expert advice was obtained before deciding this purchase. The 50 feet per minute machines air freighted in December 1981/January 1982 were cleared in February /March 1982. The 100 feet per minute positive processing machine which reached Cochin in June 1982 was cleared in December 1982 after payment of demurrage of Rs. 0.32 lakh.

The Management felt (September 1981) that the 50 feet per minute colour positive processing machine could be used as a standby and also as an exclusive machine for 16 mm processing. In view of the earlier advice to purchase only one positive and one negative machine and as the Company had no proposal to purchase standby equipment for processing or any other operations, the purchase of an additional 50 feet per minute colour positive processing machine at a cost of Rs. 22.55 lakhs lacked justification. The revised project report (September 1982) also did not contemplate exclusive use of a machine for processing of 16 mm colour films.

The price of the colour processors agreed to was inclusive of spares, the value of which, however, was not specified. The suppliers shipped in May 1982 six items of spares (53 pieces valued at US $ 2,807) free of charge as a replacement of the items found damaged on inspection in March 1982, on condition that the Company should claim the cost from the insurer and reimburse it to the suppliers in due course. The Company did not prefer any claim on the insurers on the ground that the majority of the items were ordered as reserve and the insurance covers only the cost of damage and hence it might not be possible to claim the full cost of the spare parts from the insurers. The Company did not arrange insurance against damage in transit from Bombay to Trivandrum and the damaged items were not surveyed and reported duly. The decision (June 1982) to pay US $ 2,807 to the suppliers would entail an additional expenditure of Rs. 0.72 lakh (towards cost including freight, customs duty, other expenses) to the Company.

3.07.6. *Double payment of customs duty*

In April 1979, the Company imported from an American firm one Mitchell 35 mm BNCR camera system with accessories and lenses at a total price of US $ 79,696. On arrival at Cochin, one out of 9 cartons was found (June 1979) partially damaged during a survey by the local agent of Lloyds. Though the Company was aware of the damages, Customs authorities were not apprised of the position and the consignment was cleared on payment of customs duty on the damaged parts also. No action was also taken by the Company to prefer the claim for refund within 6 months from the date of clearance.

A detailed survey in January 1980 revealed that certain parts valued US $ 5,500 were found damaged. The supplier, when intimated (February 1980) of the damages, agreed (March 1980) to repair the items free of charge and to bear cost of freight both ways. The damaged items despatched in May 1980 were rectified and received back in December 1980. The parts were cleared on further payment of customs duty amounting to Rs. 0.72 lakh.

The failure of the Company to observe the prescribed procedure for clearance of damaged goods from the Customs and to prefer the claim for refund within the stipulated time resulted in an avoidable payment of customs duty amounting to Rs. 0.72 lakh.

3.07.7. *Delay in installation/operation of equipments*

The table on the next page indicates the extent of delay, as on 30th September 1982, in the installation of the main equipments purchased by the Company:—

	Name of machine	Date of receipt/ clearance	Cost (Rupees in lakhs)	Date of installation	Remarks
1.	Process lab 35 mm B & W positive and negative processing machine	October 1978	1.47	February 1981	Delay in installation was mainly due to delay in completion of civil works.
2.	35 mm continuous contact Seiki printer	March 1979	2.29	February 1981	
3.	Process lab 35 mm B & W processing machine	October 1978	1.39	February 1981	
4.	Process lab 16 mm positive and negative processing machine	April 1979	1.02	September 1982	The supplier did not rectify the defects noticed during installation.
5.	Bell & Howell 16 mm printer	December 1979	5.57	August 1982	Installation of this item was delayed due to delay in installation of item 4. These equipments are to be worked simultaneously.

6.	Bell & Howell Seiki optical reduction printer	March 1980	26.16	March 1982	
7.	Sensitometer	June 1979	0.79	Not installed (September 1982)	
8.	Mitchell camera	July 1979	12.30		Sparingly utilised as the shooting floor remained unutilised for want of demand from producers.
9.	Crab dolly	June 1979	2.03		
10.	Magna-tech recording equipment	December 1979	24.04	September 1980	Delay in installation was due to delay in completion of civil works.
11.	Photographic area recording channel	November 1979	5.70	May 1981	

3.08. Theatre project

The Company decided between January 1976 and July 1977 to construct theatres at Trivandrum, Ernakulam and all district headquarters, *ie.* 11 in all. This was revised in October 1977 and a decision was taken to construct 4 air conditioned theatres each at Trivandrum, Quilon, Ernakulam and Kozhikode at a total estimated cost of Rs. 1,00 lakhs. No project report indicating the economic viability of the scheme was prepared. In June 1978, the Company drew up another scheme for construction of one hundred theatres in three stages within a period of 5 years. In the first stage, construction of 25 theatres was proposed to be commenced in October 1978 and completed by March 1980 at an estimated cost of Rs. 2,50 lakhs. In March 1979, the Company decided to reduce the number from 25 to 12 at an estimated cost of Rs. 2,45 lakhs due to increase in the cost of land and construction. The proposal to construct a theatre at Thodupuzha and a twin theatre at Ernakulam was dropped in June 1979 and May 1982 respectively reducing the total number to 9. With the inclusion (May 1979) of a theatre at Chittoor, the total number was fixed at 10. According to the project report of September 1982, construction of theatres at 3 places (Alleppey, Trichur and Taliparamba) was dropped for want of funds and the estimate was revised to Rs. 2,65 lakhs for construction of 7 theatres. The investment of Rs. 6.65 lakhs already made (cost of land: Rs. 6.40 lakhs and civil works: Rs. 0.25 lakh) in these places remained idle.

As a result of the frequent changes in decision on the construction of theatres, there was no co-ordinated plan of action for the commencement and completion of the work. For want of a work schedule indicating the order of priority, none of the works was commenced (except in Trivandrum where the work was commenced in April 1979) even by March 1980 by which time all the theatres to be constructed in the first stage were expected to be completed. According to the indications in September 1982, the 7 theatres are to be completed before the end of 1983. The table below gives details of the stage of construction and expenditure incurred on land acquisition and construction up to 31st March 1982:—

Name of centre	*Date of purchase/ possession of land*	*Stage of construction (31st March 1982)*	*Cost of land acquired*	*Cost of construction*	*Total*
			(Rupees in lakhs)		
Trivandrum	3-1-1978	Constuction of superstructure commenced	5.65	6.94	12.59
Shertalai	2-3-1979	Pile foundation completed	1.81	1.10	2.91
North Parur	29-8-1979	Pile foundation completed	0.54	1.03	1.57
Calicut	23-4-1979	Pile foundation completed	6.36	2.29	8.65
Chittoor	17-5-1979	Compound constructed	0.42	0.80	1.22
	Total		14.78	12.16	26.94

Summing up

(i) The Company was incorporated on 23rd July 1975, with the main object of carrying on cinematograph trade and industry and its allied business. The entire paid-up capital of Rs. 2,78.46 lakhs as on 31st March 1982 was subscribed by the State Government. The Company as a part of its programme undertook construction of a fully self-sufficient studio complex, in addition to setting up four outdoor film shooting units, establishment of a film archive and production of documentaries/ short films required by the Government and semi-Government Organisations.

(ii) The first stage of construction of studio complex started in July 1976, was originally expected to be ready by March 1978. The complex, however, was inaugurated only in

June 1980, with only a few facilities, the rest being added between September 1980 and February 1981. The work on second and third stages of studio complex which were expected to be completed in 1979 and 1980 respectively had not been taken up at all due to limited availability of finance.

(iii) Detailed project report of studio complex was not prepared . The estimate of Rs. 2,28 lakhs in 1978 was revised thrice to Rs. 6,37.54 lakhs in September 1982 representing nearly 180 *per cent* increase during the course of about 4 years.

(iv) The construction of Mini Theatre-cum-Technical office commenced in 1978 remains to be completed (December 1982) and the Company had to incur additional expenditure of Rs. 3.92 lakhs due to its lapses.

(v) The construction of preview theatre (estimated cost: Rs. 22.12 lakhs) within the city lacked justification in view of similar facility available at the studio complex within a short distance.

(vi) (a) In respect of theatre project commenced in January 1976, no project report was prepared till June 1978. The estimate of Rs. 2,50 lakhs for 25 theatres was revised from time to time to Rs. 2,65 lakhs for 7 theatres in September 1972 mainly due to undue delay in execution of the project.

(b) Investment of Rs. 6.65 lakhs, made on construction of theatres at three places proved to be idle as the construction was deferred for want of funds.

(vii) (a) Failure of the Company to complete the customs formalities to inspect the damaged imported equipment and lodge a claim with the insurers within the prescribed time limit resulted in an additional expenditure of Rs. 1.27 lakhs.

(b). In respect of equipment for recording theatre, a sum of Rs. 1.23 lakhs was paid over the price agreed.

(c) Failure to intimate the Customs authorities of the refund of handling, freight and insurance charges by the supplier resulted in payment of customs duty of Rs. 0.37 lakh in excess.

(d) The Company had no knowledge as to the stage at which damage to the modules forming part of imported Ward Beck System Audio Mixer Console occured with the result, additional expenditure of Rs. 0.30 lakh could not be claimed from the insurers.

(e) Rs. 0.30 lakh paid as commission to Indian agents for the import of a seiki 35 mm continuous contact printer was outside the terms of purchase order.

(f) The purchase of one 50 feet per minute colour positive processing machine at total cost of Rs. 22.55 lakhs was surplus to requirement and lacked justification in view of the availability of a 100 feet per minute machine.

(g) The spares found damaged in March 1982 were replaced by the supplier subject to reimbursement of cost of realisation of insurance claim. Failure to prefer insurance claim in respect of damaged spares by the supplier would entail an additional expenditure of Rs. 0.72 lakh.

(h) Failure to observe prescribed formalities for clearance of damaged goods from the Customs and to claim refund within the stipulated period resulted in an avoidable payment of customs duty of Rs. 0.72 lakh.

SECTION IV

KERALA AGRO-MACHINERY CORPORATION LIMITED

4.01. Introduction

The Kerala Agro-Machinery Corporation Limited was incorporated in March 1973 as a subsidiary of the Kerala Agro-Industries Corporation Limited (a wholly owned Government company) with the main objects of manufacture or assembly and distribution of Kubota power tillers, diesel engines and spares thereto. A unit set up by the Holding Company, which had been assembling power tillers, was transferred to the subsidiary company with effect from 1st April 1973.

4.02. Organisational set-up

As on 31st March 1982, the Board consisted of 6 Directors, including the Managing Director, of whom two were nominated by the financial institutions and others appointed by the Holding Company. The Chairman of the Holding Company was *ex-officio* Chairman of the Company.

The Managing Director is the Chief Executive of the Company. Up to 1981-82, there were 7 changes in the post of Managing Director, 3 of whom held office for periods ranging from 4 to 5½ months.

4.03. Capital structure

4.03.1. *Share capital*

As on 31st March 1982, the authorised and paid-up capital of the Company were Rs. 2,00 lakhs and Rs. 1,17 lakhs respectively. The entire paid-up capital was contributed by the Holding Company.

4.03.2. *Borrowings*

The borrowings of the Company as at the close of each of the 3 years up to 1981-82 are indicated below:—

		As on 31st March		
		1980	1981	1982
		(Rupees in lakhs)		
1.	Loan from Government of Kerala	25.00	25.00	25.00
2.	Loan from Holding Company	15.73	12.73	12.73
3.	Loan from Industrial Development Bank of India (IDBI)	97.37	79.37	79.37
4.	Loan from Industrial Finance Corporation of India (IFCI)	31.00	25.00	21.00
5.	Cash credits from banks	47.90	38.75	71.60
6.	Loan from Kerala Toddy Workers' Welfare Fund Board	..	1,00.00	1,00.00
	Total	2,17.00	2,80.85	3,09.70

The repayment of loans from IDBI, IFCI and Kerala Toddy Workers' Welfare Fund Board with interest thereon had been guaranteed by the State Government without any guarantee commission. An amount of Rs. 12 lakhs was still overdue (January 1983) towards repayment of principal to IDBI as on 31st March 1982.

The loans obtained from Government and other institutions were not due for repayment. The rate of interest to be paid on Government loan (Rs. 15 lakhs availed in January 1978 and Rs. 10 lakhs in July 1978) had not been intimated by the Government so far (September 1982). No interest has, therefore, been, provided for in the accounts so far.

4.04. Kubota power tiller project

4.04.1. The project cost of Rs. 2,60 lakhs estimated in December 1973 by a technical consultancy organisation for production of 6,000 power tillers per annum was revised (March 1974) by the Company to Rs. 3,25 lakhs including cost escalation during project implementation. The project report was revised (April 1977) by the same consultancy organisation limiting the project cost to Rs. 2,50 lakhs and reducing the production of tillers to 3,000 numbers from 6,000 numbers originally estimated. Due to the delay in implementation of the project, the cost of the project was revised to Rs. 2,77.6 lakhs in June 1980. In February 1981, the project cost was revised to Rs. 2,55.67 lakhs due to deletion of certain items of machinery and reduction in margin money required for working capital requirements. The revised project cost was to be met by the issue of shares (Rs. 1,17 lakhs) and by raising loans (Rs. 1,33 lakhs) from the financial institutions. As against the loan of Rs. 1,33 lakhs sanctioned by financial institutions, the Company had drawn (between March 1977 and June 1979) Rs. 1,28. 38 lakhs and the balance amount of loan was not drawn due to non-fulfilment of certain conditions by the Company. This resulted in payment of commitment charges (1 *per cent* per annum) amounting to Rs. 0.91 lakh up to March 1982.

The Holding Company and a Japanese firm had already entered into a provisional agreement in April 1970 for manufacture of power tillers subject to the approval of the Government of India. Final agreement of February 1972 was entered into after incorporating certain amendments to the provisional agreement suggested by the Government of India. The Holding Company had been assembling Kubota power tillers and marketing them since January 1971 even before the final agreement entered into in February 1972.

In consideration of the technical assistance by the Collaborators, the agreement provided for payment of royalty at 3 *per cent* of the turnover of the contract products for a period of 5 years from the date of commencement of actual production.

The assembly plant was set up at Athani in 1970 and production commenced in January 1971. In August 1973, the Collaborators demanded payment of royalty and the Board of Directors of the Company decided (March 1974) to pay royalty from 1972-73 onwards. Subsequently , the Board reconsidered the matter and decided (February 1976) to treat 25th May 1974 as the date of commencement of production for the purpose of payment of royalty, *i. e.* the day on which the first tiller was assembled and sold by the Company with CKD sets received (November 1972 to May 1973) under the 10th Yen credit after finalisation of the agreement in February 1972. As the production of tillers had already commenced from January 1971, it would have been advantageous for the Company to reckon commencement of production from 1972-73 onwards. The royalty payable on sale of tillers (2,165 numbers) for 5 years up to 1976-77 was only Rs. 6.47 lakhs against which royalty paid on the sale (2,896 numbers) for 5 years up to 25th May 1979 was Rs. 8.85 lakhs.

While deciding (February 1976) to treat 25th May 1974 as the date of commencement of production, the Company anticipated certain advantages such as additional training facilities at Japan, services of Japanese Engineers at the plant, *cent per cent* indigenisation in the manufacture of the tillers by 1979 and use of the brand name 'Kubota' up to May 1979. It was however, noticed that training facilities at Japan were not utilised and none of the Japanese Engineers visited the plant after the decision (February 1976). The Company could not achieve full indigenisation of tillers even at the end of 1982-83 and continued to use the brand name 'Kubota' even after the contract period (24th May 1979). The Company's decision to reckon the date of commencement of production from May 1974 thus resulted in an avoidable payment of royalty amounting to Rs. 2.38 lakhs.

4.04.2. *Diesel engine project*

The agreement entered into (February 1972) with the Collaborators and the industrial licence issued (February 1972) by the Government of India provided for the manufacture of 10,000 Kubota diesel engines per annum. However, the project report furnished by the Collaborators in October 1972 and July 1974 were for the manufacture of 3,600 diesel engines only per annum (on two shift basis). A revised project report was, therefore got prepared in March 1975 by a private firm in New Delhi at a cost of Rs. 1.02 lakhs. The cost of the project (Rs. 1,65.90 lakhs) estimated in March 1975 was revised to Rs. 50 lakhs by the Company in February 1979 on reappraisal of the project report. Even though the Company imported 6 prototype diesel engines (cost: Rs. 0.27 lakh) in February 1975, the project had not been implemented so far (September 1982). The expenditure incurred on the preparation of the project report (Rs. 1.02 lakhs) was written off by the Company during 1980-81. It was stated (February 1983) by the Management that since the Company had not taken any firm decision as to the implementation of the project, it was decided to write off the expenditure.

4.05. Financial position and working results

The audited accounts of the Company for the year 1981-82 has not been received so far (June 1983).

The Company had been working at loss from the very inception. It was envisaged in the revised project report (April 1977) that the Company would be sustaining losses during the first two years and earning profits from the third year (*i. e.* 1979-80) onwards. However, losses sustained during 1979-80, 1980-81 and 1981-82 were Rs. 44.37 lakhs, Rs. 7.99 lakhs and Rs. 12.77 lakhs* respectively. The accumulated loss as on 31st March 1982 was Rs. 1,65.25* lakhs representing 141 *per cent* of the paid-up capital (Rs. 1,17.00 lakhs). Even after adjusting the depreciation (Rs. 64.61 lakhs) and provision for gratuity (Rs. 6.73 lakhs), the cash loss sustained by the Company during the period from 1973-74 to 1981-82 amounted to Rs. 93.91 lakhs. The main reasons for the continued losses were inadequate margin (paragraph 4.08.3) and low capacity utilisation (paragraph 4.07).

4.06. Under-utilisation of machines

A review made by the Company of the utilisation of 27 types of machines (cost: Rs. 93.01 lakhs) in the machine shop during

* Provisional.

April-September 1981 revealed that data in respect of utilisation of two machines (cost : Rs. 0.37 lakh) were not kept. Barring two machines where the utilisation was 76 and 99 *per cent*, the utilisation in the other cases was low and varied between 5 and 50 *per cent*. The loss due to under utilisation of the machines as worked out (November 1981) by the Company was Rs. 24.54 lakhs per annum.

The Management stated (February 1983) that special purpose machines (7 items; cost: Rs. 46.78 lakhs) would continue to be under-utilised since production of power tiller is now limited to only 100 per month and with regard to general purpose machines (20 items; cost: Rs. 46.23 lakhs), the Company have man-power for producing only 90-100 tillers per month. Till the production is increased and more personnel recruited, the problem of under-utilisation would remain.

4.07. Production performance

The installed capacity , budgeted and actual production of tillers for the 3 years up to 1981-82 are given below:—

Year	*Installed capacity*	*Budgeted production*	*Actual production*	*Percentage of actual production to*	
		(Number of power tillers)		*Installed capacity*	*Budgeted capacity*
1979-80	3000	1175	578	19.3	49.2
1980-81	3000	1125	675	22.5	60.0
1981-82	3000	1200	889	29.6	74.1

There was considerable shortfall in production with reference to the budgeted production which itself was fixed far below the installed capacity. The shortfall in production was attributed by the Management mainly due to strike by workmen during the period February to June 1980, shortage of raw materials and components and shortage of funds.

4.08. Sales

4.08.1. The table below summarises the sales effected during the 3 years up to 31st March 1982:—

Year	*Tillers to be supplied as per orders received* (numbers)	*Tillers sold*	*Value (Rupees in lakhs)*
1979-80	703	619	133.64
1980-81	637	546	151.20
1981-82	879	879	254.91

During the period from January 1977 to August 1981, the Company had entered into dealership agreements with Agro-Industries Corporation of 8 States and 15 private parties. The dealership commission fixed originally at Rs. 600 per tiller was revised to Rs. 800 from July 1979 and Rs. 2,000 from August 1979. The project report contemplated payment of commission at 5 *per cent* of the selling price to dealers against which the commission paid was 8.33 *per cent* from August 1979 and 6.90 *per cent* from September 1980.

The dealership agreements were not being renewed from time to time. However, sales were continued without any agreement and commission and service charges amounting to Rs. 20.51 lakhs were paid to 13 parties between 1977-78 and 1981-82.

Service charges at Rs. 150 per tiller were also payable to dealers up to 5th August 1979 on proof of satisfactory rendering of free service to the original purchasers. From 6th August 1979, the revised commission of Rs. 2,000 included Rs. 300 towards service charges. According to the dealership agreement, service commission was payable by the Company after the dealer had satisfactorily rendered to the original purchaser, installation training and other services prescribed by the Company. The dealers were to submit regular stock and service returns in forms provided by the Company; but such returns were not being received by the Company. Service charges amounting to Rs. 4.98 lakhs were, however, paid to 14 dealers without ensuring whether the services were actually rendered.

4.08.2. *Pricing policy*

The selling price of tillers was fixed with reference to the market conditions and the price of the competitors' products in the market.

The tillers produced by the Company were sold by the Holding Company till September 1975 and the prices were also fixed by them. According to the agreement between the Holding Company and the Company, 50 *per cent* of the profits earned by the Holding Company on sale of tillers and accessories and the service charges for assembling the tillers were payable by Holding Company. The Company received only service charges for assembling the tillers and the share of profits due to the Company from the Holding Company had not been worked out so far (September 1982). The Management stated (February 1983) that the exact share of profit had not been ascertained so far. In September 1975, the Company took over the sale of tillers directly at prices fixed by it.

4.08.3. *Sale below cost of production*

During 1975-76 to 1981-82, the Company sold tillers at prices lower than the cost of production as indicated below, resulting in a loss of Rs. 1,68.82 lakhs.

Year	*Number of tillers sold*	*Cost of production per tiller*	*Selling price*
			(*Rupees*)
1975-76	545	20,365	18,500
1976-77	444	22,199	18,500
1977-78	531	21,873	18,500
1978-79	820	24,405	18,500
1979-80	619	25,928	18,500 up to 3rd July 1979, 20,800 from 4th July 1979, 24,000 from 6th August 1979 onwards.
1980-81	546	26,096	24,000 up to 17th September 1980, 29,000 from 18th September 1980 onwards.
1981-82	879	29,463*	29,000

* Provisional.

The selling price of tiller was not revised during the 4 years up to 1978-79 despite the increase in the cost of production; this was stated to be due to apprehension about the marketability with reference to the prices of the competitors, attitude of the Government of India against price increase and dealers' resistance. The increase in price brought out in 1979-80 and 1980-81 also did not cover the full cost of production except for the period September 1980 to March 1981.

4.09. Inventory control and material management

4.09.1. The following table indicates the comparative position of inventory at the close of the 3 years up to 1981-82:—

	1979-80	1980-81	1981-82*
		(Rupees in lakhs)	
1. Raw materials, stores and spares			
(i) Implements and accessories	0.99	1.00	2.47
(ii) Imported spares	25.32	18.92	2.53
(iii) Imported CKD packs	22.07	11.13	26.99
(iv) Indigenous parts	16.61	17.39	35.55
(v) Paints and steel	2.68	2.34	2.43
(vi) Other items	4.30	4.94	5.12
2. Works-in-progress	11.29	16.77	19.14
3. Finished goods	0.48	37.99	40.02
Total	83.74	1,10.48	1,34.25
Consumption of raw materials, stores and spares during the year	1,03.99	1,19.83	1,94.70
Year-end inventories of raw materials, stores and spares expressed in terms of number of months' requirements for production	8	5.6	4.6

The total number of stores items held at the end of 1981-82 was 2,941. Though the Management had stated (February 1983) that physical verification of stores and spare parts were being conducted annually, no evidence was available in support of

*Provisional

physical verification stated to have been conducted. A test verification of 381 items conducted (March 1982) by the Finance Manager of the Company revealed shortages of 38 items valued at Rs. 0.12 lakh and excess in 23 items valued at Rs. 0.21 lakh. The statutory auditors of the Company in their reports on the accounts for 1979-80 and 1980-81 had stated that no satisfactory evidence in support of the physical verification stated to have been conducted was available.

4.09.2. *Import of spares*

(i) In August, 1974, the Company sought approval from Government of India for import of spares valued at Rs. 30 lakhs for Kubota power tillers on the ground that the then stock position of spares was alarming and that hundreds of power tillers imported were lying idle with the users situated in various states due to shortage of spares. The requirement was assessed on the assumption that 40 *per cent* of the estimated value of [illegible] 2,000 tillers (Rs. 75 lakhs) imported during the period 1964 to 1972 would be required as spares. In March 1975, Government of India accorded sanction for import of spares valued at Rs. 26.03 lakhs. The import was arranged through a Central Government company (PEC) in pursuance of the contract entered into with them in May 1975. Formal order was placed with the foreign firm in November 1975.

The goods supplied on 17th April 1976 reached Cochin on 5th May 1976 and the documents of title to goods were transferred to the Company on 6th May 1976. In terms of the agreement, the Company was liable to pay to the PEC, sales tax, if any, liable/payable by the latter. As the sale was effected within State of Kerala, the goods would have attracted local sales tax (Rs. 1.16 lakhs) at 4 *per cent* under Kerala General Sales Tax Act, 1961. However, in May 1976, the Company paid PEC, sales tax (Rs. 2.89 lakhs) on the value of goods at 10 *per cent*. The Company took up the matter with PEC in March 1977. The Management stated (February 1983) that the question of sales tax was still under dispute with PEC.

(ii) The table below indicates the closing stock of spares imported in May 1976 (landed cost: Rs. 67.52 lakhs including duty, taxes, *etc.*), spares consumed for production and for sale for the 6 years up to 1981-82:—

Year	*Consumption for production*	*Sales*	*Closing stock*
		(*Rupees in lakhs*)	
1976-77	1.67	6.09	59.76
1977-78	1.88	16.49	41.39
1978-79	4.62	4.65	32.12
1979-80	2.94	3.86	25.32
1980-81	3.06	3.34	18.92
1981-82	*	*	2.53

Though the entire spares imported were intended to be sold as spares to the actual users of power tillers, the Company actually sold to them spares valued Rs. 34.43 lakhs only and spares valued Rs. 14.17 lakhs were utilised for assembly of new tillers during the 5 years ended 31st March 1981 (figures for 1981-82 not available). The import of spares without proper assessment of demand had resulted in accumulation of inventory and consequent blocking up of funds and financial strain.

4.09.3. *Indigenisation of gears*

Mention was made in Section IX of the Audit Report (Commercial) for 1979-80 regarding the import (October 1974) of machinery valued Rs. 21.50 lakhs for a gear making unit and subsequent abandonment of the project (August 1979). For indigenising transmission gears, the Company entered into an agreement with a firm in Bombay in July 1976. According to the agreement, the Company had to supply necessary gear forgings and other raw materials to the firm. The firm had to process and supply 5000 sets of gears within a period of 36 months from the date of supply of first lot of forgings and other materials. The processing charges payable were Rs. 1,084 per set and the rate

* Not available

was required to be kept firm throughout the currency of agreement. An initial work order for 2000 sets of transmission gears was placed in November 1976 without ensuring the supply of the requisite forgings. The Company paid (June 1977) an amount of Rs. 2.17 lakhs as 10 *per cent* advance as provided in the agreement.

With a view to procure gear forgings to be supplied to the Bombay firm, the Company entered into an agreement (May 1978) with a firm in Thana for the supply of the necessary forgings. A work order for the supply of 1000 sets of gear forgings at a cost of Rs. 7.23 lakhs was issued to the Thana firm in July 1978. According to the agreement for supply of forgings, the Company had to pay Rs. 1.61 lakhs extra towards development of dies and tools and a sum of Rs. 1 .59 lakhs was paid in June 1977 itself to the firm (against a bank guarantee) towards tooling cost to speed up the development of forgings. The supply of forgings was to be completed within a period of 36 months (*i.e.* by May 1981) Though there was no provision in the agreement, the Company issued (October 1979) 12.365 tonnes of steel valued at Rs. 0.90 lakh to the Thana firm.

While a set of transmission gear consists of 21 individual gears, the Thana firm had not supplied forgings in complete shape till date (January 1983). As a result, the Bombay firm had not commenced supply of transmission gears so far (January 1983) despite a lapse of more than 5 years from the date of payment of advance of Rs. 2.17 lakhs. Due to delay in supply of forgings, the demand (February 1980) of the Bombay firm for an enhanced rate of Rs. 2,183 per set had also to be accepted (July 1981) by the Company.

The delay in supply of gears had resulted in blocking up of the funds of the Company to the extent of Rs. 4.66 lakhs and consequent loss of interest amounting to Rs. 4.54 lakhs calculated at the borrowing rate from bank. Extra commitment to the Company on account of enhancement of processing charges of the Bombay firm would work out to Rs. 54.95 lakhs.

4.10. Other topics of interest

4.10.1. *Export of tillers to Libya*

The Company decided (December 1975) to exhibit the Company's products at the Tripoli International Fair held in March 1976 in Libya. The Sales Manager and the Chairman were deputed to attend the fair and to explore the possibility of marketing the tillers in the African countries. One tiller and accessories (cost: Rs. 20,210) were also exhibited at the fair. It was stated by the Sales Manager that many farmers who visited the fair were impressed by the tiller exhibited and were interested in buying it provided the Company had a local agent to attend to after-sale services. After much difficulty, the Company could locate a party who was willing to import 50 tillers provided the tiller proved successful in his farm. When one tiller was taken to his farm for demonstration, the operation proved unsuccessful due to mechanical defects. As a result, the buyer lost interest in purchasing the tiller. Ultimately, the tiller and accessories were sold to a buyer for LD 300 (Rs. 8,755) at the end of the fair. According to the Chief Engineer of the Company, who enquired (March/May 1976) into the failure of the power tiller, the defects were external and minor one which had caused a major set back due to inexperienced handling of the power tiller at the exhibition ground and it could have been avoided had arrangements been made for taking sufficient spare parts and an experienced operator for demonstration. The Company incurred an expenditure of Rs. 0.91 lakh for participating in the fair. No tiller was exported to Libya or any other country though substantial orders for export were anticipated by the Company.

4.10.2. *Collaboration agreements for assembly of tillers*

The Company entered into (November 1978) an agreement with the Bihar State Agro-Industries Development Corporation Limited (BSAIDC) for assembly of power tillers and their attachments. In consideration for the services, the BSAIDC was to pay a technical know-how fee of Rs. 2.5 lakhs and royalty at 3 *per cent* of the ex-factory selling price of the power tillers and accessories produced (less the cost of imported parts, tyres and tubes, *etc.*) for a period of 5 years or till the assembly of tillers was completed in terms of the agreement. In addition, the BSAIDC was to pay commission (varying from 5 to 10 *per cent*) on price of components/accessories manufactured or imported items supplied by the Company. The agreement which was subject to the approval of the respective Board of Directors, Collaborators and the State Government, had not been approved so far (February 1983).

According to the agreement, the BSAIDC was to maintain records and registers of production and sale of power tillers and accessories and submit royalty statements within 45 days after the close of each financial year. The payment of the royalty was to be made along with the royalty statements. The selling price of the power tillers assembled was to be fixed in consultation with the Company. Reports of production of tillers and selling price and also royalty statements were not being received by the Company. The BSAIDC had not paid any royalty so far (February 1983). In the absence of periodical returns from the BSAIDC, the amount due to the Company had not been assessed.

4.10.3. *Accommodation to Managing Director*

The Managing Director of the Company has been provided with residential accommodation in a hired building from July 1978. The State Government issued (5th July 1979) instructions to all public sector undertakings laying down guidelines for providing quarters to the employees including Managing Director. According to the guidelines, renting of buildings to provide quarters should not be resorted to and even if it was inevitable in terms of the conditions of appointment, the rent of the building should not exceed 25 *per cent* of the pay of the incumbent. However, persons already enjoying the facility of residential building were allowed to continue to occupy the building till they vacated the posts subject to the existing terms and conditions. A new Managing Director took charge on 10th July 1979. Even after the issue of guidelines by the Government, the Company continued to provide accommodation, the rent of which was more than 25 *per cent* of the pay of the Managing Director. This resulted in an extra expenditure of Rs. 0.16 lakh up to September 1982. The Company stated (January 1983) that the guidelines were not placed before the Board for their consideration.

4.10.4. *Internal audit*

The Company had an Internal Audit section to be headed by an Internal Auditor till August 1980. The post of the Internal Auditor, however, was vacant from 4th June 1977 to 10th January 1979. The internal audit for the years 1981-82 and 1982-83 was entrusted to a firm of Chartered Accountants on a fee of Rs. 6000 for 1981-82 and Rs. 9000 for 1982-83. Though the internal audit for these two years had been completed, their report was awaited (March 1983).

4.10.5. *Accounting manual*

The Company has not drawn up a manual laying down the detailed accounting procedure (February 1983).

Summing up

(i) The Company was incorporated in March 1973 with the main objective to produce or assembling and distribution of Kubota power tillers, spares and diesel engines for the tillers. While the assembling of power tillers was taken over by the Company on its formation from the Holding Company, in plant, production of components commenced in June 1978.

(ii) The Company has so far taken up production of power tillers only. The Company which got a project report prepared at a cost of Rs. 1.02 lakhs for manufacture of 3,600 Kubota diesel engines, with a capital outlay of Rs. 1,65.90 lakhs, has kept the project in abeyance in view of financial difficulties.

(iii) The capacity utilisation of the plant set up was poor during the three years up to 1981-82 (ranging from 19 to 30 *per cent* of installed capacity) which was also mainly due to shortage of funds.

(iv) The Company's decision to reckon the date of commencement of production from May 1974 instead of February 1972 resulted in an avoidable payment of royalty amounting to Rs. 2.38 lakhs.

(v) A review of the utilisation of 25 out of 27 machines in the machine shop revelaed that except in two cases, the utilisation ranged between 5 and 50 *per cent*.

(vi) During 1975-76 to 1981-82, the Company sold tillers at prices lower than the cost of production resulting in a loss of Rs. 1,68.82 lakhs.

(vii) The Company paid excess sales tax amounting to Rs. 1.73 lakhs on goods imported in May 1976.

(viii) Delay in supply of gears resulted in blocking up of funds amounting to Rs. 4.66 lakhs and consequent loss of interest amounting to Rs. 4.54 lakhs.

(ix) Delay in supply of forgings for gears necessitated enhancement of processing charges, the extra commitment of which works out to Rs. 54.95 lakhs.

(x) The Company incurred an expenditure of Rs. 0.91 lakh for participating in a fair in Libya in March 1976. No orders were received though the Company anticipated substantial orders.

(xi) The retention of registered office at a place away from the factory site had resulted in an extra expenditure of Rs. 5.01 lakhs during the period from February 1977 till date (January 1983).

SECTION V

KERALA LIVESTOCK DEVELOPMENT AND MILK MARKETING BOARD LIMITED

5.01. Introduction

The Company was incorporated on 14th November 1975, mainly to promote, develop and finance production, processing and sale of milk, milk products, cattle feed, *etc.*, and to provide infrastructure facilities to the farmers such as cattle breeding farms, bull-farms and fodder farms. The authorised capital of the Company is Rs. 5,00 lakhs. The State Government has contributed a sum of Rs. 6,10.09 lakhs up to 1981-82. Of this, Rs. 40 lakhs was towards share capital, Rs. 1,20.50 lakhs towards loans and Rs. 4,49.59 lakhs towards assistance for various purposes such as progeny testing, breeding programme, fodder development, *etc.*, Milk dairies, milk chilling plants, feed factory, cattle breeding farms *etc.* (35 units) under the Dairy Development and Animal Husbandry Departments and the Department of Indo-Swiss Project were taken over by the Company between May 1976 and February 1979. The assets in respect of 11 units were valued (June 1979) by a firm of Chartered Accountants at Rs. 2,23.74 lakhs and approved (October 1980) by the Company. The valuation is yet to be approved by Government (March 1983). No arrangements have been made for the valuation of assets in respect of the remaining 24 units.

The Company combines non-commercial activities along with commercial activities. Government decided (September 1979) that the non-commercial operations consisting of the cattle breeding farms, extension programmes and the bull-farms would be treated as agency functions and the expenditure required for these operations would be provided to the Company as grant-in-aid/subsidy.

5.02. Working results

The operations of the Company resulted in losses since its inception. The table below gives details of gross loss sustained by the Company and the extent of loss sustained on account of undertaking non-commercial activities (which are to be off-set by grant-in-aid from Government) since its inception up to 1979-80:—

Year	*Loss on account of undertaking*		
	Commercial activities	*Non-Commercial activities*	*Total loss*
		(Rupees in lakhs)	
1975-77	35.31	47.09	82.40
1977-78	79.02	58.64	137.66
1978-79	53.40	79.54	132.94
1979-80*	74.00	55.05	129.05

Final accounts for the years 1980-81 and 1981-82 have not been prepared by the Company (June 1983).

5.03. Delays in finalisation of accounts

The Company has been appointing firms of Chartered Accountants for the preparation of accounts from the first accounting year though it has an accounts organisation of its own with appropriate staff at all levels. Inspite of this arrangement, there had been delay in finalising the accounts. The table on the next page indicates the extent of delay in finalisation of accounts for the period upto 1981-82:—

*Based on provisional accounts

Year of account	*Date of approval by Board*	*Due date for adoption of annual accounts*	*Actual date of adoption of accounts*	*Delay as at October 1982 (Months)*
1976-77	6th October 1980	30th September 1977	4th April 1981	42
1977-78	3rd July 1982	30th September 1978	Not adopted	49
1978-79	25th February 1983	30th September 1979	Not adopted	37
1979-80	Not placed before the Board	30th September 1980	Not adopted	25
1980-81	Final accounts not prepared	30th September 1981	Not adopted	13
1981-82	Final accounts not prepared	30th September 1982	Not adopted	1

5.04. Expansion scheme

The Company decided (March 1977) to expand the capacity of Trivandrum dairy from 20,000 litres to 40,000 litres and that of Ernakulam dairy from 10,000 litres to 50,000 litres per day based on the estimates prepared (February 1977) by an expert.

The execution of the scheme, however, commenced only in April 1979. No time schedule was specified for the completion of the civil works, placing of orders for machinery, erection and trial runs.

The table below gives the estimated outlay and the actual expenditure on the schemes for the period up to February 1981:—

Particulars	*Estimates (February 1977)*	*Actual expenditure up to February 1981*	*Excess of actuals over estimates*
		(Rupees in lakhs)	
Trivandrum dairy			
Civil works	2.32	6.32	4.00
Plant and machinery	22.64	32.28	9.64
Total	24.96	38.60	13.64
Ernakulam dairy			
Civil works	1.90	5.14	3.24
Plant and machinery	28.75	37.23	8.48
Total	30.65	42.37	11.72
Grand Total	55.61	80.97	25.36

In respect of Trivandrum dairy, the increase in expenditure over estimates under plant and machinery was mainly due to addition of (i) one more storage tank (Rs. 0.72 lakh), (ii) 2 more satchet filling machines (Rs. 2.68 lakhs) and (iii) deep freezers and coolers not included in the estimates (Rs. 3.33 lakhs). In respect of Ernakulam dairy, the increase over estimates under plant and machinery was due to inclusion of effluent treatment plant (Rs. 3.93 lakhs) and certain items of plant and machinery required for the processing of by-products (Rs. 6.09 lakhs) not included in the original estimates. The Management stated (January 1983) that certain modifications and alterations had to be made for the smooth working of the dairy for its flexibility, utility, *etc*. The increase in cost of civil works was mainly due, to the fact that the estimates were drawn up based on pre-revised Public Works Department schedule of rates and inclusion of certain items of work not contemplated in the estimates. The estimates have not been revised so far (October 1982).

5.05. Purchase of equipments

(i) *Supply and erection of equipments for Trivandrum Dairy*

The Company placed (October 1978) orders with a Bombay firm for the supply, erection and commissioning of major items (storage tanks, pasteurisation plant, refrigeration plant, *etc*.) for the expansion of Trivandrum Dairy at a cost of Rs. 15.78 lakhs (taxes and duties extra). The supply, erection and commissioning of the machinery which should have been completed by November 1979 has not been completed so far (October 1982). A penalty of Rs. 0.79 lakh was recovered from the firm (February 1981) under the provisions of the agreement (January 1979) for the belated supply of equipments, but was withdrawn (October 1982) as the firm had stopped (December 1981) the work of erection and commissioning alleging that the delay was due to certain lapses on the part of the Company. According to the Managing Director (August 1982), penalty was withdrawn as the chances of winning legal battle against the firm were remote in view of the lapses on the part of the Company also. The work relating to the commissioning of the plant was resumed by the firm in October 1982 and the plant was taken over by the Company in November 1982. On commissioning the plant it was found that certain items of work were not completed by the firm with the result the pasteuriser, the compressor and other accessories were not functioning properly and the desired temperature was not obtained at the pasteuriser and pre-chiller. The residuary works have not been completed and the defects in working not rectified so far (January 1983).

(*ii*) *Purchase of cream separator*

A tri process cream separator (3000 litres per hour) was purchased from a firm of Pune and erected (June 1978) at the Trivandrum dairy at a cost of Rs. 2.08 lakhs. After erection of the plant, it was found that the separator could not be utilised due to delay in the erection of a new pasteuriser of the same capacity, the order for which was placed only in October 1978. The pasteuriser (cost: Rs. 2.84 lakhs) was erected in July 1981 but could not be operated due to non-installation of its control panel. Thus the cream separator erected (June 1978) at a cost of Rs. 2.08 lakhs is remaining idle (September 1982).

(*iii*) *Purchase of satchet milk filling machines*

The Board decided (March 1977) to purchase two satchet milk filling machines each with a capacity of 5,000 packets per hour for use in Trivandrum and Ernakulam dairies. However, the Managing Director of the Company placed orders (July 1977) for the supply and erection of two machines each with a capacity of 2,500 packets per hour with a firm in Pune at a total cost of Rs. 3.68 lakhs. No reasons were on record for deviation from the Board's decision. The machine intended for Trivandrum dairy arrived (August 1977) and developed trouble during trial run. The machine intended for Ernakulam dairy was diverted to Trivandrum and was commissioned in December 1977. This machine also developed trouble and was performing far below its capacity. The purchase was made without inviting competitive tenders and the terms of supply did not provide for any performance guarantee. Extensive repairs had to be carried out during the period from 1978-79 to 1981-82 at a cost of Rs. 1.17 lakhs to set right the defects in the machines.

As the satchet filling machines were not giving the expected performance, tenders were invited (October 1979) and an order was placed (March 1980) with a Bombay firm for the purchase of a 5000 packets per hour capacity milk satchet filling machine at a cost of Rs. 2.80 lakhs. The machine was supplied and commissioned in May 1980. Had the Company purchased the machine with a capacity of 5000 packets per hour in accordance with the Board's decision of March 1977, the investment of Rs. 3.68 lakhs on the purchase of 2 machines of 2500 packets per hour capacity could have been avoided. A test check of milk handled during November 1981 at Trivandrum dairy indicated that against the three machines available for the purpose, there was not adequate work even for one machine.

5.06. Collection and distribution of milk

5.06.1. *Purchase and sale price of milk*

The Company follows a system of two axis pricing. Purchase price is paid based on fat and solids non-fat (SNF) content in the milk. The purchase and sale price of milk is fixed by the State Government in consultation with the Company. The table below gives the particulars of the revision of purchase and sale price since inception till March 1982:—

Date of revision	*Purchase price fixed per litre of toned milk in bulk**	*Sale price fixed per litre of toned milk in bulk*	*Operation margin per litre*
		(*in paise*)	
October 1977	168	208	40
July 1980	194	260	66
February 1982	246	310	64

The revision of sale price of milk in February 1982 was based on cost of production of milk and the cost of processing at Trivandrum dairy for the first nine months of 1981-82 at 54 paise for milk supplied in bulk excluding head office overheads, depreciation, interest charges, sales commission and margin of profit.

*Milk with 3.1 *per cent* fat and 8.5 *per cent* SNF content

The Company engaged (May 1977) a cost consultant for conducting a cost study and for introducing a system of cost accounts. No action has so far (January 1983) been taken on the report submitted by the cost consultant in September 1979. Procedures for comparing cost of production with sales realisation have not been evolved in the dairies.

5.06.2. *Performance of dairies*

Milk is collected by the Company from about 300 dairy co-operatives, government farms, charitable institutions and milk supply unions of neighbouring States. Reconstituted milk produced out of skimmed milk powder is also used to meet urgent requirements. The five dairies of the Company processed on an average 60828, 54814 and 53011 litres of milk per day against their combined capacity of 49890, 54000 and 54000 litres during the years 1979-80, 1980-81 and 1981-82 respectively. The table below gives the particulars of annual milk processing capacity and milk processed at the five dairies during the three years ended 31st March 1982:—

Year	*Name of dairy*	*Annual capacity*	*Milk processed*			*Reconstituted milk*	*Total*
			From producers	*From other units*	*From other sources*		
			(*in lakh litres*)				
1979-80	Trivandrum	73.00	99.90	0.91	0.75	5.45	107.01
	Alleppey	14.60	15.48	2.55	..	1.03	19.06
	Ernakulam	36.50	62.27	3.02	..	3.47	68.76
	Palghat	36.50	5.85	9.82	2.48	1.99	20.14
	Cannanore	21.50	1.39	2.10	2.49	1.68	7.66
	Total	182.10	184.89	18.40	5.72	13.62	222.63
1980-81	Trivandrum	73.00	87.35	0.13	1.55	8.06	97.09
	Alleppey	14.60	16.09	0.28	0.02	0.71	17.10
	Ernakulam	36.50	37.72	4.32	1.40	8.04	51.48
	Palghat	36.50	20.03	..	1.62	1.63	23.28
	Cannanore	36.50	3.30	1.70	0.40	5.72	11.12
	Total	197.10	164.49	6.43	4.99	24.16	200.07

Year	Name of dairy	Annual capacity	Milk processed			Reconstituted milk	Total
			From producers	From other units	From other sources		
			(in lakh litres)				
1981-82	Trivandrum	73.00	78.42	0.11	1.70	11.81	92.04
	Alleppey	14.60	21.37	0.05	..	0.45	21.87
	Ernakulam	36.50	28.95	4.30	2.00	11.68	46.93
	Palghat	36.50	14.94	..	1.68	3.64	20.26
	Cannanore	36.50	3.39	0.85	0.96	7.19	12.39
	Total	197.10	147.07	5.31	6.34	34.77	193.49

A scrutiny of records regarding milk procured at Palghat and Cannanore dairies revealed that the quantity of milk procured from the registered societies in the Palghat and Cannanore districts was very low and this accounted for the low plant utilisation in the diaries. The table below gives details of the number of societies in each district and the quantity of milk supplied to the dairies during the three years ended 31st March 1982:—

	Palghat			Cannanore		
	1979-80	1980-81	1981-82	1979-80	1980-81	1981-82
Number of societies in the district	71	77	82	74	79	83
Number of societies supplying milk to the dairy	24	43	45	35	33	35
Total quantity of milk collected by societies (in lakh litres)	84.50	106.59	116.33	114.74	133.74	164.69
Quantity of milk supplied to the dairy (in lakh litres)	5.85	20.03	14.94	1.39	3.30	3.39
Percentage of milk supplied to dairy to total milk collected	6.92	18.79	12.84	1.21	2.47	2.06

The utilisation of capacity of Trivandrum, Alleppey and Ernakulam dairies was far in excess of the installed capacity. According to the Management (November 1981), handling of milk in excess of installed capacity would interfere with the satisfactory processing of milk and would be detrimental to the storage life of milk. The Management also attributed (January 1983) the high handling losses and spoilage (5.24 *per cent* of milk processed) to handling of milk in excess of the installed capacity.

No norms towards losses on account of handling and spoilage have been fixed by the Company. Records indicating quantities of fat and SNF purchased and utilised were not maintained at the dairies and hence the actual wastage could not be determined.

While the quantity of milk procured from producers in 1979-80 was 184.89 lakh litres, the actual quantity procured from producers in 1981-82 was only 147.07 lakh litres which indicated a decline of 20.46 *per cent*. The largest decline was at Ernakulam where a 53.51 *per cent* fall was recorded during 1981-82 over that of 1979-80.

As the local procurement declined by 20.46 *per cent* in 1981-82 over that of 1979-80, the Company had to depend mainly on reconstituted milk to meet the demand. The production of reconstituted milk was more by 155.29 *per cent* in 1981-82 compared to that in 1979-80.

5.06.3. *Performance of chilling plants*

The chilling plants of the Company had a capacity of 44,000 litres per day at the end of 1981-82 as against the dairy plant capacity of 54,000 litres. They were located at different places in the State and are responsible for collection of milk from primary producers and its storage till it is transported to the dairies. The table on the next page gives the particulars of utilisation of capacity of the plants during the three years ended 31st March 1982:—

Sl. No.	Name of plant	Annual capacity			Milk handled			Percentage of utilisation		
		1979-80	1980-81	1981-82	1979-80	1980-81	1981-82	1979-80	1980-81	1981-82
					(In lakh litres)					
	Trivandrum dairy									
1	Quilon	7.30	7.30	7.30	4.05	4.05	4.09	55.48	55.48	56.03
2	Yeroor	7.30	7.30	7.30	4.28	1.92	1.71	58.63	26.30	23.43
3	Kandala	..	28.80	36.50	..	22.21	34.95	..	77.12	95.75
	Alleppey dairy									
4	Vagamon	7.30	7.30	7.30	..	..	..	..	..	..
5	Kumbazha	7.30	7.30	7.30	3.87	4.60	6.44	53.01	63.01	88.22
6	Mavelikara	7.30	7.30	7.30	9.66	6.87	8.94	132.33	94.11	122.47
7	Kuttikanam	7.30	7.30	7.30	1.20	1.12	1.97	16.44	15.34	26.99
8	Kattapana	7.30	7.30	7.30	3.86	3.42	3.45	52.88	46.85	47.26
	Frnakulam dairy									
9	Munnar	14.60	14.60	14.60	5.86	3.27	3.34	40.14	22.40	22.88
10	Vellathooval	7.30	7.30	7.30	..	..	..	..	..	..
11	Thodupuzha	7.30	7.30	7.30	2.83	2.25	0.97	38.77	30.82	13.29
12	Muvattupuzha	7.30	7.30	7.30	3.93	2.84	2.18	53.84	38.90	29.86
13	Angamali	11.40	14.60	14.60	13.47	7.09	4.91	118.16	48.56	33.63
	Palghat dairy									
14	Pattikad	7.30	7.30	7.30	18.68	12.04	9.46	255.89	164.93	129.59
15	Attapadi	7.30	7.30	7.30	2.05	2.52	2.53	28.08	34.52	34.66
16	Chelakara	7.30	7.30	7.30	1.48	0.89	0.02	20.27	12.19	0.27
	Total	120.90	152.90	160.60	75.22	75.09	84.96	62.22	49.11	52.90

Item 3 Kandala plant started functioning in June 1980.

Item 5 Kumbazha plant was under Trivandrum dairy from May 1979 to January 1980 and thereafter under Alleppey dairy.

The Vellathooval plant was taken over from the Department of Dairy Development and commissioned in October 1976. The plant was closed in February 1979 as the procurement rate was only 450 litres per day against the capacity of 2000 litres per day. It was shifted to Muvattupuzha only in December 1982. The delay in shifting resulted in the investment of Rs. 1.35 lakhs (approximate) in the plant remaining idle for about four years.

Another chilling plant erected (May 1977) at Vagamon by the Department of Dairy Development was taken over by the Company in June 1978. The plant could not be commissioned which was stated (September 1982) to be due to opposition from a Dairy Co-operative Society in the locality. The investment of Rs. 1.30 lakhs (approximate) in the plant remained idle up to November 1982 when it was transferred to Thondiyil in Cannanore district.

The utilisation of capacity was low in the chilling plants at Yeroor, Kuttikanam, Kattapana, Attapadi, Thodupuzha, Muvattupuzha and Angamali and the quantity of milk processed at most of these plants was on the decline. The reasons for the low utilisation of capacity and the reasons for declining trend in the quantity of milk procured were not investigated by the Company.

The chilling plants of Kuttikanam, Kattapana and Munnar situated in the area benefitted by the Western Ghat Development Scheme recorded a total utilisation of installed capacity of 37.40 *per cent*, 26.75 *per cent* and 30 *per cent* for the year 1979-80, 1980-81 and 1981–82 respectively. The quantity of milk procured by the chilling plants declined by 2.16 lakh litres in 1981-82 when compared to that in 1979-80.

While the chilling plants under the Alleppey dairy had a combined capacity of treating 36.50 lakh litres of milk per annum at the end of 1981-82, the capacity of the Alleppey dairy was only 14.60 lakh litres per annum. This imbalance has not been set right (September 1982).

5.06.4. *Avoidable expenditure on transportation*

In Trivandrum dairy, instances were noticed where reconstitution of milk using skimmed milk powder was resorted to without assessing the actual requirements. The surplus milk as a result of the reconstitution was transferred to other dairies of the Company. A test check revealed that 2,73,500 litres of reconstituted milk were transferred to Ernakulam dairy during 1980-81 and 72,000 litres during 1981-82. This resulted in an avoidable expenditure of Rs. 0.35 lakh on transportation.

5.06.5. *By-products*

Surplus milk in the dairies was utilised for production of curd, ghee, ice-cream, peda, flavoured milk and butter. Norms for consumption of raw materials for these products had not been fixed and internal control procedures had not been prescribed to compare actual production with anticipated production to assess wastage.

The ice-cream plant at Ernakulam dairy has a capacity to produce 8,000 cups of ice-cream per shift. A part of ice-cream produced is transferred to Trivandrum dairy (distance 230 kms) for sale. The table below compares the quantity produced, quantity transported and losses due to spoilage at Trivandrum during the three years ended March 1982:—

Year	*Ice-cream produced at Ernakulam*	*Ice-cream transported to Trivandrum*	*Spoilage at Trivandrum*	*Percentage of spoilage at Trivandrum*
		(Number of cups)		
1979-80	14,64,344	5,96,054	17,363	2.9
1980-81	12,98,552	4,22,352	11,588	2.7
1981-82	13,06,600	5,51,060	53,479	9.7

The loss due to abnormal spoilage in 1981-82 compared to the previous year was Rs. 0.58 lakh (at the rate of Rs. 1.50 per cup for 38,600 cups).

In pursuance of a decision taken in a meeting (May 1981) the Dairy Managers, the Quality Control Officer of the Company who studied the systems/procedures reported (July 1981) to the Managing Director that—

(i) the absence of a hardening chamber in the Ernakulam dairy adversely affected the quality of ice-cream transported to other dairies;

(ii) the boxes used at Ernakulam dairy for the despatch of ice-cream to Trivandrum dairy were in a broken condition and there was no insulation; and

(iii) there was no fixed running time for the vehicle, unloading at Trivandrum dairy was delayed and on an average ice-cream produced was exposed to atmospheric temperature for about 17 to 18 hours. The Company has not taken action to set right the defects pointed out by the Quality Control Officer and the percentage of spoilage in 1981-82 was highest when compared to the preceding two years.

5.07. Provision of infrastructure facilities

5.07.1. The three cattle breeding farms at Mattupatty, Kulathupuzha and Dhoni are equipped with laboratories for the production of frozen semen. The strength of bulls maintained in the farms for the production of frozen semen was 162, 142 and 152 at the end of 1979-80, 1980-81 and 1981-82 respectively. The table below gives the particulars of frozen semen produced in the farms during the three years up to 1981-82:—

Name of farm	*Year*	*Installed capacity*	*Target*	*Achievement*	*Percentage of achievement to installed capacity*
			(In lakh doses)		
Mattupatty	1979-80	3	4.00	4.50	150
	1980-81	3	4.50	1.80	60
	1981-82	3	Nil	3.18	106

Name of farm	*Year*	*Installed capacity*	*Target*	*Achievement*	*Percentage of achievement to installed capacity*
			(In lakh doses)		
Kulathupuzha	1979-80	3	2.00	3.13	104
	1980-81	3	3.00	2.70	90
	1981-82	3	3.00	2.61	87
Dhoni	1979-80	3	2.00	1.92	64
	1980-81	3	3.00	1.70	57
	1981-82	3	3.25	2.65	88

The installed capacity is based on capacity of laboratory, number of bulls and number of technical persons available. Some of the farms could achieve production in excess of the installed capacity due to the increased storage facility available.

The semen produced in the farms is transferred to the regional semen banks of the Company for ultimate distribution to the Animal Husbandry and Dairy Development Departments for artificial insemination. The stock of frozen semen with the Company at the end of 1979-80, 1980-81 and 1981-82 was 9.74 lakh, 8.81 lakh and 9.78 lakh doses which represent 12.2, 17.1 and 13.9 months' production for the respective years. According to the Management (March 1982), the Company could supply frozen semen to 850 artificial insemination units out of 1400 such units set up by the Animal Husbandry and Dairy Development Departments of the State Government. Inadequate distribution arrangements resulted in accumulation of frozen semen with the Company. The distribution arrangements are proposed to be streamlined with the installation of semen banks at Puthupady, Chalakudy and Cannanore. While the semen bank at Puthupady was completed in May 1982, the other two semen banks are yet to be installed (February 1983).

5.08. Livestock and poultry feed factory, Malampuzha

5.08.1. *Utilisation of capacity*

This factory which started working under the Animal Husbandry Department of the State Government from

September 1970 was taken over by the Company in May 1976. Cattle feed, poultry feed and pig feed are manufactured by the factory.

The production capacity of the plant is 100 tonnes per day of three shifts or 30,000 tonnes per annum based on 300 working days and three shifts per day. The table below indicates the budgeted production, actual production and percentage of utilisation for the three years up to 1981-82:—

Year	*Plant capacity*	*Budgeted production*	*Actual production*	*Percentage of production to plant capacity*	*Percentage of actual production to the budgeted production*
		(in tonnes)			
1979-80	30,000	19,500	9,759	32.53	50.05
1980-81	30,000	19,800	10,059	33.53	50.80
1981-82	30,000	20,000	11,172	37.24	55.86

As against 300 working days anticipated in a year, the factory worked for 285 days in 1979-80, 305 days in 1980-81 and 306 days in 1981-82. Compared to the average production capacity of 100 tonnes per day, the average daily production was only 34.24 tonnes in 1979-80, 32.98 tonnes in 1980-81 and 36.51 tonnes in 1981-82.

5.08.2. *Purchase of de-oiled groundnut cakes*

De-oiled groundnut cake is one of the major items of raw materials used by the factory for production of cattle feed. On the basis of the decision (October 1978) of the Board to dispense with the annual tender system to take advantage of fluctuation in prices, the Company resorted to piece-meal purchase of the raw materials on the basis of enquiries made with various firms. The following points were noticed in audit:—

(*a*) On the basis of enquiries made (April/May 1979), the Company placed (May 1979) orders with two firms for the supply of 350 tonnes of de-oiled groundnut cake at Rs. 1,175 per tonne for supply at factory. An offer (26th April 1979) from a firm in Bombay for the supply of 250 tonnes of the material at Rs. 900 per tonne (plus Central sales tax and freight extra—Rs. 1,050 in all) was ignored. The placement of orders at higher rates ingnoring a lower offer resulted in an additional expenditure of Rs. 0.31 lakh to the Company. The reasons for not placing orders with the Bombay firm could not be seen in Audit as the Company intimated (January 1983)that the relevant file was not traceable.

(*b*) The Company invited (November 1980) tenders for the purchase of 1000 tonnes of groundnut cake. The lowest offer was from a firm in Tamil Nadu at Rs. 1,750 per tonne for delivery at the factory. This offer was not accepted on the ground that the firm had not remitted the earnest money deposit in cash but requested for adjustment of the earnest money deposit against their bills for previous supplies pending payment by the Company. Even though the Finance Controller of the Company instructed (11th December 1980) that the amount due to the party might be verified and necessary adjustment for earnest money deposit be made, this was not done and order was placed (December 1980) with the second lowest tenderer for 500 tonnes at Rs. 1,790 per tonne and supplies obtained during the period December 1980 to March 1981. This resulted in an extra expenditure of Rs. 0.20 lakh . The remarks of the Management called for (September 1981) were awaited (February 1983).

5.08.3. *Damages/shortages of molasses*

The Company purchased 4,94,000 kgs., of molasses between August 1978 and October 1978 as per allotment from the Central Molasses Board for production of cattle feed. The consumption up to October 1979 was 3,87,545 kgs. There was a noting (20th November 1979) in the stock register maintained at the factory to the effect that 1,06,350 kgs., were deleted from the stock account by the plant manager on account of defect of molasses tank and consequent seepage of sub-soil water.

Physical verification of molasses conducted in July 1980 and March 1981 revealed shortages of 17,459 kgs., and 6,000 kgs., respectively. These were also deleted from the book balances.

The Company has not investigated the defect in molasses tank and shortages in stock noticed in July 1980 and March 1981. The loss due to shortage amounted to Rs. 0.39 lakh. The Management stated (January 1983) that steps were being taken to write off the stock by obtaining orders of Board in the near future.

5.09. Western Ghats Development Scheme—Diversion of funds

The grant-in-aid funds received for meeting expenditure on the various schemes under the Western Ghats Development Programme were not kept in separate bank account as required by Government. This resulted in the utilisation of grant-in-aid funds for meeting working capital requirements of the Company. The table below gives the particulars of the grant -in-aid received by the Company for the implementation of the schemes under the Western Ghats Development Programme up to 1979-80, the utilisation of funds as certified (October 1981) by a firm of Chartered Accountants and comparison of the unutilised portion of the grant-in-aid funds with the cash and bank balance of the Company at the end of the five financial years up to 1979-80:—

Year	*Grant-in-aid received*	*Grant-in-aid utilised***	*Unutilised grant-in-aid (Progressive)*	*Cash and bank balance as at the end of the year*	*Extent of unauthorised diversion of grant-in-aid funds*
			(Rupees in lakhs)		
1975-76	15.00	8.10	6.90	..	6.90
1976-77	34.88	24.47	17.31	29.95	..
1977-78	71.72	28.94	60.09	31.68	28.41
1978-79	38.35	32.84	65.60	21.24	44.36
1979-80	38.53	23.30	80.83	67.92	12.91

The firm of Chartered Accountants who furnished the certificate of utilisation of grant-in-aid up to 1979-80 pointed out (October 1981) several irregularities in the maintenance of

**For Dairy Development Scheme, Idukki and establishment of chilling plants outside Idukki.

records and accounts in respect of the scheme in Head Office and units. According to them (October 1981), no vouchers were made available to them for the total expenditure of Rs. 8.10 lakhs incurred on the scheme during 1975-76, and Rs. 26.80 lakhs spent during the period from 1976-77 to 1979-80.

5.10. Other topics of interest

5.10.1. *Avoidable expenditure on the purchase of low density film*

The Company placed (July 1979) an order with a local firm for the supply of 20 tonnes of low density polythene film at the rate of Rs. 19 per kg. The price was to be firm and price escalation was not payable under any circumstances. The local firm accepted (July 1979) the purchase order without any qualifications. Later on when the agreement was forwarded (July 1979) for approval, the local firm inserted a provision for price escalation. This insertion made without the knowledge of the Company went unnoticed. After supplying 8 tonnes (August 1979) at the contracted rates, the demand (September 1979) of the local firm for an enhanced rate of Rs. 25.50 per kg., for the remaining 12 tonnes of polythene film was accepted (January 1980) by the Company. This resulted in an avoidable expenditure of Rs. 0.78 lakh.

According to the Management (September 1981), the insertion of the price fluctuation clause had no significance and in any case the firm would have backed out if the revision in price was not accepted by the Company.

5.10.2. *Accounting of deep freezers and coolers*

The Company purchased deep freezers and coolers for the use of the distribution agencies. In several cases outright sale of these equipments were made to distribution agents and in certain other cases the equipments were sold to them on hire purchase. The equipments were also transferred from one dairy to another.

A test check of the account records kept in the Ernakulam dairy revealed that during the period October 1976 to February 1979, the dairy purchased 90 equipments (freezers and water coolers) at a cost of Rs. 6.30 lakhs. A physical verification conducted (14th June 1982) by the Dairy Manager revealed a shortage of 9 freezers and water coolers (22 numbers transferred to other dairies, 17 numbers as outright sale and hire purchase and 42 numbers were available physically). No records of the equipments received from other dairies and distributed were kept in the dairy. The value (Rs. 0.63 lakh approximately) of equipments found short had not been recovered from the persons responsible. The Management stated (January 1983) that steps were being taken to reconcile the discrepancies pointed out in audit.

Summing up

(i) The Company was incorporated on 14th November 1975, with the objects mainly to promote, develop and finance the production, processing and sale of milk, milk products, cattle feed, *etc.*, and to provide facilities to the farmers such as cattle breeding farms, bull-farms and fodder farms. The Company took over 35 units such as milk dairies, milk chilling plants, feed factory, cattle breeding farms, *etc.*, from Dairy Development and Animal Husbandry Departments and the Department of Indo-Swiss Project.

(ii) The Company has so far finalised its accounts up to 1978-79 only. While provisional accounts had been prepared for 1979-80, accounts of 1980-81 and 1981-82 have not even been prepared. The operations of the Company resulted in losses since its inception. It sustained loss of Rs. 167.73 lakhs up to 1978-79 in respect of its commercial activities.

(iii) (a) The schemes of the Company to expand the capacity of Trivandrum dairy to 40,000 litres per day and that of Ernakulam dairy to 50,000 litres per day commenced without any definite time schedule for their completion. As against the estimated expenditure of Rs. 55.61 lakhs on scheme, the actual expenditure incurred to end of February 1981 amounted to Rs. 80.97 lakhs. While the capacity of Trivandrum dairy had been expanded as proposed, the Ernakulam dairy continued to work even in 1981-82 at its original capacity only.

(b) A penalty of Rs. 0.79 lakh imposed (February 1981) on the supplier of equipments for Trivandrum dairy for belated supply was withdrawn by the Management on the ground that the chances of winning a legal battle against the supplier were remote.

(c) A cream separator erected (June 1978) at a cost of Rs. 2.08 lakhs remained idle (September 1982).

(d) Two satchet milk filling machines of 2500 packets per hour installed at Trivandrum dairy were not giving satisfactory performance and another one with a capacity of 5000 packets per hour had to be purchased. The investment on the defective machines amounted to Rs. 3.68 lakhs.

(iv) The quantity of milk processed in the dairies declined from 222.63 lakh litres in 1979-80 to 200.07 lakh litres in 1980-81 and to 193.49 lakh litres in 1981-82.

(v) Plant utilisation in Palghat and Cannanore dairies was very low due to reduced procurement of milk from the registered societies in those districts. Due to fall in local procurement of milk, the Company had to depend mainly on reconstituted milk. The production of reconstituted milk in 1981-82 was more by 155.29 *per cent*, when compared to that in 1979-80.

(vi) As against the combined dairy plant capacity of 54000 litres a day, the capacity of the chilling plant was only 44000 litres per day. While the chilling plant under Alleppey dairy has a combined capacity of treating 36.50 lakh litres of milk per annum at the end of 1981-82 the capacity of the dairy was only 14.60 lakh litres per annum.

(vii) No milk was handled at the chilling plants at Vagamon and Vellathooval (capital cost: Rs. 2.65 lakhs) during the period from 1979-80 to 1981-82.

(viii) The daily average production of cattle feed at L & P feed factory was as low as 34.24 tonnes for 1979-80, 32.98 tonnes for 1980-81 and 36.51 tonnes for 1981-82 against the installed capacity of 100 tonnes.

(ix) The loss due to abnormal spoilage of ice-cream cups during transportation from Ernakulam dairy to Trivandrum dairy during 1981-82 was Rs. 0.58 lakh.

(x) The placing of orders for de-oiled groundnut cakes ignoring the lower offer in two cases resulted in an extra expenditure of Rs. 0.51 lakh.

(xi) The loss due to shortage of 17,459 kgs., of molasses in July 1980 and 6000 kgs., in March 1981 amounted to Rs. 0.39 lakh.

(xii) The non-detection in time of an unauthorised correction relating to price fluctuation made by a supplier of low density polythene film in the agreement resulted in an avoidable expenditure of Rs. 0.78 lakh.

(xiii) The unutilised grant-in-aid funds received from Government for the Western Ghats Development Scheme at the end of 1979-80 amounted to Rs. 80.83 lakhs, out of which the Company diverted Rs. 12.91 lakhs for other purposes. Vouchers for expenditure amounting to Rs. 34.90 lakhs were not made available to a firm of Chartered Accountants who were engaged to certify the accounts of the scheme.

SECTION VI

OTHER TOPICS OF INTEREST

6.01. Forest Industries (Travancore) Limited

6.01.1. *Avoidable expenditure*

The Company was stocking timber extracted from the coupes allotted by the Forest Department at its depots at Neeleswaram and Illithode, taken on lease from the State Government. Consequent on the stoppage of extraction of timber by the Company in pursuance of a decision of Government (1975), the depots were closed in December 1975. Out of 14 numbers of staff attached to the depots, all except 5 security personnel were transferred to the Head Office of the Company between August 1978 and March 1979. The security personnel were retained for protecting the land and buildings. The total expenditure on pay and allowances, lease rent, electricity, *etc.*, incurred by the Company for the maintenance of these closed depots up to March 1982 amounted to Rs. 6.99 lakhs.

Stores such as bulldozer parts valued at about Rs.1.29 lakhs left at Neeleswaram depot were neither disposed of immediately nor transferred elsewhere. When action for disposal was initiated, it was noticed (November 1980) that stores worth Rs. 0.32 lakh were missing. An outside agency who conducted an enquiry (November 1981) opined that the officer in charge of the depot (subsequently transferred to Head Office in August 1978 and retired in February 1981) was responsible for the loss. A sum of Rs. 0.29 lakh withheld by the Company (February 1981) from his gratuity, was ordered (January 1982) to be paid to him by the controlling authority under the Payment of Gratuity Act. The amount has not, however, been paid so far (June 1983).

A portion of the stores was sold in auction in January 1982 for Rs. 0.55 lakh and the balance of stores valued at Rs. 0.50 lakh was lying in the stores (June 1983).

Action to surrender the leasehold land to Government was initiated by the Company only in September 1980 on which final orders of Government were awaited (June 1983).

Delay in surrendering the leasehold land, transferring/disposing of stores and deploying the staff immediately on the closure of the depots in December 1975 resulted in an avoidable expenditure of Rs. 6.99 lakhs up to March 1982.

6.02. Kunnathara Textiles Limited

6.02.1. *Payment of interest and commitment charges*

Kunnathara Textiles Limited was incorporated in September 1975 as a joint venture of Kerala State Industrial Development Corporation Limited (a wholly owned State Government Company) and Kunnathara Investment Company Limited (a Company formed by unemployed educated youths) with the main object of manufacturing and dealing in yarn, cloth fabrics and textile goods by establishing a powerloom complex. For implementation of the project, the Company applied (December 1976) for financial assistance of Rs. 40 lakhs from the Industrial Finance Corporation of India (IFCI) and Rs. 61 lakhs from the Industrial Development Bank of India (IDBI). The loans were sanctioned by the IFCI and IDBI in May 1978 and June 1978 respectively. According to the terms of sanctioning the loans, the Company was to execute an equitable mortgage (mortgage by deposit of title deeds) of all the assets of the Company and was liable to pay commitment charges at 1 *per cent* per annum on the amount remaining undrawn after the expiry of six months from the date of sanctioning of the loans or from the date of execution of the agreements whichever was earlier. The execution of the agreement was, however, delayed up to October 1980 mainly due to the delay in obtaining from the revenue authorities necessary 'patta' (clear title) in respect of the properties of the Company.

Consequent on the delay in drawal of the loan amounts, the Company had to pay Rs. 0.83 lakh towards commitment charges, to the financial institutions. The delay of about 2½ years on the part of the Company in executing the mortgage deed also necessitated the Company to avail of bridge loans of Rs. 35 lakhs (between January 1979 and October 1979) from the IFCI and Rs. 45.75 lakhs (between May 1979 and September 1979) from the IDBI at higher rates of interest. The expenditure towards interest at higher rates on bridge loans obtained from the financial institutions amounted to Rs. 0.89 lakh.

Government stated (December 1982) that the belated drawal of the loan was on account of the following:—

(i) As per the promoter's agreement with Kerala State Industrial Development Corporation, the latter was to appoint the Chief Executive of the Company and a suitable professional could be appointed only in May 1980.

(ii) Due to shortage of personnel and location of the mills at a remote place, there was delay in obtaining 'patta' of the land in favour of the Company and forwarding the same to the financial institutions.

6.03. Kerala State Development Corporation for Christian Converts from Scheduled Castes and the Recommended Communities Limited

6.03.1. *Unfruitful expenditure and idle investment*

The Company was incorporated on 3rd December 1980 with the main object of promoting social, educational, cultural and economic uplift and other living conditions of the Christian converts from Scheduled Castes and the recommended communities. Government appointed (6th December 1980) a Board of Directors consisting of 3 members with the Director of Tribal Welfare as Chairman. The Company started functioning in February 1981 with headquarters at Kottayam. Meanwhile, the Company received (January 1981) from the Government a grant of Rs. 5 lakhs for meeting administrative expenses.

Certain schemes formulated by the Company for carrying out its objectives and sent to Government (August 1981) had not yet been approved (August 1982). Even before submission of the schemes for approval, the Company opened two Regional Offices at Trivandrum (June 1981) and Calicut (July 1981) and appointed 2 typists, 2 peons, 1 watchman and 1 part-time sweeper in each office. The Regional Officers were, however, not appointed. All the offices were housed in rented buildings. Furniture costing Rs. 1.47 lakhs was also purchased (June 1981) for the head office and Regional Offices.

As the schemes formulated by the Company had not been implemented in the absence of Government approval, the expenditure of Rs. 6.80 lakhs on salary, rent, *etc.*, up to July 1982 and Rs. 1.47 lakhs on purchase of furniture had not served the intended purpose (July 1982).

The Management stated (March 1982) that the head office and the Regional Offices were opened as per specific directions of Government for implementing the schemes and that the schemes would have been implemented had they been approved and sufficient funds provided by Government.

6.04. Scooters Kerala Limited

6.04.1. *Infructuous expenditure*

The Company was incorporated in November 1976 for the execution of a project for the manufacture of 150 cc Lambretta Scooters with the technical know-how obtained from Scooters India Limited, a Government of India undertaking.

The collaboration agreement for the acquisition of technical know-how was first entered into with Scooters India Limited by an Industrial Co-operative Society (ENCOS) in the State in January 1974. The agreement was to be in force for a period of nine years. The know-how was assigned to Co-operative Scooters Limited (a unit of ENCOS) in June 1975 and reassigned to the Company in January 1978 when ENCOS and its units were taken over by Government in public interest. The agreement provided for the payment of a fee of Rs. 20 lakhs in four annual instalments. It was also agreed that complete technical know-how for the manufacture of engine and gear box would be provided by Scooters India Limited at the end of the sixth year of the agreement (January 1980) without any additional payment. The entire amount of Rs. 20 lakhs was paid, Rs. 4 lakhs by the Co-operative Scooters Limited in September 1975 and November 1976, Rs. 9 lakhs by Government in August 1977 on their behalf and Rs. 7 lakhs by the Company in June 1978.

Even before the payment of last instalment, the Company decided (October 1977) against going in for manufacture of scooters as it was considered that it was uneconomical to invest Rs. 3,40 lakhs in the manufacture of scooters for the full utilisation of the know-how obtained from the collaborators. Since then the Company had confined its activities to a small project for conversion of scooters with complete knocked down (CKD) sets received from Scooters India Limited. The technical know-how for the manufacture of engines and gear box to be provided free of cost was also not obtained by the Company as the proposal for manufacture of scooters was dropped. Though only 4 years (out of 9 years) of the agreement period had elapsed up to January 1983 and the Company did not avail of the benefit of the agreement, it did not explore the possibility of securing any reduction in the technical know-how fee of Rs. 20 lakhs. The investment of Rs. 20 lakhs for obtaining the technical know-how for a project not implemented had, thus, become nugatory.

Government stated (August 1979) that it had become a contractual obligation on the part of the Company to pay technical know-how fee in terms of the collaboration agreement assigned to it, whether it had utilised the know-how or not.

6.05. Kerala State Construction Corporation Limited

6.05.1. *Contracts for works executed outside India*

The State Government permitted (January 1977) the Company at the instance of the latter, to take up works outside India on sub-contract from Public Sector undertakings of the Union Government. Accordingly the Company took up four works as 'construction associates' of National Building Construction Corporation Limited (NBCC) at Benewalid of the value of Rs. 15,86 lakhs (Libyan Dinars 55.65 lakhs) by two agreements dated 17th October 1977 and 27th July 1979. By another agreement dated 29th January 1980, four more works of the value of Rs. 16,68 lakhs (Libyan Dinars 65.60 lakhs) were taken up at Beida as construction associates of Projects and Equipments Corporation Limited (PEC).

The up-to-date expenditure incurred on these projects as well as their financial results were not available as the accounts of the Company for the year 1980-81 and onwards had not been finalised so far (March 1983). According to the accounts for 1979-80, the Company sustained a loss of Rs. 90.98 lakhs up to 31st March 1980 on execution of works in Benewalid. The provisional accounts for 1980-81 prepared by the Company showed a further loss of Rs. 37.45 lakhs during the year on this project.

The works in Beida (commenced in January 1980) scheduled for completion by October 1982, had not been completed (March 1983). A net loss of Rs. 134.06 lakhs (LD 6.08 lakhs) was anticipated (August 1982) by the Company on completion of this project also.

In view of the heavy losses on execution of foreign works, the Company, based on the Government's decision, stopped (April 1981) acceptance of further foreign works and continued the works previously undertaken by them.

Some of the points noticed (October 1982) in respect of the works executed in Benewalid are mentioned below:—

(a) The Company was not registered as a sub-contractor for the works in Libya notwithstanding the decision (October 1978) of the Board of Directors of the Company and hence had to function as construction associates of the prime contractors (NBCC). The Company stated (October 1982) that the registration could not be done due to impractical formalities and conditions as per the rules of the Libyan Government. Thus the Company had no separate entity in Libya and had to depend solely on NBCC for financial resources for execution of the works. The main source of finance as provided in the agreement with NBCC was the mobilisation advance to be received from them at 20 *per cent* of the contract value. Additional funds required were to be raised through NBCC in the form of Euro-Dollar loan. The Company received Rs. 279 lakhs as mobilisation advance and Rs. 62.11 lakhs as Euro-Dollar loan, of which Rs. 262.75 lakhs and Rs. 43.67 lakhs respectively were outstanding as on 31st March 1981. Further, the Company obtained loans (Rs. 112 lakhs) and bridge finances from NBCC; the amount outstanding as on 31st March 1981 was Rs. 90.16 lakhs (loan: Rs. 38.78 lakhs; bridge finance: Rs. 51.38 lakhs).

(b) According to the State Government (April 1981), the works commenced satisfactorily in 1977; but due to labour problems, poor turnover of works and escalation of prices, losses started accruing. The position was stated to have become worse owing to scarcity of building materials, delay in payment of mobilisation advances by NBCC, inadequate working capital resulting in under-utilisation of man-power, unhelpful attitude of NBCC, *etc.* Even after 3 years, the Company could complete only 100 houses (out of 235 houses to be completed by October 1979 and 100 houses by March 1980) in all respects and the progress of the remaining works had been far below the target. To avoid further loss, the State Government at the instance of the Company, permitted (April 1981) the Company to withdraw from the contracts with NBCC and also sanctioned an interest-free loan of Rs. 107 lakhs to the Company for liquidation of liabilities in Benewalid and for repatriation of workers. The works were thus foreclosed in September 1981 and the loss sustained was assessed (September 1982) by the Company at Rs. 155.01 lakhs (LD 7.03 lakhs)

(c) The Company claimed (April 1981) LD 25.30 lakhs (Rs. 557.87 lakhs) as compensation towards loss/damages caused by them on account of non-release of mobilisation advance in time and in full, delay in payment of part bills for work done, un-authorised adjustments, non-supply of materials in time, *etc.* The claims were not accepted by NBCC. As provided for in the agreement, on the basis of the Company's request (July 1981), the Ministry of Works and Housing appointed (February 1982) an arbitrator. But the Company moved (March 1982) the Delhi High Court for removing the arbitrator and appointing another arbitrator from the panel suggested by the Company, on the ground that the arbitrator appointed by the Ministry was closely associated with the working of NBCC. Final decision of the Court was awaited (March 1983).

(d) In terms of the agreement with NBCC, the State Government had executed guarantees amounting to Rs. 12,24.50 lakhs in favour of NBCC for satisfactory performance of the contracts and for repayment of loans and advances from NBCC. In addition to this, the State Bank of Travancore, Ernakulam had issued performance guarantees (Rs. 38 lakhs) and guarantee for the Euro-Dollar loan (Rs. 62.11 lakhs) on behalf of the Company in favour of NBCC. The State Government as well as the Company provided counter guarantees in respect of the guarantee provided by the bank. After withdrawing from the contracts, the Company filed (March 1981) a suit in the High Court of Kerala and obtained interim injunction restraining the State Bank of Travancore from invoking the guarantees. The suit was subsequently transferred to the Sub-Court at Trivandrum. Meanwhile NBCC invoked the guarantees to the extent of Rs. 203.50 lakhs issued by the State Government and also the guarantees (Rs. 100.11 lakhs) issued by the bank. The suit was dismissed by the Sub-Court, Trivandrum in March 1982, mainly on the ground that the Delhi High Court had the jurisidiction to try the suit. Thereupon the Company filed (March 1982) petitions in the Delhi High Court and obtained (April 1982) interim injunction restraining NBCC from invoking the guarantees. Final disposal of the case was awaited (March 1983).

(e) In Libya, irrespective of actual working results, a minimum profit of 15 *per cent* of the turnover in respect of Civil Engineering Contracts was assessable for income tax purposes. According to the slab rates of taxation in Libya, the tax payable by a Company was LD 54,000 for the taxable income up to LD 1.5 lakhs and 60 *per cent* of the income over LD 1.5 lakhs. Though on the basis of the turnover of the Company the taxable income fell within the lower slab, yet as the Company had no separate existence, its income was added to that of the prime contractor for assessment of tax which had to be shared by the Company with the prime contractor resulting in an additional commitment of income tax amounting to Rs. 15.88 lakhs (LD 72,000 for two years). Additional commitment towards income tax in respect of other works is not known.

(f) Under the agreement with NBCC (July 1979), the work on construction of Public Utility Services (for Public Housing Corporation Administration Council, Libya) was taken by the Company with a contract value of LD 9.37 lakhs (Rs. 206 lakhs). The agreement provided for release of mobilisation advance of 20 *per cent* of the contract value to the Company by the prime contractor as soon as the same was received from the employer (Libyan Government) against State Government guarantee after deducting 1.6 *per cent* of the contract value in lump towards registration and miscellaneous charges. Subsequently on the request of the Company, road work (value: LD 3.58 lakhs or Rs. 78.94 lakhs) included in the Public Utulity Services was taken back from the Company by the prime contractor. While paying (December 1979) mobilisation advances to the Company calculated at 20 *per cent* of the balance amount of contract value, the prime contractor recovered LD 14,984 towards registration and miscellaneous charges at 1.6 *per cent* of the original contract value without deducting the value of the road work taken over from the Company. This resulted in excess recovery of Rs. 1.26 lakhs (LD 5,720) from the Company. However, the Company had not lodged (September 1982) any claim for refund of this amount. The matter was reported to Government in November 1982 and their reply was awaited (March 1983).

(g) The Project Manager, Benewalid Project proposed (August 1981) that a sum of Rs. 2.29 lakhs (LD 10,381) due to the Company from staff employed in Libya (LD 918) and from private companies in Libya (LD 9,463) might be treated as bad debts and written off the accounts. It was adduced that the nature of dues from the staff was not known and that some of the Libyan companies from which amounts were due, were not in existence and hence the chances of recovery were remote. Final decision of the Company on the proposal of the Project Manager was awaited (January 1983).

(h) Eventhough the Company had no locus standi to take up works independently, they took up several private works (the full details of which were not available) without the permission of the prime contractors/Board of Directors/Government. In 3 such cases the Project Manager reported (September 1981) that the Company could not realise the amounts aggregating Rs. 0.86 lakh (LD 3,900) due from the private parties. In another case the party who signed the agreement refused to make payment at the agreed rates but offered payment at the local schedule of rates and prevented the Company from removing their tools and plant from the site. The Company had to yield to this unacceptable condition. The loss incurred by the Company in this case had not been assessed (October 1982).

(i) According to the service conditions approved by the Government and the agreement executed with the Company the workers deployed in Libya are entitled to 30 days leave on full pay and 20 days leave on half pay for every completed year of service in Libya. While the unavailed portion of the full pay leave can be encashed after completion of the period of the contract, there is no provision for encashment of half pay leave.

However, the Officer on Special Duty in Benewalid permitted workers to encash half pay leave also without the permission of the Board of Directors of the Company. The amount paid on this account to 151 of the workers repatriated before May 1980 worked out to Rs. 1.66 lakhs (LD 7,550). Details of similar payments made to other workers were awaited (March 1983).

The Board of Directors decided (November 1979) to refer the matter to Government. Government's decision in the matter was awaited (March 1983).

6.06. Kerala State Small Industries Development and Employment Corporation Limited

6.06.1. *Arrears in accounts*

The Company which was incorporated on 6th November 1975 with an authorised capital of Rs. 500 lakhs had a paid-up capital as on 31st March 1982 of Rs. 429.36 lakhs fully subscribed by the State Government. The accounts of the Company are in arrears from 1978-79. In the absence of the finalised accounts, no clear picture about the working of the Company since 1978-79 is available even to make a provisional assessement. The postings of Ledger Accounts, Stock Accounts, Loans Registers, *etc.*, are all in arrears. It has not also been possible to assess as to how far the Company had achieved the objectives for which it was set up. The following points were, however, noticed:—

6.06.2. *New Industries Programme*

(i) The new industries programme of the State Government (aiming at industrialisation of rural areas) entrusted to the Company contemplated establishment of 1000 mini industrial estates in rural areas within a period of 5 years from 1975-76 for the setting up of 10,000 new small scale industries at the rate of 10 industries in each panchayat. Only 110 mini industrial estates were completed by the Company up to March 1983.

(ii) Out of 360 sheds in 36 estates owned by the Company, 8 sheds were vacant and industries in 170 sheds were not functioning.

The sheds constructed in the industrial estates were intended for sale to the entrepreneurs to whom the sheds were allotted on hire-purchase basis. According to the hire-purchase rules framed by the Company, the allottees were required to execute agreements with the Company and are required to insure their sheds against all risks with the State Insurance Department. Agreements had not been executed by 183 out of 343 units. The allottees had also not insured their sheds as required under the rules.

6.06.3. *Import of cement*

(a) Government of India appointed (January 1978) the Company as the handling agent for the cement imported by the State Trading Corporation of India at the ports of Cochin, Trivandrum and Beypore. The Cochin Port Trust was recovering the port charges on the basis of gross weight of the cargo. Though

Government of India issued instructions (October 1979) that port charges paid by handling agents on gross weight basis were reimbursable, the Company had not claimed any reimbursement of port charges paid by them. Such port charges reimbursable in respect of 22 cases relating to the period 1978-79 to 1981-82 reviewed in audit amounted to Rs. 0.25 lakh.

(b) The Government of India orders also provided for reimbursement of port charges and stevedoring charges from the Cement Regulation Account in respect of burst bags or sweepings. The Company had not preferred any claims on this account prior to 1981-82. For the period from 1978-79 to 1980-81, the amount reimbursable in respect of 21 out of 50 vessels amounted to Rs. 0.41 lakh.

(c) The contract for clearing, handling, rebagging and forwarding of imported cement arriving at Valiathura on 18th March 1980 was awarded on 17th March 1980 to the lowest tenderer on the basis of rates quoted in response to a tender notification of February 1980. The contractor failed to carry out the work. The Company, therefore, cancelled the contract at the risk and cost of the contractor and awarded the work on 21st March 1980 to the 2nd lowest tenderer after negotiation at the rate quoted by the lowest tenderer. As the minimum discharge from the ship was far below the target fixed by the Government of India, the ship was on demurrage from 29th March 1980 after expiry of the lay time. After unloading a quantity of 4347 tonnes, the Company terminated (April 1980) the second contract also at the risk and cost of contractor. The ship was then diverted (13th April 1980) to Tuticorin Port and the balance of cement unloaded there. This resulted in an extra expenditure of Rs. 5.39 lakhs towards diversion, demurrage, extra loading charges, *etc*. A lawyer's notice issued (July 1981) to the 2nd contractor for recovery of liquidated damages was rejected by him. Management indicated (January 1983) that the matter was under arbitration.

(d) In the case of imported cement the suppliers are required to send along with shipment of cement 3 *per cent* empty paper bags free of cost for being used for rebagging of burst and damaged bags. Between January 1978 and June 1982 (5 operations) the Company received 4.06 lakhs empty paper bags along with the cargo. The bags, however, were not utilised on the ground that the labourers were not skilled enough to do the rebagging with paper bags. The rebagging of the torn and damaged cement bags was got done by the Company using 12.52 lakhs second-hand gunny bags, purchased at rates varying from Rs. 1.50 to Rs. 1.70 per bag. While settling the claims for rebagging, the Insurance Company reimbursed only the cost of gunny bags used in excess of the paper bags received free of cost. The empty paper bags received with the cargo were disposed of at rates ranging between Re. 0.47 and Re. 0.90 per bag. The extra expenditure incurred by the Company on this account amounted to Rs. 3.25 lakhs approximately.

Chapter II

STATUTORY CORPORATIONS

Section VII

7.01. Introduction

There were four statutory corporations as on 31st March 1982, *Viz.* Kerala State Electricity Board, Kerala State Road Transport Corporation, The Kerala Financial Corporation and Kerala State Warehousing Corporation.

The accounts of the following Corporations were received in Audit for the period noted against each and these were under audit.

Name of Corporation	*Year of accounts which were received for audit*	*Date of receipt of accounts in Audit*	*Remarks*
Kerala State Road Transport Corporation	1979-80	December 1980	Reply to preliminary comments received from the Corporation in January 1983, is under examination.
	1980-81	March 1982	The accounts have been revised by the Corporation in March 1983. Replies to the preliminary comments issued (between May and November 1982) are still awaited from some units.
Kerala State Electricity Board	1980-81	April 1982	Reply to the draft comments (issued in January 1983) received from the Board in March 1983 is under examination.

The accounts of the above Corporations for 1981-82 were not compiled and rendered to Audit for scrutiny up to March 1983.

The position of arrears in the finalisation of accounts of the above two Corporations was last brought to the notice of Government in November 1982.

A synoptic statement showing the summarised financial results of the Corporations based on the latest available accounts is given in Annexure C.

7.02. Kerala State Electricity Board

The Kerala State Electricity Board was formed on 1st April 1957 under Section 5(i) of the Electricity (Supply) Act, 1948. The accounts of the Board for the year 1979-80 duly certified together with the audit certificate and report thereon, were forwarded to the State Government in August 1982 for being presented to the State Legislature in terms of Section 69(4) of the Act. The working results, operational performance, detailed reviews on the working of transformers, meters and relay divisions and billing and revenue and some other aspects of the working of the Board have been dealt with in Section VIII of this Report.

7.03. Kerala State Road Transport Corporation

The Kerala State Road Transport Corporation (KSRTC) was established on 15th March 1965 under Section 3 of the Road Transport Corporations Act, 1956. The working results, operarational performance, detailed reviews on execution of civil engineering works and utilisation of man-power and some other aspects of the Corporation have been dealt with in Section IX of this Report.

7.04. The Kerala Financial Corporation

The Kerala Financial Corporation was established on 1st December 1953 under Section 3(i) of the State Financial Corporations Act, 1951.

7.04.1. *Paid-up capital*

The paid-up capital of the Corporation as on 31st March 1982 was Rs. 5,60.42 lakhs (State Government: Rs. 3,07.92 lakhs; Industrial Development Bank of India (IDBI): Rs. 2,27.92 lakhs; others: Rs. 24.58 lakhs) against the paid-up capital of Rs. 4,48.42 lakhs (State Government: Rs. 2,27.92 lakhs; IDBI: Rs. 1,95.92 lakhs; others: Rs. 24.58 lakhs) as on 31st March 1981.

7.04.2. *Guarantees*

The State Government had guaranteed the repayment of share capital of Rs. 5,29.42 lakhs (excluding special share capital of Rs. 31 lakhs) under Section 6 of the Act and payment of minimum dividend thereon at the rate of 3.5 *per cent*. Subvention paid by Government (up to 1981-82) towards the guaranteed dividend amounted to Rs. 25.79 lakhs, of which Rs. 0.20 lakh were repaid (1973-74) leaving Rs. 25.59 lakhs outstanding for repayment as on 31st March 1982. The table below indicates the details of other loans/repayments guaranteed by the Government with interest thereon:—

Particulars	*Years of guarantee*	*Amount Guaranteed*	*Amount outstanding as on 31st March 1982*
		(*Rupees in lakhs*)	
1. Bonds	1969-70 to 1981-82	26,67.50	26,67.50
2. Fixed deposits	1974-75, 1977-78 and 1978-79	2,40.00	62.23†
	Total	29,07.50	27,29.73

† The amount as per Finance Accounts is Rs. 61.52 lakhs and the difference of Rs. 0.71 lakh is under reconciliation.

7.04.3. *Financial position*

The table below summarises the financial position of the Corporation for the 3 years up to 1981-82:—

	1979-80	1980-81 (*Rupees in lakhs*)	1981-82
Capital and liabilities			
(a) Paid -up capital	3,16.00	4,48.42	5,60.42
(b) Reserve fund and other reserves and surplus	3,88.00	4,52.44	6,26.34
(c) Borrowings			
(i) Bonds and debentures	22,82.50	25,30.00	26,67.50
(ii) Deposits	69.56	65.00	62.23
(iii) Others	16,23.36	18,56.60	19,44.10
(d) Subvention paid by the State Government on account of dividend	17.25	25.59	25.59
(e) Other liabilities and provisions	1,75.71	2,63.27	3,77.74
Total	48,72.38	56,41.32	62,63.92
Assets			
(a) Cash and Bank balances	2,62.66	1,37.68	1,52.37
(b) Investments	26.03	26.03	21.03
(c) Loans and advances	42,56.79	50,23.60	56,44.58
(d) Debentures, shares *etc*., acquired under underwriting agreements	21.32	21.32	21.32
(e) Net fixed assets	15.75	25.71	28.70
(f) Dividend deficit account	17.25	25.59	25.59
(g) Other assets	2,72.58	3,71.40	3,70.33
(h) Accumulated loss	..	9.99	..
Total	48,72.38	56,41.32	62,63.92
Capital employed†	42,85.87	50,15.56	56,06.52

† Capital employed represents the mean of the aggregates of opening and closing balances of paid-up capital, bonds and debentures, borrowings, deposits and free reserves.

7.04.4. *Working results*

The following table gives the details of working results of the Corporation for the 3 years up to 1981-82:—

Particulars	1979-80	1980-81	1981-82
		(*Rupees in lakhs*)	
1. Income			
(a) Interest on loans and advances †	2,99.05	4,25.55	5,44.49
(b) Other income	11.09	15.12	6.45
Total	3,10.14	4,40.67	5,50.94
2 Expenses			
(a) Interest on long-term loans	2,31.29	2,84.00	2,98.57
(b) Other expenses	77.09	1,29.53	93.79
Total	3,08.38	4,13.53	3,92.36
3. Profit before tax	1.76	27.14	1,58.58
4. Provision for tax	..	29.70	53.54
5. Other appropriations	1.00	20.54	1,04.97
6. Amount available for dividend	0.76	..	0.07
7. Subvention received**	8.34	††	††
8. Dividend paid/payable	9.10	11.33	16.45§
9. Total return on capital employed	2,33.05	3,11.14	4,57.15
		(*per cent*)	
10. Percentage of return on capital employed	5.44	6.20	8.15

† Interest accrued but not taken into account by the Corporation was Rs. 61.94 lakhs, Rs. 51.10 lakhs and Rs. 78.86 lakhs for 1979-80, 1980-81 and 1981-82 respectively as the Corporation had switched over to accounting of the income on cash basis instead of on accrual basis.

** Subvention actually received during 1980-81.

†† Rs. 11.33 lakhs sanctioned (November 1982) by Government towards subvention for 1980-81 was received by the Corporation during 1982-83. The subvention due (Rs. 16.38 lakhs) for the year 1981-82 has not been sanctioned by Government so far (June 1983).

§ Payable.

7.04.5. *Disbursement and recovery of loans*

The performance of the Corporation in the disbursement/recovery of loans during the 3 years up to 1981-82 is indicated below:—

Particulars	1979-80		1980-81		1981-82		*Cumulative since inception*	
	Number	*Amount (Rupees in lakhs)*	*Number*	*Amount (Rupees in lakhs)*	*Number*	*Amount (Rupees in lakhs)*	*Number*	*Amount (Rupees in lakhs)*
1. Applications pending at the beginning of the year	576	5,80.72	520	17,25.24	728	24,57.43	..	..
2. Applications received	867	25,70.69	924	23,21.04	615	19,65.73	7,277	1,63,99.62
3. Total	1,443	31,51.41	1,444	40,46.28	1,343	44,23.16	7,277	1,63,99.62
4. Applications sanctioned	704	9,97.33	431	9,95.10	197	4,01.11	4,695	84,21.13
5. Applications cancelled/withdrawn/rejected	219	4,28.84	285	5,93.75	176	4,08.86	1,612	43,65.30*
6. Applications pending at the close of the year	520	17,25.24	728	24,57.43	970	36,13.19	970	36,13.19*
7. Loans disbursed	430	7,29.99	638	8,42.06	282	5,85.14	4,035	61,06.32
8. Loans outstanding at the close of the year	2,754	42,56.79	3,390	50,23.60	3,495	56,44.58	3,495	56,44.58
9 Amount overdue for recovery								
(a) Principal	1,948	8,44.33	3,045	10,75.53	†	22,27.35		
(b) Interest	1,948	5,57.22	3,045	7,49.22	†			
(c) Percentage of defaults to total loans outstanding		(*Per cent*) 32.93		(*Per cent*) 36.32		(*Per cent*) 39.46		

†Information not available

*The figures as per Annual Report for 1981-82 were Rs. 43,65.59 lakhs and Rs. 35,14.88 lakhs respectively. The difference is under reconciliation.

The age-wise analysis of overdue amount (Rs. 22,27.35 lakhs) towards principal and interest are not available with the Corporation for the year 1981-82 (June 1983).

The above amount excludes—

(a) Rs. 7,25.16 lakhs in respect of 237 cases in which suits have been filed for the recovery of dues; and

(b) Rs. 82.46 lakhs due from Kerala State Textile Corporation Limited

7.04.6. *Other topics of interest*

Payment of commitment charges

Under the refinancing scheme of the Industrial Development Bank of India (IDBI), commitment charges at one *per cent* (0.5 *per cent* in backward districts) on the undrawn amount of refinance sanctioned by the Bank is payable from the date of expiry of the grace period (6 months from the date of communication of the sanction of refinance) till the date of receipt of request for disbursement of the undrawn amount or cancellation of refinance.

In 25 cases where loans aggregating Rs. 72.53 lakhs were sanctioned by the Corporation between December 1972 and December 1977 and where refinance was arranged, the loanees did not avail of the loans. The loans in these cases stood automatically cancelled after one year from the date of sanction.

On the basis of a decision (June 1973) by the Board of Directors, the practice of passing on the debit on account of commitment charges to the accounts of individual loanees simultaneously with the payment to IDBI was dispensed with. There were instances of delay (ranging from 1 to 5 years) on the part of the Corporation in reviewing these cases and initiating action for cancellation of refinance sanctioned by the IDBI resulting in an avoidable payment of commitment charges of Rs. 1.50 lakhs to the IDBI between June 1976 and June 1981.

The Management stated (January 1983) that arrangements were being made to review the undrawn portion of the refinance and cancel them in order to avoid payment of commitment charges to IDBI.

7.05. Kerala State Warehousing Corporation

The Kerala State Warehousing Corporation was established on 20th February 1959 under Section 28 of the Agricultural Produce (Development and Warehousing) Corporations Act, 1956.

7.05.1. *Paid-up capital*

The paid-up capital of the Corporation was Rs. 1,96.80 lakhs (State Government: Rs. 98.40 lakhs; Central Warehousing Corporation: Rs. 98.40 lakhs) as on 31st March 1982 against the paid-up capital of Rs. 1,66.80 lakhs (State Government: Rs. 83.40 lakhs; Central Warehousing Corporation: Rs. 83.40 lakhs) as on 31st March 1981.

7.05.2. *Financial position*

The table below summarises the financial position of the Corporation for the three years up to 1981-82:—

		1979-80	1980-81	1981-82
			(*Rupees in lakhs*)	
Liabilities				
(a)	Paid-up capital	1,56.80	1,66.80	1,96.80
(b)	Reserves and surplus	24.66	34.60	53.35
(c)	Borrowings	33.94	26.68	17.11
(d)	Trade dues and other current liabilities	35.32	57.23	58.76
	Total	2,50.72	2,85.31	3,26.02
Assets				
(a)	Gross block	1,77.52	1,96.35	2,08.83
(b)	*Less*: Depreciation	30.87	36.55	42.47
(c)	Net fixed assets	1,46.65	1,59.80	1,66.36
(d)	Capital works-in-progress	16.54	1.12	10.59
(e)	Current assets, loans and advances	87.53	1,24.39	1,49.07
	Total	2,50.72	2,85.31	3,26.02
	Capital employed**	1,99.02	2,27.00	2,56.67

** Capital employed represents net fixed assets *plus* working capital.

7.05.3. *Working results*

The following table gives the details of working results of the Corporation for the three years up to 1981-82:—

	1979-80	1980-81	1981-82
		(*Rupees in lakhs*)	
1. Income			
(i) Warehousing Charges	51.50	57.30	95.90
(ii) Other income	14.78	24.24	23.63
Total	66.28	81.54	1,19.53
2. Expenses			
(i) Establishment charges	33.71	37.84	49.66
(ii) Interest	3.92	4.04	2.83
(iii) Other expenses	24.85	28.14	32.09
Total	62.48	70.02	84.58
3. Profit (+)/Loss (−) before tax	(+)3.80	(+)11.52	(+)34.95
4. Provision for tax	..	..	4.10
5. Other appropriations	2.23	9.85	21.01
6. Amount available for dividend	1.57	1.67	9.84
7. Total return on capital employed	(+)7.72	(+)15.56	(+)37.78
		(*per cent*)	
8. Percentage of return on capital employed	3.88	6.85	14.72

7.05.4. *Operational performance*

The following table gives details of storage capacity created, capacity utilised and other information about the performance of the Corporation for the three years up to 1981-82:—

Particulars	1979-80	1980-81	1981-82
(i) Number of stations covered	52	69	62
(ii) Storage capacity created up to the end of the year (tonnes)			
(a) Owned	50,878	57,878	59,586
(b) Hired	64,555	75,417	67,978
Total	1,15,433	1,33,295	1,27,564
(iii) Average capacity (tonnes)	1,16,053	1,23,312	1,32,203
(iv) Average capacity utilised during the year (tonnes)	74,727	76,120	86,455
(v) Percentage of utilisation	64.39	61.73	65.40
(vi) Average revenue per tonne (Rupees per year)	57.11	66.12	90.41
(vii) Average expenses per tonne (Rupees per year)	53.84	56.78	63.98

Section VIII

KERALA STATE ELECTRICITY BOARD

8.01.1. *Capital*

The capital requirements of the Board are provided in the form of loans from the Government, banks and other financial institutions, as also public loans.

The aggregate of long-term loans (including loans from Government) obtained by the Board was Rs. 3,56,93.70 lakhs at the end of 1980-81 and represented an increase of Rs. 22,88.34 lakhs *i.e.*, 6.85 *per cent* on the long-term loans of Rs. 3,34,05.36 lakhs as at the end of the previous year. Details of loans obtained from different sources and outstanding at the close of the two years up to 31st March 1981 were as follows:—

Source	*Amount outstanding as on 31st March 1980*	*Amount outstanding as on 31st March 1981**	*Percentage of increase*
	(*Rupees in lakhs*)		
State Government	1,77,18.14@	1,82,17.36@	2.82
Other sources	1,56,87.22	1,74,76.34	11.40
Total	3,34,05.36	3,56,93.70	6.85

8.01.2. *Guarantees*

Government had guaranteed the repayment of loans raised by the Board to the extent of †Rs. 1,47,78.30 lakhs and the payment of interest thereon. The amount of principal guaranteed and outstanding as on 31st March 1981 was Rs. 1,29,46.36 lakhs.

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*Figures for 1980-81 are provisional.

@The amounts as per Finance Accounts are Rs. 1,87,75.39 lakhs and Rs. 1,92,74.61 respectively and the difference of Rs. 10,57.25 lakhs is under reconciliation.

†The amount as per Finance Accounts is Rs. 1,41,40.82 lakhs and the difference of Rs. 6,37.48 lakhs is under reconciliation.

8.01.3. *Financial position*

The financial position of the Board at the close of the 3 years up to 1980-81 is given in the following table:—

	1978-79	1979-80	1980-81*
		(*Rupees in lakhs*)	
Liabilities			
(a) Loans from Government (Interest: 4 to 10.75 *per cent* per annum)	1,75,58.12	1,77,18.14	1,82,17.36
(b) Other long-term loans including bonds			
(i) Public loans (interest: 6 to 7 *per cent*)	85,80.00	96,25.00	1,06,70.00
(ii) Life Insurance Corporation of India (interest: 7.75 to 11 *per cent*)	33,37.83	37,90.90	42,53.97
(iii) Rural Electrification Corporation Limited (interest: 5 to 9 *per cent*)	9,31.35	10,74.38	10,74.89
(iv) Rural debentures (interest: 10.25 to 12 *per cent*)	4,26.91	4,56.67	4,56.76
(v) ARDC Schemes (interest: 9.5 to 10.5 *per cent*)	2,65.45	7,40.27	10,20.72
(c) Reserves and surplus (excluding depreciation reserves)	35,22.33	39,16.28	43,91.53
(d) Current liabilities	66,45.58	72,69.20	1,20,35.19
Total	4,12,67.57	4,45.90.84	5,21,20.42

* Provisional

Assets	1978-79	1979-80	1980-81*
		(*Rupees in lakhs*)	
(a) Gross fixed assets	3,34,94.57	3,51,14.78	3,72,68.52
Less: Depreciation	66,57.17	75,37.05	84,75.42
(b) Net fixed assets	2,68,37.40	2,75,77.73	2,87,93.10
(c) Capital works-in-progress	28,61.75	39,36.00	53,24.38
(d) Current assets	1,15,68.42	1,30,77.11	1,80,02.94
Total	4,12,67.57	4,45,90.84	5,21,20.42
Capital employed	3,11,96.88	3,28,05.42	3,43,47.53

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

8.01.4. *Working results*

The working results of the Board for the 3 years up to 1980-81 are summarised below:—

	1978-79	1979-80	1980-81*
		(*Rupees in lakhs*)	
(a) Revenue receipts	84,21.74	91,24.90	1,06,86.54
(b) Subsidy from State Government	5,37.00	..	..
Total	89,58.74	91,24.90	1,06,86.54
(c) Revenue expenditure including depreciation on fixed assets	47,97.15	58,70.96	70,70.64
(d) Gross surplus for the year @	41,61.59	32,53.94	36,15.90
(e) Appropriations			
(i) Capital redemption reserve	..	..	3,37.22
(ii) Interest on Government loans	32,83.41	22,24.15	20,24.07
(iii) Interest on other loans and bonds	8,78.18	10,29.79	12,54.61
Total	41,61.59	32,53.94	36,15.90

*Provisional

@Includes net amount of prior period expenditure and receipts which are not classified separately in the accounts of the Board.

		1978-79	1979-80	1980-81*
			(*Rupees in lakhs*)	
(f)	Total return on capital employed	41,61.59	32,53.94	36,15.90
			(*Per cent*)	
(g)	Rate of return on capital employed	13.34	9.92	10.53
			(*Rupees in lakhs*)	
(h)	Liabilities not provided for (interest on loans)	20,55.35	9,09.26	..

The rate of return expressed as percentage of capital employed had increased in 1980-81 over that in 1979-80, mainly due to increase in revenue on account of sale of power to other States.

8.01.5. *Operational performance*

(i) The following table indicates the operational performance of the Board for the 3 years up to 1980-81:—

	Particulars	1978-79	1979-80	1980-81
1.	Installed capacity Hydel (MW)	1011.5	1011.5	1011.5
2.	Normal maximum demand (MW)	852.4	854.2	837.8
3.	Power generated (MKWH) Hydel	5190.4	5118.6	5241.6
	Less: Auxiliary consumption (MKWH)	37.7	35.0	38.2
4.	Net power generated (MKWH)	5152.7	5083.6	5203.4
5.	Power purchased (MKWH)	13.6	50.9	43.6
6.	Total power available for sale (MKWH)	5166.3	5134.5	5247.0
7.	Power sold (MKWH)	4516.5	4318.2	4499.9

*Provisional

	1978-79	1979-80	1980-81
8. Transmission and distribution loss (MKWH)	649.8	816.3	747.1
9. Percentage of transmission and distribution loss (expressed as percentage of energy available for sale)	12.6	15.9	14.2
10. Load factor (Percentage)	69.7	69.1	71.6
11. Number of units generated per KW of installed capacity	5131	5060	5182

(ii) The following table gives other details about the working of the Board as at the end of the 3 years up to 1980-81:—

Particulars	1978-79	1979-80	1980-81
1. Villages/towns electrified (in numbers)	1,248	1,268	1,268
2. Pumpsets/wells energised (in numbers)	66,240	78,296	91,388
3. Pumpsets/wells awaiting energisation at the end of the year	2,180	1,826	1,657
4. Application for loads pending at the end of the year	50,071	50,178	29,600
5. Load involved (KW)	31,420	30,074	19,344
6. Number of sub-stations (EHT)	80	87	91
7. Transmission/distribution lines (circuit KM)			
(i) High/medium voltage	17,097.6	17,691.6	18,706.6
(ii) Low voltage	39,795.9	43,279.2	55,962.5
Total	56,893.5	60,970.8	74,669.1
8. Connected load (MW)	1,737.68	1,887.44	2,045.21
9. Number of consumers	11,71,728	13,36,682	15,71,702
10. Number of employees	24,286	31,331	31,194
11. Total expenditure on staff (Rupees in lakhs)	26,62.92	29,41.46	38,71.00
12. Percentage of expenditure on staff to total revenue expenditure	55.51	50.10	54.75

(iii) The following table gives the details of power sold and the revenue, expenses and profit/loss (per KWH sold) during the 3 years up to 1980-81:—

		1978-79	1979-80	1980-81
1.	Units sold (MKWH)			
	(a) Agriculture	85.9	80.4	79.7
	(b) Industrial	1,740.4	1,637.5	1,912.9
	(c) Commercial	143.9	158.0	185.0
	(d) Domestic	282.4	354.0	443.0
	(e) Others	2,263.9	2,088.3	1,879.3
	Total	4,516.5	4,318.2	4,499.9
2.	Revenue per KWH (paise)†	18.65	21.13	23.75
3.	Expenditure per KWH (paise)††	10.62	13.60	15.71
4.	Profit per KWH (paise)	8.03	7.53	8.04

8.02. Working of Transformer Meter Relay Divisions

8.02.1. *Introduction*

The Board set up 3 Transformer Meter Relay (TMR Divisions at Pallom (1962), Shoranur (1969) and Thirumala (1976) mainly for undertaking repairs of defective/damaged transformers and meters and also for testing newly purchased transformers and meters before taking them to stock. A separate unit is also functioning (since August 1972) at Cannanore under the Shoranur division to augment the facilities for repairing single phase (SP) meters. The staff and other facilities required for repairing transformers and meters have been separately provided for in the divisions.

The divisions are under the direct charge of Works Managers and supervisory charge of Chief Engineer (Electricity).

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† Revenue per KWH sold, arrived at after excluding subsidy from State Government.

†† Inclusive of total depreciation for the year but excluding interest on loans.

8.02.2. The following points were noticed (September 1982) in audit, on a review of the working of the TMR Divisions:—

(i) *Transformers*

(a) According to the settlement reached (February 1980) by the Board with the various labour unions, the minimum number of transformers to be repaired in a unit was fixed at 35 per month. The table below indicates the details of transformers actually repaired during 1980-81 and 1981-82:—

Year	*Minimum number of transformers to be repaired as per norm*	*Actual number of transformers repaired*			*Shortfall*		
		Shoranur	*Pallom*	*Thirumala*	*Shoranur*	*Pallom (Percentage)*	*Thirumala*
1980-81	420	221	297	208	47.4	29.3	50.5
1981-82	420	352	191	251	16.2	54.5	40.2

The Board stated (December 1982) that the shortfall in repairs was due to the diversion of the staff for testing new transformers and scraping old ones for which separate norms have not been fixed.

The Committee on Public Undertakings (1980-81) in their 17th Report observed that huge amounts of repairing charges given to private agencies could be avoided had a proper check been exercised in respect of maintenance and upkeep of transformers in use. It was, however, noticed that 417 transformers in Shoranur division and 239 transformers in Pallom division were under repairs with private parties during 1982-83 and that during 1981-82, 141 transformers were got repaired by two contractors in Shoranur division at a total cost of Rs. 6.65 lakhs under a running contract given for a period of two years commencing from October 1981. In the absence of cost data, the cost of carrying out repairs through private agencies could not be compared with the cost of carrying out repairs in TMR divisions.

(b) Heavy accumulation of defective/damaged transformers awaiting repairs in the workshops was mentioned in Audit Report 1969 (paragraph 90), Audit Report 1970-71 (paragraph 84) and Audit Report (Commercial) 1975-76 (paragraph 2.21). The Board had stated (October 1976) that consequent on the formation of the workshop at Thirumala in July 1976, backlog in repair of faulty transformers would be cleared in two years. It was, however, noticed in Audit that the accumulation of faulty transformers continued even after 1978. The number of faulty transformers awaiting repair at the three workshops at the close of the three years ended 31st March 1982 is indicated below:—

Divisions	*Transformers awaiting repairs (Year end)*		
	1979-80	1980-81	1981-82
Shoranur	776	1,058	796
Pallom	338	404	282
Thirumala	168	89	118
Total	1,282	1,551	1,196

While large number of transformers was awaiting repairs in the workshops, the Board ordered purchase of 985 transformers (cost: Rs. 1,66.05 lakhs) during 1979-80, 1,375 transformers (cost: Rs. 2,97.15 lakhs) during 1980-81 and 1,215 transformers (cost: Rs. 2,87.54 lakhs) during 1981-82.

(c) *Purchase of current transformers*

The Chief Engineer (Electricity) placed (May 1978) orders with a firm of Bombay for supply of 1,600 current transformers at Rs. 29 each *f.o.r.* destination. The supplies were to be effected at the rate of 800 transformers each at Shoranur and Pallom within three months from reeipt of the order. It was agreed that 90 *per cent* of the value would be paid through bank against proof of despatch of documents subject to the supplier furnishing bank guarantee for the advance payment and the balance 10 *per cent* after receipt, verification and acceptance of the transformers.

On the request of the supplier (November 1978) to exempt him from the condition of producing bank guarantee on the ground that his was a small scale unit and that he could not afford to block huge amounts as bank guarantee, the Chief Engineer waived (December 1978) the provision for bank guarantee for the advance. The Chief Engineer also extended (February 1979) the delivery period up to 31st May 1979. The Board paid (July 1979) an advance of Rs. 0.44 lakh to the supplier against proof of despatch and took delivery (July-August 1979) of the transformers. The divisions informed (August 1979) the Chief Engineer that the transformers supplied by the firm did not conform to the approved sample and weighed only 500 grams each against 800 grams as per approved sample. The supplies were, therefore, rejected (August 1979). As all attempts to get the transformers replaced failed, the Chief Engineer instructed (February 1982) the divisions to keep the transformers in safe custody as legal proceedings were initiated (December 1981) against the supplier. The TMR Division, Pallom, had however, issued (between August 1979 and March 1980) 240 of the transformers for use in the various electrical divisions. The case filed (December 1981) for the realisation of 90 *per cent* advance made to the supplier is still pending (December 1982).

(ii) *Meters*

(a) For the correct assessment and realisation of revenue of the Board, it is necessary that the energy meters in the consumers' premises are kept in proper working condition and in good repair.

According to the agreement dated 23rd February 1980 with the labour unions, each unit should repair atleast 100 single phase meters and 45 three phase meters per day. The table below indicates the number of meters actually repaired during 1980-81 and 1981-82:—

Year	*Minimum as per norm at 240 days per annum*	*Shoranur*		*Pallom*		*Thirumala*		*Cannanore*	
		Actually repaired	*Utilisation (per cent)*	*Actually repaired*	*Utilisation (per cent)*	*Actually repaired*	*Utilisation (per cent)*	*Actually repaired*	*Utilisation (per cent)*
1980-81	Single phase 24,000	1,303	5.4	1,783	7.4	1,656	6.9	3,499	14.6
	Three phase 10,800	104	1.0	486	4.5	94	0.9	..	..
1981-82	Single phase 24,000	8,687	36.2	4,609	19.2	9,544	39.8	9,422	39.3
	Three phase 10,800	9	0.1	233	2.2	191	1.8	..	..

The shortfall in repairs was attributed (December 1982) by the Board to the diversion of staff for testing new meters for which separate norms have not been fixed.

(b) The table below indicates the details of meters awaiting repairs at the divisions as at the close of the three years ended 31st March 1982:—

Name of division	1979-80		1980-81		1981-82	
	Single phase	*Three phase*	*Single phase* (*Numbers*)	*Three phase*	*Single phase*	*Three phase*
Shoranur	1,763	1,651	192	1,393	9,830	3,091
Cannanore	1,105	Nil	4,714	Nil	354	Nil
Pallom	Nil	Nil	514	53	310	24
Thirumala	6,597	1,504	4,419	1,683	3,899	1,685
Total	9,465	3,155	9,839	3,129	14,393	4,800

The heavy accumulation of faulty meters was attributed by the Board (December 1982) to diversion of staff for calibrating and testing meters needed for connecting new services.

(iii) *Testing of transformers and meters*

(a) According to the purchase orders placed by the Board 90 *per cent* of the cost of transformers and meters were paid normally in advance on proof of despatch by the suppliers and the balance 10 *per cent* after receipt, verification and acceptance of the transformers. The transformers are guaranteed for trouble free service/against manufacturing defects for 18 months from the date of supply or 12 months from the date of installation whichever is earlier.

The table below indicates the number of transformers and meters tested and pending testing during the three years up to 31st March 1982:—

Station	*Item*	*Number tested*	*Pending testing*	*Number tested*	*Pending testing*	*Number tested*	*Pending testing*
		1979-80		1980-81		1981-82	
Shoranur	Transformers	526	Nil	744	166	362	130
	SP meters	34,872	19,039	50,079	12,048	23,129	5,901
	3P meters	5,757	11,418	5,950	13,190	8,929	7,223
Pallom	Transformers	565	Nil	477	Nil	745	Nil
	SP meters	12,552	871	29,644	2,273	4,823	72
	3P meters	7,239	348	10,711	25,076	12,452	13,609
Thirumala	Transformers	207	30	271	2	84	43
	SP meters	5,168	8,132	19,036	7,695	2,398	Nil
	3 P meters	..	Nil	..	Nil	3,324	9,005

The high pendency in testing meters at Thirumala was attributed (September 1982) by the Works Manager of the division to inadequate number of test benches. It was noticed in audit that meters and transformers received in the divisions after payment of advance were not taken to stock till they were tested. In the absence of proper records, the period for which these equipments remained out of accounts could not be ascertained. During physical verification (January-March 1981) of stores in the Pallom division conducted by the Board's officers, it was noticed that 15,314 meters received from April 1980 to February 1981 had not been accounted for, besides 318 boxes of meters remaining unopened and another 588 meters declared faulty.

(b) A test check conducted by Audit in August 1982 in Thirumala division revealed that 5,359 meters (3 phase) remained untested even after the expiry of the guarantee period.

(c) There is no prescribed procedure for sending faulty transformers and meters lying with the Electrical divisions/Sections to the TMR divisions for repairs. A test check conducted (July 1982) by Audit revealed that 3,666 faulty meters and 92 faulty transformers were lying in six electrical divisions without being sent to TMR divisions for repairs. Information regarding similar cases in other divisions is awaited (September 1982).

8.03. Billing and revenue

8.03.1. *Introductory*

The main revenue receipts of the Board are from the sale of electric power. The details of power sold, revenue earned therefrom, percentage of increase of revenue over the previous year and the earnings per KWH for the three years up to 1980-81 were as indicated below:—

	1978-79	1979-80	1980-81
Power sold (lakh kwh)	45,165.35	43,181.76	44,998.87
Percentage of increase (+)/ decrease(—) of power sold over previous year	(+)14.7	(—)4.4	(+)4.2
Revenue earned (Rupees in lakhs)	84,21.75	91,24.90	1,06,86.54
Percentage increase of revenue over previous year	47.52	8.35	17.11
†Revenue per kwh (in paise)	18.65	21.13	23.75

The increase in revenue per kwh was mainly due to upward revision of rates for supply of power to other States.

8.03.2. *Billing*

The assessment of revenue, issue of bills, watching over realisation of revenue and accounting in respect of high and extra high tension consumers and inter-state sales are done by the Special Officer (Revenue). Bills are prepared on the basis of meter readings furnished by the subordinate offices of electrical divisions.

†Revenue per KWH sold, arrived at after excluding subsidy from State Government.

In the case of low tension consumers, the work of billing and maintenance of accounts for energy consumed was done by revenue billing units organised under Assistant Accounts Officers till 14th June 1979. From 15th June 1979, the work was decentralised and is being attended to by the billing branches in the electrical section offices under Assistant Engineers. Meter reading, preparation and serving of bills, collection of revenue and its remittance are done by the section offices. Billing supervision units under Assistant Accounts Officers attend to compilation of accounts rendered by the section offices.

8.03.3. *Tariff revision*

Mention was made in paragraph 15 of the Audit Report (Commercial) for the year 1977-78 about the tariff revisions made in respect of various categories of consumers of electrical energy. The table below compares the domestic tariff from January 1970 and its impact on the average revenue per unit from time to time.

<table>
<tr><th rowspan="2"></th><th rowspan="2">Tariff prior to July 1974 (effective from January 1970)</th><th colspan="2">Tariff effective from</th></tr>
<tr><th>July 1974</th><th>June 1979</th></tr>
<tr><td>(a) Particulars of Tariff</td><td>For the First 60 units at 30 paise per unit subject to a minimum of Rs. 4 per meter per month</td><td>Fixed charge of Rs. 4 per month per consumer plus energy charges for the first 50 units at 25 paise per unit, for the next 50 units at 15 paise per unit, and for the balance at 10 paise per unit.</td><td>For average monthly consumption up to 100 units, rates are as follows:
<table>
<tr><th>Average monthly slab units</th><th colspan="2">Flat rate</th></tr>
<tr><th>Kwh.</th><th>Rs.</th><th>Ps.</th></tr>
<tr><td>0—15</td><td>5</td><td>00</td></tr>
<tr><td>16—20</td><td>6</td><td>00</td></tr>
<tr><td>21—30</td><td>10</td><td>50</td></tr>
<tr><td>31—40</td><td>13</td><td>00</td></tr>
<tr><td>41—50</td><td>15</td><td>50</td></tr>
<tr><td>51—65</td><td>18</td><td>00</td></tr>
<tr><td>66—80</td><td>20</td><td>50</td></tr>
<tr><td>81—100</td><td>23</td><td>00</td></tr>
</table></td></tr>
</table>

	Tariff prior to July 1974 (*effective from January* 1970)	*Tariff effective from* *July* 1974	*Tariff effective from* *June* 1979
	For consumption in excess of 60 units at 15 paise per unit	In case quarterly consumption did not exceed 45/60 units, a flat rate of Rs. 5/ Rs. 6 per month	For consumption above 100 units a month, fixed charge of Rs.24 per month plus 10 paise per unit for consumption in excess of 100 units
(b) Average revenue per Kwh (in paise)	34.08 (1973-74)	23.33 (1975-76)	21.78 (1980-81)

The downward revision of tariff from July 1974 was effected considering the all-round request from the public for reducing the tariff and the advice of the Committee on Public Undertakings in its Tenth report (1972-73). The main feature of the tariff revision made from June 1979, was extension of the system of slab rates to those consumers whose monthly consumption was up to 100 units to ensure collection of revenue at prescribed dates every month without issue of bills. Though reduction in rate was not aimed at in the revision made effective from June 1979, the average income per unit came down slightly.

The table below indicates the consumer composition, energy sold, revenue earned and average revenue per kwh during the three years up to 1980-81:—

	Category of consumers	*Supply point*	*Number of units sold (in lakh kwh)*			*Revenue earned (Rupees in lakhs)*			*Average revenue per kwh (in paise)*		
			1978-79	1979-80	1980-81	1978-79	1979-80	1980-81	1978-79	1979-80	1980-81
1.	Domestic or residential	LT	2824.71	3540.32	4429.84	658.54	807.54	964.84	23.31	22.81	21.78
2.	Commercial										
	(a) Lighting and fans	LT	1266.45	1377.13	1692.53	530.70	596.86	761.04	41.91	43.34	44.97
	(b) Small power	LT	172.01	202.56	156.97	51.15	50.67	32.09	29.74	25.01	20.44
3.	Industrial										
	(a) Industrial EHT and HT	HT	15428.53	14323.29	17046.91	1769.43	1340.44	1654.89	11.47	9.36	9.71
	(b) Low/medium voltage	LT	1975.84	2052.00	2082.09	404.71	414.75	452.62	20.48	20.21	21.74
4.	Public lighting	LT	349.00	355.41	416.95	118.57	238.88	296.04	33.97	67.21	71.00
5.	Irrigation—Agricultural dewatering	LT	858.79	803.81	797.07	102.77	110.27	120.90	11.97	13.72	15.17
6.	Public water works and sewage pumping	LT	296.62	320.38	368.01	48.27	51.67	75.22	16.27	16.13	20.44
7.	Bulk supplies										
	(a) Extra State consumers	HT	20971.89	19338.20	17325.29	2926.73	3856.15	4326.92	13.96	19.94	24.98
	(b) Licensees	HT	1021.51	868.66	683.21	120.23	114.32	89.62	11.77	13.16	13.12
	Total		45165.35	43181.76	44998.87	6731.10	7581.55	8774.18			
	Percentage of										
8.—	Power sold to industrial consumers to total sales within the State		71.9	68.7	69.1						
9.—	Revenue from sale of power to industrial consumers to total revenue (within the State)					57.1	47.1	47.4			

The quantity of power sold to other States showed a decreasing trend from 1979-80. In 1980-81, power sold to other States was 38.5 *per cent* of the total sale and the revenue earned therefrom was 49.3 *per cent* of the total revenue from sale of power. Even though 37.9 *per cent* of the total energy was consumed by EHT and HT consumers, revenue realised from them was only 18.9 *per cent* of the total revenue during 1980-81.

8.03.4. *Short assessment due to defective metering system*

Indian Electricity Rules, 1956 and notification issued by the State Government thereunder in September 1968, require the Board to examine, test and regulate all meters, maximum demand indicators and other apparatus installed for ascertaining the amount of energy supplied, before their first installation at the consumer's premises, and thereafter, every year in the case of high tension consumers and every two years in the case of low tension consumers. In accordance with this, the Transformer Meter Relay Division checks the performance of meters installed in the premises of HT consumers. The Assistant Engineer, who is required to record meter reading monthly in respect of HT consumers, has to see that the meters are working properly by verifying recorded consumption and load conditions.

Some instances of defective metering noticed in audit are mentioned below:—

(i) A double circuit summation metering system was introduced at Cochin Division of a Central Government company in July 1972. No defect in the meter was brought out at the time of installation, or, during the subsequent inspections conducted in October 1972, December 1974 and August 1976. On a verbal report from the Executive Engineer, TMR Division, Pallom that the meter system was not recording consumption correctly, an inspection was conducted in September 1976 by the Superintending Engineer along with the Executive Engineer in the presence of the Engineers of the Company. The inspection revealed that the whole mechanism suffered from wrong connections. The defect was rectified in September

1976. Based on the meter recording taken before and after rectification of defects, the Superintending Engineer concluded (September 1976) that there had been low metering right from the beginning and assessed the shortfall in reading up to August 1976 at 4.9 MW per month. Computed at the rate of Rs. 20 per KW per month, the short-billing amounted to Rs. 47.04 lakhs from September 1972 to August 1976. Instructions regarding the mode of reassessing revenue for the period sought (November 1976) by the Special Officer (Revenue) had not been given by the Chief Engineer and no demand had been raised so far (December 1982) in respect of the short-billing. Reasons for the delay of over 6 years in raising the demand called for by audit in March 1982 were awaited (March 1983).

(ii) Power connection was given to a high tension consumer at Trivandrum in May 1976. As the meter was not working since its installation, the consumer was being assessed at the minimum (maximum demand for 50 KVA *plus* guaranteed minimum). In reply to an enquiry (January 1977) of the Special Officer (Revenue), regarding non-recording of reading in the meter card, the Assistant Engineer replied (January 1977) that the internal installation in the premises of the consumer had not been completed. The Assistant Engineer who inspected the meter in March 1977 and December 1977 did not report any defect in the meter. Though no reading was recorded in the meter card for about four years, no action was initiated by the Special Officer (Revenue) during January 1977 to March 1980 when he requested the Assistant Engineer to inspect the meter and rectify the defect. On the basis of the report of the Assistant Engineer in December 1980 that the meter was faulty, it was replaced in May 1981. Based on the average maximum demand of 138 KVA and consumption for three normal months (August to October 1981) after replacement of the defective meter, the assessments from January 1981 onwards were revised. But no such revision was made in respect of the period from May 1976 to December 1980. The Board stated (March 1982) that the field officers were addressed to intimate the date on which optimum production was started by the consumer and that the invoices would be revised on getting the information. Reckoned at the average maximum demand of

138 KVA per month for three months from May 1981, the short realisation of revenue by way of maximum demand charges from May 1976 to December 1980 amounted to Rs. 1.09 lakhs.

(iii) The inspection conducted by the Assistant Engineer, Kuttiyadi Nadapuram Section in November 1975 revealed that the connection given (January 1972) at the meter terminals of a low tension industrial consumer was wrong with the result that the consumption indicated by the meter represented only one-third of the actual consumption. No action was, however, taken by him to replace/rectify the defective meter. Another inspection conducted by the Assistant Engineer of the same section in January 1979 revealed that the defect reported in November 1975 had not been rectified. The defect was rectified in the same month. The amount short-billed during the period January 1972 to December 1978 was assessed by the Board at Rs. 0.87 lakh for which a supplementary bill was raised (July 1979) fixing the last date for payment as 10th September 1979. The consumer did not pay the amount on the ground that the meter was being inspected by the officers of the Board occasionally and that no defect was pointed out by them and that the demand was therefore, illegal; he filed an appeal before the Electrical Inspector to Government against the demand. The case was pending (February 1983).

8.03.5. *Incorrect billing*

(i) In terms of the agreement entered (November 1979) into with a licensee at Munnar, (effective from 1st August 1976), the grid tariff in force from time to time was payable for the power supplied. The agreement entered into with the consumer specifically provided that taking into account the background in which the agreement was executed and other aspects, the Board allowed a rebate of 5 *per cent* of the grid tariff for the supply; but this rebate was not applicable to the monthly minimum payable. Monthly minimum payable in this case was the grid tariff rate for 75 *per cent* of the contract demand of 3000 KVA. However, the rebate was allowed even for the monthly minimum resulting in loss of revenue of Rs 1.81 lakhs from August 1976 to March 1982. On being pointed out in audit, the Special Officer (Revenue) referred (July 1982) the matter to the Board for clarification. The Board directed (September 1982) the Special Officer to obtain clarification in the first instance from the Chief Engineer (General) who executed the agreement. Further developments in the matter were awaited (December 1982).

(ii) According to the grid tariff applicable for licensees for supply at 11/66 KV introduced with effect from 1st August 1976, they were to be charged at actual maximum demand for the month or 75 *per cent* of the contract demand/connected load (whichever is relevant to the supply agreement) or 50 KVA, whichever is the highest.

The Board had been supplying power to a licensee in Cochin at 11 KV. The Board, however, charged the licensee on the basis of the actual maximum demand for every month which was less than 75 *per cent* of the connected load (6600 KVA + 6210 KVA) resulting in short-assessment of demand charges. Besides the demand charges, the licensee had to pay charges for the energy consumed at 9 paise per unit for the first 250 units per KVA of billing demand. Here also the billing demand was wrongly taken as actual monthly maximum demand instead of 75 *per cent* of the connected load resulting in short-billing for energy charges also. The total short-assessment amounted to Rs. 43.12 lakhs from August 1976 till the licence was revoked on 10th November 1979. Consequent under-assessment of electricity duty which is revenue of Government amounted to Rs. 12.94 lakhs.

The incorrect billing was first pointed out by Audit in July 1979; the Special Officer (Revenue) stated (November 1979) that the words '75 *per cent* of the contract demand/connected load (whichever was relavant to the agreement)' appearing in the tariff was subsequently deleted (September 1976) with effect from the date of introduction of new tariff for HT consumers. Audit pointed out (January 1980) that the deletion referred to above was applicable to HT consumers only and not to the licensees. Thereupon, the Special Officer sought (January 1981) clarification from the Board. Though the Board issued instructions in April 1981 to the Special Officer (Revenue) to revise the invoices in respect of all licensees who were short assessed, the revised bills have not so far been prepared and issued (March 1983). The Special Officer (Revenue) stated (April 1982) that the amount would be worked out on getting a copy of the agreement from the Board.

(iii) The Board had been supplying power to a high tension consumer in Veli through low tension meters. It was noticed in Audit (March 1982) that while raising invoices, 3 *per cent* transformer loss to be added as provided in the 'conditions for supply of electricity' was omitted to be reckoned for the assessment of demand charges from February 1977 to April 1980 and of energy charges from February 1977 to January 1978. The short-assessment of revenue due to non-reckoning of transformer loss amounted to Rs. 0.11 lakh. No demand was raised for the amount short-billed. Board's remarks were awaited (March 1983).

(iv) *Short-assessment due to defective meter reading*

On detecting the defective functioning of the meter soon after it was installed in October 1969 at the premises of a consumer in Tripunithura, the Board replaced (November 1969) the defective meter with another 25 A 3 phase meter having a five digit counter dial. During the period from November 1969 to November 1974, the monthly meter readings were recorded omitting the fifth digit on the wrong presumption that the last digit represented decimal point. When the mistake was detected (November 1974) by the meter reader it was found that energy charges were short-billed to the extent of 83,181 units during the period.

An Officer of the Board inspected (December 1974) the meter at the consumer's premises and found that it was tampered with. The Chief Engineer (Electricity) who conducted (March 1975) the investigation observed that the local officers had not inspected the premises and verified the consumption with the connected load till December 1974 and no meter card had been provided in the premises and this paved the path for the error in meter reading to go unnoticed. Under the Indian Electricity Rules, 1956, it was the duty of the Board to examine, test and regulate all meters before their first installation at the consumer's premises and thereafter every two years. Had this been done, the mistake could have been detected earlier.

As the bill for Rs. 0.17 lakh towards short-assessment of energy charges till 1975 served on the consumer by the Board (April 1975) was not paid by him, the matter was referred (September 1975) to the Regional Electrical Inspector, Alwaye. It was stated in his award (September 1981) that the whole affair was manipulated by the concerned meter readers and the loss, if any, might be recovered from them. It was also ordered to reassess the consumer from November 1973 to December 1974 on the basis of the average consumption from January to June 1975.

Apprehending that the implementation of the order would be against the interest of the Board, the Superintending Engineer, Electrical Circle (Ernakulam) requested (November 1981) the Chief Engineer (Electricity) to consider filing an appeal against the award of the Regional Electrical Inspector. Further developments are not known.

The matter was reported to the Board in November 1979 and to Government in November 1982. Their reply is awaited (January 1983).

8.03.6. *Supply of power to Government of Pondicherry*

The Board was supplying power in bulk at 11 KV for distribution in Mahe region through a licensee till the end of September 1968. With effect from 1st October 1968, the Government of Pondicherry took over the responsibility for distribution of power in this region by revoking the licence granted to the licensee.

The Board had been realising revenue for the supply of power from the Government of Pondicherry at the rate at which power was sold to the licensee till the end of December 1969. As a result of discussion held (June 1972) among the representatives of both the Governments of Pondicherry and Kerala and the Board, a unit rate of 9 paise was fixed for the power supplied from 1st January 1970 till 31st May 1973. The State Government's orders issued (September 1972) in this connection stipulated *inter alia,* that (i) the rate should be reviewed after 31st May 1973; (ii) the amount already paid for the power supplied prior to 1st January 1970 would be treated as final; (iii) no duty would be levied on the inter-state sale and (iv) the Board should enter into a formal agreement with the Government of Pondicherry. No formal agreement has, however, been executed between the Board and the Government of Pondicherry so far (December 1982). The amount already paid prior to 1st January 1970 was treated as final without ascertaining from the concerned billing units the arrears, if any, pending collection for the period prior to 1st January 1970. The rate was not reviewed after 31st May 1973 till February 1978 as envisaged in the orders of Government issued in September 1972.

Though grid tariff was introduced in the Board from 1st August 1976, the licensee was continued to be charged up to February 1978 at the unit rate of 9 paise fixed for the period from 1st January 1970 to 31st May 1973 notwithstanding the increase in the cost of production of electricity to 14 paise per unit during the period June 1973 to March 1976 and to 20 paise per unit from April 1976. The realisation of electricity charges (at 9 paise per unit) below the cost of production resulted in a loss of Rs. 5.29 lakhs from June 1973 to July 1976. The non-application of grid tariff introduced by the Board from 1st August 1976 for supply of power to licensee also resulted in a loss of Rs. 9.41 lakhs up to February 1978.

In a conference of the Ministers of Electricity of the two Governments held in February 1978, it was decided to apply the grid tariff in force from 1st March 1978. But no formal agreement was executed between the Board and the Government of Pondicherry in this regard. According to the grid tariff, the licensee was to be charged

— the actual maximum demand for the month or

— 75 *per cent* of the contract demand/connected load (whichever is relevant to the supply agreement) or

— 50 KVA whichever was the highest.

The licensee was, however, charged on the basis of maximum demand established during each month (which ranged between 1130 KVA and 1880 KVA) instead of 75 *per cent* of the connected load (3126 KVA) which was higher. This resulted in short recovery of revenue of Rs. 10.85 lakhs from March 1978 to March 1982. The Board had neither revised the assessment nor discontinued the incorrect billing. Remarks of the Board in this regard were awaited (June 1983).

8.03.7. *Loss due to supply of power at lower tariff*

Under the tariff in force from August 1976, energy supplied to colonies and town ships of EHT and HT consumers, Railways, Military campuses, Government quarters where the load is predominantly lighting, was to be charged at 15 paise per unit. However, in the case of Railway quarters at Quilon where energy was tapped from the high tension connection in the Railway premises and where separate meters were installed, energy charges were realised at 10 paise per unit (applicable to H T III Public utility consumers). The incorrect application of tariff resulted in short-assessment of revenue of about Rs. 0.19 lakh from April 1977 to March 1982. The matter was pointed out by Audit in March 1982. However, the consumers were continued to be charged at the lower rates. Remarks of the Board were awaited (June 1983).

8.03.8. *Unintended benefit derived by a consumer*

In the case of high tension industrial supply for general purposes, the connected load for factory lighting is to be restricted to 5 *per cent* of the connected load of power. If the lighting load exceeds 5 *per cent*, it was obligatory for the consumer to segregate the load by a sub-meter. If segregation of load for lighting is not possible, the entire consumption is to be charged at HT tariff rates plus 20 *per cent*.

In the case of a high tension consumer at Kottakkal, the sub-meter installed in 1962 for segregating load for lighting was dismantled by the Board (January 1980) at the consumer's request to facilitate some additional erection work for taking additional load. The sub-meter for lighting was installed only in December 1982 though the additional work was completed in January 1980.

It was noticed in audit (August 1982) that the charges realised for lighting prior to dismantling of the sub-meter ranged between 50 *per cent* (March 1979) and 70 *per cent* (September 1979) of the power charges whereas the lighting charges after dismantling of the sub-meter were limited to 20 *per cent* of the power charges. In as much as segregation of lighting load was obligatory and it was already known to the Board that dismantling of sub-meter would entail loss of revenue, the Board should have shifted the sub-meter to a convenient place instead of dismantling it. Based on the average lighting charges realised for ten months prior to dismantling of the lighting sub-meter, the Board had been incurring loss at Rs. 600 per month from January 1980. The loss sustained by the Board up to November 1982 was Rs. 0.21 lakh.

Reasons for the delay in re-installation of the sub-meter were awaited (July1983).

8.03.9. *Minimum guarantee schemes*

(a) The Board takes up extension of distribution lines on the basis of agreements executed by the beneficiaries guaranteeing minimum return of 10 *per cent* per annum on the estimated capital cost of the work. As per the terms in the agreement, the guarantors should apply for service connection within two months of intimation from the Board, its readiness to supply energy. If the guarantors fail to apply for service connection or discontinue to take supply during the guaranteed period, they are liable to pay the guaranteed amount every month from the date of expiry of 2 months or from the date of discontinuance of supply. The amount, thus, due from 1939 unconnected guarantors in 16 out of 55 billing supervision units till the end of March 1982 amounted to Rs. 15.35 lakhs. Year-wise analysis of arrears and action taken to realise the dues are awaited (September 1982). Details in respect of other billing supervision units were also awaited (August 1982).

(b) *Non-revision of minimum guarantee amounts*

The amount guaranteed under minimum guarantee agreements executed by the prospective beneficiaries, initially fixed on the basis of the estimated cost of work is liable to be revised if the actual cost of work exceeds the estimated cost. In 28 sections test checked, the expenditure on completion of work was neither ascertained nor any action taken to revise the minimum guaranteed amount on the basis of actual cost.

8.03.10. *Bank reconciliation*

(i) HT and EHT consumers are required to remit electricity charges to the account of the Board opened for the purpose in specified banks. The banks send a copy of the pay-in-slips to the Special Officer (Revenue) based on which monthly accounts are compiled. The amounts so collected are transferred to the Central Collection Account of the Board maintained at the Trivandrum branch of the bank. The Board had not been ensuring that the amounts credited in the bank's branches are transferred to the Central Collection Account at Trivandrum promptly.

In order to ensure that the amounts collected by the branches have been credited to the account of the Board and accounted for in the books, it is essential that reconciliation between these two records is conducted expeditiously. It is, however, noticed (January 1983) that the reconciliation work by the Special Officer (Revenue) was in arrears from June 1981 onwards.

According to the reconciliation statement for May 1981, a sum of Rs. 777.48 lakhs which was supported by pay-in-slips were not credited to the account of the Board by the Bank and a sum of Rs. 367.71 lakhs which was credited by the Bank to the account of the Board was not included in the monthly accounts in the absence of the supporting pay-in-slips. The details of the amounts pending reconciliation are given below:—

Year	*Amount included in the accounts by the Board but not credited to the account of the Board by the Bank*	*Amount credited to the account of the Board by the Bank but not included in the accounts of the Board*
	(*Rupees in lakhs*)	
1971-72 to 1974-75	25.75	6.58
1975-76 to 1977-78	55.12	42.56
1978-79	23.76	4.61
1979-80	42.18	28.97
1980-81	621.98	239.34
1981-82 (up to May 1981)	8.69	45.65
	777.48	367.71

(ii) In respect of collections made from low tension consumers at the electrical section offices, the accounting rules of the Board require each billing supervision unit to prepare and forward a bank reconciliation statement for each month to the Financial Adviser and Chief Accounts Officer of the Board by the 15th of the succeeding month. The reconciliation was in arrears in 48 out of 55 units (September 1982). The extent of arrears was as follows:—

Extent of arrears	*Number of Units*
Less than six months	9
Six months to one year	7
One year to one and half years	4
Two years to three years	15
More than three years	13

8.03.11. *Internal audit*

The Board has an internal audit party to audit billing and collection of revenue. During the three years ended March 1982, internal audit had insepected only 23 out of 55 billing supervision units and the sections thereunder as detailed below:—

Year	*Number of billing units inspected*
1979-80	12
1980-81	10
1981-82	1 (excluding 7 units inspected during 1979-80)

The bills in respect of high tension consumers were not audited by the internal inspection party since September 1979.

A review of the inspection reports relating to 1980-81 and 1981-82 revealed that the reports were finalised and issued to the concerned units after a period ranging from 1 to 12 months after the inspection of the units.

The common defects pointed out by internal audit were as follows:—

(i) Faulty meters were not rectified/replaced for long periods.

(ii) Arrears were pending collection from consumers whose services were dismantled.

(iii) There were many disconnected services which were not dismantled.

(iv) Meter readings were not taken regularly.

(v) Delay in preparation of demand, collection and balance statements.

(vi) Delay in preparation of bank reconciliation statements.

8.04. Other topics of interest

8.04.1. *Extra expenditure*

Quotations were invited (April 1978 and July 1978) by the Superintending Engineer, Civil circle, Pallom for the supply of 12 sets of castings for the radial crest gates for Kallar and Erattayar dams (Idukki Project-II stage). The work involved supply of castings for 12 sets of radial crest gates and machining of the castings. The lowest rates quoted by a Mangalore firm (July 1978) for the supply of castings was Rs. 12,000 per set and that by a local firm (July 1978) for machining of the castings was Rs. 10,800 per set. The validity period of both the offers (31st December 1978) was extended up to 28th February 1979 at the request (January 1979) of the Chief Engineer. Based on the recommendations (August 1978) of the Superintending Engineer to place orders on the above two firms, the Chief Engineer, after seeking certain clarifications from the firms in November- December 1978, sought (18th January 1979) sanction of the Board for placing orders. Despite a reminder from the Chief Engineer (12th February 1979) to approve the purchase before the expiry of the validity period, the Board sanctioned the purchase only on 9th March 1979 and telegraphic orders (13th March 1979) were placed on the firms by the Chief Engineer. The Mangalore firm demanded (April 1979) an enhanced rate of Rs. 15,000 per set for casting and the local firm demanded (March 1979) Rs. 11,250 per set for machining the castings. The Board sanctioned (May 1979) the enhanced rates and fresh orders were placed (June 1979) on the firms.

The inordinate delay in finalising the offers at the Chief Engineer's office and the failure of the Board to sanction the purchase before the expiry of the extended validity period resulted in an extra expenditure of Rs. 0.41 lakh.

Remarks of the Board/Government called for by Audit in October 1982 are awaited (March 1983).

8.04.2. *Delay in revision of rent for building rented out*

The Board rented out a portion of their administrative block building (6,365 square feet in area) to the Southern Railways for a period of three years from August 1972 on a monthly rent of Rs. 1,290. The building was continued to be occupied by the Railways on payment of rent at the same rate till they vacated the building in April 1981.

The Board did not take any action for revising the rent till December 1979 when the Chief Engineer (Electricity) was directed by the Board to revise the rent considering the high rate of rent prevailing in the locality. The Chief Engineer (Electricity) revised (March 1980) the rent of the area rented out to Rs. 2 per square foot per month with retrospective effect (August 1975) and sent invoices for Rs. 6.69 lakhs (Rs. 1.38 lakhs in July 1980 and Rs. 5.31 lakhs in December 1981) towards arrear of rent from the Railways. The Railways have not yet paid the rent. Further developments are awaited (July 1983).

8.04.3. *Extra expenditure on the purchase of aluminium conductors*

The Board, on the basis of tenders invited in March 1980 placed (August 1980) an order with a firm in Trivandrum for the supply of 3,250 kms., of aluminium conductors at a cost of Rs. 87.43 lakhs. According to the purchase order, delivery was to commence within two months from the date of the order and the supply completed by 8th March 1981. The purchase order also provided that statutory increase in the price of rod utilised for the manufacture of conductors was to be borne by the Board and enhancement in price due to statutory levy imposed by the Government of India effective from 15th July 1980 was allowed on 1,548.255 kms., of conductors supplied till April 1981.

The Government of India increased the price of aluminium rod with effect from 27th March 1981 and on the request (June 1981) of the firm, the Board allowed further increase in price on 712.220 kms., of conductors supplied between May and July 1981. There was specific provision in the purchase order to the effect that the price of conductors supplied after the stipulated period of delivery (8th March 1981) was to be fixed at the prevailing market rate or rate stipulated in the purchase order whichever was less. The payment for the supplies effected in May and July 1981 at enhanced rates based on the statutory levy effective from 27th March 1981 was thus outside the terms of the purchase order and resulted in an extra expenditure of Rs. 2.51 lakhs.

The matter was reported to the Board/Government (October 1982) and their remarks are awaited (February 1983).

8.04.4. *Purchase of PVC weather proof wire*

(i) The Chief Engineer (Electricity) on the basis of tenders (February 1979) placed (June 1979) an order on a private firm of Delhi for supply of 30,100 coils (2.5 sq.mm size) of PVC weather proof wire at a firm price of Rs. 109.40 per coil of 100 metres. According to the purchase order, the suppliers were to deliver 5,000 coils from ex-stock within 4-6 weeks from the date of order and the balance quantity at 3,500 coils per mensem. The supply was to be completed by March 1980. Instead of effecting supplies as required in the purchase order, the firm entered into correspondence with the Board for enhancement of its quoted rate on the ground that the supply position of raw materials was tight. During discussions held (October 1979) with a partner of the firm, the Board agreed to enhance the price to Rs. 140 per coil except for 1,500 coils to be supplied from stock at the original quoted rate. The firm supplied 29,720 coils at the enhanced rate between October 1979 and March 1980. The action of the Board in having allowed enhancement in price in respect of a supply contract where a firm price was agreed to, resulted in an avoidable expenditure of Rs. 11.35 lakhs.

(ii) In another case, on the basis of tenders invited (January 1979), the Chief Engineer (Electricity) placed (August 1979) an order on a private firm in Kundara for the supply of 10,000 coils (2.55 sq. mm size) of PVC weather proof wire at a firm price of Rs. 135 per coil exclusive of excise duty and sales tax. The supplies were to commence within 4-6 weeks after receipt of the orders, and were to be completed at the rate of 1000-1500 coils per month, *i.e.* by July 1980 at the latest. The firm supplied 3,000 coils in September 1979 at the stipulated rate and demanded (December 1979) increased rate of Rs. 175 per coil on the ground that the cost of raw materials had gone up. The Board enhanced (February 1980) the rate to Rs. 168 per coil (inclusive of excise duty and sales tax extra) and the firm supplied the balance quantity by April 1980 (5,700 coils in March 1980 and 1,300 coils in April 1980). The enhancement of price was outside the provisions of the purchase order and resulted in an extra expenditure of Rs. 1.43 lakhs.

The Board stated (January 1983) that since there was an increase in the price of raw material at the rate of Rs. 35 per coil during the period from February to September 1979, the stipulation of the firm price in the purchase order was altered in the best interest of the Board. Acceptance of price increase in respect of firm price orders thus resulted in an extra expenditure of Rs. 12.78 lakhs.

It was also noticed that while the excise duty payable for the Kundara product was only 10 *per cent ad valorem* (2.55 sq. mm size), the Board while fixing the rate of Rs. 168 (including excise duty) assumed that rate of excise duty at 20 *per cent* (payable for the Delhi product which was of 2.5 sq.mm size). The extra expenditure thus includes Rs. 0.98 lakh on account of incorrect computation of excise duty.

8.04.5. *Loss due to setting of cement*

Physical verification of stores conducted by the staff of the Chief Engineer (Electric ty) during 1979-80 revealed that prolonged storage of 2,518 bags of cement (valued at Rs. 0.62 lakh at the issue price) resulted in their clodding in six electrical divisions. Reasons for their prolonged storage which resulted in their clodding, called for from the Chief Engineer (Distribution) in June 1981 were awaited (March 1983).

SECTION IX

KERALA STATE ROAD TRANSPORT CORPORATION

9.01.1. *Capital*

The capital contribution of the Corporation (under Section 23 (i) of the Road Transport Corporations Act, 1950) was Rs. 32,07.21* lakhs (State Government: Rs. 22,88.04 lakhs; Central Government: Rs. 9,19.17 lakhs) as on 31st March 1981, as against capital contribution of Rs. 28,47.21 lakhs (State Government: Rs. 20,38.04 lakhs; Central Government: Rs. 8,09.17 lakhs) as on 31st March 1980. Interest is payable on the capital contribution at 6.25 *per cent* per annum.

9.01.2. *Guarantees*

The table below indicates the details of guarantees given by Government for the repayment of loans raised by the Corporation and payment of interest thereon up to 31st March 1981:—

Particulars	*Years of guarantee*	*Amount guaranteed*	*Amount outstanding as on 31st March 1981*	
			Principal	*Interest*
			(Rupees in lakhs)	
Debenture loan				
KSRTC loan	1981	1,37.50	1,37.50	..
KSRTC loan	1985	1,10.00	1,10.00	..
Total		†2,47.50	†2,47.50	..

* Provisional

† The amounts as per Finance Accounts are Rs. 4,47.50 lakhs and Rs. 2,91.31 lakhs respectively and the differences of Rs. 2,00 lakhs and Rs. 43.81 lakhs are under reconciliation.

9.01.3. *Financial position*

The table below summarises the financial position of the Corporation for the 3 years up to 31st March 1981:—

	1978-79	1979-80*	1980-81*
		(*Rupees in lakhs*)	
Liabilities			
1. Capital contribution	25,04.71	28,47.21	32,07.21
2. Reserves and funds	19,52.41	25,32.52	24,34.84
3. Borrowings (long-term loans)	4,26.83	5,58.00	6,71.33
4. Trade dues and current liabilities including provisions	13,04.46	18,34.58	16,18.11
Total	61,88.41	77,72.31	79,31.49
Assets			
1. Gross block	35,79.51	40,61.74	47,10.31
Less: Depreciation	20,45.99	23,02.61	26,37.04
2. Net fixed assets	15,33.52	17,59.13	20,73.27
3. Capital works-in-progress	38.09	93.35	1,43.06
4. Investments	6,73.87	7,71.96	9,13.67
5. Current assets loans and advances	10,27.55	15,28.58	15,49.46
6. Miscellaneous expenditure (deferred revenue expenditure)	0.24	..	..
7. Accumulated loss	29,15.14	36,19.29	32,52.03
Total	61,88.41	77,72.31	79,31.49
Capital employed**	15,26.61	14,53.13	20,04.62

9.01.4. *Working results*

The following table gives details of the working results of the Corporation for the 3 years up to 31st March 1981:—

Particulars	1978-79	1979-80*	1980-81*
		(*Rupees in lakhs*)	
1(a) Operating			
Revenue	47,00.21	52,25.79	60,38.31
Expenditure	53,85.38	59,11.49	67,09.71
Deficit	6,85.17	6,85.70	6,71.40

* Provisional

** Capital employed represents net fixed assets *plus* working capital.

Particulars	1978-79	1979-80*	1980-81*
	(Rupees in lakhs)		
(b) Non-operating			
Revenue	59.84	73.53	1,08.06
Expenditure	2,01.99	2,69.15	2,16.53
Deficit	1,42.15	1,95.62	1,08.47
(c) Total			
Revenue	47,60.05	52,99.32	61,46.37
Expenditure	55,87.37	61,80.64	69,26.24
(d) Net loss	8,27.32	8,81.32	7,79.87
2. Interest on capital and loans	1,41.51	1,68.61	54.17
3. Total return on capital employed	(—)6,85.81	(—)7,12.71	(—)7,25.70

9.01.5. *Operational performance*

The table below indicates the operational performance of the road transport section of the Corporation for the 3 years up to 31st March 1981:—

	1978-79	1979-80	1980-81
1. Average number of vehicles held	2,582	2,748	2,870
2. Average number of vehicles on road	2,166	2,297	2,315
3. Percentage of utilisation	83.9	83.6	80.7
4. Kilometres covered (in lakhs)			
(a) Gross	2,154	2,262	2,267
(b) Effective	2,128	2,242	2,248
(c) Dead	26	20	19
5. Percentage of dead kilometres to gross kilometres	1.2	0.9	0.8
6. Average kilometres covered per bus per day	269.1	266.8	266.0
7. Average operating revenue per effective kilometre (paise)	220	232	267
8. Average operating expenditure per effective kilometre (paise)	251	262	297
9. Loss per kilometre (paise)	31	30	30
10. Route Kilometres	1,53,741	1,58,690	1,59,772

* Provisional

		1978-79	1979-80	1980-81
11.	Number of operating depots	34	34	35
12.	Average number of break-downs per lakh kilometres	28	30	27.7
13.	Average number of accidents per lakh kilometres	2.7	2.5	2.4
14.	Passenger kilometres scheduled (in lakhs)	2,547	2,663	2,718
15.	Passenger kilometres operated (in lakhs)	2,128	2,242	2,248
16.	Occupancy ratio	83.9	90.5	91.8

9.02. Utilisation of man-power

9.02.1. *Introductory*

The Corporation had 29,685 employees on its roll in the road transport wing as on 31st March 1982. The table below gives details of the number of employees under broad categories and the number of schedules operated and the ratio of employees per schedule at the end of each of the five years up to March 1982:—

Number of employees as on 31st March	1978	1979	1980	1981	1982
Traffic					
Drivers	6,345	6,662	7,154	7,601	7,820
Conductors	6,328	6,770	6,595	7,211	7,825
Others	1,543	2,551	2,562	1,913	1,991
Total	14,216	15,983	16,311	16,725	17,636
Maintenance	5,772	8,238	7,996	7,482	7,949
Administrative	3,276	3,530	3,474	3,953	4,100
Total	23,264	27,751	27,781	28,160	29,685
Number of schedules sanctioned	2,305	2,446	2,500	2,563	2,570
Number of employees per schedule	10.09	11.35	11.11	10.99	11.55

According to the report on the performance of Nationalised Road Transport Undertakings, compiled (January 1982) by the Central Institute of Road Transport, Pune (CIRT), the average number of employees per schedule among 16 transport undertakings in India was 8.48 for 1980-81. The number of employees per schedule in the Corporation, however, was 10.99. The Committee on Public Undertakings in their Twenty-fourth Report (1975-76) observed that the high staff schedule ratio should be brought down by keeping in abeyance the vacancies that would arise in future till a reasonable ratio is reached. The Corporation has not fixed any reasonable ratio as suggested by the Committee. It was, however, noticed that in the meanwhile, the staff schedule ratio rose to 11.55 in 1981-82.

The staff schedule ratio prevailing at the end of March 1977 was 9.93. Based on this, only 25,520 employees would be sufficient to operate 2,570 schedules as on 31st March 1982 as against 29,685 in position resulting in excess engagement of 4,165 employees.

With a view to improving the performance of the Corporation, the Board of Directors constituted (December 1979) a sub-committee to study the proposal for reduction of staff. The report on the study was to be submitted at the subsequent meeting of the Board. The sub-committee had not submitted its report to the Board so far (March 1983).

The table below gives details of the effective kilometres operated, cost of personnel, percentage of cost of personnel to total cost, average cost of personnel per effective kilometre, *etc.*, during the five years ended March 1982:—

	Year ended 31st March				
	1978	1979	1980	1981	1982
1. Effective kilometres operated (in lakhs)	2,060.00	2,127.75	2,242.47	2,247.89	2,142.88

	Year ended 31st March				
	1978	1979	1980	1981	1982
2. Total expenditure on salary, bonus and staff welfare measures (Rupees in in lakhs)	18,64.62	24,52.65	26,51.05	32,42.89	37,69.71
3. Cost of operation —Total cost (Rupees in lakhs)	45,73.14	55,44.28	61,40.69	68,82.42	89,30.15
—in paise per kilometre	222	261	274	306	417
4. Percentage of expenditure on staff to total expenditure	40.77	44.24	43.17	47.12	42.2
5. Average expenditure on staff per effective kilometre(paise)	90.5	115.3	118.2	144.3	175.9
6. Expenditure per employee per annum (Rupees)	8,015	8,838	9,543	11,516	12,699
7. Effective kilometres operated per employee	8,855	7,667	8,072	7,983	7,219

The percentage of expenditure on staff to total expenditure rose from 40.77 in 1977-78 to 47.12 in 1980-81. According to the Report of CIRT, the average percentage of cost of personnel to total cost in 46 nationalised road transport undertakings in India during 1979-80 was 30. Against this, the percentage of expenditure on staff to total expenditure in the Corporation was 43.17. Similarly, the average cost of personnel per effective kilometre in 16 nationalised undertakings during 1980-81 was 78.1 paise against which the average cost in the Corporation was 144.3 paise. While the total number of employees increased from 23,264 in March 1978 to 29,685 in March 1982, the effective kilometre operated per employee decreased from 8,855 to 7,219 during the corresponding period.

9.02.2. *Fixation of staff strength*

The basis for fixation of strength in most of the categories of staff is the number of schedules operated by the unit. A test check of the way bills, crew duty schedules and other records maintained at 7 out of 36 operating units for a period of one week during February/March 1982 revealed that against a total of 600 schedules to be operated daily in these units, only about 496 schedules (82.6 *per cent*) were actually operated on an average. The remaining schedules were cancelled for various reasons such as want of bus, crew, *etc.* The table below gives the details of schedules allotted, schedules cancelled and percentage of schedules operated to schedules allotted:—

Name of unit	*Number of schedules allotted*	*Cancellation in terms of full schedules*	*Number of schedules operated*	*Percentage of schedules operated to schedules allotted*
Trivandrum Central	*105	18.5	86.5	82.4
Attingal	61	8.9	52.1	85.4
Alleppey	102	13.3	88.7	87.0
Thiruvalla	68	16.2	51.8	76.2
Kottayam	101	12.6	88.4	87.5
Trichur	100	19.9	80.1	80.1
Cannanore	63	15.0	48.0	76.2
Total	600	104.4	495.6	82.6

On the basis of schedules actually operated, the staff schedule ratio works out to 13.98 employees per schedule as against the staff schedule ratio of 11.55 on the basis of schedules allotted. While fixing the strength of staff based on number of schedules allotted, the Corporation has not reckoned the schedules which were permanently cancelled. Daily statements of cancellations indicate only the trips cancelled but not the details of schedules cancelled.

* Excludes schedules in Kilimanoor operating Centre.

9.02.3. *Higher Division Officers*

The number of higher division officers increased from 150 in March 1978 to 247 in March 1982. The table below gives the details of the number of higher division officers and the number of employees per officer under 3 categories as at the end of the five years up to 1981-82:—

Year ended 31st March	*Traffic*		*Maintenance*		*Administrative*		*Total*	
	Number of Officers	*Number of employees per officer*	*Number of officers*	*Number of employees per officer*	*Number of officers*	*Number of employees per officer*	*Number of officers*	*Number of employees per officer*
1978	63	226	32	180	55	60	150	155
1979	80	200	51	162	67	53	198	140
1980	80	204	47	170	71	49	198	140
1981	71	236	67	112	101	39	239	118
1982	71	248	74	107	102	40	247	120

There has been a significant increase in the number of officers during the four years ended March 1982 in the maintenance and administrative categories compared to the traffic wing.

9.02.4. *Operating staff*

The table below gives details of the staff-bus ratio under broad categories during the three years ended March 1982:—

As on 31st March

	1980		1981		1982	
	Total	*Per bus*	*Total*	*Per bus*	*Total*	*Per bus*
Drivers	7,154	2.44	7,601	2.44	7,820	2.46
Conductors	6,595	2.25	7,211	2.32	7,825	2.46
Maintenance	7,996	2.72	7,482	2.41	7,949	2.50
Supervisory and administrative staff	6,036	2.06	5,866	1.88	6,091	1.91
Total	27,781	9.47	28,160	9.05	29,685	9.33

The Corporation has not fixed any norm for the bus-staff ratio. The lower bus-staff ratio during 1980-81 and 1981-82 compared to that of 1979-80 was due to the fact that the number of buses added(177 and 70 respectively), to the fleet during these years was disproportionately higher than the number of new schedules introduced.

9.02.5. *Drivers and conductors*

(i) According to the norm fixed in 1977, 2.75 conductors and drivers each are required for operating a schedule of two spells of 8 hours each. As against 7,067 conductors and drivers each required to operate 2,570 schedules as at the end of March 1982, there were 7,628 conductors and 7,581 drivers in the 36 operating units of the Corporation. The actual strength works out to 2.97 conductors and 2.95 drivers per schedule. Even after excluding the drivers and conductors on 'other duty' (dealt with in the succeeding paragraphs), there were 211 conductors in excess of the norm. Based on the average emoluments, the pay and allowances paid to staff engaged in excess of norm fixed amounted to Rs. 22.09 lakhs per annum.

(ii) A test check by Audit of attendance register of Trivandrum Central unit for the month of February 1982 revealed that on an average, the number of days worked by a driver and a conductor was 19 and 17 respectively. The high rate of absenteeism on account of leave, holidays *etc.*, among the crew has also resulted in cancellation of several scheduled trips for want of crew. For instance, during 1980-81 and 1981-82, in ten units test checked, out of 21,40,197 trips scheduled for operation, 1,34,658 trips were cancelled for want of crew in spite of the fact that these units had been provided with conductors and drivers in excess of the norm.

(iii) *Steering and spread over duty period*

Section 13 of the Motor Transport Workers' Act, 1961 lays down that no transport worker shall be required to work for more than 8 hours a day. While accepting the award of the Arbitrator appointed (April 1971) under the Industrial Disputes Act, the Corporation stipulated (May 1973) that every duty schedule of the operating staff should be recast ensuring not less than 6½ hours steering duty after allowing half an hour each for 'signing on' and 'signing off' and half an hour for rest. But on a review of the crew duty schedules in three units, *viz.*, Trichur, Ponnani and Kayamkulam during 1981-82, it was noticed that against 8,39,267 steering hours to be provided based on standard time of 6½ hours, only 7,62,286 hours were actually provided resulting in a shortfall of 76,981 hours in steering duty time.

A test check of the duty schedules in March 1982 of Trivandrum Central unit (excluding Kilimanoor operating centre) revealed the following:—

(a) The average steering duty period for different kinds of services was less than the standard steering time of 6½ hours as detailed below:—

Nature of service	*Number of schedules*	*Average Steering duty*		*Spread over period*	
		Hours	*Minutes*	*Hours*	*Minutes*
Express service	8	4	58	6	29
Fast Passenger service	51	5	19	6	53
Ordinary service	46	5	26	7	16

(b) While the minimum steering hours per single duty was 3 hours 30 minutes, the maximum did not exceed 6 hours 10 minutes in any case.

(c) There was no uniformity in fixing the running time between two places for the same type of service. The table below gives details of the average speed in working out the running time for operating different schedules:—

Nature of service	*Duty Schedule number*	*Route*	*Route distance (in kilometres)*	*Steering time fixed Hrs. Mts.*	*Average speed (Kilometres per hour)*
Fast Passenger					
(a)	30A	Trivandrum—Quilon-Kottarakara circular	179	4.25	40.5
(b)	31	Trivandrum—Quilon-Kottarakara circular	179	4.50	37.0

Nature of service	*Duty Schedule number*	*Route*	*Route distance (in kilometres)*	*Steering time fixed Hrs. Mts.*	*Average speed (Kilometres per hour)*
Fast Passenger					
(a)	32A	Trivandrum-Mavelikara	251	6.50	36.7
(b)	34	Trivandrum-Mavelikara	251	5.55	42.4
Fast Passenger					
(a)	22A	Trivandrum-Pozhikara	129	3.30	36.9
(b)	27	Trivandrum-Pozhikara	129	4.00	32.3
Ordinary					
(a)	35A	Trivandrum-Kanjiramkulam-Poovar	120	4.40	25.7
(b)	36A	Trivandrum-Kanjiramkulam-Poovar	120	5.00	24.0

(iv) *Engagement of conductors and drivers on other duty*

The Committee on Public Undertakings in paragraph 170 of their Eleventh Report (March 1981) recommended that the practice of deputing conductors and drivers for other duties except in case of disability should be dispensed with. In spite of this, conductors and drivers were continued to be engaged on other duty. The table below gives details of the work performed by 350 conductors and 544 drivers engaged on 'other duty' in 36 operating units as on 31st March 1982:—

Conductors		*Drivers*	
Nature of work	*Total number engaged on other duty*	*Nature of work*	*Total number engaged on other duty*
1. Duty at reservation counter	56	1. Shunting buses at bus stations	218
2. Maintenance of attendance register of conductors	57	2. Maintenance of attendance register of drivers	19

Conductors			Drivers		
	Nature of work	*Total number engaged on other duty*		*Nature of work*	*Total Number engaged on other duty*
3.	Duty at enquiry counter at bus stations	69	3.	Allocation of duties to drivers	78
4.	Duty at concession ticket counter	13	4.	Display of destination boards in buses	69
5.	Allocation of duties for conductors	36	5.	Operation of van/jeep	51
6.	Work at ticket and cash office and other departments	16	6.	Acting as Vechicle Supervisor or as his assistant	29
7.	Acting as assistant to Station Masters at bus stations	52	7.	For relieving those engaged against items 1—6	32
8.	For relieving those engaged against items 1—7	26	8.	Others	48
9.	Others	25			
	Total	350		Total	544

The Corporation has not assessed the workload involved in respect of works under 'other duty' and determined the number of posts for each operating unit. While there was diversion of operating crew on 'other duty' there were large scale cancellations of scheduled services for want of crew [vide paragraph 9.02.5 (i) supra]

A review of the staff posted on other duty as on 31st March 1982 also revealed the following:—

(a) While 57 conductors were engaged in 36 units to attend to the maintenance of attendance registers of 7628 conductors, the maintenance of attendance registers of 7581 drivers in these units was attended to by 19 drivers.

(b) Five conductors were engaged to maintain the attendance register of conductors in Quilon unit operating 139 schedules as against one conductor in Kottayam unit operating 101 schedules.

(c) Seven conductors were engaged at the enquiry counter in Kottayam unit operating 101 schedules as against three conductors at Trichur operating 100 schedules.

(d) While six conductors were assisting the Station Masters (thirteen) at Moovattupuzha unit operating 65 schedules, three conductors were assisting the Station Masters (ten) in Quilon unit operating 139 schedules.

(e) There were no norms for engaging drivers for shunting duty at the bus stations. While there were 10 drivers for shunting of 52 vehicles at Chalakudy unit, there were five drivers for shunting 73 vehicles at Changanachery unit.

(f) While there were 78 drivers for attending to the allocation of duties among drivers in 36 units, the number of conductors engaged for allocation of duty among conductors was 36.

(g) While five drivers were engaged for allocation of duties among drivers in Palai unit operating 74 schedules, 2 drivers were engaged at Kayamkulam unit operating 86 schedules.

9.02.6. *Inspectors*

As per the norms fixed (January 1971) by the Corporation, 1192 Inspectors were required to check the operation of 7,15,167 kilometres scheduled as on 31st March 1982. There were, however, 1332 Inspectors in the 36 operating units as on that date. The pay and allowances in respect of 140 Inspectors engaged in excess of the norms amounted to Rs. 21.84 lakhs per annum.

Inspectors are required to check 25 *per cent* of the trips operated as per the norms fixed by the Corporation in 1971. A test check of the way bills of 2 units, *viz*. Trivandrum Central and Nedumangad for a period of one week each in September 1981 and February 1982 revealed that only 19.7 and 14.2 *per cent* respectively of the ordinary services operated in these units were checked by the Inspectors despite the fact that the full sanctioned strength had been provided.

9.02.7. *Administrative Staff*

Norms have not been laid down for engagement of staff for maintenance of stores and security. According to the report of CIRT, the administrative staff ratio of 1.70 per schedule in the Corporation during 1979-80 was the highest among the 18 Road Transport Undertakings. The staff ratio during 1980-81 and 1981-82 was 1.8 and 1.6 respectively per schedule sanctioned. Though the staff ratio was high compared to that in many other Corporations, the preparation of ticket accounts in the units was heavily in arrears ranging from 9 months to 73 months. The Committee on Public Undertakings in their 24th Report (March 1976) expressed dissatisfaction to note that despite severe criticism by successive committees, the preparation of ticket accounts was in arrears and urged that steps should be taken to pull up the arrears.

The audit of way bills and writing up of cash books in the units were also in arrears. In Sultan Battery unit, the cash book had been written up to April 1981 (June 1982). The delay in the audit of way bills and writing up of cash book in 7 other units test checked in October 1982 ranged between 10 and 121 days. Due to delay in writing up the cash book and the non-preparation of monthly ticket statements, verification of cash and ticket stock had become impossible.

9.02.8. *Maintenance staff*

The norm followed by the Corporation for maintenance of vehicles is 1.5 employees per schedule at the operating units and 1 employee per schedule at the Central and Regional Workshops. The table below gives the details of mechanical staff in position in the operating units and at the workshops as on 31st March 1982 and the number of employees required as per the norm fixed:—

Units	*Strength required as per norm*	*Number of employees in position*	*Excess*
Operating units	3855	4013	158
Central and Regional Workshops (excluding employees in tyre retreading units and body building workshop)	2570	2606	36

The additional expenditure in engaging employees in excess of the norm amounted to Rs. 20.10 lakhs per annum on pro-rata basis.

The above points were brought to the notice of the Management/Government in October 1982; their remarks were awaited (March 1983).

9.03. Civil works

The Civil Engineering Wing of the Kerala State Road Transport Corporation under the direct charge of a Civil Engineer executes all the civil works of the Corporation. There were five sub-divisions functioning as on 31st January 1983.

The schedule of rates approved by the State Public Works Department is being followed in the preparation of estimates and all payments are arranged by the Civil Engineer centrally.

On a review in audit of some of the works executed by the Corporation, the following points were noticed:—

9.03.1. *Construction of a modern workshop at Pappanamcode*

The work of construction of a modern workshop at Central Works, Pappanamcode, estimated to cost Rs. 17.10 lakhs (civil works: Rs. 9.75 lakhs and structural works: Rs. 7.35 lakhs based on 1976 schedule of rates) was tendered in April 1978. The last date fixed for receipt of tenders was 25th May 1978 and the tenders received were to remain firm for a period of three months from that date. Out of eight tenders received, the lowest tenderer who quoted 14.3 *per cent* above the estimate rates expressed his willingness (19th June 1978) to take up the structural works only and backed out from the contract for civil works without assigning any reason. The penal clause in the tender notice to forfeit the earnest money (Rs. 0.34 lakh for withdrawal by the tenderer within the firm period could not be enforced as no such deposit was received from the tenderer who was exempt from payment of earnest money deposit being a firm registered as small scale industrial unit.

Two months after the withdrawal by the lowest tenderer, selection notice was issued (23rd August 1978) to the second lowest tenderer who had quoted Rs. 12.19 lakhs (25 *per cent* above estimate rates) for civil works and Rs. 8.45 lakhs (15 *per cent* above estimate rates) for structural works. But that tenderer also backed out (9th October 1978) stating that the selection notice was received (25th August 1978) by him only after the date of expiry (24th August 1978) of the firm period.

The Corporation did not consider the other quotations as period of validity of the tenders had expired and the earnest money deposits had been released.

The estimate for the works was subsequently revised (March 1979) to Rs. 20.16 lakhs on the basis of revised schedule of rates 1978, which came into force with effect from 1st September 1978 and fresh tenders were invited in March 1979. The work was awarded (23rd November 1979) to the lowest tenderer (amount: Rs. 30.87 lakhs). Thus due to non-finalisation of the contract with the second lowest tenderer within the firm period in response to the first tender, the entrustment of this work on retendering involved an extra expenditure of Rs. 10.06 lakhs computed with reference to the rate of second lowest tenderer received in response to the original tender. The work originally scheduled for completion by July 1980 had not been completed (December 1982). The total expenditure incurred was Rs. 16.37 lakhs (September 1982). Delay in completion of the work was attributed by Government (December 1982) to non-availability of steel materials required for the work, bad financial position of the Corporation for meeting payment to contractors for civil works *etc*.

9.03.2. *Extension to the garage at Payyannur*

The work of extension to the garage at Payyannur (estimated cost: Rs. 0.48 lakh) was tendered on 9th August 1977. As there was no response, the work was retendered on 24th September 1977. Only one tenderer quoted (November 1977) Rs. 0.70 lakh, *i.e.* 45 *per cent* above the estimate rates. The tender which was open up to 2nd February 1978 was recommended by the Civil

Engineer for sanction of the Board only in June 1978 and it was accepted by the Board in August 1978. Selection notice was issued to the tenderer on 7th October 1978; but he was not willing to take up the work at this quoted rate as about one year had elapsed since the submission of his tender and the cost of materials had increased considerably during the period. His demand for enhanced rates with reference to the schedule of rates revised with effect from September 1978 was not acceded to by the Corporation on the ground that the rates quoted once could not be altered. The work was, therefore, retendered (December 1978) after revising the estimate to Rs. 0.64 lakh on the basis of schedule of rates 1978 and awarded (February 1979) to the single tenderer (value: Rs. 1.04 lakhs) for completion by June 1979. The work commenced in April 1979 was completed in February 1980 at a cost of Rs. 1.08 lakhs. The failure of the Corporation to finalise the contract within the firm period resulted in an extra expenditure of Rs. 0.38 lakh.

9.03.3. *Regional Workshop at Mavelikara*

(i) Roof work and sheeting for the workshop building at Mavelikara (estimated cost: Rs. 4.90 lakhs) was awarded after tendering to a firm in March 1974 (value: Rs. 5.55 lakhs) for completion by December 1974, *i.e.* within 9 months from the date of award of the work. However, the work was completed in October 1977 only at a cost of Rs. 7.04 lakhs after executing excess/extra items of work which were found necessary during actual execution.

During the course of execution of the work the firm, complained (June 1975) that it could not proceed with the work consequent on the delay in the completion of civil works entrusted by the Corporation (December 1973) to another contractor for completion by January 1974. The civil works were completed only by the end of November 1975. The firm claimed (June 1975) enhancement in their quoted rates, at par with the current rates, in view of the increase in the cost of materials and labour. The Corporation rejected (July 1975) the claim on the ground that the delay in completing the work was due to the failure of the firm to make proper arrangements for speedy execution of the work and that the rates once fixed could not be altered on any account as per the agreement. The firm filed a suit praying for referring the dispute for arbitration. The court ordered (January 1978) to refer the matter to the General Manager of the Corporation who was the arbitrator as per the agreement. The award passed by the arbitrator (March 1978) was filed in the court in May 1978. Upholding the award, the court ordered (May 1978) that the contractor was eligible for revised rates effective from 1st July 1974 with tender excess for the work done after 15th December 1974, the date fixed for completion of work as per agreement and that interest at 6 *per cent* be paid on the principal amount from the date of decree to the date of disbursement. An amount of Rs. 3.12 lakhs was paid (February 1979) to the firm towards decree amount (Rs. 2.80 lakhs as per schedule of rates 1974 and Rs. 0.32 lakh as per schedule 1976) over and above the payment (Rs. 7.04 lakhs) made (October 1978) at the rates mentioned in the agreement.

Though the court ordered specifically that the firm was eligible for the revised rates effected from 1st July 1974, the Corporation extended the benefit of the revised schedule of rates effected from 1st July 1976 also, for items of work done after 30th July 1976. This resulted in excess payment of Rs. 0.32 lakh to the firm.

(ii) On the basis of tenders, the work of levelling the yard for the Regional Workshop at Mavelikara (estimated cost: Rs. 0.73 lakh) was entrusted to a contractor in December 1973 (value: Rs. 0.85 lakh, *i.e.* 17 *per cent* above the estimate) for completion by January 1974. However, the work was completed by January 1977 only at a cost of Rs. 1.21 lakhs (including the cost of excess quantities executed) due to delay in acquisition of the portion of the land required for consruction of the workshop and in disposing of the building situated thereon. The entire site was made available to the contractor by the end of February 1975 by which time the site conditions changed considerably limiting the working space of the contractor, due to the construction of columns for the buildings construction entrusted to another contractor. After executing work for Rs. 0.54 lakh at the agreed rates, the contractor demanded (October 1974) payment at enhanced rates and extra lead/handling charges for the balance work of earthwork, cutting and filling. He filed (June 1978) a petition before the arbitrator (General Manager of the Corporation) who passed his award (June 1979) granting the contractor the benefit of the schedule revisions of 1974 and 1976, since the delay was not attributable to him. An amount of Rs. 0.83 lakh was paid (August 1979) to the contractor in satisfaction of the award, besides the payment of Rs. 1.21 lakhs as per the contract rates. The delay in making available the land thus resulted in an extra payment of Rs. 0.83 lakh.

9.03.4. *Garage at Muvattupuzha*

The construction of a six bay garage at Muvattupuzha (estimated cost: Rs. 2.25 lakhs) was entrusted to a contractor in July 1979 (value: Rs. 2.01 lakhs), on the basis of tenders, for completion by November 1979. The contractor who completed (October 1979) the first stage (levelling the area) of work (cost: Rs. 0.79 lakh) informed (November 1979) the Corporation that he could not proceed with the second stage of construction of garage because of the employees unions' demand (October 1979) for shifting the garage from the proposed site in view of (i) difficulties in docking the vehicles due to the level difference of 5 feet between the garage floor and the ground, (ii) hindrance due to the HSD pump in front of the proposed garage and (iii) the distance of the garage from the store. The contractor filed a petition with the arbitrator (General Manager of the Corporation) in July 1980 requesting to relieve him from contractual obligations for doing the balance work. The arbitrator awarded (November 1980) that the contractor be discharged from the work after making payment for the work done in accordance with the agreed rate and payment of a further sum of Rs. 2,000 towards compensation. An amount of Rs. 0.79 lakh was paid (March 1981) to the contractor towards value of work done and Rs. 2,000 (February 1982) towards compensation.

On the basis of an assurance by the Corporation to shift the HSD pump, the employees withdrew their objection for the construction of the garage at the same site. The estimate (for the balance work) was revised (January 1981) on the basis of schedule of rates 1980 and the balance work was awarded to another contractor (May 1981) for Rs. 3.68 lakhs. The work which was to be completed by 30th September 1981 was completed in November 1982 only at a total cost of Rs. 3.99 lakhs (including cost of additional work: Rs. 0.19 lakh).

The alternate arrangement made by the Corporation for execution of the balance work abandoned by the first contractor resulted in an extra expenditure of Rs. 2.60 lakhs.

9.03.5. *Garage and office building at Sultan Battery*

The work (estimated cost : Rs. 2.48 lakhs) of construction of a garage and office building at Sultan Battery was awarded to a contractor (lowest tenderer) in August 1974 (value: Rs. 2.71 lakhs) on the basis of tenders for completion by March 1975. The work commenced in September 1974 was, however, completed only in June 1978, due to delay on the part of the Corporation to take initial levels immediately after execution of the agreement and to finalise major change in the design proposed after the execution of the agreement. Initial levels were taken by the engineers of the Corporation on 10th September 1974 and final design was made available to the contractor in July 1975 only.

Meanwhile, the schedule of rates was revised twice (1974 and 1976). The contractor filed (December 1977) a petition before the arbitrator (General Manager of the Corporation) praying for payment at the revised rates for all items of work covered by the agreement. The arbitrator, in his award (March 1978) ordered that in view of the fact that execution of agreement and commencement of work took place only after 1st July 1974 (*i.e.* the date on which the revised schedule of rates 1974 came into effect) payment should be made at the rates revised from that date. Accordingly, the Corporation had to pay an additional amount of Rs. 0.95 lakh to the contractor in August 1978 over the contract amount due to the delay on the part of the engineers in taking initial levels and finalising the change in design.

Government stated (December 1982) that the work relating to preliminary surveys, preparation of detailed project reports and actual design of structures, *etc.*, could not be done in time owing to the inadequacy of sufficient number of engineering personnel in the Corporation.

9.04. Other topics of interest

9.04.1. *Extra expenditure on printing of tickets*

The Corporation invited (April 1980) tenders for the printing and supply of different types and denominatons of tickets for a period of two years from August 1980. The four tenders received (June 1980) and considered by the Board are tabulated below:—

Item No.	*Particulars*	*Unit*	*Firm A*	*Firm B*	*Firm C*	*Firm D*
				(Rupees)		
1.	Pre-priced tickets	1 lakh	149.00	153.00	187.00	250.00
2.	Priority coupons, etc.	1 lakh	159.00	163.00	214.00	250.00
3.	Emergency tickets	1 book	0.42	0.45	0.48	0.60
4.	Luggage tickets	1 book	0.30	0.35	0.38	0.50

The lowest tender of firm 'A' was accepted (July 1980) and an agreement was entered into (September 1980) for the supply of tickets for two years from August 1980. Though as per the terms of agreement the firm should have kept a buffer stock of tickets to the extent of two months' requirements of the Corporation, this was not done. The number of tickets of each denominations to be held by the firm as buffer stock which was required to be specified by the Corporation was also not intimated to the firm. The Corporation did not also maintain its own buffer stock to meet contingencies of short supply.

Though the firm commenced supply in September 1980, right from the start, they were supplying only the bare minimum number of tickets required to meet the day to day requirements of the Corporation. Two representations were received (November 1980 and March 1981) from the firm for enhancement of rates due to increase in cost of raw materials. They were, however, rejected (January 1981 and April 1981) by the Corporation on the ground that there was no scope for revision of rates under the terms of agreement. Based on the further representations received from the firm (June and July 1981), the Board authorised (October 1981) a sub-committee consisting of the

Chief Accounts Officer, Deputy General Manager and the Controller of Purchases and Stores to conduct negotiations with the firm and submit proposals to the Board. The main reasons that weighed with the Board for consideration of enhanced rates were as follows:—

(i) Since the rejection of the representation (November 1980) for the enhanced rates, the supply of tickets were being delayed by the firm; and

(ii) In the absence of buffer stock, it would be difficult to take penal action and in such eventuality, the possibility of stoppage of supply of tickets by the firm could not be ruled out.

The sub-committee in their report (October 1981) recommended enhancement of rates, with effect from December 1980 to Rs. 180 for item (1), Rs. 200 for item (2), Re. 0.45 for item (3) and Re. 0.33 for item (4). The enhanced rates were approved by the Board in December 1981. While making this recommendation, the sub-committee did not examine the extent to which the price of raw materials such as paper, ink, *etc.*, had increased (for which enhanced rates were demanded) during the period June to November 1980. This was also evident from the fact that the enhanced rates allowed based on negotiation for the period December 1980 to August 1982 were higher than the rates allowed to another firm for the subsequent period of contract (August 1982 to August 1984) based on tenders invited in May 1982.

The sub-committee informed the Board of Directors that the enhanced rates were lower than those of the second lowest tenderer, *viz.*, firm 'B' who had quoted in June 1980 whereas they were actually lower than the rates quoted by the third lowest tenderer only. Thus the Board's decision to give enhanced rates (December 1981) was made on the basis of the incorrect information.

There was failure on the part of the Corporation either to maintain its own buffer stock of tickets or to insist on the maintenance of buffer stock of tickets by the firm as per the terms of agreement and this necessitated the sanction of enhanced rates.

The additional expenditure to the Corporation on this account amounted to Rs. 3.70 lakhs. The remarks of the Corporation/ Government called for (December 1982) were awaited (February 1983).

9.04.2. *Printing of time tables*

The Corporation invited (March 1980) quotations from a few printing presses in Trivandrum for printing 75,000 copies of time table books containing details of timings of fast passenger and express bus services operated by the Corporation. Of the four quotations received (March 1980), the lowest of firm 'A' (Rs. 1.18 lakhs) was rejected solely on the ground that the quantity of paper required for printing was not specified. Instead the second lowest tender was accepted. Since the size of the book was specified (crown 1/8 size), there was no difficulty in arriving at the quantity of paper required in respect of the lowest tender. The non-acceptance of the lowest offer resulted in an additional expenditure of about Rs. 0.35 lakh.

The number of copies required was fixed (July 1980) as one lakh by the Deputy General Manager and General Manager of the Corporation on the assumption, that the time table would contain 125 pages as per matter prepared by the traffic section of the Corporation and it would be sold at Rs. 2 per copy against the cost of Rs. 1.57 each.

In November 1980, the firm informed the Corporation that they had completed composing 160 pages and according to their calculation, the total number of pages would be about 400 and the cost about Rs. 4.63 lakhs. The Corporation gave its consent (November 1980) to the firm for printing the time tables at the increased cost. The Corporation decided November 1980) to fix the price of time table at Rs. 5 per copy. The Corporation, however, did not at this stage, reassess the possible demand for copies of time tables at the increased price.

The time table when completed contained 436 pages. A total number of 99,075 copies were printed and supplied by the firm between April and November 1981 at the cost of Rs. 5,09,540.

The Corporation decided (April 1981) to increase the price of the time table to Rs. 6 each. The Corporation could sell only 7,397 copies during the period April 1981 to March 1982 and had to account for the difference in stock of 1094 copies out of 21,600 copies distributed among the various units of the Corporation and had to incur Rs. 1,964 towards sales promotion. 89,412 unsold copies valued at Rs. 4.60 lakhs were lying in stock as at the end of March 1983, with very little prospect of being sold.

Though the printing of the time table was undertaken on the assumption that there was provision in the budget, such provision was actually not available. In the cirumstances, the expenditure required the prior sanction of Government under the Road Transport Corporation Rules, 1965. The matter was not even placed before the Board.

The remarks of the Corporation/Government called for in December 1982 are still awaited (March 1983).

Trivandrum,
The 30th JULY 1983

(M. V. BHATT)
Accountant General II, Kerala.

Countersigned

Prakash

New Delhi,
The 8th AUGUST 1983

(GIAN PRAKASH)
Comptroller and Auditor General of India.

ANNEXURES

Annexure—A

(Referred to in paragraph 5 of the prefatory remarks)

List of Companies in which Government have invested more than Rs. 10 lakhs but which are not subject to audit by the Comptroller and Auditor General of India.

Serial Number	*Name of the Company*	*Total investment up to* 1981-82 (*Rupees in lakhs*)
1.	Travancore Electro Chemical Industries Limited	10.50
2.	Punalur Paper Mills Limited	13.27
3.	Parry and Company Limited	13.50
4.	Madura Coats Limited	19.95
5.	The Travancore Rayons Limited	35.63
6.	Appollo Tyres Limited	50.00
7.	Premier Tyres Limited	60.00
	Total	2,02.85

102|9115|MC.

ANNEXURE—

Summarised financial results of

(Referred to in paragraph

Sl. No.	*Name of the Company*	*Name of the Department*	*Date of incorporation*	*Accounts for the year ended*	*Total capital invested* (A)
(1)	(2)	(3)	(4)	(5)	(6)
1	Travancore Sugars and Chemicals Limited	Industries	23-6-1937	30-4-1982	55.47
2	The Metropolitan Engineering Company Limited	Industries	5-1-1945	31-12-1981	38.42
3	Forest Industries (Travancore) Limited	Industries	10-8-1946	31-3-1982	34.09
4	Travancore Titanium Products Limited	Industries	18-12-1946	31-3-1982	962.78
5	United Electrical Industries Limited	Industries	3-10-1950	31-12-1981	186.02
6	The Travancore-Cochin Chemicals Limited	Industries	8-11-1951	31-3-1982	2160.98
7	Traco Cable Company Limited	Industries	5-2-1960	31-3-1982	226.80
8	Kerala State Industrial Development Corporation Limited	Industries	21-7-1961	31-3-1982	2001.28
9	Steel Complex Limited*	Industries	12-12-1969	31-3-1982	614.87
10	Kerala State Textile Corporation Limited *	Industries	9-3-1972	31-3-1982	318.83
11	Astral Watches Limited*	Industries	10-2-1978	31-12-1981	17.87
12	Oil Palm India Limited*	Agriculture	21-11-1977	31-3-1982	342.21
13	Trivandrum Spinning Mills Limited	Industries	1-11-1963	31-3-1982	319.31
14	The Kerala Fisheries Corporation Limited	Tranport Fisheries and Ports	12-4-1966	31-3-1982	776.25
15	Handicrafts Development Corporation of Kerala Limited	Industries	16-11-1968	31-3-1982	152.50
16	The Chalakudy Refractories Limited	Industries	15-3-1969	31-3-1982	139.81

B

Government Companies

1.02 of *Section* I)

(*Figures in columns* 6 *to* 12 *represent Rupees in lakhs*)

Profit (+)/ *Loss*(—)	*Total interest charged in profit and loss account*	*Interest on long-term loans*	*Total return on capital invested (Columns 7+9)*	*Capital employed (B)*	*Total return on capital employed (Columns 7+8)*	*Percentage of total return on capital invested*	*Percentage of total return on capital employed*
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(—) 33.15	7.41	..	(—)33.15	92.62	(—)25.74	..	..
(+) 6.49	7.61	7.61	14.10	69.18	14.10	36.70	20.38
(+) 16.07	0.10	..	16.07	34.68	16.17	47.14	46.63
(+) 1.23	77.10	42.96	44.19	976.16	78.33	4.59	8.02
(+) 23.55	19.37	4.93	28.48	243.99	42.92	15.31	17.59
(+) 271.55	98.14	76.17	347.72	1493.56	369.69	16.09	24.75
(+) 43.45	15.78	4.29	47.74	311.54	59.23	21.05	19.01
(+) 2.91	78.27	78.27	81.18	(C) 1914.70	81.18	4.06	4.24
(+) 10.00	47.32	20.37	30.37	501.36	57.32	4.94	11.47
(+) 0.53	9.63	9.63	10.16	(C) 259.12	10.16	3.19	3.92
(+) 8.51	0.43	..	8.51	20.13	8.94	47.62	44.41
(—) 41.26	13.98	7.70	(—)33.56	19.23	(—)27.28	..	..
(—) 43.18	16.52	7.68	(—)35.50	202.40	(—)26.66	..	..
(—) 85.23	33.67	24.75	(—)60.48	(—)132.84	(—)51.56	..	..
(—) 3.09	3.95	3.32	0.23	78.67	0.86	0.15	1.09
(—) 21.03	2.84	1.70	(—)19.25	48.99	(—)18.19	..	..

ANNEXURE—

Summarised financial results

(Referred to in paragraph

Sl. No.	*Name of the Company*	*Name of the Department*	*Date of incorporation*	*Accounts for the year ended*	*Total capital invested (A)*
(1)	(2)	(3)	(4)	(5)	(6)
17	Kerala Urban Development Finance Corporation Limited	Local Administration and Social Welfare	28-1-1970	31-3-1982	1246.07
18	Kerala State Bamboo Corporation Limited	Industries	10-3-1971	31-3-1982	84.05
19	The Kerala Minerals and Metals Limited	Industries	16-2-1972	31-3-1982	4779.73
20	Kerala State Electronics Development Corporation Limited	Industries	29-9-1972	31-3-1982	2737.39
21	Keltron Counters Limited*	Industries	21-7-1964	31-3-1982	139.24
22	Dielectro Magnetics Limited*	Industries	23-4-1974	31-3-1982	55.00
23	Keltron Crystals Limited*	Industries	8-10-1974	31-3-1982	82.40
24	Keltron Magnetics Limited*	Industries	1-3-1975	31-3-1982	38.33
25	Keltron Resistors Limited*	Industries	29-4-1975	31-3-1982	71.31
26	Keltron Power Devices Limited*	Industries	28-1-1976	31-3-1982	188.00
27	Keltron Rectifiers Limited*	Industries	22-3-1976	31-3-1982	142.85
28	Kerala Land Development Corporation Limited	Agriculture	15-12-1972	31-3-1982	1421.76
29	Kerala State Industrial Enterprises Limited	Industries	25-1-1973	31-3-1982	1578.93
30	Trivandrum Rubber Works Limited*	Industries	1-11-1963	31-3-1982	523.64
31	Travancore Plywood Industries Limited*	Industries	1-11-1963	31-3-1982	111.98
32	The Kerala Ceramics Limited*	Industries	1-11-1963	31-3-1982	222.81
33	Kerala Soaps and Oils Limited*	Industries	1-11-1963	31-3-1982	483.47

B

of Government Companies

1.02 *of Section I*)

(*Figures in columns* 6 *to* 12 *are in Rupees in lakhs*)

Profit(+)/ Loss(—)	*Total interest charged in profit and loss account*	*Interest on long-term loans*	*Total return on capital invested (Columns 7+9)*	*Capital employed (B)*	*Total return on capital employed (Columns 7+8)*	*Percentage of total return on capital invested*	*Percentage of total return on capital employed*
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(+) 2.84	74.13	74.11	76.95	(C) 1196.00	76.97	6.18	6.44
(+) 2.68	2.66	2.66	5.34	81.42	5.34	6.35	6.56
(+) 19.71	..	..	19.71	(—)210.73	19.71	0.41	..
(—) 2.12	252.05	252.05	249.93	2312.33	249.93	9.13	10.81
(—) 46.38	23.22	16.08	(—)30.30	106.57	(—)23.16	..	..
(—) 20.39	10.66	4.30	(—)16.09	55.39	(—)9.73	..	..
(+) 0.47	9.85	9.85	10.32	63.03	10.32	12.52	16.37
(—) 3.91	3.10	3.10	(—)0.81	45.75	(—)0.81	..	..
(—) 9.39	6.95	6.95	(—)2.44	61.48	(—)2.44	..	..
(—) 57.32	34.44	13.53	(—)43.79	110.55	(—)22.88	..	..
(—) 8.03	5.40	3.46	(—) 4.57	176.58	(—)2.63	..	..
(—) 19.81	74.91	74.91	55.10	(C) 1306.60	55.10	3.88	4.22
(—) 0.01	45.77	45.77	45.76	(C) 1455.26	45.76	2.90	3.14
(—) 94.58	31.45	31.45	(—) 63.13	147.73	(—)63.13	..	..
(+) 27.46	15.00	6.83	34.29	132.49	42.46	30.71	32.05
(—) 67.65	41.36	15.88	(—)51.77	72.84	(—)26.29	..	..
(+) 9.62	54.04	25.64	35.26	545.26	63.66	7.29	11.68

ANNEXURE—

Summarised financial results

(*Referred to in paragraph*

Sl. No.	*Name of the Company*	*Name of the Department*	*Date of incorporation*	*Accounts for the year ended*	*Total capital invested (A)*
(1)	(2)	(3)	(4)	(5)	(6)
34	Kerala Electrical and Allied Engineering Company Limited*	Industries	5-6-1964	31-3-1982	425.10
35	Kerala State Detergents and Chemicals Limited*	Industries	10-6-1976	31-3-1982	309.33
36	Kerala Shipping Corporation Limited	Public Works and Electricity	25-5-1974	31-3-1982	280.72
37	Kerala Garments Limited*	Industries	17-7-1974	30-9-1981	39.31
38	Steel Industrials Kerala Limited	Industries	3-1-1975	31-3-1982	669.24
39	Kerala Wood Industries Limited*	Agriculture	8-9-1981	31-3-1982	145.22
40	Kerala State Film Development Corporation Limited	General Administration	23-7-1975	31-3-1982	525.63
41	SIDECO Mohan Tools Kerala Limited*	Industries	20-8-1980	30-6-1982	17.05
42	Kerala Inland Navigation Corporation Limited	Public Works and Electricity	29-12-1975	31-3-1982	56.97
43	The Rehabilitation Plantations Limited	Irrigation and Rehabilitation	5-5-1976	31-3-1982	454.09
44	Kerala State Industrial Products Trading Corporation Limited	Industries	4-8-1976	31-3-1982	14.68
45	Overseas Development and Employment Promotion Consultants Limited	Labour	20-10-1977	31-3-1982	35.29
46	Kerala Automobiles Limited	Industries	15-3-1978	31-3-1982	142.00
47	Malabar Cements Limited	Industries	11-4-1978	31-3-1982	3169.86
48	Kerala Inland Fisheries Development Corporation Limited	Transport Fisheries and Ports	3-2-1981	31-12-1981	8.00

B

of Government Companies

1.02 *of Section I*)

(*Figures in columns* 6 *to* 12 *are in Rupees in lakhs*)

Profit (+)/ *Loss*(—)	*Total interest charged in profit and loss account*	*Interest on long-term loans*	*Total return on capital invested* (*Columns* 7+9)	*Capital employed* (*B*)	*Total return on capital employed* (*Columns* 7+8)	*Percentage of total return on capital invested*	*Percentage of total return on capital employed*
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(+) 68.74	42.57	20.22	88.96	489.40	111.31	20.93	22.74
(+) 1.09	23.74	(D) 4.37	5.46	360.11	24.83	1.77	6.90
(+) 10.53	0.14	..	10.53	263.61	10.67	3.75	4.05
(—) 6.96	1.35	1.35	(—) 5.61	23.23	(—) 5.61	..	..
(+) 5.86	11.85	11.85	17.71	473.95	17.71	2.65	3.74
Commercial production not commenced							
(—) 60.64	14.48	14.48	(—) 46.16	397.53	(—) 46.16	..	..
Commercial production not commenced							
(+) 0.79	0.38	0.38	1.17	49.24	1.17	2.05	2.38
(+) 12.05	22.00	22.00	34.05	81.60	34.05	7.50	41.72
(+) 8.01	..	..	8.01	14.97	8.01	54.56	53.51
(+) 3.42	..	..	3.42	19.57	3.42	9.69	17.48
Commercial production not commenced							
Commercial production not commenced							
(—) 2.59	..	..	(—) 2.59	5.48	(—) 2.59	..	..

ANNEXURE—

Summarised financial results

(Referred to in paragraph

Sl. No.	*Name of the Company*	*Name of the Department*	*Date of incorporation*	*Accounts for the year ended*	*Total capital invested (A)*
(1)	(2)	(3)	(4)	(5)	(6)
49	Kerala Artisans' Development Corporation Limited	Industries	1-10-1981	31-3-1982	5.30
50	The Kerala State Coir Corporation Limited	Industries	19-7-1969	31-3-1978	136.61
51	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	Health	8-9-1975	31-3-1979	8.64
52	Kerala Livestock Development and Milk Marketing Board Limited	Agriculture	14-11-1975	31-3-1979	220.76
53	The Kerala State Civil Supplies Corporation Limited	Food	25-6-1974	31-3-1979	121.00
54	Kerala Premo Pipe Factory Limited	Local Administration and Social Welfare	12-9-1961	31-3-1980	58.34
55	Kerala Tourism Development Corporation Limited	General Administration (Political)	29-12-1965	31-3-1980	245.85
56	Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited	Harijan Welfare	7-12-1972	31-3-1980	415.20
57	Sitaram Textiles Limited	Industries	14-2-1975	31-3-1980	527.05
58	Kerala State Construction Corporation Limited	Public Works & Electricity	25-3-1975	31-3-1980	119.80
59	Pallathra Bricks and Tiles Limited	Industries	21-12-1957	31-3-1981	31.47
60	Meat Products of India Limited*	Agriculture	13-1-1973	31-3-1981	45.72
61	Kerala Agro-Machinery Corporation Limited *	Agriculture	24-3-1973	31-3-1981	359.10
62	Kerala State Handloom Development Corporation Limited	Industries	24-6-1968	31-3-1981	116.84
63	The State Farming Corporation of Kerala Limited	Industries	15-4-1972	31-3-1981	348.50

B

of Government Companies

1.02 *of Section I*)

(*Figures in columns* 6 *to* 12 *are in Rupees in lakhs*)

Profit (+)/ *Loss* (—)	*Total interest charged in profit and loss account*	*Interest on long-term loans*	*Total return on capital invested (Columns 7+9)*	*Capital employed (B)*	*Total return on capital employed (Columns 7+8)*	*Percentage of total return on capital invested*	*Percentage of total return on capital employed*
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Commercial production not commenced							
(—) 7.39	1.54	1.54	(—) 5.85	131.61	(—) 5.85	..	..
(+) 0.13	3.84	..	0.13	26.39	3.97	1.50	15.04
(—) 56.93	6.41	6.23	(—) 50.70	249.84	(—) 50.52	..	..
(—) 53.51	53.70	0.07	(—) 53.44	267.45	0.19	..	0.07
(+) 16.60	3.28	3.28	19.88	45.73	19.88	34.08	43.47
(—) 2.40	2.08	0.67	(—) 1.73	154.66	(—) 0.32	..	..
(—) 6.96	25.69	25.69	18.73	(C) 356.00	18.73	4.51	5.26
(—) 16.97	35.33	29.34	12.37	463.32	18.36	2.35	3.96
(—) 82.69	8.49	5.97	(—) 76.72	13.66	(—) 74.20	..	..
(—) 2.19	1.70	1.17	(—) 1.02	(—) 2.26	0.49	..	..
(—) 8.21	2.49	2.49	(—) 5.72	(—) 0.83	(—) 5.72	..	..
(—) 4.88	29.79	29.79	24.99	251.37	24.91	6.93	9.90
(—) 11.56	10.64	9.46	(—) 2.10	250.51	(—) 0.92	..	..
(—) 27.71	32.90	16.67	(—) 11.04	213.36	5.19	..	2.43

ANNEXURE—

Summarised financial results

(Referred to in paragraph

Sl. No.	Name of the Company	Name of the Department	Date of incorporation	Accounts for the year ended	Total capital invested (A)
(1)	(2)	(3)	(4)	(5)	(6)
64	Scooters Kerala Limited	Industries	15-11-1976	31-3-1981	76.05
65	Kerala Fishermen's Welfare Corporation Limited	Transport, Fisheries and Ports	31-1-1978	31-3-1981	339.78
66	Kerala State Handicapped persons' Welfare Corporation Limited	Development	1-9-1979	31-12-1980	8.00

Notes:—(A) Capital invested represents paid-up capital *plus* long-term loans *plus* free reserves

(B) Except in the case of financial institutions, capital employed represents net fixed

(C) Capital employed represents the mean of the aggregates of opening and closing

(D) Includes other interest charges also.

* Subsidiary Company

B

of Government Companies

1.02 *of Section I*)

(*Figures in columns* 6 *to* 12 *are in Rupees in lakhs*)

Profit (+)/ Loss (—)	*Total interest charged in profit and loss account*	*Interest on long-term loans*	*Total return on capital invested (Columns 7+9)*	*Capital employed (B)*	*Total return on capital employed (Columns 7+8)*	*Percentage of total return on capital invested*	*Percentage of total return on capital employed*
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(—) 12.92	..	..	(—) 12.92	31.78	(—) 12.92	..	..
(—) 19.29	9.40	9.40	(—) 9.89	279.60	(—) 9.89	..	..
(—) 3.61	..	..	(—) 3.61	4.05	(—) 3.61	..	..

at the close of the year.

assets (excluding capital works-in-progress) *plus* working capital.

balances of paid-up capital, reserves and borrowings.

ANNEXURE—

Summarised financial results

Sl. No.	*Name of the Board/ Corporations*	*Name of the Department*	*Date of incorporation*	*Accounts for the year ended*	*Total capital invested (A)*
(1)	(2)	(3)	(4)	(5)	(6)
1	Kerala State Electricity Board	Public works & Electricity	1-4-1957	31-3-1981 †	3,69,91.18
2	Kerala State Road Transport Corporation	Transport, Fisheries and Ports	15-3-1965	31-3-1981 †	38,78.54
3	The Kerala Financial Corporation	Finance	1-12-1953	31-3-1982	58,60.59
4	Kerala State Warehousing Corporation	Agriculture	20-2-1959	31-3-1982	2,64.15

(A) Capital invested represents paid-up capital *plus* long-term loans *plus* free reserves at

(B) Except in the case of The Kerala Financial Corporation, capital employed repre-

(C) Capital employed represents the mean of the aggregates of opening and closing

† Provisional

C

of Statutory Corporations

(*Figures in columns* 6 *to* 12 *indicate lakhs of rupees*)

Profit (+)/ Loss (—)	*Total interest charged to profit and loss account*	*Interest on long-term loans*	*Total return on capital invested (Columns 7+9)*	*Capital employed (B)*	*Total return on capital employed (Columns 7+8)*	*Percentage of total return on capital invested*	*Percentage of total return on capital employed*
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(+) 3,37.22	32,78.68	32,78.68	36,15.90	3,43,47.53	36,15.90	9.78	10.53
(—) 7,79.87	54.17	54.17	(—)7,25.70	20,04.62	(—)725.70	(—)18.71	(—)36.20
(+) 1,58.58	2,98.57	2,98.57	4,57.15	(C) 56,06.52	4,57.15	7.80	8.15
(+) 34.95	2.83	1.07	36.02	2,5667	37.78	13.64	14.72

the close of the year.
sents net fixed assets (excluding capital works-in-progress) *plus* working capital.
balance of paid-up capital, bonds and debentures, borrowings, deposits and free reserves.

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