REPORT
OF THE
COMPTROLLER
AND
AUDITOR GENERAL OF INDIA
FOR THE YEAR
1984-85

(COMMERCIAL)
GOVERNMENT OF ORISSA

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PREFACE

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

(*i*) Government companies ;

(*ii*) Statutory corporations ; and

(*iii*) Departmentally-managed commercial undertakings.

2. This Report deals with the results of audit of Government companies and Statutory corporations including Orissa State Electricity Board and has been prepared for submission to the Government of Orissa under Section 19 A of the Comptroller and Auditor-General's (Duties, Powers and Conditions of Services) Act, 1971, as amended in March 1985. The results of audit relating to departmentally-managed commercial undertakings are contained in the Report of the Comptroller and Auditor General of India (Civil) Government of Orissa.

3. 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 of India as Government or Government owned/controlled companies/corporations hold less than 51 *per cent* of the shares. Particulars of such undertakings in each of which Government investment was more than Rs. 10 lakhs as on 31st March 1985 are given below :

Name of company	Total investment up to 1984-85 (Rupees in lakhs)	Percentage of Government investment to the total paid-up capital
Orissa Cement Limited Rajgangpur	40.00	12.9

Besides, there is one statutory corporation (Orissa Industrial Infrastructure Development Corporation) formed by the State Legislature, the accounts of which are not subject to audit by the Comptroller and Auditor General of India. As on 31st March 1985, the Corporation was financed by Government by way of loans to the extent of Rs.731·00 lakhs (63.6 *per cent* of the total long-term loans). The Corporation does not have share capital.

4. In respect of the Orissa State Road Transport Corporation and the Orissa State Electricity Board which are also Statutory corporations, the Comptroller and Auditor General of India is the auditor. In respect of Orissa State Financial corporation and Orissa State Warehousing Corporation he has the right to conduct the audit of their accounts independently of the audit conducted by the chartered accountants appointed under the respective Acts. The audit reports on the annual accounts of all these corporations are being forwarded separately to the Government of Orissa.

5. The cases mentioned in this Report are those which came to notice in the course of audit of accounts during the year 1984-85 as well as those which had come to notice in earlier years but could not be dealt with in previous Reports; matters relating to the period subsequent to 1984-85 have also been included wherever considered necessary.

CHAPTER I

GOVERNMENT COMPANIES

SECTION I

1.1. Introduction

There were 67 Government Companies (including 11 subsidiaries) as on 31st March 1985 as against 62 Government companies (including 8 subsidiaries) at the close of the previous year. East Coast Breweries and Distilleries Limited which was a company under Section 619 B of the Companies Act, 1956 became a subsidiary of Industrial Development Corporation of Orissa Limited in June 1983. The details of the remaining 4 new companies are given below :

Name of company	Date of incorporation/ becoming Government Company	Authorised capital (Rupees in lakhs)
(1) Orissa Textile Mills Limited ..	27th August 1983	125.00
(2) Ipitex International Limited (a subsidiary of Industrial Promotion and Investment Corporation of Orissa Limited)	20th November 1982	50.00
(3) The Orissa Composite Boards Limited (a subsidiary of Orissa Forest Corporation Limited)	4th July 1983	100.00
(4) Power Generation Corporation of Orissa Limited	14th November 1984	5600.00

1.2. Compilation of accounts

None of the companies finalised the accounts for 1984-85. Fourteen companies (including two subsidiaries) finalised their accounts for some of the earlier years. A synoptic statement showing the summarised financial results of the 14 companies (including two subsidiaries) based on the latest accounts made available is given in Appendix 'A'. The accounts of 73 companies including 6 companies which had ceased to be Government companies after sale of the shares held by Government were in arrears for the periods noted against each as shown in Appendix 'B'.

The position of arrears in the finalisation of accounts was last brought to the notice of Government in July 1985.

1.3. Paid-up capital

Against the aggregate paid-up capital of Rs. 115,90.21 lakhs in 62 companies (including 8 subsidiaries) as on 31st March 1984 the aggregate paid-up capital as on 31st March 1985 increased to Rs. 152,03.02 lakhs in 67 companies (including 11 subsidiaries) as detailed below :

Particulars	Number of companies	Investment by State Government	Investment by Central Government	Investment by Others	Total
(*i*) Companies owned by State Government	25	1,24,66.89	..	..	1,24,66·89
(*ii*) Companies jointly owned with Central Government/others	31	9,77.75	76.77	48.24	11,02·76
(*iii*) Subsidiaries of Government companies	11	7,74,43	..	8,58.94	16,33.37
	67	1,42,19.07*	76.77	9,07.18	1,52,03.02

1.4. Loans

According to the information received from 65 companies (including 9 subsidiaries), 25 companies (including 7 subsidiaries) had a balance of long-term loans outstanding as on 31st March 1985, amounting to Rs. 218,96.17 lakhs (State Government : Rs. 27,14.01 lakhs and others Rs. 191,82.16 lakhs) as against

*The figure as per Finance accounts was Rs. 1,03,51,60 lakhs; the difference of Rs. 11,67,47 lakhs is under reconciliation.

the balance of Rs. 117,48.04 lakhs (State Government : Rs. 24,43.55 lakhs and others : Rs. 93,04.49 lakhs) in respect of 23 companies (including 3 subsidiaries) as on 31st March 1984.

1.5. Guarantees

1.5.1. The State Government had guaranteed the repayment of loans and payment of interest thereon raised by 16 companies. The amounts guaranteed and outstanding thereagainst as on 31st March 1985 are detailed below :

Name of company	Amount guaranteed	Amount outstanding
	(Rupees in lakhs)	
(1) Orissa Lift Irrigation Corporation Limited	79,17.70	36,68.02
(2) Orissa Mining Corporation Limited	30,63.34	30,63,34
(3) Orissa Mining Corporation Alloys Limited	28,81.21	28,81.21
(4) Industrial Development Corporation of Orissa Limited	12,04.00	11,09.50
(5) Orissa State Civil Supplies Corporation Limited	5,00.00	5,00.00
(6) Similipahar Forest Development Corporation Limited	5,00.00	78.44
(7) Sonepur Spinning Mills Limited	4,74.00	4,64.55
(8) Orissa State Cashew Development Corporation Limited	4,09.22	4,09.22
(9) Orissa Road Transport Company Ltd	3,59.30	3,16.94
(10) Orissa Fish Seed Development Corporation Limited	2,42.73	1,50.19
(11) Orissa State Seeds Corpration Limited	81.01	81.01
(12) Orissa Maritime and Chilka Area Development Corporation Limited	65.94	30.65
(13) Orissa State Handloom Development Corporation Limited	40.00	38.32

Name of company	Amount guaranteed	Amount outstanding
	(Rupees in lakhs)	
(14) Spark Battery and Manufacturing Works Limited	2.00	2·00
(15) Cuttack Iron and Steel Products Limited	0.50	0.50
(16) New Mayurbhanj Textiles Limited	0.30	0.28
	177,41.25*	127,94.17*

1.5.2. In consideration of the guarantees, the companies have to pay guarantee commission (rates ranging from 0.25 to one *per cent* per annum on the amount guaranteed) to Government. In nine cases, the payment of guarantee commission was in arrears as on 31st March 1985 as per details given below:

Name of company	Amount in arrears (Rupees in lakhs)
(1) Industrial Development Corporation of Orissa Limited	6.02
(2) Orissa Road Transport Company Limited..	1.45
(3) Orissa State Handloom Development Corporation Limited	0.38
(4) Spark Battery and Manufacturing Works Limited	0.18
(5) Orissa Timber Product Limited	0.07
(6) Balanga Iron Works Limited ..	0.06
(7) Cuttack Iron and Steel Products Limited ..	0.04
(8) Orissa Sports Manufacturing and Fabrication Limited	0.04
(9) Kalinga Steel and Wire Products Limited ..	0.01
	8.25

*The figures as per Finance accounts are Rs. 83,32.00 lakhs and Rs. 82,37.00 lakhs, the differences are under reconciliation.

1.6. Performance of companies

Of the 14 companies which finalised their accounts for some of the earlier years, one company (Konark Watch Company Limited) was in the stage of construction.

In the case of East Coast and Chemical Industries Limited, the accumulated loss (Rs. 25.31 lakhs) at the end of 1978-79 had exceeded the paid-up capital (Rs. 20.54 lakhs), the percentage of accumulated loss to the paid-up capital being 123.

1.7. In addition, there were 5 companies covered under Section 619 B of the Companies Act, 1956 as on 31st March 1985. Only three companies (IPITRON Resistors Limited, Mamta Drinks and Industries Limited and IPITRON Times Limited) finalised their accounts for the periods subsequent to those indicated in the Report of Comptroller and Auditor General of India for 1983-84 (Commercial) as detailed below:

Name of company	Latest year of accounts	Paid-up capital	Investment by State Government	Investment by Central Government/companies/corporations	Investment by Others	Profit(+)/loss (—)
			(Rupees in lakhs)			
(1) IPITRON Resistors Limited	18th May 1983 to 31st March 1984	0.01	..	..	0.01	Nil being in pre-operative stage
(2) Mamta Drinks and Industries Limited	1981	19·41	2.50	10.37	6.54	(—)5.01
(3) IPITRON Times Limited	Year ended 30th June 1984	34.21	..	47·56	..	(—)4.97

SECTION II

SIMILIPAHAR FOREST DEVELOPMENT CORPORATION LIMITED

2.1. Introduction

Similipahar forest comprised Tiger Reserve and Natto Reserve areas. The Natto Reserve and the areas lying in the outer boundary of Similipahar forest like Satkosia, Thakurmunda, Kendumundi, Ladadiha, *etc*. extending over an area of 2,500 Sq. kms. constituted about one third of the valuable forests in the State and therefore, Government prepared (May 1975) a project report to develop these areas with a development-*cum*-production orientation through financial assistance from Agricultural Refinance and Development Corporation (ARDC), now National Bank for Agriculture and Rural Development (NABARD) which agreed to render financial assistance (December 1977). For implementation of the project, the Company was incorporated on 14th December1979 as a wholly owned Government Company.

2.2. Objectives

The main objectives of the Company are (*i*) to take up intensive forest development and to raise economically valuable plantations, (*ii*) to harvest and market the existing forest produce, (*iii*) to increase production of industrial and other forest products and (*iv*) to encourage or establish forest produce based industries.

2.3. Activities

The activities of the Company have so far been (*i*) forest development through economic plantations, rehabilitation of degraded forests, enrichment plantations, avenue plantations, improvements of roads and reaches *etc.,* (*ii*) production and marketing of

timber and fire-wood, collection and marketing of oil seeds like *Sal, mahua., kusum,* etc., and (*iii*) collection and marketing of other minor forest products like honey, wax, resin, arro-root, tamarind, etc.

2.4. Organisational set-up

The management of the Company is vested in a Board of directors consisting of 10 members (including two non-official members) nominated by Government and headed by Minister of State, Forest, Fisheries and Animal Husbandry as Chairman. The day-today affairs of the Company are managed by Managing Director assisted by a project manager at each of its divisions at Baripada (two), Karanjia, Udala, Badampahar, Keonjhar and Jajpur.

2.5. Capital structure

The authorised share capital was Rs. 2·00 crores divided into 2 lakhs equity shares of Rs. 100 each. The project report as cleared by the ARDC envisaged implementation of the project over a period of 5 years (1979-80 to 1983-84) at a cost of Rs. 8,28.80 lakhs financed by share capital: Rs. 100·00 lakhs; loans: Rs. 5,00·00 lakhs and internal resources: Rs. 2,28.80 lakhs. However, the paid-up capital so far contributed was only Rs. 40 lakhs (July 1985).

Out of the envisaged loan of Rs. 5,00·00 lakhs (sanctioned by ARDC in the year 1980) an amount of Rs. 75 lakhs only was drawn (March 1981) and in the meanwhile, the scope of the project had to be revised by the Company in view of the changed circumstances and the revised project report was awaiting clearance before drawal of balance loan from NABARD (July 1985) as discussed in paragraph 2·7 *infra.*

2.6. Working results

The Company's accounting year is November to October and the accounts were finalised for the first year (1979-80) only. Even provisional accounts had not been compiled for subsequent years. However, for the purpose of reviewing the implementation of the project, the working results for subsequent years upto 1983-84 were worked out (May 1985) by the Company on a very rough basis. The following table indicates the working results for the year 1979-80 as per the finalised accounts and for the subsequent years up to 1983-84 as provisionally worked out by the Company:

	1979-80	1980-81	1981-82	1982-83	1983-84
	(Rupees in lakhs)				
Income					
Timber ..	38.13	4,16.34	4,65.16	3,56.68	2,68.18
Fire-wood ..	0.61	10.37	30.19	37.42	58.05
Oil seeds ..	1.32	1.15	77.90	67.07	1,75.32
Minor forest produce ..	0.26	1.77	5.00	1.92	10.12
Miscellaneous ..	0.73	2.86	2.18	1.93	1.42
Accretion to stock ..	20.76	76.13	..	1,48.54	..
Total ..	61.81	5,08.62	5,80.43	6,13.56	5,13.09
Expenditure					
Timber ..	13.84	94.61	1,33.39	75.92	79.90
Oil seeds and other minor produce	2.62	2.01	64.74	1,84.20	35.60
Royalty ..	33.39	329.16	2,76.00	2,51.10	1,60.00
Forest development ..	5.24	20.87	32.61	45.70	46.96
Infrastructure ..	..	30.21	26.56	22.05	16.29
Administrative and other expenses	6.13	24.43	32.01	32.69	34.41
Decretion of stock ..	..	..	12.31	..	1,37,22
Total ..	61.22	5,01.29	5,77.62	6,11.66	5,10.38
Net profit ..	0.59	7.33	2.81	1.90	2.71

As against the profit of Rs. 6,74.31 lakhs anticipated in the project report for the first five years of operation of the Company, from out of which Rs. 2,25.80 lakhs were to be appropriated for implementation of the project, the profit earned

during the relevant period was only Rs. 15.34 lakhs and this was mainly due to banning of tree-felling as discussed in the succeeding paragraph.

2.7. Project implementation and performance analysis

Implementation of the project to be completed by the end of 1983-84 comprised infrastructure development, forest development and production works like extraction of timber and fire-wood, collection of sal seeds and other minor forest produce. The Company commenced the implementation of the project in April 1980. Subsequently the Similipahar forest excluding the Tiger Reserve area has been declared as a sanctuary with a wild-life bias and therefore, Government prohibited (June 1982) felling of trees in the Similipahar forest for a period of 2 years excepting to the extent of meeting the raw-material requirements of industries to which a legally enforceable commitment has been made by Government and extraction of dead trees. The ban continued to operate (July 1985). Consequently, the envisaged development of Similipahar forest with the orientation, mainly of timber extraction for which the Company was established had to be restricted. To sustain the Company's operations, new forest areas (Barbil and Jajpur Road) of the Orissa Forest Corporation Limited outside the project area were added to the jurisdiction of the Company by Government in May 1984. A revised project report was also submitted to Government and NABARD in December 1983. The objectives of the project are mainly to (*i*) take intensive measures for protection of the forests and wild life in the project area, (*ii*) improve and enrich the growing stock by systematic and intensive silvicultural operations and plantations, (*iii*) rehabilitate the degraded *Sal* forests and (*iv*) intensify and maximise collection of sal seed and other minor forest produce. Cost of revised project was estimated at Rs. 5,13.38 lakhs to be financed by way of share capital (Rs. 75.00 lakhs), loan (Rs. 2,90.00 lakhs) and internal resources (Rs. 1,48.38 lakhs) and the implementation was to be completed by 1986-87. Acceptance of the revised project report by Government and NABARD was awaited (July 1985).

2.7.1. *Infrastructure development*

The project report of May 1975 envisaged infrastructure development, at a cost of Rs. 1,20.18 lakhs, of the Similipahar forest area towards improvement of roads and paths and execution of cross drainage works and building construction works. The main aim of the infrastructure development was to negotiate the inaccessible areas in the forest for extraction of timber and fire-wood and its eventual transportation out of the forest for marketing. The following table indicates the volume of work done by the Company and the extent of its expenditure on salaries and contingencies for the three years up to 1983-84 :

	1981-82	1982-83	1983-84
	(Rupees in lakhs)		
Works Expenditure:			
Improvement to roads ..	11.95	7.86	1.68
Gross drainage ..	4.75	0.76	1.64
New buildings ..	1.76	2.29	1.37
Forest development ..	0.76	1.62	1.11
Total Works Expenditure ..	19.22	12.53	5.80
Salaries and contingencies	5.77	5.71	6.66
Total expenditure ..	24.99	18.24	12.46
Percentage of salaries and contingencies to works expenditure	30.0	45.6	1,14.8

The estimates for the works, however, did not contain a provision for recovery of the establishment and contingent expenditure through the works expenditure. No reasons were also on record for the steep rise in the establishment and contingent expenditure, despite a steep fall in the works expenditure. Execution of one of the 5 works relating to road improvement is discussed below :

2.7.1.1. The work of improvement to Munidhar-Lulung-Sanmakabadi road with a route length of 24 Kms. was taken up in November 1980. The estimated cost of the work was Rs. 5.40 lakhs. Though the road was passing through the core area of Similipal Tiger Reserve, specific clearance from the Tiger Reserve Project authorities was not obtained by the Company before taking up the work. After completing up to a length of 6.6 kms. (expenditure : Rs. 4.31 lakhs), it was abandoned (March 1983) in view of the objection from the Field Director, Similipal Tiger Reserve Project. The expenditure of Rs. 4.31 lakhs incurred on the incomplete road was, therefore, unfruitful. It may be mentioned here that the Field Director of the Tiger Reserve Project was also a member of the Board of directors and the Company did not avail of the benefit of his advice by putting up the matter to the Board. On the other hand, the Management appraised the Board (March 1985), as a part of review of progress of the project, that all the road improvement works were taken up on priority basis.

2.7.2. *Forest development*

The envisaged forest development mainly comprised raising of economic plantations (Gamhar, Simul and Teak), rehabilitation of degraded sal and other specific forest, enrichment plantations (Champa), horticulture plantations (Pine-apple, lemon and orange) and avenue plantations. The following table indicates the achievements *vis-a-vis* targets of these activities during the three years up to 1983-84 :

Particulars	1981-82 Target	1981-82 Achievement	1982-83 Target	1982-83 Achievement	1983-84 Target	1983-84 Achievement
Economic plantations (hectares)	225	171 (76)	200	145 (72.5)	100	99 (99)
Rehabilitation of degraded forests (hectares)	497	237 (47·7)	1000	302 (30.2)	400	157 (39·3)
Enrichment plantation (seedling in lakhs numbers)	1.00	0.22 (22)	1·00	0.30 (30)	0.25	0·15 (60)
Horticulture plantations (hectares)	10	7 (70)	43	10 (23.3)	3	3 (100)
Avenue plantations (kms.)	40	42 (105)	100	72.3 (72.3)	40	28 (70)

The Management stated (August 1985) that the achievement of the target was to the extent of the availability of suitable sites in the project area.

2.7.3. *Timber*

2.7.3.1. *Timber extraction*

Timber and firewood extraction from the forest for commercial purposes was the main source of the Company for generating internal resources envisaged (Rs.2,28.80 lakhs) for implementation of the project originally contemplated. The following table indicates the achievement of timber and

Note—Figure in bracket indicates percen tage of achievement to target

firewood extraction *vis-a-vis* the targets since inception to end of 1983-84 :

	1979-80 Target	1979-80 Achievement	1980-81 Target	1980-81 Achievement	1981-82 Target	1981-82 Achievement	1982-83 Target	1982-83 Achievement	1983-84 Target	1983-84 Achievement
Timber	0.33	0.08	0.86	0.54	0.78	0.54	0.38	0.27	..	0.22
(lakh cum.)	..	(24.2)	..	(62.8)	..	(69.2)	..	(71.1)	..	..
Firewood	0.06	..	0.13	0.17	0.25	0.28	0.29	0.18	..	0.38
(lakh tonnes)	..	..	..	(130.8)	..	(112)	..	(62.1)	..	..

According to the Management (August 1985), non-achievement of the targets of timber extraction was due to short working period available (1979-80) and the ban imposed (June 1982) on felling of trees in the Similipahar forests and the achievement after the ban orders represented mostly extraction of timber from wind-fallen trees and legally based commitments to industries.

2.7.3.2. *Cost of timber operations*

A test check in audit (June 1985) of the records of the Udala (Utilisation) division and Badampahar (R&D) division revealed that there were wide variations between the two divisions in the cost of timber operations during the years from 1981-82 to 1983-84 as tabulated below:

Operation	Estimated cost as per project report	Actual cost 1981-82 U	1981-82 B	1982-83 U	1982-83 B	1983-84 U	1983-84 B
		(Rupees per cum)					
Felling and logging	8.75	11.30	9.57	15.19	10.44	18.01	13.07
Dragging and stacking	8.75	23.66	10.67	44.50	11.97	41.67	17.50
Transportation ..	60.00	113·00	85.93	134.55	93.72	119.72	56.81
Salary of seasonal staff	4.00	31.08	11.06	62.12	13.78	59.68	41.05
Extraction and maintenance of plants	2.00	10.24	22.48	17.66	10.20	34·25	43.57

Note—Figures in brackets indicate the percentage of achievements.

Note: U—represents Udala (Utilisation) division.

B—represents Badampahar (R&D) division.

The Management attributed (August 1985) the variation in costs to general price increase, increased labour rates and bad terrain. In the case of Udala division, vouchers for payments to an extent of Rs. 1.23 lakhs (1981-82 to 1983-84) were not yet (December 1985) admitted by the Company for want of authority, genuineness of the expenditure incurred *etc.* Some of the records and vouchers of Udala division were seized (September 1984) by the State Vigilance Department the final result of which was awaited (December 1985) Also, justification or otherwise of the abnormal variations in respect of Udala division was not susceptible of verification in the absence of the records.

2.7.3.3. *Transportation of timber*

The Company did not lay down delegation of powers to various levels of officers for various activities like transportation of forest produce like timber, fire-wood, sal seeds and others and their sale. Transportation of timber in Karanjia division was got done in 1981-82 through two contractors at the rates obtained in tenders and approved by the head office. The contractors were continued by the division for the transportation work in the subsequent two years also without inviting tenders, executing agreements and without obtaining prior approval of the head office, incurring Rs. 24.74 lakhs towards the transportation at the rates of 1981-82 with 10 *per cent* escalation (Rs. 53.00 to Rs. 119.80 per *cum*). *Post-facto* approval of the Managing Director for the rates adopted was, however, obtained by the division in February 1984. The head office obtained tenders in 1984-85 in respect of 3 coupes and the work of transportation was entrusted to the two lowest tenderers one of whom was the contractor already engaged in 1982-83 and

1983-84. The rates allowed in 1982-83 and 1983-84 were higher than the lowest rates obtained (Rs.49.50 to Rs. 104.50 per *cum*) for the 3 coupes in 1984-85, which would indicate that had tenders been invited in earlier years also, cost of the transportation could have been less. Compared to the rates of 1984-85, the transportation in 1982-83 and 1983-84, was costlier by Rs. 1.08 lakhs on 8,823 *cum* of timber.

2.7.3.4. *Supply of sleepers to railways*

Earlier to formation of the Company, South Eastern Railways, Calcutta were procuring sleepers through Forest Department, Orissa and Forest Corporation Limited at their rates specified from time to time and funds required were being placed with those agencies who were to allot individual quantities to sub-contractors after assessing their capacity, loading of the sleepers into wagons, checking of the sub-contractor's bills and conduct pre-despatch quality control inspection. The rate fixed for the supply was payable to the sub-contractors and the agencies were to get 4 *per cent* value of the supplies as overhead charges and at 3 *per cent* in case pre-despatch inspection is conducted by the Railways. The Railways entrusted the Company also with procurement of sleepers from time to time since 1979-80 duly placing the funds with it. No agreement laying down the terms and conditions was entered into with the Railways. During the years 1979-80 to 1983-84, sleepers valued Rs. 4,11.44 lakhs were supplied by the Company as an agent discharging the functions excepting pre-despatch inspection which was done by the Forest Department nominated by the Railways. The remuneration of 4 *per cent* was being received from time to time by the Forest Department but the share due (3 *per cent*) to the Company amounting to Rs. 12.34 lakhs was not paid by the Department.

O/N
13th BM
12/20
8

on the supplies made during 1979-80 to 1983-84. The Management stated (July 1985) that the matter regarding settlement of the dues would be pursued with Government. The Company had also not been able to assess the working result of this activity since the expenditure was not being accounted for separately.

2.7.3.5. *Non-lifting of auctioned timber*

In the terms and conditions of auction sale, the participating bidders were to pay Rs. 1,000 towards earnest money deposit the successful bidders were in addition to pay 25 *per cent* of the sale value of goods towards security deposit at the time of auction and the balance 75 *per cent* was to be paid within 7 days thereof and stocks lifted. In the event of failure to do so the security deposit *(25 per cent)* was to be forfeited by the Company and the stocks were to be sold at the risk of the bidders.

In respect of timber valued Rs. 10.15 lakhs sold to 179 parties in auctions (1982-83 and 1983-84) by the divisions at Badampahar and Udala, it was noticed in audit (July 1985) that the security deposit at 25 *per cent* was collected fully only in 26 cases (amount : Rs. 0.37 lakh), it was short-realised (Rs.0.55 lakh against Rs. 0.84 lakh) in 46 cases and in the remaining cases security deposit amounting to Rs. 1.33 lakhs was not at all collected. None of the successful bidders had lifted the stocks yet (July 1985). Short/non-collection of the security deposit amounting to Rs. 1.62 lakhs resulted in loss to the Company since the amount could have been available to the Company for forfeiture. Neither the security deposit already collected (Rs. 0.92 lakh) was forfeited nor the stocks (Rs. 10.15 lakhs) were resold so far (August 1985) at the risk of the bidders for reasons not on record.

2.7.3.6. *Loss in sale of firewood*

Without inviting tenders/conducting auction, 655 stacks of firewood were sold during August 1984 to January 1985 by Karanjia division to two parties at Rs. 1,750 per stack based on the orders of the Chairman of the Company communicated (August 1984) by the head office. The basis for arriving at the rate was not available on record. It was, however, seen that in an auction held in April 1984, the division obtained rates ranging between Rs. 2,000 to Rs. 2,683.30 per stack. Reckoned even at the lowest of these rates, the sale of the 655 stacks resulted in a loss of Rs. 1.64 lakhs.

The division stated (July 1985), that the sale was undoubtedly irregular and the matter was under investigation by Vigilance Department.

2.7.3.7. *Timber stocks taken over*

On formation of the Company, timber valued Rs. 5.10 lakhs was transferred by Orissa Forest Corporation Limited (OFC) and the liability was provided in the accounts of the Company for the year 1979-80. Out of this, timber valued Rs. 1.19 lakhs lying in the forest coupes was abandoned eversince the take-over as the area was inaccessible for transporation. The Management stated (June 1985) that at the time of take-over of the stock it was indicated to OFC that the extraction of stock was not profitable involving heavy expenditure in dragging, laying the path and transportation. The liability has, however not been discharged by the Company. The matter has also not been taken up with OFC for settlement (December 1985).

2.7.4. *Sal seeds*

2.7.4.1. *Collection of sal seeds*

The forests in the State are rich with sal seeds, an important minor forest produce, collection of which from the forests is the main source of livelihood to tribal population. Oil extracted from sal seed is used in soap and cocoa butter manufactured by confectionery industry. Till November 1982, sal forests in the Similipahar area were being leased out by Government to private industries and the Company on royalty basis for purchase of seeds collected by tribals. Considering that sal seed collectors had always been in the sellers' market and purchase of seeds by the lessees in the face of the State's potential (3.53 lakh tonnes as assessed by the Chief Conservator of Forests (CCF) and considered by Government in December 1982), collection of the seeds from the tribals was nationalised in the State in December 1982 as a measure of resource mobilisation to Government and to ensure an assured off-take and reasonable price to sal seed collectors. Like timber and firewood, sal seed is another major source of the Company for generation of the internal resources envisaged for implementation of the project. With the banning of tree-felling in the Similipahar forest area since July 1982, the emphasis of the Company's operations shifted from timber and firewood to sal seeds. The following table indicates the achievement *vis-a-vis* the target for collection of sal seeds since inception to the end of 1983-84:

	1979-80	1980-81	1981-82	1982-83	1983-84
			(Tonnes)		
Target ..	10,000	5,000	10,000	20,500	Not fixed
Achievement ..	82	..	5,437	17,014	2,730
Percentage of achievement to target	0.8	..	54.4	83.0	..

Non-achievement of the targets according to the Management (August 1985) was due to commencement (April 1980) of the Company's operations just before the season (May and June) for sal seeds in 1979-80 and litigation resorted to by a lessee of the area (1980-81). In respect of the other years, it was stated that production of sal seed depends on intensity of flowering which generally varies from year to year. It is, however, noticed that the targets were fixed after examining the position of flowering during the year concerned. The achievement was also low in comparison with (*i*) the potential estimated (80,000 tonnes in respect of the area covered by the Company) by the CCF for considering the question of nationalising the *sal* seed trade and (*ii*) *sal* seed collection targetted (26,000 tonnes for 1983 season and 10,000 tonnes for 1984 season) by CCF for purpose of royalty to Government in the project area.

2.7.4.2. *Sale of sal seeds*

During the sal season (May and June) of 1983, the Company collected 17,014 tonnes of sal seeds at a total cost of Rs. 2,72.22 lakhs. Before the season commenced, open tenders (April 1983) were invited for disposal of sal seeds. The highest rate (Rs. 1,606 per tonne) obtained out of six offers received having been lesser than the rate obtained (Rs. 1,700 per tonne) in the preceding year, all the six tenderers were called for negotiations (June 1983) but none had turned up. However, an offer from 'K' of Calcutta (June 1983) at a rate of Rs. 1,700 per tonne and on negotiation, a rate of Rs. 1,770 per tonne was settled and an agreement for the sale of 10,000 tonnes was executed in July 1983. In the meanwhile, the CCF reserved (June 1983) a quantity of 10,000 tonnes in favour of firm 'O' of Sambalpur at a rate of Rs. 1,715 per tonne in terms of Orissa Forest Produce (Control of Trade) Act, 1981. In view of this, the quantity already agreed to be supplied to 'K' was reduced to 7,000 tonnes (July 1983). The party 'K'; however, lifted 6,784 tonnes during September 1983 to May 1984. The firm 'O', attributing the stock of seeds to be of bad quality filed a writ petition in High Court and later prayed (July 1983) for special leave before the Supreme Court against the allotment orders of CCF. In terms of the orders of Supreme Court, 'O' was to deposit by 16th July 1983, 10 *per cent* of the value of seeds allotted (Rs. 17.15 lakhs). the firm was entitled to inspect the stocks after making the deposit and to take delivery of the stocks within one month of the deposit duly making payment of the balance value. The firm deposited the 10 *per cent* value in July 1983 and on inspection, indicating that it would take 500 tonnes only (value: Rs. 8.57 lakhs) which were found to be acceptable to it, the firm requested (July 1983) for refund of the balance deposit of Rs. 8.58 lakhs which, however, was yet to be returned (December 1985). By alternative efforts during September 1983 to August 1985, the Company could sell 9,523 tonnes out of the stock left over by 'O' and 'K' at different rates to different parties (1,175.4 tonnes at Rs. 1,650 per tonne; 348.4 tonnes at Rs. 1,375 per tonne; 1,424.2 tonnes at Rs. 1,326.26 per tonne; and 6,575 tonnes at Rs. 925 per tonne). In all, the sales realisation was Rs. 2,32.54 lakhs on the 16,807 tonnes against the expenditure of Rs. 2,87.52 lakhs incurred towards price paid to the seed collectors, royalty, packing and repacking, handling, transportation, godown rent, watch and ward and interest but excluding establishment charges apportionable to the activity resulting in a loss of Rs. 54.98 lakhs. The Company filed (June 1984) a suit in the Sub-Judge Court, Cuttack against 'O' for an amount of Rs. 35.97 lakhs towards the losses and damages sustained by it due to non-lifting of the allotted stocks and the case was *sub-Judice* (December 1985).

2.8. Surplus staff

Consequent upon the orders of Government felling of trees in Similipahar forest area, the erstwhile Baripada West (R & D) division was abolished with effect from 1st December 1983 and the staff alongwith the records were transferred to Baripada East (R & D) division (renamed as Baripada (R & D) division). Subsequently, a new divison at Keonjhar was formed (July 1984) and the surplus staff available in Baripada (R & D) division was ordered (September 1984 and April 1985) by the Managing Director to be transferred to the newly formed division at Keonjhar. Instead of transferring them, the Baripada (R & D) division intimated (April 1985) the Managing Director that 1 assistant accountant, 1 junior clerk and 23 workers on daily wage basis were surplus and they could be spared. No further development was there and the surplus staff remained (July 1985) in the Baripada (R & D) division. The expenditure incurred on this surplus staff since the abolition of the division up to December 1985 was Rs. 1.89 lakhs.

2.9. Cash management

Each division of the Company operates 2 bank accounts a current account opened in favour of the Managing Director (M. D's current account) for remitting the sale proceeds and other receipts of the Company and the other for transacting the divisional expenditure. Funds for the divisional operations are released by the Managing Director, on requisition, from the M. D's. current account. Though the M. D's current account was scattered in all the places, there was neither centralised information at the Managing Director's office as to the position of balances in the current accounts nor the same was called for. Also, there was no practice of preparing cash flow statements periodically to ensure proper deployment of the available resources. The points noticed in audit, in this connection, are discussed in the succeeding paragraphs.

2.9.1. *Retention of balances in current account*

Heavy balances were held in the M. D's. current account at all the places for periods ranging from 15 to 180 days during the 3 years up to 1983-84 the break-up of the periods and the extent of which are indicated below :

Number of days for which the balances were continuously kept	Amount retained		
	1981-82	1982-83	1983-84
	(Rupees in lakhs)		
15 to 45	150.99	180.58	121.93
46 to 90	33.22	20.90	41.94
91 to 180	18.49	18.56	20.32

Reckoned at the rate of interest on term deposits applicable to the minimum period of the break-up indicated above, the continued retention of the balances in the current account involved loss of interest amounting to Rs. 1.64 lakhs.

2.9.2. *Delay in encashment of fixed deposits*

During the period from August 1980 to January 1983, funds aggregating Rs. 88.70 lakhs were invested by the Badampahar (R & D) division in 15 short-term deposits for periods ranging from 2 to 10 months. None of the deposits was encashed on due date and the delays in encashment ranged from 15 days to 5 months. The Company had not earned any interest beyond the dates of maturity to the dates of encashment. The loss of interest due to retention of the deposits without renewal worked out to Rs. 1.05 lakhs.

2.9.3. *Avoidable interest*

The Company obtained (June 1980) ways and means advance of Rs. 10.00 lakhs from Government at an interest of 15 *per cent* per annum repayable by 31st March 1981. The interest was chargeable

only at 12 *per cent* per annum in case the loan was repaid by 10th December 1980. The loan was repaid on 11th December 1981 and Rs. 2.30 lakhs were paid (12th March 1982) towards interest which includes Rs. 0.08 lakh towards interest on interest at 15 *per cent.* It may be interesting to mention here that the fixed deposits retained beyond the dates of maturity without earning any interest mentioned in the preceding paragraph included a deposit of Rs. 20.00 lakhs deposited on 30th March 1981 (dates of maturity and encashment were 27th October 1981 and 27th March 1982 respectively). Had the loan of Rs. 10.00 lakhs together with interest to March 1981 been discharged from out of the funds available for the deposit, the Company could have saved Rs. 1.16 lakhs out of the interest paid (Rs. 2.30 lakhs) to Government.

2.9.4. *Interest burden due to delay in repayment of loan*

For the purpose of trading in *sal* seeds, the Company borrowed (May 1983) Rs. 1,33.60 lakhs from Bank of India under "differential rate of interest" scheme repayable within 6 months thereof. The loan was to carry interest at 4 *per cent* per annum and if not repaid within that period, interest was payable at 15 *per cent* for the period involved in delay in repayment of the loan. The loan was repaid during February, March and May 1984 together with an interest of Rs. 7.63 lakhs which included Rs. 4.95 lakhs paid towards interest at 15 *per cent.*

Justification for the delay in repayment of the loan involving burden of interest at higher rate was not susceptible of verification in the absence of periodical cash flow statements.

2.10. Physical verification of stocks

(i) Annual physical verification of stocks of timber, sal seeds and other forest produces held at various units of the Company was not done since

inception excepting the stocks of Karanjia timber division which was done during 1983-84 when shortage of 54.7 tonnes of sal seeds valued Rs. 0.87 lakh was noticed. In addition, the following shortages and losses had occurred as seen from the records of various divisions for the period from 1979-80 to 1983-84:

Produce	Value (Rupees in lakhs)	Remarks
Sal Seeds ..	6.84	Represents shortage of 441.6 tonnes of the seed noticed (May 1985) at the time of handing over of charge in Badampahar (R. & D.) division.
	3.91	Represents value of stock shortages (244·57 tonnes) during September 1983 in Badampahar (R. & D.) division.
Timber ..	3.13	Represents shortages of 335.5 Cum. of timber during 1983-84 in Udala division.
	0.28	Represents value of timber (141.8 Cum,) taken over from O F C in April 1980 by Baripada division and got damaged (October 1984) due to long storage.
	0.46	Represents stock of Baripada and Badampahar divisions got damaged during 1979-80 to 1982 83 due to prolonged storage.

Produce	Value (Rupees in lakhs)	Remarks
Firewood ..	0.67	Represents value of firewood lost in transit shortage (425.6 tonnes out of 1,679.7 tonnes transported) and damages (329.3 tonnes) in natural calamity in 1980-81 (Udala Division).
Honey ..	0.27	Represents value of 1175 kgs of honey accumulated since 1981-82 and became unfit for human consumption due to prolonged storage.
Kusum seeds	0.28	Represents value of 12.6 tonnes of seeds lost (1979-80 to 1981-82) due to driage in store.

The above shortages/lossses (aggregate value: Rs.16.71 lakhs) have not been investigated by the Management (December 1985).

2.11. Accounts manual

Manual laying down various accounting procedures has not been compiled by the Company.

2.12. Internal audit

The Company did not organise any system of internal audit. However, a firm of chartered accountants was appointed (August 1984) by the Company as the internal auditors for the year 1981-82 and onwards without finalising the terms as to the scope of work to be done, time schedule for completion of work and remuneration payable. The internal audit work taken up in November 1984 was in progress. No report has yet been submitted

Except for an advance payment of Rs. 3,000 made in October 1985, no final settlement of payment has been done (December 1985).

Summing up

(*i*) The Company was established (December 1979) to develop the Similipahar forest areas excluding Tiger Reserve with development-*cum*-production orientation within a period of 5 years at an estimated cost of Rs. 8,28.80 lakhs. The envisaged development comprised infrastructure development (development of road and paths) forest development (raising plantations and rehabilitation of degraded forests) and extraction and marketing of timber and firewood and collection and marketing of sal seeds and other minor produce which would help generation of internal resources for implementation of the project. The Company did not obtain the finances from external sources fully and consequently the implementation of the project as projected was not achieved. In the third year of existence of the Company, the area of Similipahar under its jurisdiction was declared as sanctuary with wild-life bias and consequently felling of trees in the area was banned. The Compay's working, new areas outside the Similipahar forest had to be added to the jurisdiction of the Company. Thus, the specific purpose for which the Company was created was not served. Under the changed circumstances, the emphasis of generation of internal resources had to be shifted to sal seed and other minor forest produce only. There had been a loss of Rs. 54.98 lakhs to this main source of income (sale of sal seeds) in 1983-84.

(*ii*) Finalisation of accounts of the Company from its second year (1980-81) onwards was in arrears. Even provisional accounts had not been

complied. However, working results up to 1983-84 worked out on rough estimates according to which profits amounted to Rs. 15.34 lakhs only against the estimated Rs. 674·31 lakhs.

(*iii*) Improvement to a road passing through the core area of Tiger Reserve Forest was taken up without clearance from the Tiger Reserve Authority and the work, after incurring an expenditure of Rs. 4.31 lakhs had to be abandoned on being objected to by the Tiger Reserve Authority.

(*iv*) Consequent upon abolition (December 1983) of a division at Baripada, there was surplus staff which continues to be engaged in another division where also it was surplus and the expenditure incurred on it during the period from the abolition of the division to the end of July 1985 was Rs. 1.89 lakhs.

(*v*) In respect of supply of sleepers to Railways, the Company was entitled for a remuneration of Rs. 12.34 lakhs on the value of supplies since inception to end of 1983-84 (Rs.4,11.44 lakhs) which has not been paid to it by Government who had received the amount.

(*vi*) In the case of auction sales of timber in two divisions, there was a loss of Rs. 1.62 lakhs representing short/non-collection of security deposit from successful bidders, which could have been available for forfeiture on non-lifting of the auctioned stocks (Rs. 10.15 lakhs).

(*vii*) There was a case of sale of firewood at a very low rate without inviting tenders/conducting auction based on the orders of the Chairman resulting in a loss of Rs.1.64 lakhs which was under investigation by Vigilance Department.

(*viii*) System of preparation of cash flow statements periodically was not in vogue in the Company. There were cases of (*a*) fixed deposits (Rs. 88.70 lakhs) encashed after delay of 15 days to 5 months without renewal consequently forgoing interest (*b*) delay in repayment of loan while there were fixed deposits and (*c*) retention of heavy balances in current account. The loss of interest on these transactions was Rs. 3.85 lakhs.

(*ix*) There were shortages and losses of stocks of various foiest produce valued Rs. 16.71 lakhs which have not yet (July 1985) been investigated for further action.

These matters were reported to Government and Management in October 1985); their remarks were awaited (October 1985).

SECTION III

FILM DEVELOPMENT CORPORATION OF ORISSA LIMITED

3.1. Introduction

To promote the Oriya Film Industry within the State, the Film Development Corporation of Orissa Limited, was incorporated in April 1976 as a wholly owned Government Company with an authorised share capital of Rs. 50 lakhs divided into 50,000 shares of Rs. 100 each.

Objects

The main objects of the Company include the following:

—Production of Oriya language films, construction of cinema houses primarily for exhibiting the same and setting up studios and processing laboratories in the State;

—Establishing and maintaining technical training institutions in all aspects related to the cinema trade; and

—Extending financial assistance to film producers and also to entrepreneurs for constructing cinema houses.

The Company had so far restricted its activities solely to financing film production ventures and construction of *Janata* cinema houses, through grant of loans and administering subsidy.

3.2. Organisational structure

The overall management of the Company is vested in a Boad of directors headed by a part-time chairman. The Board consists of 10 other Directors (official-3 and Non-official-7) nominated by Government, The Managing Director looks after the day-to-day working of the Company.

3.3. Capital structure

The authorised share capital of the Company was raised from Rs. 50 lakhs to Rs. 100 lakhs in

September 1981 and to Rs.200 lakhs in September 1984. As on 31st March 1985, the paid-up capital of the Company was Rs. 124 lakhs.

3.4. Working results

The following are the working results (based on the provisional accounts prepared by the Company), under broad items, for the 3 years up to 1984-85:

	1982-83	1983-84	1984-85
		(Provisional)	
		(Rupees in lakhs)	
Income: operating			
Interest on loans and guarantee commission	3.29	7.25	5.32
Non operating			
Interest on term deposits and miscellaneous income	3.90	3.82	1.94
Managerial subsidy received from state Government	3.60	3.00	3.00
	10.79	14.07	10.26
Expenditure			
Interest on long-term loans (excluding interest capitalised)	Nil	Nil	0.18
Depreciation ..	0.25	0.51	0.43
Administrative and other expenditure	5.30	6.31	8.48
Total ..	5.55	6.82	9.09
Profit ..	5.24	7.25	1.17
Prior period adjustments ..	(—)0.08	Nil	(—)0.13
Return on capital employed	5.16	7.25	1.22
Capital employed ..	72.50	88.48	68.65
Percentage and return on capital employed.	7.1	8.2	1.8

Note—Return on capital employed represents profit *plus* interest charged to profit and loss account.

The fall in the profit for the year 1984-85 was mainly due to conversion of the loans given to studio complex into equity *vide* paragraph 3.54 *infra* and encashment of term deposits resulting in decrease in non-operating income and increase in salaries due to increase in staff strength and increase in dearness allowance.

With a view to helping promotion of the film industry of the State, the Committee on public undertakings, in its 9th report recommended (September 1983) (*i*) diversion of 10 *per cent* of the total entertainment tax collected every year in favour of the Company (*ii*) levy of special surcharge of 2 paise on each cinema ticket to be diverted to the Company to augment its resources and (*iii*) reduce entertainment tax by 50 *per cent* on Oriya films. The above recommendations are still under consideration of the State Government (October 1985).

3.5. Plan schemes

Government approved the Sixth Five Year Plan projections of the Company at Rs. 1,11·00 lakhs towards soft loans for production of films (Rs. 9·00 lakhs), loans for construction of cinema houses (Rs. 53·55 lakhs) and for construction of office and studio complex (Rs. 48.45 lakhs) and released Rs. 1,11.00 lakhs towards share capital contribution during the plan period by the end of which 1,05·34 lakhs were spent towards the loans for production of films (Rs. 19·02 lakhs), loans for construction of cinema houses (Rs. 21·21 lakhs) and studio complex (Rs. 65·11 lakhs). The funds available for financing construction of cinema houses were thus diverted for granting loans for production of films and financing of studio complex. According to the Company (April 1985), this was due to the fact that commercial banks had not been sanctioning loans in time to entrepreneurs for construction of cinema houses. Neither the Company ascertained the reasons for delay in sanction of loans by banks nor were any steps taken to ensure timely sanction of loans. The Plan also provided for Rs. 40·00 lakhs towards subsidy for production of films against which the Company received Rs. 36·00 lakhs during the Plan period. Implementation of all the four schemes is discussed in the succeeding paragraphs.

3.5.1. *Loans for production of films*

To encourage production of Oriya films by enabling producers to raise loans from commercial banks and financial institutions, the Company formulated a scheme in April 1980, according to which producers were provided with margin money by way of soft loan, the quantum of which was to be a percentage of cost of production of film, subject to a maximum of Rs. 1.00 lakh. The loan was to be sanctioned on the recommendation of committee of directors, which scrutinises the applications, examines the commercial viability of the film and also the adequacy of the collateral security *etc.*

3.5.1.1 *Loans operations*

During the five years up to 1984-85, the Company received 68 applications for loans for Rs. 251.14 lakhs, sanctioned 36 applications amounting to Rs. 35.07 lakhs, rejecting the balance 32 applications (Rs. 214·93 lakhs), due to incomplete information in the applications, not -furnishing the prescribed fee, applications from ineligible cases *etc.*, of those sanctioned, only 19 applications availed of loans amounting to Rs. 19·02 lakhs. Five of the remaining entrepreneurs, who were sanctioned Rs. 4·06 lakhs during January 1981 to January 1984, had not

drawn the assistance as the terms and conditions of sanction were not acceptable to them, and the other 12 who were sanctioned Rs. 11·99 lakhs, during the period between August 1980 and November 1982, were yet to avail of the assistance (September 1985), though the prescribed period of one year stipulated in the sanction order for such availment had elapsed. Of the 19 films financed by the Company 15 have so far been released (September 1985). The remaining 4 films, for which loans amounting to Rs. 4·52 lakhs (sanctioned : Rs. 4·95 lakhs) were disbursed during January 1983 to March 1985, were still in various stages of production and awaiting commercial release (September 1985). Of the 49 films produced in Oriya between 1981 and 1985 15 films financed by the Company were released, out of which 14, failed commercially while total number of films failed was 37. Althouhg commercial viability was an essential part of the initial appraisal by the Company. The reasons for the failure of almost all the films have not been analysed by the management (September 1985). In respect of these 14 films that failed, a sum of Rs. 9·71 lakhs out of the total amount of Rs. 13·52 lakhs disbursed by the end of March 1985, was outstanding (September 1985).

Some of the cases of interest, noticed in audit are brought out below:

(i) A film producer had approched the Company (December 1981) for a loan to repay another loan taken by him from Vijaya Bank, Cuttack in connection with the production of a film. Although extension of financial assistance for repayment of bank loans is not contemplated under the scheme and the maximum limit of any loan under the scheme is Rs. 1 lakh, an amount of Rs. 2 lakhs was disbursed to the

producer (November 1982), to repay the outstanding bank loan (Rs. 1.96 lakhs) and to obtain a fresh loan from the bank for production of another film subject to release of the security of immovable property (Rs. 1.25 lakhs) by the bank in favour of the Company. The bank released the security in favour of the Company in March 1983 but the documents of the security were not received by the Company. No action was taken by the Company to obtain the documents from the bank (October 1985). The loan given by the Company was to be repaid in one year along with compound interest of 15 *per cent* per annum as against the prevailing bank interest rate of 19 *per cent* per annum. The producer repaid the loan to the bank but was unable to obtain from it a further loan for production of the second film. The producer requested (May 1984) that simple interest be charged on the loan availed of by him. The Company reduced (August 1984) the interest chargeable from 15 *per cent* compound interest payable quarterly to 12 *per cent* simple interest payable retrospectively from Nov mber 1982 with the stipulation that interest accrued (Rs. 0.56 lakh) therefrom up to March 1985 be paid within 6 months. No payment on this score has yet been received by the Company (September 1985). Retrospective revision of interest as stated above resulted in a waiver of interest of Rs. 0.24 lakh. The Company was, however, pursuing with the loanee for settlement of the dues.

The Company sanctioned a further loan of Rs. 4 lakhs (August 1985) to this producer for producing the second film. The loan has not been availed of by the producer and the film is yet to be completed (September 1985). The value of the security offered by the loanee is not on record.

(ii) On the basis of verification of progress by a sub-committee (March 1981) a loan of Rs. 0.83 lakh was disbursed in one single instalment (and not in

phased instalments as per prescribed procedure) in April 1981 to a Cuttack based producer for producing a film. This film, released in April 1981, failed at the box-office. The loanee defaulted payment of dues since September 1981 and an amount of Rs. 1.11 lakhs (inclusive of interest accrued) was outstanding for realisation (August 1985). As per the conditions of the scheme, collateral security in the form of immovable property was to be obtained before disbursing loans. But the same was waived by the Chairman in view of the personal guarantees of the loanee and the co-guarantor. Certificate action was initiated in January 1984 by taking up the matter with the Revenue authorities for the realisation of the said dues. Government notified the case in Gazette (October 1985) as a public demand for recovery and it was awaiting to be taken up for examination by the Collector, Cuttack (October 1985).

(iii) Under the scheme as originally introduced in April 1980, the Company was not to extend financial assistance to under-production films. The scheme was amended (May 1981) to include grant of assistance to such films as well. A loan of Rs. 1 lakh was disbursed (February—August 1984) to a film producer. As collateral security, the Company on the advice of its lawyer, accepted land (valued: Rs. 1.40 lakhs) which the loanee did not own but enjoyed as an occupancy tenant. The film released in September 1984 failed at box-office. An amount of Rs. 0.99 lakh towards principal was pending recovery (October 1985). The Company stated (November 1985) that settlement of the dues was being pursued with the loanee.

(iv) A loan of Rs. 0.95 lakh was sanctioned in June 1983 to a producer at Bhubaneswar for production of an Oriya film to be blown up to 35 MM print, from 16 MM print originally made in May 1982.

An amount of Rs. 0.53 lakh was disbursed during November 1983 to January 1984 and the balance amount of Rs. 0.42 lakh was disbursed during the period from July 1984 to October 1985 beyond the period of one year from the date of sanction. Due to inability of the producer to offer collateral security in the shape of immovable property at least equal to the amount sanctioned the Company accepted (November 1983) collateral security of Rs. 0.51 lakh besides personal guarantee of the loanee and co-guarantor, while disbursing the loan. As undertaken by the loanee in his application (May 1982), a period of three months was to be taken to complete the film from the date of getting the loan, but the loanee is yet to complete and release the film commercially (September 1985). An amount of Rs. 0.96 lakh (including Rs. 0.01 lakh interest up to March 1985) was due for recovery (October 1985). The Management stated (November 1985) that as ascertained from the loanee, the film was expected to be released by the end of December 1985.

(v) In contravention of procedure for disbursing in instalements, a loan of Rs. 1 lakh was disbursed in full (October 1981) to a producer at Bhubaneswar on the date on which the agreement was entered into. The film was released in November 1981 and failed at the box-office. The loanee defaulted payment of principal since inception and at the end of October 1985 an amount of Rs. 1.50 lakhs was outstanding (including interest of Rs. 0.50 lakh)), against security of Rs. 1 lakh only obtained in the shape of immovable property. A case has been filed before the Collector, Cuttack in December 1983, for realisation of dues under the agreement, which was yet to be taken up for examination (October 1985) pending Gazette Notification by Government.

3.5.1.2. Defaults in repayment of loans with reference to the terms of repayment of principal and interest of the loans disbursed to producers of films, details of over-due amount of principal and interest at the end of the 5 year up to 1984-85 are given below:

		Principal	Interest	Total	Percentage of default to amount due during the year
		(Rupees in lakhs)			
1980-81	..	0.99	..	0.99	100
1981-82	..	3.94	0.04	3.98	85.9
1982-83	..	7.80	0.50	8.30	81.1
1983-84	..	9.77	1.43	11.20	84.6
1984-85	..	12.65	2.64	15.29	86.2

In this connection the following points were noticed affecting the effectiveness of recovery of dues:

(i) Under the agreements entered into with the loanees, the right of distribution of the film vests with the Company. The company was yet to introduce (September 1985) any system for distribution of film.

(ii) With a view to ensuring prompt recovery of loans, the agreements entered into with the loanees, envisage that the entire sale proceeds (excluding exhibitor's share, and entertainment tax) will have to be deposited into the accounts of the Company by way of drafts by the exhibitor every fortnight which will be retained by the Company till the final recovery of the loan along with interest accrued thereon is made. In case the loanee acts as a distributor with the permission of the Company, the collection will be

appropriated between the loanee and the Company in the ratio of 15: 85. This system of collection had not yet been enforced (September 1985) for reasons not on record.

(iii) The Company, is empowered, by virtue of agreements, the right to recover the loan together with interest accrued thereon as arrear of land revenue under the law. Though the defaults ranged from 81·1 to 100 *per cent* of dues realisable, legal action was initiated in respect of 2 cases covering Rs. 2·61 lakhs only out of 18 cases of default (September 1985).

(iv) Post-sanction follow-up action to review the progress of film under production and recovery of the dues was inadequate.

(v) The default position was not reviewed by the Board of directors since inception up to September by 1985.

The Management stated (November 1985) that steps were being taken to set up a recovery cell for pursuance of outstanding dues.

3.5.2. *Loans for construction of low cost janata cinema houses*

A scheme for financing low cost *janata* cinema houses in rural and semi-urban areas was introduced by the Company in October 1978. Originally fixed at Rs.4 lakhs to Rs.6 lakhs, range of the project cost was revised in September 1983 to Rs. 6 lakhs to Rs. 8 lakhs. Entrepreneurs are eligible to obtain loans' against guarantee given by the Company, from commercial banks (70 *per cent* of the project cost) and from the Company as seed capital (15 *per cent* up to September 1983 reduced to 10 *per cent* there-after), the balance being the entrepreneurs' margin money.

After the application containing data regarding capital cost of project, particulars of site, machinery owned by entrepreneur, name of bank willing to finance, population of area *etc.*, is received. techno-economic feasibility report is prepared by the Company on payment of the prescribed fee. After such processing, the application is forwarded to the concerned bank alongwith the recommendation of the Company. Once bank sanction is obtained, the Company sanctions the seed capital loan, this amount being kept as short-term deposit in the name of the Company with the financing bank for ultimate release to the entrepreneur. The assets created are to be mortgaged/hypothecated as security against the loans given respectively by the bank (having first charge) and the Company (having second charge). A tripartite agreement is signed between the bank the Company and the entrepreneur. On the basis of certificates issued from time to time by officers of the concerned District Industries Centre or by architects nominated by the Company indicating the value of work executed, the Company advises the financing bank to release funds from the loan, as also from the seed capital loan.

3.5.2.1. However, with regard to the procedure as mentioned above, the following observations are made :

(*i*) Rules and regulations regarding criteria for sanction and the procedure to be followed in the grant thereof had not been approved by the Board of directors as was done in respect of the film financing scheme of the Company ;

(*ii*) Despite the Board decision to the effect (January 1983), a comprehensive study of the suitability of areas and identification of places for construction of low cost *janata* halls was not made by the Company ;

(*iii*) Loan applications are processed solelv on the basis of information given by the applicants therein and on furnishing copies of certificates of permission/licence granted by the concerned Collectors to run the halls. A system for conducting pre-sanction verification of the data furnished by the applicant by an officer of the company is not in vogue (October 1985);

(*iv*) The techno-economic feasibility reports are prepared by the Company in a standard form irrespective of the location of the proposed hall even though factors may differ from one place to another;

(*v*) Although agreements with the loanee empower the Company to conduct (*a*) surprise checks on site for assessing the value of movable and immovable assets purchased and (*b*) normal inspections during the construction stage of the hall and thereafter, such inspections/checks were not carried out in 14 out of 15 cases test-checked in audit (September 1985);

(*vi*) In spite of a provision in the agreement, prior written approval of the Company for the construction of the cinema building or purchase of movable and immovable assets was not obtained by the loanees in 15 out of 24 cases test-checked in audit (September 1985);

(*vii*) The certificates given by concerned district industries centres or architects recognised by the Company indicate only the value of work done and do not contain design particulars of the work actually executed by the loanee with reference to the approved plan of the building;

(*viii*) According to the feasibility reports prepared by the Company, the project cost of the cinema hall includes cost of land at Rs. 0.25 lakh. While determining the financial assistance required for the construction of cinema hall, the Company did not

deduct the cost of land for reasons not on record, which was already owned by the entrepreneurs for use in the project. This incorrect evaluation has resulted in extension of unintended financial assistance to entrepreneurs amounting to Rs. 4.50 lakhs in respect of 18 cases (period of sanction : September 1981 to January 1984) out of 24 cases test checked in audit;

(*ix*) The Company has been leving guarantee commission at one *per cent* of the loan guaranteed as one time measure at the time of disbursement, instead of on an annual basis (as applicable to guarantee given by the State Government), even though the guarantor's liability is a continuing one, in respect of all unpaid loans and interest. This would have provided an additional operating revenue of Rs. 3.21 lakhs on the amount of Rs. 124.21 lakhs guaranteed during the period from April 1980 to March 1985.

3.5.2.2. *Sanctions and disbursements*

From the inception of the scheme (1978), till March 1985, the position of total applications received, sanctioned and disbursed is given below:

		Numbers	Amount (Rupees in lakhs)
Application received	..	91	71.82
Sanctioned			
Janata halls	..	32	28.20
Renovation of existing halls	..	7	8.49
Rejected	..	1	0.60
Pending	..	51	34.53
Disbursed out of sanctioned loans			
Janata halls	..	24	16.41
Renovation of existing halls	..	6	4.80

The following points were noticed :

(*i*) Out of 32 loans sanctioned for constructions of *janata* halls, 8 entrepreneurs who had been sanctioned a total of Rs. 6·60 lakhs during January, 1983 to May 1984 had not drawn the assistance (March 1985) due to non-completion of legal formalities with regard to title of land; 6 had drawn only Rs. 0·61 lakh (March 1985) against the amount of Rs. 5·40 lakhs sanctioned to them during April, 1983 to August 1984. In respect of 5 of the remaining 18 entrepreneurs, who had drawn the loans fully, information regarding stage-wise completion of construction was not available in the records. The other 13 cinema halls were constructed with delays ranging from 2 to 37 months beyond the scheduled period of 8 months allowed under the scheme.

(*ii*) From January 1983, *Janata* Cinema houses are eligible for the State investment subsidy to be sanctioned by the State level committee and disbursed to the eligible entrepreneurs by Orissa State Financial Corporation (OSFC). The State Government directed (February 1983) OSFC, to disburse the subsidy to the entrepreneurs through the Company so as to enable it to adjust the subsidy payable against the amount due from loanees to the Company and banks.

The Company did not ascertain the details of sanctions of subsidy from OSFC till May 1984 when, reiterating the instructions of Government, it requested the latter to furnish a list of entrepreneurs who were sanctioned and disbursed the subsidy. The information furnished (May 1984) by OSFC. revealed that in two cases of the Company's loanees, subsidy amounting to Rs. 0·80 lakhs was disbursed during May 1983 to April, 1984 directly to them and therefore the subsidy could not be adjusted against the loans outstanding

(Rs. 3·15 lakhs). Neither the details of sanctions were obtained from time to time after May 1984 nor a procedure evolved to ensure implementation of the instructions of Government (October 1985).

3.5.2.3. *Default in repayment of loans*

The loans for the *Janata* halls are repayable in a period of 5 to 8 years in equal monthly instalments after a moratorium of 10 to 15 months. Interest is payable quarterly.

Th table below indicates the amounts due during the year and extent of default at the end of the year since inception of the scheme to the end of 31st March, 1985.

Year	Amount due		Amount in default		Percentage of default to amount due
	principal	Interest	Principal	Interest	
			(Rupees in lakhs)		
1980-81	Nil	0.05	..	0.05	100
1981-82	0.12	0.38	0.12	0.38	100
1982-83	0.43	1.20	0.43	1.17	98.2
1983-84	1.89	2.79	1.89	2.56	95.1
1984-85	4.42	5.37	4.42	5.07	96.9

The following points were noticed affecting the recovery of outstanding dues :

(*i*) The agreement provided that loanees were to deposit the daily gross collections into a joint bank account to be opened in the name of the Company or the financing bank on the next working day and send daily collection reports alongwith a statement of deposits made till the previous day. The loanee was also to furnish copies of film booking contracts with distributors, screening schedule of films, distributors bills for payment, balance sheets/ profit and loss accounts and progress reports as and when required by the Company in such form as may be determined by the Company/ bank. Funds for meeting the entrepreneur's monthly expenditure were to be released to him on the basis of instructions given to the bank by the Company. The Company did not enforce any of these provisions in respect of any loanee.

(*ii*) In the event of failure in payment of dues agreements with loanees empower the Company to take over the management of the hall or to take possession or sell or to grant lease of the mortgaged/ hypothecated assets without the intervention of the Court. These conditions were not invoked in the case of 27 loanees who defaulted Rs. 7·47 lakhs (March 1985). Though as at the end of March 1985, Rs. 9·49 lakhs were over due from 30 loanees, legal action was initiated in respect of 3 cases covering, Rs. 2·02 lakhs only.

3.5.3. *Payment of subsidy for film production*

With a view to promoting growth of film industry in the State, Government introduced a scheme in November 1980 for payment of subsidy through the Company to the producers of Oriya films produced, processed, re-recorded, edited and printed in the State, after 1st April, 1978. The quantum of subsidy admissible, is Rs. 1 lakh for black and white films and Rs. 1·50 lakhs for colour films. For the films produced after 1st April 1982 the subsidy, except for prize winning films, is released to the eligible producers during the production of second film, in two equal instalments, first instalment on production of censor certificate of the first film and commencement of production of the second film; and the second on completion of indoor and outdoor shooting of the second film. Based on the estimates drawn up by the Company, Government releases the funds from time

to time keeping the above limits in view through its budget estimates for each year for payment of subsidy to the producers. The Board of directors of the Company constituted a committee (May 1980) consisting of five directors (including Managing Director) headed by an official director, (Secretary in Harijan and Tribal welfare Department) as Chairman for selection and payment of subsidy to the producers.

The table below indicates the amount of Government subsidy sanctioned and disbursed by the Company in each year during the last six years up to 1984-85:

Year	Amount received from State Government (Rupees in lakhs)	Sanctioned by the Company: Number of cases	Sanctioned by the Company: (Rupees in lakhs)	Distributed by the Company: Number of cases	Distributed by the Company: (Rupees in lakhs)
(1)	(2)	(3)	(4)	(5)	(6)
1979-80 ..	2.50	Nil	Nil	Nil	Nil
1980-81 ..	2.00	2	2.50	2	2.50
1981-82 ..	7.00	2	3.00	2	3.00
1982-83 ..	8.00	4	4.25	4	3.75
1983-84 ..	6.50	13	11.46	13	6.17
1984-85 ..	10.00	17	11.57	17	11.01
Total ..	36.00	38	32.78	38	26.43

In this connection the following points were noticed:

(*a*) Considering the number of films produced and limitation of funds, the Board of directors of the Company (September 1982) reduced the quantum of subsidy to Rs. 1 lakh for colour films and to Rs. 0.75 lakh for black and white films. These limits were, however, further restricted by the Board since September 1983 to the amount of bills of Kalinga

Studio, (subsidiary of the Company) with a view to encouraging the facilities of the studio complex. These modifications were not approved by Government (September 1985). A test check in audit (September 1985) revealed that 29 producers were sanctioned reduced subsidy of Rs. 24.74 lakhs between December 1982 and March 1985 on the above basis against an amount of Rs. 41.00 lakhs admissible in terms of the Government order. Out of Rs. 36.00 lakhs placed at the disposal of the Company by Government towards the subsidy, an amount of Rs. 4.61 lakhs remained unutilised (December 1985).

(b) A sum of Rs. 7.29 lakhs being 50 *per cent* of the subsidy, (sanctioned: Rs. 14.57 lakhs), was paid to 19 film producers between February 1983 and March 1985 on production of censor certificate of the first film, but before commencement of production of second film, for the reasons not on record.

(c) Out of 39 cases (March 1985), 30 cases test checked in audit (September 1985) indicated that subsidy has been released to the producers, during the 5 years up to 1984-85, without obtaining the certificates from the producers, as mentioned below, in terms of the stipulations contained in the Scheme:

Type of the certificate from the producer	Number of cases
—Specifying the length, contents of stock short, if any, included in the film with full details of sources and camera and log sheets	18
—Income tax clearance certificate and central excise certificate.	12
—From the laboratory/studio recording theatre/ outdoor units where the film developed, recorded, re-recorded edited and printed duly countersigned by the producers.	11

Management had not furnished reasons (September 1985) for not obtaining the prescribed certificates.

3.5.4. *Investment in the studio complex at Bhubaneswar*

A studio complex at Bhubaneswar was incorporated in July 1980 as a joint venture between the Company and a private entrepreneur of Madras. The studio complex went into commercial operation in May 1982. The paid-up capital (March 1983) of the studio complex was Rs. 15.50 lakhs of which the Company held shares worth Rs. 4.10 lakhs (26.5 *per cent*).

At the request of the private share holder (11th July 1983), the Board of directors of the Company in its meeting held on 28th July 1983 (within a period of 9 days) decided, to purchase all his shares (10,390 shares of Rs. 100 each) at par for Rs. 10.39 lakhs.

An analysis made in audit (October 1985), based on the audited accounts of the studio complex for the year 1982-83, indicated that the intrinsic value of each share (net fixed assets *plus* current assets less current liabilities and provisions and intangible assets divided by number of shares) was Rs. 44.60 against the face value of each share of Rs. 100. Acquisition of the shares without evaluating the intrinsic worth of each share had, thus, resulted in a loss of Rs. 5.76 lakhs. Besides, to make the studio complex viable by reducing the interest burden it was decided in May 1984 to convert the loan of Rs. 30.99 lakhs extended to the studio complex together with interest (totalling Rs. 33.17 lakhs) into equity contribution by the Company.

3.5.5. *Accounting manual/internal audit*

The Company had neither framed an accounting manual nor introduced any system of internal audit (September 1985).

Summing-up

(i) The Company was incorporated in April 1976 with the main objects of production of Oriya films and construction of cinema houses for exhibiting these films. The Company had only been extending, from April 1980 onwards, financial assistance in a limited way to the film producers and to the entrepreneurs for construction of cinema houses.

(ii) Audited accounts of the Company were available up to 1981-82 only and thereafter the Company prepared provisional accounts.

(iii) To encourage the Oriya film industry in the State, Committee on Public Undertakings in their 9th report suggested, *inter-alia,* to reduce the entertainment tax on Oriya films by 50 *per cent.* Government was yet to decide on the matter.

(iv) The main deficiencies noticed were inadequate pre-sanction, and post-sanction follow-up,

—absence of tie-up arrangement with the commercial banks to help the entrepreneurs to obtain loans,

—delay in disbursement of subsidy under the scheme for promoting growth of film industry in the State and

—Company on its own, sanctioned subsidy at reduced rates during the period from December 1982 to March 1985.

(v) The amount of default under the two schemes, as on 31st March 1985, was Rs. 24.78 lakhs (Principal: Rs. 17.07 lakhs, Interest: Rs. 7.71 lakhs), which included amounts covered under litigation (Rs. 4.53 lakhs).

(vi) An amount of Rs. 2.00 lakhs was disbursed to an entrepreneur for repaying the loan granted by a bank which is not contemplated in the scheme. The Company lost Rs. 0.24 lakh by way of interest due to reduction of interest rates with retrospective effect.

(vii) 10,390 shares valued Rs.10.39 lakhs were held by a private share holder (co-promoter) in the studio complex at Bhubaneswar. These were purchased by the Company in July 1983 at par, which resulted in loss of Rs. 5.76 lakhs compared to the intrinsic value of the shares (Rs. 44.60 lakhs). Besides, to save interest burden on the loan availed by the studio complex, the Company converted in May 1984 its loan of Rs. 30.99 lakhs.

These matters were reported to the Management/Government in November 1985; their remarks were awaited (November 1985).

SECTION IV

EAST COAST BREWERIES AND DISTILLERIES LIMITED

4.1. Introduction

A private entrepreneur obtained (February 1969) a licence to manufacture 0.50 lakh hectolitres of beer per annum at Paradeep and incorporated (April 1969) a public limited company (East Coast Breweries and Distilleries Limited) with an authorised capital of Rs. 75.00 lakhs. At the request of the entrepreneur, Government invested (December 1971) Rs. 33.00 lakhs in the share capital of the Company under the provisions of the State Aid to Industries Act, 1923.Industrial Development Corporation of Orissa Limited (IDCOL) had also invested (December 1971) Rs..5.00 lakhs at the instance of Government.The paid-up capital contributed by Government and IDCOL having reached 83 *per cent* of the total paid-up capital of the Company in December 1975, it became a Company under Section 619 B of the Companies Act, 1956. The project was implemented with the share capital and institutional finance during the years 1973 to 1979 at a cost of Rs.3,49.59 lakhs. Commercial production of beer was commenced on 30th July 1979.The private entrepreneur acted as Managing Director of the Company, since inception till 22nd March 1983.For a better control over the working of the Company and on the advice of the financing institutions (October 1982) Government decided in February 1983 to entrust the management to IDCOL which was a major shareholder.Thereupon, the shareholdings of the entrepreneur, his relatives and some private members were acquired (April/June 1983) by IDCOL whose investment on such acquisition stood at 66.8 *per-cent* of the total paid-up capital and consequently the Company became a subsidiary of IDCOL in June 1983.

4.2. Objects

The main object of the Company was to manufacture and sell beer and other liquor products. The Company's operation has so far been restricted to production and sale of beer only.

4.3. Organisational set-up

The management of the Company is vested in a Board of directors comprising nominated members, three by Government, four by the holding company and one by financing institutions. The Managing Director of the holding company is the ex-officio Chairman of the Company. Its day-to-day working is managed by a general manager appointed by the holding company.

4.4. Capital structure

The initial authorised capital of Rs. 75.00 lakhs was raised to Rs.1,11.00 lakhs (February 1978). The paid-up capital as on 31st December 1984 was Rs.111.00 lakhs contributed by the holding company (Rs. 75.73 lakhs), Government (Rs. 33.00 lakhs) and private parties (Rs. 2.27 lakhs).

4.5. Borrowings

Between January 1974 and June 1982, the Company obtained from four financial institutions, loans aggregating Rs. 243.00 lakhs including Rs. 31.35 lakhs representing the accrued interest converted into a loan. Terms of repayment in respect of loans aggregating Rs. 104.00 lakhs and rates of interest aggregating Rs. 70.00 lakhs were not available on record (October 1975).

No instalment of principal in respect of any of the loans was paid (July 1985) and the amount overdue could not be ascertained in audit in the absence of terms and conditions of some loans as already mentioned above. The Company also defaulted in payment of interest (excepting Rs.2.00 lakhs paid in October 1984) to all the four institutions. The amount of interest due (July 1985) as at the end of December 1984 was Rs. 3,00.49 lakhs. This included Rs. 81.12 lakhs towards interest on the defaulted instalments of principal and interest payable to IDBI and United Commercial Bank.

The Company also had cash credit arrangements with the United Commercial Bank, Cuttack and Syndicate Bank, Paradeep, up to a limit of Rs. 46.50 lakhs against which the balance outstanding at the end of December 1984 was Rs. 65.35 lakhs.

4.6. Working results

The working results of the Company for the 3 years up to 31st December 1984 are tabulated below :

	1982	1983	1984
	(Rupees in lakhs)		(Provisional)
Sales ..	124.10	135.40	245.92
Cost of sales ..	121.07	117.61	219.79
Gross profit ..	3.03	17.79	26.13
Other income ..	1.20	1.08	3.05
Total ..	4.23	18.87	29.18
Interest on long-term loans	57.24	69.58	60.14
Administrative and other overheads	17.15	11.13	41.07
Depreciation ..	23.26	21.56	1.36
Total ..	97.65	102.27	102.57
Loss ..	93.42	63.40	73.39
Cash loss (loss before adjusting depreciation)	70.16	61.86	72.03

The cumulative loss of Rs. 454.65 lakhs had completely eroded the paid-up capital of Rs. 1,10.00 lakhs (31st December 1984). As analysed in audit (July 1985)., the losses were mainly due to underutilisation of capacity, heavy interest burden, excessive process losses, competition in the market and excessive procurement of raw-materials (hops).

4.7. Production performance

The licensed and installed capacity of the brewery was 0.50 lakh hectolitres of beer (76.92 lakh bottles of 650 Ml.) *per* annum. This was, however, projected at 75 lakhs bottles in the project report which envisaged attainment of full capacity utilisation in the fourth year (1983). The following table indicates the extent of capacity utilisation during the third, fourth and fifth years of production ending up to December 1982, 1983 and 1984 respectively.

	1982	1983	1984
Year of production	third	fourth	fifth
Level of production as envisaged in the Project report (Percentage)	80	100	100
Actual production (in lakh bottles) ..	32.84	39.44	61.09
Percentage of actual production to projected level of production	54.7	52.6	81.5
Shortfall in production (percentage) ..	45.3	47.4	18.5

According to the Management (July 1985), non-attainment of the envisaged capacity utilisation was due to limited marketability since the product had been introduced newly in a competitive market.

4.7.1. *Process losses*

Process losses in manufacture of beer occur at the production stages of brewing, bottling and packing (the materials used are bottles, corks, labels and cartons). The project report did not envisage any losses excepting 2.6 *per cent* of production in the first two stages. Beer is a product subject to State Excise duty and there is a statutory allowance up to 10 *per cent* of the production. The Company has been following a norm of 5 *per cent* towards loss in handling of empty bottles in production. The following table indicates the extent of losse at brewing and bottling stages and in respect of corks in excess of the statutory allowance, breakages of bottles in excess of the norm followed by the Company and the total losses in the remaining materials during each of the three years up to the end of December 1984:

Particulars	1982	1983	1984
(*i*) Losses at brewing and bottling stage			
Production (lakh hectolitres)	0.23	0.28	0.43
Loss (lakh hectolitres) ..	0.03	0.03	0.04
Percentage of loss to production	12.8	10.1	9.8
Value of beer lost in excess of the statutory allowance of 10 *per cent* at average sale price during the year. (Rupees in lakhs)	3.87	0.14	Nil
(*ii*) Losses at packing stage			
		(Lakh numbers)	
(*a*) Production in bottles ..	32.84	39.44	61.09
(*b*) Quantity lost ..			
— bottles ..	2.9	4.0	5.9
— corks ..	1.3	4.5	0.1
— labels ..	4.7	2.5	2.3
— cartons ..	0.22	0.03	0.12
(*c*) Percentage of loss to production.			
— bottles ..	8.8	10.1	9.6
— corks ..	4.0	11.4	0.2
— labels ..	14.3	6.4	3.8
— cartons ..	8.00	0.9	2.4
(*d*) Value of loss		(Rupees in lakhs)	
—bottles (in excess of the norm of 5 *per cent*)	5.04	6.80	8.57
—corks (in excess of the statutory allowance of 10 *per cent*	0.15	0.60	0.01
—labels	1.65	0.88	0.81
—cartons	0.66	0.09	0.30
	7.50	8.37	9.69

The high incidence of breakage of bottles was attributed (June 1985) to mechanical pasteurisation which was, however, dispensed with (August 1984) and manual pasteurisation was resorted to. The other losses had not been investigated. The Management generally explained (June 1985) that they were not avoidable due to the nature of the product and its handling, but the wide variations in various losses from year to year had not been analysed.

4.7.2. Machine Utilisation

The plant works for 16 hours a day in two shifts. The table below indicates the machine utilisation and idle hours during the years 1982 to 1984:

	1982	1983	1984
Hours available ..	4880	4880	4864
Hours utilised ..	2256	2912	3808
Idle hours ..	2624	1968	1056
Percentage of idle hours ..	53.8	40.3	21.7

No records showing the period and nature of idleness machinewise have been maintained up to March 1983. The records maintained during March to December 1983 though indicated period of idleness did not clarify the reasons thereof. From the records maintained in the year 1984, it was seen in audit (June 1985) that 28.3 *per cent* of the total idle hours were due to avoidable causes like want of raw materials and want of space in finished goods warehouse and the rest were due to power failure, commissioning of additional plant, *etc.* Average sale value of production loss due to the above avoidable causes in 1984 amounted to Rs.18.78 lakhs. The Management had not been analysing the machine idleness with a view to taking corrective steps.

4.8. Cost Control

The project report envisaged that the operations of the plant would break-even in the second year of operation (1981). The Company had not been following any cost control techniques like preparation of production budgets, ascertainment of costs and review of physical and financial performance. The following table indicates the average variable and fixed cost and sales realisation per 1,000 bottles of beer during the 3 years from 1982 to 1984 as ascertained in audit (July 1985):

Year	Average cost			Average sales
	Variable	fixed	total	realisation
	(Rupees	per 1,000	bottles)	
1982	3,709	2,776	6,485	3,760
1983	3,367	2,467	5,834	3,725
1984	3,182	2,111	5,293	4,091

The high incidence of fixed costs was due to heavy interest burden and low capacity utilisation. At the level of costs and sales realisation obtained in 1984, the plant would break-even the costs only at 189 *per cent* of the installed capacity.

4.9. Sales performance

The Company sells beer mainly through distributors in various States on commission basis. There was no system of periodical market study and preparation of sales budget followed by the Company. The project report envisaged marketability of the product within the State itself. In actual practice, the volume of sales within the State ranged between 9.5 and 13.2 *per cent* only during the 5 years upto the end of 1984. The Company had not reviewed as to how far such marketability position was affecting its profitability.

4.9.1. The Company has been operating licensed Warehouses at Delhi (since May 1981) and Calcutta (since August 1982) through agents appointed on commission basis. In respect of sales at Delhi, the prices as fixed by the Delhi Excise Department were to be followed while there was no such obligation in respect of the sales at Calcutta. The Company neither conducted any viability study before opening the warehouses nor ascertained and analysed periodically the results of operation.

As analysed in audit (July 1985), the working of both the warehouses resulted in a losss of Rs. 2.24 lakhs during the 3 years from 1982 to 1984 which was due to the fact that the sales through the ware houses involved expenses like transportation, insurance, ware house charges *etc.,* unlike in the case of sale through distributors which was always at *ex*-works of the Company.

4.9.2. *Loss due to Sedimentation of beer*

The Company despatched 1500 dozens of Kalinga beer valued Rs.0.69 lakh in May 1982 to a distributor at Secunderabad. The distributor intimated in August 1982 that 748 dozens of beer bottles valued Rs. 0.34 lakh were got sedimented. The Company agreed in November 1982 to bear the loss. The fact of sedimentation was not, however, verified by any officer of the Company before accepting the loss. The Management stated (April 1985) that the sedimentation was due to use of poor quality hyflow powder in the manufacture. The reply is not convincing since the hyflow powder was not used exclusively for this quantity but 60,000 bottles of beer were produced in that batch and no such complaint from any other distributor was received.

4.9.3. *Credit sales*

The Company sells beer to the distributors on credit against *hundis* with a tenor of 30 to 45 days. In terms of appointment order of distributorship the Company was entitled to charge interest at 21 *per cent* per annum on dues settled beyond the tenor of *hundis*. The following table indicates the extent of sundry debts obtained outstanding at the end of each of the 3 years up to 1984:

As on 31st December	Debts	Sales during the year	Percentage of debts to sales
	(Rupees in lakhs)		
1982 ..	15.58	122.49	12.7
1983 ..	22.25	135.40	16.4
1984 ..	46.82	235.88	19.8

Age-wise analysis was not prepared by the Company from time to time. However, as analysed in audit (July 1985), Rs. 5·73 lakhs were over two Years old, Rs, 21·45 lakhs between one and two

Years old and Rs.19.64 lakhs were of less than one year. In the case of Rs. 1.22 lakhs outstanding against 5 parties since 1980 to 1982, suits filed (1980 to 1985) by the Company were *sub-judice* (July 1985).

4.9.3.1. On a test check in audit (July 1985) of the accounts of 22 out of 34 distributors in all it was noticed that in the case of 7 distributors who were supplied the materials during March to December 1984, there were delays ranging from 11 to 67 days in settlement of the dues but the Company did not charge interest amounting to Rs. 0·38 lakh, for reasons not on record.

4.10. Stores and Stock

The inventory of stores of the Company consists of raw materials, packing materials and chemicals valued Rs. 21.12 lakhs as on 31st December 1983. This includes hops valued Rs. 6.02 lakhs the procurement of which is discussed in the succeeding paragraph.

4.10.1. *Purchase of hops*

The Company uses hops to make the beer taste bitter. Till April 1980, hops were being imported. Without calling for tenders, 'A' of Srinagar was appointed, on negotiation basis, in May 1980 as agent, through a letter of intent, for 3 years for collection of green hops (40 tonnes per year) from Kashmir valley and supply after getting them dried and processed. The considera-tion payable to him was Rs. 11.50 per kg. of green hops towards collection charges (Rs. 10.00 per kg.) and service charges (Rs. 1.50 per kg.). These charges were subject to review and revision in the subsequent years. A quantity of 91.5 tonnes of green hops was collected and 18.4 tonnes of dried and processed hops were supplied during the years

1980 to 1983 (the remaining quantity of 73.1 tonnes represented conversion loss) for which Rs. 12.51 lakhs were paid to 'A' from time to time. The following points were noticed in this connection:

(*i*) As against the contract rate of Rs. 10 per kg. towards collection charges and Rs. 1.50 per kg. towards service charges, collection charges were paid at Rs. 11 per kg. for the procurement made in 1980 and at Rs. 12 per kg. for the subsequent period and service charges were paid at Rs. 2 per kg. for all the supplies. Thus payments (Rs. 1.99 lakhs) were made beyond the contractual rates. According to the Management (June 1985) the payments were made as per the agent's representation (January 1981) for increase in rates. Neither the representation nor any correspondence with the agent communicating its acceptance to the request for the increase in rates was available with the Company. There was also no decision taken by the Managing Director/the Board approving the increase in rates. After take over of the Company, the new Management noticed that there were payments in excess of the contractual rates and therefore obtained legal advice (January 1984) according to which the payment at higher rates asked for by the party without modification of the contract constituted implied acceptance of the higher rates and the contract stood as amended to that extent.

(*ii*) The contract did not specify the conversion factor of green hops to dried hops. However, while taking the decision for awarding the contract in May 1980, the Company anticipated that out of 40 tonnes of green hops, 10 tonnes would be available as dried and processed hops (25 *per cent*). A comparision of the quantity of green hops paid for and dried and processed hops supplied revealed

that the percentage of conversion was only 22.3 in 1980, 21.1 in 1982 and 15.5 in 1983. In the absence of the enabling provision in the contract regarding the extent of conversion loss, the Company could not ensure compensation against the agent for under-recovery of the processed stocks valued Rs. 2.59 lakhs.

(*iii*) While deciding the quantity for ordering, it was envisaged (May 1980) by the Company that out of 10 tonnes expected to be received every year, 7 tonnes would be used in production and the balance 3 tonnes would be sold in the market. No sale of the hops as envisaged was made for reasons not on record. Out of 18.4 tonnes of the hops received by the Company during the years 1980 to 1983, 8.1 tonnes only were consumed during the four years 1980 to 1984 leaving a balance of 10.3 tonnes valued Rs. 6.02 lakhs. Based on the average consumption during 1980 to 1984, the stock available at the end of 1984 would last for a further period of $2\frac{1}{2}$ years. The interest burden on the working capital locked up in the excess stock (at the rate of 12 *per cent* per annum incurred on the cash credit) amoudted to Rs. 5.07 lakhs.

The Board of directors reviewed (March 1984) the transactions and nominated the Chief Accounts Officer of the holding. company as the enquiry officer considering the deal as an unhealthy one. The result of the enquiry was awaited (July 1985).

4.11. Physical verfication

The value of stores (raw materials, consumables, chemicals, packing materials and spares) held by the Company at the end of 1982 and 1983 was Rs. 18.33 lakhs and Rs. 21.12 lakhs respectively. The value at the end of 1984 was not compiled by the Company (July 1985). Physical verification of the stores was not conducted in any of the years excepting partly in December 1984 (chemicals and packing materials). The shortages (Rs. 0·90 lakh) and excess (Rs. 0·08 lakh) noticed in the verification were awaiting investigation (December 1985).

4.12. Accounting manual

The Company had not prepared accounting manual laying down the procedures of accounting, delegation of powers and responsibilities of various categories of officers of the Company (December 1985).

4.13. Internal audit and accounts

There was no internal audit system followed in the Company (December 1985).

The Company finalised its accounts upto the year ended 31st December 1979 only (December 1985). However, provisional accounts had been compiled for the later years up to 31st December 1983.

4.13.1. *Other topics of interest*

Non-recovery of carbondioxide gas

The project report envisaged installation of a plant for recovery of carbondioxide gas that would get generated (1.5 to 2.0 kg. per hectolitre of beer produced) during the process of fermentation of beer for use in the process for securing shelf-life of 6 months to the beer produced. The Board of directors of the Company approved (June 1980) setting up of the plant at an estimated cost of Rs.4.50 lakhs. No action was taken, reportedly due to lack of finance.

As a result, a quantity of 1.85 lakh Kgs. of the gas produced between 1980 to 1984 as a by-product went unutilised and the Company had to

purchase 1.17 lakh Kgs. of the gas during this period at a cost of Rs. 6.56 lakhs.

4.13.2. *Water treatment plant*

Water is an important raw-material for manufacture of beer, the quality of which depends on the quality of water used. The project report envisaged a nearby canal as source of water which was to be treated (removal of hardness/chloride content) before use in production. The request of the Company for drawal of water from the canal was turned down by Government (May 1974) who advised the Company to go in for a tube-well However, the Company purchased (Februaty 1975)· a water treatment plant at a cost of Rs. 3.29 lakhs. A bore-well was dug (February 1978) at a cost of Rs. 1.37 lakhs and untreated water from the bore-well was being used till March 1984. The water treatment plant was, therefore, not commissioned. Considering a report of the Management (April 1979) regarding suitability of the water without treatment, the Board decided (April 1979) to dispose of the un-used water treatment plant which, however, did not materialise due to lack of demand. After take over of the Company by IDCOL the Management in an effort to improve the quality of beer, got the bore-well water tested (December 1983) the results of which indicated that the water needed treatment. The idle water treatment plant had to be got modified (April 1984) through a firm of Bombay at a cost of Rs. 6.08 lakhs, which included Rs. 1.18 lakhs towards the cost of replacement of 3 resins which became unsuitable due to prolonged non-use and after obtaining permission from Government (March 1984) to draw water from the canal as originally proposed the modified plant was commissioned in April 1984.

4.13.3 *Non-use of pastuerisation plant*

Beer is pasteurised for preservation. Plant and machinery commissioned in May 1979 (erected in February 1975) included a mechanical pasteurisation plant worth Rs. 14.79 lakhs. Considering the high incidence of breakages of bottles in pasteurisation process due to defect in the system, the Management discarded this plant and resorted to manual pasteurisation involving installation of a new equipment valued Rs. 2.45 lakhs (August 1984). The mechanical pasteurisation plant with the written-down value of Rs. 7.90 lakhs remained idle since August 1984 and the Company was yet to initiate action for its disposal (December 1985).

4.13.4. *Payment of power factor penalty*

Under the provisions contained in the agreement (December 1978) with the Orissa State Electricity Board, a consumer is required to maintain power factor at 0.90 failing which penalty at 0.5 *per cent* of the energy charges for each *per cent* or part thereof by which it falls below 10 *per cent* is payable to the Board. Power factor maintained by the Company during the period from January, 1982 to January 1983 and from March 1984, to May 1985 ranged from 74.7 to 88.5 *per cent* against the prescribed limit. An amount of Rs. 0.83 lakh was paid as penalty for low power factor during that period.

The Company stated (July 1985) that they were taking steps to instal capacitors to improve the power factor.

The matter was reported to the Management/Government in September 1985; their replies were awaited (October 1985).

Summing-up

(*i*) Even though the Company was incorporated with the main object of manufacture and sale of beer and other liquor products, the main activity was production and sale of beer only. The Company commenced its operations in July 1979. Finalisation of accounts was in arrears since 1980. The brewery was running on loss since inception of its operation. The accumulated loss of Rs. 454.65 lakhs (provisional) as on 31st December 1984 had eroded the paid-up capital (Rs. 1,10.00 lakhs). This was mainly due to heavy interest burden and low capacity utilisation. During the 3 years up to 1984, the process losses amounted to Rs. 29.57 lakhs.

(*ii*) The Company was unable to liquidate the loans and interest, amounting to Rs. 5,43.49 lakhs and incurring interest on interest. At the level of costs in 1984, it can attain break-even level only at 189 *per cent* of the installed capacity. The Company had not been following cost control techniques.

(*iii*) There was under-selling of the product at Delhi and Calcutta amounting to Rs. 2.24 lakhs compared to the sales realisation at other places.

(*iv*) There was a case of purchase of hops valued Rs. 12.51 lakhs which were found to be in excess of the requirement and involving payments (Rs. 1.99 lakhs) in excess of the contractual rates. The Board considered it as an unhealthy deal and the contemplated enquiry was yet to be completed (July 1985).

(*v*) The brewery had not made arrangements (estimated at Rs. 4.50 lakhs) for collecting and utilising carbondioxide generated as a bye product within the plant ; instead, gas was being purchased from outside, on which an amount of Rs. 6.56 lakhs was incurred during the five years up to 1984.

SECTION V

SONEPUR SPINNING MILLS LIMITED

5.1. Introduction

Industrial Development Corporation of Orissa Limited (IDCOL) had obtained an industrial licence in October1979 for setting up a spinning mill with a capacity of 25,080 spindles in the State. For implementing the project at Sonepur in the backward district of Bolangir, IDCOL floated a subsidiary company, Koshala Spinning Mills Limited, which was incorporated in January 1980 with an authorised capital of Rs. 3 crores divided into 30 lakhs equity shares of Rs. 10 each. The name of the Company was subsequently (April 1980) altered as Sonepur Spinning Mills Limited. The Company filed (July 1984) an application with the Government of India under sections 391 and 392 of the Companies Act, 1956 as amended in February 1978 for amalgamation with the holding company and its decision was awaited (September 1985).

5.2. Capital Structure

The authorised and paid-up capital fully paid up as on 31st March 1985 was Rs. 3 crores, fully contributed by the holding Company. In addition, an amount of Rs. 23.80 lakhs was contributed towards share money by the holding company during 1983-84 and 1984-85 which was held in deposit pending enhancement of the authorised capital.

5.3. Borrowings

Between November 1980 and October 1983, the Company obtained sanctions for term loans for Rs. 4,74.00 lakhs from life Insurance Corporation of India (LIC) and three financial institutions *viz.*, Industrial Development Bank of India (IDBI) Industrial Finance Corporation of India (IFCI) and Industrial Credit and Investment Corporation of India (ICICI). A common loan agreement

with the three financial institutions and a separate agreement with LIC were executed by the Company in November 1981 and January 1982 respectively. In terms of these agreements, the loans were to be disbursed in one or more instalments as might be decided by the lenders subject to production of certain documents like progress report on implementation of the project, profit and loss account and balance sheet and other information as specified by the lenders. In case the loans were not drawn fully within 180 days from the date of sanction, the Company was liable to pay commitment charges at 0.25 to 1.00 *per cent* per annum of the amount undrawn within the said 180 days. The sanctioned loans were drawn fully during 1981-82 to 1984-85. Owing to delayed submission of the requisite documents, the Company drew Rs. 4,65.00 lakhs (IDBI Rs. 2,41.00 lakhs, IFCI: Rs. 1,25.00 lakhs, ICICI: Rs. 74.00 lakhs, and LIC: Rs. 25.00 lakhs) during the period from March 1982 to October 1984 with delays ranging between 469 and 1,619 days beyond the initial period of 180 days, resulting in payment of Rs. 3.39 lakhs towards commitment charges. No reasons were on record for the delay in submission of the documents to the lenders. Apart from commitment charges, the delays in drawing the loans resulted in delay in completion of the project and price escalations in acquisition of machinery.

As on 31st March, 1985, an amount of Rs. 4,72.50 lakhs was outstanding towards principal out of which Rs. 7.95 lakhs were overdue. The Company had also cash credit arrangement with its banker for working capital purposes and an amount of Rs. 68.38 lakhs was outstanding as at the end of March 1985.

5.4. Project execution

5.4.1. *Project estimate and financing*

The holding company had got prepared a project report (September 1979) through the All India Federation of Co-operative Spinning Mills Limited, Bombay, according to which the estimated cost of the project was Rs. 6,00.00 lakhs. On appraisal of the project by the financial institutions, the cost was estimated at Rs. 6,40.00 lakhs which was approved (October 1980) by the Board. The project was proposed to be financed by way of share capital (Rs. 2,41.00 lakhs), institutional finance (Rs. 3,84.00 lakhs) and central investment subsidy (Rs. 15.00 lakhs).

The estimates were revised to Rs. 7,96.00 lakhs in May 1983 and again to Rs. 8,79.59 lakhs in December 1984 due to price escalations and provision of additional items of civil and mechanical works. Execution of the project was scheduled to be completed by March 1982 and commercial production at full capacity was to commence in April 1982. Erection of the plant was completed by March 1983 when trial production was started. Commercial production of yarn was commenced in March 1983 by commissioning 608 spindles (against the proposed installed capacity of 25,080 spindles). The full capacity was installed (in stages) by December 1984 and the project was completed at a cost of Rs. 8,24.68 lakhs. According to the Management (May 1983), the delay in completion of the project was due to lack of rail communication and other infrastructural facilities at Sonepur, non-availability of construction labour and materials, power-cut hampering progress of fabrication of steel structures and abnormal delay in procuring ring frames and ring doublers from a supplier whose factory was under lock-out for an year.

5.4 2 *Purchase of machinery*

5.4.2.1. In April and May 1980, orders were placed on two firms for supply of 5 items of machinery requiring the supplies to be made between July 1981 and May 1982. The details of the items, prices, quantities and delivery schedule are indicated below :

Sl. No.	Item	Quantity	Rate per item (Rupees)	Delivery schedule
(1)	Draw frame	12	1,03,425	2 numbers in each of the alternative month from July 1981 to May 1982 .
(2)	Speed frame	11	3,73,912	One number a month from July 1981 to May 1982.
(3)	High production card	24	1,73,250	2 numbers per month from July to September 1982 and at 3 numbers per month thereafter up to March 1982.
(4)	Ring frame	55	2,16,600	5 numbers per month from July 1981 to May 1982
(5)	Ring doublers	5	1,56,000	2 numbers each per month from September to November 1981.

First three items were ordered on a firm of Calcutta and the remaining two on a firm of Bombay. In terms of the purchase orders, the prices based on the formula of Textile Machinery Manufacturers Association (TMMA)/Indian Cotton Mill Federation (ICMF) or the firm's prices ruling on the date of delivery whichever were less were to be charged for the supplies. Though the first batch of supplies was ready by July 1981 in the case of both the orders, the same were not cleared for despatch as the factory building was not ready. Delivery of 4 numbers of item (1), 3 numbers of item (2) and 6 numbers of item (3) was obtained in March and April 1982 and the balance quantities of these 3 items were received between September 1982 and January 1983. The delivery schedule in respect of the other items was also revised (December 1982) and according to this, supplies were to be made between December 1982 and March 1983; the supplies were however made during February and November 1983 as the suppliers factory was under lock-out during December 1981 to December 1982. Before the supplies were made, the prices of all the items were revised upwards (March 1982) by the supplier of Calcutta with effect from the 1st October 1981 and by the other supplier with effect from the 1st December 1981 based on the formula of TMMA/ICMF.

As the cotton godown of the Company was ready by July 1981 by which time supplies were originally scheduled to be commenced, the price escalation amounting to Rs. 25.33 lakhs on the supplies could have been avoided by utilising the godown for storing the machinery. The Board was also of the opinion (November 1981) that the godown could be used for storing the machinery so as to avoid price escalations. The Management stated (June 1983) that the main reasons for deferring the receipt of the machinery were non-availability of funds and delay in completion of civil works. Regarding non-availability of funds it may be mentioned that though there were sanctioned term loans, they could not be drawn in time due to non-completion of the requisit documentation as already discussd in paragraph 5.3 *supra*.

5.4.2.2. *Purchase of motors*

For purchase of motors of 15 H. P. and 20 H. P. capacity (55 numbers each), limited offers were obtained in June/July 1980 but the same were not finalised, for reasons not on record. However, offers for the motors were again obtained (January 1981) and orders were placed on a firm 'N' whose offer was technically suitable for the supply of 15 H. P. motors (55 numbers) and 20 H. P. motors (60 numbers), the per piece price being Rs. 5,125 and Rs. 6,225 respectively. The offers received on the former occasion included that of 'N', the prices being Rs. 4,490 (15 H. P. motor) and Rs. 5,585 (20 H. P. motor). Non-finalisation of the earlier offers thus, resulted in an avoidable expenditure of Rs. 0.85 lakh.

5.5. Working results

The Company finalised its accounts up to 1981-82 only. The working results for the first two years of the Company's commercial production (1983-84 and 1984-85) based on provisional accounts compiled by the Company are tabulated below :

Receipt	1983-84	1984-85
	(Rupees in lakhs)	
(*a*) Sales	124.82	569.45
(*b*) Miscellaneous income	2.19	1.30
(*c*) Accretion/decretion to stock	17.96	(—)2.80
	144.97	567.95

	1983-84	1984-85
	(Rupees in lakhs)	
Expenses		
(*a*) Materials consumed including packing	103.79	420.35
(*b*) Power and fuel	4.40	17.48
(*c*) Stores and other expenditure	2.83	12.67
(*d*) Selling and distribution expenditure	3.28	15.96
(*e*) Interest on cash credit	2.40	10.01
(*f*) Salary and wages	20.83	53.92
(*g*) Head office and other expenses	6.78	11.22
(*h*) Interest on term loans	41.34	65.78
(*i*) Depreciation	67.16	62.40
Total expenses	252.81	669.79
Net loss	107.84	101.84

Reasons for the losses have not been analysed by the management *(*July 1985). As noticed in audit (July 1985), the loss was mainly due to underutilisation of the available capacity (Number of spindles available : 81.78 lakhs in 1983-84 and 2,39.59 lakhs in 1984-85; Number of spindles worked 38.34 lakhs and 41.29 lakhs in the two years respectively).

5.6. Production and sales

During the first two years of commercial production (1983-84 and 1984-85) 26.28 lakh kgs. of yarn was produced of which 25.78 lakh kgs. were sold. The following points were noticed in connection with the sale of yarn :

5.6.1. Sale of yarn was to be made on cash basis only except in the case of sales to Orissa State Handloom Development Corporation Limited (OSHDC) to which 30 days free credit facility was

authorised (November 1983) by the Chairman of the Company. It was noticed in audit (July 1985) that credit sales were made by the Company in the case of other customers also. There were 173 instances of such unauthorised credit sales aggregating Rs. 1,59.06 lakhs for periods ranging between 8 and 53 days during 1983-84 and 1984-85 resulting in loss of interest amounting to Rs. 1.42 lakhs calculated at the rate of 18 *per cent* per annum, the Company was paying for the cash credit availed by it. The Company stated (July 1985) that the practice would be discontinued.

It was however noticed (April 1986) in audit that in 1985-86 there were 129 instances of unauthorised credit sales aggregating Rs. 109.08 lakhs for periods ranging between 12 and 107 days resulting in loss of interest amounting to Rs. 1.81 lakhs.

While the credit period permitted in the case of OSHDC, was only 30 days, there had been delays in settlement of the bills by O S H D C ranging between 15 and 515 days on 19 occasions during 1983-84 resulting in loss of interest amounting to Rs. 3.15 lakhs calculated at the rate of 18 *per cent* per annum.

5.6.1.1. As per the instructions of the Chairman, customers who would purchase not less than 5 bales of yarn at a time making down-payment were to be allowed a cash discount of 1 *per cent* of sale value. It was noticed in audit (July 1985) that cash discount of Rs. 0.38 lakh was allowed in cases where the purchase of yarn was less than 5 bales at a time also (Rs. 0.12 lakh in 72 cases) and also in cases where down-payment was not made (Rs. 0.26 lakh in 17 cases).

These matters were reported to the Management/Government in October 1985; their remarks were awaited (October 1985).

SECTION VI

Other topics of interest

ORISSA FOREST CORPORATION LIMITED

6.1. Working of sales depot at Delhi

In pursuance of a decision (January 1979) of the Board of directors of the Company to operate a sales depot at Delhi for selling forest produce on trial basis initially for 6 months and to be continued thereafter depending on a review of its working, the Company appointed a private firm of Delhi as commission agent in January 1979. An agreement was also entered into with the firm on 8th January 1979 which was valid for 6 months. In terms of the agreement, the agent was to (*i*) furnish a security deposit of Rs. 20,000 and also a security bond for Rs. 1·00 lakh as personal guarantee of the partners of the firm (*ii*) collect the stocks consigned by various divisions of the Company to the sale depot at Delhi, (*iii*) transport them to the stock yard provided by it on rental basis and stock them under its custody, (*iv*) conduct auctions under the supervision of the Company's officials, (*v*) collect the earnest money and auction sale proceeds with taxes and remit the amounts to the Company's account within 7 days of the auction and (*vi*) issue the auctioned stocks to the successful bidders on receipt of authorisation from the Company's officials who were to do so only after receiving the sale proceeds from the agent. All the expenses incurred by the agent from the point of taking delivery of the stocks at the railway station till they were sold were to be initially incurred by the agent and were reimbursable by the company subject to a maximum of Rs. 18 per-*cum* of timber handled. For the services rendered by the agent, the company was to pay commission at

0·5 *per cent* of the sale proceeds excluding taxes apart from rent for the land provided by the agent and handling charges as agreed.

The sales depot was opened by the Company in July 1979 under the charge of a divisional manager by which time the agreement already executed had expired which was neither renewed nor a fresh agreement entered into. But the agent was allowed to handle the business of the Company. The security deposit and personal guarantee were also not obtained. The working of the depot was to be reviewed after six months as desired by the Board, but was not reviewed (October 1985) and the depot was allowed to function without working out its economics. The following further points were noticed in the operation of the depot.

(*i*) Under the agreement, the agent was responsible to take delivery of the stocks from the railways and in case of shortages, he was to prefer claim against the railways on behalf of the Company duly obtaining the necessary shortage certificate from the railways and on failure to do so, value of shortages, if any, was to be recovered from him at double the average selling price obtained in Delhi. There were shortages of 6,918 *cum.* of timber valued Rs. 4.08 lakhs occurred in transit during 1980-81 to 1983-84 in respect of which no claim was preferred by the agent and the value of shortage amounting to Rs. 8.16 lakhs (at double the cost of timber) was also not recovered from the agent (October 1985). The management stated (October, 1985) that the consignments were booked on "said to contain" basis and therefore the question of claim against railways did not arise and that to avoid such losses, the timber was being transported by road.

(*ii*) No stock account showing the quantity of timber received from various divisions of the Company, quantity sold and balance stock was maintained since inception to end of May 1980. According to the physical verification conducted (November 1980) by the Unit Officer, there was a shortage of 430 cum. of timber valued Rs. 0.15 lakh which has not yet been investigated (October 1985).

(*iii*) The working results of the depot could not be ascertained in audit as the Company's divisions did not follow the system of advising the value of stock transferred to the depot. Also, there was no system of advising the depot, the upset price or prices prevailing in the local market for guidance so as to ensure realisation of the minimum reasonable price in the auction sales.

It was noticed in audit (May 1984) that during the years 1980-81 to 1982-83, the average, prices of timber realised in the depot were lower than those obtained in the divisions which had supplied the stocks to the depot in the case of 70 to 95 *per cent* of the quantities sold at Delthi depot by the agent in those years. This resulted in under-realisation of Rs. 16.87 lakhs. The Management stated (October 1985) that the stocks sent to Delhi were of inferior quality and that the prices realised were found to be profitable. It may be mentioned that according to the Company's instructions issued in July 1979 and reiterated from time to time, the divisions were to supply first class *Sal* sawn timber only and the circumstances under which the divisions had been supplying poor quality timber without even indicating in the despatch advices that the timber was of lower quality were not investigated by the Comapny (October 1985).

(*iv*) During November 1979 to March 1984, the agent issued the auctioned stocks to the bidders without remitting the proceeds within 7 days of the auctions and obtaining the release order. The Company's sale proceeds retained by the agent ranged between Rs. 0.15 lakh and Rs. 5.55 lakhs (after deducting the commission and other expenses which was not contemplated) for periods varying between 4 and 10 months. According to the Management (October 1985) a net amount of Rs. 6.54 lakhs after deducting rent payable to the agent, was due from the agent as at the end of August 1985.

The Management stated (October 1985) that the provisions of an expired agreement were not enforceable against the agent. Thus, the agent was allowed to transact the Company's business without a valid agreement.

These matters were reported to the Management/ Government in October 1985 ; their remarks were awaited (October 1985).

LEATHER CORPORATION OF ORISSA LIMITED

6.2. Avoidable expenditure

The Senior Commercial Manager, Shoe Factory (Cuttack) of the Company invited (April 1982) quotations from 33 firms for supply of shoe materials (18 items against which seven quotations were received. One of the items tenderd was "I. S. I. Rubber Sole with heel" in respect of which three valid offers were received. The rates quoted by the three firms 'H' and 'L' of Kanpur and 'R' of Cuttack were Rs. 9.85, Rs. 11.50 and Rs. 14 per pair respectively. The lowest offer of firm 'H' at Rs. 9.85 per pair was interpolated to Rs. 19.85

and rejected on the ground that it was not the lowest. Of the remaining two offers, the offer of firm 'L' was also rejected as the rate was *f o r* Kanpur and exclusive of taxes, packing and forwarding charges and a purchase order was placed on firm 'R' (May 1982) which was not a licensee under I. S. I., for 20,000 pairs of rubber sole heels at Rs. 14 per pair (inclusive of all taxes and *f o r* Shoe Factory Cuttack. The firm 'R' however supplied 19,000 pairs only against the order for 20,000 pairs by July 1982 and the balance were not Supplied. Rejection of the offer of firm 'H' by interpolating its quoted rate has resulted in an extra expenditure of Rs. 0.79 lakh. The following further deficiencies were noticed in this purchase.

(*i*) The system of inviting open tenders and opening of the quotations in the presence of the tenderers of their authorised representatives was not followed to obviate alterations in the quoted rates.

(*ii*) The original quotations were not annexed to the comparitive Statement submitted by the Senior Commercial Manager to the Managing Director of the Company.

(*iii*) Order for the purchase valuing Rs. 2,80,000 was placed by the Senior Commercial Manager as authorised by the Managing Director without obtaining the approval of the Board.

The Company stated (November 1985) that the Senior Commercial Manager was kept under suspension with effect from 1st November 1985 as ordered by the Board (October 1985) after considering the matter at great length.

The matter has been reported to the Management and Government (October 1985), their final replies were awaited (October 1985).

6.3. Infructuous expenditure

The company obtained (August 1977) a licence from Indian Standards Institution to cover its products (industrial safety boots and shoes) with 'I.S.I' mark. The Company had paid Rs.0.59 lakh towards registration and renewal fees for I.S.I. licence from 1977 to June 1985.

For making the products with I.S.I. mark,testing of products to conform to the standards as specified by, the I.S.I. was a pre-requisite. To meet this requirement the Company purchased an impact testing machine at a cost of Rs. 0.11 lakhs only in August 1982. Since the date of its receipt the machine was not used as it was received in damaged condition and no action was taken to repair or replace the machine. Even before receipt of the impact machine the Company engaged (July 1982) a graduate in arts as laboratory assistant who had neither previous experience nor the requisite expertise. He was also not trained in the line after his appointment. His services were utilised for some routine official work and a sum of Rs.0.16 lakh was spent towards his pay and allowances till he resigned (May 1984). The Company did not produce any foot-wear with I.S.I. marking and the entire expenditure of Rs.0.86 lakh incurred by the Company on this account became infructuous.

The matter was reported to Government/Management (October 1985);their remarks were awaited (October 1985).

ORISSA MINING CORPORATION LIMITED

6.4. Idle equipment

Considering that the demand for stone products had gone up in view of construction programmes of Paradeep Port Trust and the fertiliser plant at Paradeep, the Company proposed (February 1983) manufacturing and marketing of stone metal and chips to enter into the market of building materials by operating a stone quarry in diversification of its activities. Those two prospective buyers, when contracted by the Company, indicated that their civil works were entrusted to contractors and that there was no necessity for them to buy the material. However, without ensuring a commitment from the contractors and sub-contractor of civil works of the two organisations and without obtaining approval of the Board, the Company went ahead with the operation. Based on the information regarding demand and supply position gathered by the Company's officials, it was envisaged, that 0.40 lakh cum.of metal chips could be sold annually to earn a profit of Rs.10.40 lakhs, two sets of crsusher and granulators were procured in June1983 at a cost of Rs.6.93 lakhs This was financed out of deferred credit obtained from Canara Bank, Bhubaneswar carrying interest at 15 *per cent* per annum. The two sets of the equipment were commissioned in December 1983 at Kaitha near Brahmani bridge incurring Rs.5.28 lakhs towards electrical and civil works for installation. The total capital investment in the equipment was thus, Rs.12.21 lakhs. After a working of 96 hours in December 1983 and January 1984, the jaws of the crushers got damaged which were replaced at a cost of Rs. 0.46 lakh in February 1984. After a further working of 254 hours in February and March 1984, the replaced jaws also got damaged but the plant was, however, operated intermittantly up to the end of October 1984 and thereafter it was kept idle as the product could not

be sold due to high cost. During the period of its operation, 3,203 cum. of chips and metal were produced at a cost of Rs. 210.71 per cum. (excluding interest, depreciation and overhead expenses)as against Rs.192 per cum. envisaged, of which 2,198 cum. of chips could only be sold to the end of December 1985 at Rs.105 per cum. (as against the envisaged sale price of Rs.218 per cum.) resulting in a loss of Rs.2.32 lakhs (excluding interest, depreciation and overhead expenses) The balance stock valued Rs. 2.12 lakhs was lying unsold (December 1985).

The matter was reported to Government/Management in October 1985; their remarks were awaited (October 1985).

INDUSTRIAL DEVELOPMENT CORPORATION OF ORISSA LIMITED

6.5. Excess payment of Liquidated damages

Baripada Spinning Mills, a unit of the Company obtained in February 1983 from Industrial Development Bank of India (IDBI) a loan of Rs. 2,42·00 lakhs (normal loan : Rs. 1,46·56 lakhs and concessional loan : Rs. 96·44 lakhs) carrying interest at 15 *per cent* and 13·5 *per cent* per annum respectively. In terms of the loan agreement, principal was to be repaid in 16 half-yearly instalments with a moratorium of 20 months and interest was payable at half-yearly rests on 20th June and December each year. In case of default in payment of principal and/or interest, liquidated damages were payable at 17 *per cent* per annum (normal loan) and at 15·5 *per cent* per annum (concessional loan) on the amount defaulted for the period of default. Interest of Rs. 11·18 lakhs (including Rs. 4·42 lakhs on concessional loan) due on 20th June 1983 remitted by demand draft on the 17th June 1983 was received by IDBI on the 23rd June 1983 and for the defaulted period of 3 days the IDBI claimed Rs. 0·38 lakh towards liquidated damages in December 1983 which was paid (December 1983) without checking the correctness of the claim. It was observed in audit that the claim of the IDBI was based on the total loan of Rs. 2,43·00 lakhs (which was not due) instead of on the defaulted amount of Rs. 11·18 lakhs resulting in excess payment of Rs. 0·37 lakh. On this being pointed out in audit (August 1985), the management stated (September 1985) that the excess payment would be recovered from subsequent payment.

The matter was reported to the Management/ Government in October 1985; their replies were awaited (October 1985).

6.6. Avoidable loss of interest

Hira Cable Works, a unit of the Industrial Development Corporation of Orissa Limited made four term deposits totalling Rs. 30·00 lakhs with Andhra Bank, Hirakud during January, 1980 (Rs. 20·00 lakhs) and June 1980 (Rs. 10·00 lakhs) for periods of one year twice and subsequently renewed from time to time for 21 days on each occasion up to 14th May 1983 and thereafter for periods of 91 days till May 1985. The unit had availed of loans for varying amounts against these deposits from time to time aggregating Rs.22·50 lakhs (i. e. maximum admissible limit of 75 *per cent* of the deposit) up to October 1982 and continued till May 1985. These loans carried interest at two *per cent* more than the rate of interest earned on term deposits.

Had the term deposits been encashed instead of going for loans, the unit would have saved payment of differential interest to the tune of Rs. 1,12,500 from November 1982 to April 1985. It was stated by the Unit management (May 1985) that the matter would be taken up with its head office to close down the term deposits.

The matter was reported to the Management/ Government in August 1985; their replies were awaited (October 1985).

6.7. Nugatory expenditure

The Management of the Company and two of its subsidiaries (East Coast Salt and Chemical Industries Limited and Sonepur Spinning Mills Limited) decided (May 1981 and September 1982 respectively) for merger of the two subsidiaries with the Company and applications seeking approval of the merger were submitted to the High Court of Orissa in February and April 1983 instead of to the Central Government as required under Section 391 of the Companies Act, 1956 as amended in February 1978 according to which in the case of merger of Government companies, the applications were to be made to the Central Government. However after incurring an expenditure of Rs. 0·52 lakh towards legal expenses in respect of all the 3 companies, the applications filed in the High Court had been withdrawn (May 1984) and fresh applications were made to the Central Government in July 1984 seeking approval of the merger. The legal expenses had thus, become nugatory.

The matter was reported to the Management and Government in October 1985; their remarks were awaited (October 1985).

CHAPTER II

SECTION VII

STATUTORY CORPORATIONS

7.1. Introduction

There were 4 statutory corporations as on 31st March 1985.

—Orissa State Electricity Board

—Orissa State Financial Corporation

—Orissa State Road Transport Corporation and

—Orissa State Warehousing Corporation

The position regarding the finalisation of accounts of the corporations was as follows :

Name of corporation	Year from which accounts are in arreas
(1) Orissa State Road Transport Corporation	1981-82
(2) Orissa State Warehousing Corporation	1983-84
(3) Orissa State Electricity Board	1984-85

A synoptic statement showing the summarised financial results of all these Corporations including Orissa State Electricity Board but excluding Orissa State Warehousing Corporation based on the latest accounts made available is given in Appendix C. The financial position and working results of the Orissa State Warehousing Corporation as on 31st March 1983 have been indicated in the Report of the Comptroller and Auditor General of India for the year 1983-84 (Commercial)-Government of Orissa.

7.2. Orissa State Electricity Board

7.2.1. *Introduction*

The Board was formed on 1st March 1961 under Section 5 (*i*) of the Electricity (Supply) Act, 1948.

7.2.2. *Capital structure*

The capital requirements of the Board are obtained in the form of loans from the State Government, public, banks and other financial institutions. The aggregate of long-term loans (including loans from Government) obtained by the Board was Rs. 46,268·61 lakhs at the end of March 1984, and represented an increase of Rs. 1,638·31 lakhs (i. e., 3·7 *per cent*) of the long-term loans of Rs. 44,630·30 lakhs as at the end of the previous year. Details of loans obtained from different sources and outstanding at the close of the 2 years up to 1983-84 are as follows :

Source	Amount outstanding as on 31st March		Percentage of increase
	1983	1984	
	(Rupees in lakhs)		
State Government	18,011·58	18,034·76	0·1
Others	26,618·72	28,233·85	6·1
	44,630·30	46,268·61	3·7

7.2.3. *Guarantees*

Government had guaranteed the repayment of loans raised by the Board from time to time to the extent of Rs. 144,74.72 lakhs and payment of interest thereon. The amount of principal guaranteed and outstanding as on 31st March 1984 was Rs. 124,06.60 lakhs.

7.2.4. *Financial position*

The financial position of the Board for the three years up to 1983-84 is given in the following table:

	1981-82	1982-83	1983-84
	(Rupees in lakhs)		
Liabilities			
(a) Loans from Government ..	18,006.06	18,011.58	18,034.76
(b) Other long-term loans (including bonds)	24,443.14	26,618.72	28,233.85
(c) Reserves and surplus	2,534.67	2,864.08	2,931.85
(d) Current liabilities and provisions	12,429.10	14,039.71	17,660.31
	56,412.97	61,534.09	66,860.77
Assets			
(a) Gross fixed assets ..	37,709.97	45,916.10	54,254.40
(b) Less depreciation	5,731.91	6,583.18	7,890.75
(c) Net fixed assets	31,978.06	39,332.92	46,363.65
(d) Capital work-in-progress ..	10,871·08	7,962.32	4,045.77
(e) Current assets (including investments)	13,446.26	14,117.88	16,344.24
(f) Miscellaneous expenses ..	117.57	120.96	107.11
	56,412·97	61,534·08	66,860·77
Capital employed ..	32,980·12	39,395·99	45,032·48
Capital invested ..	41,706·08	44,725·10	46,268·61

7.2.5. *Working results*

The working results of the Board for the three years up to 1983-84 are summarised below:

	1981-82	1982-83	1983-84
	(Rupees in lakhs)		
(a) Revenue receipts	8,669·64	9,109.18	12,066·27
(b) Subsidy from State Government for R. E. schemes	..	880.00	750·00
Total ..	8,669.64	9,989.18	12,816.27
(c) Revenue expenditure ..	5,163.63	6,049.82	8,202.53
(d) Gross surplus ..	3,506.01	3,939.37	4,613.74
(i) Depreciation	687.87	786.08	1,254.34
(ii) Interest on Government loans	1,152.14	1,136.81	1,142.35
(iii) Interest on other loans and bonds	1,666·00	2,016.48	2,217.05
Total (i)+(ii)+(iii) ..	3,506·01	3,939.37	4,613·74
(e) Total return on capital employed/invested (ii)+(iii)	2,818.14	3,153·29	3,359.40
		(Per cent)	
(f) Rate of return on:			
capital employed	8·5	8·0	7.4
Capital invested ..	6.8	7.0	7.2

(a) Capital employed represents net fixed assets (excluding capital work-in-progress) *plus* working capital.

(b) Capital invested represents paid-up capital *plus* long-term loans and reserves

As on 31st March 1984, the Board had a cumulative contingent liability of Rs. 5,213.99 lakhs as detailed below:

	For the year 1983-84	Cumulative as on 31st March 1984
	(Rupees in lakhs)	
Interest on Government loans ..	..	3,245.99
Depreciation ..	72.08	1,968.00
		5,213.99

7.2.6. *Operational performance*

(*a*) The following table indicates the operational performance of the Board for the three years up to 1983-84:

	1981-82	1982-83	1983-84
(1) Installed capacity (M. W.)			
(*i*) Thermal ..	250.000	360.000	470.000
(*ii*) Hydro ..	664.425	630.000	664.425
(*iii*) Others ..	..	..	..
Total ..	914.425	990.000	1,134.425

	1981-82	982-83	1983-84
(2) Normal maximum demand (M. W)	623.000	633.500	766.000
(3) Power generated (MKWH).			
(*i*) Thermal ..	786.000	1,026.489	1,268.621
(*ii*) Hydro ..	2,374.000	1,968.403	2,390.568
(*iii*) Others ..	..	..	..
Total ..	3,160.000	2,994.892	3,659.189
Less auxiliary consumption	93.000	122.531	138.050
(4) Net power generated (MKWH)	3,067.000	2,872.361	3,521.139
(5) Power purchased (MKWH)	516.000	406.582	435.998
(6) Total power available for sale (MKWH)	3,583.000	3,278.943	3,957.137
(7) Power sold (MKWH)	2,929.401	2,690.000	3,245.113
(8) Transmission and distribution losses (MKWH)	645.000	588.903	712.027
(9) Load factor (*per cent*)	64.0	48.55	48.46
(10) Percentage of transmission and distribution losses to total power available for sale	18.1	18.0	18.0
(11) Number of units generated per K. W. of installed capacity	3,683.80	3,055.50	3,398.34

(*b*) The following table gives other details about the working of the Board as at the end of the three years up to 1983-84 :

Particulars	1981-82	1982-83	1983-84
		(Numbers)	
(1) Villages/towns electrified	1226	1351	1276
(2) Villages/towns electrified at the end of the year	22,181	23,532	24,808
(3) Pump-sets/wells energised	19,123	22,900	26,391
(4) Transmission/distribution lines (circuit kms.)			
(*i*) High/Medium voltage	40,161.00	45,152.00	47,406.79
(*ii*) Low voltage ..	26,792.26	30,821.00	32,367.20
	66,953.26	75,973.00	79,773.99
(5) Connected load (MM)	1331.264	1387.814	1607.961
(6) Number of consumers	5,71,697	6,12,389	6,61,190
(7) Number of employees	25,245	32,330	32,254

Out of 46,992 villages (52.8 *per cent*) villages in the State, 24,808 were electrified up to 31st March 1984.

(*c*) The following table gives the details of power sold, revenue expenses and profit/loss per KWH sold during the three years up to 1983-84 :

	1981-82	1982-83	1983-84
(1) Units sold (MKWH)			
(*a*) Agriculture ..	63.880	73.331	74.420
(*b*) Industrial ..	23,44.639	21,22.083	25,94.115
(*c*) Commercial ..	75.946	78.600	88.281
(*d*) Domestic ..	134.846	140.500	156.701
(*e*) Others ..	310.090	275.526	331.596
	2929.401	2690.040	3245.113
(2) Revenue per KWH sold (paise) excluding subsidy from State Government	28.59	37.13	39.49
(3) Expenditure per KWH sold	29.21	38.18	39.71
(4) Loss (paise) per KWH	0.62	1.05	0.22

7.3. Orissa State Road Transport Corporation

Particulars regarding financial position, working results, *etc.*, of the Corporation together with a review on banner scheme are dealt with in Section VIII *infra*.

7.4. Orisss State Financial Corporation

Particulars regarding financial position, working results, *etc.*, of the Corporation together with a review on financial assistance to hotel and food industries are dealt with in Section IX *infra*.

SECTION VIII

ORISSA STATE ROAD TRANSPORT CORPORATION

8.1. Introduction

The State Transport Services established in 1948, which was being run departmentally was taken over on 15th May 1974 by the Orissa State Road Transport Corporation established under Section 3 of the Road Transport Corporations Act, 1950.

8.2. Paid-up Capital

The paid-up capital of the Corporation as on 31st March 1981 was Rs. 10,07.27 lakhs contributed as follows :

	Amount (Rupees in lakhs)
State Government	807.60*
Government of India ..	199.67
	1007'27

8.3 Financial position

The table below summerises the financial position of the Corporation under the broad headings for the 3 years up to 1980-81 :

	1978-79	1979-80	1980-81
		(Rupees in lakhs)	
Capital and liabilities			
(a) Capital ..	1007.27	1007.27	1007.27
(b) Reserve and surplus excluding depreciation reserve	17.25	16.50	17.06

* The figures as per Finance accounts is Rs. 334.00 lakhs; the difference of Rs. 473.69 lakhs is under reconciliation.

	1978-79	1979-80	1980-81
		(Rupees in lakhs)	
(c) Borrowings ..	186.74	481.21	642.07
(d) Trade dues and other current liabilities	375.84	487.35	631.36
	1587.10	1992.33	2297.76
Assets			
(a) Gross block ..	1136.19	1316.33	1378.41
(b) *Less:* depreciation ..	357.15	423.01	482.44
(c) Net fixed assets	779.04	893.32	895.97
(d) Capital work-in-progress and vehicle chassis	73.77	48.29	51.32
(e) Current assets and loans and advances	313.88	503.75	467.99
(f) Deferred revenue expenditure	14.50	17.20	25.41
(g) Accumulated loss ..	405.91	529.77	857.07
	1587.10	1992.33	2297.76
Capital employed ..	706.53	845.00	720.30
Capital invested ..	1193.73	1360.69	1377.54

Notes: (*i*) Capital employed represents net fixed assets (excluding capital work-in-progress and vehicle chassis) *Plus* working capital.

(*ii*) Capital invested represents capital contributions by the State and Central Governments and secured loans.

8.4. Working Results

The following table gives the details of the working results of the Corporation for the three years up to 1980-81:

	1978-79	1979-80	1980-81
		(Rupees in lakhs)	
1 (*a*) Operating revenue	734.26	813.25	873.35
Expenditure ..	743.07	864.00	1075.60
Deficit ..	8.81	50.75	202.25
(*b*) Non-operating revenue	7.50	17.91	10.50
Expenditure ..	110.50	91.01	135.56
Deficit ..	103.00	73.10	125.06
(*c*) Total revenue ..	741.76	831.16	883.85
Expenditure ..	853.57	955.01	1211.16
Net loss ..	111.81	123.85	327.31
2 Interest on capital and loans	66.93	88.58	119.46
3 Total return on:			
Capital employed/ Capital invested	(—)44.88	(—)35.27	(—)207.85

8.5. Banner scheme

8.5.1. *Introduction*

Considering the Corporation's inadequate fleet strength of operating buses, its inadequate resources for augmenting the fleet and its obligation

to ensure availability of efficient and economic transport services to the public and after a study of schemes of hiring of buses in vogue in Delhi and the States of Uttar Pradesh, Rajasthan and Andhra Pradesh, Government formulated (August 1983) a scheme of hiring private buses (Banner Scheme) for operation by the Corporation with effect from 1st October 1983 in six districts of the State *viz.,* Cuttack, Puri Balasore, Ganjam, Mayurbhanj and Phulbani. The main objectives of the scheme were:

—to operate as a substitute for augmenting fleet strength of operating buses of the Corporation and

—to ensure co-ordination and streamlining of road transport services to counteract unhealthy competition from private bus operators, their clandestine operations and evasion of taxes.

8.5.2. *Organisational set-up*

For implementing the Scheme, the Corporation had set up exclusive unit offices with supporting staff at Berhampur, Cuttack and Bhubaneswar headed by a District Transport Manager (DTM) at each of the places. In other places, the DTMs in charge of operation of the Corporation's own fleet were entrusted with the operation of the scheme also. Separate operation and accounting staff were provided at those places. The accounts of the Scheme were kept separate from the general accounts of the Corporation.

8.5.3. *Economics of the Scheme*

Under the scheme, owners of the hired buses were to provide buses alongwith drivers to the Corporation and incur expenditure on operation like diesel oil, lubricants and taxes and maintenance and repairs. The Corporation was to meet the cost of conductors to be provided by itself, printing of tickets, administration and enforcement. Buses to be covered under the Scheme were to be of two types in seating capacity (excluding two seats for driver and conductor) *viz.*, standard buses with a seating capacity of 45 and above and *mini*-buses with a seating capacity lower than that of standard buses. Based on the cost data of private bus operation prepared by the Corporation and discussions with the bus owners, Government fixed the rate of hire charges payable to bus owners at Rs.2.80 per km. for standard buses and at Rs.1.87 for mini-buses. The scheme envisaged hiring of 1,000 buses with an estimated coverage of 270 kms. per day per bus. It was anticipated that the occupancy ratio which was 73 *per cent* in 1982-83 would improve to 85 *per cent* and still there would be a loss of Re.0.40 per km under the Scheme which was to be subsidised by Government. The loss envisaged on operation of 1,000 buses was Rs.3.24 crores per annum.

8.5.4. *Operating results*

The scheme was initially sanctioned by Government for one year from October 1983 and later extended by 3 more months *i. e.* up to December 1984. However, it was continued by the Corporation, without orders of Government, up to 30th June 1985 and it was substituted by Government with a new scheme effective from 1st July 1985.

Under the new Scheme, the bus alongwith the crew was to be provided by the owner to be operated against the route permit held by the Corporation and the trafic earnings were to be retained by the owner. In consideration of the facility of route permit and blank tickets to be supplied by the Corporation, the Corporation would be paid service charges, by the owner. The working

results of operation of the originally initiated Banner Scheme *vis-a-vis* the anticipations since inception to the end of March 1985 are tabulated below :

	1983-84		1984-85	
	Antici-pated	Actuals	Antici-pated	Actuals
		(Provsional)		
Number of buses hired ..	1,000	549	1,000	549
Kilometres covered (In lakhs of numbers)	4,05.00	2,30.58	8,10.00	5,08.35
Occupancy ratio in percentage	85	*	85	*
Income per Km. (P K I) (In rupees)	2.68	2.21	2.68	2.03
Expenditure per Km. (P K E) (In Rupees)	3.08	2.93	3.08	2.98
Loss per Km. (In rupees) ..	0.40	0.72	0.40	0.95
Total income (Rupees in lakhs) ..	10,85.40	5,10.60	21,70.80	10,34.60
Total Expenditure (Rupees in lakhs)	12,47.40	6,76.70	24,94.80	15,16.59
Total loss ..	1,62.00	1,66.10	3,24.00	4,81.99

The losses had not been analysed by the Corporation but it was observed in audit that factors like wrong categorisation of buses for purpose of hire charges, enhancement in rate of hire charges of mini-buses without any basis, operation of mini-buses having seating capacity less than 30 not contemplated in the Scheme and ineffective enforcement checks had contributed to the losses as discussed in the suceeding paragraphs.

8.5.4.1. *Operation of mini-buses*

(*i*) Apprehending that owners of mini-buses who were quite large in number may cause obstruction in implementing the Scheme if mini-buses were not hired, the Scheme contemplated hiring of mini-buses having a minimum seating capacity of 30. It was also ordered (October 1983) by Government that (*i*) the hire charges (Rs. 1·87 per km.) of

* Not ascertained by the Corporation

mini-buses to be re-examined after reviewing their performance particularly regarding occupancy ratio, income, expenditure, reliability, usefulness etc., for a month and (*ii*) a detailed report be submitted by 1st week of November 1983 for taking further action at their end. No such review was done in respect of the mini-buses hired but the rate of hire charges was increased (October 1983) by the Corporation to Rs. 2·10 per km. without any orders of the Board and the Government. This resulted in an extra expenditure of Rs. 4.05 lakhs in the case of one unit alone (Cuttack) which hired 17 buses during the period from October 1983 to March 1985.

(*ii*) *Mini-buses* having a seating capacity of less than 30 were not to be hired under the Scheme. However, the Corporation had fixed (December 1983) hire charge of such buses at Rs. 1·95 per km. without estimating the cost of operation. This rate was more than that (Rs. 1·87) fixed by Government in respect of mini-buses with a seating capacity of 30 and above. In Cuttack and Mayurbhanj districts, 9 mini-buses each having a seating capacity of less than 30 (as per owners' application and Registration Certificate (RC book) were shown in the agreements as mini-buses having a seating capacity of 30 in 8 cases and 32 in one case and hire charges were paid at Rs. 2·10 per km. This resulted in excess payment of hire charges amounting to Rs. 2·19 lakhs (9,52188 kms at 23 paise being the difference between Rs. 2·10 per km. and Rs. 1·87 per km) during the period from October 1983 to March 1985.

Further, there was a loss of Rs. 5·29 lakhs during this period in operation of the 9 buses having a seating capacity of less than 30, not permitted under the Scheme.

(*iii*) 16 buses hired (October 1983 to March 1985) in the units at Baripada, Cuttack, Puri and Berhampur had a seating capacity of 46 in 14 cases and 45 in 2 cases as per R. C. book which included the seats of the conductor and driver. As the two seats of conductor and driver were to be excluded for the purpose of payment of hire charges, they were to be categorised as mini-buses (*vide*-classifcation given in sub-paragraph (*iv*) below) but agreements were entered into treating them as standard buses resulting in an excess payment of hire charges amounting to Rs. 16·81 lakhs on 18·08 lakh kms. covered by them during the period from October 1983 to March 1985, calculated with reference to the rate of hire charge fixed by Government in respect of *mini-buses*.

(*iv*) The basis of categorisation of buses into standard and mini types for the prupose of fixation of hire charges was modified in December 1983 with retrospective effect according to which, all buses with a wheel base of 205" and above and having a minimum seating capacity of 45 (excluding the seats of driver and conducrtor) were to be treated standard buses and those with a lesser wheel base were to be categorised as mini-buses unless seating capacity was increased to the level of a standard bus. Before classifying such mini-buses as standard buses, the increased in seating capacity was to be physically verified, by the Unit Officer, thoroughly as regards specifications and seating comfort and prior permission of head office was to be obtained. In this connection the following points were noticed in audit.

(*a*) From the particulars of seating capacity and wheel base of the buses in operation in Balasore unit furnished (March 1984) by the DTM to the head office after physical verification, it was noticed in audit (June 1985) that there were 12 mini-buses categorised as standard buses and agreements entered into as such, though the wheel base was 205" and above but the seating capacity was less than 45. The wrong categorisation resulted in an excess payment of Rs. 8·78 lakhs on 12·58 lakh kms. covered during the period from October 1983 to March 1985. No action was taken by the Corporation on the particulars furnished by the DTM (July 1985).

(*b*) In the units at Cuttack, Bhubaneswar and Berhampur, the seating capacity of 34 buses having a wheel base of less than 205" was increased to the level of a standard bus and hire charges (Rs. 1,13.95 lakhs) were paid as standard buses without physical verification as to the increased capacity and without obtaining permission of the head office. The increase in seating capacity was, also not supported by certification by the R. T. O. concerned in the case of 19 of these buses. The differential hire charges (hire charges as for standard buses *minus*-hire charges as for *mini*-buses) in respect of the 19 buses worked out to Rs. 18·55 lakhs during the period from October 1983 to March 1985.

(*c*) In the three, units mentioned in the preceding sub-paragraph there were 12 more buses whose wheel base was less than 205" (176" for 7 buses and 166" and below for 5 buses) but the seating capacity was shown as 45 and above and hire charges were paid at the rate applicable to standard buses, without verification as to the specification and the seating comforts and without permission of head office as required under the Managing Director's instructions. The hire charges paid for these buses during the period from October 1983 to March 1985 were Rs. 36·20 lakhs.

(*v*) In the case of one mini-bus engaged in Cuttack unit since November 1983, the hire charges were paid at Rs. 2·10 per km. (applicable to a bus with a minimum seating capacity of 30) and when there was a change in ownership of the bus in August 1984, a fresh agreement was entered into classifying it as mini-bus having a seating capacity of below 30 and hire charges were fixed at Rs. 1·95 per km. Classification of the bus as having a seating capacity of 30 initially was, thus, not in order. In another case of a mini-bus, the owner's application for its entry into the Scheme indicated seating capacity of 30 including the seats of driver and conductor and agreement was also entered into (November 1983) accordingly, but the same was corrected as 32 in the agreement without any authority. Thus, the mini-bus having a seating capacity of less than 30 was categorised as the one having a capacity of 32. The wrong categorisation of these two mini-buses resulted in an excess payment of Rs. 0·27 lakh on 0·57 lakh kms. covered by the former bus upto the change in ownership and on 1.21 lakh kms. covered by the latter bus up to 31st March 1985.

8.5.5. *Security Deposit*

In terms of agreements entered into with bus-owners for hiring of the buses, a security deposit of Rs. 1,000 per bus was to be furnished to the Corporation for guaranteeing the performance of the contract and the same was to be forefeited in the case of non-placement of the bus at the disposal of the Corporation or withdrawal of the vehicle by the owner without at least 48 hours' notice. In the case of 26 buses in Cuttack and Puri units, where buses had not been provided/ withdrawn without the requisite notice, no action was taken to forfeit the security deposit (December 1985).

8.5.6. *Check against revenue earnings*

The Scheme envisaged improvement in occupancy ratio from 73 *per cent* to 85 *per cent* and the earnings per kilometre (PKI) from Rs. 2·30 (actual achieved in 1982-83 *i.e.* prior to introduction of the Scheme) to Rs. 2·68. The table in paragraph 8.5.4 *supra* would indicate that not only the anticipated rate of PKI was not achieved but even decreased from Rs. 2·21 in 1983-84 to Rs. 2·03 in 1984-85. Also, in spite of curtailment of competition from private bus operators, the achievement was even less than that secured (Rs. 2·30 in 1982-83) amidst competition. Inadequate and ineffective enforcement checks, engagement of delinquent conductors again and again, *etc.*, were some of the contributary factors to the adverse situation, some of the aspects noticed in test check are discussed below:

(*i*) To ensure deposit of revenue collections to the Corporation's account before clearance of bills for hire charges, circular instructions were issued (September 1983) by the Corporation to the effect that the bills for hire charges preferred by vehicle owners be checked with reference to the trip-sheet checked by way-bill checker and after verifying from the register of earnings maintained in the Accounts Section, whether the revenue was credited.

It was noticed in audit (June 1985) of the records of the units at Cuttack, Puri and Bhadrak that there were 784 instances in 1983-84 and 1984-85 where hire-charges were paid (Rs. 6·78 lakhs) without verifying whether the Corresponding revenue earnings have been brought to account.

(*ii*) According to the standing orders (August 1984) of the Corporation, all routes were to be covered in enforcement checks thrice in a monrh. Under the scheme there were 353 routes in 1983-84

and 373 routes in 1984-85. No separate record was maintained under the scheme to ensure whether the checks were conducted to the extent prescribed. However, 3,240 cases of irregularities were detected in enforcement during the period of 18 months up to March 1985. The cases detected included cases of Passengers without tickets, tampering of endorsements made by enforcement staff on the ticket books, non-stoppage of vehicles for enforcement checks, *etc.* There was no proper follow-up action on the cases reported. In none of the units the detection register was reviewed to verify the action taken. No action was taken in 3 units (Bhadrak, Cuttack and Puri) on any of the cases reported in 1983-84. No indication was avilable to see whether in the cases of non-stoppage of vehicles for enforcement checks fine of Rs. 500 which could be imposed under the agreement, was actually imposed in any case. There were instances where conductors terminated on the charge of carrying ticketless passengers were appointed again and again. The enforcement activity was thus, ineffective.

(*iii*) In the Corporation's meeting held on 27th September 1983, the Secretary, Transport Department suggested that besides enforcement checks, standard income for various routes be fixed so that a conductor giving income lesser than the standard could be taken to task. But no such targets have been fixed. In one case (Cuttack Unit) a particular conductor was giving low income and income was more whenever the conductor was changed. It was also noticed in audit that there were 10 instances where the PKI given by the conductors was less than one Rupee in Cuttack and Bhadrak units (as against Rs. 2·68 per km. envisaged) in December 1984 and January 1985. No remedial action was taken in such situations.

Even in high density routes the PKI was found to be less than Rs. 2·68 anticipated in the Scheme. A few instances are given below:

Route	Bus Number	Month	PKI (Rupees)
Cuttack-Rourkela	OSU—3145	March 1984	1.06
Bhubaneswar	OSP—7697	January 1985	1.86
Baripada	ORX—4297	January 1985	2.16
Cuttack	OSU—6341	January 1985	2.16
Bhubaneswar	OSU—8922	January 1985	1.86
Baripada	ORX—7242	January 1985	2.24
Bhubaneswar	OSP—1112	January 1985	2.00
Berhampur	ORX—8222	January 1985	2.38
	ORX—6597	January 1985	2.49

(*iv*) Tickets issued to passengers were often illegible and did not contain the details of bus number and points of embarking and destination. In view of this the checks exercised by way-bill checkers were hardly effective and correctness of the fare charged could not be checked in audit.

(*v*) In the units at Berhampur, Balasore, Puri and Bhadrak, 46 ticket books in use were reported (December 1983 to March 1985) to have been lost by the conductors while on journey. As per the Corporation's rules, conductors responsible for loss of ticket books were to be charged for the unused tickets lost at the rate of fare applicable to the longest route of the unit concerned. An amount of Rs.0·30

lakh was ordered by the unit officers concerned to be recovered (Berhampur and Bhadrak), from 4 conductors in respect of 4 books, but a sum of Rs. 740 only was recovered (April 1985) from 2 conductors in Berhampur unit. Two conductors of Berhampur unit against whom Rs. 0·19 lakh were ordered for recovery have been discharged (November 1984 and May 1985) from the services of the Corporation on the charge of carrying ticketless passengers and no recovery was made. No action has yet been taken to fix responsibility for the loss of the remaining 42 books (December 1985).

(*vi*) According to the procedure of the Corporation, used ticket books were to be surrendered by the conductors to the unit office for check against revenue earnings and record. There were 1,257 used ticket books awaiting such return by the conductors in the units at Cuttack, Bhubaneswar, Balasore and Baripada (December 1985).

SECTION IX

ORISSA STATE FINANCIAL CORPORATION

9·1. Introduction

The Orissa State Financial Corporation was established on 20th March 1956 under Section 3(1) of the State Financial Corporations Act, 1951.

9.2. Paid-up capital

The paid-up capital of the Corporation as on 31st March 1985 was the same as on 31st Maich 1984 i.e. Rs.10,00.00 lakhs (State Government: Rs.492.07 lakhs, Industrial Development Bank of India: Rs.492.07 lakhs and others: Rs. 15.86 lakhs).

During the year 1984-85, the Corporation received a further amount of Rs.9,00.00 lakhs as loan in lieu of share capital from the State Government (Rs.475.00 lakhs) and the Industrial Development Bank of India (Rs.425.00 lakhs) carrying interest at 3.5 *per cent* per annum (equal to the minimum rate of dividend). The loan is to be converted into share capital after amendment of the State Financial Corporations Act, 1951, enhancing the limit of the authorised capital for which the Industrial Development Bank of India is reported to have taken steps (July 1982).

9.3. Guarantees

Under Section 6 (1) of the Act, the State Government guaranteed repayment of principal and payment of annual dividend at (*a*) 3.5 *per cent* per annum on the initial share capital of Rs.50.00 lakhs (*b*) 4 *per cent* per annum on additional share capital of Rs.50.00 lakhs raised during 1982-83 and (*c*) 3.5 *per cent* on share capital of Rs. 820.00 lakhs raised during the years 1977-78 to 1982-83.

The State Government have also guaranteed the repayment of open market loans and payment of interest thereon under Section 7 (1) of the Act. The Corporation has to pay a guarantee commision of one *per cent* per annum. The amount of loan outstanding against guarantees as on 31st March 1985 was Rs.49,45.00 lakhs.

The arrears of guarantee commission payable by the Corporation at the end of 1984-85 amounted to Rs. 49.72 lakhs.

9.4. Working results

The following table shows the details of the working results of the Corporation for the three years up to 1984-85 :

	1982-83	1983-84	1984-85
		(Rupees in lakhs)	
Particulars			
(I) Income :			
(*a*) Interest on loans and advances	727.03	387.00	1,057.87
(*b*) Other income . .	14.07	9.64	13.27
. .	741.10	396.64	1,071.14
(2) Expenses :			
(*a*) Interest on long-term loans	547.12	386.17	960.66
(*b*) Other expenses	182.98	141.28	236.57
	730.10	527.45	1,197.23

	1982-83	1983-84	1984-85
		(Rupees in lakhs)	
(3) Profit before tax after providing for reserve under Income Tax Act	11.00	(—) 130.81	(—)126..09
(4) Provision for Tax	6 .35	Nil	Nil
(5) Amount available for devidend	5.99	Nil	Nil
(6) Dividend paid ..	0.60	Nil	Nil
(7) Total return on Capital employed/ invested (2(a)+3)	558.12	255.36	834.57
		(*Per cent*)	
(8) Rate of return on: capital employed	6.9	2.3	6.1
Capital invested ..	6.3	2.3	5.5

9.5. Disbursement and recovery of loans

To the end of 1984-85 the Corporation disbursed an amount of Rs. 17,267.80 lakhs to 14.393 parties since its inception. The amount outstanding for recovery from 14,031 loanees as on the 31st March 1985 was Rs. 14.081.34 lakhs. The amount overdue for recovery as on 31st March 1985 was Rs. 1,417.19 lakhs towards principal and Rs. 1,189.16 lakhs towards interest.

* The Corporation has changed its method of accounting from mercantile basis to cash basis with effect from the 1st April 1983. The figures in the statement are not therefore, comparable with the figures for 1982-83.

9.6. Financial assistance to hotel and food industries

Procedure for rendering financial assistance

(*i*) Any entrepreneur seeking financial assistance is to submit application to the Corporation indicating the information as to capital cost, margin money for working capital, his bio-data and record of past experience. Thereupon, the Corporation makes pre-sanction technical and financial appraisals to assess the economic viability of the project. The loans are then sanctioned keeping a margin of 20 to 30 *per cent* of capital cost except in the case of technocrats and trained entrepreneurs for small scale units, where the margin money would be

(*ii*) After sanction of loan, the entrepreneur is required to furnish title deeds, non-encumbrance certificate, hypothecation or mortgage deeds and to execute necessary agreement. The sanctioned loan is disbursed in instalments taking into account matching capital contribution of the entrepreneur and progress in implementation of the project.

(*iii*) After the loan is fully disbursed, the Corporation officials are required to carry out inspection periodically of the entrepreneur's premises to ensure that the unit is working satisfactorily.

9.6.1. *Hotel industry*

The Corporation had been financing hotel industry since 1972-73. Considering the potential of tourism in the State, the Corporation decided (August 1980) to encourage augmentation of hotel capacities in Cuttack and Bhubaneswar by way of new constructions and expansion of existing units. Subsequently, in the light of deliberations in the conference of Chief Executives of all the State Financial Corporations held at Jaipur in October 1980 to extend financial assistance to hotel industry on large scale, the Corporation proposed (December 1980) to finance air-conditioned restaurants-*cum*-guest houses at 70 important vantage points in the State. The assistance is rendered through co-ordination with the Tourism Department.

9.6.1.1. *Sanctions and disbursements*

Since inception to end of 1984-85, the Corporation sanctioned Rs. 28,03.54 lakhs as loans to 400 units of which Rs. 16,52.36 lakhs were disbursed to 159 units, the yearwise break-up of which is indicated below :

	Sanctions		Disbursements	
	Number	Amount	Number	Amount
		(Rupees in lakhs)		
Up to 1981-82	167	9,33.40	60	3,63,07
1982-83	95	8,86.69	42	4,10.40
1983-84	99	7,25.37	38	4,73.42
1984-85	39	2,58.08	19	4,05.47
	400	28,03.54	159	16,52.36

Of the 159 units to which financial assistance was rendered by the Corporation, the sanctions in respect of 44 have been reviewed in audit. Twenty three units scheduled to be completed between January 1978 and June 1983 were completed between December 1978 and August 1984 involving a delay of 7 to 47 months. The remaining 21 units scheduled to commence operation between October 1981 and May 1984 were still under construction (September 1985).

Certain aspects relating to financing of a few of the projects are discussed below:

(*i*) The managing partner of a proposed hotel 'HS' at Bhubaneswar applied (January 1982) for a term loan of Rs. 17·36 lakhs. For sanction of term loan, though three more hotels were financed by the Corporation in the same vicinity and further hotel financing was considered to adversely affect the economic viability of these hotels, on the ground that there was increasing tourist traffic at Bhubaneswar, a term loan of Rs. 12·67 lakhs was sanctioned (July 1982) by the Board to the party and Rs. 11·89 lakhs were disbursed between December 1982 and November 1984.

While the construction of the hotel was in progress, the loanee represented (May 1984) that the State Bank of India (SBI) was interested to take the hotel on rental basis to accommodate their trainee officers. This was agreed to by the Corporation. Accordingly the hotel was let out (September 1984) to the SBI for a period of five years at a monthly rent of Rs. 14,290 which was to be paid to the Corporation towards recovery of loan and interest thereon. In this connection, the following further points were noticed:

(*a*) The term loan carried an interest rate of 14 *per cent* per annum. The total rent recoverable in five years would be Rs. 8·57 lakhs whereas the overdue amount towards principal (Rs. 5·54 lakhs) and interest (Rs. 7·72 lakhs) would be Rs. 13·26 lakhs. The manner in which the balance was to be recovered was not thought of.

(*b*) Since the hotel was let out, there was a saving of Rs. 2·58 lakhs representing cost of plant and machinery (such as air-conditioning equipment, hot weather equipment), furniture, *etc.* On the basis of the loanee's representation (September 1984), of the saving of Rs. 2·58 lakhs, an amount of Rs.1·50 lakhs was disbursed (October 1984) for construction of third floor which was also to be let out to the SBI.

(*c*) Granting of the loan (Rs. 13·39 lakhs) in the instant case did not serve the projected purpose of development of hotel industry and was also outside the scope of the Corporation's objectives.

(*ii*) The hotel 'HM' of Berhampur estimated to cost Rs. 36·29 lakhs was to be financed by way of loan from the Corporation (Rs. 24·40 lakhs), subsidy (Rs. 5·00 lakhs) and entrepreneur's contribution (Rs. 6·89 lakhs). The loan was sanctioned (February 1981) bearing interest at 14 *per cent* per annum. The land on which the hotel was proposed was acquired by the entrepreneur on lease basis from a club of Berhampur in December 1980 and in January 1982. The Secretary of the club wrote to the Corporation indicating that the lease deed as executed by the then Secretary without authority. Thereupon, the Corporation moved (November 1982) the Tahsildar, Berhampur to allot the land in question in favour of the entrepreneur but the effort was in vain. The Corporation however, disbursed the loan of Rs. 30·00 lakhs (including an additional loan of Rs. 5·60 lakhs sanctioned in October 1982 in view of escalation in costs) during the period from July 1981 to November 1982. Of this, Rs. 24·18 lakhs were disbursed after the receipt of the letter from the club. There was no information on the record of the Corporation whether and at which place the hotel was constructed. The original loan was repayable in 13 half-yearly instalments of Rs. 1,87,696

each commencing from 29th June 1983 and the additional loan was repayable in 18 half-yearly instalments commencing from 17th May 1984. Not even a single instalment was paid by the entrepreneur and as at the end of August 1985, an amount of Rs. 25·10 lakhs was overdue towards principal (Rs. 12·40 lakhs) and interest (Rs. 12·70 lakhs). No action was taken to recover the amount (December 1985).

(*iii*) For construction of a hotel 'HM' at Cuttack at an estimated cost of Rs. 12·89 lakhs, the Corporation sanctioned (December 1980) a loan of Rs. 8·74 lakhs and the balance cost was to be financed by way of subsidy (Rs. 1·73 lakhs) and entrepreneur's margin money at 20 *per cent* (Rs. 2·43 lakhs). Expressing inability to contribute 20 *per cent*, the entrepreneur requested (February 1981) for a soft loan of Rs. 1·00 lakh which was not agreed to and the Corporation reduced the margin to 10 *per cent* as against 20 *per cent* fixed (September 1977) by the Board in respect of small scale industries. Consequently, additional loan of Rs. 1·08 lakhs was sanctioned by the Corporation in May 1981. Between July 1981 and July 1984, a loan of Rs. 7·61 lakhs was disbursed. The project was scheduled to be completed by January 1982 and by December 1982 only ground floor of the building was completed and was let out (April 1983) to locate the office of a private company with the permission of the Corporation. It may be mentioned here that in the case of hotel establishments, the Board permitted (May 1982) such letting out only when the gestation period gets prolonged due to non-availability of building materials and in the instant case, the construction remaining incomplete was due to the entrepreneur's inability to contribute the margin money but not due to non-availability of materials.

(*iv*) Hotel 'A' of Cuttack estimated to cost Rs. 8·78 lakhs was to be financed by way of loan from the Corporation (Rs. 4·50 lakhs) and contribution by the entrepreneur (Rs. 4·28 lakhs). The loan was sanctioned (August 1977) carrying interest at 15½ *per cent* per annum. The entire loan was disbursed between February 1978 and May 1979 without ensuring the entrepreneur's matching contribution in full and the assets created were only of the value of Rs. 6·68 lakhs resulting in an excess disbursement of loan by Rs. 1·08 lakhs calculated with reference to assets created and the agreed proportion of matching contribution. The loan was repayable in 18 half-yearly instalments of Rs. 28,125 each commencing from 21st June 1980. No instalment has so far been paid and as at the end of August 1985, an amount of Rs. 3·36 lakhs was over due towards principal (Rs. 2·70 lakhs) and interest (Rs. 0·66 lakh). No action was taken to realise the over due amounts (September 1985).

(*v*) For construction of hotel 'P' at Anandapur at an estimated cost of Rs. 4·43 lakhs, the Corporation sanctioned (September 1977) a loan of Rs. 2·90 lakhs to a partnership firm. The project estimate was revised (February 1979) to Rs. 9·11 lakhs due to escalation in costs which was to be financed by way of loan (Rs. 4·90 lakhs), Central subsidy (Rs. 1·27 lakhs) and the firm's contribution (Rs. 2·94 lakhs). The additional loan of Rs. 2·00 lakhs was sanctioned by the Corporation in July 1979. A sum of Rs. 4·88 lakhs was disbursed between April 1978 and January 1982 when the value of work done was only Rs. 6·89 lakhs. The loan was thus disbursed without ensuring the firm's matching contribution in full. Considering the agreed proportion of matching contribution from the firm, there was an excess payment of loan by Rs. 1·14 lakhs which was not backed by any security.

The loan was repayable in 18 half-yearly instalments of Rs. 0·27 lakh each commencing from 18th October 1979. Repayment of the principal and payment of interest were not forthcoming from the firm since April 1983 and as at the end of June 1985, an amount of Rs. 5·47 lakhs was over due towards principal (Rs. 3·27 lakhs) and interest (Rs. 2·20 lakhs). No action was taken by the Corporation to realise the overdues (June 1985).

(*vi*) The Corporation sanctioned (May to October 1982) a term loan of Rs. 15·00 lakhs to a house wife for construction of a hotel 'M' at Bhubaneswar (estimated cost Rs. 22·53 lakhs). Up to April 1983 a sum of of Rs. 14·64 lakhs was disbursed and the sanction for the balance amount was cancelled as the construction of the building was completed. The unit was also paid Rs. 1·81 lakhs in 1981-82 towards the State Investment Subsidy. Due to inability to manage the hotel, the loanee requested (June 1983) the Corporation for leasing out the hotel to banks and other institutions, However, the entire hotel complex has been leased out (June 1983) to the United Bank of India for locating their training college. The financial assistance rendered to this unit did not totally serve the projected purpose of development of hotel industry and was also outside the scope of the Corporations objectives.

A test check in audit of the physical inspection reports based on which loan instalments were released, revealed that in seven instances of divergences in the inspection reports regarding quantum/value of work done, the quantum of works executed/reported in some inspections was less than that reported in earlier inspections. In view of such varying reports, the extent to which they were dependable was not clear and no action was taken by the Corporation on the differences (September 1985)

9.6.1.2. *Subsidy*

With a view to promoting the growth of industries in selected backward districts of the State, the Government of India introduced a scheme (August 1971) for payment of subsidy, for setting up of new industrial units and for substantial expansion of existing units in selected areas, with retrospective effect from October 1970. From March 1983, the subsidy admissible was 15 *per cent* of the fixed capital investment in the case of new units and of the additional capital investment in the case of the existing units subject to a maximum of Rs. 15 lakhs. The subsidy was being sanctioned by a State level committee headed by the Secretary to the Industries Department. The scheme had covered 6 districts (Kalahandi, Mayurbhanj, Dhenkanal, Keonjhar, Bolangir and Koraput) of the State.

In terms of the Industrial Policy of Government all new industrial units which had gone into production between 1st April 1977 and 17th July 1979 were eligible for the State investment subsidy at 10 *per cent* of the value of fixed assets not exceeding Rs. 30 lakhs. This limit of Rs. 30 lakhs for the purpose of the subsidy was, however, not applicable in respect of the units which went into production between 18th July 1979 and 31st July 1980.

Under the new industrial policy (July 1980) of the State Government, new industrial units and existing units going in for expansion located in districts where the Central subsidy facility is not available would be eligible for 15 *per cent* subsidy on fixed capital investment subject to a limit of Rs. 15 lakhs.

In cases of units set up with the assistance of financial institutions, the subsidy was payable through the financing institutions for release. During the four years up to 1984-85, an amount of Rs. 6.46 lakhs, towards the Central subsidy and Rs. 2,18.89 lakhs towards the State subsidy was disbursed by the Corporation to Hotel industry. The following points were noticed in this connection:

(*i*) In the case of land and buildings, Central and State investment subsidise would be admissible on the land and buildings actually utilised for the purpose of the industrial unit.

A hotel 'HS' at Dhenkanal was paid Central investment subsidy of Rs. 3.15 lakhs between November 1982 and January 1985. Construction of ground floor of the hotel (4,704 sft. of plinth area), was completed and a portion having a plinth area of 2,776 sft., was leased out for other purpose. The cost of construction of the leased out portion was Rs. 2.43 lakhs. The subsidy on this value not used for the purpose of the unit worked out to Rs. 0.36 lakh. There were 3 more hotels i.e., 'M' and 'S' at Bhubaneswar and 'HM,' at Cuttack who had leased out the buildings meant for running hotels as discussed in paragraphs 9.6.1.1 (*vi*), (*i*) and (*iii*) respectively . No action was taken by the Corporation in those cases for recovery of the inadmissible subsidy which amounted to Rs. 5.38 lakhs.

(*ii*) In respect of assets valued Rs. 3.49 lakhs acquired between March 1979 and February 1980 by the hotel 'SH' of Bhubaneswar which went into operation before June 1979, subsidy was paid (August 1981 to March 1984), at 15 *per cent* instead of at 10 *per cent* resulting in an excess payment of Rs. 0.52 lakh which had not been recovered by the Corporation so far (December 1985).

(*iii*) For determining the quantum of subsidy, value of factory buildings was to be as assessed by any financing institution or District Industries Centre (D I C) as per rules of the subsidy scheme.

An instance of divergence in valuation of a project between the Corporation and the D I C is discussed below :

The Corporation extended loan assistance of Rs. 22.60 lakhs during August 1981 to March 1984 to a hotel 'HS' at Puri against the estimated cost of Rs. 38.48 lakhs. Last two instalments of the sanctioned loan were paid in February and March 1984 respectively after inspecting the progress of work in January and March 1984. The hotel was completed in all respects by March 1984 and the actual cost of the hotel was evaluated at Rs. 32.44 lakhs. A review of the inspection reports of January and March 1984 revealed that the construction of ground floor and first floor whose plinth area was 9,500 sft. and 7,500 sft., respectively as per the report of January 1984 while they were 10,500 sft. and 8,500 sft., respectively as per the report of March 1984. These figures were indicated with over writings in the valuation report. Further, as per the report of January 1984, furniture was valued at Rs. 0.95 lakh. Subsequent to this but before inspection in March 1984, furniture valued Rs. 2.67 lakhs was purchased. There were thus divergencies between the two inspection reports of the Corporation. Based on the assessed cost of Rs. 32.44 lakhs, a subsidy of Rs. 5.14 lakhs was sanctioned (October 1983 and March 1984) and an amount of Rs. 4.81 lakhs was finally disbursed

(December 1983 and June 1984) based on the assets created. In the meanwhile, the DIC, Puri intimated (March 1984) the Corporation the actual cost of the hotel as Rs. 22.94 lakhs and requested for sanction of the subsidy. According to this valuation, the subsidy admissible was only Rs. 3.44 lakhs. Though the difference between the two valuations involved extra payment of Rs. 1.31 lakhs towards the subsidy, neither the divergencies between the two inspection reports of the Corporation nor the variance of the Corporation's valuation with that of the DIC were investigated by the Corporation (October 1975).

(*iv*) As per State Investment subsidy rules, in the case of lease hold land /building, the premium paid to the lessor would be eligible for subsidy. Of the 37 hotels at Bhubaneswar for which loans were sanctioned up to 1984-85 by the Corporation, 25 hotels were loacated in the land leased out by the State Government for a period of 90 to 95 years. In these cases instead of assessing the premium as capital cost the Corporation valued the land at higher rates and allowed loan as well as subsidy. In the case of Hotel 'HA' of Bhubaneswar, the loanee paid the premium of Rs. 1,000 for 4,800 sft., of plot area at the rate of Rs. 0.10 lakh per acre to Government. In the project appraisal report the Corporation valued the land at Rs. 0.42 lakh resulting in excess payment of subsidy by Rs. 0.06 lakh. For want of lease deeds the excess loan and subsidy allowed in other cases could not be assessed.

(*v*) As per the rules of the State Investment subsidy scheme, the actual price paid for the land including development to the extent needed for the purpose of industrial unit as assessed by any financing institution or by the District Industries

Cente will be taken into account for assessing the subsidy. If the land is ancestral, the title of which is represented by sale deed or other title deed which are pretty old, the market value was assessed by the financing institution while appraising any loan proposal of the industrial concern will be taken into account. In other cases, the value of the land for purpose of subsidy shall be as per the sale deed of not more than 2 years old. This would indicate that the land value once finalised would be absolute. However in the case of the hotel 'SN' at Puri, land valued Rs. 3.70 lakhs in the original pre-sanction appraisal report was revised to Rs. 5.00 lakhs resulting in excess payment of Rs. 0.19 lakh towards the subsidy.

9.6.1.3. *Repayment of loans*

Out of the amount of Rs. 16·52 crores disbursed to the end of March 1985 to 159 loanees, Rs. 15·92 crores were outstanding against 153 loanees. No record was maintained separately indicating the overdue instalments of principal and interest. Few cases of loanees against whom overdues of principal and interest were outstanding are discussed below, apart from the cases discussed in paragarph 9.6.1·1 *supra*.

(*i*) The Corporation disbursed loans of Rs. 12·10 lakhs for a hotel 'K' of Barbil between July 1979 and September 1981. The loans carrying interest at 14½% *per cent* per annum (Rs. 8·30 lakhs) and 15½% *per cent* per annuam (Rs. 3·80 lakhs) were repayable in 16 half-yearly instalments commencing from 3rd January 1982 (former) and in 17 half-yearly instalments commencing from 25th September 1982 (latter). Excepting a payment of Rs. 0·30 lakh in March 1980 towards interest, no repayment was made by the loanee. In March 1983, when the hotel was

seized for overdues, the loanee approached the High Court for an interim direction. In terms of the Court's orders (March and April 1983) an amount of Rs. 0·03 lakh was paid (March 1983) by the loanee, the balance due was re-scheduled (April 1983) for payment in 120 monthly instalments and in case of default of any two consecutive instalments, the Corporation was free to proceed according to law. Even after the rephasement, no payment had been made and at the end of June 1985, an amount of Rs. 3·38 lakhs was overdue towards principal (Rs. 2·60 lakhs) and interest (Rs. 0·78 lakh). No action was taken by the Corporation for the default (December 1985).

(*ii*) The Corporation sanctioned (May 1982) a term loan of Rs. 19 lakhs to a sole proprietary concern for construction of a hotel 'KM' at Cuttack at an estimated cost of Rs. 28·26 lakhs. The sanction was subject to conversion of the proprietary concern into a company. Since it was not so converted, the sanction was limited to Rs. 10·00 lakhs and an amount of Rs. 8·44 lakhs was disbursed to the loanee in August 1983 and January 1984. Thereafter, the party did not come forward to avail of the balance loan. The letter sent (August 1984) by the Corporation demanding the loanee to avail of the full term loan and complete the construction quickly was returned back as the addressee was not found. The Deputy General Manager (follow-up) who was directed (August 1984) to inspect the building, did not submit his report so far (December 1985) and it was not known whether or not the hotel had come up. After a lapse of one year, the balance loan was cancelled in July 1985. The reasons for not calling back the loan as required by the rules of the corporation were not on record. "However, in response to a notice (September 1985) from the Corporation for settlement of the over-dues, the loanee paid Rs. 1·00 lakh towards interest in

November 1985. The default at the end of December 1985 was Rs. 2·23 lakhs towards principal (Rs. 1·43 lakhs) and interest (Rs. 0·80 lakh)".

(*iii*) There were 3 hotel projects, 2 at Cuttack and 1 at Bhubaneswar, for which the Corporation sanctioned (June 1981, October 1982 and May 1983) loans amounting to Rs. 24·18 lakhs and after drawing the first instalment, in all cases, of Rs. 5·60 lakhs (April, June and September 1983), the parties did not turn up for availing the balance loans. The projects did not come up. The Corporation did not recall the loans. An amount of Rs. 1·05 lakhs was due to end of June 1985 towards interest. No action was taken by the Corporation to realise the loans (August 1985).

9.6.1.4. *Joint financing*

Under Section 26 of the State Financial Corporations Act, 1951, financial assistance to an industrial concern shall not exceed Rs. 30 lakhs and therefore, it is not possible for the Corporation to meet the entire loan requirements of medium-scale industrial units. To obviate this difficulty, the Corporation evolved (August 1976) a scheme of financing jointly with the Industrial Promotion and Investment Corporation of Orissa Limited (IPICOL). Twenty two of the 159 hotel units financed up to 1984-85 were covered by the joint financing scheme the details of which as on 31st March 1985 are given below:

Place	Number of Hotels	Estimated project cost	Sanction by		Disbursement by	
			Corporation	IPICOL	Corporation	IPICOL
			(Rupees in lakhs)			
Bhubaneswar	12	10,50.05	2,10.45	2,96.80	2,10.35	1,61.74
Cuttack	3	2,01.60	68.65	56.45	68.03	49.49
Puri	5	7,26.60	97.75	2,53.60	65.14	1,44.70
Paradeep	2	1,36.14	35.50	48.40	25.80	16.40
		21,14.39	4,12.35	6,55.25	3,69.32	3,72.33

Points noticed in the test check of some of these institutions are discussed below:

A partnership firm approached the Corporation for financial assistance for construction of a hotel 'P' at Bhubaneswar at an estimated cost of Rs. 17·57 lakhs on a land admeasuring 3,240sft. duly enclosing approval (September 1981) of the Director of Town Planning. The approval imposed certain conditions like (i) the proposed hotel should be without any star classification, (ii) parking area should be provided as per zoning regulations and (iii) the proposed building should be limited to three storeys keeping in view the close proximity to the railway line which would cause vibration. The Corporation sanctioned a term loan of Rs. 11·75 lakhs in December 1981. The estimate was revised in March 1982 (Rs. 29·95 lakhs) and September 1982 (Rs. 39·98 lakhs) due to increase in construction area and provision of additional facilities. The estimate was again revised in March 1983 to Rs. 55·77 lakhs mainly to provide three-star facilities. According to the estimate of March 1983, proposed construction was in four storeys each of 3,240 sft. and the ground floor was to have kitchen room covering an additional area of 600 sft. Thus, the proposed construction was in 3,840 sft. in the ground floor while the plot itself was of 3,240 sft. Thereupon the Corporation sanctioned an additional term loan of Rs. 17·69 lakhs. IPICOL had also sanctioned a term loan of Rs. 8·00 lakhs. The sanction of the assistance by the Corporation violating the conditions imposed by the Director of Town Planning regarding provision of star facilities, parking facilities and limitation to three storeyed construction was not in order. Out of Rs. 23·84 lakhs disbursed as loan by the Corporation, an amount of Rs. 8·84 lakhs was overdue towards principal (Rs. 3·15 lakhs) and interest (Rs. 5·69 lakhs) for the recovery of which the Corporation was yet to initiate action (September 1985).

9.6.2. *Food industry*

The Corporation has been sanctioning financial assistance to food manufacturing industries. Twenty four industries have been included under this category. The Corporation's investment was substantial in cold storage plants, solvent extraction plants and oil mills, sugar mills, rice mills, sea fish processing units, ice and ice candy units.

9.6.2.1. *Sanctions and disbursements*

The following table indicates the loans sanctioned and disbursed to food industries during the three years up to 1984-85.

	Loans sanctioned		Loans disbursed	
	Number	Amount (Rupees in lakhs)	Number	Amount (Rupees in lakhs)
Upto 1981-82	3,197	24,30,57	1,323	15,13,69
1982-83	428	5,08,34	159	3,12,07
1983-84	238	4,59,07	130	2,92,29
1984-85	256	3, 57.69	95	2,70,54
	4,119	37,55,67	1,707	23,88,59

As against an amount of Rs. 23,88.59 lakhs disbursed (1,707 loanees) as loans up to March 1985, a sum of Rs. 17,29.72 lakhs was outstanding (1,700 loanees) as on 31st March 1985. No record was maintained indicating separately the total amount of overdue instalments of principal as well as interest.

Certain points noticed during review of cases of individual loans are discussed in the succeeding paragraphs :

(*i*) *Cold storage plants*

Since inception to the end of 1984-85, the Corporation sanctioned loans amounting to Rs. 3,56.29 lakhs to 31 cold storage units of which Rs. 2,14.17 lakhs were disbursed to 29 units. Nineteen of them were commissioned from time to time up to 1984-85. Twenty of the 29 units were located in Cuttack and Puri districts from whom Rs. 1,07.34 lakhs were overdue (March 1985) towards principal (Rs. 40.29 lakhs) and interest (Rs. 67.05 lakhs). Few of these cases are discussed in the succeeding paragraphs.

(*a*) *Cold Storage plant at Raghunathpur*

For setting up of a cold storage plant of 1,000 tonnes capacity at Raghunathpur in Cuttack district, the Corporation sanctioned loans of Rs. 8.22 lakhs between November 1974 and June 1978 under the refinance scheme of Industrial Development Bank of India and the entire amount was disbursed between November 1975 and July 1978. The unit started commercial operations in March 1978. During the 3 years up to the end of 1980, the capacity utilisation ranged between 12 and 44 *per cent* only. To improve the plant utilisation, a generator and an ice plant were required for which additional loan of Rs. 7.12 lakhs was sanctioned (February 1981) subject to sanction of refinance by IDBI but it was disbursed (March 1981 to March 1984) without obtaining the sanction of IDBI, which has rejected (February 1983) observing that the *net* worth as on 31st March 1982 was negative (loss of Rs. 9.22 lakhs against the equity base of Rs. 1.05 lakhs) which was due to utilisation of long-term funds for financing cash losses. Even after the provision of the additional equipment, there was no improvement in the position and the unit became sick. As at the end of March 1985, Rs. 13.86 lakhs were overdue towards principal (Rs. 1.91 lakhs) and interest (Rs. 11.95 lakhs) for the recovery of which no efforts were made by the Corporation (December 1985).

(*b*) A cold storage plant at Pipili, Puri district, assisted by the Corporation (August 1961 to February 1964) by way of loan of Rs. 3.10 lakhs, after running for 3 years, was closed in the year 1966 for want of working capital. Without assessing the economic viability of the unit, the Corporation extended additional loan assistance of Rs. 3.62 lakhs between January 1975 and December 1978 for its revival and working capital at the instance of the Unit (December 1972). In spite of this, the unit could not run and became sick. According to the State Level Committee which considered (February and November 1983) the question of revival of the unit, storage of vegetables or running an ice plant at Pipili was not feasible. Efforts of the Corporation (March 1984) for disposal of the unit did not materialise as no party came forward for adequate consideration. As at the end of August 1985 an amount of Rs. 20.52 lakhs was overdue from the unit towards principal (Rs. 6.72 lakhs) and interest (Rs. 13.80 lakhs) for the recovery of which the Corporation was yet to make efforts (December 1985).

(c) Cold storage plant at Hinjlicut

The Corporation sanctioned (November 1974) a loan of Rs. 2·80 lakhs to an entrepreneur for setting up of a cold storage plant at Hinjlicut, Ganjam district and the entrepreneur did not turn up after drawing an instalment of Rs. 0·79 lakh in the year 1976. As per the procedure of the Corporation, in case of no progress in execution of the project within

one year from the drawal of last instalment, the loan was to be recalled fully and in the event of non-payment, the property was to be seized by the Corporation. The loan was not recalled as stipulated. However, the unit was seized only in April 1979, under Section 29 of the State Financial Corporation's Act, 1951 because of the outstanding loan. An amount of Rs. 1·81 lakhs was overdue (June 1985) towards principal (Rs 0·79 lakh) and interest (Rs. 1·20 lakhs). The seized unit was yet to be disposed of (December 1985).

9.6.2.2. *Solvent extraction plants*

Between November 1972 and March 1985, the Corporation extended loan assistance of Rs. 98·69 lakhs to five solvent extraction plants. An amount of Rs. 47·49 lakhs was overdue from these units towards principal (Rs. 26·05 lakhs) and interest (Rs. 21·44 lakhs) as at the end of March 1985. Three of these became sick as discussed in the succeeding paragraphs.

(*i*) A solvent extraction plant to extract *sal* seed oil was put up at Ambaguda, Koraput district by 5 promoters in August 1982 with loan assistance from the Corporation (Rs. 14·00 lakhs) and IPICOL (Rs. 60·00 lakhs) apart from Central investment subsidy (Rs. 13·00 lakhs) and equity participation by IPICOL (Rs. 1·00 lakh). The unit was run for 2 years and due to losses (Rs. 78·79 lakhs) it was closed in June 1984. According to the unit (November 1984), the adverse situation was mainly due to high cost of inputs, marketing problems due to location of the plant in remote area and slump in *sal* seed oil market. The promoters were found (August 1985) by the Corporation not interested in running the unit. An amount of Rs. 40·07 lakhs was over due to the Corporation (Rs. 6·29 lakhs) and IPICOL (Rs. 33·78 lakhs) as on 31st March 1985.

The Corporation decided (December 1985) to seize the unit under Section 29 of the Act. Further developments were awaited (December 1985).

(*ii*) A company set up a solvent extraction-*cum*-refinery at Dungiripalli, Balangir district in January 1981 with financial assistance from the Corporation (loan of Rs. 28·00 lakhs) and IPICOL (loan: Rs. 47·82 lakhs and equity: Rs. 4·00 lakhs). After running for 2 years, the unit was closed in November 1982 due to financial crisis. The plant was leased by the Corporation to a private party in November 1983 for a period of 13 months, the consideration being licence fee of Rs. 29·25 lakhs payable to the Corporation in fixed monthly instalments. The lessee operated the plant up to 25th March 1984, when the Corporation seized the plant in view of the lessee's default in payment of the licence fee (Rs. 7·45 lakhs).

The Corporation was initiating steps to sell the plant or alternatively to persuade the first owner to take back the plant. Meanwhile the lessee obtained stay order from the High Court in June 1984 and the case was *sub-judice* (May 1986).

In a joint meeting of the Corporation, IPICOL and the State Bank of India (who financed the working capital of the unit) held in October 1984, revival of the unit was proposed and preparation of a report for the purpose was entrusted to a consultancy firm of Calcutta. The consultants submitted their report in May 1985 according to which the past position was unsatisfactory since the promoter inflated the value of stock with a motive to draw more finance from SBI. It was advised therein that in case firm commitment for supply of crude oil from State Trading Corporation was not possible, the unit

was to be disposed of and that for its survival defaulted interest amounting to Rs. 53·44 lakhs was to be frozen. Final decision on the consultant's report was awaited (December 1985).

(*iii*) A solvent extraction plant was established (November 1973) at Bhadrak with financial assistance from Government (equity participation: Rs. 4·75 lakhs) and the Corporation (loan: Rs. 4·00 lakhs). The Corporation also stood guarantee for Rs. 14·00 lakhs and interest thereon payable to suppliers of machinery of the unit. As the unit failed to pay instalments payable to its machinery suppliers, the Corporation had paid (March 1973 and April 1974) Rs. 21·19 lakhs on behalf of the unit. The unit started commercial production in January 1974. It was intermittantly operated up to July 1975 and was finally closed in October 1975. During the period of $1\frac{1}{2}$ years of operation, the unit sustained a loss of Rs. 36·81 lakhs as against the paid-up capital of Rs. 13·57 lakhs. According to the United Bank of India (May 1975) which finaced the working capital loan, the main draw back in operation of the unit was that a sole agent appointed by the unit had over-quoted for supply of raw-materials and underquoted sale of finished products. The Corporation's efforts (November 1977 to December 1978) to lease/sell out the units did not prove fruitful due to disagreement by the promoters and injunction orders obtained by the sole agent for his dues. On the advice of Government (February 1979), the unit was revived by the Corporation (September 1981 to February 1983), at a cost of Rs. 10·50 lakhs. During 1983-84, the units' operations resulted in a loss of Rs. 16.01 lakhs the cumulative loss being Rs. 52·87 lakhs and there upon its operations were stopped from March 1985. An amount of Rs. 37·92 lakhs was over-due to the

Corporation towards principal (Rs. 29·96 lakhs) and interest (Rs. 7·95 lakhs) for the recovery of which the Corporation was yet to initiate action (December 1985).

9.6.2.3. *Co-operative sector*

As per the decision of Government in the year 1962, the industrial development of the State was scheduled to be undertaken through co-operative sector. Accordingly, the Corporation being the term loan lending institution took (1962) initiative in implementing the industrial policy of Government by providing term loan to co-operative sector for acquisition of block assets. Most of the loans availed of by the co-operative units were covered by Government guarantee for payment of principal and interest thereon.

Under food industry, loans were availed of by the co-operative units for the purpose of starting rice mills, sugar mills and cold storage plants. The position regarding default in payment of loans as on 31st March 1985 is given below :

Particulars	Number of Units	Term loans sanctioned	Term loans disbursed	Default	
				Principal	Interest
			(Rupees in lakhs)		
Co-operative Cold storage Plants	7	17·54	17·54	11.43	15.09
Co-operative Sugar Mills	11	28·72	28·42	8·61	11.26
Co-operative Rice Mills ..	14	13.99	13·86	7.29	6·43
	32	60.25	59·82	27·33	32·78

A review in the working of these units in audit revealed the following points :

(*i*) Out of 7 cold storage plants financed by the Corporation, two units which were in default (March 1985) of payment of an amount of Rs. 14.96

lakhs towards entire principal (Rs. 6.71 lakhs) and interest (Rs. 8.25 lakhs) were sick. One unit though running, was reluctant to pay the defaulted amount of complete principal (Rs. 1.90 lakhs) and interest (Rs. 3.45 lakhs). Another unit was closed since 1975 against whom default was Rs. 4.90 lakhs towards principal (Rs. 1.58 lakhs) and interest (Rs. 3.82 lakhs). The other units were working.

(*ii*) Of the 11 sugar mills financed, 8 sugar mills were sick/under liquidation. The overdue amount in respect of these units as on March 1985 was Rs. 12.65 lakhs towards principal (Rs. 5.42 lakhs) and interest (Rs. 7.23 lakhs).

(*iii*) Of the 14 rice mills financed, two rice mills became sick against whom default in payment of dues as on March 1985 was Rs. 4.41 lakhs towards principal (Rs. 1.59 lakhs) and interest (Rs. 2.82 lakhs). Three units were chronic defaulters though working well, against whom default as on March 1985 was Rs. 4.75 lakhs towards principal (Rs. 2.71 lakhs) and interest (Rs. 2.04 lakhs). In the case of another unit, according to the Corporation, there was no possibility of recovery of the defaulted amount of Rs. 2.28 lakhs.

Since the overdue position from the co-operative industrial units was alarming, the Corporation requested (May 1985) the Industries Department and Agriculture and Co-operation Department to consider discharge of guarantee liability. Reply from Government was awaited (December 1985).

9.6.2.4. *Processing of sea foods*

A company floated by a non-resident Indian had established a plant at Paradeep for procurement, processing and marketing of prawn and shrimp, with financial assistance from the Corporation (Rs. 12.52 lakhs as loan), IPICOL (Rs. 0.66 lakh as equity and Rs. 11.34 lakhs as loan) and IDBI (Rs. 3.14 lakhs as seed capital loan). Commercial production commenced in August 1980 was continued up to February 1981 and in March 1981 the officials of unit intimated IPICOL that the promoter left the country finally without handing over the accounts. To keep the unit running, the Corporation and IPICOL managed the operations of the unit between April 1982 and January 1983 and as the surplus available was insufficient to pay back overdue interest, the Corporation seized (February 1983) the unit under Section 29 of SFCs. Act, 1951. In July 1983, a party negotiated with IPICOL and offered a sum of Rs. 52.00 lakhs to take-over the unit with the terms of down payment of Rs. 6.00 lakhs and the balance repayable in 12 years (Rs. 34.00 lakhs with interest at 12.5 *per cent* and the balance of Rs. 12.00 lakhs without interest). This fact was informed by the IPICOL to the Corporation in October 1983. Subsequently the party revised (January 1984) the offer to the effect that he would accept Corporation's valuation of the unit, down-payment would be Rs. 5.00 lakhs and balance would be ,paid in 12 years with interest at 12 *per cent*. These offers were not considered by the Corporation, for reasons not on record and in March 1984, open tenders were invited for the disposal of the unit. In responce, 3 offers were received and that of the above party was the highest which was for Rs. 32.00 lakhs. Before a final decision on the tenders was taken, the Sea Food Association of the State intimated (April 1984) Government and the Corporation that the land on which the factory was constructed would cost not less than Rs. 74.00 lakhs and that they were willing to purchase the unit by September

1984. However, in May 1984, the unit was sold to the highest offerer for Rs. 34.00 lakhs (negotiated), the terms of payment being Rs. 2.00 lakhs by down-payment and the balance was repayable in 10 years with interest at 13 *per cent*. The sale value covered the interests of the Coporation and IPICOL being the parties having first charge but not the interest of the State Bank of India (holder of second charge) who had financed the working capital and to whom an amount of Rs. 26.16 lakhs was due by the unit. The purchaser of the unit defaulted payment of Rs. 5.60 lakhs (including the down-payment).

(*ii*) Sea food processing plant of a company set up in the year 1977 with the Corporation's loan assistance of Rs. 15.60 lakhs defaulted in payment of over-due amount of Rs. 9.55 lakhs towards principal (Rs. 5.37 lakhs) and interest (Rs. 4.18 lakhs) and therefore, the Corporation seized (July 1982) the unit, and leased it out to a party 's' in July 1982 for a licence fee at Rs. 2.50 per kg. of prawn processed subject to a minimum of Rs. 0.30 lakh per month. The lessee floated a company for the purpose. The Corporation also guaranteed packing credit loan up to a limit of Rs. 25.00 lakhs obtained by the lessee from a bank. The guarantee was given on the security of immovable property of one of the directors of the lessee company The lessee operated the unit up to December 1982 and in March 1983, it was closed down due to strike by its workers. For the lease period, licence fee of Rs. 2.40 lakhs was payable by the lessee but only Rs. 0.25 lakh were paid leaving a balance of Rs. 2.15 lakhs as outstanding (August 1985). The Managing Director of the former company filed (March 1983) a writ petition in the High Court praying for restoration of the unit to it. In terms of the orders (December 1984) of the High Court, (*i*) the unit was to be handed over to the company, (*ii*) the company was to pay Rs. 5.00 lakhs (including Rs. 1.20 lakhs towards electricity charges prior to seizure of the unit) alongwith the outstandings of the loan and interest, (*iii*) the outstanding dues were payable by the company at the rate of Rs. 1.50 lakhs per quarter Commencing from May 1985 and (*iv*) the Corporation was to pay energy charges from the date of take-over to the end of December 1984. The unit was handed over by the Corporation to the Company (December 1984). Even at the end of August 1985, the Corporation had not received any payment excepting Rs. 0.15 lakh in May 1985 from the company against which Rs. 20.66 lakhs were outstanding towards principal (Rs. 10.76 lakhs), interest (Rs. 6.92 lakhs) and other expenses (Rs. 2.98 lakhs).

The Corporation paid Rs. 3.72 lakhs (December 1984/ January 1985) towards energy charges from the date of take-over to the date of handing over, of which Rs. 1.28 lakhs were recoverable from the lessee during the period of the lease, for the recovery of which no action was taken by the Corporation.

The bank to whom the Corporation stood guarantee for payment of packing credit to 'S' had, in view of the default in payment of principal and interest amounting to Rs. 4·35 lakhs up to July 1984, called upon the corporation to make payment in July 1984 in discharge of the guarantee. The matter was not pursued further till November 1985, when a notice was issued to the director (Surety) of the lessee company to reimburse Rs. 5·13 lakhs paid by it to the bank in September 1985 on invocation of the guarantee. Further developments were awaited (December 1985).

9.6.2.5. *Cashew nut processing unit*

The Corporation invested on 12 cashew nut processing units in Berhampur (4 units) Cuttack (7 units) and Bhubaneswar (one unit) an amount of Rs. 6·99 lakhs during July 1978 to April 1985 against sanction of Rs. 16·31 lakhs. Except in one case where the repayment was not due, all the loanees defaulted in repayment of principal (Rs. 3·46 lakhs) and payment of interest (Rs. 2·14 lakhs) amounting to Rs. 5·60 lakhs. The total outstanding up to June 1985 was Rs. 6·98 lakhs.

In respect of the following cases the parties did not turn up for further disbursement even after lapse of more than ony year.

Party	Sanction	Total disbursement	Month of last disbursement
	(Rupees in lakhs)		
'C'	1.33	0.02	March 1682
'E'	1.44	0.37	June 1983
'E''	1.96	0.13	October 1983
'G'	1.93	1.36	June 1983
'J'	1.79	0.82	July 1983
'R'	1.35	0.17	May 1984
	9.80	2.87	

The Corporation neither recalled the loan nor cancelled the sanctions (December 1985).

9.6.2.6. *Biscuit company*

The Corporation had sanctioned (June 1981) an amount of Rs. 26·23 lakhs towards term loan (Rs. 24·23 lakhs) and soft loan (Rs. 2·00 lakhs) to a biscuit manufacturing unit at Baripada. The estimated cost of the project was Rs. 34·30 lakhs and the balance amount was to be met from Central subsidy (Rs. 4·57 lakhs) and party's contribution (Rs. 3·50 lakhs). As per the terms of the sanction, disbursement of loan was to be made after firm arrangement of loan for power supply with the Electricity Board since the line was to be laid from the nearest sub-station located at 4·5 kms. from the factory. However, an amount of Rs. 24·04 lakhs was disbursed up to August 1985 to the loanee towards term loan (Rs. 22·52 lakhs) and soft loan (Rs. 1·52 lakhs) though arrangement for power supply was yet to be made (September 1985).

As per the inspection note (January 1984) of the Corporation's officials, the machineries purchased (January/May 1983) at a cost of Rs. 18·25 lakhs from a Delhi firm were lying in the factory site in dismantled and unpacked condition. The machines were yet to be commissioned (August 1985). Thus the unit which was scheduled to start commercial production in June 1982 had not yet started production (August 1985) though the Corporation had made investment of Rs. 24·04 lakhs.

As at the end of December 1985, the loanee defaulted payment of Rs. 14·32 lakhs towards principal (Rs. 8·08 lakhs) and interest (Rs. 6·24 lakhs).

9.6.3. *Sick units*

Though the Corporation's procedures contemplated post-sanction inspections periodically to ensure that the units were functioning satisfactorily,

identification of sick units, if any was not done till 1984-85 when only the Corporation identified, on a randum basis, 748 sick units of which 183 were of food manufacturing industry. To these identified sick units, an amount of Rs. 1,08·19 lakhs was disbursed. The amount in default was Rs. 100·36 lakhs towards principal (Rs. 53·34 lakhs) and interest (Rs. 47·02 lakhs).

In this connection, the following points were noticed:

(*i*) Maximum number of sick units were under the ice candy sector which was basically a seasonal industry. All the 51 ice candy units where the Corporation invested Rs. 30·86 lakhs had been closed down due to lack of demand, poor quality of the product, inferior machinery and bad management. As on March 1985 an amount of Rs. 29·09 lakhs was in default from these 51 closed down ice candy unit towards principal (Rs. 14·53 lakhs) and interest (Rs. 14·56 lakhs). The studies made (August 1985) by Puri branch in respect of 4 ice candy units revealed that all the four ice candy units were closed down during 1982 to 1984 mainly for want of a demand, poor quality of machinery resulting in excess repairs and inadequate working capital. To these four units an amount of Rs. 2·59 lakhs was disbursed between February 1980 and June 1982. As on June 1985, an amount of Rs. 1·92 lakhs was in default towards principal (Rs. 1·20 lakhs) and interest (Rs. 0·72 lakhs). The Corporation had yet to take initiative for recovery of the loans (August 1985).

(*ii*) The Barnch Manager, Puri sanctioned two term loans amounting to Rs. 1,00,200 in February 1981 (Rs. 70,200) and in June 1982 (Rs. 30,000) to a loanee though she had no business experience according to pre-sanction appraisal of the Corporation for construction of ice and ice candy factory at Khandapada. An amount of Rs. 88,280 was disbursed between May 1981 and September 1982 in six instalments without inspection of the progress of work. Since the loanee defaulted (December 1983) payment of interest (Rs. 29,910) and principal (Rs. 21,060) the unit was seized (March 1984) under Section 29 of State Financial Corporation's Act, 1951.

After seizing, the unit was disposed of (December 1984) to a party of Talcher for Rs. 9,000 of which Rs. 3,000 were received as down payment and the balance amount was debited to his account who was also a loanee of the Corporation. On this account, the Corporation sustained a loss of Rs. 1·09 lakhs. The Corporation was yet to take action for recovery of the amount due from the loanee (August 1985).

(*iii*) To a bakery unit at Sakhigopal a term loan of Rs. 0·69 lakh was sanctioned (November 1981) and an amount of Rs. 0·56 lakh disbursed up to July 1983. Till now (September 1985) the unit had not come up for operation. In this connection the Puri Branch Manager observed (August 1985) that the chimney of the unit was blown off due to cyclone in 1983 which was not yet repaired and the party was not sincere and interested to implement the scheme.

(*iv*) A term loan of Rs. 1·29 lakhs was sanctioned and Rs. 1·12 lakhs disbursed up to February 1982 to a rice mill at Raichakradharpur. The unit had facility to process paddy, wheat and oil seeds. Within a few months of its operation, the unit became (March 1983) sick since three more rice mills with the Corporation's financial assistance came around the

existing unit. As at the end of June 1985, an amount of Rs. 1·22 lakhs was over-due towards principal (Rs. 0·63 lakh) and interest (Rs. 0·59 lakh). Action was yet to be initiated for recovery of the amount (December 1985).

(*v*) The Branch Manager, Puri sanctioned two term loans amounting to Rs. 0·65 lakh in August 1972 and May 1976 for an oil unit at Bhubaneswar which was to be run by a sole proprietor. An amount of Rs. 0·63 lakh was disbursed between August 1975 and September 1976. Of the first loan of Rs. 0·57 lakh, an amount of Rs. 0·21 lakh was for construction of building and the balance was for purchase of machinery. When follow-up inspection was made in May 1979, it was found that the loanee sold the machineries acquired from the Corporation loan and therefore, a report was lodged (May 1979) with the Police. As on 31st July 1984, the loanee defaulted in payment of an amount of Rs. 1·73 lakhs towards principal (Rs. 0·63 lakh) and interest (Rs. 1·10 lakhs). In spite of repeated requests (February 1984 to August 1984) the loanee did not attend the Corporation's office. Therefore, the unit was seized (July 1984) under section 29 of the SFC Act, 1951. Only iron trusses in a damaged condition were available in the unit which were sold for Rs. 1,500. The building valued Rs. 21,000 was yet to be disposed. On this deal, the Corporation sustained a loss of Rs. 1·51 lakhs assuming that, the disposal of the building would fetch a value of Rs. 21,000. The Corporation was yet to take action against the loanee to recover the balance amount (December 1985).

9.6.4. *Subsidy*

The Corporation acts as an agent for disbursement of both Central and State subsidies. The table below inidcates the sanction and disbursement of both Central and State subsidies to food industry during the last four years up to 1984-85:

Year	Central investment subsidy		State investment subsidy	
	Sanction	Disbursement	Sanction	Disbursement
		(Rupees in lakhs)		
1981-82	4.78	19.27*	22.24	25.81*
1982-83	7.95	3.71	20.96	5.72
1983-84	10.90	8.11	21.30	17.15
1984-85	18.85	18.71	19.81	20.71

In connection with sanction and disbursement of subsidy the following points were noticed:

(*i*) Paragraph 7·1 (b) of the Central Investment Subsidy manual stipulates that industrial units in receipt of subsidy would be required to refund the subsidy money in case of closure of operations within a period of five years from the date of commencement of production. But it is seen that a vegetable and a chemical and industrial unit at Dungripali commissioned their solvent extraction plant in January 1981 and oil refinery plant in January 1982 Due to financial crisis, the plant was closed down in November 1982. To this unit an amount of Rs. 14·32 lakhs was sanctined between November 1979 and March 1982 as subsidy and disbursed the entire subsidy sanctioned between November 1979 and March 1982. The Corporation had not called upon the loanees to refund subsidy, for reasons not on record (December 1985).

*Excess disbursement of subsidy over the sanctioned amount was due to disbursement of subsidy sanctioned in earlier years and sanction of loans in lieu of subsidy

(*ii*) The Corporation had valued (January 1982) the assets of a flour mill at Cuttack at Rs. 31·11 lakhs. The loanee furnished (June 1985) a certificate statement of further assets valued Rs. 6·92 lakhs acquired, total assets being Rs. 38·03 lakhs the subsidy on which at 15 *per cent* works out Rs. 5·70 lakhs; whereas an amount of Rs. 5·89 lakhs, was sanctioned and disbursed between August 1981 and June 1982. This had resulted in an excess disbursement of subsidy amounting to Rs. 0·19 lakh.

(*iii*) For determining the quantum of subsidy, value of factory buildings was to be as assessed by any financing institution or District Industry Centre as per the rules of the subsidy scheme. The Corporation estimates a standard rate per sft. of construction for evaluating buildings from time to time taking cost of inputs into account. It was seen in audit that valuation of the building works already completed and valued at the standard rates applicable on the date of valuation was subsequently revised at the standard rates applicable on the date of revision. Application of the standard rates retrospectively in respect of works already completed and evaluated was not in order. A few such instances are discussed below:

(*a*) In the case of a cold storage plant at Kendrapara, as per the valuation report (August 1982), the factory building in a plinth area of 10201 sft. (rate per sq. ft. as per estimate being Rs. 90) was completed and full rate of Rs. 90 per sft. was allowed. In a subsequent valuation report (October 1982) the entire factory building was valued at a higher rate of Rs. 110 per sft. This had resulted in overvaluation of factory building by Rs. 2·04 lakhs and excess disbursement of subsidy at 15 *per cent* on this amount worked out to Rs. 0·31 lakh.

(*b*) In the case of another processing unit at Dhenkanal also higher rates were made applicable in respect of works executed under pre-revised rates the details of which are given below:

Item of work	Plinth area involved	Original rate	Rate allowed for work done before revision	Percentage of work done before revision	Rate allowed	Excess amount allowed
		(Rupees)				(Rupees)
Factory building	7124 sft.	35/sft.	25/sft.	71	50/sft.	71,240
Drying yard ..	1000 sft.	21/sft.	21/sft.	100	31/sft.	10,000
Office building	1012 sft.	31/sft.	20/sft.	68	60/sft.	21,048
Stores ..	7788 sft.	31/sft.	10/sft.	34	42/sft.	26,472
..	2200 sft.	31/sft.	20/sft.	68	..	11,552
Compound wall.	1600 Rft.	10/Rft.	10/Rft.	100	20/Rft.	16,000
Well ..	lumpsum	5,000	5,000	100	12,000	7,000
Land ..	..	15,000	15,000	100	25,000	10,000
						1,73,312

The excess valuation of assets resulted in excess payment of subsidy at 15 *per cent* was Rs. 0.26 lakh.

SECTION X

OTHER TOPICS OF INTEREST ORISSA STATE ELECTRICITY BOARD

10.1. Non-levy of delayed payment surcharge

Mention was made in paragraph no. 7.7 of the Report of the Comptroller and Auditor General of India for the year 1981-82 (Commercial) about the dispute with a firm 'I' regarding delayed payment of surcharge and electricity charges due to the Board.

Government while forwarding the recommendation of the Cabinet sub-committee advised the Board (May 1982) to levy 2 *per cent* monthly surcharge on the accumulated amount of Rs. 337.04 lakhs. This was also in tune with the general tariff applicable to all large industrial consumers. But the agreement with this consumer signed in December 1982 providing for the recovery of Rs. 377.04 lakhs in 20 quarterly instalments as per the said Government decision, did not incorporate any such enabling provision to levy monthly surcharge at 2 *per cent*.

Exclusion of levy of surcharge at 2 *per cent* per month on the accumulated arrears resulted in loss of revenue to the tune of Rs. 198.18 lakhs computed at 2 *per cent* per month on the balance outstanding at the end of each month from December 1982 to November 1987. Besides, this has resulted in extension of undue benefit to the consumer.

The matter was reported to the Board/Government in October 1985; their repilies were awaited (October 1985).

10.2. Non-reimbursement of freight charges

The Board had been availing, since April 1979, the offer of Steel Authority of India Limited (SAIL) for supply of imported steel at prices inclusive of transportion from the port of discharge to the destination or nearest stock yard of SAIL whichever was shorter. In terms of the offer, the Board was required to take delivery of the steel at the port of discharge, transport to its destination incurring freight charges and claim reimbursement of the freight charges from SAIL within 3 months from the date of delivery at the port of discharge, supported by the photo copies of the railway receipts and original money receipts. A scrutiny in audit (June/July 1985) of the records of the Stores Division at Cuttack, Berhampur and Burla, revealed that during the period from April 1979 to July 1984, a quantity of 14,100 tonnes of steel was transported by the Board under this arrangement, incurring freight charges of Rs. 31.89 lakhs, of which an amount of Rs. 1.29 lakhs only was got reimbursed (July and November 1983) by the Division at Berhampur leaving a balance of Rs. 30.60 lakhs. This comprises of claims amounting to Rs. 10.34 lakhs relating to the period from July 1981 to July 1982 and February 1983 to June 1984 rejected by SAIL due to non-production of copies of railway receipts; belated claims amounting to Rs. 11.39 lakhs relating to the period from June 1981 to April 1983 and May 1984 to October 1984 preferred only in April 1985, long after the prescribed period of three months for which the response of SAIL was awaited (July 1985); and claims amounting to Rs. 8.87 lakhs relating to the period from April 1979 to April 1983 which are yet to be preferred (July 1985 including Rs. 5.98 lakhs pertaining to Burla division in respect of which original railway receipts had been surrendered to the Railways without keeping copies thereof. The realisation of these amounts is, therefore, uncertain.

It may be mentioned in this connection that there was no feed back in the Board to monitor raising and settlement of such claims and to avoid delays in

preferring the claims. The circumstances leading to the rejection of the claims involving loss to the Board remained to be investigated (July 1985).

The matter was reported to the Board/Government in August 1985; their remarks were awaited (October 1985).

10.3. Non-availment of concession in sales tax

In terms of the certificate of registration (April 1977) by the sales tax authorities in favour of Talcher Thermal Power Station authorities (TTPS) for the purpose of sales tax assessment which was renewed from time to time up to April 1985, the Board was eligible to a concessional rate of sales tax of 4 *per cent* against the normal rate of 13 *per cent* in respect of purchase of fuel for use in generation of electricity. The concession was to be availed of by production of declaration in form-IV and copy of the registration certificate with each purchase. It was noticed in audit (November 1984) that the concession in sales tax was not being availed of by producing form IV. TTPS had been purchasing high speed diesel (HSD) oil from the depot, at Cuttack, of the Indian Oil Corporation Limited without availing the concession in sales tax. When the matter of the concession was taken up, the Depot Manager requested (March 1982) for a copy of the sales tax registration certificate which could not be produced as the original cerficate was then submitted to the sales tax authorities for renewal. No action was, however, taken in the matter for reasons not on record, till May 1985 when the registration certificate was got amended from May 1985 to include therein HSD oil specifically at the instance of the supplier. The Board had thus, forgone the concession in sales tax amounting to Rs. 18.51 lakhs on 7,334 kls. of HSD oil purchased during five years up to 31st March 1985 due to non-production of the required documents.

The matter was reported to the Board/Government in August 1985; their replies were awaited (October 1985).

10.4. Unavailed concessions in sales tax

Under the Orissa Sales Tax Act, 1947 and the rules made thereunder, the Board was entitled to a concessional rate of 4 *per cent* in sales tax on materials purchased for use in generation and distribution of electricity subject to production of certified true copy of the sales tax registration certificate and declaration in form IV at the time of supplies. A test check in audit (July 1985) of the records of the Electrical Stores divisions at Cuttack and Berhampur revealed that the divisions had purchased (May 1980 to September 1984) cement after payment of tax at the normal rate of 8 *per cent* instead of availing the benefit of the concession in sales tax resulting in payment of Rs. 1.61 lakhs in excess due to (*i*) delays ranging from 13 to 25 months in production (July 1984 and April 1985 in respect of supplies made during May to December 1982 and May 1983) of the required documents (amount : Rs.0.61 lakh) and (*ii*) non-production of the documents (amount : Rs.1.00 lakh).

The matter was reported to the Board/Government in September 1985; their remarks were awaited (October 1985).

10.5. Excess payment to a contractor

For transportation of prestressed cement concrete (PSC) poles from the place of manufacture to various places in the State, a contract was awarded (January 1983) by the Superintending

Engineer, Electrical Stores Circle, Cuttack in favour of a manufacturer at Banki of Cuttack district. The contract provided for two alternative rates as detailed below :

(*a*) A uniform rate of Rs.0.82 per tonne/km. towards transportation, loading, unloading and stacking in respect of an destination in the State, and

(*b*) District	Zone	Rate: Transportation charges per tonne/Km.	Rate: Loading charges per tonne	Rate: Unloading and stacking charge per tonne
			(Rupees)	
(*i*) Cuttack, Balasore, Mayurbhanj, Dhonkanal and Bhubaneswar of Puri district		1	0·75	..
	I	0·75	10·00	10·00
(*ii*) Sambalpur, Sundargarh, Keonjhar and Bolangir	II	0·71	8·00	10·00
(*iii*) Puri and Ganjam	III	Nil	Nil	Nil
(*iv*) Koraput, Kalahandi and Phulbani	IV	Nil	Nil	Nil

The contractor was also given a choice of claiming the bills for work done at any of the rates indicated in the above two alternatives. During the period from March 1983 to March 1985, he had transported 4,724 tonnes of PSC poles to various places covered by zones I, III and IV (no work was done in zone II) and claimed the transportation charges from time to time uniformly for all the zones at the rate applicable to zone I and the bills as claimed by him were paid for by the Executive Engineer, Electrical Stores Division, Cuttack in whose jurisdiction the transportation work was done. Since the contract did not provide for any rate under alternative (*b*), for zones III and IV the flat rate of Re. 0.82 per tonne/km. was applicable. The payment actually made at the rates applicable to zone I resulted in an excess payment to the contractor amounting to Rs. 0.45 lakh on 3,400 tonnes of PSC poles transported. On this being pointed out in audit (February 1985) the Division stated (February 1985) that the rate specified for zone I was applied to the other zones to maintain uniformity in rate. But, this was not covered by the specific terms of the agreement and was without authority.

The matter was reported to the Board/Government in August 1985; their remarks were awaited (October 1985).

10.6. Avoidable payment of under-writing commission

The Board has been borrowing funds from the open market from time to time for meeting its resource requirements through the Life Insurance Corporation of India (LIC) and other financing institutions like nationalised banks and provident fund trusts. In terms of the guidelines issued by the Reserve Bank of India in May 1975 and June 1981, the LIC was eligible to an under-writing commission not exceeding 50 paise per Rs. 100 and other financing institutions were eligible to an under-writing commission not exceeding 38 paise per Rs. 100 and a brokerage not exceeding 12 paise per Rs. 100 subject to an overall limit of 50 paise per Rs. 100. During the period from 1979-80 to 1983-84, the Board raised 4 loans totalling Rs. 43.73 crores through the LIC and other financing institutions and allowed a commission of 50 paise per Rs.100 to the former and a brokerage of 12 paise per Rs. 100 to the others. Though the other institutions offered to subscribe for Rs. 114.60 crores against Rs. 27.50 crores floated in respect of two loans (1979-80 and 1980-81) and Rs. 14.95

crores out of Rs.16.23 crores floated in respect of the other two loans (1982-83 and 1983-84) the L I C was allowed to subscribe Rs. 5.00 crores against the first two loans and Rs. 2.50 crores in respect of the other two loans. The borrowings through L I C in the face of availability of unavailed offers of the other financing institutions resulted in an extra expenditure of Rs.2.36 lakhs to the Board towards under-writing commission.

The matter was reported to the Board/Government in October 1985; their remarks were awaited (October 1985).

10.7. Unnecessary procurement of equipment

The Board procured (June/July 1981) two numbers of 10.584 MVAR 36 KV shunt power capacitors with equipment at a cost of Rs. 14.39 lakhs from Bharat Heavy Electricals Limited (BHEL), Bhopal against a purchase order placed in December 1979. The equipment was meant to be used at Rourkela grid sub-station which was of 132/33 KV. capacity, where there were two imported capacitors already available since its inception. But, before the procurement of the capacitor, upgradation of the Rourkela grid sub-station to 220 KV capacity was planned (January 1978) and laying of the necessary transmission line from the Talcher Thermal Power Station was taken up (June 1978) which was completed and charged in April 1982. Consequently, the capacitors procured in June/July 1981 were not required at the Rourkela grid sub-station. Efforts of the Board to put them to use at alternative places were not successful (February to October 1980) as capacitors of only 3 to 3.5 MVAR rating would be enough for the 132/33 KV system in the State. In the course of such efforts, the Superintending

Engineer, EHT Maintenance Circle, Berhampur suggested (September 1982) for splitting up the two capacitors into 6 of 3·5 MVAR each so that they could conveniently be used in any of the three 132/33 KV tail-end grid sub-stations. On an enquiry from the Board (November 1982), while indicating that such splitting was technically feasible, the suppliers quoted (Feburary 1983) Rs. 5·00 lakhs for undertaking the job. This offer was not availed of considering it to be on the highside and the capacitors were, however, not put to use. The Board, thus, did not derive any benefit from the investment of Rs. 14·39 lakhs over the last 4 years and the prospect of their usage by the Board was yet to be established (December 1985).

The matter was reported to the Board and Government in August 1985; their remarks were awaited (October 1985).

10.8. Defective Transformer oil

The Board placed (January 1981) an order on a firm of Baroda for supply of 75 Kls of EHT grade transformer oil (conforming to ISS 335—1972) for use in EHT transformer at Rs. 8,970 per Kl. In terms of the order, the supply was to be completed within two months of the placement of the order and before commencement of supplies, the oil was to be got tested under the supervision of the Board's representative and released by the Board for despatch. Also the oil was to be guaranteed for satisfactory performance for a period of 18 months from the date of supply or 12 months from the date of use whichever was earlier and during the guarantee period if the oil is found defective due to manufacturing defects, the same was to be replaced free of cost by the supplier. Samples of the oil

ready for despatch were got tested in the laboratories of the supplier (April 1981) and the Central Power Research Institute (CPRI) at Bangalore (August 1981). The test results having been reported (September 1981) to be satisfactory by the Boad the firm supplied 50.2 Kls. of the transformer oil valued Rs. 4.84 lakhs in November 1981. The oil which was manufactured by April 1981 and received in November 1981 and taken up for use in May 1982 was found defective and hence was got tested (May 1982) in the laboratories of CPRI and the Bharat Heavy Electricals Limited. The test results indicated poor stability characteristics. On being informed of the test results, the supplier disowned his responsibility (June 1982) stating that the materials were supplied only after satisfactory results in pre-despatch inspection. The purchase order for the balance quantity was cancelled (July 1982) due to non-adherence to delivery schedule withholding Rs. 0.73 lakh representing security deposit and 5 *per cent* bills. Regarding enforcement of performance guarantee, the Board obtained (September 1983) legal opinion according to which damages can be claimed against the supplier for poor quality of the oil. Thereupon, the Board requested (April 1984) the supplier to replace the defective oil within one month thereof to which no response was received. The matter was also not pursued further for reasons not on record but the Board decided (October 1982) not to use the transformer oil for the purpose for which it was procured (use in EHT transformers) and later ordered (May 1984) its use in distribution transformers provided that its dielectric strength was within the limits, though it has been the practice in the Board to use only used EHT transformer oil in distribution trnsformers. Of the total quantity received, 9 Kls were drawn after receipt from the supplier and 5.1 Kls were issued to distribution divisions in pursuance of the Board's decision of May 1984 (the information as to the usage and performance was not available) leaving a balance of 36.1 Kls valued Rs.3.48 lakhs lying unused (August 1985) since November 1981. Also, the Board had to meet the requirement from an alternative source incurring an additional expenditure of Rs. 0.34 lakh. The Board had not investigated the matter leading to the loss of Rs. 3.82 lakhs.

The matter was reported to the Board/Government in October 1985; their replies were awaited (October 1985).

10.9. Claim for damaged goods

The Board imported (July 1981) four double arc extension chambers (spare parts for 220 KV Air Blast Circuit Breaker) from Switzerland against a purchase order placed in June 1979 at prices *f. o. b.* European port of shipment. Inspection of the supplies in July 1981 at the destination (Sub-store, Joda) showed that two of the four items (*c. i. f.* value : Rs. 1.40 lakhs) were damaged. The items were covered by insurance from the port of shipment to the destination. The fact of receipt of the goods in damaged condition was intimated (August 1981) to the insurer who advised the Board (August 1981) to prefer a claim suported by bill of entry in original, copies of bill of lading and invoices, surveyor's certificate, *etc*. The damaged items were got surveyed (September 1981) by the insurer's surveyor, who assessed their value at Rs. 0.83 lakh (including Rs. 0.20 lakh towards cost of repair). The claim was prefered for Rs. 1.40 lakhs in January 1982 without the full documentation. The insurer intimated in September 1982 the Board, that unless documentation was complete within 15 days thereof, it would be presumed that the Board was not interested in the claim. By November 1982, all the

documents were furnished excepting the bill of entry in original (for reasons not on record). Subsequently, the claim was revised (June 1983) by the Board to Rs. 0.83 lakh covering the cost of damaged assessed by the surveyor. Neither the claim was settled nor the matter was pursued thereafter by the Board. Also, the damaged items valued Rs. 2.55 lakhs (landed cost) were not got repaired and were lying idle (July 1985).

The matter was reported to the Board/Government in September 1985; their remarks were awaited (October 1985).

BHUBANESWAR
The 07 AUG 1986

(J. K. SARMA)
Accountant General (Audit)-II
Orissa

Countersigned

T.N. Chaturvedi

NEW DELHI
The 28 AUG 1986

(T. N. CHATURVEDI)
Comptroller and Auditor General
of India

APPENDICES

APPENDIX A

(Reference : Paragraph 1.2 Page. 2)

Summarised Financial Results of Working of Government Companies

Serial Number	Name of Company	Name of department	Date of incorporation	Year of accounts	Total capital invested	Profit(+)/loss(—)	Total interest charged to profit and loss account	Interest on long-term loans	Total return on capital invested (7+9)	Percentage of total return on capital invested	Capital employed	Total return on capital employed (7+8)	Percentage of total return on capital employed
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	(a) Companies wholly owned by the State Government												
1	Industrial Promotion and Investment Corporation of Orissa Limited	Industries	12th April 1973	1983-84	33,48.15	(+)11.77	1,01.40	1,01.40	1,13.17	3.4	29,58.85	1,13.17	3.8
2	Orissa Bridge Construction Corporation Limited	Works	1st January 1983	1983-84	18.33	(—)0.16	0.03	..	(—)0.16	..	18.17	(—)0.13	..
3	Orissa State Textiles Corporation Limited	Industries	10th September 1981	1983-84	2,69.43	(+)0.09	17.63	17.63	17.63	6.6	2,69.28	17.72	6.6
4	Film Development Corporation of Orissa Limited	Industries	22nd April 1976	1981-82	76.53	(+)2.16	0.02	..	2.16	2.8	72.06	2.16	3.0
5	Orissa Construction Corporation Limited	Works	22nd May 1962	1981-82	15,42.64	(—)1,39.38	96.55	93.07	(—)46.31	..	11,93.69	(—)42.83	..
6	Orissa State Cashew Development Corporation Limited	Agriculture & Co-operation	14th April 1979	1981-82	49.07	(—)2.97	..	..	(—)2.97	..	15.29	(—)2.97	..
7	Orissa Agro Industries Corporation Limited	Agriculture & Co-operation.	20th October 1961	1981-82	4,50.11	(—)14.87	27.39	27.39	12.52	2.8	4,22.79	12.52	3.0
8	Industrial Development Corporation of Orissa Limited	Industries	29th March 1962	1980-81	33,13.45	(+)2,62.44	2,03.11	1,92.03	4,54.47	13.7	32.23.34	4,65.55	14.4
9	Orissa Mining Corporation Limited	Mining and Geology	16th May 1956	1980-81	11,27.62	(+)47.41	32.41	32.41	79.82	7.1	13,70.76	79.82	5.8
10	Orissa Forest Corporation Limited	Forest, Fisheries and Animal Husbandry	28th September 1962	1979-80	96.69	(+)1.73	31.13	..	1.73	1.8	4,15.41	32.86	7.9
11	Orissa State Transport Limited	Commercial Corporation Commerce and Transport (Ports)	15th February 1964	1976-77	4,44.00	(—)13.29	20.58	20.58	7.29	1.6	2,08.59	7.29	3.5
	(b) Company Partly owned by the State Government												
12	Orissa State Seeds Corporation Limited	Agriculture and Co-operation	24th February 1978	1981-82	1,72.01	(+)7.41	3.14	3.14	10.55	6.1	1,56.84	10.55	6.7
	(c) Subsidiary Companies												
13	East Coast Salt and Chemical Industries Limited	Industries	27th October 1965	1978-79	47.21	(—)3.99	0.36	0.36	(—)3.63	..	23.84	(—)3.63	..
14	Konark Watch Company Limited	Industries	22nd November 1978	1979-80	19.66	Under construction.	..	..	..	..	17.38	..	..

Notes—(*a*) Capital invested represents paid-up capital *plus* long-term loans and free reserves.

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

(*c*) In the case of Industrial Promotion and Investment Corporation of Orissa Limited capital employed represents the mean aggregate of opening and closing balances of (*i*) paid-up capital (*ii*) reserves and surplus and (*iii*) borrowings.

APPENDIX B

(Reference: Paragraph 1.2 page 2)

Statement showing arrears in accounts

Serial number	Name of company	Year from which accounts are in arrears
	(a) Companies wholly owned by State Government	
1	Orissa Lift Irrigation Corporation Limited ..	1976-77
2	Leather Corporation of Orissa Limited ..	1976-77
3	Orissa State Commercial Transport Corporation Limited	1977-78
4	Orissa Small Industries Corporation Limited ..	1978-79
5	Orissa State Handloom Development Corporation Limited	1978-79
6	New Mayurbhanj Textile Limited ..	1979-80
7	Orissa Forest Corporation Limited ..	1980-81
8	Orissa Police Housing and Welfare Corporation Limited	1980-81
9	Similipahar Forest Development Corporation Limited	1980-81
10	Orissa State Civil Supplies Corporation Limited	1981-82
11	Industrial Development Corporation of Orissa Limited	1981-82

Serial number	Name of company	Year from which accounts are in arrears
12	Orissa Mining Corporation Limited ..	1981-82
13	Orissa Maritime and Chilika Area Development Corporation Limited	1981-82
14	Orissa Tourism Development Corporation Limited	1981-82
15	Film Development Corporation of Orissa Limited	1982-83
16	Orissa Construction Corporation Limited ..	1982-83
17	Orissa State Cashew Development Corporation Limited	1982-83
18	Orissa Fish Seed Development Corporation Limited	1982-83
19	Orissa Textile Mills Limited ..	1983-84
20	Orissa Fisheries Development Corporation Limited	1983-84
21	Power Generation Corporation of Orissa Limited	14th November 1984 to 31st March 1985
22	Industrial Promotion and Investment Corporation of Orissa Limited	1984-85

Serial number	Name of company	Year from which accounts are in arrears
23	Orissa State Electronic Development Corporation Limited	1984-85
24	Orissa State Textiles Corporation Limited ..	1984-85
25	Orissa Bridge Construction Corporation Limited	1984-85
	(b) Companies partly owned by State Government	
26	Mayurbhanj Textiles Limited ..	1971-72
27	Orissa Road Transport Company Limited ..	1981-82
28	Orissa Agro Industries Corporation Limited ..	1982-83
29	Orissa State Seed Corportion Limited ..	1982-83
	(c) Subsidiary companies	
30	Hira Steels and Alloys Limited ..	1976-77
31	East Coast Salt and Chemical Industries Limited	1979-80
32	Konark Detergents and Soaps Limited ..	1979-80
33	East Coast Breweries and Distilleries Limited	1980
34	Konark Watch Company Limited ..	1980-81
35	Orissa Pump and Engineering Company Limited	27th March 1982 to 31st March 1983
36	Ipitex International Limited ..	20th November 1982 to 31st March 1983

Serial Number	Name of company	Year from which accounts are in arrears
37	Sonepur Spinning Mills Limited ..	1982-83
38	Orissa Composite Boards Limited ..	4th July 1983 to 31st March 1984
39	Orissa Mining Corporation Alloys Limited ..	1983-84
40	SN Corporation Limited ..	1984-85
	(d) Pilot project companies	
	(i) Companies Working	
41	Cuttack Iron and Steel products Limited ..	1968-69
42	Orissa Boat Builders Limited ..	1971-72
43	Spark Battery and Manufacturing Works Limited	1972-73
44	Orissa Instruments Company Limited ..	1978-79
	(ii) Companies whose assets were sold	
45	Orissa Board Mills Limited ..	1968-69
	(iii) Companies under revival	
46	Premier Bolts and Nuts Limited ..	1967
47	Modern Electronics Limited ..	1967-68
48	Orissa Tiles Limited ..	1976-77

Serial Number	Name of company	Year from which accounts are in arrears
	(iv) Companies under liquidation	
49	Manufacture Electro Limited ..	1962-63
50	Orissa Sports Manufacturing and Fabrication Limited (August 1972)	1963-64
51	Coca Cola (India) Limited (May 1969) ..	1963-64
52	Hansanath Ceramic Industries Limited (January 1964)	1963-64
53	Kalinga Fruit Products Limited (January 1971)	1963-64
54	Madhusudan Chemical Industries Limited ..	1963-64
55	Orissa Trunks and Enamel works Limited (January 1971)	1963-64
56	Konark processing Works Limited(January 1971)	1963-64
57	Balanga Iron Works Limited(July 1971) ..	1965-66
58	Utkal Fruit Products Limited (July 1966) ..	1966-67
59	Orissa Wood Products Limited (March 1972)	1967-68
60	Orissa Electrical Manufacturing Limited ..	1967-68
61	Chilika Cashew Manufacturing Works Limited (August 1971)	1967-68
62	Kalinga Steel and Wire Products Limted (August 1971)	1968-69
63	Orissa Timber Products Limited (September 1972)	1968-69

Serial Number	Name of company	Year from which accounts are in arrears
64	Manorama Foundry Works Limited (March 1972)	1968-69
65	Gajapati Steel Industries Limited ..	1969-70
66	Modern Malleable Casting Company Limited (March 1976)	1973-74
67	Eastern Aquatic Products Limited ..	1973-74
	(v) Companies in which Government shares were sold	
68	Orissa Foundry Company Limited ..	1968-69
69	Orissa Agrico Limited ..	1969-70
70	Utkal Metal Products Limited ..	1970-71
71	Kalinga Foundry Limited ..	1970-71 and 1971-72
72	Utkal Foundry and Engineering Company Limited	1976-77
73	Rourkela Fabrication Industries Limited ..	1978-79

APPENDIX C

(Reference : Paragraph 7.1 Page 84)

Summarised financial results of statutory Corporations on the basis of the latest available accounts

Serial Number	Name of Corporation	Name of department	Date of incorporation	Year of accounts	Total capital invested	/Loss	Total interest charged to profit and loss account	Interest on long-term loans	Total return on capital invested (7+9)	Capital employed	Total capital employed (7+8)	Percentage of total return on capital invested	Percentage of total return on capital employed
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(1)	Orissa State Electricity Board	Irrigation and Power	March 1961	1983-84	46,268.61	..	3,359.40	3,359.40	3,359.40	45,032.48	3,359.40	7.2	7.0
(2)	Orissa State Financial Corporation	Industries	March 1956	1984-85	15,055.82	126.08	960.66	960.66	834.58	13,666.34	834.58	5.5	6.1
(3)	Orissa State Road Transport Corporation	Commerce and Transport	May 1974	1980-81	1,377.54	327.31	119.46	119.46	(—)207.85	720.30	(—)207.85	..	..

Notes—(1) Capital invested represents paid-up capital *plus* long-term loans *plus* free reserves.

(2) In the case of Orissa State Financial Corporaton, capital employed represents the mean of aggregate of opening and closing balances of (*i*) paid-up capital (*ii*) bonds and debentures (*iii*) reserves (*iv*) borrowings including refinance and (v) deposits.

(3) In the case of other statutory corporations capital employed represents net fixed assets (excluding capital works-in-progress) *plus* working capital.

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Errata

Sl. No.	Page No.	Para No.	Line No.	For	Read
1	(iii)	2	6	Services	Service
2	(iv)	4	4	auditor	sole auditor
3	2	1.3	1 of note	Rs.10351.60 lakhs	Rs.13051 lakhs
4	3	1.5	Against (II) in table	Corpration	Corporation.
5	4	1.5.2	Against (5) in table	Product limited	Products limited.
6	5	1.6	5	Coast and	Coast salt and
7	7	2.3	4	arre - root	arrow - root.
8	7	2.5	2	2 lakhs equity	2 lakh equity
9	8	2.6	7	upto	up to
10	10	2.7.1	line 3 of table	Gross	Cross.
11	12	2.7.2	3 under particulars in table	lakhs numbers)	Lakh numbers)
12	15	2.7.3.4	3	Department Orissa and	Department and Orissa.
13	17	2.7.3.7	7/8	transperation	transportation
14	18	2.7.4.1	2	butte	butter

Sl. No.	Page No.	Para No.	Line No.	For	Read
15	20	2.7.4.2	last	Sub-Judice	Sub-judice
16	21	2.8	2	felling	banning felling
17	23	2.9.3	13/14	interest to	interest up to
18	25	2.12	9	Submitted	Submitted.
19	26	(i)	20	Cempay's	company's
20	27	(ii)	1	cemplied	compiled
21	29	3.2	2	Boad	Board.
22	30	3.4	2 from bottom	Percentage and	Percentage of
23	31	3.4	3	3.54	3.5:4
24	32	3.5.1.1	Heading	loans	loan
25	32	3.5.1.1	8	applications	applicants
26	33	3.5.1.1	18	Altheuhg	Although
27	33	3.5.1.1	23	these	the
28	36	3.5.1.1 (v)	9	lakh))	lakh)
29	37	3.5.1.2	5	year	years
30	37	3.5.1.2 (i)	4	any system for distribu-tion of film	a system for distribution of film.
31	38	3.5.1.2 (v)	3	by 1985	1985
32	41	3.3.1.2 (ix)	1	leving	levying
33	41	3.5.2.2	1 of table	Application	Applications
34	42	3.5.2.2 (i)	2	Constructions	Construction

Sl. No.	Page No.	Para No.	Line No.	For	Read
35	42	3.5.2.2 (ii)	3 from bottom	lakhs	lakh
36	43	3.5.2.3 (i)	8	distributers	distributer's
37	49	(vii)	11	lakhs	lakhs into equity capital
38	52	4.6 table	Against 'less' under 1983	63.40	83.40
39	53	4.7	4	75 lakhs	75 lakh
40	54	4.7.1	12	of losse	of losses
41	57	4.9.1.	12	lesss	less
42	58	4.9.2	14	bear were	beer was
43	58	4.9.3	7	debts obtained outstanding	debts outstanding
44	60	4.1.0.1 (ii)	2 from bottom.	Comparisien	Comparison.
45	61	4.10.1 (iii)	17	amoudted	amounted
46	66	5.1	9	30 lakhs	30 lakh
47	66	5.3	3	life	Life
48	70	5.4.2.1	1	firm's prices	firms' prices
49	70	11	12	according.	according
50	70	11	15	suppliers factory	supplier's factory

Sl. No.	Page No.	Para No.	Line No.	For	Read
51	70	5.4.2.1	20	the 1st	1st
52	70	-do-	2 from bottom	requisit	requisite
53	73	5.6.1.1	8	in 72 cases)	in 77 cases
54	74	6.1	3 from bottom	the company	the Company
55	74	6.1	last line	the company	the Company
56	77	6.2	5	tenderd	tendered
57	78	6.2	9	Cuttack.	Cuttack).
58	79	6.3	11	Rs.0.11 lakhs	Rs.0.11 lakh
59	80	6.4	8	contracted	contacted
60	80	6.4	21	lakhs	lakhs.
61	80	6.4	2 from bottom	intermittantly	intermitten
62	81	6.5	3	Rs.242.00	Rs.243.00
63	82	6.5	1	on the	on
64	82	6.5	2	the 23rd	23rd
65	84	7.1	Heading of last column in table	arreas	arrears
66	86	7.2.4	under 1982-83 Against depreciation	6583.18	6583.17
67	86	7.2.4	under 1982-83 against net fixed assets	39332.92	39332.93
68	86	7.2.4	Against assets total	61534.08	61534.09
69	87	7.2.5		Teta	Total
70	87	7.2.5	Against (a) under 1982-83	9109.18	9109.19
71	87	7.2.5	Against total under 1982-83	9989.18	9989.19
72	89	7.2.6	1st line	982-83	1982-83
73	90	7.2.6. (b)	under particulars against (5)	(MM)	(MW)
74	92	8.2	1 of note	figures	figure

Sl. No.	Page No.	Para No.	Line No.	For	Read
75	92	8.2	2 of note	473.69	473.60
76	92	8.3	1	Summerises	Summarises
77	96	8.5.4	5 from bottom	trafic	traffic
78	99	8.5.4.1 (iv)	7	Conducrtor) were to be treated	Conducter) were to be treated as
79	99	8.5.4.1 (IV)	last line	in audit.	in audit:
80	101	8.5.5	2	hiring of the	hiring the
81	102	8.5.6	14	Contributary	Contributory
82	102	8.5.6(i)	7	trom	from
83	102	8.5.6 (ii)	2	1984) or	1984) of
84	103	8.5.6 (ii)	7	Passengers	passengers
85	103	8.5.6 (ii)	15	avilable	available
86	108	8.5.6 (ii)	under heading Expenses against (5)	devidend	dividend
87	108	9.5	3	14.393 parti-es	14,393 par[illegible] es

Page No.	Para No.	Line No.	For	Read
08	9.5	5	the 31st	31st
08	9.4	2 of note	the 1st	1st
12	9.6.1.1. (ii)	2 of note	deed as	deed was
15	9.6.1.1. (vi)	12	institutions,	institutions.
15	9.6.1.1. (vi)	18	Corporations	Corporations'
116	9.6.1.2	8	March 1983	March 1973
117	9.6.1.2	3	fnancing	financing
117	9.6.1.2 (i)	2	subsidies Subsidise	Subsidies
117	-do-	12	Value not used	value of the portion not used
117	-do-	14	'M' and 'S'	'M' and 'HS'
119	-do- (iii)	last	October 1975).	October 1985).
119	9.6.1.2 (iv)	6	leacated	located
120	-do-(v)	1	Cente	Centre

Sl. No.	Page No.	Para No.	Line No.	For	Read
101	120	9.6.1.2(v)	2	f the land	if t
102	127	9.6.2(i)(c)	6	corporations	corp
103	128	9.6.2.2(ii)	2	Balangir	Bola
104	129	9.6.2.2.(iii)	12	intermitta-ntly	inte-tly.
105	129	9.6.2.2(iii)	17	finaced	fina
106	129	-do-	23	the units	the
107	129	-do-	4 from bottom	units'	unit
108	131	9.6.2.3(iii)	3	as on March	as o March
109	131	-do-	7	-do-	-do
110	132	9.6.2.4	9 from bottom	responce	respo
111	135	9.6.2.5	13	ony year	any y
112	135	-do-	under last column of table	March 1682	March
113	137	9.6.2.6(i)	8	candy unit	candy
114	137	9.6.2.6(i)	19	(Rs.0.72 lakhs)	(Rs.0.7 lakh)

9

		Para No.	Line No.	For	Read
		9.6.2.6(ii)	1	Barnch	Branch
		9.6.3(ii)	10	Corporation's	Corporations
		9.6.3(iii)	3	lakh disbursed	lakh was disbursed
		9.6.3(v)	20	SFC Act,	SFCs Act,
	1	9.6.4(ii)	6	out Rs	out to Rs
	14	10.2	9 from bottom	1985	1985)
	47	10.5(a)	3	an destination	any destination
	149	10.7	11	capacitor	capacitors
	151	10.8	2 from bottom	trnsformers	transformers
	15	10.9	4	damaged assessed	damages assessed
	157	Note(c)	-	Meanaggregate of	Mean of the aggregate of
6	158	Against(b)	-	Textile limited	Textiles limited
27	159	Against(13)	-	Chilika area	Chilka Area
28	160	Against(29)	-	Seed Corporation	Seeds Corporation
129	162	Against(61)	-	Chilika cashew	Chilka cashew
130	162	Against(62)	-	limited	limited