GOVERNMENT OF GUJARAT

REPORT OF THE

COMPTROLLER
AND
AUDITOR GENERAL OF INDIA

FOR THE YEAR 1983-84

(COMMERCIAL)

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 Gujarat Electricity Board and has been prepared for submission to the Government of Gujarat under Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 as amended in March 1984. 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 Gujarat.

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. A list of such undertakings in which Government investment was more than Rs. 25 lakhs as on 31st March 1984 is given on page (iii) in Annexure 'A'.

4. In respect of the Gujarat State Road Transport Corporation and the Gujarat Electricity Board which are Statutory Corporations, the Comptroller and Auditor General of India is the sole auditor. In respect of Gujarat State Financial Corporation and Gujarat 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 of the accounts of the Gujarat Industrial Development Corporation has been entrusted to the Comptroller and Auditor General of India under Section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 for a period of 5 years from 24th June 1977 and subsequently (July 1984) extended for another 5 years. The audit reports on the annual accounts of all these Corporations are being forwarded separately to the Government of Gujarat.

5. The cases mentioned in this Report are those which came to notice in the course of audit of accounts during the year 1983-84 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 1983-84 have also been included wherever considered necessary.

Annexure 'A'

Name of Company	Investment (Rupees in lakhs)
(1) Gujarat Narmada Valley Fertilizers Company Limited, Bharuch	14,04.10
(2) Narmada Cement Company Limited, Bombay	242.30
(3) Shree Digvijay Woollen Mills Limited, Jamnagar	63.10
(4) The Ahmedabad Electricity Company Limited, Ahmedabad	159.00
(5) Surat Electricity Company Limited, Surat	25.03

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CHAPTER I

GOVERNMENT COMPANIES

SECTION I

1.1 Introduction

There were 40 Government Companies (including 15 subsidiaries) as on 31st March 1984 as against 38 Government Companies (including 15 subsidiaries) as at the close of the previous year. Two Companies *viz*., Gujarat Lease Financing Limited and Films Development Corporation of Gujarat Limited were incorporated on 13th July 1983 and 4th February 1984, with an authorised capital of Rs. 500 lakhs and Rs. 100 lakhs respectively; Gujarat Lease Financing Limited is a subsidiary of the Gujarat Industrial Investment Corporation Limited (GIIC). One Company *viz*., Gujarat Agro-Marine Products Limited ceased to be a subsidiary of the Gujarat Agro-Industries Corporation Limited and it changed its name to Gujarat Fisheries Development Corporation Limited with effect from 11th October 1983.

1.2 Compilation of accounts

Twenty three Companies (including 13 subsidiaries) finalised their accounts for the year 1983-84. In addition, eleven Companies (including one subsidiary) finalised their accounts for earlier years. A synoptic statement showing the summarised financial results of thirty four Companies based on the latest available accounts is given in Appendix 'A'. The accounts of Films Development Corporation

Limited were not due. The accounts of the following 16 Companies were in arrears for the periods noted against each :

	Name of Company	Extent of arrears
1.	Gujarat Water Resources Development Corporation Limited	1979-80 to 1983-84
2.	Gujarat Rural Industries Marketing Corporation Limited	1980-81 to 1983-84
3.	Gujarat State Handicrafts and Handloom Development Corporation Limited	1981-82 to 1983-84
4.	Gujarat State Land Development Corporation Limited	July 1980 to June 1981, 1981-82 and 1982-83
5.	Gujarat Tractor Corporation Limited	1981-82 to 1983-84
6.	Gujarat State Civil Supplies Corporation Limited	1981-82 and 1982-83*
7.	Gujarat Scheduled Castes Economic Development Corporation Limited	1982-83 and 1983-84
8.	Gujarat Dairy Development Corporation Limited	1982-83 and 1983-84
9.	Gujarat State Construction Corporation Limited	August 1981 to July 1982 and 1982-83
10.	Gujarat Sheep and Wool Development Corporation Limited	1982-83 and 1983-84
11.	Gujarat State Handloom Development Corporation Limited	1982-83 and 1983-84
12.	Gujarat Insecticides Limited	1982 and 1983

*The financial year ends in September every year.

	Name of Company	Extent of arrear
13.	Gujarat Agro-Industries Corporation Limited	1983-84
14.	Tourism Corporation of Gujarat Limited	1983-84
15.	Gujarat Industrial Investment Corporation Limited	1983-84
16.	Steel Corporation of Gujarat Limited	1983-84

The position of arrears in compilation of accounts was last brought to the notice of Government in February 1985.

1.3 Paid-up Capital

As against the aggregate paid-up capital of Rs. 71,60.02 lakhs in 38 Companies as on 31st March 1983, the aggregate paid-up capital as on 31st March 1984 increased to Rs. 87,73.22 lakhs in 40 Companies as detailed below :

Particulars	Number of Companies	Investment by			
		State Government	Government of India	Others	Total
		(Rupees in lakhs)			
Wholly owned by the State Government	16	58,47.18	..	..	58,47.18
2. Companies jointly owned with Government of India/others	9	12,08.40	670.23	43.84	19,22.47
3. Subsidiary Companies	15	..	..	10,03.57	10,03.57
Total ..	40	70,55.58*	670.23	10,47.41	87,73.22

*The figure as per Finance Accounts is Rs. 64,11.37 lakhs; the difference of Rs. 644.21 lakhs is under reconciliation.

1.4 Loans

The balance of long-term loans outstanding in respect of 19 Companies (excluding subsidiaries) as on 31st March 1984 was Rs. 178,19.05 lakhs (State Government : Rs. 82,62.81 lakhs; Other parties: Rs. 94,84.70 lakhs ; deferred payment credit : Rs. 71.54 lakhs) as against Rs. 186,96.24 lakhs as on 31st March 1983 (23 Companies excluding subsidiaries).

1.5 Guarantees

1.5.1 The State Government had guaranteed the repayment of loans and payment of interest thereon raised by 13 Companies. The amount guaranteed and the amount outstanding thereagainst as on 31st March 1984 were Rs. 132,84.32 lakhs and Rs. 82,77.63 lakhs respectively, as detailed below :

	Name of Company	Amount guaranteed	Amount outstanding
		(Rupees in lakhs)	
1.	Gujarat Industrial Investment Corporation Limited	21,17.00	21,17.00
2.	Gujarat Fisheries Development Corporation Limited	67.94	13.84
3.	Gujarat Communications and Electronics Limited	769.86	769.86
4.	Gujarat State Forest Development Corporation Limited	530.00	113.06
5.	Gujarat Scheduled Castes Economic Development Corporation Limited	686.00	204.42

	Name of Company	Amount guaranteed	Amonnt outstand-ing
		(Rupees in lakhs)	
6.	Gujarat Water Resources Development Corporation Limited	45,66.25	26,69.31
7.	Gujarat State Construction Corporation Limited	178.00	27.90
8.	Gujarat State Land Development Corporation Limited	200.00	75.97
9.	Gujarat Tractor Corporation Limited ..	35.00	35.00
10.	Gujarat State Handloom Development Corporation Limited	75.00	Nil
11.	Gujarat State Civil Supplies Corporation Limited	18,10.00	2.00
12.	Gujarat State Textile Corporation Limited	20,13.27	20,13.27
13.	Polymers Corporation of Gujarat Limited	236.00	236.00
	Total ..	132,84.32*	82,77.63*

Besides, the State Government had guaranteed repayment of share capital and payment of dividend at 4 *per cent* thereon in respect of Gujarat Small Industries Corporation Limited. On the paid-up capital of Rs. 200 lakhs as on 31st December 1982 and 1983 a dividend of Rs. 16 lakhs was payable for the years 1982 and 1983 out of the subventions to be received from the Government.

1.5.2 In consideration of the guarantees given by Government, the Companies have to pay guarantee commission to

*The figures as per Finance Accounts (13 Companies) are Rs. 126,42.00 lakhs and Rs. 115,78.00 lakhs respectively; the differences are under reconciliation.

Government at rates varying from ½ *per cent* to 1 *per cent* on the amount guaranteed. The payment of guarantee commission amounting to Rs. 14.34 lakhs was in arrears in the case of four Companies *viz*., Gujarat State Textile Corporation Limited (Rs. 11.83 lakhs), Gujarat State Forest Development Corporation Limited (Rs. 0.09 lakh), Gujarat Tractor Corporation Limited (Rs. 0.35 lakh) and Gujarat State Civil Supplies Corporation Limited (Rs. 2.07 lakhs).

1.6 Performance of the Companies

1.6.1 The following table gives details of 9 Companies (including 2 subsidiaries) which finalised their accounts for 1983-84 and earned profit during the year and the comparative figures for the previous year :

Name of Company	Paid-up capital		Profit (+)/Loss (—)	
	1982-83	1983-84	1982-83	1983-84
	(Rupees in lakhs)			
1. Gujarat Agro-Foods Limited	14.91	14.91	(+)3.17	(+)1.30
2. Gujarat Agro-Oil Enterprises Limited	6.16	6.16	(+)7.76	(+)18.77
3. Gujarat Communications and Electronics Limited	320.01	320.01*	(+)31.19	(+)34.36
4. Gujarat Fisheries Development Corporation Limited	25.01	25.01	(+)2.38	(+)1.78
5. Gujarat Mineral Development Corporation Limited	318.00	318.00	(+)223.35	(+)571.07

*An amount of Rs. 100 lakhs is held as share application money.

Name of Company	Paid-up capital		Profit (+) / Loss (—)	
	1982-83	1983-84	1982-83	1982-83
	(Rupees in lakhs)			
6. Gujarat Small Industries Corporation Limited	200.00	200.00	(+)0.99	(+)38.00
7. Gujarat State Export Corporation Limited	15.00	15.00	(+)176.83	(+)0.14
8. Gujarat State Rural Development Corporation Limited	38.00	38.00	(—)4.69	(+)1.12
9. Gujarat State Seeds Corporation Limited	47.00	47.00	(+)63.87	(+)60.64
To tal ..	984.09	984.09	(+)504.85	(+)727.18

1.6.2 During the year dividend was declared by 5 Companies *viz.*, Gujarat Mineral Development Corporation Limited (16 *per cent*), Gujarat State Export Corporation Limited (17.5 *per cent*), Cujarat State Seeds Corporation Limited (10 *per cent*), Gujarat Agro-oil Enterprises Limited (6 *per cent*) and Gujarat Small Industries Corporation Limited (4 *per cent* guaranteed by the State Government).

1.6.3 The following table gives details of 6 Companies (including 4 subsidiaries) which finalised their accounts for

1983-84 and incurred loss during the year and comparative figures for the previous year :

Name of Company	Paid-up capital		Profit (+) / Loss (—)	
	1982-83	1983-84	1982-83	1983-84
		(Rupees in lakhs)		
1. Gujarat State Textile Corporation Limited	162.50	162.50	(+)2.60	(—)122.17
2. Gujart State Forest Development Corporation Limited	180.01	194.01	(—)11.49	(—)22.06
3. Girnar Scooters Limited	*	280.52	(—)0.52	(—)32.14
4. Polymers Corporation of Gujarat Limited	533.81	533.81	(—)330.58	(—)249.44
5. Gujarat Drugs and Chemicals Limited	24.00	43.06	(A)	(—)19.64
6. Gujarat Lease Financing Limited	..	25.01	..	(—)2.85£
Total ..	900.32	12,38.91	(—)339.99	(—)448.30

1.6.4 The accumulated loss up to 1983-84 in respect of Polymers Corporation of Gujarat Limited amounted to Rs.15,47.35 lakhs which exceeded its paid-up capital (Rs.533.81 lakhs). In respect of Gujarat State Construction Corporation Limited the accumulated loss as at the end of 31st July 1981 amounted to Rs. 661.06 lakhs as against its paid-up capital of Rs. 160 lakhs.

* Represents paid-up capital of Rs. 70.

(A) The Company had transferred expenditure of Rs. 10.20 lakhs to pre-operational expenses account in 1982-83.

£ First year accounts for the period from 13th July 1983 to 31st March 1984.

1.6.5 The following table gives details of 8 Companies (including 7 subsidiaries) which were under construction and the total expenditure incurred during the year 1983-84 *vis-a-vis* the previous year :

Name of Company	Paid-up capital		Expenditure during	
	1982-83	1983-84	1982-83	1983-84
		(Rupees in lakhs)		
1. Gujarat Amino-Chem Limited	*	*	1.10	0.02
2. Gujarat Trans-Receivers Limited	0.10	0.10	2.19	2.25
3. Gujarat Mulco Electronics Limited	12.00	12.00	1.55	9.31
4. Gujarat Hotels Baroda Limited	..	*	..	2.50£
5. Gujarat Nylons Limited	2.50	2.50(A)	4.27	11.72
6. Cement Corporation of Gujarat Limited	2.50	2.50	29.71	32.96
7. Gujarat State Petro-Chemicals Corporation Limited	59.01	59.01(B)	2.38	4.35
8. Gujarat Tyres Limited	5.00	5.00	10.40	0.02

* Represents paid-up capital of Rs. 70.

£ First year accounts for the period from 7th August 1982 to 30th June 1983.

(A) An advance of Rs. 5 lakhs was received as at 31st March 1984 towards share capital.

(B) An amount of Rs. 10 lakhs held as share application money.

1.7 In addition there were 4 Companies covered under Section 619(*B*) of the Companies Act, 1956 as detailed below :

Name of Company	Latest year of account	Paid-up capital	Investment by State Government	Investment by Government Companies	Profit (+)/Loss (—) during the year
			(Rupees in lakhs)		
1. Gujarat Industrial and Technical Consultancy Organisation Limited	1983-84	5.00	..	5.00	0.06
2. Gujarat Leather Industries Limited	1980-81	48.00	..	24.48	(—)19.33
3. Gujarat state' Fertilizers Company Limited	1983	15,99.67	784.09	784.09	(+)22,27.48
4. Gujarat State Machine Tools Corporation Limited	1982-83	221.67	..	114.75	(—)103.65

1.8 The Companies Act, 1956 empowers the Comptroller and Auditor General of India to issue directions to the auditors of Government Companies in regard to performance of their functions. In pursuance of the directives so issued, special reports of the Company auditors on the accounts of 10 Companies (including two 619(B) Companies) were received during the year. The important points noticed in these reports are summarised below :

Nature of defect	Number of Companies where the defects were noticed	Name of Company or reference to serial number in Appendix 'A'
1. Non-existence of effective system of control over payments		18
2. Non-existence of effective internal control	2	18 and Gujarat Water Resources Development Corporation Limited (GWRDC)
3. Non-prescription of norms for consumption of raw materials	1	17
4. Non-existence of a system of ascertaining idle time of labour/machinery	4	16, 17, 32 and GWRDC
5. Non-observance of procedure of calling open tenders for purchases	3	5, 16 and 21
6. Non-preparation of manual prescribing detailed accounting system	7	16, 18, 23, 32, GWRDC, Gujarat Industrial Investment Corporation Limited (GIIC) and Gujarat Small Industries Corporation Limited (GSIC)
7. Non-confirmation of balance of outstanding debts	5	5, 18, 23, GIIC* and GSIC
8. Non-preparation of budgets	3	17, 18, and 32

***In respect of GIIC it applies to transactions with other Government Corporations/Companies.**

Nature of defect	Number of Companies where the defects were noticed	Name of Company or reference to serial number in Appendix 'A'
9. Non-fixation of norms for manpower	4	5, 18, 32 and GSIC
10. Non-preparation of periodical bank reconciliation statement	1	32
11. Non-existence of a proper system of recovery of loans and confirmation of balances	1	18
12. Non-preparation of periodical trial balances and of reconciliation of control accounts and subsidiary accounts	3	17, 23, and 32
13. Non-maintenance of assets register	1	GWRDC
14. Non-maintenance of material-at-site accounts and non-existence of procedure of physical verification of stores and stock	1	GWRDC
15. Non-fixation of standard cost of major products	3	5,17 and 32
16. Non-maintenance of adequate cost records	2	16 and GWRDC
17. Non-fixation of maximum and minimum limits of stores and spares	6	5,16,17,21,32 and GSIC
18. Non-preparation of manual for internal audit	3	5, 16, and 18

1.9 Under Section 619 (*4*) of the Companies Act, 1956 the Comptroller and Auditor General of India has a right to comment upon or supplement the audit reports of the Company auditors. Accordingly the annual accounts of Government Companies are reviewed on a selective basis. Some of the errors, omissions, *etc.*, noticed in the course of review of the annual accounts are detailed as under :

(1) Understatement of loans and advances and overstatement of accumulated loss to the extent Rs.1.18 lakhs as leave salary recoverable from lending department was charged as expenses (Gujarat State Land Development Corporation Limited—1979-80).

(2) Non-provision of Rs. 1.54 lakhs towards leave salary contribution for the year which resulted in understatement of loss (Rs.13.02 lakhs) to that extent (Gujarat State Land Development Corporation Limited—1979-80).

(3) Interest on subsidy refundable was taken as interest income which resulted in understatement of loss and also current liabilities (Rs. 0.34 lakh) (Gujarat State Land Development Corporation Limited—1979-80).

(4) Provision for doubtful 'Loans and Advances' was neither made nor the fact of its non-provision was suitably disclosed by way of note (Gujarat State Export Corporation Limited—Year ending December 1982).

(5) Non-disclosure of closing stock of 4,775 litres of toned milk (Rs. 0.13 lakh) (Gujarat Dairy Development Corporation Limited—1981-82).

(6) Non-provision of liability for unpaid electricity duty (Rs. 0.72 lakh) resulting in overstatement of years' profit (Rs. 0.17 lakh) and understatement of accumulated loss (Rs. 352.51 lakhs) to that extent (Gujarat Dairy Development Corporation Limited—1981-82).

(7) Fixed assets were understated (Rs. 0.37 lakh) due to adjustment of refund of excise duty on crawlar tractors in the year without making adjustment in depreciation (Gujarat Mineral Development Corporation Limited—1981-82).

(8) Penal interest for previous year was charged as expenses (Rs. 0.12 lakh) resulting in overstatement of accumulated loss (Gujarat Water Resources Development Corporation Limited—1978-79).

(9) Note number 9 did not quantify the non-receipt of confirmation of stock of cloth lying with processors (Rs. 6.12 lakhs) (Gujarat State Handloom Development Corporation Limited—1981-82).

(10) Unspent balance of grants was understated by Rs. 4.00 lakhs (Gujarat State Rural Development Corporation Limited—1982-83).

(11) Balance under Drought Prone Area Programme was understated by Rs. 0.33 lakh (Gujarat State Rural Development Corporation Limited—1982-83).

SECTION II

GUJARAT STATE HANDLOOM DEVELOPMENT CORPORATION LIMITED

2.1 Introduction

Gujarat State Handloom Development Corporation Limited was incorporated on 12th November 1979 for development of handloom products and also to ensure proper targetted growth of this important employment oriented sector in rural areas. The Company took over the assets and liabilities pertaining to handloom activity from the Gujarat State Handicrafts and Handloom Development Corporation Limited (parent Company) and commenced business on 15th November 1979.

2.2 Objects

The main objects of the Company are to :

—aid, counsel, assist, protect and promote the interests of and to manufacture, sell, propagate and deal in all kinds of handloom products, khadi and products of village industries in the State of Gujarat and to provide technical and managerial assistance,

—organise and establish emporia and sales depots for handloom, khadi and village industries products,

—establish or otherwise subsidise research laboratories and experimental workshops, and

—make available technical, financial and other assistance to producers, procure and supply raw materials, tools and equipments, train artisans, set up common facility centres, and establish a system of inspection and quality control.

2.3 Summary of findings

1. A scheme for modernisation of looms, *etc.*, wholly financed by the State Government was introduced in 1980-81; up to 1983-84 the Company received Rs. 45.20 lakhs by way of loan and Rs. 60.56 lakhs by way of subsidy. Utilisation certificates for proper utilisation of subsidy received (Rs. 60.56 lakhs) had neither been furnished nor unutilised amount refunded (paragraph 2.7).

2. As against the target of 2428 looms to be covered under modernisation of looms, achievement was only 225 looms due to introduction of a bank guarantee requirement as security against yarn issued. Further, recovery of loans issued for modernisation of looms was poor. Eventhough improvement in wages of weavers by 50 *per cent* was envisaged there was increase of 5 paise per metre in April 1982 and 25 paise per metre in January 1985 (paragraph 2.7).

3. The Company, since inception, had incurred losses and accumulated loss up to March 1982 was Rs. 23.90 lakhs. The provisional accounts for 1982-83 showed a further loss of Rs. 3.76 lakhs. The above loss was after adjustment of receipt of Rs. 51.41 lakhs by way of subsidy from Government (paragraph 2.6).

4. The Company incurred a loss of Rs. 3.07 lakhs in disposal of slow moving stock in March 1980; it also suffered a loss of Rs. 2.09 lakhs in disposal of rejected *janta* cloth inherited from parent Company (paragraph 2.9(d)).

Further details and other aspects are discussed in the succeeding paragraphs.

2.4 Capital structure

The Company was incorporated with an authorised capital of Rs. 50 lakhs which was increased (March 1982) to Rs. 1 crore divided into 1,00,000 shares of Rs. 100 each. The paid-up capital of the Company as on 31st March 1984 was Rs. 57 lakhs (including share application money pending allotment : Rs. 2 lakhs) contributed by State Government (Rs. 55 lakhs) and Gujarat State Textile Corporation Limited (GSTC) (Rs. 2 lakhs).

2.5 Organisational set up

The management of the Company is vested in a Board of directors consisting of 8 directors, including the Chairman and the Managing Director; all appointed by the State Government. The Managing Director is the Chief Executive. The Managing Director is assisted by a Marketing manager and deputy managers. The Company had eight production centres and six emporia in the State.

2.6 Working results

The accounts of the Company for the years 1982-83 and 1983-84 have not been finalised so far (January 1985).

The working results of the Company for the first three years ended March 1982 showed a loss and the accumulated loss up to March 1982 was Rs. 23.90 lakhs. The provisional accounts for the year 1982-83 showed a further loss of Rs. 3.76 lakhs. The above amount of loss had been arrived at after accounting for, receipt of Rs. 51.41 lakhs (up to 1982-83) by way of subsidy from State Government towards schemes administered by the Company. The reasons for incurring losses have not been analysed by the management; however, the reasons for losses as analysed in Audit (July-September 1984) were due to provision of Rs. 15.60 lakhs towards doubtful debts from weavers and loss (Rs. 5.23 lakhs) in sale of rejected/non-moving stock of cloth.

The Management stated (December 1984) that legal notices to the defaulting weavers had been issued and it was trying to recover the amount, either in the form of yarn or in cash. However, details of recovery so far made were not available for verification (January 1985).

2.7 Project of intensive development of handloom industry

2.7.1 In June 1976, Government of India sanctioned a project for intensive development of handloom industry in Gujarat State under the 20-point economic programme. The State Government approved (November 1976) a scheme for the implementation of this project in three districts, *viz*., Ahmedabad, Surendranagar and Banaskantha, involving a capital outlay of Rs. 88 lakhs spread over 5 years from 1976-77 to 1980-81. The scheme was to be financed by way of loan (50 *per cent*) and grant (25 *per cent*) from the Central Government. The State Government was to bear 25 *per cent* of the capital outlay (17 *per cent* loan and 8 *per cent* subsidy) during the first three years. In the last two years of the implementation of the Scheme, the Central Government was to contribute 25 *per cent* loan and 25 *per cent* grant while 50 *per cent* (42 *per cent* loan and 8 *per cent* subsidy) was to be met by the State Government. The scheme was entrusted to the parent Company for implementation. Of the total estimated expenditure of Rs. 88 lakhs in a period of five years, the expenditure to be incurred in first four years, *viz.*, 1976-77 to 1979-80 was Rs. 62.98 lakhs. The actual amount of loan and subsidy released thereagainst during these four years was Rs. 98.05 lakhs (loans : Rs. 52.48 lakhs and subsidy : Rs. 24.92 lakhs received by parent Company and loan : Rs. 10.80 lakhs and subsidy : Rs. 9.85 lakhs received by the Company). The loans were repayable in 10 annual instalments commencing on the anniversary of the disbursement and carried interest at the rate of 7.5 *per cent* per annum, attracting a penal interest of 2.5 *per cent* per annum, in case of default in payment of instalments. The parent Company had neither repaid due instalments (Rs. 4.25 lakhs) nor paid interest (Rs. 2.34 lakhs) on these loans. The scheme envisaged modernisation of 5000 looms at a cost of Rs. 32.70 lakhs by providing improved equipments to improve the quality of the product, its marketability, production and wages. The scheme also included setting up of a design cell (cost : Rs. 0.62 lakh) to prepare new designs, a dye house (cost : Rs. 1.50 lakhs) to dye 5000 kg yarn per day, a warping and sizing unit (cost : 2.72 lakhs) to supply sized yarn to weavers to maintain uniform quality and a workshop (cost : Rs. 0.70 lakh) to render quick service for repairs of looms. During the years from 1976-77 to 1979-80 Rs. 5.10 lakhs (against Rs. 5.54 lakhs as per project report) were received for these four activities (Rs. 0.50 lakh for design cell ; Rs. : 1.40 lakhs for dye house ; Rs. 2.60 lakhs for sizing plant and Rs. 0.60 lakh for workshop). The design cell was not set up and Rs. 0.27 lakh were spent on getting new designs made by an outside agency; similarly dye house was not established though an expenditure of Rs. 0.18 lakh was incurred, and there was no expenditure on the other two activities. With the formation of Gujarat State Handloom Development Corporation Limited, the implementation of scheme by parent Company was closed from March 1980 and the scheme was treated as a new programme by Government. The assets and liabilities (including loan from Government: Rs. 52.48 lakhs, interest accrued thereon up to 14th November 1979: Rs. 5.69 lakhs) relating to this scheme were transferred by the parent Company to the new Company.

2.7.2 The centrally assisted scheme referred to in paragraph 2.7.1; *supra* was replaced (December 1980) by a new wholly State financed scheme introduced from 1980-81. This scheme was to be in force up to 1984-85 and annual targets were to be decided after reviewing the progress of implementation. Eventhough the approved scheme laying down the objectives, *etc.*, was not forthcoming, the proposal submitted by the Director of Cottage Industries to the Government showed that it was intended to cover 6500 looms (including 3500 looms in 3 districts covered under old scheme and 3000 looms in 10 additional districts covered in new scheme). The broad details of implementation of this scheme during 4 years *viz.*, from 1980-81 to 1983-84 were as under :

(a) The Company received Rs. 105.76 lakhs during the years 1980-81 to 1983-84 as loans and subsidy from the State Government for modernisation of looms (loan: Rs. 4.99 lakhs, subsidy : Rs. 8.51 lakhs), training of weavers (subsidy : Rs. 5.08 lakhs), project administration (subsidy : Rs. 46.72 lakhs), margin money (loan: Rs. 22.21 lakhs) and setting up a design cell (subsidy: Rs. 0.25 lakh); sanction for a loan of Rs. 18 lakhs received during 1980-81 for this scheme, however, did not specify the breakup of the amount for above mentioned purposes as was done in sanctions for subsequent years. Yearwise details of loans and subsidy received are given hereunder :

Year	Amount received	
	Loan	Subsidy
	(Rupees in lakhs)	
1980-81	18.00	9.50
1981-82	9.20	17.05
1982-83	10.00	15.01
1983-84	8.00	19.00
Total ..	45.20	60.56

(i) The loans were repayable in 10 annual instalments commencing from the anniversary of disbursement of loans with interest at 8 *per cent* and default in payment of instalments attracted 2.5 *per cent* penal interest. The Company paid instalments of loans of Rs. 7.76 lakhs (in addition to Rs. 22.86 lakhs out of old loans) during the years 1981-82 to 1983-84 and requested the Government (June 1981) to treat loans on the scheme (including old loans) as interest-free. Interest accrued and due amounting to Rs. 27.86 lakhs up to 31st March 1984 (including penal interest Rs. 0.41 lakh) had not been paid. Government approval for waiving interest was awaited (January 1985).

(ii) The Government sanctioned and paid (March 1981) Rs. 18 lakhs, as loan for the year 1980-81 under the scheme; but in May 1982 the Government revised the amount of loan to Rs. 10.19 lakhs on deciding the itemwise ratio of loan and subsidy and asked Company to repay the excess amount of Rs. 7.81 lakhs forthwith. The Company had represented (January 1984) for restoration of the original sanction; Government decision was awaited (February 1985).

(iii) The terms and conditions for sanction of the subsidy from time to time provided that a certificate that the grant has been utilised for the programme for which it was sanctioned was required to be submitted alongwith the refund of unutilised balance at the end of the financial year. Neither such a certificate was submitted nor unutilised balance refunded (February 1985). From the details available, it was seen that a sum of Rs. 4.27 lakhs was not utilised during the four years from 1980-81 to 1983-84 on modernisation of handlooms (Rs. 3.60 lakhs out of Rs. 8.51 lakhs) and training of weavers (Rs. 0.67 lakh out of Rs. 5.08 lakhs). Details of unutilised balance out of the amount of Rs. 46.72 lakhs on 'project administration' and Rs. 0.25 lakh on 'design cell' were not worked out.

(b) The table below indicates the figures of targets of looms fixed under the scheme of modernisation and the achievements thereagainst for the four years up to 1983-84:

Year	Targets	Achievements
	(Number of looms)	
1980-81	Not fixed	935
1981-82	765	820
1982-83	945	162
1983-84	1483	63

The shortfall in targets during the years 1982-83 and 1983-84 was attributed (October 1984) to poor coverage during these years due to introduction of bank guarantee as security against yarn issued to the weavers for weaving based on past experience of non-return of cloth for yarn issued. The Company stated (December 1984) that it was trying to formulate a more attractive scheme to improve the coverage.

(c) Under modernisation of looms, weavers were supplied improved equipments for replacing of traditional equipments used by them; 40 *per cent* of the cost of such supplies was treated as loan and balance 60 *per cent* as subsidy. These loans were to be recovered from the weaving charges payable to them; but the number of instalments in which the recovery was to be made was not fixed till 1983-84. The Company stated (December 1984) that it had decided to recover the loan in 10 monthly instalments from 1983-84. The position of recovery of such loans for the four years up to 1983-84 was as under :

Year	Opening balance	Amount treated as loan	Amount recovered	Closing balance
		(Rupees in lakhs)		
1980-81	1.07	0.39	0.07	1.39
1981-82	1.39	1.21	0.35	2.25
1982-83	2.25	0.77	0.38	2.64
1983-84	2.64	0.60	0.31	2.93

It would be seen from the above that the recovery was meagre. On a test check of records of three district offices in August 1984, it was noticed that the number of weavers from whom recovery was effected was much less than the number against whom recovery was due *e. g.*, in district office at Palanpur recovery was effected from 63, 797, 577 and 499 weavers only during the 4 years from 1980-81 to 1983-84 as against the number of 1055, 1195, 1404 and 1438 weavers who had to repay such loans. The Company had not reconciled the figures of balance of loan outstanding as per individual loan accounts in district offices with the figure of outstanding loan as appearing in control ledger at head office. Moreover, Company had not yet

January 1985) assessed the number of dormant loanees who had to repay loans but had stopped transacting with the Company. The Government stated (February 1985) that these details were under preparation.

(d) (i) The old as well as new schemes envisaged improvement of wages of weavers; increase in wages by 50 *per cent* was anticipated at the end of 1980-81. The Company had during the implementation of the schemes increased wage rate for *Dhoti* and *Sarees* by 25 paise (from Rs.3.25 to Rs. 3.50) and for grey cloth by 5 paise per square metre (from Rs.0.65 to Rs. 0.70) only once in April 1982. The wages of weavers had thus not increased to the extent envisaged. The Government stated (February 1985) that the Company had increased the weaving charges by 25 paise per square metre on *Janta* items from January 1985 and the Company has introduced non-*Janta* items which would enable the weavers to earn comparatively higher wages.

(ii) The table below indicates the targets and achievements in providing employment to the weavers and their family members for the four years from 1980-81 to 1983-84 :

Year		Employment (progressive)		Training	
		Targets	Actuals	Targets	Actuals
			(Numbers)		
1980-81	..	2250	2835	180	50
1981-82	..	3600	3655	90	64
1982-83	..	4700	3874	90	75
1983-84	..	5300	3880	75	90

The Management stated (December 1984) that due to introduction of bank guarantee scheme from 1982-83 the rate of coverage was low.

2.8 Supply of yarn to weavers

The Company purchased yarn from GSTC, co-operative and other mills and supplied the same to weavers for weaving into cloth for which they were paid weaving charges. Yarn valuing Rs.290.51 lakhs was supplied to the weavers during the five years up to 1983-84. It was reported by the internal auditors (June 1981) that the limit of 40 kgs per month per weaver fixed by the Company was not adhered to strictly by the district offices and large quantity of yarn had accumulated with weavers. The Company had determined that at the end of the year 1983-84 yarn valued at Rs.17.30 lakhs had accumulated with the defaulting weavers and was not realisable. The Company had initiated legal proceedings against such weavers (August 1982); it had also thereafter entered into new agreements with some weavers to revive them by giving them further yarn and on return of cloth woven the cost of balance yarn with them was recovered partly from weaving charges payable.

2.9 Production and Sales

(a) The table indicates the yearwise details of targets and actual production of cloth and stock of cloth at the end of the four years up to 1983-84 :

Year	Production		Stock at the end of the year
	Targets	Actuals	
	(Rupees in lakhs)		
1980-81	101.91	60.07	31.04
1981-82	135.00	121.11	59.43
1982-83	140.00	108.43	95.76
1983-84	200.00	122.00	96.65

There was accumulation of stock resulting in blocking up of funds; the Management explained (December 1984) that cloth produced being coarse (weavers of Gujarat were stated to be not accustomed and skilled to weave finer varieties) had limited market; but the production could not be drastically curtailed in view of the need to give steady employment to weavers.

(b) The table below indicates the targets and actuals of sales of various items of cloth for the four years from 1980-81 to 1983-84 :

Year	Sales Targets	Sales Actuals
	(Rupees in lakhs)	
1980-81	100.00	67.22
1981-82	125.00	108.86
1982-83	150.00	103.42
1983-84	164.00	197.00

Up to 1982-83 the Company had to curtail production as coarse varieties had limited market. However, in the year 1983-84, the sales exceeded the target mainly with improvement in variety of non- *Janta* cloth.

(c) (i) The Company participated in expo-exhibition sales for which State Government allowed a grant of Rs.0.50 lakh or Rs.0.70 lakh per exhibition depending on it being within or outside the State. The Company participated in eleven such expo-exhibitions during five years from 1979-80 to 1983-84; the gross sale realisations at these exhibitions were as under :

Year	Place of exhibition	Gross sales (Rupees in lakhs)
1979-80	Bombay	1.29
1980-81	Delhi	1.62
	Calcutta	2.02
	Bombay	2.52
1981-82	Hydrabad	3.44
	Calcutta	2.99
1982-83	Bangalore	4.39
	Ahmedabad	6.63
	Bombay	4.16
1983-84	Calcutta	3.35
	Madras	0.85

The Company had not booked expenses incurred at such exhibitions separately so as to assess profitability of the exhibitions.

(ii) The Company also held exhibitions (excluding expo-exhibitions) in different cities of the State. Sales effected in these exhibitions during four years from 1980-81 to 1983-84 were as under :

Year	Sales (Rupees in lakhs)
1980-81	3.73
1981-82	8.46
1982-83	13.81*
1983-84	11.39*

*Figures for 1982-83 and 1983-84 are provisional.

The profitability of these exhibitions was also not worked out separately.

(d) Rejected and non-selling stocks

(i) The Company inherited slow moving stock valued at Rs. 8.30 lakhs on 15th November 1979. It was decided (December 1979) by the Company to sell the stock by granting an additional discount of 40 *per cent* (over and above normal discount of 20 *per cent*). Accordingly stock valued at Rs.5.10 lakhs was sold up to March 1980 realising Rs. 2.03 lakhs; details regarding disposal of balance stock (value: Rs. 3.20 lakhs) were not separately available as this stock was merged with other stock. The terms and conditions fixed for this sale were not available and as such it could not be examined whether the purchaser was required to pass on the benefit to the customers.

(ii) It was decided (November 1979) by the Board of the parent Company to sell rejected *Janta* cloth (value: Rs. 2.99 lakhs) at a loss of Rs. 1.81 lakhs. The sale was effected in November 1979. Similarly rejected *Janta* cloth (value: Rs.0.91 lakh) was also sold in lots at a loss of Rs. 0.28 lakh in November-December 1979 as per decision of the Board of the parent Company. As these goods were transferred on its formation, the Company had to bear a loss of Rs. 2.09 lakhs.

2.10 Costing system

The Company has not introduced detailed costing system in respect of the cloth produced. The sale price of different types of cloth was determined by the Company by taking the cost of raw materials, colours, chemicals and direct labour per metre, both for *janta* and non-*janta* cloth and a margin of 20 *per cent* and 30 *per cent* on *janta* and non-*janta* cloth respectively was added to cover overheads and profit. The Management stated (December 1984) that it was considering revision of pricing policy.

The Company had consulted Gujarat Industrial and Technical Consultancy Organisation Limited for development of costing system (January 1981). The report was received in March 1983.

The report highlighted the various defects of the present system of costing as :

(i) it neglected waste,

(ii) most varieties were under-weighed resulting in an unabsorbed yarn cost,

(iii) overheads failed to cover selling and distribution cost *etc*.

No action had, however, been taken by the Management on this report (January 1985).

SECTION III

GUJARAT TRACTOR CORPORATION LIMITED

3.1 Introduction

The Company was incorporated on 31st March 1978 as a wholly owned Government Company to take over the business of Hindustan Tractors Limited (HTL) which was being managed since March 1973 by the Gujarat Agro-Industries Corporation Limited under Industries (Development and Regulations) Act, 1951.

The main objects of the Company were to manufacture, purchase, sell, hire and deal in tractors and agricultural equipments, road rollers, excavators, *etc*.

3.2 Summary of findings

The important audit observations noticed during review of the working of the Company are briefly given below :

(i) The Company has an installed capacity to produce 3,000 tractors per annum in the 'above 40 HP' range. Its break-even production level was between 2,000 to 2,500 tractors; but actual production which was restricted by sales constraints, was particularly low in 1980-81 (1,150 tractors), 1982-83 (728 tractors), and 1983-84 (1,335 tractors). Inspite of various incentives given by the State Government, Company's market share has declined from 2.8 *per cent* to 1.7 *per cent* in tractor sales outside Gujarat, which constituted more than 75 *per cent* of its total sales, and it has stagnated around 5 to 6 *per cent* of sales within the State (paragraph 3.6).

(ii) The planned indigenisation programme of a new model tractor (95 *per cent* by 1983-84) was not implemented and advance purchases of components resulted in interest burden of Rs.77.92 lakhs; collaboration agreement for transfer of technology was concluded in July 1984 (paragraph 3.8).

(iii) In case of import, concessional rate of customs duty was not availed of for want of a certificate from Director General Technical Development (DGTD) resulting in extra cost of Rs. 16.83 lakhs. In three other purchase cases also extra expenditure of Rs.5.50 lakhs was incurred (paragraph 3.9).

(iv) The accumulated loss up to 31st March 1984 based on provisional accounts was Rs. 514.38 lakhs which had exceeded the paid-up capital of Rs. 450.20 lakhs (paragraph 3.5); the loss per tractor sold worked out to Rs. 5,318 (1980-81), Rs. 19,243 (1982-83) and Rs. 14,995 (1983-84) (paragraph 3.7).

Finalisation of accounts for three years from 1981-82 to 1983-84 was in arrears (paragraph 3.5).

Further details and other aspects are discussed in the succeeding paragraphs.

3.3 Organisational set-up

The management of the Company was vested in a Board of Directors which consisted (October 1984) of a Chairman, a Managing Director and five other directors, all appointed by the State Government. The Managing Director is the Chief Executive of the Company who is assisted by a General Manager and six Divisional Managers. The Company has sales offices at Madras and Bhatinda and a liaison office at Bombay.

3.4 Capital structure

The authorised capital of the Company was Rs. 10 crores. The paid-up capital of the Company as on 31st March 1984 was Rs. 450.20 lakhs entirely subscribed by the State Government. The Company had also taken from the State Government loans for various purposes. The balance of loans outstanding as on 31st March 1984 totalled Rs. 601 lakhs (project loan: Rs. 150 lakhs, loans to cover cash losses replenishing the working capital :Rs. 108 lakhs and other loans: Rs. 343 lakhs). These loans were repayable in 10 annual instalments with a moratorium of 5 years. In case of loans given by Government to cover cash losses the rate of interest was open market borrowing rate of Government with three years moratorium in payment of interest. The rate of interest on other loans was 12 *per cent* per annum with a rebate of 1 *per cent* for prompt payment of instalments. The unpaid interest on these loans as on 31st March 1984 amounted to Rs. 120.26 lakhs.

In addition, the Company had various financial arrangements (inclusive of deferred payment guarantee) with a nationalised bank up to a maximum limit of Rs. 720.99 lakhs against which Rs. 497.09 lakhs were outstanding as on 31st March 1984 which included pre-takeover liability of

Rs. 155.16 lakhs on which undischarged liability of interest amounted to Rs. 193.98 lakhs. The borrowings from the bank were secured by pledge and hypothecation of stock of raw materials, finished goods, works-in-progress, stores, *etc.* and book debts; deferred payment guarantee was covered by hypothecation of machineries purchased there-against.

The Company had also taken a loan from Industrial Reconstruction Corporation of India (Rs. 50 lakhs) against State Government guarantee, of which Rs. 35 lakhs was outstanding as on 31st March 1984.

3.5 Working results

The Company had finalised (November 1984) its accounts for the years up to 1980-81 and prepared provisional accounts for the years 1981-82 to 1983-84. According to these accounts the Company made profits in the years 1978-79 (Rs. 5.46 lakhs), 1979-80 (Rs. 6.00 lakhs) and 1981-82 (Rs. 5.62 lakhs) and incurred losses in the years 1980-81 (Rs. 55.89 lakhs), 1982-83 (Rs. 231.30 lakhs) and 1983-84 (Rs. 244.27 lakhs). The accumulated loss at the end of 31st March 1984 amounted to Rs. 514.38 lakhs as against the paid-up capital of Rs. 450.20 lakhs.

The losses were explained by the Management (November 1984) as due to :

(i) Lock out for over two months in 1980-81 and 'go slow' policy resorted to by workers in 1983-84.

(ii) Credit squeeze by the Reserve Bank of India which had the effect of banks curtailing grant of loans for purchase of tractors during 1981-82.

(iii) Increase in the expenditure on salaries and wages due to settlement with workers signed in January 1981 effective from 1st April 1980.

(iv) Increase in interest charges on loans to meet cash losses.

3.6 Activities

(i) *Production performance*

The table below indicates installed capacity, targets fixed and actual production of tractors by the Company for the six years up to 31st March 1984 :

Year	Installed capacity	Target	Actual production	Percentage of actual production to	
				installed capacity	target
	(Number of tractors)				
1978-79	3000	2800	2654	88.5	94.8
1979-80	3000	3000	1900	63.3	63.3
1980-81	3000	2400	1150	38.3	47.9
1981-82	3000	2500	2153	71.7	86.1
1982-83	3000	2500	728	24.3	29.1
1983-84	3000	2270	1335	44.5	58.8

The Company had utilised only 38.3 *per cent*, 24.3 *per cent* and 44.5 *per cent* of the total installed capacity respectively during 1980-81, 1982-83 and 1983-84. Similarly, during the years 1980-81, 1982-83 and 1983-84, the Company had achieved only 47.9, 29.1 and 58.8 *per cent* of the targetted production.

The Management stated (November 1984) that, apart from the factors mentioned at items (i) and (ii) of paragraph 3.5 *supra*, the inadequate rains and shortage of diesel during 1979-80 and 1980-81, had the effect of reducing the sales and these factors were also responsible for uneven and low production.

(ii) *Sales performance*

The details of projected and actual sales of the 3 models of tractors for six years up to 1983-84 were as follows :

	50 HP		45 HP		61 HP		Total	
	P	A	P	A	P	A	P	A
	(Number of tractors)							
1978-79 ..	2700	2550	..	..	..	..	2700	2550
1979-80 ..	2750	1710	250	15	..	..	3000	1725
1980-81 ..	2005	1000	450	51	75	..	2530	1051
1981-82 ..	950	1003	1445	800	150	12	2545	1815
1982-83 ..	1030	501	1520	544	250	157	2800	1202
1983-84 ..	994	677	1060	725	325	227	2379	1629

(P = Projected, A = Actual)

The actual sales always remained below the projected levels; more particularly in the years 1979-80, 1980-81 and 1982-83. The Management attributed (November 1984) uneven and low sales to fall in demand due to inadequate rains and shortage of diesel during 1979-80 and 1980-81.

The State Government issued directive (January 1980 which was reiterated in January 1983) that all Government departments, Corporations and beneficiaries of subsidies should purchase tractors from the Company without calling for the quotations. The State Government also reduced Gujarat Sales Tax on tractors manufactured by the Company from 6 *per cent* to 2 *per cent*. An amount of Rs.1 crore was placed at the disposal of the State Land Development Bank by the State Government for providing loans to farmers for purchase of tractors from the Company.

In addition the State Government, on request of the Company (December 1979), also reduced (February 1980) the rate of Central Sales Tax from 4 *per cent* to 1 *per cent* up to March 1985 with a view to promoting the sales in other States.

The table on pages 38-39 indicates the total sales of tractors compared with the sales of Company's tractors in and outside the State during the years 1978-79 to 1983-84:

Year			Total sales of Company	Part-A—Sales	
				Sales of Company	Sales of all makes
1			2	3	4
			(Number of tractors)		
1978—79	..	..	2550	132	2213
1979—80	..	..	1725	168	3193
1980—81	..	..	1051	146	4179
1981—82	..	..	1815	458	4784
1982—83	..	..	1202	236	4088
1983—84	..	..	1629	364	NA

NA : Means information was not available.

in the State		Part-B—Sales outside the State		
Percentage of column (3) to column (2)	Percentage of column (3) to column (4)	Company's sales in other States	Sales of all manufacturers in other States	Percentage of column (7) to column (8)
5	6	7	8	9
(*Per cent*)		(Number of tractors)		
5.2	6.0	2418	NA	NA
9.7	5.3	1557	56048	2.8
13.9	3.5	905	60570	1.5
25.2	9.6	1357	71748	1.9
19.6	5.8	966	58006	1.7
22.3	..	1265	NA	..

It would be seen from the above table that though the sales of Company's tractors in the State had increased, the Company's share in sales of all tractors in the State was lower in 1982-83 as compared to 1978-79 inspite of reduction in the Gujarat Sales Tax. The Company stated (November 1984) that the heavy 50 HP tractors, which formed the bulk of manufacture, was unsuitable for Gujarat soil conditions and that a new model was introduced in the year 1980-81; but its sales picked up only in 1983-84 due to a few serious failures.

Similarly, in the case of sales outside the State, the Company's share in the market had also come down inspite of concessional rate of Central Sales Tax; the benefit of reduction in Central Sales Tax having been offset by the Company by increasing its *ex*-factory price of tractors for sale outside the State.

3.7 Determination of selling prices of tractors

The Company determines the selling prices of its tractors after taking into account the material cost, excise duty, dealers' commission, an element of Company's contribution to cover all cost other than material and the profit margin. There was no fixed criteria for determining Company's contribution to cover the labour cost, factory, administrative and selling overheads, *etc.*, based on costing principles and it was determined by selling prices which were decided keeping in view the market trend and Company's ability to penetrate in the market in competition with other manufacturers. The details of profits / losses of the Company for the six years up to March 1984 spread on the sales and profit/loss per tractor sold thus calculated were as follows :

Year	Total tractors sold	Total profit(+)/ loss(—) for the year	Profit(+)/ loss (—) per tractor sold
		(Rupees in lakhs)	(Rupees)
1978-79 ..	.. 2,550	(+)5.46	(+)214.12
1979-80 ..	.. 1,725	(+)6.00	(+)347.82
1980-81 ..	.. 1,051	(—)55.89	(—)5,317.80
1981-82 ..	.. 1,815	(+)5.62*	(+)309.64
1982-83 ..	.. 1,202	(—)231.30*	(—)19,242.93
1983-84 ..	.. 1,629	(—)244.27*	(—)14,995.09

In reply to an audit query about the reasons for not working out the cost of the tractors before determining selling prices, the Management explained (November 1984) that cost of raw materials going into the production of a tractor was about 75 to 80 *per cent* of the realisation and had to be incurred irrespective of the volume of production; moreover, customer would not be willing to pay higher price if cost was more and, as such,the basis of determining the selling price adopted by the Company was argued to be reasonable and judicious. But the fixation of selling price without calculating the cost by applying proper costing methods denied the management the very basis of knowing the extent of profit or loss arising out of their price fixation and of thus evaluating the correctness or otherwise of management's decisions flowing therefrom.

*figures are provisional.

3.8. Manufacture of a new model tractor and its indigenisation

As the sales of 50 HP tractor, manufacture of which was completely indigenised, had started falling, the Company planned (1979-80) to manufacture a new model of 45 HP tractor (G-453) so as to achieve a break-even point by manufacturing and selling atleast 2000 to 2500 tractors of both the models. With this objective the Company placed orders (between April 1980 to October 1982) with a foreign firm for supplying imported packages (packs) of the new model tractor consisting of engine, gearbox and transmission housing comprising 60 *per cent* of the total cost. The following phased programme of indigenisation of this model was approved (November 1980) by Director General Technical Development (DGTD).

Year	Indigenisation to be achieved	Percentage of deletion from imports	Tractors to be produced
			(Numbers)
1980-81 ..	Electricals, sheet metal components, battery, wheels with tyres / tubes, radiator, silencer, 3 point linkage, seat assembly, front axle, *etc.*	40	1,000
1981-82 ..	-do- hydraulic system	60	1,500
1982-83 ..	Steering and clutch, complete engine	75	1,500
1983-84 ..	Main transmission housing portals and brake system	95	2,000
		Total	6,000

With a view to achieving the above programme of indigenisation, the Company issued orders for import of 5, 680 engines and 6,250 gear boxes and transmission housings up to October 1982 and received 3,250 sets of engines and gear boxes, *etc.*, up to May 1983. As against the estimated production of 6,000 tractors during the period 1980-81 to 1983-84, the Company produced only 2,173 tractors. An analysis of receipts and issues of imported packs for G-453 model showed that the Company had to defer utilisation of imported packs for periods ranging up to 525 days as against the normal consumption period of 120 days. This had resulted in interest burden of Rs. 77.92 lakhs even after discounting 180 days interest-free grace period allowed by the foreign supplier. It was stated by the Company (November 1984) that due to marketing constraints it could not implement the phased manufacturing programme and had, therefore, to carry over a large inventory of imported packs of engines (1,077), gear box and transmission housings (1,217) at the end of 31st March 1984. Due to Company's inability to implement the phased manufacturing programme it was allowed by DGTD to continue manufacture with 60 *per cent* import content upto 1983-84. As per the Company's own assessment (July 1984) the imported packs in stock were enough for its manufacturing programme up to December 1984 and the G-453 tractors fitted with these packs might be available for sale up to end of March 1985.

For the indigenisation of manufacture, the Company was negotiating with the sister concern of the foreign supplier of 'packs' for transfer of technology and a collaboration agreement had been concluded, after approval of Government of India, only in July 1984. Thus till such time as the indigenisation programme was actually implemented the Company would have to defer further its import substitution programme in the manufacture of these tractors.

3.9 Purchases

On a test check of purchases following cases of avoidable extra expenditure and unnecessary purchase were noticed :

(i) *Purchase of taper roller bearings*

The Company placed an order (1st September 1979) on a firm of Bombay for arranging supply of 4000 taper roller bearings (part number 32213) from their principals in West Germany; 1000 bearings to be despatched by air immediately and 3000 bearings to be shipped by the quickest steamer with a view to availing of concessional customs duty available up to 30th September 1979. The firm informed by a telex (14th September 1979) followed up by a letter (19th September 1979) that their principals had no ready stock for supply by September 1979 and they agreed to supply in November 1979. The benefit of concessional customs duty was extended (28th September 1979) further up to 31st March 1980. The Company, however, did not change its earlier instructions for air lifting the first consignment of 1000 bearings which was despatched by the foreign firm on 22nd October 1979 involving an expenditure of Rs. 0.52 lakh on air-freight. As the consumption of bearings started only in March 1980 by which time the consignment could have been received by cheaper mode of sea shipment (the second consignment despatched by sea on 20th December 1979 was received by 18th March 1980) the bulk of expenditure on air freight could have been avoided.

(*ii*) *purchase of furnace-extra cost Rs. 1.33 lakhs*

The Company placed an order on a firm of Bombay in November 1978 for supply of an electric furnace for Rs. 3.88 lakhs and paid (February 1979) 20 *per cent* of value of equipment as an advance (Rs. 0.78 lakh). The finance for the balance 80 *per cent* of the value of machinery was to be arranged by the Company under IDBI scheme. The equipment was to be supplied after 6 to 7 months. The firm repeatedly (from February 1980) asked the Company for IDBI guarantee documents, but these were not furnished and the firm disposed of the furnace in June 1980 to another party.

A fresh negotiated order was then placed (December 1980) at a cost of Rs. 5.02 lakhs (inclusive of cost of extra item Rs.0.53 lakh). The furnace was delivered in May 1981 and was installed in December 1981. Thus due to delay in taking action to submit guarantee documents, Company had to incur an additional expenditure of Rs. 0.61 lakh on purchase and had to pay additional interest of Rs. 0.47 lakh due to revision of IDBI rate of interest (March 1981); apart from loss of interest (Rs. 0.25 lakh) on blocked up funds (Rs. 0.78 lakh) advanced in February 1979.

The Management stated (October 1984) that the IDBI documents could not be finalised in time as there was strike and lock out in the factory from 25th May to 31st

July 1980. The IDBI documents duly executed were, however, to be handed over to the firm by August/September 1979 as per the original delivery period, which showed that delay was avoidable.

(*iii*) *Non-availing of concessional customs duty (extra cost : Rs. 16.83 lakhs)*

The consignment of gearbox and transmission housing for the manufacture of G-453 model tractors received in May 1982 was kept in bonded warehouse with a view to availing of the concessional customs duty by obtaining a certificate from DGTD and furnishing it to the customs authorities at the time of clearance of goods. However, the consignment was got cleared in July/August 1983 by paying customs duty at the normal rate involving an extra payment of Rs. 16.83 lakhs because the requisite certificate from DGTD was not furnished. In reply to audit query, the Company explained (October 1984) that inspite of follow ups at the highest level and several visits by officials to Delhi, the certificate could only be obtained in December 1983 and, therefore, normal customs duty had to be paid on this consignment. The Management stated (January 1985) that concessional customs duty was admissible on import of components, but DGTD had raised the objection that complete gear boxes imported by the Company were not components and it took more than a year's pursuance to get the requisite certificate from DGTD. However, for subsequent releases in December 1983, customs duty was paid at concessional rate.

(iv) Unnecessary purchase of fuel injection pumps

In view of labour trouble in the factory of the supplier of fuel injection pumps, the Company placed an order (February 1980) on a firm of Czechoslovakia for supply of 200 fuel injection pumps to be despatched immediately by air. The consignment arrived at Bombay on 2nd April 1980. However, the delivery of the material was taken on 28th April 1980. Because of delay, the Company had to pay demurrage charges of Rs. 0.24 lakh in addition to air-freight of Rs. 0.97 lakh. The Management stated (October 1984) that time was taken for clearing the documents from bank and customs collectorate, but it was not clear why quicker clearance could not be done. Further, the utilisation of material commenced only after 13 months (June 1981) and only 4 pumps were used up to March 1984. As such, the purchase far in advance of requirement and also airlifting were apparently unjustified. The purchase had thus resulted in avoidable blocking of funds of approximately Rs. 5.07 lakhs on 150 pumps (allowing even a margin of 50 pumps to meet the emergent requirement) for 4 years involving an avoidable interest burden of approximately Rs. 3.65 lakhs apart from the extra expenditure on air-freight and the demurrage (Rs. 1.21 lakhs).

3.10 Inventory control and material management

(a) The table on pages 48-49 indicates the comparative position of inventory *vis-a-vis* consumption thereagainst at the close of six years up to 1983-84 :

Particulars	1978-79	1979-80
	1	2
(*a*) Closing stock	(Rupees in lakhs)	
(*i*) Stores and spares ..	18.36	16.75
(*ii*) Tools and jigs ..	70.73	73.65
(*iii*) Raw materials, components and spares	314.08	423.40
(*iv*) Goods-in-transit	79.84	29.13
(*v*) Work-in-progress ..	49.54	99.47
(*vi*) Finished goods ..	89.98	143.71
(b) Consumption of raw materials, stores and spares during the year	1082.92	852.97
(*c*) (*i*) Year end inventories of raw materials, stores and spares and tools (including goods-in-transit)	(Months' consumption) 5.35	7.64
(*ii*) Year end inventories of work-in-progress	(Months' production) 0.41	1.00
(*iii*) Year end inventories of finished goods	(Months' sales) 0.75	1.56

*Figures for the years 1981-82, 1982-83 and 1983-84 are provisional.

1980-81	1981-82*	1982-83*	1983-84*
3	4	5	6
(Rupees in lakhs)			
20.20	75.19	67.20	68.85
69.71			
369.66	510.53	834.94	852.90
113.63			
185.98	184.11	239.10	201.20
159.77	428.22	202.80	5.90
586.55	1273.01	501.87	905.28
(Months' consumption)			
11.73	5.52	21.57	12.22
(Months' production)			
2.36	1.28	2.65	1.72
(Months' sales)			
2.44	3.50	2.38	0.04

The stock of raw materials, stores and spares and tools (including goods-in-transit) was very high and ranged between 5.35 months' consumption (1978-79) and 21.57 months' consumption (1982-83) as against the norm of 2.25 months' consumption. High inventory retention had resulted in avoidable blocking of funds apart from cost of carrying inventory and loss due to deterioration, obsolescence, etc. The Management stated (November 1984) that higher inventories were due to (i) minimum order level of batch, (ii) three models under production also increased stock, (iii) excess purchases became necessary in Indian conditions as sole suppliers some times developed troubles, (iv) heavy imports, *etc*. Further, that the Company had a most integrated production and in-plant items were higher as compared to other tractor manufacturers in India and, as such, inventories not only of finished products, but also of raw materials, *etc*., had to be kept. The Company also stated (January 1985) that it had decided to switch over to computerised inventory control.

(b) Apart from the cases of unnecessary / excessive purchases mentioned in para 3.9 *supra* which added to the inventory, the following are some of the instances indicative of weak inventory control:

(*i*) *Excessive purchase of tools*

The Company carried an inventory of tools of Rs. 69.71 lakhs against the total plant and machinery worth Rs. 206.90 lakhs (March 1981) i. e. 33.7 *per cent*. During the six years 1978-79 to 1983-84 the Company had neither taken any physical inventory of plant and machinery and of tools nor segregated surplus, obsolete plant and machinery and tools and assessed their value. A test check of utilisation of tools by audit revealed (September 1984) that tools valuing Rs. 7.13 lakhs purchased on emergent basis (delivery by air) during 1979 and 1982 from two firms of United Kingdom were used in 1983-84 only. It showed that their consumption was not immediate. Thus, these purchases were made in bulk much in advance of need.

The Management stated (November 1984) that these purchases were made to avoid future import licence/delivery problem as well as keeping in view the increased production of 50 HP tractors which was subsequently changed to production of 3 models; and that life of imported tools was better. The Company did not, however, clarify why purchases could not be controlled.

(*ii*) *Avoidable payment of penalty on imported goods*

The Company was entitled to get import licences of two categories *viz*., (i) for import of components required for manufacturing tractors and (ii) for parts required for after-sales service. As per import policy, licence for importing spare parts could also be used for import of cutting tools, inspection gauges, *etc*. The Company imported certain gear shaping cutters (October 1979, value: Rs. 1.49 lakhs) by air and customs authorities held that since the material imported could be covered only up to 10 *per cent* of the face value of the import licence subject to a maximum single item value of Rs. 50,000, goods worth Rs. 0.79 lakh were not covered by the import licence and therefore, attracted the penalty of Rs. 0.69 lakh or confiscation of the goods. The Company paid fine of Rs. 0.69 lakh (December 1979) out of which refund of Rs. 0.44 lakh was obtained on appeal (January 1981). Thus, the Company's inadvertance in importing the goods beyond the scope of the import licence resulted in avoidable payment of fine of Rs.0.25 lakh apart from loss of interest of Rs. 0.09 lakh on refund received after a period of 13 months (January 1981).

The Management stated (October 1984) that it would not have been possible to get the import licence in advance to avoid such penalty as the Government of India normally insisted that the value of licence once granted should be fully utilised before considering an additional licence and the normal time required for getting licence was 4 to 6 months. But the question of obtaining additional licence would not have arisen had the Company initially obtained import licence of the requisite value or placed the order to the extent permissible under the import licence.

(*iii*) *Non-moving stores*

The Company had valued the inventory for the year 1980-81, but not thereafter. A test check of the balances reflected in the inventory as at 31st March 1981 with the kardex balances of subsequent years up to March 1984 showed that the stores valuing Rs. 61.20 lakhs as per March 1981 inventory had remained unutilised up to March 1984 of which stock valuing Rs. 45.68 lakhs had become obsolete due to change in model of tractor (November 1984).

3.11 Defects and losses in production

(i) The Company had a quality control and inspection department manned by 70 employees (December 1982). A review of the details compiled by the Company showed that the results of inspections of various department's were either in numbers or in percentages without comparing the same in terms of the norms/standards, if any, laid down by the Company. The financial implications of the rejections, repairs, *etc.*, of the variances noticed in such inspections were also not worked out except in case of machining rejections. In case of machining rejections, it was seen that rejections in respect of only 42 selected items, which were evaluated, worked out to Rs. 17.18 lakhs for the period from January 1982 to March 1984; records for the period prior to January 1982 were not available. The Management stated (November 1984) that in machine shop heavy rejection could be due to changes in design, mistakes of operators, wrong operation of machines, *etc.*; in foundry shop rejections were due to quality of raw material and coke, but were under control and in acceptable standards. The Company hoped that under the incentive scheme (introduced in February 1982) there would be substantial improvement in the situation ; however, this had not happened.

The Management stated (January 1985) that there was improvement initially; but subsequently fall in sales and cut in production necessitated laying off of workmen and staff from December 1982 which affected their morale and the scheme did not get required co-operation from them.

(ii) The details of value of rejections and shortages/ excesses of components adjusted in the cost of components actually produced during the years 1978-79 to 1980-81 are tabulated below :

Year	Number of components manufactured	Total cost £	Cost of rejections *	Net shortages *	Total of column (4) and column (5)	Percentage of column (6) to column (3)
1	2	3	4	5	6	7
		(Rupees in lakhs)				
1978-79 ..	156	447.02	NA	53.33	53.33	11.9
1979-80 ..	143	432.71	64.06	36.41	100.47	23.2
1980-81 ..	140	346.06	57.86	26.46	84.32	24.1

As per the procedure adopted by the Company the cost of rejections and shortages was also loaded to finished products. The impact of rejections and net shortages on the cost of production during these three years was considerable ; but the Company had not analysed the reasons

£ Inclusive of cost of rejections and shortages/excesses.

* Valued at cost inclusive of cost of rejections and shortages/excesses since these elements were not valued separately.

NA: Details are not available.

for the same and fixed any norms so as to make proper evaluation and exercise effective control. The Company stated (December 1984) that rejections were related to the correctness of raw material, production process and care taken during manufacture.

The rejections occured at various intermediate stages of production; the Company estimated that the value of rejected components could be taken as an average of 65 *per cent* of the total components' cost. However, even on that basis the incidence of rejections worked out to 9.6 *per cent* in 1979-80 and 10.9 *per cent* in 1980-81 which was high compared to 5.46 *per cent* considered reasonable by the Company.

3.12 Labour efficiency

In the absence of records regarding machine utilisation and labour utilisation it was not possible to examine the labour and machine efficiency actually achieved in production. At the instance of audit the management conducted a sample study of utilisation of 21 optimally used machines of machine shop for the month of August 1984 which showed a machine utilisation of 58 *per cent*. Similarly, a sample study of labour utilisation of machine shop for the two peak production months (July and August 1984) was carried out by the management which showed that the labour utilisation was 47.4 *per cent* and 48.3 *per cent* respectively. The utilisation for the years 1982-83 and 1983-84 was intimated by the Company (November 1984) as 44.6 and 44.8 *per cent* respectively. Thus, the Company was working with efficiency below 50 *per cent* in case of labour. The reasons for non-maintenance of adequate records were not on record.

3.13 Delays in finalisation of accounts

(i) The Company had not finalised (January 1985), its accounts for three years 1981-82 to 1983-84 ; the accounts for the year 1980-81 which were expected to be finalised in July 1983 ; were adopted by the Board in May 1984 and were certified by Statutory Auditors in September 1984. The Management stated (Junuary 1985) that books of accounts for the three years up to 1983-84 would be ready by end of March 1985 to enable preparation of final accounts.

For the clearance of arrears in stores accounts and costing departments for two years (1980-81 and 1981-82) and financial accounts for three years (1980-81 to 1982-83), the Company incurred an expenditure of Rs. 1.35 lakhs during the period from April 1983 to February 1984 on payment of overtime.

(ii) *Computerisation of accounts*

In order to enable the management to effectively control the operations as well as to take timely decisions, the availability of the right data at the right time was considered necessary by the Company. With this object in view, a contract for computerisation of accounts for a period of 3 years (1980-81 to 1982-83) was awarded (April 1980) by the Company to a firm of Vadodara at a total estimated expenditure of Rs. 5.16 lakhs (Rs. 0.92 lakh for 1980-81, Rs. 1.78 lakhs for 1981-82 and Rs. 2.46 lakhs for 1982-83).

Against 'on account' payments totalling Rs. 5.14 lakhs made by the Company to the firm from time to time, the firm had submitted (June 1984) the statement of account for the work done valued at Rs. 5.05 lakhs (Rs. 2.41 lakhs for 1980-81 and Rs. 2.28 lakhs and Rs. 0.36 lakh for part work of 1981-82 and 1982-83 respectively). Despite computerisation of accounts, the final accounts for 1980-81 had been delayed by more than 2 years and those of later years were still pending (January 1985). Thus the objective of availability of right data at the right time to assist the management decisions for which computerisation was introduced, had not been achieved. The Management stated (January 1985) that delay was caused by unexpectedly long time taken in preparation of vouchers for data entry and verification of computerised data. Reasons for increase in cost were not analysed.

3.14 Internal audit

The internal audit of the Company had been entrusted to a firm of Chartered Accountants of Vadodara from October 1977 onwards. The scope of internal audit (March 1978) was broadly to cover financial books of accounts, audit of purchases, sales and stores accounting records, perpetual inventory, wages and personal records, *etc*. The scope was subject to change if suggested by the Internal auditors and agreed to by the Company.

The Internal auditors, however, did not scrutinise cost records, production records, fixation of sale price, correctness of annual inventory, records of physical verification, *etc*.

The Statutory Auditors in their reports to shareholders on the accounts for the three years up to 1980-81 had repeatedly commented about the inadequacy of the internal audit system and had suggested that the system be adequately extended, made more comprehensive, strengthened to establish effective internal control and to cover various spheres of activities, but no action in this regard had been taken by the Company (February 1985). The Internal auditors in their report (May 1984) on the accounts for the year 1980-81 had observed that due to adoption of computerised accounting system there had been delay in preparing books of accounts, which needed to be cut down. Several cases of errors of omission and commission, missing vouchers, duplication of entries, *etc.*, were pointed out reflecting the necessity of considerable improvement in internal control system. A stress was made on non-completion of debtors/creditors ledgers and non-obtaining of confirmation of balances by regular submission of accounts statements. The internal audit reports were not put up to the Board at any stage.

3.15 Inadequate cost records

As per rules, the Company was required to maintain adequate records showing the consumption of materials, including components for production. Adequate records were also required to be maintained for wastages, spoilages, rejections, losses of materials including line spoilages in manufacturing of tractors to have effective control on consumption of materials. Similarly, the Company was also required to record separately the idle time significantly affecting the production, indicating the reasons therefor.

A review of cost records maintained by the Company showed that it had not maintained proper records for the above items to assess their impact on production cost. There was in existence system of daily recording of time taken for production of each component showing therein cause-wise details of idle time ; but the Company had not worked out month/yearwise details of idle time and financial impact thereof on cost of production. The Company explained (November 1984) that as labour cost formed a small proportion of total cost, it was not worthwhile to do this exercise. The stand taken by the Company was not correct as idle time needed to be fully assessed and controlled. The Company had also no records showing the details of capacities of the machines installed and actual utilisation thereagainst in terms of machine hours available. Further, the cost department of the Company had not periodically compiled the cost data of the items manufactured (components and tractors) except for the year as a whole long after its close (cost data for 1980-81 was compiled in October 1984) with the result that it had not been helpful in fixation of selling prices of tractors and in taking other management decisions.

3.16 Accounting manual

The Company had not compiled its accounting manual incorporating therein the detailed records required to be maintained by various departments, the duties and responsibilities of personnel at various levels, system of internal control procedures to be followed, the extent of internal audit to be carried out, *etc.*

3.17 Other topics of interest

(*i*) *Loss of pig iron*

Against the despatch of 36.700 tonnes of pig iron (value: Rs. 1.17 lakhs) by a supplier through railway, the Company received only 20.130 tonnes resulting in a short delivery of 16.570 tonnes. A debit note for Rs. 0.55 lakh was raised against the supplier in March 1982 for the short delivery. Another consignment of 18.800 tonnes of pig iron (value : Rs. 0.60 lakh) despatched in August 1981 through railway was also not received for which a claim was lodged (January 1982) with the Railways . In reply to audit query about progress of recovery, the Management stated (October 1984) that the prices for pig iron were F.O.R. Yeswantnagar station and Railways did not cover the risk for the above consignments; hence these amounts were not recoverable either from the supplier or from the Railways. It was not clear as to how the Railways were held to be not responsible, particularly in respect of the second consignment which had not been delivered. The Management stated (October 1984) that pig iron, coal, coke and other loose material transported by railway were not covered either by the Government Insurance Fund or any insurance company.

(ii) *Delay in clearance of materials*

The materials despatched (January 1982 and May 1982) by two firms (value : Rs. 2.58 lakhs and Rs. 1.32 lakhs) were got released after a delay of 113 days and 75 days respectively. In reply to audit query, the Management stated (October 1984) that the records of demurrage/wharfage and godown rent, *etc.*, paid were not traceable.

(iii) *Avoidable expenditure on electricity*

The Company, in expectation of purchase of additional machinery for increasing production, had got increased the connected load for its factory from 1000 KVA to 1700 KVA (April 1977). Subsequently, due to financial stringency, large investment on machinery was deferred. It was seen that actual load registered during the period from April 1978 to August 1982 had never exceeded 1000 KVA and as a result the Company had to pay demand charges for 1275 KVA (being 75 *per cent* of the contracted demand of 1700 KVA) instead of the actual maximum demand registered or average of the actual maximum demand during the immediately preceding three months as per electricity tariff. The extra expenditure on this account worked out by the Company was Rs. 2.44 lakhs.

(iv) *Avoidable payment of interest*

The Company had current accounts with two nationalised banks which were scarcely operated and carried very heavy balances for long periods; simultaneously the Company had cash credit account with another nationalised bank. Had the Company kept a close watch on these scarcely operated accounts and utilised the funds therein as and when available leaving minimum balance therein it could have saved interest of Rs. 0.57 lakh (at cash credit interest rate of 15.5.*per cent* per annum) for the days during which heavy amounts remained unoperated. The Management stated (November 1984) that this was done so that banks might help in case of shortage of funds.

SECTION IV

TOURISM CORPORATION OF GUJARAT LIMITED

4.1 Introduction

For the systematic exploitation and development of tourism on commercial basis, "Tourism Corporation of Gujarat Limited", was incorporated as a wholly owned Government Company in June 1975. However, the actual commercial operations commenced only from 1st September 1978 with the transfer of holiday homes, tourist bungalows, canteens, Saputara hill resort and other establishments by the State Government to the Company.

4.2 Objects

The main objects of the Company are :

—to take over, establish, develop, improve, manage and organise places of tourist interest including pilgrimage centres, hill resorts, beaches, health resorts, dam sites, picnic spots, *etc.*,

—to carry on business as tourist and travel agents and contractors by providing facilities of all kinds for tourists and travellers, and

—to take over, manage, promote and develop existing hotels and / or improve, run and maintain hotels, motels, canteens, *cafeteria* and restaurants.

4.3 Summary of findings

The paid-up capital of the Company as on 31st March 1984 was Rs.96.51 lakhs excluding value of assets transferred totalling Rs. 87.63 lakhs (paragraphs 4.5 and 4.6).

The Company has been incurring losses since inception. The magnitude of losses has also been increasing from year to year. The total loss up to 1983-84 was Rs. 137.77 lakhs. The losses were recouped by the Government by way of grants-in-aid ; up to March 1983 the grants received amounted to Rs. 108.74 lakhs (paragraph 4.5).

The Company has been operating 16 units (11 holiday homes, 4 tourist bungalows and 1 hotel) transferred to it by the Government. All the units have been continuously running at loss although (1)the occupancy of 10 units was 50 *per cent* or more and (2) the Company revised the tariff in all the units by 75 to 80 *per cent* in April 1979, 20 *per cent* in September 1982 and again at varying rates in February 1984. The Management had not investigated the losses or taken remedial measures to reduce them (paragraph 4.8).

The occupancy in holiday homes at Tulsishyam, Dwarka, Balaram, Shukaltirth, Lothal and the tourist bungalow at Porbandar (old) was poor. The occupancy at Lothal was 1 to 2 *per cent* (paragraph 4.8).

The Company has a fleet of 20 vehicles acquired after its formation to run tourist services. Separate accounts for transport division were not maintained. Vehicle utilisation was poor and some of them were not utilised for tourist purposes (paragraph 4.8(c)).

Some of the tourist promotion schemes launched by the Company were not successfully implemented *e. g.*

(i) 6 Motor boats were purchased but could not be plied in Ukai reservoir as it was found risky (paragraph 4.9(d)).

(ii) Tents were purchased for providing accommodation to tourists at Ukai, but these could not be pitched there for want of permission from Irrigation department (paragraph 4.9(c)).

(iii) Water sports equipment was purchased without deciding the place where it was to be made use of (paragraph 4.9(e)).

(iv) *cafeteria* at Tithal could not be started as the building constructed for that purpose had developed cracks(paragraph 4.10(d) (i)).

(v) 10 Dangi huts constructed for providing accommodation to tourists in a rural setting had become uninhabitable soon after construction (paragraph 4.10 (d) (iii)).

The Company had received specific purpose grants from the Government and other bodies aggregating Rs. 152.19 lakhs up to 1982-83, of which Rs.106.17 lakhs was lying unutilised (paragraph 4.7).

Further details and other aspects are discussed in the succeeding paragraphs.

4.4 Organisational set up

(a) *Management*

The overall management of the Company was vested in a Board of Directors which, as on 31st March 1984, consisted of a Chairman, and 12 other directors including the

Managing Director who was the Chief Executive of the Company. The Managing Director in the performance of his duties was assisted by managers of various branches.

(b) *Committees*

The Board constituted (i) a 'Personnel Committee' consisting of three directors to deal with matters relating to recruitment and services; (ii) a 'Project Committee' consisting of 6 directors to deal with the analysis of projects and schemes included in the budget so as to ascertain the financial viability of the schemes proposed to be undertaken and to undertake functions relating to implementation of various projects and (iii) a 'Tender Committee' consisting of 4 directors for the purpose of finalising and approving the matters relating to various works for the projects as well as purchases made by the Company.

The following observations were made in audit (November 1984) :

(i) In 7 cases appointments which required Board's approval were finalised by the Personnel Committee between February 1980 and December 1984; the Management stated (February 1985) that these appointments would be got ratified by the Board.

(ii) There was no specific delegation of powers to the Project Committee and the minutes of this Committee were never placed before the Board.

(iii) Although since the formation of Tender Committee many purchases had been effected and work orders issued; but not a single meeting of this Committee was held. On a test check it was noticed (February 1985) that 2 purchases (Rs.3.08 lakhs) and one work order (Rs. 2.12 lakhs) which came within the purview of Tender Committee were finalised by the Managing Director. The Management stated (February 1985) that matter relating to the functions of this Committee was being referred to the Board for reconsideration.

4.5 Capital structure and financial position

(a) The authorised capital of the Company was Rs. one crore divided into one lakh equity shares of Rs. 100 each. As on 31st March 1984 the Company had a paid-up capital of Rs. 96.51 lakhs wholly subscribed by State Government. Besides, the Company had received from State Government, up to March 1984, Rs. 164.61 lakhs by way of grants for specific purposes as discussed in paragraph 4.7 *infra*.

(b) The Company had been incurring losses since its inception and the total loss incurred up to March 1983 was Rs. 111.46 lakhs. Government decided (July 1978) to give grant-in-aid to the Company for a period of 5 years to meet the losses arising in the running of the units and activities transferred to the Company by Government. The grants received up to March 1983 amounted to Rs. 108.74 lakhs. The accounts of the Company for the year 1983-84 have not yet been finalised (January 1985) ; but the provisional loss for 1983-84 assessed by the Company was

Rs. 26.31 lakhs. The Company attributed the losses due to lower tariff and requested Government (February 1983) to extend the period of grant-in-aid to meet the losses for a further period of 5 years from 1983-84. Government (June 1984) appointed a committee to examine the issue ; its report was awaited (January 1985).

The ceiling of Rs. 26.55 lakhs per annum fixed (April 1979) for this grant included an *ad hoc* amount of Rs. 5.14 lakhs payable once only towards special repairs and renovation of Gandhi Ashram guest house, and Chorwad and Ubharat holiday homes. Though this *ad hoc* portion of the grant had been paid by the Government by the year 1980-81, yet it was not excluded from the grants paid subsequently (1981 and 1982) resulting in excess payment of grant by Rs. 10.27 lakhs.

4.6 Transfer of assets

(a) The movable and immovable assets (including buildings under construction) of holiday homes, tourist bungalows, canteens, Saputara hill resort and other establishments were transferred by the State Government to the Company with effect from 1st September 1978. The approximate value of the assets transferred was placed at Rs. 82.74 lakhs. The actual valuation, which was to be done, by a Committee appointed (May 1979) by State Government, by September 1979, could not be done due to non-availability of records. The Management stated (February 1985) that Government had decided to keep the approximate value of assets as indicated at the time of transfer and only valuation of land was pending in Revenue Department ; pending finalisation of valuation, the ownership of the properties had not been conveyed in the name of the Company.

(b) Similarly, land and buildings of tourist bungalow at Ahmedpur-Mandvi in Junagadh district (value:Rs.2.23 lakhs) were transferred by the State Government to the Company from 15th May 1982. The necessary conveyance and demarcation, *etc.*, of this property had not been done (November 1984); thus preventing the Company from obtaining institutional finance for development of the centre.

(c) Other miscellaneous assets like furniture, fixtures, vehicles, *etc.*, valuing Rs. 2.66 lakhs were also transferred by the Government to the Company up to 1982-83.

(d) In respect of Gandhi Ashram guest house at Ahmedabad and new tourist bungalow at Porbandar, constructed by the State Government out of Government of India grants, only their management had been transferred to the Company from September 1978. The terms and conditions on which the Company would run this guest house and tourist bungalow had not yet been worked out by the State Government in consultation with Government of India (January 1985).

4.7 Grants

In addition to Government grant-in-aid to meet losses about which mention has been made in paragraph 4.5(b) *supra*, the Company had received from State Government and others (District Planning and Development Committee, Dangs) grants for specific purposes; such as, development of picnic spots, construction of motels and dormitories, providing tourist facilities and advertisements, publicity, *etc.* The yearwise figures of these grants and their utilisation by the Company were as follows :

Year	Opening balance	Receipt	Utilisation	Balance unutilised
		(Rupees in lakhs)		
(a) From Government				
1978-79	..	2.25	0.71	1.54
1979-80	1.54	2.24	0.29	3.49
1980-81	3.49	10.05	Nil	13.54
1981-82	13.54	49.65	17.00	46.19
1982-83	46.19	79.25	20.48	104.96
1983-84	104.96	21.17	NA	NA
(b) From other sources				
1981-82	Nil	3.75	Nil	3.75
1982-83	3.75	5.00	Nil	8.75
1983-84	8.75	Nil	7.54	1.21

Actual figures of utilisation of grants received from the Government for the year 1983-84 were not available and as such grants remaining unutilised at the end of that year could not be known. The Company had not maintained grantwise record of amounts received from year to year, expenditure incurred thereagainst and the balance remaining unutilised. However, it was observed in audit (December 1984) from available information that out of 11 grants totalling Rs. 36.26 lakhs received during the years from 1978-79 to 1981-82, 8 grants (Rs. 26.69 lakhs) had not been utilised at all and in the remaining 3 cases also Rs. 4.82 lakhs (out of Rs. 9.57 lakhs) were lying unutilised up to March 1984.

Government had not stipulated any time limit for utilisation of these grants except in case of two grants of Rs. 5.25 lakhs (Ahmedabad-Sasan complex) and Rs. 3.57 lakhs (advertisement and publicity) which were to be utilised by June 1982, but even in these 2 cases utilisation started after the stipulated date and expenditure incurred up to December 1984 was Rs. 7.70 lakhs (against total : Rs. 8.82 lakhs). The achievement of objectives for which most of these grants were given was, therefore, left uncertain and devoid of control.

In November 1982 the Company received from Government Rs.10 lakhs for advertisement and publicity expenses which included Rs. 3 lakhs for undertaking conducted tours, tourism literature, picture post cards, distribution of mementoes and entertainment to guests in Asiad 1982 against which the Company had spent Rs.1.08 lakhs; the unutilised balance (Rs. 1.92 lakhs) was not refunded to Government (February 1985).

The Company stated (February 1985) that out of the specific cases mentioned above, 5 grants (Rs. 20.17 lakhs) could not be utilised due to non-availability of land for the particular projects and in other cases funds have been utilised to some extent after 1983-84.

4.8 Activities

(*a*) *Holiday homes, tourist bungalows, etc.*

(i) Occupancy

The Company had sixteen establishments (11 holiday homes, 4 tourist bungalows and one hotel) where accommodation (double-bed rooms and dormitories) was provided to tourist; the average occupancy in these 16 establishments during the period from 1979-80 to 1983-84 was as under :

Sl. No.	Name of establishment	Capacity (Number of beds)	Percentage of average occupancy				
			1979-80	1980-81*	1981-82	1982-83	1983-84
(*a*)	Holiday homes						
1.	Chorwad ..	131	43	40	41	52@	51
2.	Tulsishyam	45	22	16	13	20	33
3.	Dwarka ..	70	43	45	45	40	33
4.	Balaram ..	22	14	38	11	13	7
5.	Pavagadh ..	31	96	99	91	84	72
6.	Lothal ..	14	1	1	1	1	2
7.	Tithal ..	35	40	54	63	68	59
8.	Hajira ..	31	38	44	34	37	75
9.	Shuklatirth ..	16	30	21	18	18	19
10.	Ubharat ..	126	41	41	43	68	61
11.	Saputara hill station	144	54	60	60	58	54

* Seven months accounts from September 1980 to March 1981 due to change of accounting year.

@Details are of 8 months only as it was closed for renovation after November 1982.

Sl. No.	Name of establishment	Capacity (Number of beds)	Percentage of average occupancy 1979-80	1980-81*	1981-82	1982-83	1983-84
	(*b*) Tourist bungalows						
1.	Veraval	34	41	40	54	53	51
2.	Porbandar (Old)	16	21	35	38	25	30
3.	Porbandar (New)	60	53	78	57	48	57
4.	Gandhi-Ashram guest house	20	50	56	59	61	60
	(*c*) Hotel						
1	Hotel 'Sumeru'	41	38	57	59	46	52

It will be seen from the above that in alomost all the establishments (except Pavagadh during the years from 1979-80 to 1981-82), the Company had not achieved full occupancy. Board decided (August 1980) to hand o holiday homes at Balaram, Lothal, Tulsishyam and tou bungalow at Porbandar (old) back to Government those were not commercially viable ; but Government had instructed the Company to make them commercially viable. The reasons for comparatively low occupancy at many places even after improvements in accommodation and

Note : *Seven months accounts from September 1980 to March 1981 due to change of accounting year.

provision of more facilities and services were not analysed by the Company and action, if any, taken to improve the occupancy was not on record (November 1984).

(ii) Tariff

After take over from Government in September 1978, the Company raised the tariff by a flat increase of 75 to 80 *per cent* from 1st April 1979. Board decided (December 1980) that efforts should be directed towards upgrading the services available at selected places and that the holiday homes should be graded on the basis of services rendered and the tariff revised and rationalised on the basis of such standard. An *ad hoc* increase of 20 *per cent* was made in tariff from 1st September 1982 and at varying rates from 1st February 1984. *Post-facto* approval for these revisions was obtained from the Project Committee (May 1984) stating that accommodation facilities were being provided at cheap rates as a result of which it was not possible to meet the operational expenses. Thus the tariff had not been rationalised based on the standard of services provided.

(iii) Working results

Out of 16 establishments manged by the Company, apart from accommodation, the catering facility had also been provided at 8 places. The Company had not maintained accounts of these two activities separately to evaluate the performance of each activity. The net income earned / net expenditure incurred by these establishments for the five years up to 1983-84 are tabulated below :

Sl. No.	Name of establishment	1979-80	1980-81	1981-82	1982-83	1983-84**
				(Rupees in lakhs)		
1.	Chorwad*	(—)0.40	(—)0.40	(—)1.71	(—)2.65	(—)1.30
2.	Tulsishyam	(—)0.10	(—)0.11	(—)0.19	(—)0.33	(—)0.26
3.	Dwarka*	(—)0.05	(—)0.12	(—)0.15	(—)0.23	(—)0.43
4.	Balaram	(—)0.12	(—)0.10	(—)0.21	(—)0.31	(—)0.34
5.	Pavagadh	(+)0.01	(—)0.02	(—)0.15	(+)0.24	(—)0.04
6.	Lothal	(—)0.15	(—)0.12	(—)0.26	(—)0.32	(—)0.37
7.	Tithal	(—)0.20	(—)0.44	(—)0.04	(—)0.11	(—)0.39
8.	Hajira	(—)0.14	(—)0.08	(—)0.27	(+)0.20	(—)0.30
9.	Shuklatirth	(—)0.19	(—)0.21	(—)0.31	(—)0.41	(—)0.58
10.	Ubharat*	(—)0.24	(+)0.07	(—)0.08	(+)0.50	(+)0.53
11.	Saputara*	(—)0.90	(—)0.13	(—)0.42	(—)2.02	(—)1.62
12.	Veraval*	(—)0.12	(—)0.24	(—)0.06	(—)0.25	(—)0.75
13.	Porbandar (Old)	(—)0.09	(—)0.06	(—)0.07	@@	@@
14.	Porbandar (New)*	(+)0.06	(+)0.08	(+)0.09	(+)0.07	(+)0.34
15.	Gandhi Ashram guest house*	(—)0.20	(—)0.07	(—)0.36	(—)0.30	(—)1.30
16.	Hotel Sumeru Palitana*	(—)0.06	(+)0.29	(+)0.52	(+)0.22	(+)1.13
	Total	(—)2.89	(—)1.66	(—)3.67	(—)5.70	(—)5.68

Note : The above working results do not take into account outstanding liabilities, interest, depreciation and head office overheads.

@@Income and expenditure merged with Porbandar (New).

*Includes departmental canteen income and expenditure.

**Figures are provisional.

The Company had not analysed the reasons for running of most of the units in loss and taken appropriate steps to make them viable.

(b) *Catering Service*

The catering facilities in the holiday homes and tourist bungalows transferred by Government were being run by *khansamas* or contractors. After take over the Company started departmental catering at 8 such establishments between December 1978 and December 1982. In addition, Company started *cafeterias* at Modhera (March 1980) and Gandhinagar (January 1983) and a canteen in *Sachivalaya*, Gandhinagar (November 1983). No feasibility report, except for Gandhinagar *cafeteria*, to assess financial viability was prepared before embarking on these projects ; the feasibililty report of Gandhinagar *cafeteria* had projected a profit of Rs. 0.24 lakh in the first full year. Septerate accounts of the catering service were not kept except at 2 *cafeterias* (Modhera and Gandhinagar) and the canteen (*Sachivalaya*, Gandhinagar) and as such the details of receipts/expenses of the catering services at other establishments could not be known. The *cafeteria* at Modhera incurred a total loss of Rs. 1.50 lakhs from 1979-80 to 1983-84. The *cafeteria* at Gandhinagar made a small profit (Rs. 0.03 lakh) during 1982-83 (3 months) and incurred a loss of Rs. 0.92 lakh during 1983-84 against the anticipated annual profit of Rs. 0.24 lakh as per feasibility report. First part year's working of canteen at *Sachivalaya* ended in a profit of Rs. 0.06 lakh. These working results were exclusive of overheads which when added would increase the loss/reduce profit. The Company had not analysed the reasons for the losses.

(ii) Uniform tariff was introduced for all the catering units from April 1983 except *Sachivalaya* canteen for which lower rates were fixed by Government. Up to 1982-83 the Company had not maintained proper cost records in the units nor was any effective control being exercised on the working of this activity at the head office. However, the accounts figures showed that total food cost ranged from 64.4 *per cent* to 99.3 *per cent* of tariff in 1983-84 as against norm (August 1983) of 45 to 48 *per cent* for items prepared in kitchen and 70 to 80 *per cent* for ready to serve bought out items (biscuits, ice cream, cold drinks, etc.).

The Company had worked out excess issues in respect of 24 items of raw materials in 10 *cafeterias* valuing Rs. 1.44 lakhs during 1983-84. The Management stated (February 1985) that explanations of the concerned managers had been called for.

(iii) Eventhough Company knew that in the past efforts by private parties to run 'meals on wheels' project at Ahmedabad had not succeeded, it approved a project for selling snacks without assessing the profitability on camel carts in Ahmedabad. Two camel carts (cost : Rs. 0.40 lakh) and equipments (cost : Rs. 0.08 lakh) were procured for this purpose (June 1982) and drivers and camels hired at Rs. 50 per day. The Company could not obtain licence from Ahmedabad Municipal Corporation for this venture and the carts were shifted (September 1982 and February 1983) to Gandhinagar. The implementation of scheme was discontinued in August 1983 and December 1983 due to death of one camel and uneconomic operation. As the income and expenditure of this project were merged with those of Gandhi Ashram guest house and Gandhinagar *cafeteria* the operational loss incurred in this project could not be determined, but the fact that the venture had ended in a loss was accepted by the Company (November 1984). In addition, the investment (Rs. 0.48 lakh) was lying idle since December 1983.

(*C*) *Transport*

(i) The Company established a transport wing in October 1978 at Ahmedabad for operating conducted tours. Initially tours were arranged by taking vehicles on hire; thereafter, between October 1981 and May 1984, it acquired 20 vehicles (2 jeeps, 2 mini buses, 7 luxury coaches, 1 semi-luxury coach, 5 air-conditioned cars and 3 air-conditioned coaches) on which total investment was Rs. 62.40 lakhs; feasibility report had not been prepared in any case.

(ii) Eventhough the Company had invested such a huge amount in this activity for use of tourists for site seeing, *etc.*, yet at no stage the working results of this activity had been prepared showing the periodical or even on an yearly basis the distances operated by these vehicles, receipts and expenditure (direct expenses, interest, depreciation and overheads) to know whether the activity was running in profit or loss and also to know which trips/tours were unremunerative. It was, however, noticed that the Company requested the Government (February 1983) for continuance of grant to meet losses arising out of the activity as a result of lower tariff.

(iii) Many of the basic and essential records of this activity (history sheets of vehicles, log books, record of capital and operational expenses, *etc.*) were either not maintained or were deficient.

The Management stated (February 1985) that corrective measures were being planned.

(iv) Air-conditioned cars

Four air-conditioned 'Datsun', diesel cars were imported at a cost of Rs. 8.88 lakhs out of foreign exchange made available by Government of India to provide transport facility to foreign and domestic tourists coming for Asiad 1982 and thereafter. These cars were received in June 1983 *i.e.*, after the event. Import of these cars was permitted strictly with a condition that cars should be utilised for tourism purposes and log books were to be maintained in the form prescribed by the Government of India. The cars were only scarcely utilised for tourist purposes and were often given on casual hire contracts for marriages, etc. On an analysis of the journeys shown in log books of two cars maintained by the Company and produced to Audit it was noticed (October 1984) that cars were used for tourist purposes for 10 *per cent* in terms of kilometres during June 1983 to March 1984 and these were used for office purposes and testing to the extent of 42 and 50 *per cent* of total utilisation (14848 kms). In the cost sheet prepared (June 1983) for fixing the tariff, the cost of car was taken as Rs. 1.50 lakhs and the annual run was adopted as 50,000 Kms. Accordingly cost per kilometre worked out to Rs. 3.80 and a rate of Rs. 4 per kilometre was fixed (June 1983) ; but no revision thereof was made based on the increased cost of the car and the actual run which was much less (car number 1129 : 6271 kms and car number 1131 : 8577 kms from June to December 1983).

The Management stated (February 1985) that the rate had been revised to Rs. 6 per kilometre from 14th December 1984.

(v) Air-conditioned coaches

(a) Two leyland chassis were purchased (cost: Rs. 3.77 lakhs) in February 1982 without any definite plan for their operation. In April 1982 it was decided to operate these as air-conditioned coaches with imported air-conditioning units and action to import air-conditioning units was initiated in July 1982. Licence to import only one air-conditioning unit was received in November 1982 and the unit was received in July 1983 (cost : Rs 2.84 lakhs) and contract for body building of both coaches was given in September 1983. The import licence for the second air-conditioning unit was received in June 1983 and pending its import the second coach was got fitted (November 1983) with an indigenous unit (the second imported air-conditioning unit received in February 1984 was got fitted in the third coach, chassis of which was purchased in December 1983). Thus, due to lack of proper planning the two chassis remained idle for about 18 months; the loss of interest on blocked up funds amounted to Rs. 0.85 lakh.

(b) Out of 2 coaches completed in November 1983, one was put into operation from January 1984 and the second from April 1984; sometimes these coaches were being operated as non air-conditioned coaches for conducted tours; the third coach, which was ready in May 1984 was not utilised till October 1984.

(c) For the purpose of fixing the tariff, cost of body building was taken as Rs. 1.80 lakhs as per the original work order. However, due to subsequent additions the actual cost rose to Rs. 2.50 lakhs approximately; but the tariff fixed on the basis of original cost was not revised (*i.e.* upwards by 50 paise per km) taking into account the actual expenditure.

(vi) Semi-luxury coach

The coach (value : Rs. 3.74 lakhs), purchased out of a grant from District Planning and Development Committee, Dangs to provide excursion tours to places of tourist interest around Saputara hill station, as a part of development of Dangs district, was not used for any trips around Saputara; but was used (8 trips during the period from April 1983 to October 1984) on casual contract basis out side Saputara area.

4.9 Development of Ukai as lake resort

With a view to developing Ukai as a lake resort, the Company decided from time to time to put up water sports, camping sites with tented accommodation for tourists, a *cafeteria* and a large hotel. A scrutiny of the Company's activities in this regard disclosed the following :

(*a*) *Hotel*

The Project Committee of the Company approved (December 1982) the appointment of a Bombay firm as consultant for preparing the feasibility and financial viability report of this hotel project eventhough this firm was not on Company's panel of approved consultants;reasons for this departure were not on record. The consultant submitted the report (July 1983), and was paid Rs. 0.22 lakh as fee (November 1983). As per this report the total project cost of establishing the hotel was estimated at Rs. 103.70 lakhs. The implementation of the project was pending as the financial arrangement to meet the cost of the project to run it as a joint venture with private participation had not been settled and the land for the hotel was still to be acquired (December 1984).

(*b*) *Boating*

As a part of the scheme to develop Ukai as a tourist resort, the Board approved (June 1979) a project for boating in Ukai reservoir. The project involving capital investment of Rs. 2.95 lakhs envisaged an income of Rs. 1.26 lakhs and expenditure of Rs. 1.11 lakhs annually.

A 36 seater mechanised launch was purchased (September 1980) from a firm of Bhavnagar at a cost of Rs. 3.52 lakhs and put into operation in October 1980; an amount of Rs. 0.37 lakh was spent on inaugural expenses.

The working results of this activity disclosed that during the three years up to 1983-84 there was excess of expenditure over income to the extent of Rs. 0.46 lakh against the projected surplus of Rs. 0.45 lakh.

According to the Management (November 1984) the uneconomic working of this activity was mainly attributable to lower tariff of Rs. 2 per passenger per trip and less flow of tourists. The tariff adopted for the projected income was Rs. 3.50 per person per trip; but it was fixed at a flat rate of Rs. 2 per person by the Board (August 1980) subject to its review after 3 months' initial working. The Management stated (February 1985) that tariff has been revised to Rs. 5 (February 1985) but it did not elucidate as to how the flow of tourists would increase.

(*c*) *Tented accommodation for tourists*

The Company received (March 1983) a grant of Rs. 4.36 lakhs from State Government (out of funds received from Government of India in September 1982) for providing tented accommodation to cater to the needs of tourists traffic of lesser profile and also to cater to increased seasonal and occasional tourist traffic at Ukai. The Project Committee decided to purchase (February 1984) 50 tents for Ukai which were received in April 1984 (cost : Rs. 1.25 lakhs).

As the Company was not able to obtain permission from Irrigation department to use its land for tents (which was granted in July 1984 on purely temporary basis); the tents were being used elsewhere (in fairs and festivals, on hire to outside parties and for other purposes) and not for providing accommodation at Ukai *i. e.* the purpose for which the grant was received. The balance amount of grant (Rs. 3.11 lakhs) had remained unutilised (December 1984).

(*d*) *Purchase of Twina boats*

On receipt of a specific Government of India grant through State Government in March 1982 (Rs. 3.05 lakhs), the Company purchased 6 Twina boats (cost : Rs. 2.50 lakhs) and 6 out board (9 HP) motors (cost : Rs. 0.55 lakh) in June 1983, for taking tourists on lake trips, without making any survey and feasibility study of their proper utilisation. Four boats were kept at Ukai and two at Palitana (for use in Shetrunji dam). It was seen from Company's records that only one boat was commissioned at Ukai in May 1984; but its operation was discontinued after two days as it was not safe to ply the same due to high waves. The investment of Rs. 3.05 lakhs on this activity had, therefore, been unfruitful.

(*e*) *Purchase of equipments for water sports*

On receipt of a specific grant of Rs. 5 lakhs for the purchase of water sports equipments (Rs. 1 lakh in March 1983 and Rs. 4 lakhs in January 1984), the Company without preparing any feasibility report decided to purchase wind surfboards, pedal boats, water scooters, skiing and para-sailing quipments for lakes at an estimated cost of Rs.2 to 3 lakhs. The equipments were ordered (October 1983) from a club of Bombay after inviting short notice tenders and were received in August 1984 (cost : Rs. 3.05 lakhs). Since then these had been lying unutilised at Ahmedpur-Mandvi (Junagadh district) where, according to Management's reply (February 1985), these were likely to be used when the sea resort project was put into operation. The balance grant (Rs. 1.95 lakhs) had also remained unutilised January 1985).

4.10 Construction projects

(a) Approval of projects

The Company was required under the Articles of Association to obtain prior approval of the State Government before authorising capital expenditure exceeding Rs. 10 lakhs in a case. It was, however, observed that Government's approval was not obtained in the following cases of capital works involving outlay exceeding Rs.10 lakhs each as shown below:

Sl. No.	Name of the project / work	Estimated capital outlay (Rupees in lakhs)	Remarks
1.	Chorwad upgradation project ..	80.83	Work started in 1982 and was in progress.
2.	Ankleshwar motel project ..	50.00	Land acquired and architect appointed (August 1982) no further progress.

Sl. No.	Name of the project / work	Estimated capital outlay (Rupees in lakhs)	Remarks
3.	Ahmedpur-Mandvi beach resort	50.00	Work in progress.
4.	Ambaji hotel project ..	50.00	Architect appointed; work not yet started.
5.	Hajira hotel project ..	60.00	Survey conducted.
6.	Tithal holiday homes and *cafeteria*	13.00	Work in progress.

The Management stated (December 1984) that Government's approval would be obtained in due course.

(*e*) D*elay in execution*

Out of Rs. 12 renovation and construction works estimated to cost Rs. 217.27 lakhs taken up by the Company up to 1983-84, only 3 works (expenditure up to November 1984 : Rs. 9.79 lakhs) had been completed with delay ranging up to 7 months, 9 works (expenditure on 8 works up to November 1984 : Rs. 37.82 lakhs-information for one work not available) were in various stages of completion (November 1984) even after a delay of 7 months (2 cases), 11 months (1 case), 17 months (1 case), 20 months (4 cases) and 23 months (1 case). The main reasons for the delay were :

(*i*) acquisition of land,
(*ii*) changes in plans and delays by architects,
(*iii*) abandonment of work by the contractor and reinvitation of tenders, and

(*iv*) defective work.

The delay in completion of works not only resulted in delayed return on investment but also entailed possible escalation in costs; the delays to some extent, were indicative of lack of proper planning and co-ordination on the part of the Company.

(*c*) *Appointment of architects, consultants, etc.*

The Company drew up (July 1981) a panel of 24 (increased to 43 by November 1984) professionals like architects, consultants, interior designers, so as to avail of their professional services without having to advertise for them every time a project was undertaken and it was laid down that reference should be made to atleast three persons/firms for the settlement of terms and conditions; but this procedure was not followed and professional other than on the panel were also appointed without recording reasons; terms and conditions were settled without any reference; travelling and halting allowance, which at times amounted to Rs. 0.50 lakh, were paid to some in addition to the fees, though not asked for at the time of empanelment. One consultant for Chorwad upgradation and Ahmedpur-Mandvi projects was given free office accommodation with secretarial assistance, telephone, free lodging/boarding at any place, free conveyance for visiting any place in and outside the State, in addition to a fee of Rs. 0.60 lakh; his appointment was approved by the Project Committee *ex-post-facto*.

(*d*) *Other points*

(i) Construction of *cafeteria* at Tithal

The contarct for this work (estimated cost : Rs. 2.17 lakhs) was awarded (December 1982) to the sole tenderer for Rs. 2.44 lakhs. The work which was to be completed by 12th March 1983 had not been completed so far (Febuary 1985); the contractor had been paid Rs. 1.69 lakhs up to February 1984 (Architect's fees up to November 1984 amounted to Rs. 0.09 lakh). The Management noticed (May 1984) huge cracks on the walls, the columns and the walls had dislodged from each other and the slab had also dislodged from the columns; the cause for such cracks was stated (December 1984) to be under investigation by soil testing for possible shrinkage in foundation.

The Management stated (February 1985) that defects would be got rectified and responsibility fixed after receipt of report of investigation.

(ii) Renovation of Tithal holiday home

On invitation of tenders for this work in September 1983 eight parties quoted their rates; the lowest and three higher in that order were as under :

	Amount (Rupees in lakhs)
Firm 'A'	4.69
Firm 'B'	5.23
Firm 'C'	5.49
Firm 'D'	6.09

Parties were called for discussions on 4th October 1983 when firm 'A' , the lowest tenderer, requested for increase in rates on the plea that rates for furniture items were quoted low as known at the time of opening of tenders of other parties. Firms 'A' and 'B' were allowed to tender revised rates on or before 27th October 1983 ; firm 'B' revised its tender to Rs. 5.75 lakhs, while firm 'A' revised it to Rs. 5.36 lakhs. Work order was issued to firm 'A' on 30th January 1984 at the revised rates with a rebate of one *per cent*. The unusual step taken by the Company in allowing the lowest firm 'A' and the next higher firm 'B' to revise upwards their original offers and then allotting the work to the lowest tenderer firm 'A' at the enhanced rates would cost the Company Rs. 0.61 lakh more which could have been avoided if the lowest original tender had been accepted in the normal course. The Management stated (February 1985) that the original tender by firm 'A' was found by the architect to be unworkable. It was not clear as to why in that case, the next higher tender of firm 'B' was not considered and why it (firm 'B') was, instead, also asked to revise its tender when it had not sought revision; otherwise firm 'B''s tender would have remained lower than the revised tender of firm 'A'. The work was to be completed by 9th March 1984; but it was rejected thrice for bad quality and had not been completed so far (January 1985). The Management stated (February 1985) that penalty for delay as per argeement (amount not specified) would be levied at the time of settlement of work.

(iii) Construction of Dangi huts

The District Planning and Development Committee (DPDC), Dangs gave the Company a grant of Rs. 5 lakhs (January 1983) for construction of 10 Dangi huts and a swimming pool (total estimated cost : Rs. 6.75 lakhs) in Saputara. DPDC rules required that 25 *per cent* of cost should be met by public contribution; but, instead, this contribution (Rs. 1.69 lakhs) was paid (September 1982) by the Company to DPDC, which was irregular as the purpose of public participation in financing partly a development project was not achieved.

The work of construction and furnishing of 10 huts was entrusted by the Managing Director to an interior designer of Ahmedabad (contractor), who was not on the Company's approved panel; but was said to have specialised in creating rustic atmosphere with authenticity.

The contractor's estimate of expenditure of Rs. 4.20 lakhs for this trunkey job (Rs. 40,000 per hut plus expenditure on landscaping and other developments) was approved by the Company (June 1983) and he was asked to complete the work within three months (*i.e.* by end of September 1983)

Temporary possession of five huts was taken on 27th April 1984 and of the remaining 5 on 25th May 1984. A total payment of Rs. 3.80 lakhs had been made by the Company up to April 1984; final payment was pending (December 1984).

The following points were noticed :

(1) The huts had developed defects (as per Manager's report of July 1984, roofs had curved and were leaking, structure was unsafe, wild plants had grown on the sleeping platform (*otla*), doors and windows were not closing so that poisonous insects, reptiles and wild animals had easy access) which made them uninhabitable. The defects had not been rectified (January 1985).

(2) Before taking up the project no feasibility report was prepared so as to know its economic viability.

(3) The estimate of work prepared by the contractor, which was approved by the Company was sketchy and showed only quantities of bricks, wood, bamboo and other materials required for the construction of a hut without indicating the dimensions, specifications, detailed plan of the huts and other essential requirements. Also, there was nothing on record to show that the Company had satisfied it self about the actual consumption of materials as provided in the estimate.

(4) This project was neither approved by the Board nor included in the budget of the Company; the expenditure was thus incurred without proper authority.

(5) No formal agreement was entered into with the contractor defining the scope of the work and specifying the usual terms and conditions, including penalty clause, governing such contracts for works.

The Management stated (February 1985) that the contractor who was refusing to sign the agreement had since agreed to sign it and also to rectify the defects.

(iv) Addition and alterations in hotel Toran

Project Committee decided (July 1983) to get 22 rooms in hotel Toran (tourist bungalow) renovated. Initially the work of renovation of only two rooms was entrusted to a contractor after calling short notice tenders and it was completed on 27th January 1984 at a cost of Rs. 0.90 lakh (estimated cost : Rs. 0.70 lakh). Considering the performance of the contractor, the work of renovation of 8 additional rooms was also given to him (March 1984) at the negotiated price of Rs. 2.48 lakhs and the work was to be completed within one month. The contractor was paid an advance of Rs. 0.75 lakh on 3rd March 1984 and a further advance of Rs. 0.99 lakh on 5th April 1984 without any security. The work was lying incomplete since May 1984 and the Company had issued instructions in May 1984 that no further work should be given to the contractor. It was not clear whether the work so far done would cover the advance as no measurements of work done were recorded (even in respect of the earlier finished work of renovation of two rooms no measurements had been recorded and payment to contractor had been made on visual inspection basis) and also how the Company was going to get the work completed as no formal agreement for this work had been executed.

4.11 Advertising and publicity

As per the division of work between Directorate of Tourism and the Company, the work of advertising and publicity being promotional aspect of tourism, devolved on the former. Government had been giving grant-in-aid to the Company to meet the expenditure relating to advertisement and publicity for promotion of tourism on behalf of the Directorate.

Test check in audit of records of this activity disclosed the following :

(i) The Board of directors had approved two firms for publicity purposes including the work of designing and printing of folders ; but the Managing Director entrusted (March/May 1983) the art work of 9 folders to a graphic designer who was not approved by the Board.

(ii) For the work of putting up hoardings and sign boards on national / state highways to provide tourist information limited quotations were taken from three parties and lowest quotation of a firm of Ahmedabad (Rs. 2.08 lakhs) was accepted. It was observed (September 1984) that these quotations did not bear the initials of the officer opening the quotations and envelops of the quotations were not available which showed that normal procedure of documentation was not followed. One of the quotations was from a party which was the sister concern of the lowest tenderer thus effectively there were only two quotations which was against the normal procedure of getting competitive rates from atleast 3 independent parties.

The work order was issued (September 1983) mentioning that 30 *per cent* of the value of work would be given as advance, eventhough the party had not stipulated any such condition at the time of quoting and an advance of Rs. 0.62 lakh was paid (September 1983) which was an unauthorised financial aid to the contractor. A total amount of Rs. 1.94 lakhs was paid to the contractor up to January 1984. The work carried out was defective according to Project Committee in many respects such as defective fixation of hoardings, distance not mentioned correctly, directions not shown correctly, hoardings put up at prohibited places and against traffic regulations, duplication of hoardings as already similar hoardings had been fixed by other departments of Government, *etc.* Some of the hoardings were removed by Buildings and Communications department as these were not in accordance with traffic regulations. The Company was not in a position to get the defective work rectified by the contractor in the absence of any agreement in this respect. The Company stated (November 1984) that the points brought out by Audit had been noted for furture.

4.12 Internal audit

The Board decided (August 1981) to set up an Internal Audit and Inspection Cell under the overall supervision of Secretary-*cum*-Finance Manager with the object of inspecting all units regularly and conducting surprise checks. Although the cell, which consisted of only a Deputy Manager (Audit) without any supporting staff, had started functioning from December 1982; but by January 1985 it had inspected only 3 of the 19 units. No internal audit manual had been drawn up so far (January 1985) prescribing the scope of internal audit functions, periodicity of its inspections, checks to be exercised detailing records to be checked and the procedure of reporting results of audit periodically to management. Many areas of Company's working were not covered by internal audit scrutiny. The results of internal audit were not brought to the notice of the Board. Thus internal audit in the Company was inadequate and not much effective.

The Management stated (February 1985) that internal audit would be strengthened and its manual prepared.

4.13 Non-maintenance of and deficiencies in records

(a) The Company had not maintained the following important records (February 1985) :

(i) Register of assets–showing the particulars, location, date of acquisition, value, *etc.*, of its various assets.

(ii) Project register–indicating the cost as per feasibility report, reference to administrative sanction with total cost and progress of expenditure against various components.

(iii) Works register–showing the comparative figures of sanctioned estimates, tender cost and progressive expenditure against each work.

(iv) Contractors' ledger–showing secured advances given against materials, advance payments made for unmeasured works, total work done, supplies, *etc.*, made by the Company for which recoveries were to be effected and progressive payments made.

(v) Budget control register–detailing progress of actual expenditure under various heads/items *vis-a-vis* budget estimates.

(b) On a test check of records of 4 units it was noticed that stock registers of materials purchased for catering establishments were inadequate. The stock register of items like linen, crockery(catering) and tools and spares (transport), *etc.*, were either not maintained or were incomplete. There was no physical verification of stores and changes took place in incumbancy of officials responsible for stores without verifying items in stock. Items like crockery, cutlery, linen, were not marked with Company's identification sign for avoiding thefts and pilferage and replacements with cheaper substitutes.

(*c*) Many items of dead stock purchased (99 items valuing Rs. 0.91 lakh in 2 units test checked) were not found recorded in the dead stock registers ; periodical physical verification of such items was not being done and Management was thus not able to know about the obsolete, unserviceable and surplus items for taking appropriate action in that regard. During the course of test check of records at head office and of 5 units, 5 cases of idle investments (Rs. 0.28 lakh) were noticed (October 1984).

4.14 Other topics of interest

(*a*) *Installation of intercom*

Three quotations were obtained (September/October 1983) for installation of intercom in "Sumeru Hotel", Palitana. While these quotations were under process, a fourth firm submitted (November 1983) a quotation for the supply of instruments and installation at a rate lower than the lowest quoted rates. The work was awarded to the fourth firm (November 1983) and completed in December 1983 at a cost of Rs. 0.09 lakh.

The Managing Director of the Company decided (January 1984) to entrust to the same firm the work of supply of equipments and installation of intercom in "Saputara hill complex" at the same rate as in Palitana. The firm was asked to chalk out the necessary plan of installation and also to intimate the financial implications (February 1984). A work order was issued (March 1984) for an estimated amount of Rs. 0.47 lakh specifying the types of equipments to be supplied, cable lengths , size, other accessories and their installation as quoted by the firm. The work was to be completed by 31st March 1984.

During execution, the contractor claimed that cable lengths and installation charges had exceeded what was given in quotation and adopted in the work order; the total claim came to Rs. 0.90 lakh against the original work order of Rs. 0.47 lakh and after negotiations Rs. 0.75 lakh were paid (July 1984), retaining Rs. 3,000 as security deposit.

The quality of installation was not got technically examined to satisfy about their suitability and efficient working with the result that the intercom had stopped working in September 1984 and was lying in that condition (January 1985).

(*b*) *Non-recovery of sales tax*

Sales tax was payable from 3rd February 1983 on all items billed for in excess of Rs. 5 or more per person by the hotel industry in Gujarat from the year 1983-84. A test check of the records of "Hotel Sumeru" at Palitana disclosed that application for registration as dealer for sales tax was made only on 22nd October1983 and recovery of sales tax from the customers on sales (liable to sales tax) for the period from 22nd October 1983 to 31st March 1984 was not effected. The sales tax liability at the rate of 10 *per cent* (together with surcharge) worked out to Rs. 0.11 lakh which would have to be borne by the Company.

(*c*) *Non-recovery of luxury tax*

Luxury tax (10 *per cent* to 30 *per cent* of accommodation tariff exceeding Rs. 35 per person per day) is leviable under the Gujarat Tax on Luxuries (Hotel and Lodging) Act, 1977. Though in some of the Company's units the accommodation tariff exceeded the limit of Rs. 35, yet luxury tax was not being recovered from guests.

The Company had not assessed its liability in this regard.

(*d*) *Nalsarovar holiday home*

Nalsarovar holiday home (value of assets : Rs. 4.48 lakhs) was operated up to the end of 1979-80 and its operation had resulted in a loss of Rs. 1.25 lakhs. During 1980-81 the Company incurred an expenditure of Rs. 0.29 lakh on its renovation. The holiday home was closed to tourist traffic from November 1980 for ecological reasons. Eventhough the buildings had been transferred to forest department in May 1983, the Company had continued to incur expenditure on salaries of 2 watchmen (Rs. 0.30 lakh approximately for the period June 1983 to January 1985).

CHAPTER II

STATUTORY CORPORATIONS

SECTION V

5.1 Introduction

There were five Statutory Corporations in the State as on 31st March 1984 :

—Gujarat Electricity Board,
—Gujarat Industrial Development Corporation,
—Gujarat State Financial Corporation,
—Gujarat State Road Transport Corporation, and
—Gujarat State Warehousing Corporation.

A synoptic statement showing the summarised financial results of the Corporations based on the accounts for the year 1983-84 is given in Appendix "B".

5.2 Gujarat Electricity Board

The working results and operational performance of Gujarat Electricity Board and review on the working of Wanakbori Thermal Power Station have been dealt with in SectionVI of this report.

5.3 Gujarat Industrial Development Corporation

Gujarat Industrial Development Corporation was formed in August 1962 under Gujarat Industrial Development Act,

1962. The Corporation has not finalised its accounts for the year 1983-84 so far (February1985).

5.4 Gujarat State Financial Corporation

5.4.1 Introduction

Gujarat State Financial Corporation was established in May 1960 under the State Financial Corporatons Act, 1951. The jurisdiction of the Corporation was extended to serve the Union territory of Dadra and Nagar Haveli with effect from 11th May 1967.

5.4.2 Capital

The paid-up capital of the Corporation as on 31st March 1984 was Rs. 1000.00 lakhs (State Government : Rs. 489.04 lakhs ; Industrial Development Bank of India : Rs. 470.00 lakhs and others : Rs. 40.96 lakhs).

5.4.3 Guarantees

The Government had guaranteed the repayment of share capital of Rs. 900.00 lakhs (excluding special share capital of Rs. 100.00 lakhs) under Section 6 (i) of the State Financial Corporations Act, 1951 and payment of minimum dividend thereon at the rate of 3.5 *per cent*. The table below indicates the details of other guarantees given by the Government for repayment of loans and fixed deposits raised/received by the Corporation and payment of interest thereon :

Particulars	Years of guarantee	Amount guaranteed	Amount outstanding as on 31st March 1984		
			Principal	Interest	Total
			(Rupees in lakhs)		
Loans ..	1965-66 to 1983-84	86,12.00	72,87.00	Nil	72,87.00
Fixed deposits ..	1965-66 to 1983-84	5,00.00	9.82	Nil	9.82
	Total	91,12.00*	72,96.82	Nil	72,96.82*

5.4.4 Financial position

The table below summarises the financial position of the Corporation for the three years up to 1983-84 :

Capital and liabilities	1981-82	1982-83	1983-84
		(Rupees in lakhs)	
(a) Paid-up capital	10,00.00	10,00.00	10,00.00
(b) Reserve fund, other reserves and surplus	8,34.65	9,04.03	9,67.91
(c) Borrowings			
(i) Bonds and debentures ..	59,94.50	65,44.50	72,87.00
(ii) Deposits	31.11	10.02	9.82
(iii) Industrial Development Bank of India	66,71.91	84,41.86	88,12.47
(iv) Loans towards share capital			
(a) State Government ..	4,13.34	5,13.34	6,63.34
(b) Industrial Development Bank of India	4,32.38	5,32.38	6,82.38
(v) Others (including State Government loans)	2,41.10	2,90.90	3,40.90
(d) Other liabilities and provisions ..	2,70.82	1,98.95	1,99.70
Total ..	158,89.81	184,35.98	199,63.52

*The figures as per Finance Accounts are Rs. 112,38.80 lakhs and Rs. 81,96.00 lakhs respectively; differences are under reconciliation.

Assets	1981-82	1982-83	1983-84
		(Rupees in lakhs)	
(a) Cash and Bank balances ..	8,77.63	8,71.17	6,05.14
(b) Investments	69.62	57.10	45.81
(c) Loans and advances	137,91.37	166,17.97	186,90.50
(d) Net fixed assets	18.49	24.08	37.93
(e) Other assets	11,32.70	8,65.66	5,84.14
Total ..	158,89.81	184,35.98	199,63.52
£Capital employed	145,83.95	169,28.01	190,00.43
+Capital invested	149,87.56	175,98.07	191,35.92

5.4.5 Working results

The following table gives details of working results of the Corporation for three years up to 1983-84 :

Particulars	1981-82	1982-83	1983-84
		(Rupees in lakhs)	
1. Income			
(a) Interest on loans	7,49.54	13,10.54	17,78.98
(b) Other income	86.38	97.27	75.05
Total ..	8,35.92	14,07.81	18,54.03
2. Expenses			
(a) Interest on long-term loans ..	5,81.25	9,41.16	11,73.32
(b) Other expenses	2,28.36	4,35.35	6,32.36
Total ..	8,09.61	13,76.51	18,05.68

£ Capital employed represents the mean of the aggregates of opening and closing balances of paid-up capital, reserves (other than those which have been funded specifically and backed by investment outside), bonds, deposits and borrowings (including refinance).

+ Capital invested represents paid-up capital *plus* long-term loans *plus* free reserves.

Particulars	1981-82	1982-83	1983-84
		(Rupees in lakhs)	
3. Profit before tax	26.31	31.30	48.35
4. Provision for tax	5.42	9.76	16.93
5. Other appropriations	20.50	20.00	30.00
6. Amount available for dividend ..	16.03*	54.33*	55.10
7. Dividend paid	**	31.50	31.50
8. Total return on			
(a) Capital employed	6,07.56	9,72.46	12,21.67
(b) Capital invested	6,07.56	9,72.46	12,21.67
9. Percentage of return on		(*per cent*)	
(a) Capital employed	4.2	5.7	6.4
(b) Capital invested	4.1	5.5	6.4

The Corporation had switched over with effect from 1st April 1981 to cash system of accounting from mercantile system followed in earlier years.

5.4.6 Disbursement and recovery of loans

The performance of the Corporation in the disbursement/ recovery of loans during the three years up to 1983-84 was as indicated on pages 104-105.

*Includes refund of income-tax for earlier years, surplus carried forward from previous years and adjustments of previous years.

**Due to inadequacy of profits Corporation had approached the State Government for subvention to pay guaranteed dividend for the year 1981-82; the Corporation received Rs. 15.47 lakhs during 1982-83 on this account.

Sr. No.	Particulars	1981-82	
		Number	Amount
1	2	3	4
1.	Applications pending at the beginning of the year	403	28,7 3.71
2.	Applications received	2,309	107,11.59
3.	Total	2,712	135,85.3 0
4.	Applications sanctioned	1,614	59,10.15
5.	Applications cancelled / withdrawn / rejected/closed	821	52,05.45
6.	Difference between the amounts of loan applied and sanctioned	..	9,00.54
7.	Applications pending at the close of the year	277	15,69.16
8.	Loans disbursed	1,069	33,04.78
9.	Amount outstanding at the close of the year	9,780	134,09.32*
10.	Amount overdue for recovery at the end of the year :		
	(a) Principal	@	28,66.75
	(b) Interest	@	12,55.26
11.	Percentage of default to total loans outstanding	..	30.7

*The figures of outstanding loans at the close of the year includes

@Partywise break-up of amounts of instalments whether of principal or
and 31st March 1984 were not compiled by the Corporation.

1982-83		1983-84		Cumulative since inception	
Number 5	Amount 6	Number 7	Amount 8	Number 9	Amount 10
(Figures in column Nos. 4, 6, 8 and 10 are in lakhs of rupees)					
277	15,69.16	365	17,65.97	..	..
3,738	132,64.00	2,905	100,62.21	30,907	841,29.71
4,015	148,33.16	3,270	118,28.18	30,907	841,29.71
2,641	64,53.25	2,186	58,12.40	22,749	446,89.51
1,009	54,62.70	685	30,70.22	7,759	229,98.72
..	11,51.24	..	9,10.59	..	74,06.51
365	17,65.97	399	20,34.97	399	20,34.97
1,741	42,10.46	1,417	38,32.03	15,606	272,58.55
11,153	161,08.73*	12,330	181,42.58*	..	..
@	31,77.04	@	37,39.00	..	..
@	14,67.54	@	22,42.00	..	..
..	22.6	..	33.0	..	..

other charges debited to loanee's accounts.

interest overdue for recovery as on 31st March 1982, 31st March 1983

5.5 Gujarat State Road Transport Corporation

The working results and operational performance of Gujarat State Road Transport Corporation and review on disposal of scrap including old vehicles are dealt with in section VII of this report.

5.6 Gujarat State Warehousing Corporation

5.6.1 Introduction

The Gujarat State Warehousing Corporation was established by the State Government on 5th December 1960 under Section 28 of the Agricultural Produce (Development and Warehousing) Corporations Act, 1956 (repealed by the Warehousing Corporations Act, 1962). It started functioning in February 1961.

The Annual General Meetings for the years ended 31st March 1982, 31st March 1983 and 31st March 1984 were held by the Corporation before receipt of the Report of the Comptroller and Auditor General of India in violation of sub-section 10 of Section 31 of the Warehousing Corporations Act, 1962.

5.6.2 Capital

The paid-up capital of the Corporation was Rs. 178.00 lakhs (State Government : Rs. 95.50 lakhs ; Central Warehousing Corporation : Rs. 82.50 lakhs) as on 31st March 1984. As per provisions contained in Section 19(2) of the Act, contribution by the State Government and Central Warehousing Corporation has to be in equal proportions. However, part of the matching contribution (Rs. 13.00 lakhs) for the years 1976-77 (Rs. 7.00 lakhs) and 1978-79 (Rs. 6.00 lakhs) was still awaited from the Central Warehousing Corporation (December 1984).

5.6.3 Financial Position

The table below summarises the financial position of the Corporation under broad headings for the three years up to 1983-84 :

Liabilities	1981-82	1982-83	1983-84
	(Rupees in lakhs)		
(a Paid-up capital	153.00	172.00	178.00
(b) Reserves and surplus	119.71	210.37	247.42
(c) Trade dues and other current liabilities (including provisions)	203.1)	402.47	110.4
Total ..	475.90	784.84	535.84
Assets			
(a) Gross block	150.07	186.78	194.03
(b) *Less* : depreciation	20.62	25.07	9.94
(c) Net fixed assets	129.45	161.71	164.09
(d) Capital works-in-progress ..	17.83	1.18	20.90
(e) Current assets, loans and advances	328.62	621.95	350.85
Total ..	475.90	784.84	535.84
Capital employed *	245.70	363.99	404.52
Capital invested @	263.53	373.19	425.42

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

@ Capital invested represents paid-up capital *plus* free reserves.

5.6.4 Working results

The following table gives the details of working results of the Corporation for the three years up to 1983-84:

Particulars	1981-82	1982-83	1983-84
	(Rupees in lakhs)		
1. Income			
(i) Warehouse charges	45.78	64.00	70.47
(ii) Other income	24.92	125.49	86.82
Total ..	70.70	189.49	157.29
2. Expenses			
(i) Establishment charges ..	20.11	33.38	38.13
(ii) Other expenses	28.86	39.82	46.72
Total ..	48.97	73.20	84.85
3. Profit before tax	21.73	116.29	72.44
4. Provision for tax	3.31	..	..
5. Other appropriations	6.61	52.07	18.11
6. Amount available for dividend* ..	17.77	81.99	123.69
7. Dividend paid for previous year	..	12.63	22.93
8. Dividend for the year	..	..	12.46
9. Total return on			
(a) Capital employed	21.73	116.29	72.44
(b) Capital invested	21.73	116.29	72.44
10. Rate of return on			
(a) Capital employed	8.8	31.9	17.9
(b) Capital invested	8.3	31.2	17.0

* Includes surplus from earlier years.

Gross income had decreased by Rs. 32.20 lakhs despite increase in warehousing charges by Rs. 6.46 lakhs, which was due to substantial decrease in the other income from service charges on the handling of cement (less quantity handled because of change in import policy) and CARE commodities.

6.5 Operational performance

The following table gives details of storage capacity created, capacity utilised and other information about the performance of the Corporation for the three years up to 1983-84 :

Particulars	1981-82	1982-83	1983-84
1. Number of stations covered ..	51	57	53
2. Storage capacity created up to end of the year (tonnes in lakhs)			
(a) Owned	0.77*	0.90	0.91
(b) Hired	0.86	0.92	0.77
Total ..	1.63	1.82	1.68
3. Average capacity utilised during the year (tonnes in lakhs)	0.99	1.22	1.18
4. Percentage of utilisation ..	60.6	67.0	70.1
5. Average revenue per tonne per year (rupees)	71.4	155.3	133.3
6. Average expenses per tonne per year (rupees)	49.5	60.0	71.9

* The reduction in constructed capacity was due to adoption of uniform formula for calculating capacity by Central and State Warehousing Corporations.

SECTION VI

GUJARAT ELECTRICITY BOARD

6.1 Introduction

Gujarat Electricity Board was formed in May 1960 under Section 5 (1) of the Electricity (Supply) Act, 1948.

6.2 Capital

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

The aggregate of the long-term loans (including loans from Government cobtained by the Board was Rs. 1349,63.92 lakhs at the end of 1983-84 and represented an increase of Rs. 201,99.47 lakhs *i. e.* 17.6 *per cent* on the long-term loans of Rs. 1147,64.45 lakhs as at the end of the previous year. Details of loans obtained from different sources and outstanding at the close of the two years up to March 1984 were as follows :

Source	Amount outstanding as on 31st March		Percentage increase
	1983	1984	
	(Rupees in lakhs)		
1. State Government	805,53.52	967,72.52	20.1
2. Debentures/bonds	163,87.12	187,49.11	14.4
3. Life Insurance Corporation of India	73,22.08	76,49.42	4.5

Source	Amount outstanding as on 31st Mrach 1983	1984	Percentage increase
	(Rupees in lakhs)		
4. Rural Electrification Corporation Limited	55,34.35	59,73.40	7.9
5. Agricultural Re-finance and Development Corporation	21,36.57	17,03.13	..
6. Agricultural Finance Corporation	4,02.42	3,00.56	..
7. Industrial Development Bank of India	9,45.34	17,37.16	83,8
8. Commercial banks	0.82	Nil	..
9. Deferred payments	6.56	5.42	..
10. Others	14,75.66	20,73.20	40.5
Total ..	1147,64.45	1349,63.92	17.6

6.3 Guarantees

Government had guaranteed the repayment of loans raised by the Board to the extent of Rs. 474,98.35 lakhs* and the payment of interest thereon. The amount of principal guaranteed and outstanding as on 31st March 1984 was Rs. 295,60.63 lakhs*.

*The figures as per Finance Accounts are Rs. 475,44.00 lakhs and Rs. 475,44.00 lakhs respectively; the differences are under reconciliation.

6.4 Financial position

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

Liabilities	1981-82	1982-83	1983-84
		(Rupees in lakhs)	
(a) Loans from Government ..	598,83.58	805,53.53	967,72.52
(b) Other long-term loans (including bonds)	303,20.12	342,10.93	381,91.40
(c) Reserves and surplus ..	108,09.58	145,72.31	182,39.56
(d) Current liabilities and provisions	248,80.00	258,72.02	304,91.51
Total ..	1258,93.28	1552,08.79	1836,94.99
Assets			
(a) Gross fixed assets	809,59.79	1015,90.11	1160,84.35
(b) *Less* : Depreciation	127,26.39	144,32.87	165,90.86
(c) Net fixed assets	682,33.40	871,57.24	994.93.49
(d) Capital works-in-progress ..	322,54.06	355,21.06	445,97.45
(e) Current assets, investments and miscellaneous expenditure	254,05.82	325,30.49	396,04.05
	1258,93.28	1552,08.79	1836,94.99
Capital employed*	686,31.46	937,22.22	1085,37.18
Capital invested**	970,14.78	1223,44.07	1433,58.95

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

**Capital invested represents long-term loan *plus* free reserves.

6.5 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	326,27.61	408,22.78	504,05.14
(b) Subsidy/subvention from Government	5,37.37	14,56.36	1,85.21
Total ..	331,64.98	422,79.14	505,90.35
(c) Revenue expenditure ..	263,98.80	339,51.62	417,78.11
(d) Gross surplus*	67,66.18	83,27.52	88,12.24
(e) Appropriations			
(i) Interest on Government loans	25,60.41	29,99.86	29,99.86
(ii) Interest on other loans / bonds	25,47.56	29,42.55	32,51.74
(iii) Contribution to discount sinking fund	4.74	4.69	4.59
(iv) Repayment of loans other than Government loans	16,53.47	23,80.42	25,56.05
Total (e)	67,66.18	83,27.52	88,12.24
(f) Total return on capital employed** ..	69,23.44	84,56.33	88,09.25
(g) Total return on capital invested ..	67,61.44	83,22.83	88,07.65

*The surplus included in this figures is worked out as per the provisions of the Electricity (Supply) Act, 1948 which does not show comparable commercial surplus.

**Includes interest of Rs. 162.00 lakhs, Rs. 133.50 lakhs and Rs. 101.60 lakhs included under revenue expenditure for 1981-82, 1982-83 and 1983-84 respectively.

	1981-82	1982-83	1983-84
	(Rupees in lakhs)		
(h) Rate of return on		(*per cent*)	
(i) Capital employed	10.1	9.0	8.1
(ii) Capital invested	7.0	6.8	6.1

Subsidy/subvention from Government of Rs. 1,85.21 lakhs comprised Rs. 93.00 lakhs claimed from State Government as subsidy towards setting off of the rural electrification losses pertaining to the year 1983-84 to maintain the return on capital base at 9.5 *per cent* as well as subvention of Rs. 92.21 lakhs on account of cyclone in the State during November 1982. Claims of the Board for subsidy amounting to Rs. 57,23 lakhs for years 1979-80 (Rs. 5,37 lakhs), 1980-81 (Rs. 39,97 lakhs), 1982-83 (Rs. 10,96 lakhs) and 1983-84 (Rs. 93 lakhs) on account of rural electrification losses have not yet been sanctioned by the Government (January 1985).

As on 31st March 1984 the Board had a cumulative contingent liability of Rs. 116,91.97 lakhs as detailed below :

	For the year 1983-84	Cumulative as on 31st March 1984
	(Rupees in lakhs)	
Interest on Government loans ..	..	49,58.14
Depreciation which could not be provided	10,79.29	67,33.83
Total ..	10,79.29	116,91.97

6.6 Operational performance

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

Particulars	1981-82	1982-83	1983-84
1. Installed capacity		(MW)	
(i) Thermal	1,722.5	1,932.5	2,142.5
(ii) Hydro	300.0	300.0	300.0
(iii) Others	56.5	56.5	54.0
Total* ..	2,079.0	2,289.0	2,496.5
2. Normal maximum demand ..	2,000.0	2,217.0	2,452.0
3. Power generated		(Mkwh)	
(i) Thermal	7,444.680	8,461.726	9,107,356
(ii) Hydro	1,139.140	410.429	1,090.708
(iii) Others	22.010	83.708	NIL
Total ..	8,605.830	8,955.863	10,198.064
4. *Less* : Auxiliary consumption including transformation loss	770.750	848.773	1,000.755
5. Net power generated	7,835.080	8,107.090	9,197.309
6. Power purchased	980.803	1,065.143	1,119.747
7. Total power available for sale ..	8,815.883	9,172.233	10,317.056
8. Power sold	7,047.219	7,240.149	8,080.445
9. Transformation, transmission and distribution loss	1,768.664	1,932.084	2,236.611

* These do not include Gujarat Electricity Board's share (190 MW) in installed capacity in Tarapur Atomic Power Project and (87 MW in 1983-84) in installed capacity from Korba Super Thermal Power Station.

	Particulars	1981-82	1982-83	1983-84
			(*per cent*)	
10.	Load factor	54.7	51.6	52.7
11.	Transmission and distribution loss (9 to 7)	20.1	21.1	21.7
			(Kwh)	
12.	Number of units generated per Kw of installed capacity	4,139	3,913	4,085

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

	Particulars	1981-82	1982-83	1983-84
			(Numbers)	
1.	Villages/towns electrified (cumulative)	13,645	14,246	15,081
2.	Pumpsets/wells energised (cumulative)	2,51,616	2,61,761	2,71,461
3.	Sub-stations	243	258	272
4.	Transmission/distribution lines (kilometres)			
	(*i*) High/medium voltage ..	81,152	85,589	90,302
	(*ii*) Low voltage	76,023	80,863	86,297
5.	Connected load (MW).. ..	4,572.860	5,202.195	5,587.346
6.	Number of consumers	26,66,423	29,02,590	30,17,364
7.	Number of employees	31,864	33,652	35,050
8.	Total expenditure on staff (rupees in lakhs)	5,311	5,642	7,061
9.	Percentage of expenditure on staff to total expenditure	20.1	16.7	16.9

6.8 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 :

Particulars	1981-82	1982-83	1983-84
		(MKwh)	
1. Units sold			
(*a*) Agriculture (percentage share to total) ..	1,275.474 (18.1)	1,372.502 (19.0)	1,414.391 (17.5)
(*b*) Industrial (percentage share to total)	3,656.346 (51.9)	3,834.608 (53.0)	4,344.072 (53.7)
(*c*) Commercial ..	86.232	86.249	114.670
(*d*) Domestic ..	442.363	514.036	563.485
(*e*) Others	1,586.804	1,432.754	1,643.827
Total ..	7,047.219	7,240.149	8,080.445
		(Paise per Kwh)	
2. Revenue (excluding subsidy from Government)	46.30	56.38	62.38
3. Expenditure*	38.73	49.42	53.04
4. Profit (+) /Loss (—) ..	(+)7.57	(+)6.96	(+)9.34

6.9 Wanakbori Thermal Power Station-(Stage-I)

6.9.1 Introduction

The Gujarat Electricity Board prepared a project report for installation of three thermal generating units of 210 MW capacity each in November 1972 which was approved by the Planning Commission in August 1976. The units

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

were commissioned in March 1982, January 1983 and March 1984. A review of the implementation of the project are discussed in succeeding paragraphs.

6.9.2 Summary of findings

Orders for the main equipment (boilers and turbines) were placed in January 1977 for the Thermal Power Station (Stage-I) sanctioned in August 1976. The units which were to be commissioned in March 1980, March 1981 and September 1981 were actually commissioned in March 1982, January 1983 and March 1984. The units were thus commissioned 62 months, 72 months and 86 months after the placement of orders for the main equipment. The delay was attributed by the Board to delay in the supply of equipment by the Bharat Heavy Electricals Limited (BHEL). However, there were also delays on the part of the Board in finalishing some of the drawings for the TG sets and providing the necessary cranes for their erection (paragraph 6.9.4)

There were delays in the placement of orders for the coal handling and ash handling equipment. Orders were placed 34 months and 40 months after the placement of orders for the main equipment. There were further delays in commissioning. Because of the delay in commissioning the coal handling system the first unit which was commissioned in March 1982 had to be run on oil alone till September 1982. (paragraph 6.9.4)

The cost of the project increased from Rs. 172.14 crores (August 1976) to Rs. 242.00 crores (August 1981 estimate yet to be formally approved by Planning Commission) ; expenditure up to September 1984 was Rs. 268.54 crores (paragraph 6.9.3).

Stabilisation of the units after commissioning received a set back due to hydrogen leakage in the turbogenerator, failure of fan motors and bearings and inefficient working of HP feed heater system (paragraph 6.9.9(a)).

The plant availability factor for units I and II in 1983-84 was 69 *per cent* and 49 *per cent* respectively. With reference to the available hours the shortfall in generation in 1983-84 was 797 million kilowatt hours (paragraph 6.9.9(a)).

The consumption of coal per unit of generation in 1983-84 was 0.646 kg, 50 *per cent* higher than the norm of 0.436 kg in the project report. Likewise, the specific oil consumption per kwh generated was 37.6 mls during 1983-84 against the norm of 10 mls prescribed by the Central Electricity Authority (CEA) (paragraph 6.9.9).

Further details and other aspect are discussed in the succeeding paragraphs.

6.9.3 Project estimates

The project report for installation of three thermal generating units of 210 MW each at Wanakbori prepared by the Board (November 1972) with an estimated cost of Rs. 115.50 crores was revised (July 1976) to Rs. 172.14

crores after consultation with the Central Electricity Authority and the same was approved by the Planning Commission in August 1976. According to the project report the three units were scheduled for commissioning in March 1980, March 1981 and September 1981 respectively. The project estimates were further revised (August 1981) to Rs. 242 crores keeping in view the orders already placed and the cost of items yet to be executed.

The Central Electricity Authority to whom the revised project estimates were submitted called (July 1983) for the itemwise details of quantities, unit rates and reasons for increase in cost before approving the project cost as revised in August 1981.

The Board had not yet (January 1985) furnished this information as the details of final outlay were awaited from the Chief Engineer, Wanakbori Thermal Power Station (WTPS). Approval to the revised estimates was awaited (January 1985). According to the Board (January 1985) the revised estimates had been adopted by State Government, CEA, and Planning Commission for plan provision purposes.

Though the three units were commissioned in March 1982, January 1983 and March 1984, some works, such as stacker reclaimer and miscellaneous civil works, were yet to be completed (February 1985). The actual expenditure up to September 1984 amounted to Rs. 268.54 crores exceeding even the revised estimate of Rs. 242 crores by Rs. 26.54 crores.

6.9.4 Delay in commissioning of the project

The order for supply of three generating units (3 x 210 MW) was placed in January 1977 at a negotiated price of Rs. 87.75 crores with Bharat Heavy Electricals Limited (BHEL). The erection job was also awarded to BHEL (March 1977) at Rs. 7 crores . As per the time given to the supplier the three units were targetted for commissioning in June 1980, June 1981 and December 1981.

The Board has not, however, executed a formal agreement with BHEL clearly defining the responsibilities of each party, scope of work, terms of payment, liquidated damages for delays and guaranteed performance.

The Chief Engineer, Gujarat Electricity Board stated (November 1984) that a draft agreement sent by BHEL recently was being scrutinised by the Board.

The dates stipulated in the supply order and the actual dates of supply and erection of the generating sets are given below :

Supply and erection	Stipulated dates	Actual dates	Extent of delay (in months)
(i) Boiler			
unit-I	1st March 1980	25th February 1982	24
unit-II	1st March 1981	4th January 1983	22
unit-III	1st September 1981	5th December 1983	27
(ii) Turbine and generator			
unit-I	1st April 1980	23rd February 1982	23
unit-II	1st April 1981	24th December 1982	21
unit-III	1st October 1981	30th December 1983	27

The target dates fixed from time to time and actual dates of commissioning the three units were as under :–

	Unit-I	Unit-II	Unit-III
Commissioning schedule as per project approved by the Planning Commission (August 1976)	March 1980	March 1981	September 1981
As revised at the time of placement of order (Junuary 1977)	June 1980	June 1981	December 1981
As revised after review of progress by Planning Commission (October 1980)	June 1981	December 1981	June 1982
Actual	March 1982	Junuary 1983	March 1984
Delay in Commissioning reckoned with reference to		(in months)	
(i) Project approved by Planning Commission	24	22	30
(ii) First revision at the time of placement of order	21	19	27
(iii) Second revision as per Planning Commission review	9	13	21

Note : Unit-III was taken out on the same day it was synchronised (connected to the grid) for attending to the hydrogen leakages from the stator watar cooling system of the generator coils and other defects; it was resynchronised on 29th July 1984.

The delays in commissioning were due to the following reasons :

(i) Delays in supply and erection of boilers according to the Board were due to late supply of safety valve, screen tubes, boiler components and accessories *etc.*, by BHEL apart from leakage in furnace, more time taken in steam blowing, failure of boiler tubes and superheater tubes.

(ii) Delays in supply and erection of turbine generators were, however, mainly attributable to the Board due to delay in providing (a) turbine generator pedestal drawings as they were received late from consultants; and (b) condenser foundations and (c) EOT crane.

Besides, there were delays in placement of ordres and in commissioning of the following auxiliary equipments which further delayed the commercial operation of the units after synchronisation :

(a) Orders for the supply of coal handling plant were placed on 9th November 1979, with two firms. Ministry of Energy (Department of Power) while reviewing the status of the project had observed (July 1981) that the coal handling plant which required minimum three years for completion should be ordered within 3 months after the date of order for main plant; but in this case it had been ordered after more than 34 months from the date of placement of order for boilers and turbine generator sets. In both the orders, stipulated date of commissioning first stream was 9th July 1981 and that of second stream 9th May

1982. The first stream coal handling plant was ready on 31st August 1982 and accordingly unit-I was fired on coal in September 1982 and was in a position to carry full load only thereafter.

(b) Order for ash handling plant was also placed late (28th May 1980) *i.e.*, after more than 40 months of placement of order for the main plant.

6.9.5 Consultancy services

A firm was engaged (January 1978) to provide consultancy services covering design engineering and supervision of construction and start-up services. The payments for these services were to be made as under :

(i) Rs. 63.75 lakhs lumpsum for design engineering services; and

(ii) Man-month rate for supervision of construction and start-up services.

The contract provided for availing of additional services not listed in the agreement at mutually agreed upon consideration. The total payment for consultancy services up to March 1984 was Rs. 71.32 lakhs comprising Rs. 63.75 lakhs for design engineering, Rs. 6.97 lakhs for supervision of construction and start-up and Rs. 0.60 lakh for additional services. The delay in commissioning of units necessitated retention of consultancy services thereby increasing the variable charges which were payable at man-month rates without any ceiling.

6.9.6 Coal handling plant

(i) *Delay in commissioning*

The contract for supply, erection and commissioning of coal handling plant was divided into following two parts :

(i) Wagon tipplers, primary and secondary crushers and connected equipments;

(ii) Stacker reclaimer and connected conveyor, conveyors for secondary crushers and associated equipments.

The contract for the first part of the coal handling equipment was awarded (November 1979) to firm 'A' while the contract for the second part was placed on firm 'B' a Government of India undertaking. The table given below indicates the value of the contracts, stipulated dates of commissioning *vis-a-vis* the actual dates :

	Firm 'A'	Firm 'B'
(i) Estimated cost as per the project report	Rs. 300 lakhs	
(ii) Actual cost of the equipment including erection, testing and commissioning as per contract	Rs. 805.61 lakhs	Rs. 658.22 lakhs
(iii) Stipulated dates of commissioning :		
(a) First stream	9th July 1981	9th July 1981
(b) Second stream	9th May 1982	9th May 1982
(iv) Actual dates of commissioning :		
(a) First stream	31st August 1982	31st August 1982
(b) Second stream	15th April 1983	16th February 1983*

*Except stacker reclaimer.

The Board attributed (January 1985) the delay in commssioning mainly to (a) change in track layout by the Railways (finalised in March 1980) ; and (b) shortage of steel and cement.

The contracts entered into with firms 'A' and 'B' stipulated that liquidated damages at one half *per cent* per week, subject to a maximum of five *per cent* of the total contract value, would be levied, provided, it was conclusively proved that the Board had incurred commercial loss due to default in adhering to the completion period.

The liquidated damages amounting to Rs. 0.75 lakh provisionally recovered by the Chief Engineer (Project) from firm 'A' were ordered by the Board (November 1982) to be refunded. The Board stated (January 1985) that the question of liquidated damages was linked with the decision on the extension of time limit which matter was pending as all the connected works were not yet complete. The quantum of liquidated damages leviable on firm 'B' had not yet (January 1985) been determined.

(ii) *Cost of steel issued to firm-recovery not made as per contract*

According to the contract, steel sections were to be procured by the manufacturer. In case the steel was supplied by the Board, the difference between the imported steel rates and stockyard steel rates was to be recovered from the contractor.

The Board had issued between January 1981 and September 1982 2,328.492 tonnes of steel sections (value : Rs. 107.11 lakhs) to the firm.

The recovery towards the difference between the imported steel prices and stockyard rates of steel sections issued was effected at a blanket rate of Rs. 1,000 per tonne, instead of computing it with reference to actual prices of imported steel. The Board stated (January 1985) that the blanket rate of recovery was an interim rate and final recovery rate had not so far been decided.

(*iii*) *Avoidable expenditure due to non-completion of stacker reclaimer*

(*a*) The supply and erection of stacker reclaimer which as per terms of the contract was to be completed by 9th May 1982, had not been completed so far (December 1984) and this, as stated (October 1984) by Chief Engineer, WTPS, had imposed a heavy financial burden on the power station by way of heavy incidence of demurrage (Rs. 96.33 lakhs) on coal consignments. In the absence of stacker reclaimer, the unloading of coal had to be staggered, and the wagons diverted to other power stations of the Board.

(*b*) Due to non-completion of supply and erection of stacker reclaimer, the Board got constructed from firm 'A an emergency stacker reclaimer at a total cost of Rs. 26.43 lakhs which could have been avoided if the main stacker reclaimer was ready in May 1982 as stipulated. The emergency stacker reclaimer was, however, put to use only in June

1983, after supply of the magnetic pulley by firm 'B'. Consequently, a bonus of Rs. 0.51 lakh paid to firm 'A' for early supply (by one month) of the emergency reclaimer also proved unfruitful.

6.9.7 Deficiencies in ash handling plant

The contract for design, manufacture, supply, erection and commissioning of ash handling plant for all the three units was awarded (May 1980) to a New Delhi firm for a fixed price of Rs. 226.90 lakhs.

The plant was designed by the company based on the specifications of BHEL for the boilers. The supplier of ash handling plant, while tendering, had shown the location of the wetting head tower very close to the boilers; but the consultants insisted on the location of tower nearer to the slurry pump house which was accepted by the supplier with reservations. According to the specifications, the entire quantity of ash produced in a shift of eight hours operation of power plant was to be evacuated within four hours; but actually the ash handling plant had to be operated continuously leaving no free time for its maintenance. To enable maintenance of ash handling plant during operation, the power plant had to operate at low loads leading to generation loss.

The problem was taken up by the Board (May 1984) with the supplier and the consultants. Supplier contended (May 1984) that the deficiency was not attributable to ash handling plant; but was due to high percentage of ash deposited in dummy hoppers (part of boiler unit supplied by

BHEL) and the location of wetting head tower should have been closer to boilers as indicated by them while tendering.

According to the consultants, their specification for location of the tower near slurry pump was based on savings in length of pipe lines of ash handling system. However, reasons for high percentage of collection of ash in dummy hoppers had not been enquired into. The Board considered this problem (May 1984) and decided in consultation with the consultants to relocate the wetting tower nearer to boiler unit to improve the performance of the ash handling plant. The Board stated (January 1985) that the additional capital outlay on relocation of wetting tower would be approximately Rs. 48 lakhs.

Meanwhile, in order to ensure the functioning of the existing plant and to avoid loss of generation the Board had awarded (July 1984) a contract to a sister concern of the supplier for the operation and maintenance of the ash handling plant for a period of one year with effect from 1st July 1984, at Rs. one lakh per month.

6.9.8 Main foundations work-avoidable extra expenditure

Tenders for the work of main RCC foundations were invited in September 1977; out of the five tenders received, the second lowest tender (Rs. 177.75 lakhs) of firm 'C' and the third lowest tender (Rs. 188.39 lakhs) of firm 'D' were considered technically acceptable. On the recommendation of the consultants the Board approved (December 1977) the splitting up of work by awarding of one half to firm 'C'

(Rs. 89.26 lakhs) and the other half to firm 'D' (Rs. 95.86 lakhs) for the sake of speedy execution of the work.

In January 1978 firm 'D' was invited by Chief Engineer (P & P) for negotiations and the entire work was awarded to it at a negotiated price of Rs. 183.83 lakhs (March 1978) which exceeded the second lowest tender (Rs. 177.75 lakhs) of firm 'C' by Rs. 6.08 lakhs . Board replied (January 1985) that work was awarded to firm 'D' considering Member (Technical)'s view of technical resources , experience and dependability of this firm; but this deviation from the earlier decision of the Board did not carry Board's approval.

The work was stipulated to be completed by April 1979, but as its completion was getting delayed according to the firm due to Board's delay in making available the working area and the drawings by the consultants, and as more than the contracted value (Rs. 183.83 lakhs) of the work was done, the firm desired to be relieved from the contract. The Board thereupon decided (July 1982) that value of work to be executed thereafter (*i. e.* beyond Rs. 227.76 lakhs completed till then) would be paid for at the enhanced rates applicable for corresponding items in the contract for stage II awarded (January 1982) to the same firm. The extra payment on account of increase in rates made to the firm up to September 1984 amounted to Rs. 9.86 lakhs.

According to clause 2 of the work order, the prices accepted were firm and, though estimated quantities were mentioned, the work was to be executed as per actual requirement at site and payment was to be made at unit rates for the quantities actually executed. Further, as per clause 9 *ibid*, for any delay in completing the work for reasons attributable to the Board the firm was to be compensated only by way of extension in time limit without any penalty to Board. In view of these provisions the extra payment made to the firm was not justified.

6.9.9 Performance

(*a*) *Shortfall in generation*

The table on pages 132-133 indicates the performance of the plant for two years 1982-83 and 1983-84 in respect of units-I and II; unit-III having been commissioned on 15th March 1984.

Particulars	1982-83		
	Unit-I	Unit-II	Total
1. Total hours available in the year	8760.0	1807.5	10567.5
2. Less			
(i) Plant shut down hours	1619.0	1112.5	2731.5
(ii) Forced shut down hours	3174.0	7.0	3181.0
(iii) Total shutdown hours	4793.0	1119.5	5912.5
3. Plant availability hours	3967.0	688.0	4655.0
4. Units which could have been generated in actual hours operated (Mkwh)	833.070	144.480	977.550
5. Units actually generated (Mkwh)	395.090	10.030	405.120
6. Shortfall (Mkwh)	437.980	134.450	572.430
		(*Per cent*)	
7. Plant availability factor	45	38	44
8. Plant utilisation factor	47	7	41

1983-84		
Unit-I	Unit-II	Total
8784.0	8784.0	17568.0
2155.0	4207.0	6362.0
580.0	284.0	864.0
2735.0	4491.0	7226.0
6049.0	4293.0	10342.0
1270.290	901.530	2171.820
861.320	513.290	1374.610
408.970	388.240	797.210
	(*Per cent*)	
69	49	59
68	57	63

As per established norm, the plant availability factor after allowing the normal maintenance shut downs in a stabilised unit is 80-85 *per cent*. The comparatively low plant availability factor in the above analysis and consequent shortfall in generation was explained by the Board as due to plant shut downs to rectify defects and resynchronisation of the plants during the stabilisation period of the units. According to the consultants, failure of fan motors and leak inside the generator in the stator water cooling system (supplied by BHEL) were responsible for long duration shut downs. During 1983-84, failure of fan motors accounted for 3351 shut down hours (Unit-I : 399, Unit-II : 2952) and the leakage in the stator water cooling system entailed 1604 shut down hours (Unit-I : 807, Unit-II : 797) as assessed by the Board.

The plant availability factor was also adversely affected by forced shut downs. The Board attributed these to boiler turbine generator and auxiliary equipment supplied by BHEL.

As regards the low utilisation factor, the shortfall in generation was due to the plant not being able to carry full load (210 MW per unit) which deficiency was attributed by the consultants (April 1984) to the following constraints :

1. leak in stator water cooling system inside generator,
2. inefficient working of HP feed heater system,
3. failure of motors and bearings, and
4. inadequate capacity of ash handling system.

(*b*) *High cost of generation*

Cost of generation was estimated in the approved project estimate at 12 paise@ per KWH and cost per KWH generated for sending out was estimated at 13.19 paise@ (1976).

@Including element of interest.

The actual cost of generation per KWH was as follows:

	1982-83	1983-84
1. Gross generation (in million KWH)	405.120	1,374.620*
2. Auxiliary consumption (in million KWH)	49.747	160.486
3. Units sent out (in million KWH)	355.373	1,214.134
4. Percentage of consumption in auxiliary	12.3	11.7
5. Total cost of generation including excise duty (excluding interest) (Rupees in lakhs)	20,33.71	56,50.39
6. Cost per unit generated (in paise)	50	41
7. Cost per unit sent out (in paise)	57	46

The increase in the cost of the project from Rs. 172.14 crores as per approved estimate to Rs. 222.92 crores (capital outlay on fixed assets up to 1983-84), the increase in the price of coal from Rs. 132 per tonne as per project estimate to Rs. 475 per tonne in 1982 and higher consumption of coal (0.631 kg per KWH in 1982-83 and 0.646 kg per KWH in 1983-84 against estimated quantity of 0.436 kg per KWH) due to low calorific value of coal consumed (average 5025 K cal/kg in 1982-83 and 4991 K cal/kg in 1983-84 compared to 5500 K cal/kg as per project estimate) had pushed up the cost of generation.

Some of the other factors, which were controllable, contributing to high cost of generation were as under :

(*i*) In the absence of coal firing, generation attributable to oil, a comparatively much costlier fuel, was 20 *per cent* of the total generation in 1982-83 and 9.1 *per cent*

*Includes 0.010 Mkwh generated by Unit-III on 15th March 1984.

in 1983-84 and consumption of oil was also very high (101 millilitres per unit in 1982-83 and 37.6 millilitres per unit in 1983-84) compared to the norm of 10 millilitres per unit prescribed by the Central Electricity Authority.

(*ii*) Heavy payment of demurrage charges to railways in respect of coal consignments (Rs. 96.33 lakhs settled up to June 1984).

(*iii*) Increase in operation and maintenance expenditure.

(*iv*) Excess consumption of 1454 hydrogen cylinders as assessed by the Board (Rs. 1.05 lakhs) due to hydrogen leakage in stator water cooling system of generators.

6.9.10 Inventory control

(*a*) *Inventory*

The following table indicates the inventory holdings (other than furnace oil, light diesel oil and coal) for the five years up to 1983-84 :

	1979-80	1980-81	1981-82	1982-83	1983-84
			(Rupees in lakhs)		
Opening stock	168.63	599.29	1083.71	1442.72	1510.15
Receipts	904.38	2116.91	2125.90	4323.00	2605.33
Total	1073.01	2716.20	3209.61	5765.72	4115.48
Consumption	473.72	1632.49	1766.89	4255.57	2286.42
Closing stock	599.29	1083.71	1442.72	1510.15	1829.06
Closing stock equivalent to months' consumption	15	8	9	4	9.5

Classification of inventory into 'active', 'slow moving', 'non-moving' had not been done. The Board stated (January 1985) that action to classify the stores would be taken after stabilisation of the units.

(*b*) Physical verification of stores excesses and shortages noticed during physical verification of stores and credited or debited respectively to "Suspense account", pending investigation and clearance, were as under :

Year	Credited to suspense account	Debited to suspense account
	(Rupees in lakhs)	
1979-80	1.08	1.29
1980-81	4.38	4.48
1981-82	3.55	3.96
1982-83	5.79	8.03
1983-84	15.82	22.57
Total ..	30.62	40.33

The Board stated (January 1985) that the work of analysing the excesses/shortages was under process.

6.9.11 Other topics of interest

(*a*) *Accident to crawler crane*

A crawler crane purchased (December 1983) at a cost of Rs 33.67 lakhs and hired out (1st May 1984) to firm 'D' erecting stacker reclaimer crashed down (3rd May 1984) due to overloading by the hirer. Rs. 2.03 lakhs were spent (June 1984) on repairing the damage; but, so far (November 1984), no recovery had been effected from the hirer. The Board stated (January 1985) that the matter was being pursued with the firm.

(*b*) *Avoidable extra expenditure*

According to the contract for multiflue chimney, it was to be constructed by September 1980; but it was actually completed in June 1983. As a temporary arrangement, the Board brought (October 1980) a steel chimney from another power station incurring an expenditure of Rs. 1.11 lakhs on its transportation, *etc.* No recovery was made from the contractor for multiflue chimney on this account. The Board stated (January 1985) that whether contractor could be held solely responsible for the delay in completion of the work would require detailed investigation and that action was being taken.

(*c*) *Cement rendered unusable*

46.90 tonnes of cement was spoiled by rain (June 1982) at a railway station, after taking delivery. Another 124 tonnes of cement was rendered unfit for use due to passage of time (June 1983). Total loss amounted to Rs. 1.03 lakhs ; sanction for its write-off was awaited (November 1984). The Board stated (January 1985) that the matter was being investigated.

SECTION VII

GUJARAT STATE ROAD TRANSPORT CORPORATION

7.1 Introduction

The Gujarat State Road Transport Corporation was established on 1st May 1960 under Section 3 of the Road Transport Corporations Act, 1950.

7.2 Capital

Under Section 23 (*1*) of the Road Transport Corporations Act, 1950 the State Government and the Central Government had agreed to contribute to the capital of the Corporation in the ratio of 2:1. The capital of the Corporation was Rs. 142,69.63 lakhs (State Government : Rs. 105,67.42 lakhs;* Central Government : Rs. 37,02.21 lakhs) as on 31st March 1984 as against the capital of Rs. 123,53.80 lakhs (State Government : Rs. 88,25.42 lakhs; Central Government : Rs. 35,78.38 lakhs) as on 31st March 1983. The shortfall in the capital contribution of the Central Government as on 31st March 1984 was Rs. 15,81.50 lakhs. The Central Government had, however, declined to contribute Rs. 710.50 lakhs representing matching capital contribution towards additional contribution released by the State Government during 1980-81 (Rs. 870.00 lakhs) and 1981-82 (Rs. 551.00 lakhs) stating that it did not have prior consent of the Central Government and approval of the Planning

*The figure as per Finance Accounts is Rs. 105,26.99 lakhs; the difference is under reconciliation.

Commission. The balance shortfall of Rs. 871.00 lakhs towards the share of matching capital contribution for the year 1983-84 was received in April 1984.

7.3 Guarantees

The table below indicates the details of guarantees given by the State Government for repayment of loans raised by the Corporation and interest there on :

Particulars	Years of guarantee	Amount of loan guaranteed	Amount of loan outstanding as on 31st March 1984
		(Rupees in lakhs)	
Public loans	1978-79 to 1980-81	3,30.00	3,30.00
	Total..	3,30.00	3,30.00

7.4 Financial position

The table below summarises the financial position of the Corporation under the broad headings for the three years up to 1983-84 :

Capital and liabilities	1981-82	1982-83	1983-84
	(Rupees in lakhs)		
(a) Capital	97,84.63	123,53.80	142,69.63
(b) Borrowings	13,15.42	12,66.84	15,81.45
(c) Funds*	14,48.53	14,48.88	49.59
(d) Trade dues and other current liabilities (including provisions)	69,02.67	72,24.34	65,82.43
Total ..	194,51.25	222,93.86	224,83.10

*Funds exclude depreciation fund.

Assets	1981-82	1982-83	1983-84
	(Rupees in lakhs)		
(a) Gross block	144,31.20	164,33.68	172,52.06
(b) *Less* : Depreciation	86,15.47	100,38.24	118,13.37
(c) Net fixed assets	58,15.73	63,95.44	54,38.69
(d) Capital works-in-progress (including cost of chassis)	11,11.50	7,05.01	9,62.95
(e) Investments	3,49.91	19,85.46	19,86.92
(f) Current assets loans and advances	25,14.63	29,93.56	39,79.30
(g) Accumulated losses	96,59.48	102,14.39	101,15.24
Total	194,51.25	222,93.86	224,83.10
Capital employed*	13,53.56	20,92.70	28,10.36
Capital invested@	110,95.07	135,88.03	155,38.20

7.5 Working results

The table on page 142 gives details of the working results of the Corporation for the three years up to 1983-84 :

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

@Capital invested represented paid-up capital *plus* long-term loans *plus* free reserves.

Particulars	1981-82	1982-83	1983-84
		(Rupees in lakhs)	
1. (a) Operating			
Revenue	162,21.94	202,69.07	215,51.58
Expenditure	197,25.38	208,04.88	220,14.41
Deficit	(—)35,03.44	(—)5,35.81	(—)4,62.83
(b) Non operating			
Revenue	5,45.52	7,72.36	8,77.47
Expenditure	7,16.80	7,91.46	9,42.59
Deficit	(—)1,71.28	(—)19.10	(—)65.12
(c) Total			
Revenue	167,67.46	210,41.43	224,29.05
Expenditure	204,42.18	215,96.34	229,57.00
(d) Net loss (—)	(—)36,74.72	(—)5,54.91	(—)5,27.95
2. Interest on capital and loans (net after deucting interest on investment)	7,02.76	7,78.62	9,30.80
3 Total return on			
a) Capital employed	(—)29,71.96	(+)2,23.71	(+)4,02.85
b) Capital invested	(—)29,66.53	(+)2,28.07	(+)4,07.37
4. Percentage of return on			
(a) Capital employed	..	10.7	14.3
(b) Capital invested	..	1.7	2.6

During the year the Corporation incurred a loss of Rs. 527.95 lakhs as against Rs. 554.91 lakhs in the previsous year. The reduction in loss (Rs. 26.96 lakhs) during the year as compared to the previous year was mainly due to an increase of Rs. 13,87.62 lakhs in revenue receipts against a corresponding increase in revenue expenditure of Rs. 13,60.66 lakhs. The increase in revenue receipts was mainly on account of increase in effective kilometres, reduction in breakdowns per lakh kilometres and increase in occupancy ratio. The increase in revenue receipts was partly offset by increase in revenue expenditure on salaries and allowances (Rs. 435.40 lakhs), fuel (Rs. 345.60 lakhs), welfare and superannuation (Rs. 244.87 lakhs), depreciation (Rs. 153.03 lakhs) and rent, rates and taxes (Rs. 442.97 lakhs).

7.6 Operational performance

The table below indicates the operational performance of the Corporation for three years up to 1983-84 :

Particulars	1981-82	1982-83	1983-84
1. Average number of vehicles held	6,907	7,000	7,021
2. Average number of vehicles on road	5,548	5,449	5,534
3. Percentage of utilisation	80.3	77.8	78.8
4. Number of routes operated at the end of the year	12,098	11,932	12,702
5. Route Kms	6,17,627	6,00,544	6,36,369

Particulars	1981-82	1982-83	1983-84
6. Kms operated (in lakhs)			
(a) Gross	62,25.32	60,81.72	61,72.05
(b) Effective	61,53.24	60,17.87	61,03.78
(c) Dead	72.08	63.85	68.27
7. Percentage of dead Kms to gross Kms	1.2	1.1	1.1
8. Average Kms covered per bus per day	306.8	305.1	304.2
9. Average revenue per Km (paise)	264	337	353
10. Increase in operating revenue per Km over previous year's revenue (in percentage)	10.5	27.7	4.7
11. Average expenditure per Km (paise)	321	346	361
12. Increase in operating expenditure per Km over previous year's expenditure (in percentage)	13.0	7.8	4.3
13. Profit (+)/Loss (—) per Km (paise)	(—)57	(—)9	(—)8
14. Number of operating depots	116	116	116
15. Average number of breakdowns per lakh Kms	6.1	4.2	3.6
16. Average number of accidents per lakh Kms	0.38	0.31	0.33
17. Passenger Kms operated (in crores)	33,85.51	33,27.88	34,15.06
18. Occupancy ratio	75.1	74.8	76.8
19. Kilometres obtained per litre of			
(a) diesel	4.74	4.83	4.83
(b) engine oil	967	1207	1249

7.7 Disposal of scrap including old vehicles

7.7.1 Inroduction

The Gujarat State Road Transport Corporation had been operating a large fleet of passenger buses. The average number of passenger buses held during the three years 1981-82, 1982-83 and 1983-84 was 6907, 7000 and 7021 respectively. These vehicles generated huge scrap *i. e.*, material which as it stood was condemned and was unfit for further use and could not be made serviceable even after economic reconditioning.

Scrap was generated at the Central workshop at Ahmedabad and 14 divisional workshops and it comprised scrap emanating from workshops, vehicles, used material, *etc.*

7.7.2 Summary of findings

(i) The scrap is generated in Corporation's Central and divisional workshops and by condemnation of old vehicles as scrap; the scrap is required to be sold by auction or tender as per procedure laid down for the purpose. The sales realisations for three years up to 1983-84 averaged Rs. 2.55 crores (paragraph 7.7.3).

(ii) There was delay in evacuation of old vehicles from divisions to Central workshop for scrapping (estimated loss of interest on their realisable value in 1983-84 was Rs. 12.29 lakhs) and also delay in scrapping and sale of scrapped vehicles (336 old vehicles awaiting scrapping and 382 scrapped vehicles awaiting disposal at the end of 1983-84) resulting in loss of interest (estimated at Rs. 9.08 lakhs for 1983-84) on blocked up funds (average Rs. 106.30 lakhs in 1983-84) over the year (paragraph 7.7.4).

(iii) Aluminium constituted the bulk of metal scrap but record of its generation during coach/repair work was not adequately maintained. The sales arranged and effected were not in proportion to the generation of scrap resulting in blocking up of funds and loss of interest (paragraph 7.7.5).

Further details and other aspects are discussed in the succeeding paragraphs.

7.7.3 Sale of scrap

(*a*) *General procedure*

Sale of scrap was generally done through auction or by calling tenders for specific items. All sales of scrap eiher by auction or by tenders were conducted by Sales Committees formed under the General Standing Orders.

All scrap material accumulated for sale was separated in convenient lots of similar items. A lot register was maintained to record the particulars of lot numbers, description of material, rates secured at previous sales, *etc.*

The Corporation had a procedure of fixing average issue rates at which the various items of scrap could be sold and the same were valid for a period of six months unless revised earlier. These Average Issue Rates (AIR) were fixed on the basis of average of sales realisations or the highest rejected bid, during previous six months and were taken as baseline for acceptance of offers received and no offer below the AIR was to be accepted without the approval of the competent authority.

The auction/tender notice for sale of scrap whether published or exhibited on board, was required to give clear particulars of the lots, description of the scrap material to be sold, approximate quantity or weight of each lot, the place, the date and time of opening of tenders (or holding of auction) for which, atleast, three weeks time was given after the publication of notice.

The scrap material was to be sold, at the auction, to the highest bidder for each lot. When the sale of any particular lot was subject to acceptance by the competent authority, the highest bidder was to hold his offer open till the sanction of the competent authority which was to be obtained within a maximum period of one month from date of auction. The successful bidder was required to pay 10 *per cent* of the purchase price or any other amount that might be fixed as earnest money and if he failed to comply with the conditions of auction and failed to remove the material within 25/35 working days (depending on value of lot being below/above Rs. 50,000), the earnest money was liable to be forfeited.

Similarly the tenderer was required to pay with the tender 10 *per cent* of the estimated realisable value as earnest money deposit, otherwise the tender would not be considered; failure to honour the acceptance of tender entailed forfeiture of earnest money.

(*b*) *Composition of sales*

The sales of scrap including vehicles amounted to Rs. 218.89 lakhs in 1981-82, Rs. 245.85 lakhs in 1982-83 and Rs. 300.52 lakhs in 1983-84, the major sales being at Central workshop where body building on new chassis and major repairs to vehicles were undertaken, in addition to reconditioning of all major assemblies of vehicles.

The major items of scrap sold during these three years at the Central workshop were old vehicles, aluminium and mild steel cuttings and pieces, old tyres, *etc.*

7.7.4 Scrapping and disposal of vehicles

(*a*) *Delay in scrapping*

A vehicle was considered fit for scrapping after it had completed its stipulated run in kilometres as laid down in the Corporations' Depreciation Fund Regulations and also if it was beyond economical repairs due to accidental damage or any other cause irrespective of the fact whether it had completed the stipulated kilometres run or not.

The vehicles due for scrapping were sent to the Central workshop where they were, after inspection and obtaining approval of the Vice-Chairman and General Manager of the Corporation, declared as scrap. Such scrapped vehicles were then disposed of by auction/tender sale.

The table below indicates the position of vehicles awaiting scrapping both at divisional workshops and at Central workshop at the end of three years from 1981-82 to 1983-1984 :

Particulars	1981-82	1982-83	1983-84
	(Number of vehicles)		
(*a*) Vehicles awaiting scrapping at divisional workshop	61	405	128
(*b*) Vehicles awaiting scrapping at the Central workshop ..	395	339	296
Total ..	456	744	424

The following observations are made :

(i) The number of vehicles awaiting scrapping at the end of 1981-82 was 456 which increased to 744 at the end of 1982-83 which indicated that there had been delay in evacuating the vehicles from divisions and consequent disposal at the Central workshop. The delay in final disposal of scrapped vehicles resulted in blocking up of the funds of the Corporation to the extent of their realisable value and loss of interest thereon besides occupying space.

A test check by Audit of records of 150 vehicles (50 each of the three years) which were received at the Central workshop for final scrapping and disposal disclosed that in evacuating the vehicles proposed for scrapping from the divisions to Central workshop, on an average, 80 days were taken in 1981-82, 169 days in 1982-83 and 245 days in 1983-84 and consequently there was loss of interest on blocking up of realisable value thereof as shown in the table below :

Year	Number of days taken in evacuation of vehicles (passenger buses only)			Number of vehicles evacuated in the year	Average sale value per vehicle	Loss of interest
	Minimum	Maximum	Average		(Rupees)	(Rupees in lakhs)
1981-82 ..	2	402	80	510	·19,243	3.22
1982-83 ..	40	648	169	567	17,545	6.91
1983-84 ..	56	417	245	672	18,165	12.29

The Management stated (March 1984) that as there was congestion in Central workshop the divisions were instructed to stagger evacuation.

(ii) One Leyland vehicle (value : Rs. 0.73 lakh) which was put on road in 1968 and had met with an accident in August 1971 was declared scrapped after more than 10 years (February 1983) and was sold for Rs. 0.16 lakh in October 1982. It was stated by the Management (October 1984) that though the proposal for its scrapping was put up in July 1976 the six years' delay had occured for want of convenient date for inspection of the vehicle as well as because the matter was lost track of till June 1979.

(*b*) *Delay in sale of scrapped vehicles*

The following table shows the details of number of vehicles (scrapped/awaiting scrapping) available for disposal, number of auctions/tender sales held, number of scrapped vehicles sold, number of vehicles (scrapped/

awaiting scrapping) awaiting disposal and the capital blocked up therein during last three years up to 1983-84:

	1981-82	1982-83	1983-84
(*a*) Number of vehicles (scrapped/ awaiting scrapping) available for disposal at the beginning of the year			
(*i*) Vehicles awaiting sale	103	234	252
(*ii*) Vehicles at various stages of scrapping	274	395	339
	377	629	591
(*b*) Number of vehicles added during the year	552	633	968@
(*c*) Total number of vehicles available for disposal during the year (a + b)	929	1262	1559
(*d*) Number of vehicles sold	300 (5)*	671 (19)*	841 (26)*
(*e*) Number of vehicles (scrapped/ awaiting scrapping) awaiting disposal at the end of the year (c—d)			
(*i*) Vehicles awaiting sale	234	252	382
(*ii*) Vehicles at various stages of scrapping	395	339	336
	629	591	718
(*f*) Amount realised from sales (Rupees in lakhs)	57.73	117.74	149.77
(*g*) Average realisation per vehicle (Rupees)	19,243	17,545	18,165
		(Rupees in lakhs)	
(*h*) Funds blocked up in scrapped vehicles awaiting sale at the end of the year	45.03	44.21	69.39
(*i*) Funds blocked up in other vehiles awaiting scrapping/disposal at the end of the year	76.01	59.48	61.03
(*j*) Total (h+i)	121.04	103.69	130.42

@ Includes 180 vehicles kept at Palanpur and Surat divisions.

* Figures in brackets indicate the number of auctions/tender sales held during the year.

It would be observed that the number of scrapped vehicles sold was much less than the number of scrapped vehicles requiring disposal leading to a large accumulation of undisposed condemned vehicles over the years resulting in non-realisation of funds thus blocked up and consequent loss of interest.

The details of capital blocked up and loss of interest thereon in respect of vehicles awaiting scrapping and scrapped vehicles awaiting disposal at the Central workshop, as compiled by the Corporation each month, indicated the following position for the three years up to 1983-84 :

Year	Average number of vehicles awaiting scrapping disposal during the year	Total vehicle months lost	Average sales value	Average capital blocked
			(Rupees in (thousands)	(Rupees in lakhs)
1981-82 ..	425	2516	19.00	68.04
1982-83 ..	605	6578	17.00	93.33
1983-84 ..	675	4137	18.00	106.30

The above showed that substantial amount remained blocked up for long periods in vehicles awaiting scrapping and scrapped vehicles awaiting disposal ; the loss of interest as assessed by the Corporation on this blocked up capital was Rs. 6.11 lakhs in 1981-82, Rs. 11.42 lakhs in 1982-83 and Rs. 9.08 lakhs in 1983-84. The delay in scrapping and disposal also resulted in deterioration in the condition of vehicles and consequent reduction of their sale value and in increased cost of storing and security.

Fifteen Bedford vehicles (value : Rs. 11.86 lakhs) purchased in 1970 and put on road during 1971 were found to be working unsatisfactorily and had to be prematurely scrapped after running on an average 93,881 kilometres by April 1973 to October 1976 against the prescribed life of 4 lakh kilometres.

These vehicles were not disposed of till 1983-84 when they were sold off for Rs. 2.53 lakhs. The late disposal had resulted in blocking up of Corporation's funds to that extent; loss due to deterioration could not be assessed.

(c) Loss due to rejection of offers

For the sale of a lot of 100 scrapped vehicles an offer of Rs. 18.82 lakhs with term of payment 'within 30 days' received (29th September 1981) from party 'A' was rejected (22nd October 1981) on the ground that it was 16 *per cent* lower than the upset price (Rs. 22 lakhs). Offers for the same lot were again invited to open on 16th November 1981 and the highest offer of Rs. 19 lakhs (against the reduced upset price of Rs. 19.31 lakhs) with 60 days term of payment from party 'B' was accepted (9th December 1981).

From the proceedings of the sales committee it was seen that the upset price was reduced in view of downward market trend of aluminium scrap and unduly high upset price for the chassis fixed earlier. As this was not a new development, the rejection and reinvitation of tender was not in the interest of the Corporation and resulted in a net loss of Rs. 0.54 lakh by way of interest on blocked up money after adjusting the higher realisation of Rs. 0.18 lakh.

(d) Metal scrap of scrapped vehicles

Before a scrapped vehicle was sold, its serviceable/repairable parts and other usable materials were removed for reuse. The complete account of all parts including the assemblies *viz.* radiator, gear box, starter, dynamo and other auto parts removed from the vehicles to be scrapped was being kept at the divisional level and also at the final stage of declaring the vehicle as scrapped. However, the aluminium and mild steel material used for body building was being removed from the vehicles awaiting scrapping at depot/divisional workshops and also at Central workshop after the evacuation of vehicles to Central workshop, but complete record/account of the removal of aluminium and mild steel at various stages and the balance quantity of aluminium/mild steel left and sold alongwith the scrapped vehicles was not kept nor were such quantities reconciled with the total quantity of aluminium/mild steel used at the time of body building on these vehicles.

In reply to Audit query about non-maintenance of proper account of scrap metal of scrapped vehicles, quantity of which varied greatly from one scrapped vehicle to the other (aluminium scrap varied from 152 kilograms to 799 kilograms in 50 scrapped vehicles test checked), the Management stated (October 1984) that it was difficult to maintain such elaborate records. Moreover, the useful material was removed by divisions as well as Central workshop to the extent required and, therefore, the material content in scrapped vehicles would vary from vehicle to vehicle. It was further stated that the record of removal of aluminium from a bus body could be maintained but it would unnecessarily involve paper work.

But in the absence of proper records there was no control on the correct accountal of scrap metal of scrapped vehicles and it was not clear how management satisfied itself that such scrap was not lost at any of the various stages.

7.7.5 Sale of aluminium scrap

(a) Aluminium scrap was mainly generated at the Central workshop in the process of building new bus bodies as well as removal of unusable aluminium from scrapped vehicles. The aluminium scrap as and when generated in coach shop was sent to scrap yard through nominal material receipt (NMR) voucher, but the total monthly /yearly accumulation of such aluminium scrap stock was not calculated and reconciled with total bodies built at any time. As the monthly/yearly quantities of aluminium scrap lifted out of the total stock were not worked out at any time it was difficult to work out the quantity of aluminium scrap accumulated during a particular year and it was also not possible to assess and quantify the aluminium scrap generated in coach shop in new bus body building.

The sales arranged and effected were not in proportion to the generation of scrap which resulted in heavy accumulation of scrap resulting in blocking up of funds and loss of interest thereon (Rs. 11.63 lakhs) as shown below :

Year	Number of sales arranged during the year	Number of effective sales	Quantity sold	Average stock held per quarter during the year	Average rate of realisation per tonne	Funds blocked up for the year	Estimated loss of interest per year
			(tonnes)	(tonnes)	(Rupees)	(Rupees in lakhs)	
1981-82 ..	3	1	35	75.46	15,580	11.76	1.76
1982-83 ..	5	1	52	145.80	15,620	22.77	3.42
1983-84 ..	2	2	180	207.84	20,688	43.00	6.45
						Total ..	11.63

Had the sales of scrap been properly planned and arranged more frequently keeping in view the quantity generated and lying in stock and decisions taken after considering the cost of carrying over the stock of scrap, the above loss could have been avoided. For instance, only 3 sales were held in 1981-82 and just 2 in 1983-84 though it was possible to arrange sales almost every month as was done during the period September 1982 to January 1983 ; the quantity put up for sale on 8th February 1982 was 35 tonnes whereas the stock of scrap at the end of January 1982 was 115 tonnes; similarly in January 1983 only 112 tonnes of scrap was put up for sale out of about 168 tonnes in stock. The Management stated (February 1985) that some lots could not be disposed of due to police enquiry/ stay order of court and accordingly it estimated the avoidable loss of interest at Rs. 1.54 lakhs for the year 1983-84 ; similar amounts for the years 1981-82 and 1982-83 were, however, not intimated. Further, while rejecting the offers received on 15th June 1981 (42.500 tonnes) and 12th October 1981 (78.000 tonnes) in the expectation of higher realisation on retendering, even though the prices quoted were nearly equal to or more than the average issue rate and higher than prevailing market rate, the element of likely loss of interest on blocked up funds in postponing the disposal was not taken into consideration by the Corporation. Thus, although there was higher realisation of Rs. 1.80 lakhs on subsequent sales of lots on 8th January 1982 (35 tonnes), 2nd November 1982 (52 tonnes) and 28th September 1983 (balance quantity 33.5 tonnes) ; but it was more than offset by loss of interest (Rs. 3.34 lakhs) resulting in a net loss of Rs. 1.54 lakhs to the Corporation.

Rajagopalan

Ahmedabad, — 1 MAY 1985
The

(D. RAJAGOPALAN)
Accountant General (Audit),
Gujarat.

Countersigned

T. N. Chaturvedi

New Delhi,
The — 3 JUN 1985

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

APPENDIX

Summarised financial results of

(Referred to in paragraph 1.2

Sl. No.	Name of the Company	Date of incorporation	Accounts for the year ending	Capital invested	Profit(+)/ Loss(—)	Total interest charged to profit and loss account
1	2	3	4	5	6	7
1.	Gujarat Agro-Industries Corporation Limited	9th May 1969	March 1983	601.18	(+)7.98	8.34
*2.	Gujarat Agro-Foods Limited	20th October 1970	February 1984	269.35	(+)1.30	9.50
*3.	Gujarat Agro-Oil Enterprises Limited	21st April 1971	December 1983	58.88	(+)18.77	0.14
*4.	Gujarat Insecticides Limited	30th August 1980	December 1981	88.41	@@	..
5.	Gujarat Communications and Electronics Limited	30th May 1975	March 1984	775.26	(+)34.36	49.99
6.	Gujarat Fisheries Development Corporation Limited	17th December 1971	December 1983	120.17	(+)1.78	30.21
@7.	Cement Corporation of Gujarat Limited	29th March 1973	March 1984	132.99	@@	..
@8.	Gujarat Amino-Chem Limited	17th January 1980	March 1984	1.04	@@	..
@9.	Gujarat Drugs and Chemicals Limited	17th January 1980	March 1984	124.56	(—)19.64	10.19

'A'

Government Companies

of Section-I (Chapter-I)

(Figures in columns 5 to 13 are in lakhs of rupees)

Interest on long-term loans	Total return on capital invested (6+8)	Capital employed	Total return on capital employed (6+7)	Percentage of total return on	
				Capital invested	Capital employed
8	9	10	11	12	13
6.01	(+)13.99	539.25	(+)16.32	2.3	3.0
9.50	(+)10.80	268.56	(+)10.80	4.0	4.0
..	(+)18.77	80.28	(+)18.91	31.9	23.6
...	..	8.94	..	..	..
29.77	(+)64.13	752.18	(+)84.35	8.3	11.2
29.49	(+)31.27	124.49	(+)31.99	26.0	25.7
...	..	109.52	..	..	..
..	..	(—) 0.01	..	..	..
8.58	(—)11.06	36.91	(—)9.45	..	..

APPENDIX

1	2	3	4	5	6	7
@10.	Gujarat Hotels Baroda Limited	7th August 1982	June 1983	3.80	@@	..
@11.	Gujarat Lease Financing Limited	13th July 1983	March 1984	31.50	(—)2.85	..
@12.	Gujarat Mulco Electronics Limited	3rd October 1981	June 1983	50.86	@@	..
@13.	Gujarat Nylons Limited	29th March 1973	March 1984	32.49	@@	..
@14.	Gujarat Trans-Receivers Limited	26th March 1981	March 1984	10.65	@@	..
@15.	Gujarat Tyres Limited	29th March 1973	March 1984	59.17	@@	..
@16,	Polymers Corporation of Gujarat Limited	29th March 1973	March 1984	786.51	(—)249.44	189.43
17.	Gujarat Mineral Development Corporation Limited	15th May 1963	March 1984	1,489.33	(+)571.07	28.09
18.	Gujarat Scheduled Castes Economic Development Corporation Limited	29th November 1979	March 1982	457.82	(+) 20.94	8.00
19.	Gujarat Sheep and Wool Development Corporation Limited	9th December 1970	March 1982	33.75	(+)10.79	..
20.	Gujarat Small Industries Corporation Limited	28th March 1962	December 1983	407.14	(+)38.00	109.82
£21.	Girnar Scooters Limited	9th September 1976	June 1983	558.34	(—)32.14	18.12

'A'—*Contd.*

8	9	10	11	12	13
..	..	0.44	..	..	..
..	(—)2.85	27.68	(—)2.85	..	..
..	..	69.19	..	..	..
..	..	4.54	..	..	..
..	..	4.66	...	..	..
..	..	11.28	..	..	..
127.55	(—)121.89	980.29	(—)60.01	...	—
25.75	(+)596.82	1,012.55	(+)599.16	40.1	59.2
8.00	(+)28.94	553.55	(+)28.94	6.3	5.2
..	(+)10.79	38.78	(+)10.79	32.0	27.8
67.99	(+)105.99	999.67	(+)147.82	26.0	14.7
2.82	(—)29.32	678.47	(—)14.02	..	..

APPENDIX

1	2	3	4	5	6	7
22.	Gujarat State Civil Supplies Corporation Limited	26th September 1980	September 1981	1259.15	(—)77.85	14.37
23.	Gujarat State Construction Corporation Limited	16th December 1974	July 1981	568.55	(—)257.68	83.75
24.	Gujarat State Export Corporation Limited	14th October 1965	December 1983	125.16	(+)0.14	7.22
25.	Gujarat State Forest Development Corporation Limited	20th August 1976	September 1983	316.45	(—)22.06	5.51
26.	Gujarat State Handicrafts and Handloom Development Corporation Limited	10th August 1973	March 1981	34.55	(—)17.97	1.4[illegible]
27.	Gujarat State Handloom Development Corporation Limited	12th November 1979	March 1982	94.99	(—)1.08	10.6[illegible]
28.	Gujarat State Land Development Corporation Limited	28th March 1978	June 1980	430.27	(—)13.02	9.6[illegible]
29.	Gujarat State Petro-Chemicals Corporation Limited	29th January 1979	March 1984	69.01	@@	..
30.	Gujarat State Rural Development Corporation Limited	9th July 1977	March 1984	32.54	(+)1.13	..
31.	Gujarat State Seeds Corporation Limited	16th April 1975	September 1983	201.60	(+)60.64	9.5

'A'—*Contd.*

8	9	10	11	12	13
..	(—)77.85	1368.36	(—)63.48	..	..
79.73	(—)177.95	445.10	(—)173.93	—	—
0.09	(+)0.23	257.20	(+)7.36	0.2	2.9
4.66	(—)17.40	327.42	(—)16.55	—	—
1.02	(—)16.95	42.78	(—)16.52	—	—
6.12	(+)5.04	110.04	(+)9.58	5.3	8.7
9.64	(—)3.38	429.97	(—)3.38	..	—
..	..	28.36	..	—	—
..	(+)1.13	32.24	(+)1.13	3.5	3.5
1.32	(+)61.96	198.71	(+)70.21	30.7	35.3

1	2	3	4	5	6	7
32.	Gujarat State Textile Corporation Limited	30th November 1968	March 1984	712.06	(—)122.17	45.70
33.	Gujarat Tractor Corporation Limited	31st March 1978	March 1981	653.32	(—)55.89	93.24
34.	Tourism Corporation of Gujarat Limited	10th June 1975	March 1983	89.97	(—)26.27	..

* Subsidiary of Gujarat Agro-Industries Corporation Limited.

@ Subsidiary of Gujarat Industrial Investment Corporation Limited.

£ Subsidiary of Gujarat Small Industries Corporation Limited.

@@Entire expenses during the year were capitalised.

Notes : (i) Capital invested represents paid-up capital (including share

(ii) Capital employed represents net fixed assets (excluding

8	9	10	11	12	13
36.65	(—)85.52	929.04	(—)76.47	..	..
21.66	(—)34.23	1,003.04	(+)37.35	..	3.7
..	(—)26.27	88.82	(—)26.27	..	..

application money) *plus* long-term loans *plus* free reserves.

capital works-in-progress) *plus* working capital.

APPENDIX

Summarised financial results of

(Referred to in paragraph

Sl. No.	Name of the Corporation	Name of department	Date of incorporation	Capital invested	Profit(+)/ Loss(—)
1	2	3	4	5	6
1.	Gujarat Electricity Board	Industries, Mines and Power	1st May 1960	143358.59	(+)2556.05@
2.	Gujarat State Financial Corporation	Industries, Mines and Power	1st May 1960	19135.92	(+)48.35
3.	Gujarat State Road Transport Corporation	Home	1st May 1960	15538.20	(—)527.95
4.	Gujarat State Warehousing Corporation	Co-operation	5th December 1960	425.42	72.44

Note : (*i*) Capital invested represents paid-up capital *plus* long-term

(*ii*) Capital employed in respect of Gujarat State Financial Corpora-
of paid-up capital, reserves (other than those which have been
deposits and borrowings (including refinance). In other three
capital works-in-progress) *plus* working capital.

@ The surplus is worked out as per the provisions of the Electricity
surplus.

*Represents net amount of interest after deducting interest on

"B"

Statutory Corporations

5.1 of Section-V (Chapter II)
(Figures in columns 5 to 11 are in lakhs of rupees)

Total interest charged to profit and loss account	Interest on long-term loans	Total return on capital invested (6+8)	Capital employed	Total return on capital employed (6+7)	Percentage of total return on capital invested	Percentage of total return on capital employed
7	8	9	10	11	12	13
6353.20	6251.60	8807.65	108537.18	8809.25	6.1	8.1
1173.32	1173.32	1221.67	19000.43	1221.67	6.4	6.4
930.80*	935.32	407.37	2810.36	402.85	2.6	14.3
..	..	72.44	404.52	72.44	17.0	17.9

loans *plus* free reserves.

tion represents the mean of the opening and closing balances funded specifically and backed by investment outside), bonds, cases, it represents net fixed assets (excluding

(Supply) Act, 1948 which does not show comparable commercial

investments.

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ERRATA

Report of the Comptroller and Auditor General of India for the year 1983-84 (Commercial)—Government of Gujarat.

Sl. No.	Reference to Page No.	Para No.	Line, *etc.*	For	Read
1	(i) and (iii)	3 and heading	Last line and 1st line	Annexure 'A'	Annexure
2	3	1.2	1st	Extent of arrear	Extent of arrears
3	6	1.5.2	7th	Corpoiation .	Corporation
4	7	1.6.1	2nd	1982-83	1983-84
5	7	1.6.2	4th	Cujarat	Gujarat
6	7	1.6.2	5th	Agro-oil	Agro-Oil
7	7	1.6.2	7th	(4 per cent	(*4 per cent*)
8	10	1.7	14th	Gujarat state Fertili-	Gujarat State Fertili-
9	11	1.8	3rd from bottom	17,18, and 32	17,18 and 32
10	12	1.8	16th	17,23,and 32	17, 23 and 32
11	12	1.8	2nd from bottom	5,16, and 18	5,16 and 18
12	15	2.2	16th	inte rests	interests
13	22	2.7.2	11th	interest Rs.	interest : Rs.
14	25	2.7.2(c)	1st	January 1985)	(January 1985)

Sl. No.	Reference to Page No.	Para No.	Line, *etc.*	For	Read
15	27	2.9.c	5th line from bottom	(i)	(c) (i)
16	28	2.9.C(i)	6th line of the Table against 1981-82 year figures	Hydrabad	Hyderabad
17	40	3.6	6th	tractors	tractor
18	45	3.9(ii)	3rd	purchase	Purchase
19	54	3.11(ii)	3rd	actually produced	actually produced based on cost records
20	72	4.8(a)(i)	12th	alomost	almost
21	73	4.8(a)(iii)	22nd	manged	managed
22	75	4.8(b)	4th	Service	service
23	75	4.8(b)	16th	Septerate	Separate
24	77	4.8(c)	12th	(C) Transport	(c) Transport
25	85	4.10(b)	14th	(e) Delay in execution	(b) Delay in execution
26	85	4.10(b)	15th	of Rs. 12	of 12
27	87	4.10(d)(i)	3rd	contarct	contract
28	90	4.10(d)(iii)	18th	it self	itself

Sl. No.	Reference to Page No.	Para No.	Line, *etc.*	For	Read
29	98	4.14(d)	8th	forest	Forest
30	102	Foot note	Last line	pjus	*plus*
31	105	Table	Column 10	229, 98.72	299, 98.72
33	106	5.5	5th	section	Section
33	107	5.6.3	5th	Financial Position	Financial position
34	107	5.6.3	Figure against column (c) under liabi-lities year 1981-82	203.10	203.19
35	107	5.6.3	year 1983-84	110.4	110.42
36	107	5.6.3	Column (b) under assets year 1983-84	9.94	29.94
37	108	5.6.4	3rd from bottom against Sl. 10		(*per cent*)
38	109	5.6.4	2nd line	6.46	6.47
39	109	5.6.5	6th line	6.5	5.6.5
40	110	6.2	11th	cobtained	obtained
41	111	6.2	3rd	Mrach	March
42	112	6.4	Foot note last line	loan	loans

Sl. No.	Reference to Page No.	Para No.	Line, *etc*	For	Read
43	113	6.5	Foot note first line	figures	figure
44	114	6.5	2nd	(Rupees in lakhs)	
45	118	6.9.2	16th	finalishing	finalising
46	122	6.9.4	Note : 3rd	watar	water
47	123	6.9.4	14th	ordres	order
48	137	6.9.10(b)	5th	excesses	Excesses
49	142	7.5	8th line from bottom against Sl. 2	deucting	deducting
50	142	7.5	3rd line from bottom against S1.4		(*per cent*)
51	146	7.7.3	14th	either	either
52	149	7.7.4(a)	2nd	1983-1984	1983-84