C. P. U. No. 86

COMMITTEE ON PUBLIC UNDERTAKINGS (1967-68)

FIFTEENTH REPORT

(FOURTH LOK SABHA)

FINANCIAL MANAGEMENT IN PUBLIC UNDERTAKINGS

LOK SABHA SECRETARIAT
NEW DELHI

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CORRIGENDA

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Page	Para	Line	for	Read
(v)	-	14	Chandrajee	Chandrajeet
5	16	10	delete the words "and be considerably expedited if the Chief Executive"	
36	139	5	Heavy Electricals (India) Ltd.	Hindustan Steel Ltd.
42	163	8	after the word 'Ministries' add the following: "have now been authorised to release funds to the undertakings"	
49	189	3	advise	advice
49	191	8	prevent	present
52	198	6	after 'not' add 'had'	
53	203	11	after 'efficiency' add 'audit'	
55	208	last but	have to	need not
56	210	4	lying	laying
56	210	8	uniforms rate	uniform rates
107	S.No.8	4	advantages	advantageous
110	S.No.13	11	export	expert
112	S.No.16	2	Advise	Adviser
129	S.No.71	7	proving	providing
130	S.No.76	6	recommended	recommend

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COMMITTEE ON PUBLIC UNDERTAKINGS

(1967-68)

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Shri M. M. Mathur, *Under Secretary.*

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*Ceased to be a member w.e.f. the 2nd April, 1968 consequent on his retrenchment from Rajya Sabha.

STUDY GROUP I

ON

FINANCIAL MANAGEMENT IN PUBLIC UNDERTAKINGS (1967-68)

CONVENER

Shri S. S. Kothari

MEMBERS

2. Shri C. C. Desai
3. Shri Prem Chand Verma
4. Shri Banka Behary Das

SECRETARIAT

Shri A. L. Rai, *Deputy Secretary.*

Shri M. M. Mathur, Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings, having been authorised by the Committee to submit the Report on their behalf, present this Fifteenth Report on 'Financial Management in Public Undertakings'.

2. The Committee took the evidence of the representatives of eight major undertakings on the 22nd, 23rd and 24th January, 1968 and the officials of selected Ministries on the 27th and 29th January, 1968.

3. The material received from the various Ministries and public undertakings was processed at various stages by the Study Group I of the Committee. The draft Report was considered by the Study Group at its sitting held on the 28th March, 1968.

4. The Report was adopted by the Committee on the 11th April, 1968.

5. The Committee wish to express their thanks to the various Ministries and the public undertakings for placing before them the material and information which they wanted in connection with the examination of the subject. They wish to thank in particular the representatives of the undertakings and the officers of the Ministries who gave evidence and placed their considered views before the Committee. They also wish to express their thanks to the Comptroller and Auditor General of India and the non-official organisations/individuals who, on request from the Committee furnished their views on the subject.

D. N. TIWARY,

Chairman,

Committee on Public Undertakings.

NEW DELHI;
April 22, 1968.

Vaisakha 2, 1890 (*S*).

INTRODUCTORY

This study on 'Financial Management in Public Undertakings' is the third in the series of studies on different aspects of management undertaken by the Committee on Public Undertakings. The earlier two studies were on 'Management and Administration in Public Undertakings (Planning of Projects)' and Materials Management in Public Undertakings'.

2. Financial Management has come to be recognised as the key tool in modern management. In fact, it could be said that every decision of the management has ultimately its repercussions on the Balance sheet or Profit and Loss statement of the undertaking. It is difficult therefore to define matters which would exclusively fall within the scope of a study of this nature.

3. Proper financial management depends to a great extent on the efficiency of the organisation set up for the purpose, the proper procedures and systems it adopts, and an appreciation of the problems and difficulties experienced in the management of the public undertakings. The Committee, therefore, decided to take a closer look at the administrative machinery for financial management in public undertakings and to cover broadly the main issues relating to the management of funds.

4. The Committee called for preliminary material and written replies to their questionnaire from all the public undertakings except a few established recently. They received written replies from 67 undertakings mentioned in Appendix I. On the basis of the written replies received, the Committe took the evidence of the representatives of the following eight important undertakings:

(1) Air India.

(2) Fertilizer Corporation of India Ltd.

(3) Heavy Electricals (India) Ltd.

(4) Heavy Engineering Corporation Ltd.

(5) Hindustan Machine Tools Ltd.

(6) Hindustan Steel Ltd.

(7) Indian Oil Corporation Ltd.

(8) State Trading Corporation of India Ltd.

5. This was followed by the evidence of the officials of the following Ministries of the Government of India:—

(i) Ministry of Commerce;

(ii) Ministry of Finance;

(iii) Ministry of Industrial Development and Company Affairs;

(iv) Department of Iron & Steel;

(v) Department of Mines & Metals; and

(vi) Ministry of Petroleum & Chemicals.

6. The Committee have considered problems in financial management common to all the undertakings. Necessarily, therefore, the treatment of the subject by the Committee is general in its nature.

I

A. Time of setting up

7. From the information supplied to the Committee, it is seen that 14 undertakings (listed at Appendix II) do not have a separate Financial Division. In some, the accounts department looked after the work of the Financial Division, while in others need for organising a separate Financial Division was not felt.

8. The Committee noted that while a number of public undertakings had set up their Financial Divisions along with the setting up of the projects, there were fourteen undertakings in which the Financial Divisions were set up much later. In the following undertakings the Financial Division was set up many years after the project was launched:—

(*i*)	Hindustan Antibiotics Ltd.	7 Years later.
(*ii*)	Indian Telephone Industries Ltd.	6 „
(*iii*)	Hindustan Salts Ltd.	4½ „
(*iv*)	Rehabilitation Industries Corporation Ltd.	4 „
(*v*)	Ashoka Hotels Ltd.	About 3½ years later.

9. The Committee enquired whether it was not desirable to set up the Financial Division or appoint a Financial Adviser in the early stages when vital decisions relating to the Project, such as, size, location, collaboration arrangements, capital cost etc. were taken. All the undertakings agreed that it would be very desirable to have the Financial Division right from the beginning and that the Financial Adviser should be in position along with the Chief Executive.

10. During evidence, the Secretary, Ministry of Industrial Development & Company Affairs also agreed that he would not defend cases where Financial Divisions had been set up some years after the Project was launched.

11. There is little doubt that as a general rule a separate and well-organised Financial Division is absolutely essential for the efficient financial management of a public undertaking. It is also necessary that a Financial Division with a nucleus staff should be organised even from the time of project stage, so that its expert guidance or advice regarding the various proposals is available to the management or the project administrator at a stage when both money and time have to be conserved.

12. On the question of associating the person to be appointed as Financial Adviser, at the time of taking decisions on vital matters referred to in para 9 above, the Secretary, Ministry of Finance stated that the matters referred to were covered by techno-economic feasibility studies and detailed project reports. These studies required expertise which required necessary qualifications and experience in the same industry. A new man like the Financial Adviser elect, was not likely to be in possession of that expertise. It had to be done by a techno-economic body or by engaging some foreign consulting firm.

13. The Secretary, Ministry of Industrial Development & Company Affairs said that the question of associating at the initial stages a person who was to be appointed Financial Adviser should be considered a pragmatic one. If the volume of work in the intitial stages justified the appointment of a person, it should be done. If there was not sufficient work, it would be waste of man-power. He added that normally the time for appointment of Financial Adviser was when the Project was ready to be launched and as soon as the preliminaries had been settled. The Secretary, Ministry of Finance stated that the time for appointment of Financial Adviser was after the project had been launched and the comany was registered.

14. The Committee feel that the present system of the administrative Ministry and the Ministry of Finance taking a whole range of basic decisions which affect the economic viability of the project without associating at the earliest opportunity the persons who are to ultimately manage or operate the project as its Chief Executive and Financial Adviser, is not sound. They consider that these two persons in all projects of a major nature at least should be associated with it as soon as it is conceived so that they are fully aware of the circumstances, problems, etc. connected with it and know as to what is expected of the project. At any rate they would be able to point out practical limitations to the expectations and help in laying down realistic targets and time schedules for completion of construction, commencement of production, delays in both of which have damaged the image of public undertakings unnecessarily. Having been associated at the initial stage itself, they could also be held squarely responsible for the achievement of targets and adherence to the time schedules laid down as well as tested as to their abilities and efficiency.

15. The Committee appreciate that preparation of techno-economic feasibility studies and detailed project reports may, in certain cases, have to be entrusted to a foreign consultant but this does not detract from the need to make timely appointment of the Chief Executive and the Financial Adviser. The appointment of the Chief Executive and the Financial Adviser at the initial stage should help the timely and economic completion of the projects.

16. As regards the argument that it would be a waste of man-power if there was not sufficient work at the beginning, the Committee feel that undue importance should not be given to this aspect, because the usefulness of the top executive at that stage, as already indicated, cannot be measured in terms of volume of work but in terms of adherence and fulfilment of time schedules and cost estimates. The processes of consideration and approval of detailed project reports and completion of preliminaries relating to the setting up of a new public undertaking which are at present protracted would be considerably expedited if the Chief Executive and be considerably expedited if the Chief Executive and the Financial Adviser are appointed in the early stages.

B. Organisational set-up

17. The Committee noticed that, except a few, most of the public undertakings had not undertaken any study of the organisational set up of Financial Divisions in comparable enterprises before organising their Financial Divisions. The undertakings which undertook some such study relied mostly on the organisational set-up of some public undertakings already in existence as shown below:

Sl. No.	Name of undertaking which carried out a study	Name of the organisation whose set up was studied by the undertaking.
1	Fertilizer Corporation of India Ltd. (Sindri Unit)	TISCO and TELCO
2	Bharat Heavey Electricals Ltd.	Heavy Electricals (India) Ltd.
3	Bharat Heavy Plate & Vessels Ltd.	(*i*) High Pressure Boiler Plant of Bharat Heavy Electricals Ltd. (*ii*) Heavy Machine Tools Plant of Heavy Engineering Corporation Ltd.
4.	Janpath Hotels Ltd.	Ashoka Hotels Ltd.
5.	Hindustan Steel Ltd.	Study carried out by Administrative Staff College, Hyderabad and set-up reorganised.
6.	Triveni Structurals Ltd.	Determined on the basis of experience of similar undertakings in India and the experience of the collaborators *viz.* M/S. VOEST of Austria.

18. During evidence the representatives of the important undertakings agreed that it was desirable to undertak a study in the beginning or a

review later on if the line of business was new and there was no comparable enterprise.

19. The Committee feel that the need for studying the organisational set up of Financial Divisions in comparable enterprises in India and abroad has not been given the importance it deserves by the public undertakings from inception. They have been content to follow any set pattern without trying to evolve a set up which would be most suitable to the particular industry. It needs no reiteration that the efficient running of a commercial enterprise depends greatly on the efficiency of the organisational set up and particularly that of the Financial Division which is expected to examine all proposals, correctly gauge the economics of different activities and feed the management with basic data required for taking correct decisions. The Committee recommend that before organising their Financial Divisions, the public undertakings should carry out a systematic study to determine the set up that would be most suitable to their organisations.

20. In the case of even those undertakings which have already set up their Financial Divisions, the Committee recommend that a review on the lines suggested above, could be undertaken with benefit to the undertaking.

II

FINANCIAL ADVISER

A. Appointing authority.

21. The mode of appointing Financial Adviser is not uniform in the public undertakings. It will be seen from the statement at Appendix III that in 47 undertakings the Financial Adviser is appointed by Government, while in 12 undertakings the appointment is made by the Board of Directors. From the views expressed by the undertakings it is seen that the smaller undertakings are in favour of the appointment being made by Government while the major ones prefer to make the appointment themselves.

22. During evidence, representatives of majority of the undertakings put forward the view that the Financial Adviser should be responsible to the Chief Executive and the Board of Directors, and he should, therefore, be appointed by the Board. In their view, the success of a commercial organisation depended upon the team spirit of persons occupying key posts in that organisation and the smooth functioning would be affected if one of them was appointed by and made responsible to an outside authority. It was argued that the Board of Directors must be made responsible to Government and if one officer below the Board was made specially responsible to Government, such a system would not work.

23. One view expressed in this connection was that if the Board of Directors was wholetime functional board, then it could be expected to make the appointment itself; otherwise, Government should make the appointment. Another view was that it was immaterial who appointed the Financial Adviser; the crux of the problem was what powers should be given to him. It was felt that powers on internal matters should be determined by the Board but at the same time the right of Government to call for periodical reports, quarterly financial reviews etc. should be recognised.

24. When the matter was discussed by the Committee with the officials of selected ministries, the Secretary, Ministry of Finance recalled that the decision that Government should appoint the Financial Adviser was taken in July 1958. Government felt that the posts of Managing Director, General Manager and Financial Adviser were key posts and Government should have a say in making appointments to them. He clarified that the intention was to ensure that the incumbent to such an important post was a qualified person and fit enough to hold the post.

179 (aii) LS—2

25. When his attention was drawn to the recommendation of the Administrative Reforms Commission that all appointments to posts below the level of Board of Directors should be made by the Board, he said that the Board of Directors could take the initiative in selecting a panel of names but Government should have the final say and the appointment should be made with the concurrence of Government.

26. The Secretary, Ministry of Industrial Development & Company Affairs said that the appointment of Financial Adviser was a special one; nevertheless it should be left to the Board of Directors. It should, however, be subject to the approval of Government.

27. The Special Secretary, Ministry of Petroleum & Chemicals was of the view that it was premature for the Board of Directors to appoint the Financial Adviser and that Government should continue to appoint the Financial Adviser. Since the Managing Director was also appointed by Government, there was nothing offensive in the Financial Adviser also being appointed by Government. But, over a period, conventions could be developed and the Board could be consulted over these appointments.

28. The representative of the Department of Mines & Metals said that at least in the early years of an undertaking, it should be left to Government to find out a suitable person for the post of Financial Adviser. He added that in practice Government seldom took a decision in these matters without consulting the management.

29. The representative of the Ministry of Commerce stated that the appointment of Financial Adviser by the Government had not in any way reduced the usefulness of the Financial Adviser as a member of the management. He said that there were distinct advantages in the Financial Adviser being appointed by Government. The Government had a much wider field of selection and knowledge of the suitability of the persons concerned.

30. The question of appointment of Financial Adviser raises the following issues:—

(i) whether it is necessary to secure the independence of the Financial Adviser for keeping a watch on the working of the undertaking and to bring to the notice of Government deficiencies and lapses of the management in time and whether this could be achieved only if the Financial Adviser is appointed by Government; and

(ii) Whether for securing team spirit among the top managerial personnel and to ensure smooth and efficient working of the undertaking it is necessary that the Financial Adviser be appointed by the Board of Directors.

(iii) Whether the Financial Adviser's appointment by Government affected in any way his being responsible to the Board of Directors.

31. During the evidence of the representatives of undertakings, the Committee gained the impression that it was necessary to vest the power of appointing the Financial Adviser in the Board of Directors so as to ensure harmonious working of the top management. Further, nothing should be done to make the Financial Adviser feel that he was independent of the Board of Directors.

32. The officials of the Ministries, however, took a different view and seemed to feel that appointment by Government of the Financial Adviser and his being responsible to the Board were not irreconciable. The fact that the Managing Director was also appointed by Government was quoted as a point in favour of that stand.

33. There is no doubt that the appointment of Financial Adviser has far reaching implicaions. He has to be independent in expressing his views, particularly because he has to comment critically on the proposals of the management. At the same time the need for independence has to be balanced with the other factor, whether it would come in the way .of his being treated as an integral part of the management. In the circumstances the Committee feel that a solution to be problem can be found only in a suitable combination of the two methods followed at present. The Committee therefore, recommend that initiative to select the Financial Adviser in all major undertakings should be taken by the Board of Directors, the appointment being made with the approval of the Government whereafter he should be responsible to the Board just as the Chief Executive himself is responsible to it. To help the public undertakings in making a selection, the administrative Ministry and the Bureau of Public Enterprises may draw up a panel of eligible persons from which the public undertaking could draw, the actual appointment being made by the Board of Directors with the approval of the Government.

B. Financial Director

(a) *Need for Financial Director*

34. One of the suggestions for securing independence of the head of the Financial Division and to ensure that he became a part of management was to have a full-time Director (Finance). As a Director; he would be part of the management and at the same time, he will have opportunities to express his views before the Board of Directors. This would secure his independence. Moreover, in such a situation, the question of referring any points of differences between him and the Chief Executive to the Board will not arise and will thus pave the way for

establishment of harmonious relationship between the Chief Executive and the head of the Financial Division. The representatives of undertakings who gave evidence before the Committee were not only in favour of having Finance Directors but supported the idea of functional directors for looking after other fields of activity also.

35. The officials of the Ministries were of the view that while it would be advantageous to have functional directors in big undertakings, a doctrinaire approach to this question was not necessary. If the undertaking was sufficiently large and its affairs could not be adequately supervised and controlled by one person, it could be of advantage to have functional directors. It was felt that the need for a full-time Finance Director would have to be decided in each case with reference to the functions and responsibilities which were expected of the Financial Adviser.

36. The Committee agree that the appointment of the head of the Financial Division as a Director will meet to a great extent the twin requirements of independence of the Financial Adviser and his being made part of the management. They do not, however, think that a full-time Director of Finance can be appointed only where other functional directors for Production, Materials etc. exist. They feel that there would be adequate work for a full-time Finance Director in a number of large public undertakings, even if there may not be justification for having other functional director. The Committee, therefore recommend that, to start with, this proposal may be introduced in big undertakings where there is justification for employing a full-time Finance Director.

37. During evidence, the earlier unsuccessful experiment in Hindustan Steel Ltd. to have a system of functional directors, was brought to the notice of the Committee. The Secretary, Ministry of Industrial Development & Company Affairs (former Secretary, Department of Iron and Steel) agreed that there were possibilities of conflict between the functional directors and the General Managers of the Plants. He felt that this conflict could, however, be avoided if the functional directors were chosen with care and particularly if they were brought up from within the Plant. He added that if the functional directors were people with ability, then the General Managers would have respect for them.

38. The Secretary, Department of Iron and Steel put forward the view that the possible conflict between functional directors and General Managers could be avoided if it was understood that within the Plant it was the General Manager who was responsible for everything and the functional directors were responsible for framing of general policies, laying down norms, settlement of inter-plant matters and not for advising the General Managers.

39. In their Twenty-Eighth Report (1966) the Committee have expressed themselves in favour of a functional board as far as Hindustan Steel Ltd. is concerned. On the general question of functional Boards, the Estimates Committee had recommended mixed boards consisting of some part-time and some full-time directors. [52nd Report of E.C. on Personnel Policies in Public Undertakings. (Para 26)]. The Committee trust that Government will take into account all relevant factors and arrive at a decision. However, as regards Finance Director, they feel that this should be considered a separate issue and wherever there is justification, the heads of Financial Divisions should be made full-time Directors.

(b) *Functions of Financial Directors*

40. The functions of the head of Financial Division include at present, maintenance of accounts and rendering financial advice. During evidence, the Financial Adviser of Hindustan Steel Ltd., stated that a distinction should be made between economic management and financial management. In his opinion, functions relating to the two should be separated and the former should be made the responsibility of the Director (Finance) and the latter that of a person to be designated as Financial Controller or Deputy General Manager (Finance).

41. The Committee agree with the desirability of bifurcating the functions relating to maintenance of accounts and rendering of financial advice in large public undertakings. They feel that one way of bifurcating the two functions and yet maintaining the necessary co-ordination would be to make the Director (Finance) responsible for rendering financial advice only and to appoint a person under him to look after maintenance of accounts.

(c) *Role of Financial Adviser*

42. A proper appreciation of the role of Financial Adviser is necessary for devising ways and means of establishing harmonious relationship between him and the Chief Executive. His role is unique in that he has to be at the same time, a functionary and a critic. His position is unenviable because he is looked upon as the person responsible for ensuring proper and efficient utilisation of funds and he has to discharge this responsibility even though he is handicapped by not being in possession of adequate knowledege on technical matters. Another question which has created difficulties and to an extent caused the blurring of responsibilities of the Financial Adviser is whether he should be considered as the watch-dog of Government and should function as the eyes and ears of Government or whether he should be responsible only to the Board of Directors and should function just as any other head of department.

43. During evidence, the Committee discussed at length these issues with the representatives of public undertakings and Ministries. There was no difference of opinion among the witnesses that the Financial Adviser should not be a watch-dog of Government. But the feeling appeared to persist in the minds of the representatives of undertakings that the Financial Adviser was prone to consider himself or was prone to be considered as the watch-dog of Government. Three reasons could be discerned for that feeling. One was that the Financial Adviser was appointed by Government. Secondly, he was asked to submit a review to Government and thirdly the Chief executive was obliged to bring to the notice of the Board of Directors, matters on which he differed with the Financial Adviser.

44. The question of appointment of Financial Adviser has been dealt with in paras 21 to 33 ante. As far as quarterly financial reviews are concerned, there was not much objection from the representatives of the undertakings to such reviews being submitted to Government. The Chairman-Incharge, Heavy Engineering Corporation Ltd. was of the view that Government should have the right to call for quarterly financial reviews and other periodical reports if they were to be responsible to Parliament for public money. The Vice-Chairman, Hindustan Steel Ltd. stated that the reviews were based on facts and facts could not be altered. Only, the Financial Adviser, Hindustan Steel Ltd. stated that because the Financial Adviser was expected to submit quarterly financial reviews, it would mean that he was expected to be a watch-dog of Government. The Secretary, Department of Iron and Steel also felt that submission of quarterly reviews was one of the main reasons for conflict between the Financial Adviser and the Chief Executive.

45. As regards the procedure for dealing with differences of opinion between the Financial Adviser and the Chief Executive, the representatives of Heavy Engineering Corporation Ltd., Air-India and Fertiliser Corporation of India Ltd. considered it necessary to refer such matters to the Board, while the representatives of Heavy Electricals (India) Ltd., Indian Oil Corporation Ltd. and Hindustan Steel Ltd. thought that there was no need to do so.

46. The Chairman, Heavy Electricals (India) Ltd. referred to the control and supervision exercised by the Finance Ministry and the consequential feeling that it was superior to others. He said that some carry-over of this thought was permeating the public sector. He contested the special position given to the Financial Adviser, whereby the Chief Executive was obliged to refer to the Board matters on which he and the Financial Adviser differed. This was not so in the case of other heads of departments. The Vice-Chairman, Hindustan Steel Ltd. stated that if the Chief

Executive was entrusted with the responsibility for overall functioning of an organisation, he would have to be trusted and judged by the results he produced. Unless he was given authority corresponding to his responsibilities, he could not be expected to discharge those responsibilities.

47. On the basis of the evidence before the Committee, they cannot recommend scrapping of the system of submission of quarterly financial reviews which has been found to be very advantageous so far. The quarterly financial review keeps the management alert and the government well-informed. The Committee understand that to make the quarterly financial review a useful tool in management, a practice has been evolved in many undertakings to show the review to the Chief Executive at the draft stage and to have controversial points resolved. The Committee consider this an adequate safeguard against any unreasonable criticism by the Financial Adviser based on inadequate facts.

48. The Committee do not consider that the Financial Adviser becomes a "watch-dog" of government merely because be submits the quarterly financial reviews or by reason of his being appointed by Government. The responsibility to submit the quarterly financial reviews is not intended to place him in a position of pre-eminence or to endow him with the powers of veto over the Chief executive and the Board of Directors. The Financial Adviser should be responsible to the Chief Executive and the Board of Directors and should consider himself an integral part of the management. But it is equally important that he should get the reciprocal feeling that he is considered as part of the management by the Chief executive and other heads of departments and that he enjoys their confidence. It is only in such an atmosphere that a person can give his best.

49. In the opinion of the Committee, the feeling on the part of Chief Executives that the provision relating to the submission of quarterly financial reviews by the Financial Adviser to the Government and the requirement about differences with him being referred to the Board of Directors compromise their authority is not justified. The example of private sector is quoted by them to reinforce their contention that if the Chief Executive is to be held solely responsible, he must be given full and complete powers. The Committee agree that the Chief Executive of a public undertaking should be given powers corresponding to his responsibilities. But they do not agree that the provisions relating to submission of financial reviews and reference of differences of opinion between him and the Financial Adviser to the Board reduce in any way his effectiveness or authority. In quite a number of undertakings, the Chief Executive is vested with the power to overrule the Financial Adviser if circumstances warrant. Thus, he has been given full powers to run the organisation efficiently. The requirement that differences of opinion shall be referred to the Board of Directors acts

as a check on the exercise of power and responsibilities by either of them. The Committee therefore feel that the present arrangement should continue.

D. Field of Selection

50. The field of selection of Financial Adviser at present covers direct recruitment, promotion from within the organisation and persons drawn on deputation from government services. Though there are three distinct groups, majority of the public undertakings have deputationists as Financial Advisers. Out of the undertakings which furnished information to the Committee 7 did not have Financial Advisers. Out of the remaining as many as 46 undertakings had deputationists as Financial Advisers. The Committee also noticed that except in 2 undertakings, wherever, Government of India was the appointing authority, deputationists had been appointed.

51. Asked as to which system was preferable, 21 undertakings stated that they preferred deputationists, 21 undertakings stated that they preferred direct recruitment or promotion from within the organisation and 16 undertakings wanted the best man and had no particular preference or objection to direct recruits or departmental promotees or deputationists. Details are shown in Appendix IV.

52. The Committee discussed the desirability of chartered accountants being employed as Financial Advisers in the public undertakings. The representatives of the undertakings were in general agreement that more chartered accountants should be employed by public undertakings although there was a practical difficulty in getting chartered accountants on the present pay scales of public undertakings. The Chairman of Heavy Electricals (India) Ltd. stated that at the level of giving financial advice, it was the individual's capacity which counted rather than the basic training. He would not therefore put an extra premium on chartered accountants.

53. The Committee recommend that more chartered accountants should be employed by the public undertakings for manning suitable positions in the Financial Divisions. If necessary, the conditions of service may be improved, so as to attract the best talent from the market.

54. The Committee consider that it is equally important to give chance of promotion to persons who have worked in the organisation and proved their worth. They trust that the undertakings will give due consideration to their claims.

55. As regards employment of deputationists as Financial Advisers, there were divergent views. Some undertakings prefered deputationists for the following reasons:—

(i) The public undertakings are accountable to Government and Parliament for their efficient working and a Financial Adviser having knowledge of Government systems and procedures for transaction of financial business would be an asset.

(ii) Financial Adviser who does not depend upon the Chief Executive or the undertaking for his continuance or prospects would be able to give fearless advice.

(iii) Government official will take a balanced view.

56. The disadvantages of employing deputationists were stated to be:—

(i) The officer concerned tends to bide his time and has no incentive to take real interest in the affairs of the undertaking;

(ii) There is no continuity or long tenure because of frequent changes of incumbents and the post remains vacant at times for want of suitable officer;

(iii) It is difficult for the officer concerned to win the confidence of his colleagues and effectively make himself a part of the management. The other executives are prone to consider him an outsider and do not take him into their confidence with the result that there is lack of harmony between the Financial Adviser and the rest of the management.

57. When the Committee discussed this question with the representatives of public undertakings, the Vice-Chairman, Hindustan Steel Ltd. stated that the top man of the Finance Division should have a sense of belonging and involvement in the undertaking and what should be considered was whether a deputationist could develop that. The next point was continuity. If persons changed and with them the systems also changed, the whole thing remained incomplete. Further, management accounting was too complicated and technical a subject and persons who had been associated with the government-type of accounting would take quite some time to pick-up the thread. He felt that the effort should, therefore, be to develop people from within the organisation. However, in the initial stages, a person might be taken on deputation but after two or three years he should be absorbed in the organisation after resigning from Government.

58. The Chairman, Indian Oil Corporation Ltd. was of the view that there should be no hard and fast rule about developing persons from within the organisation, but the best man should be selected from whatever source available. The Chairman, Heavy Electricals (India) Ltd. stated that the attempt should be to look for people who could be permanently appointed.

The Chairman Incharge, Heavy Engineering Corporation Ltd. was also of opinion that the best man should be selected but there should be a minimum tenure in the case of deputationsts and he should be allowed to continue indefinitely on deputation. It was not necessary that he should be absorbed.

59. The Committee note that Government have generally appointed only deputationists whenever the appointment of Financial Advisers have been made by them.

60. The Committee do not think that a Financial Adviser can function fearlessly only if he is a deputationist. Similarly, it is also not true to say that the deputationists tend to bide their time. These views represent only the two extremes. In the opinion of the Committee, a capable man can function effectively whether he is a deputationist or a direct recruit. The effort should therefore be to select the best man available from all the sources. There should be neither too much dependence on deputationists as at present nor should a competent person be disqualified from holding the post merely because he happens to be a deputationist. It is the person and his competence that matter and not the service or source from which he is drawn.

61. The Committee were informed that the question whether persons who were initially taken on deputation should be permanently absorbed or allowed to come back to their parent departments was under the consideration of Government. The Committee are inclined to think that the balance of advantage would lie in absorbing them permanently in the undertaking, if found fit.

E. Functions of Financial Adviser

62. A statement showing the undertakings which have laid down the functions of Financial Advisers and those which have not is given at Appendix V. The Committee were informed that in some undertakings, though functions had not been specifically laid down, the cases which required to be referred to the Financial Adviser had been indicated in the delegation of powers and this could be taken as indirectly laying down the functions of the Financial Adviser.

63. During evidence, the Vice-Chairman, Hindustan Steel Ltd. stated that in the individual steel plants, the functions had been laid down in an indirect manner by indicating the cases that should be referred to finance. But as far as Head Office was concerned, there would not be any advantage in compartmentalising the functions of a Financial Adviser. The Chairman, Fertiliser Corporation of India Ltd., and the Financial Director of Indian Oil Corporation Ltd. were also of the view that there was no need to define

the functions of the Financial Adviser. The Financial Advisers of Hindustan Steel Ltd. and Heavy Electricals (India) Ltd., were however of the view that the functions of the Financial Adviser should be defined.

64. The Committee feel that the functions of an important executive like the Financial Adviser should not be left undefined. An indication in the delegation of powers of the cases that would require to be referred to him can, by no means, be considered as exhaustive because his functions do not end with examining what is referred to him. He has to play a positive role in helping the management to run the enterprise efficiently. For this purpose, he has to undertake systematic study of progress reports, statistical statements, in-puts and out-puts, expert Committee reports etc. The Committee, therefore, recommend that the main functions, responsibilities and powers of the Financial Adviser should be clearly laid down.

65. While all the undertakings agreed that there is wide scope for the Financial Adviser to carry out studies for improving the working of the organisation as a whole and indicating possible economies, the Committee find that such regular studies have been undertaken in only eight undertakings. This clearly shows that the Financial Divisions have not paid adequate attention to this aspect but have been content to maintain the accounts and to do such work as was specially given to them. The Committee would, therefore, urge that the Financial Advisers should take more initiative and make useful contributions towards successful running of an undertaking. This can be better achieved if there is a clear definition of the basic objectives for which the Financial Division is set up, so that the Financial Adviser plans his work in such a manner as to fulfil them.

F. Management Accounting function

66. From the replies given to a question whether the Financial Divisions prepared monthly statements and interpreted the figures contained therein as the Management Accountants usually do, it is seen that most of the Public Undertakings have not undertaken these functions. Some have made a start while others are considering of starting them soon.

67. Management Accounting functions have come to be recognised as a highly useful tool in modern management technique, particularly in financial management. Modern management is primarily economic management and every decision of the management has financial implications and affects the profitability of the project. It is therefore of vital importance that if a decision is to be financially sound, the Management should have at its disposal fullest possible information about the effects of that decision. It is the job of the Management Accountant to collect relevant data, interpret them and to foresee the effects.

68. The Committee recommend that at least major public undertakings should introduce a regular system of Management Accounting soon. The job calls for high intellectual acumen and an innate ability to analyse and interpret facts and figures and experience in examining the working of the organisation as a whole.

69. On the basis of the experience of major public undertakings, the smaller undertakings may also introduce such a system in their organisations by getting their staff trained in the bigger undertakings.

G. Training

70. The Committee find that only a small number of undertakings have made arrangements for imparting training in financial management. During evidence, the representatives of the undertakings were of the view that there could be one central point at which the recruits could be trained before being posted to individual undertakings.

71. The Committee consider that the efforts of various public undertakings at organising separately training courses for their staff could be advantageously coordinated at one place. The staff working in the Finance Divisions can be posted in batches to undergo training along with persons recruited from the open market. Each undertaking can phase the training programme in such a manner as to avoid current work falling into arrears. Since all the public undertakings will be sending their personnel to a Central Training Organisation it will also be economical.

72. As regards imparting training to the Financial Advisers, except a few undertakings which have sent their Financial Advisers for undergoing short courses organised by such institutions as the Administrative Staff College, Hyderabad, no serious attempts have been made to impart regular training to the Financial Adviser for a reckonable period of time. During evidence, the Secretary, Ministry of Finance stated that arrangements had been made recently with various institutes of management in the country to impart training in Financial Management to the Financial Advisers.

73. The Committee consider that arrangements made so far for the training of Financial Advisers are inadequate. They are not sure if the courses organised by the institutes of management would meet the peculiar requirements of public sector undertakings. The person who is to be posted as Financial Adviser should be given thorough training in the intricacies of commercial accounts, projection of facts and figures in the form of periodical statements, preparation of quarterly financial review and the technique of rendering financial advice. In the case of persons who are taken on deputation from government departments, training in commercial accounting should be given in sufficient detail and depth.

74. In addition to such courses as might be arranged to give effect to the above recommendation, the Committee suggest that the persons who are to be appointed as Financial Advisers should be given practical training by posting them for at least six months to one of the public undertakings as under-studies or as deputies to the Financial Advisers.

75. The Committee also suggest that a specified number of officers serving in Government departments might be selected and trained in financial management techniques so that when there is a vacancy in any undertaking, persons so trained might be considered along with the candidates from the open market and those serving in the organisation and a selection may be made of the best man among them.

76. The training should be a regular feature and the list of persons so trained and who are available for appointment should be maintained by the Bureau of Public Enterprises and made available to the undertakings as and when required.

H. Financial Adviser and meetings of Board of Directors

77. At present, different undertakings follow different practices in the matter of the Financial Adviser attending meeting of the Board of Directors. In 42 undertakings, the Financial Adviser attends all meetings, while in 16 he attends only some. In 26 undertakings, the Financial Adviser participates in the meetings, while in others, he puts forward his views only when he is asked to do so.

78. During evidence, the Chairman Incharge of Heavy Engineering Corporation Ltd. stated that the Financial Adviser attended the meetings and there was no order debarring him from expressing an opinion. However, the occasions for his expressing opinion were not many because all agenda notes were routed through him.

79. The Chairman, Heavy Electricals (India) Ltd. stated that in the memoranda to the Board an indication was given to the effect that financial concurrence had been taken. He did not have any objection to the Financial Adviser attending Board Meetings. The Chairman, Indian Oil Corporation Ltd. also stated that indication was given in the agenda paper to the effect that financial concurrence had been obtained. But the practice regarding attendance was that the Financial Controller was sent for if necessary.

80. In State Trading Corporation of India Ltd., the Financial Adviser attended the meetings and was free to express his opinion on any matter which he considered important. In Air India, the Financial Controller was present at all the meetings and with the permission of the Chair, expressed his views freely. In Fertilizer Corporation of India Ltd. and in Hindustan Steel Ltd., the Financial Advisers attended the Board meetings and expressed their views.

81. The Secretary, Ministry of Finance stated that instructions had been issued recently by Government to the effect that the Financial Adviser should invariably be invited to attend the meetings of the Board of Directors.

82. The Committee consider that this is a step in the right direction. It would give the Financial Adviser a much needed sense of participation in managing the affairs of the undertaking. The Committee feel that it is not enough, if he is in attendance only. He should be encouraged to actively participate in the Board meetings, put forward his views whenever he considers it necessary rather than doing it only when asked to do so. The Committee recommend that suitable instructions should be issued to all the undertakings.

III

CONSULTATION WITH FINANCE

A. Need for consultation

83. While majority of the undertakings have laid down that finance shall be consulted in one manner or the other, there are a few undertakings in which it is not obligatory to consult finance and in some discretion has been given to the Chief Executive to determine the cases which would be referred to finance. In the following undertakings, nothing is laid down in writing, but it has been stated that in practice, the Chief Executives do consult finance in the manner indicated below:—

Sl. No.	Name of the Undertaking	Details of procedure that is followed
(i)	Hindustan Steel Ltd.	Consequent on the delegation of enhanced powers to the General Managers in October, 1963, no obligation was imposed on them for consultation with finance. It was left to their discretion to frame rules of business for consultation with finance. However, General Managers do consult finance on all matters having financial implications and the "Rules of Business for consultation with Finance" adopted by the General Managers in August, 1963 continue to apply even after the delegation of enhanced powers.
(ii)	Hindustan Machine Tools Ltd. .	Upto the level of General Managers, prior financial concurrence is necessary in respect of all proposals having financial implications. The Chairman & Managing Director has, according to the delegation of powers, full powers to issue sanctions without obtaining any financial

(1)	(2)	(3)
		concurrence. In actual practice, however, the Chairman and Managing Director issues sanctions only after obtaining financial concurrence.
(iii)	Praga Tools Ltd.	There are no set rules in the Company in respect of matters requiring the prior concurrence or approval of the Financial Adviser and Chief Accounts Officer. All important matters however have prior financial concurrence.
(iv)	India Tourism Development Corporation Ltd.	The Financial Adviser has a right to record his views on all financial proposals before they are considered by the company. The advice of the Financial Division is obtained by various subject Divisions wherever it is felt necessary to do so.
(v)	Hindustan Steel Works Construction Ltd.	There has been no delegation of powers to FA & CAO by the Board on any matter except that in deciding tenders FA & CAO will be consulted by the Managing Director. No items have been prescribed through regular procedure orders for prior concurrence.
(vi)	Madras Refineries Ltd.	The Board have full powers and in terms of the delegation to Managing Director, he should ordinarily consult the Financial Adviser on all matter he deems it necessary so to do and in particular where he seeks to have an appraisal of financial implications of any transaction.

84. During evidence, the Financial Adviser & Chief Accounts Officer, Hindustan Steel Ltd. stated that whereas in other public undertakings consultation with finance and concurrence to a certain extent was prescribed, in the case of Hindustan Steel Ltd. even consultation was optional. It was not merely a question of overruling the Financial Adviser's opinion, but

having the option of not consulting him at all. He added that while the Chief Executive should have the right to overrule the Financial Adviser, it should be necessary for the Chief Executive to consult the Financial Adviser.

85. The Vice-Chairman, Hindustan Steel Ltd. stated that when functional board was in vogue, the functional directors were more or less like 'warlords', each having his own little private army in the Plant. The Chairman was not given any special power and all directors were almost equals. So a decision was taken by the Minister to make one Chief Executive fully responsible and do away with the system of functional directors. As regards the present position, he explained that he was consulting finance on all matters, even those which did not strictly have any financial implications.

86. Asked whether he had complained to Government or to the Chairman about his not having been consulted on various matters, the Financial Adviser of Hindustan Steel Ltd. replied that he had discussed it with the then Chairman, who replied that he would consult the Financial Adviser whenever he considered it necessary. This matter was a so brought to the notice of the then Secretary, Department of Iron and Steel who promised to speak to the Chairman, Hindustan Steel Ltd. He accordingly spoke but the matter stood where it was.

87. The Committee regret to note that satisfactory arrangements for consultation with finance have not been made in an important undertaking like Hindustan Steel Ltd. A situation where the Financial Adviser is consulted only when it is required, is not a happy one. The corporate form itself contemplates management by a committee or group rather than decision by one individual particularly when important decisions have far reaching financial implications and corporations tend to grow considerably in size. The Committee feel that it was wrong not to make it obligatory for the Chief Executive to consult finance on all important matters. That in practice the General Managers consulted finance on all important matters and that the present Vice-Chairman consults the Financial Adviser on all matters is itself an argument that the Financial Adviser should be a necessary party to all decisions. The Committee recommend that steps should be taken to make consultation with finance obligatory on prescribed matters.

88. The Committee are unhappy that even though the Financial Adviser brought to the notice of the then Chairman of Hindustan Steel Ltd. and the then Secretary, Ministry of Iron and Steel, the fact that he had not been consulted on various matters, no remedial action was taken. The Government have overall responsibility for the efficient working of public undertakings and certain powers have been vested in them to ensure this. It is strange that Government were in the first instance not aware of what was going on in Hindustan Steel Ltd. What is more surprising is that even after it was brought to their notice, nothing was done to set matters

right as testified by the Financial Adviser. If such matters are not set right effectively and immediately, they work ultimately to the detriment of the undertakings. The Committee recommend that due note should be taken of this instance and appropriate action initiated to ensure that there is no such recurrence.

B. Scope for consultation

89. While most of the undertakings refer all matters having financial implication to finance, nine undertakings (listed in Appendix VI) refer only those matters which involve expenditure.

90. The Committee have outlined the role of the Financial Adviser in paras 42 to 49 ante. In order to enable him to discharge his functions in conformity with that, it is necessary that he is consulted on all matters having a financial bearing, even where no immediate expenditure is involved. It will not only keep him well posted but also infuse a sense of participation in him.

C. Method of Consultation

91. From the information supplied to the Committee, it appears that while some undertakings obtain prior financial concurrence, some only consult their financial divisions. In a few other undertakings certain matters are reserved for concurrence while on others financial division is consulted only.

92. The Committee discussed during evidence the advantages and disadvantages of each practice. The representative of Air India stated that in their organisation, a Management Committee had been set up to consider all issues relating to management policies and finance was represented on it. It was therefore a joint consultation with finance and could not strictly be called 'concurrence'. It was stated that such Management Committees existed in Fertiliser Corporation of India Ltd. and Heavy Engineering Corporation Ltd. also.

93. The representative of Hindustan Machine Tools Ltd. stated that finance was treated as a management function rather than a controlling function. All decisions on important policy matters were taken in consultation with finance but there was no question of concurrence. In his opinion, this arrangement worked better than making concurrence of finance obligatory.

94. In the State Trading Corporation of India Ltd. concurrence was necessary in regard to certain items and in regard to others finance was consulted. The Chairman, Heavy Electricals (India) Ltd. stated that in some cases specific financial concurrence should be obtained. Otherwise, there

was no protection to the management that financial implications had been examined. A clear-cut demarcation should be made between cases requiring consultation and those requiring concurrence.

95. The Chairman, Indian Oil Corporation Ltd. also agreed that certain cases should be earmarked for financial concurrence, but it should be left to the Board of Directors to determine the cases which required concurrence and those which required consultation. If any outside authority gave direction in this regard, it might create a feeling that the Financial Adviser was not a part of the Management, but someone super-imposed.

96. The Vice-Chairman, Hindustan Steel Ltd. said that in his organisation the Chief Executive could overrule finance. He added that there should not be any rigidity about this question. Top management had to work as a team and come to conclusions after mutual discussions. But, if the Chief Executive, on whom the entire responsibility lay, was fettered in any manner, it would be difficult for him to discharge his duties effectively.

97. The Committee are of the view that whereas in most cases involving financial implication consultation with finance may be sufficient, it is necessary to obtain prior concurrence to major proposals involving long term financial obligations or departure from approved plans. It should be left to the Board of Directors to determine the matters which will be reserved for concurrence of finance and what will be reserved for their consultation. In this context, the importance of bringing the right attitude on the part of the Chief Executive and the Financial Adviser is of vital importance. The Chief Executive on his part should appreciate that the Financial Adviser has a useful contribution to make. The Financial Adviser, on his part, should feel that he has a constructive role to play rather than controlling expenditure only.

IV.

INVESTMENT

A. Approval of Parliament

98. The Committee enquired about the arrangements made at present for giving prior information to Parliament about the capital outlay proposed to be made during a financial year on the existing public undertakings and those proposed to be set up. During evidence, the Secretary, Ministry of Finance stated that the prevailing practice was to give certain details regarding the capital outlay, objects and achievements relating to public undertakings in the publication entitled, 'Notes on Important Schemes' appended to each volume of the Demands for Grant. In respect of new undertakings, these details were given along with the supplementary Demands for Grant. He admitted that there was no procedure for placing before Parliament for approval full details relating to a public undertaking before it was set up.

99. He felt that this raised certain quesions of policy which would have to be considered at the highest level. He, however, added that he would venture to draw attention to one or two practical considerations. The first was that Parliament did not sit throughout the year. A question could then arise whether, when the project report was ready and other preliminaries had been completed, Government should await a discussion in Parliament of the proposal. Secondly, with the continuous increase in the number of undertakings that were being set up, whether Parliament would have time to have full-dress discussion on each proposal. He reiterated that the policy decision would have to be taken by Government and Parliament and that he was only referring to one or two practical considerations.

100. Pending a decision on this question, he agreed that it would be desirable to give more details in the Budget documents about public undertakings. He referred to the recommendation of the Administrative Reforms Commission that some document like the White Paper in the U.K. should be laid before Parliament. Such document should state in detail the objects and functions of the proposed undertaking, expected profitability and its financial and other obligations. That recommendation was before the Cabinet.

101. This is an important matter and deserves serious consideration by Government and Parliament. The investment by Government in public undertakings in the form of share capital and loans has assumed huge pro-

portions and is more than Rs. 3,000 crores. The provisions by way of equity and loan for the years 1967-68 (revised estimates) and 1968-69 (budget estimate) amounted to Rs. 386 crores and Rs. 404 crores respectively. Where such large sums are involved, it is necessary that Parliament be provided ample time and opportunity to examine the demands and accord approval. So far these demands have been treated as part of the demands of the administrative Ministries and have been discussed and voted as such.

102. The Committee suggest that whenever demands for additional investment in public undertakings either by way of loan or equity, are placed before Parliament, detailed upto-date information about the past investments in such undertakings, their achievements and working results should be given so that Parliament can exercise more effective scrutiny before approving the demands.

103. So far as new public undertakings are concerned the Committee are of the view that prior approval of Parliament should be obtained before registering a Government Company as far as possible. Government should also lay before Parliament a document giving in detail the objectives of the proposed undertaking, its expected profitability, financial and other obligations.

B. Equity-debt ratio

104. In 1960, Government considered the question of distributing the investment made in public undertakings in the form of equity and debt. It was felt that a 50:50 distribution between equity and loan might be adopted as a working rule. Asked about the suitability of this ratio to their respective organisations, 21 undertakings considered it suitable while 36 undertakings did not. The names of undertakings are shown in Appendix-VII.

105. During evidence, the Committee came across different shades of opinion. The Financial Adviser, Hindustan Steel Ltd. stated that private sector concerns tried to keep equity as low as possible so that the return and dividend could be high. This phenomenon was more clear in the consumer industries where the payback period was short. But in the case of heavy industries, it was not generally possible to keep the equity so low. However, as far as Hindustan Steel Ltd. was concerned, equity debt ratio of 1:1 was suitable.

106. The Vice-Chairman, Hindustan Steel Ltd. suggested an equity debt ratio of 40:60 for capital intensive industries and a ratio of 1:2 for other industries. The Financial Director of Indian Oil Corporation Ltd. stated that to start with, an equity debt ratio of 1:1 would be alright but ultimately it should be 40:60.

107. The Chairman, Heavy Electricals (India) Ltd. considered an equity debt ratio of 2:1 as suitable for heavy engineering industries. Equity in such a case would be adequate to cover all the capital investment and part of working capital in the initial years. If heavy loans were taken, the undertaking would be in the unhappy position of having to pay interest even before commencement of production. Such interest got written in books and led to further losses. He, therefore, suggested that in the early years at least, interest should not be levied.

108. The Chairman Incharge of Heavy Engineering Corporation Ltd. was also of the view that in the case of heavy engineering industry, equity should be more than loan in the early years. For some years, the entire capital should be by way of equity. The representative of the Fertilizer Corporation of India Ltd. stated that the first half of investment should be by way of equity and the second half by way of loan carrying interest. The representative of Hindustan Machine Tools Ltd. stated that there should not be any rigid ratio. The Board of Directors should be given powers to raise loans or equity when required.

109. The representative of Air India stated that the question of equity debt ratio became relevant only when money was borrowed from outside. He added that until an undertaking could build itself up to a reasonable level of production, the entire investment must come in the shape of equity. If Government gave loans and charged interest and if the undertaking started operation with a huge loss, it would have a shattering effect on the morale of the staff.

110. Except the Secretary, Department of Iron & Steel, the officials of other Ministries were of the view that 1:1 ratio should be adhered to. The Secretary, Ministry of Finance stated that he would not support the proposition that in public undertakings equity should be higher than the loan. Government expected return on both equity and loan and if the undertakings were to give a return of 6 per cent on equity, it would have to earn a profit of 12 to 14 per cent in order to pay it after meeting tax obligations. This would involve the undertakings in greater difficulties. He, however, added that the ratio of 1:1 had not been insisted upon strictly from the beginning.

111. The Secretary, Department of Iron and Steel stated that the ratio of 1:1 should not be taken as anything sacred. He added that in the case of capital intensive industries the ratio of 1 : 1 worked out a little unfairly to the undertaking. The Secretary, Ministry of Industrial Development and Company Affairs stated that in private sector the equity debt ratio was 1 : 2. If it was not possible to attain that ratio, the public undertakings should at least maintain 1:1 ratio and there was no justification for a higher equity than that.

112. There is thus a marked divergence of opinion between the undertakings and the Ministries in this matter. After considering the replies given by all the undertakings and the evidence given before them, the Committee are inclined to think that there cannot be one common ratio applicable to all the undertakings. Moreover, for the same undertaking also one ratio cannot be made applicable for all times. The Committee, therefore, recommend that rigidity may be avoided in applying this ratio to all public undertakings. If some undertakings make out a strong case for altering the ratio, Government should give it due consideration. The suggestion that the first half of total investment should be in the form of equity and the other half might be in the form of loan also merits consideration.

113. Another factor which leads to objection to the prevailing ratio of 1:1 is the obligation to pay interest on loans. It appears, that the real objection of the undertakings is to interest liability and not to the ratio itself. If a satisfactory solution could be found to this problem, the Committee feel that much of the present objection to the equity-debt ratio of 1:1 will lose its edge. An arrangement which appeals to the Committee is to capitalise interest liability during the construction period and to write it off from profits in the later years. This would afford adequate relief to the undertakings during construction period and also ensure that Government do not lose in the bargain.

C. Capital cost

(a) *Revision of capital cost estimates.*

114. A common feature in public undertakings is that the capital estimates are reviewed many times. There are hardly a few undertakings which have not revised the capital cost estimates. In the case of most of the undertakings, there have been quite a number of revisions and in some cases, the revised total capital cost is substantially more than that originally estimated with resultant change in the scope and capacity of the project. In reply to a question, each undertaking has adduced reasons for revising the capital cost. It is not within the scope of this study to go into the merits of revision of capital cost estimates of individual undertakings. It is proposed to deal with the general issue arising out of such repeated revisions *viz.*, whether any systematic attempt has been made to analyse the reasons for such frequent revisions and to evolve remedial measure.

115. In the course of their examination of individual public undertakings, the Committee have come across some reasons for revision of estimates. Some of them are:—

(i) Detailed project report estimate did not take into account the capital cost of certain items such as township, customs duty etc.

(ii) The original project report estimate was based on a certain capacity, but to make the project more viable, production capacity was increased or due to non-availability of foreign exchange the capacity was reduced.

(iii) The initial estimates were only rough approximations because the project was a new one and adequate data was not available.

(iv) Delay in the launching of the project and increase in the price of plant and machinery in the intervening period between the time the DPR estimate was made and the time at which the project was actually launched.

(v) Increase in customs duty.

(vi) Devaluation.

116. During evidence, the Committee enquired whether any study was made to see whether the same reasons led to revision of cost estimates of several undertakings and whether any corrective steps had been taken in the light thereof. They also enquired whether it would be desirable to set up a special agency for analysing the reasons for enhancement of estimates. They were informed that each revision was preceded by a study by the undertaking, but that no common study had been undertaken. The witnesses were also not in favour of appointment of such a body which would also include outsiders.

117. It is obvious that the efforts of the individual undertakings in going into the reasons for revision of capital estimates have not been successful in eliminating the causes of revisions. Nor do Government appear to have profited by such exercises because the same phenomenon has been repeating itself. The Committee are convinced that there is need for intensive study in this regard. Such a study can be carried out by the Bureau of Public Enterprises. It would, however, be more effective if the Bureau co-opts a few officers of the administrative ministries. In the first instance, a few undertakings may be selected for study and in the light of the experience gained, it may be determined whether those studies would be sufficient for drawing guidelines for the preparation of capital cost estimates, or some further studies should be carried out.

118. The importance of estimates in the detailed project report being as realistic as possible needs hardly any emphasis as the project report forms the very basis on which Government approve the project and the

capital outlay. It is therefore essential that the estimates take into account all foreseeable items of expenditure and indicate the outlay as accurately as possible.

119. The practice of making significant increases in the capital cost estimates is undesirable. If substantial increases in capital outlay are placed before Government for approval after the project has been lunched, Government are left with no alternative except to approve the increase. However justifiable the reasons might be for increase in capital cost estimates of individual undertakings, the Committee cannot but deprecate the practice. They have pointed out the undesirability of this practice in their earlier reports. They recommend that stern action is called for on the part of Government to put an end to this unhealthy practice.

120. In addition to the above, it should be ensured that there is no laxity or wastage on the part of the project authorities in the implementation of the projects. In the opinion of the Committee, this has been a contributory factor to the considerable increase in the capital cost estimates of projects. Such increases in capital cost lead to increased burden by way of depreciation and interest which would be a recurring liability.

(b) *Over capitalisation*

121. It is common knowledge that there is over capitalisation in many public undertakings. The important reasons for it are:—

(i) Practice of providing at the first stage itself in-built capacity for bringing about expansion later on.

(ii) Provision of township and attendant amenities to staff.

(iii) Interest on loan.

122. During evidence, the Financial Adviser, Hindustan Steel Ltd. stated that planning was done at Government level and that while providing in-built capacity they were taking a long term view. He added that on account of this, the financial results were at a disadvantage and that it was a perpetual drag until the achievement of full capacity. The Secretary, Department of Iron and Steel stated that it was cheaper and more efficient to expand an existing plant rather than set up an altogether new one.

123. The Committee agree that to a certain extent it will be in the economic interest of a plant to provide for in-built capacity. But it should not be resorted to as a matter of course in each case. Before it is decided to provide in-built capacity, there should be a realistic estimate of the potential and effective demand yearwise and if the demand is likely to increase substantially within say four or five years, then only in-built capacity should be provided. As admitted by the Secretary, Ministry of Finance

and the Secretary, Department of Iron and Steel, the earlier assessments regarding demand for steel have not been correct. The Committee have come across several other cases of wrong assessment of demand of steel, coal, heavy electrical equipment etc. which they have pointed out in their reports. Since substantial sums are involved in providing in-built capacity and profitability of the undertakings is also jeopardised due to mistaken assessment, the Committee recommend that utmost care should be exercised in assessing the demand. Persons with proven ability and experience should be drafted for such work.

D. Working capital

124. At present public undertakings raise their working capital by having cash credit arrangements with the banks, mostly State Bank of India. In reply to a question, 19 undertakings informed the Committee that they experienced considerable difficulties in raising working capital and the complaints were mostly directed against State Bank of India. It was stated that there was delay in getting cash credit, that State Bank of India was not providing facilities at competitive rates and was insisting on Government guarantees in addition to security of assets. In some cases, State Bank of India is stated to have expressed their inability to provide funds to the required extent.

125. As a result of non-availability of working capital, 21 public undertakings have resorted to diversion of capital funds for financing revenue operations.

126. During evidence, the representatives of most of the undertakings voiced the feeling that it was very difficult to obtain funds from State Bank of India under cash credit arrangement. The Secretary, Ministry of Finance stated that the undertakings should raise working capital through short term loans normally from banks. He added that steps had been taken to ensure that the undertakings were able to raise the funds they required by way of working capital. If the State Bank of India considered the security of assets as not adequate, then Government would give a guarantee or give a loan themselves to the undertaking. Asked whether there was any directive that the public undertakings should deal only with State Bank of India, the Finance Secretary said that there was no specific ban on the undertakings having dealings with other scheduled banks, but there had been earlier instructions that the undertakings should keep their deposits with the State Bank of India.

127. The Committee find that the public undertakings are being put to unnecessary difficulties on account of inadequate working capital with the result that their efforts and time have to be diverted from the important

objectives of maximising production and keeping the costs low. It sufficient funds could not be provided by Government, the least that could have been done by Government was to arrange for the State Bank of India to extend cash credit arrangements expeditiously. It is regrettable that Government have not taken adequate steps to resolve these difficulties for the undertakings.

128. The Committee recommend that Government should find out whether State Bank of India will be able to meet the working capital requirements of all public undertakings on suitable terms. If it is 'not possible' the undertakings should be free to raise cash credit from other banks.

129. On their part, the public undertakings should work out their working capital requirements and exercise stricter control on outstandings, inventories and other current assets. In the opinion of the Committee, adequate care has not been exercised in this regard with the result that the requirements of working capital of public undertakings have increased.

V

WORKING RESULTS

A. Return on investment

130. The statement at Appendix VIII shows the undertakings which are earning profit, those which are running in loss and those under construction. Out of those which are earning profits, there are 11 undertakings which are not giving a return on investment which they consider as adequate. A list of such undertakings is given at Appendix IX.

131. The undertakings have given various reasons for running in losses or giving less than adequate returns. The following reasons appear to be common to many undertakings:—

(i) Over-capitalisation.

(ii) Under utilisation of the capacity created.

(iii) Surplus staff.

(iv) Labour trouble.

132. Over-capitalisation has been dealt with in paras 121 to 123 ante. As regards under-utilisation of capacity, the Committee suggest that each undertaking should immediately carry out a study for determining the extent of idle capacity, the reasons therefore, the remedial steps required to be taken and the time by which full capacity is expected to be utilised and submit such study to Government. Government should keep a watch over its implementation and also provide such help as might be necessary to the undertakings. In future wherever there is under-utilisation of capacity, such study should become a regular feature and the work should be entrusted to the Financial Divisions.

133. The problem of surplus staff will have to be tackled on a nation-wide scale as the category of undertakings with surplus staff is ever on the increase. The Committee have come to the conclusion that assessment of staff made by the undertakings themselves is usually on the high side. Assessment may be made by specialised agencies. After such fixation of staff strength, increase in any category should only be allowed on the basis of increase in production.

134. The difficulty in laying off construction staff after the completion of construction has been a vexatious problem for the public undertakings.

Various solutions have been attempted including that of employing them in the production department after some training. This has its own problems because quite often they lack basic skills and as such their productivity is so low as to affect the production and profitability of the undertaking. The Heavy Engineering Corporation Ltd. is a case in point. The Committee therefore recommend that the feasibility of getting civil engineering works done on contract basis, or by National Buildings Construction Corporation or a specialised agency to be created for the purpose may be examined. This will ensure that the construction staff do not become a permanent liability on the project when construction is over.

135. Labour relations is a delicate subject and has to be handled with care. Judging by the number of undertakings which have been affected by labour trouble, it is obvious that there is need for co-ordinated effort in this regard. The Committee recommend that a study should be made of the reasons for labour trouble in various public undertakings and the steps taken to remedy the situation and improve labour-management relations.

136. The Committee have already referred to the studies made by the Bureau of Public Enterprises. The Committee would recommend that besides the individual undertakings carrying out the studies referred to in paragraphs 132 to 135 above, it would be useful if the Bureau undertakes studies on such subjects as losses, low return on investment, idle capacity, labour relations and draw conclusions to enable the Government to take remedial measures.

137. At times, it is not possible to measure the return on investment because the undertakings launch expansion schemes simultaneously with the original project or first phase. Secondly, the capital outlay on both is merged with the result that the profitability of the running project is not susceptible to examination. The Committee pointed out that many public undertakings were launching expansion schemes without achieving the rated capacity of the first phase and suggested the desirability of showing the capital outlay on the first phase and on expansion separately. The Secretary, Ministry of Finance stated during evidence that the first responsibility of the undertaking was to achieve the rated capacity. However, this should not lead to a total ban on expansion because in some undertakings it became necessary to diversify production in response to changing demand and for undertaking production of new items, fresh investment was necessary. Similarly, it became necessary to undertake production of certain items as an import substitution measure. In both cases, expansion should be permitted even though the rated capacity might not have been achieved with regard to items originally planned.

138. The extent of under-utilisation of capacity in public undertakings is a matter of serious concern. While the circumstances referred to in the preceding para are genuine enough to warrant fresh investment, such cases should be only by way of exception. The Committee would urge that every undertaking should devote all attention to the early achievement of the optimum output. The Committee do not think that demand is changing so fast in the case of the majority of items produced by public undertakings as to render difficult a fairly accurate assessment. If the assessment of the demand is correctly made, there would be no need for changing the product-mix at a later stage. The Committee recommend that great care should be exercised in determining the product-mix which should be based on a thorough assessment of the demand.

139. As regards the need for showing separately capital outlay on the first phase and expansion, the Committee were informed that separate accounts were being kept by the Indian Oil Corporation Ltd. and the Fertilizer Corporation of India Ltd. The Chairman Incharge of Heavy Engineering Corporation Ltd. and the Heavy Electricals (India) Ltd. however felt that it would not be possible to maintain separate accounts.

140. The Committee feel that it is in the interest of each undertaking to know the investment and return from each of its projects and phases thereof. If this information is not available, adverse trends in the working of the first phase would go unnoticed. Even if separate accounts are not maintained, the undertakings should allocate the expenditure to the respective projects and in the case of common expenditure distribute it on a percentage basis, so as to get a clear picture of the profitability of each phase. Such proforma allocation of expenses is being made by Hindustan Steel Ltd. and it should be possible for the other undertakings also to do the same.

141. For detecting infavourable trends in working results, it is necessary for the financial Division to prepare periodically profit and loss accounts. During evidence, the Committee were informed that in Indian Oil Corporation Ltd. and Air India, monthly profit and loss accounts were prepared. In Hindustan Steel Ltd., Heavy Electricals (India) Ltd. and Heavy Engineering Corporation Ltd., half-yearly profit and loss accounts were prepared. **The Committee consider that preparation of periodical profit and loss accounts should be considered as one of the main functions of the Financial Divisions. They accordingly recommend that all undertakings should prepare such statements at least quarterly, because only then it will be possible for the management to know the operational results in time and effect adjustments as might be necessary for improving the operational results.**

142. Concerted efforts are also called for to increase labour productivity in all the public undertakings. In the opinion of the Committee, the present policy of "neither carrots nor sticks" has not worked very well. The Committee recommend that proper incentive schemes should be worked out for all levels of management staff and labour. Research studies should also be undertaken for groups of undertakings in the same industry. Simultaneously, there should be stricter discipline and public undertakings should not hesitate to dispense with the persistently difficult and recalcitrant staff.

B. Projected profit and loss account and Balance Sheet

143. At present only 17 undertakings (listed in Appendix X) are preparing projected profit and loss account and Balance Sheet for a period of five or ten years. The other undertakings were not in favour of doing so, as they consider that the benefits of such an exercise were dubious because of various uncertainties. Some undertakings like the Air India, Bharat Heavy Electricals Ltd. and National Newsprint and Paper Mills Ltd. prepared a projected cash flow statement.

144. During evidence the representatives of important undertakings agreed that it was desirable to prepare such projected profit and loss accounts and balance sheets but there were difficulties, particularly in preparing balance sheets.

145. The Committee consider that such projected statements are necessary adjuncts to proper planning of operations of an undertaking. Such projected profit and loss accounts and other statements should be reviewed each year in the light of experience gained during the previous year. No doubt various factors are involved in such calculations and there might be quite a degree of variation which would render close estimates of the profitability forecast a difficult task. But this factor should not deter the undertakings from making as accurate an estimate as possible.

C. Dividend

146. It will be seen from the statement at Appendix XI that only 28 undertakings have declared dividend so far. Out of the other undertakings which have not declared dividends so far, the following six undertakings have not declared dividend even when they have earned profits:—

(i) Shipping Corporation of India Ltd.

(ii) Oil & Natural Gas Commission.

(iii) Fertilizer Corporation of India Ltd.

(iv) National Industrial Development Corporation Ltd.

(v) Bharat Earth Movers Ltd.

(vi) National Small Industries Corporation Ltd.

147. During evidence, the Chairman, Fertilizer Corporation of India Ltd. stated that profits had been invested in new units with the approval of Government. The representative of Air India felt that dividend should be declared out of profits. The Financial Adviser, Hindustan Steel Ltd. stated that it was a common practice to build reserves and make the company financially stable before declaring dividends.

148. The Committee enquired whether any order of priority had been fixed for utilisation of surplus of an undertaking and if so, at what stage the undertakings were expected to declare dividends. The Secretary, Ministry of Finance stated that recently policy guidelines had been laid down by Government according to which surpluses should be appropriated first for wiping out accumulated losses of previous years, than to write off preliminary expenses. As regards the undertakings which were not declaring dividend despite profits, he said that some latitude should be given to those undertakings which worked efficiently and earned profits, to finance their expansion programmes out of profits. If they were asked to declare dividend and take loan from Government for their expansion, it would be a sort of discouragement.

149. The policy guidelines referred to in the preceding para were laid down only in January, 1968. The Committee are surprised that it took Government such a long time to lay down the policy guidelines. A perusal of these instructions shows that declaration of dividends should be considered after appropriating funds "to build up reasonable reserves and to augment their internal resources to finance the approved schemes of capital expenditure and/or to meet its immediate financial obligations without much strain".

150. The Committee feel that unless the maximum percentage of profits that can be utilised for building up internal resources is laid down, dividends may not be declared for years despite profits. The Committee, therefore, recommend that the maximum percentage of profits that can be utilised for building up internal resources should be indicated so that some minimum portion of the surplus is declared as dividend. The Committee recommend that suitable instructions may be issued to all the undertakings in the light of the above remarks.

VI

BUDGET

A. Preparation of Budget

151. Almost all public undertakings prepare annual budgets and analyse reasons for variations with estimates. However, the Committee came across one or two instances where no detailed budget estimates had been prepared in the first few years. During evidence, the representatives of the undertakings agreed that preparation of such estimates should be compulsory. **A view was expressed by the Director (Finance), Indian Oil Corporation Ltd. that there should be a specific instruction or provision in the Articles of Association to the effect that no work should be undertaken without a budget. The Committee are of the opinion that the Government should make it obligatory for undertakings to prepare detailed budget estimates.**

152. From the replies given to the Committee, it is found that 47 undertakings have laid down the procedure and form of the budget while 20 undertakings have not done so. Names of the undertakings in the latter category are given in Appendix XII. **The Committee consider that it would be in the interest of public undertakings to lay down the procedure and form of budget.**

153. The analysis of reasons for variation between budget estimates and actuals is done by the same section which prepared the budget in 45 undertakings, while in 17 undertakings it is done by some other section. The Committee were informed by the undertakings in the former category that it was advantageous to have the analysis done by the same section because they would come to know of the deficiencies in the preparation of the budget and effect improvement. On the other hand, the advantage in having the analysis made by another section was stated to be that it would be more effective and independent. **The Committee are inclined to think that the balance of advantage would lie in favour of having the analysis done by a section other than that which prepares the budget. They would commend this system to all public undertakings.**

154. While majority of the public undertakings get the budgets of the constituent units prepared by the units themselves, in ten undertakings listed in Appendix XIII the budgets of constituent units are prepared by the Head Office. **The Committee feel that if the units concerned are asked to prepare their own budgets, they will be more realistic because they will be prepared**

by persons with first hand knowledge. Moreover, the units will feel more responsible for adhering to the estimates. The Committee recommend that the system of concerned unit preparing its own budget may be adopted by all the public undertakings. The budgets of the units will of course have to be approved by the Board of Directors at the Head Office.

155. In addition to the general budget, it is necessary to prepare some important subsidiary budgets like—(i) Sales budget, (ii) Production budget, (iii) Materials budget, (iv) Labour budget, (v) Overheads budget, and (vi) Cash budget. It is seen that only some public undertakings are preparing such subsidiary budgets.

156. The Committee recommend that in order to have better financial control over various activities of the undertaking, all undertakings should prepare subsidiary budgets suited to their requirements. For the industrial undertakings, it is necessary to prepare a Sales budget before fixing the production programme. Based on this programme, the different subsidiary budgets referred to above should be prepared and the general budget should be a consolidation of those budgets. Such a break up of the overall budget into subsidiary budgets would render easy an analysis of reasons for variation.

157. A very important subsidiary budget for any undertaking is the Cash Flow Statement which is necessary for ensuring optimum utilisation of funds. It aims at forecasting the time of expenditure and makes estimates of sales realisations, realisations of outstandings and utilisation of internal resources, so that only the balance will have to be raised by way of cash credit from banks or loans from Government. This will help in ensuring that the outstandings are not allowed to accumulate and that interest bearing loans or cash credits are restricted to the minimum possible.

B. Government approval

158. Except 13 undertakings listed in Appendix XIV, the others do not submit their revenue budgets to Government for approval. The Committee asked for the opinion of the witnesses on the recommendation of the Administrative Reforms Commission that a public undertaking need not be required to submit its revenue budget for Government approval unless it was a deficit budget and Government was expected to make up the deficit.

159. There was general agreement among the representatives of undertakings that revenue budgets need not be submitted to Government for approval. The Financial Adviser of Fertiliser Corporation of India Ltd. however stated that if money was to be provided by Government, then the budget should be submitted to them for approval, whether it was a revenue budget or capital budget.

160. The Committee are in agreement with the recommendation of the Administrative Reforms Commission referred to above. They would, however, like to add that as soon as the Budget is approved by the Board of Directors, it should be sent to Government for information.

161. During evidence, the Chairman, Hindustan Machine Tools Ltd. and the Financial Adviser, Fertilizer Corporation of India Ltd. expressed the opinion that if funds were not to be provided by Government, even capital budgets need not be submitted to them for approval. **The Committee think that a capital budget should not be looked at from the point of view of funds alone. Even though an undertaking may have created surpluses to finance its capital budget, Government should be satisfied that the undertaking is employing them judiciously. The Committee are therefore of the view that the capital budget should continue to be submitted to Government for prior approval.**

C. Release of funds

162. Most of the undertakings brought to the notice of the Committee that they had experienced difficulties in getting funds released by Government and that considerable time was taken in obtaining them. Their difficulty was due to the fact that while the funds required by them were planned on a quarterly basis, the releases of funds were made on a monthly basis by the administrative Ministry in consultation with the Ministry of Finance. Most of them therefore desired that they should be allowed to draw up to 90% of the amount sanctioned in the budget without reference to the Ministry concerned.

163. In a note furnished by the Government to the Committee after evidence it has been stated as follows:—

> "Under the Ministry of Finance O.M. dated 21st October, 1960 the administrative Ministries were authorised to release funds initially upto 70% of the actual budgeted amount. During 1964 and 1965, cases had come to the notice of Government that large amounts drawn by these undertakings remained unutilised and funds released for capital expenditure were diverted towards working capital. The total provision of funds for public sector undertakings during a year is very substantial and the release of amounts in excess of their immediate requirements strains the ways and means position of the Government. It also results in funds remaining unutilised for sometime or in the alternative temporarily invested in banks, the former increases the interest liability of the undertakings, while the latter confers benefit to the banks at the expense of the Government. In order to enforce better discipline in the matter of release of funds, the

Ministry of Finance *vide* its letter dated 31st May, 1965 advised that the funds required by Public Undertakings be planned on a quarterly basis after taking into account their internal resources including the unspent cash balances, and the releases be made on monthly basis in consultation with the Finance Ministry. These instructions have since been liberalised *vide* Finance Ministry's letter dated 8th January, 1968. The Administrative Ministries during the first three quarters of the funds to the undertakings during the first three quarters of the financial year, not exceeding the budget allotment without reference to the Finance Ministry. The funds for the last quarter are to be released in consultation with the Finance Ministry so as to ensure that large unutilised cash balances do not remain with the undertakings."

164. The Secretary, Ministry of Finance informed the Committee during evidence that during the last two years, the provision made in the budgets for public sector undertakings was of the order of Rs. 310 crores and 450 crores respectively.

165. The Committee agree that the absence of proper checks may lead to premature withdrawal of funds by the undertakings. They however feel that Government had gone to the other extreme of excessive control by allowing release of funds monthly. They consider that both the points of view would be met if the funds are released on quarterly basis. The Committee do not think that it would be advisable to give full freedom to public undertakings to draw upto 90% of the budgeted amount without reference to the administrative Ministry. As long as they get the required funds released by the Ministry within a reasonable time, there is no need for giving such freedom. Since under the new procedure there is no need to consult the Ministry of Finance during the first three quarters, there should be no delay on the part of the administrative Ministry to release funds.

D. Appropriations within the budget

166. In reply to a question, majority of the undertakings stated that they should be given more latitude in utilising the money within the overall budget sanction. Some, however, were of the view that where budget was prepared in great detail, and a plan of production of various products had been framed, there was hardly any scope for appropriating the budget provisions. Even if such latitude were to be allowed, it should be restricted to appropriation within major heads only.

167. During evidence, the Committee enquired whether precedence should be given to better working results or to adherence to an approved plan of production expressed in the form of budget. The Financial Adviser of Hindustan Steel Ltd. said that the two went hand in hand. The

representatives of Indian Oil Corporation Ltd., Hindustan Machine Tools Ltd. and Air India were of the view that financial results should be given priority, while those of Heavy Electricals (India) Ltd. and Heavy Engineering Corporation Ltd. attached more importance to reaching the optimum level of production. The Vice-Chairman, Hindustan Steel Ltd. stated that the plan of production was prepared by the project authorities themselves and hence there should be no sanctity about it.

168. In a note furnished to the Committee after evidence, Government have stated that at present the Board of Directors has been authorised to sanction variotions upto 10% of the approved estimate, provided there was no substantial change in the scope of the project. Government have stated that subject to this condition there is no objection to variations being made by the public undertakings.

169. The Committee feel that since public undertakings are to function as commercial enterprises in the true sense, they should be given the necessary flexibility in the utilisation of the funds at their disposal. There are of course certain undertakings which produce some specific items necessary for the economic and industrial development of the country. Barring such cases which involve public interest and where adherence to the production plan is essential, the other undertakings must be encouraged to bring in a flexible approach in regard to adjusting the production programme in such a way as to earn maximum profits.

VII

COSTING

170. Twenty-four undertakings listed in Appendix XV do not have a costing system. The Committee enquired whether cost of production was forecast in the detailed project report and annual budget and whether actuals were compared with the forecasts. The representatives of Fertilizer Corporation of India Ltd. Indian Oil Corporation Ltd., Hindustan Machine Tools Ltd., and Hindustan Steel Ltd. stated during evidence that the cost of production had been worked out in the detailed project reports. The Financial Adviser of Heavy Electricals (India) Ltd. stated that the detailed project report indicated only an overall cost of all items and did not indicate the cost of each product. The Chairman Incharge, Heavy Egineering Corporation Ltd. informed the Committee that some idea of the ultimate cost of the products had been given in the detailed project report, but no detailed breakup was indicated. He added that it was not possible for the collaborators to have a good idea of it, and that they gave a broad indication of the cost of production.

171. The whole economic success of any project depends on an efficient and accurate system of cost control. The Committee would, therefore, urge that a proper costing system should be introduced in all public undertakings. Without a proper costing system, it will not be possible to fix the prices correctly and to exercise adequate control over various elements of cost.

172. The Committee further consider that since the detailed project report is the basis of judging the profitability of a project, Government should insist that an estimate of the cost of production must be included in the detailed project report. The vast experience gained so far in establishing and running of industrial projects should be utilised in making available to the consultants/collaborators such data as may be required by them for correctly estimating the cost of production and for making an independent check of the estimate made by them.

173. The Committee note that 35 undertakings have laid down the procedure for costing and some out of them have also evolved proforma cost sheets. The Committee recommend that similar action should be taken by all public undertakings.

174. The system of having integrated systems of cost and financial accounts has been adopted by 31 undertakings, while 20 are not in favour of such a system. The advantage of the system was stated to be that it avoided the necessity of reconciling the two and that one set of accounts

sufficed. The disadvantage was stated to be due to the difference in costing heads and account heads which led to delays.

175. The Committee consider that each undertaking will be in the best position to judge whether or not the integrated system of cost and financial accounts would be suited to it. But whatever the system, collection of cost data should be completed as speedily as possible. The statement at Appendix XVI shows the time taken by each undertaking in compiling cost data. It will be seen therefrom that in a number of undertakings, the compilation of cost data takes more than a month's time, and in some cases it takes as much as three months. Prompt steps for cost reduction can be taken only if full data for cost analysis is readily available. The Committee therefore recommend that the undertakings should gear up their costing organisations so that cost data is compiled by each undertaking within the shortest possible time.

176. Majority of the undertakings do not have or are not in favour of having standard cost system. Only eleven undertakings mentioned in Appendix XVII are having or are in favour of standard cost system. During evidence, the representatives of important undertakings generally agreed that it was necessary to introduce standard cost system as it would be a useful tool in financial control. But it should be attempted only after the operations had stabilised to some extent. Otherwise, the standard cost would be accepted as sacrosant and there would not be any attempt to reduce it further. The Chairman of Fertilizer Corporation of India Ltd. stated that they had introduced standard cost system and were comparing the actuals with the standard cost. The Chairman Incharge of Heavy Engineering Corporation Ltd. stated that the stage of working out standard cost had not been reached. The Financial Adviser of Heavy Electricals (India) Ltd. stated that for standard products they were estimating standard cost and that for tailor-made jobs it was not possible to estimate. The Chairman of Hindustan Machine Tools Ltd. stated that they had introduced the standard cost system right from the beginning. But they had expressed the cost data in physical terms such as, machine hours, material etc. instead of expressing in financial terms.

177. The Committee feel that introduction of standard cost is very necessary for exercising effective cost control. The standard cost should be calculated on the basis of normal Levels of activity and efficiency and should be reviewed periodically so as to take into account changing conditions. There may be some difficulty in expressing the standard cost in monetary terms, as due to the all round increase in price, standard cost is likely to become out of date very often. The Committee, therefore, consider that it will be advantageous to lay down physical norms for determining standard cost, i.e. the quantity of materials that should be consumed per unit of end product, labour hours machine hours etc. per unit of end product.

VIII

PRICING POLICY

178. The statement at Appendix XVIII shows the undertakings which enjoy freedom in determining the pricing policy. Out of those undertakings in respect of which Government fix the prices, three relate to oil industry *viz.*, Indian Oil Corporation Ltd., Oil and Natural Gas Commission and Cochin Refineries Ltd. Prices of petroleum products are fixed for the country as a whole by Government. As regards Fertilizer Corporation of India Ltd. and Fertilizers and Chemicals Tranvancore Ltd., Government released 30 per cent of production for direct sale in October, 1966. This was increased to 50 per cent in October, 1967 and with effect from 1st October, 1968 cent per cent release is expected to be made. If these are left out, the other undertakings in respect of which Government fix the price fall under two categories (a) those whose profitability is reduced on account of such fixation and (b) those which are put to a loss.

179. The undertakings falling under the first category and the difficulties experienced by them are given below:—

(*i*) Indian Telephone Industries Ltd.	10% margin is provided on cost plus basis. But the margin is not enough for building up internal resources.
(*ii*) Hindustan Cables Ltd.	Profit margin allowed was 10 % But since the base cost was 1965-66 cost, the actual margin works out to 6 to 61/2% only.
(*iii*) NEPA Mills Ltd.	Price was fixed in 1958 and has remained unchanged. The price fixed is lower than the price of imported newsprint. Hence profitability has been reduced.
(*iv*) Hindustan Antiboiotics Ltd.	Price fixed for streptomycin has resulted in loss. Prices of sub-divided products do not appear to have been based on scientific evaluation. Pricing policy is responsible for low profits

180. The undertakings which have suffered loss and the difficulty experienced by them are given below:

(*i*) Indian Airlines Corporation	In 1956, Air Transport Council recommended a fare structure on a teles copic basis. Increases in fares, have thereafter not kept pace with the rising cost of other items, *viz* cost of aircraft, cost of fuel and wages.
(*ii*) National Mineral Development Corporation Ltd.	Exports being effected at a price agreed to by Government with the Japanese Steel Mission. Export is resulting in loss in respect of Kiriburu project. In respect of other project, the margin of return is low.
(*iii*) Bharat Earth Movers Ltd.	To a certain extent, losses may be suffered due to limitations imposed on fixation of price by DGS&D.

181. The reasons for Government taking over the responsibility of fixation of prices are different in the case of different undertakings. For example, the prices which could be charged by the National Mineral Development Corporation Ltd. were governed by the need for earning foreign exchange, while prices allowed to be charged by Hindustan Antibiotics Ltd. were presumbaly goverened by considerations of making essential life saving drugs available at reasonable prices. **The Committee agree that Government should be the ultimate authority to decide the items whose price should be fixed by it. But they feel that it would be in the fitness of things if the method of price fixation is fair to the undertaking concerned.**

182. Different public undertakings have determined their pricing policies on different considerations, such as, cost plus basis, import parity, etc. In reply to a question of the Committee, 26 undertakings expressed themselves in favour of cost plus basis, 4 were in favour of import parity price basis, 7 were in favour of market price basis, 10 felt that one uniform policy applicable to all public undertakings was not possible.

183. The Committee feel that it is not possible to lay down any uniform method on the basis of which the public undertakings can be asked to determine the prices of their products. Their pricing policy will naturally depend on different selling conditions, such as competitive selling, partial monopoly, total monopoly, selling in public interest, selling only to Government etc. Public undertakings should not, however, lose sight of the basic fact that

they must prove to be viable economic units and earn a reasonable return on capital employed so that they could contribute to general revenues.

184. When an undertaking is to sell in a competitive market, market price should be the guiding factor. If, however, the public undertaking is able to produce at a much cheaper rate than the market price, it should set an example by adjusting its price to the level of cost of production plus an adequate return on investment.

185. In the case of partial and total monopoly, the principle of cost of production plus reasonable margin will have to be carefully applied because it will not leave any incentive to reduce the cost of production. Rather, the guaranteed return will be acting as an adverse factor in controlling costs. A suggestion made in this regard is to apply the import-parity price. The difficulty in this method is that Indian conditions differ vastly from conditions in foreign countries and therefore comparison should, more appropriately, be made with the home market price in those countries and not to the landed cost, because not infrequently, export prices are subsidised directly or indirectly.

186. Quite often public undertakings are given partial or total monopoly in producing certain items as an import substitution measure or for boosting exports. It is but right that when undertakings discharge such responsibilities they should not be asked to run at a loss by being compelled to sell at prices lower than their cost of production. In such cases the cost of production and a reasonable margin should be allowed to the undertakings. But to counter any apprehension that it would lead to laxity on the part of the undertakings in controlling costs, the cost of production should be determined by a body of persons which includes some impartial outsiders also. The same considerations apply when the undertakings are required to sell something in public interest at a price lower than the cost of production. In cases where the only buyer is a Government department, the price should not be allowed to exceed the cost of production plus a reasonable margin.

187. The Committee are of the view that in cases where the public undertakings are required to undertake the production of an unprofitable item at the instance of Government, specific directives should be issued by Government to the undertaking concerned.

188. These are only general guidelines. The Committee recommend that the items produced by different public undrtakings should be classified into distinct groups and the guiding factors for determining the pricing policy for each group should be laid down by Government, having due regard to the consumers' interests.

IX

AUDIT

A. Statutory audit

189. All the Government companies are subject to audit by chartered accountants generally called Statutory Auditors. The appointment of auditors is made by the Central Government on the advise of the Comptroller and Auditor General. By virtue of the power vested in him under Section 619 of the Companies Act, the Comptroller and Auditor General can give directions to the auditors regarding the manner in which the Company's accounts shall be audited and can give such auditors, instructions in regard to any matter relating to the performance of their functions. Such directions were issued by the Comptroller and Auditor General in 1962, and further modified in 1965. A copy of the directions issued by the Comptroller and Auditor General is given at Appendix XIX. The Statutory Auditors also submit copies of their Audit Reports to the Comptroller and Auditor General who has the right to comment upon or supplement such Audit Reports. Any such comments upon or supplement to the Audit Report are required to be placed before the Annual General Meeting of the Company at the same time and in the same manner as the Audit Report.

190. In addition, the Comptroller and Auditor General has authority under Section 619 (3) (a) of the Companies Act to conduct a supplementary or test audit of the accounts of these concerns. The results of such supplementary audit are reported by him to Parliament through the Audit Report (Commercial) every year.

191. The role of the Comptroller and Auditor General in the audit of public undertakings was briefly discussed by the Public Accounts Committee (1962-63), in para 2 of their Seventh Report (Third Lok Sabha). That Committee had observed that "they are satisfied that on the basis of the reports received from the professional auditors with reference to the directions issued to them by the Comptroller and Auditor General from time to time and on the results of his own supplementary and test audits he will be able to prevent a broad and objective review of a number of companies in each Audit Report so that all of them come within the scope of such review in a few years time".

192. In reply to a question, the Committee were informed by 44 undertakings that they did not experience any difficulties with regard to the present audit arrangements. However, 19 undertakings (listed in Appendix—XX) stated that there was duplication of audit work between the statutory auditors and the Comptroller and Auditor General's audit team and that much valuable time of the company was taken in making arrangements for audit and in answering the queries of audit teams.

193. During evidence majority of the undertakings which were represented before the Committee, were of the view that the scope of the statutory auditors might be enlarged so that the Comptroller and Auditor General's audit team may concentrate on audit from a higher angle. The Hindustan Steel Ltd. have further stated that for the purpose of carrying out audit from its propriety angle, Comptroller and Auditor General's audit seemed unavoidable under the existing provisions of law and consequently duplication of audit or overlapping had to be accepted. The areas were practically co-extensive, although Comptroller and Auditor General's audit was a test audit. It was added that if by special legislation audit by only one agency could be provided it would reduce considerable strain on public sector companies.

194. The Committee also ascertained the views of the representatives of important undertakings regarding the recommendation of the Administrative Reforms Commission to constitute Audit Boards. The important features of the proposal of the Commission are given below:—

(i) Four or five Audit Boards should be constituted, each dealing with specified sectors of public enterprise.

(ii) Each Board should have five members; three should be permanent members common to all the Boards and should be senior officers belonging to the organisation of Comptroller & Auditor General. The other two members should be part time and might be nominated by Government in consultation with Comptroller and Auditor General. They might be serving officials or non-officials.

(iii) For conducting regularity audit, the Audit Boards may also utilise the agency of professional auditors and for efficiency audit the Audit Board will utilise its own staff. For each undertaking, combined audit parties comprising the staff of Audit Boards and professional auditors should be formed so that their task may be carried on concurrently and collectively.

(iv) Audit Board should finalise their reports after discussion in the presence of the representatives of public undertakings and the Ministries concerned.

(v) A systematic appraisal of the performance of public undertakings should be undertaken by the Audit Boards, taking into account the constraints under which the undertakings function.

195. The Vice-Chairman, Hindustan Steel Ltd. stated that even in France, where the scheme was in operation, it was not a success. Asked whether technical people should be associated with Comptroller and Auditor General's audit staff, he said that it was not necessary. The Financial Controller of Air India stated that if the Audit Board was kept within the wing of the Auditor General, it would not achieve the purpose. The Chairman Incharge of Heavy Engineering Corporation Ltd. stated that the introduction of the Audit Boards would create more complications and affect audit work. The Financial Adviser, Heavy Electricals (India) Ltd. stated that if the intention was to centralise audit, it was a step in the right direction. But if it was to be some permanent Board in respect of all industries in a particular zone, then it would be overdoing audit.

196. The Chairman, Indian Oil Corporation Ltd. stated that if the recommendation of the Administrative Reforms Commission would mean that instead of two sets of audit there would be only one, then it would be welcome. He, however, felt that Comptroller & Auditor General's audit party might not be able to carry out efficiency audit. The General Manager, Refineries Division clarified that the proposed Audit Boards were intended to conduct statutory audit as well as efficiency audit and were not to be in addition to statutory audit.

197. The officials of important Ministries who gave evidence before the Committee were of the view that the setting up of Audit Boards would be an improvement on the existing arrangements for audit. The Secretary, Ministry of Finance referred to the general feeling in the minds of many people in public undertakings that the audit by Comptroller and Auditor General was not efficiency audit but was more or less of the same nature as audit of Government departments. Since the main function of the Audit Board would be to carry out efficiency audit, it would be a considerable improvement on the existing practice. He expressed the view that it would also serve to remove the existing overlapping of audit between the statutory auditors and Comptroller and Auditor General's audit team and to streamline the audit work. The Secretary, Ministry of Industrial Development and Company Affairs stated that the present tendency of a detailed audit by Comptroller and Auditor General's audit team was not entirely suitable to the circumstances in which the public undertakings were working He welcomed the proposal of Administrative Reforms Commission for composite boards which would carry out general appraisal of the working of the public undertakings.

198. The Secretary, Department of Iron and Steel stated that what mattered was not the agency but the nature of audit. He cited the example of U.S.A. where the Comptroller & Auditor General did the audit of public undertakings but in a manner which was completely different from that applicable to Government Departments. The Special Secretary, Ministry of Petroleum & Chemicals stated that his Ministry had not an opportunity to examine the proposal of the Administrative Reforms Commission but *prima facie* it appeared to be an improvement on the existing arrangements. The representative of the Ministry of Commerce stated that the recommendation of the Administrative Reforms Commission would be a distinct improvement on the present practice.

199. The Committee are convinced that the supplementary or test audit of the accounts of public undertakings by the Comptroller and Auditor General in some form or the other is essential to ensure their accountability to Government and Parliament. They feel that the existing arrangements have been working by and large satisfactorily. If some undertakings have experienced procedural difficulties in attending to two audit parties at the same time, these can be solved by greater co-ordination between the Comptroller and Auditor General's office and the statutory auditors.

200. The statutory auditors are responsible for the accuracy of the accounts and for certifying that the balance-sheet and profit and loss account give a true and fair view of the affairs of the company. The Committee find that the scope of the normal audit by the statutory auditors has been considerably enlarged by the directions issued to them by the Comptroller and Auditor General. Normally, therefore, there may be no need for the Comptroller & Auditor Creneral to examine the initial accounts and go over the ground already covered by the statutory auditors. The Committee are of the view that the supplementary audit of the Comptroller and Auditor General should concentrate more on efficiency-*cum*-propriety-audit so that his reports to Parliament give an overall appraisal of the financial working of the undertakings. The Committee further recommend that technical personnel may be associated by the Comptroller & Auditor General with his staff, so that the audit parties may be reinforced in evaluating and appraising efficiency in operation and management of the undertakings. The Committee suggest that a beginning may be made in this direction on an experimental basis.

201. The Committee would not like to express any opinion on the recommendations of the Administrative Reforms Commission regarding formation of Audit Boards. From the evidence before them, it appears that the Government consider it to be a distinct improvement over the present arrangements. During discussions, the major undertakings also appeared to welcome the proposal if it would mean ending the present duality of audit work. The Committee have no doubt that before taking a decision

in this matter, the Government will ensure that any new system will not only make audit more purposeful, but also go a step further in making Parliament's control over the public undertakings more effective.

B. Internal Audit

202. The Committee noted that though most of the undertakings have organised Internal Audit Departments, 18 undertakings listed in Appendix-XXI have not organised any system of Internal Audit. The extent of check also differs from undertaking to undertaking. In 3 undertakings Internal Audit undertakes a cent per cent check, while in 26 undertakings a test check or percentage check or random check is carried out. In 11 undertakings, there is a cent per cent check in respect of some transactions and a test or percentage check in respect of other transactions. In written replies furnished to the Committee, majority of the important public undertakings have expressed the view that it would not be desirable to attempt a uniformity in the extent of checks to be applied by internal audit. While some have stated that a cent per cent check would not be necessary and that a percentage check would suffice, there are others who have stated that the scope of Internal Audit would be dependent upon the existence of pre-audit. In their view, internal check should be in built in the system of accounting and that internal audit should essentially be to ensure that the built-in check was functioning effectively.

203. In reply to a question regarding the role and scope of Internal Audit, 19 undertakings expressed the view that internal audit should be confined to regularity audit only, while 40 undertakings stated that it should extend to an overall appraisal of the financial transactions. During evidence, the representatives of all important undertakings agreed that internal audit should extend to over-all appraisal. The Financial Controller of Air India stated that while entrusting that function to internal audit, action should be taken to associate technically qualified persons because appraisal was not a function to be done by accountants only. The Financial Adviser, Fertilizer Corporation of India Ltd. stated that theoretically efficiency was something very desirable, but difficulties would be experienced in practice. He therefore suggested that it would be better to have a management audit team. This suggestion found favour with the representatives of other undertakings also.

204. An effective system of Internal Audit is an important instrument of financial control. The Committee, therefore, urge that those undertakings which have not so far set up Internal Audit Departments should do so immediately.

205. The review of the accounts of public undertakings presently done by the Director of Commercial Audit gives a useful analysis of accounts-

and a limited number of ratios are calculated. Since the review is in the nature of a *post-mortem*, the exercise has limited utility. The Committee have carefully considered the need for providing a mechanism for continuous appraisal of efficiency during the operation of a concern. They feel that internal audit should discharge this function. Besides, quarterly profit and loss accounts should be prepared as suggested in para 141 ante and they should be analysed and various accounting ratios should be worked out. A considerable amount of information can be gleaned from such ratios and analytical study, which could provide guidelines for effecting improvements in operation and performance. They also assist in identifying areas of weakness and laxity in control. Where feasible, inter-unit Comparison may also be effected.

206. The Committee are also of the view that functions of an Internal Audit Department should include a critical review of the systems, procedures and the operations as a whole, rather than merely of the accounting work.. They are inclined to agree with the idea to associate technically qualified persons with professional accountants and to make internal audit a part of the functions of the management audit team.. As regards actual extent and nature of checks to be exercised by the Internal Audit Department, the Committee feel that no uniformity can be prescribed as the checks will depend upon the peculiarity of the organisation and the quality of internal control in each undertaking.

207. The Committee are also of the view that for being effective, it is necessary to give certain amount of independence to the Internal Audit Department within the administrative set up of the undertaking. They therefore feel that the Internal Audit Department should not function under the person who is responsible for maintenance of accounts, but should be directly under the Financial Adviser, or the Managing Director as the case may be.

X

MISCELLANEOUS

A. Depreciation

208. Until 1963-64, public undertakings provided for depreciation according to the reducing balance method. However, following the recommendation of the Estimates Committee, Government issued instructions to all public undertakings to provide for depreciation according to straight line method. Though the change over has been given effect to by majority of the public undertakings, 13 undertakings (listed in Appendix—XXII) are still following the reducing balance method. In reply to a question opinions have been expressed in favour of both methods as shown below:—

Advantages of straight line method

(i) The element of depreciation to be charged in the accounts is pre-determined and has not to be calculated afresh every year.

(ii) The method is quite simple to understand and does not require complicated calculations.

(iii) The charging of depreciation in the accounts is uniform from year to year.

(iv) As compared to the reducing balance method, the depreciation chargeable in the initial years of operation of the factory is much less with the result that comparatively better position is shown by the accounts.

(v) The cost of the asset is recouped quicker than if the reducing balance method is followed.

Advantages of reducing balance method

(i) This method tends to equalise the charge to revenue from year to year on account of depreciation and repairs and maintenance of assets. In the initial years, the depreciation will be larger but repairs and maintenance will be smaller. In the succeeding years, depreciation will be smaller, but the expenditure on repairs and maintenance will be greater.

(ii) Two sets of documents have to be prepared one for purposes of annual accounts providing for depreciation under the

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straight line method and another for purposes of Income-tax providing for depreciation under the reducing balance method.

209. Considering all aspects of the question, the Committee are in agreement with the decision to introduce straight line method and would recommend its adoption by the undertakings which have not introduced it so far.

210. The Committee note that different undertakings have laid down different rates of depreciation for same class of assets. The Committee consider that for enabling a comparison of the working of public undertakings, standardisation of the different classes of assets and lying down the rates at which they should be depreciated would be necessary.. If for purposes of rates of depreciation, it becomes difficult to treat all public undertakings alike, they should be grouped according to the nature of the industry and uniforms rate of depreciation of assets should be made applicable to the undertakings in each group.

B. Financial powers

211. While majority of the undertakings consider their financial powers adequate, 13 undertakings listed in Appendix XXIII have desired that their powers, particularly the maximum limit upto which capital expenditure can be incurred should be increased. The Committee find that the limit upto which a public undertaking can sanction capital expenditure differs from undertaking to undertaking. Some examples are given below:—

Rs. in lakhs.

Sl. No.	Name of undertaking	Capital expenditure limit
1	Cochin Refineries Ltd.	50
2	Fertilizers and Chemicals Travancore Ltd. . . .	40
3	Hindustan Antibiotics Ltd.	25
4	Hindustan Machine Tools Ltd. .	25
5	Air India . .	10
6	Indian Airlines Corporation .	10
7	National Mineral Development Corporation Ltd. .	10
8	Hindustan Insecticides Ltd.	10

212. It will be seen that while smaller undertakings have been given authority to incur capital expenditure upto a higher limit, the limits for bigger

undertakings like Air India, Indian Airlines Corporation and Hindustan Machine Tools Ltd. are lower. The Committee recommend that the powers enjoyed by all the undertakings should be reviewed and refixed in such a manner as to bear relationship to the total capital outlay and the annual capital expenditure incurred by an undertaking. Such limits should be reviewed periodically with a view to making suitable adjustments.

C. **Financial Rules**

213. It will be seen from the statement at Appendix XXIV that 35 undertakings have either adopted Government rules or modelled their rules on Government rules, while 27 have framed their own rules or consider that Government rules are not suited to them. During evidence, the Secretary, Ministry of Industrial Development & Company Affairs stated that there had been no instructions, that Government rules should automatically apply to public undertakings. In the earlier years, the undertakings adopted Government rules probably because they had no ready-made rules and regulations. He added that with the passage of time the undertakings had started having their own rules and regulations and were not following Government rules.

214. The Committee recommend that efforts should be made to standardise the financial rules applicable to public undertakings on the basis of the experience so far gained. A Standard Accounts Manual should also be compiled and adopted by the individual undertakings with such modifications as might be considered necessary.

D. **Account heads**

215. Although most of the undertakings have classified their account heads these do not correspond to the heads in the detailed project report. In this regard, only 27 undertakings (listed in Appendix XXV) have already taken action or propose to take action. Unless the account heads in the detailed project report and the account books tally, it will not be possible to check whether the actual expenditure on a particular item has exceeded the estimate made in the detailed project report, to analyse reasons therefor and to take corrective measures. **The Committee, therefore, recommend that all public undertakings should use the same account heads in the Account Books as given in the Project Reports as far as possible. In the case of those undertakings where detailed project reports are already in existence, action may be taken to redistribute the expenditure estimated in the detailed project reports under heads used in the account books. The feasibility of drawing up a list of standard accounts heads under which expenditure should be estimated while preparing a detailed project report may also be examined.**

216. In addition, the account heads should also correspond to the budget heads so that progressive expenditure under each head can be watched against the budget provision and any variation can be promptly brought to the notice of the management.

NEW DELHI;
April 22, 1968.
Vaisakha 2, 1890 (*Saka*)

D. N. TIWARY,
Chairman,
Committee on Public Undertakings.

APPENDICES

(The information given in the Appendices is based on the written replies furnished by the undertakings. Only those undertakings have been included which had given specific and clear replies).

APPENDIX I

(*Vide* para 4)

List of Public Undertakings covered in the study

1. Air India.
2. Ashoka Hotels Ltd.
3. Bharat Aluminium Company Ltd.
4. Bharat Earth Movers Ltd.
5. Bharat Electronics Ltd.
6. Bharat Heavy Electricals Ltd.
7. Bharat Heavy Plate & Vessels Ltd.
8. Bokaro Steel Ltd.
9. Cement Corporation of India Ltd.
10. Central Fisheries Corporation Ltd.
11. Central Road Transport Corporation Ltd.
12. Central Warehousing Corporation.
13. Cochin Refineries Ltd.
14. Damodar Valley Corporation.
15. Engineers India Ltd.
16. Export Credit & Guarantee Corporation Ltd.
17. Fertilizers & Chemicals Travancore Ltd.
18. Fertilizer Corporation of India Ltd.
19. Film Finance Corporation Ltd.
20. Garden Reach Workshops Ltd.
21. Heavy Electricals (India) Ltd.
22. Heavy Engineering Corporation Ltd.
23. Hindustan Aeronautics Ltd.
24. Hindustan Antibiotics Ltd.
25. Hindustan Cables Ltd.
26. Hindustan Housing Factory Ltd.
27. Hindustan Insecticides Ltd.
28. Hindustan Machine Tools Ltd.

29. Hindustan Organic Chemicals Ltd.
30. Hindustan Salts Ltd.
31. Hindustan Steel Ltd.
32. Hindustan Steelworks Construction Ltd.
33. Hindustan Shipyard Ltd.
34. Hindustan Teleprinters Ltd.
35. Indian Airlines Corporation.
36. Indian Drugs & Pharmaceuticals Ltd.
37. Industrial Finance Corporation of India.
38. Indian Oil Corporation Ltd.
39. Indian Rare Earths Ltd.
40. Indian Telephone Industries Ltd.
41. India Tourism Development Corporation Ltd.
42. Instrumentation Ltd.
43. Janpath Hotels Ltd.
44. Life Insurance Corporation of India.
45. Lubrizol India Ltd.
46. Madras Refineries Ltd.
47. Manganese Ore (India) Ltd.
48. Mazagon Dock Ltd.
49. Minerals & Metals Trading Corporation of India Ltd.
50. The Mogul Line Ltd.
51. National Buildings Construction Corporation Ltd.
52. National Industrial Development Corporation Ltd.
53. National Instruments Ltd.
54. Neyveli Lignite Corporation Ltd.
55. National Mineral Development Corporation Ltd.
56. National Newsprint & Paper Mills Ltd.
57. National Projects Construction Corporation Ltd.
58. National Research Development Corporation Ltd.
59. National Seeds Corporation Ltd.
60. National Small Industries Corporation Ltd.
61. Oil & Natural Gas Commission.
62. Praga Tools Ltd.
63. Pyrites & Chemicals Development Co. Ltd.

64. Rehabilitation Industries Corporation Ltd.
65. Shipping Corporation of India Ltd.
66. State Trading Corporation of India Ltd.
67. Triveni Structurals Ltd.

APPENDIX II

(*Vide* para 7)

Undertakings which do not have a separate Financial Division

1. Cement Corporation of India Ltd.
2. Central Fisheries Corporation Ltd.
3. Central Warehousing Corporation.
4. Export Credit and Guarantee Corporation Ltd.
5. Film Finance Corporation Ltd.
6. India Tourism Development Corporation Ltd.
7. Industrial Finance Corporation of India.
8. Life Insurance Corporation of India.
9. The Mogul Line Ltd.
10. National Buildings Construction Corporation Ltd.
11. National Industrial Development Corporation Ltd.
12. National Instruments Ltd.
13. National Newsprint & Paper Mills Ltd.
14. National Research Development Corporation Ltd.

APPENDIX III

(*Vide* Para 21)

Statement showing the undertakings in which Financial Adviser is appointed by Government and those in which he is appointed by the Board of Directors

Appointment by Government	*Appointment by Board of Directors*
1. Bharat Aluminium Co. Ltd.	1. Air India.
2. Bharat Earth Movers Ltd.	2. Ashoka Hotels Ltd.
3. Bharat Electronics Ltd.	3. Central Fisheries Corporation Ltd.
4. Bharat Heavy Electricals Ltd.	4. Central Warehousing Corporation.
5. Bharat Heavy Plate & Vessels Ltd..	5. Fertilizers & Chemicals Travancore Ltd.
6. Bokaro Steel Ltd.	6. Hindustan Machine Tools Ltd.
7. Cement Corporation of India Ltd.	7. Indian Airlines Corporation
8. Central Road Transport Corporation Ltd.	8. Indian Rare Earths Ltd.
9. Cochin Refineries Ltd.	9. National Instruments Ltd.
10. Damodar Valley Corporation	10. Neyveli Lignite Corporation Ltd.
11. Engineers India Ltd.	11. National Seeds Corporation Ltd.
12. Export Credit & Guarantee Corporation Ltd.	12. Triveni Structurals Ltd.
13. Fertilizer Corporation of India Ltd.	
14. Garden Reach Workshops Ltd.	
15. Heavy Electricals (India) Ltd.	
16. Heavy Engineering Corporation Ltd.	
17. Hindustan Aeronautics Ltd.	
18. Hindustan Antibiotics Ltd.	
19. Hindustan Cables Ltd.	
20. Hindustan Housing Factory Ltd.	
21. Hindustan Insecticides Ltd.	

22. Hindustan Organic Chemicals Ltd.
23. Hindustan Shipyard Ltd.
24. Hindustan Steel Ltd.
25. Hindustan Steelworks Construction Ltd.
26. Hindustan Teleprinters Ltd.
27. Indian Drugs & Pharmaceuticals Ltd.
28. Indian Oil Corporation Ltd.
29. Indian Telephone Industries Ltd.
30. India Tourism Development Corporation Ltd.
31. Instrumentation Ltd.
32. Janpath Hotels Ltd.
33. Lubrizol India Ltd.
34. Madras Refineries Ltd.
35. Mayagon Dock Ltd.
36. Minerals & Metals Trading Corporation of India Ltd.
37. National Buildings Construction Corporation Ltd.
38. National Mineral Development Corporation Ltd.
39. National Newsprint & Paper Mills Ltd.
40. National Projects Construction Corporation Ltd.
41. National Small Industries Corporation Ltd.
42. Oil & Natural Gas Commission
43. Praga Tools Ltd.
44. Pyrites & Chemicals Development Co. Ltd.
45. Rehabilitation Industries Corporation Ltd.
46. Shipping Corporation of India Ltd.
7. State Trading Corporation of India Ltd.

APPENDIX IV

(*Vide* Para 51)

Statement showing the views of undertakings regarding source of selection of Financial Adviser.

Undertakings in favour of deputationists.	Undertakings in favour of direct recruitment or promotion from within.	Undertakings which desire best man from any source.
1. Ashoka Hotels Ltd.	1. Air India	1. Bharat Electronics Ltd.
2. Bharat Aluminium Co. Ltd.	2. Bharat Heavy Electricals Ltd.	2. Bharat Heavy Plate & Vessels Ltd.
3. Bharat Earth Movers Ltd.	3. Bokaro Steel Ltd.	3. Engineers India Ltd.
4. Cement Corporation of India Ltd.	4. Fertilizer Corporation of India Ltd.	4. Fertilizers & Chemicals Travancore Ltd.
5. Central Road Transport Corporation Ltd.	5. Heavy Electricals (India) Ltd.	5. Heavy Engineering Corporation Ltd.
6. Central Warehousing Corporation.	6. Hindustan Insecticides Ltd.	6. Hindustan Antibiotics Ltd.
7. Damodar Valley Corporation.	7. Hindustan Machine Tools Ltd.	7. Hindustan Housing Factory Ltd.
8. Garden Reach Workshops Ltd.	8. Hindustan Salts Ltd.	8. Hindustan Organic Chemicals Ltd.
9. Hindustan Aeronautics Ltd.	9. Hindustan Steel Ltd.	9. Indian Oil Corporation Ltd.
10. Hindustan Cables Ltd.	10. Indian Airlines Corporation.	10. Indian Telephone Industries Ltd.
11. Hindustan Shipyard Ltd.	11. Indian Drugs & Pharmaceuticals Ltd.	11. Janpath Hotels Ltd.
12. Hindustan Steelworks Construction Ltd.	12. Indian Rare Earths Ltd.	12. The Mogul Line Ltd.
13. Hindustan Teleprinters Ltd.	13. Madras Refineries Ltd.	13. National Instruments Ltd.
14. India Tourism Development Corporation Ltd.	14. National Buildings Construction Corporation Ltd.	14. National Mineral Development Corporation Ltd.

Undertakings in favour of deputationists.	Undertakings in favour of direct recruitment or promotion from within.	Undertakings which desire best man from any source.
15. Instrumentation Ltd.	15. National Industrial Development Corporation Ltd.	15. National Newsprint & Paper Mills Ltd.
16. Lubrizol India Ltd.	16. Neyveli Lignite Corporation Ltd.	16. State Trading Corporation of India Ltd.
17. Mazagon Dock Ltd.	17. National Small Industries Corporation Ltd.	
18. Minerals & Metals Trading Corporation of India Ltd.	18. Oil & Natural Gas Commission.	
19. National Seeds Corporation Ltd.	19. Pyrites & Chemicals Development Co., Ltd.	
20. Praga Tools Ltd.	20. Shipping Corporation of India Ltd.	
21. Rehabilitation Industries Corporation Ltd.	21. Triveni Structurals Ltd.	

APPENDIX V

(*Vide* Para 62)

Functions of Financial Adviser

Undertakings which have laid down	*Undertakings which have not laid down.*
1. Bharat Aluminium Co. Ltd.	1. Air India.
2. Bharat Electronics Ltd.	2. Ashoka Hotels Ltd.
3. Damodar Valley Corporation	3. Bharat Earth Movers Ltd.
4. Engineers India Ltd.	4. Bharat Heavy Electricals Ltd.
5. Fertilizers & Chemicals Travancore Ltd.	5. Bharat Heavy Plate & Vessels Ltd.
6. Fertilizer Corporation of India Ltd.	6. Bokaro Steel Ltd.
7. Garden Reach Workshops Ltd.	7. Cement Corporation of India Ltd.
8. Hindustan Antibiotics Ltd.	8. Central Road Transport Corporation Ltd.
9. Hindustan Housing Factory Ltd.	9. Central Warehousing Corporation.
10. Hindustan Insecticides Ltd.	10. Heavy Electricals (India) Ltd.
11. Hindustan Shipyard Ltd.	11. Heavy Engineering Corporation Ltd.
12. Hindustan Steel Ltd.	12. Hindustan Aeronautics Ltd.
13. Indian Airlines Corporation	13. Hindustan Cables Ltd.
14. Indian Oil Corporation Ltd.	14. Hindustan Machine Tools Ltd.
15. Indian Telephone Industries Ltd.	15. Hindustan Organic Chemicals Ltd.
16. India Tourism Development Corporation Ltd.	16. Hindustan Steelworks Construction Ltd.
17. Janpath Hotels Ltd.	17. Hindustan Teleprinters Ltd.
18. Lubrizol India Ltd.	18. Indian Rare Earths Ltd.
19. National Instruments Ltd.	19. Instrumentation Ltd.
20. Neyveli Lignite Corporation Ltd.	20. Madras Refineries Ltd.
21. National Projects Construction Corporation Ltd.	21. Manganese Ore (India) Ltd.

22. Oil & Natural Gas Commission
23. Pyrites & Chemicals Development Co. Ltd.
24. Shipping Corporation of India Ltd.
25. State Trading Corporation of India Ltd.

22. Mazagaon Dock Ltd.
23. Minerals & Metals Trading Corporation of India Ltd.
24. The Mogul Line Ltd.
25. National Buildings Construction Corporation Ltd.
26. National Mineral Development Corporation Ltd.
27. National Newsprint & Paper Mills Ltd.
28. National Seeds Corporation Ltd.
29. National Small Industries Corporation Ltd.
30. Praga Tools Ltd.
31. Triveni Structural s Ltd.

APPENDIX VI

(*Vide* Para 89)

Undertakings which refer only matters involving expenditure to finance,

1. Hindustan Housing Factory Ltd.
2. Indian Oil Corporation Ltd.
3. Instrumentation Ltd.
4. Manganese Ore (India) Ltd.
5. National Instruments Ltd.
6. National Newsprint and Paper Mills Ltd.
7. Neyveli Lignite Corporation Ltd.
8. Pyrites & Chemicals Development Co. Ltd.
9. Triveni Structurals Ltd.

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APPENDIX VII

(*Vide* para 104)

Equity-debt Ration

Undertakings which have no objection to the prevailing ratio of 1 : 1	Undertakings which do not consider the prevailing ratio of 1 : 1 as suitable to them
1	2
1. Ashoka Hotels Ltd.,	1. Bharat Earth Movers Ltd.
2. Bharat Heavy Plate and Vessels Ltd.	2. Bharat Heavy Electricals Ltd.
3. Cement Corporation of India Ltd.	3. Central Road Transport Corporation Ltd.
4. Engineers India Ltd.	4. Central Warehousing Corporation.
5. Film Finance Corporation Ltd.	5. Cochin Refineries Ltd.
6. Garden Reach Workshops Ltd.	6. Export Credit and Guarantee Corporation Ltd.
7. Hindustan Housing Factory Ltd.	7. Fertilizers and Chemicals Travancore Ltd.
8. Hindustan Insecticides Ltd.	8. Fertilizer Corporation of India Ltd.
9. Hindustan Organic Chemicals Ltd.	9. Heavy Electricals (India) Ltd.
10. Hindustan Shipyard Ltd.	10. Heavy Engineering Corporation Ltd.
11. Hindustan Teleprinters Ltd.	11. Hindustan Aeronautics Ltd.
12. Indian Airlines Corporation	12. Hindustan Antibiotics Ltd.
13. Indian Oil Corporation Ltd.	13. Hindustan Cables Ltd.
14. Indian Rare Earths Ltd.	14. Hindustan Machine Tools
15. Indian Telephone Industries Ltd.	15. Hindustan Steel Ltd.
16. Lubrizol India Ltd.	16. Hindustan Steelworks Construction Ltd.
17. Madras Refineries Ltd.	17. Indian Drugs and Pharmaceuticals Ltd.
18. National Newsprint and Paper Mills Ltd.	18. India Tourism Developmen Corporation Ltd.
19. Pyrites and Chemicals Development Co. Ltd.	19. Instrumentation Ltd.
20. State Trading Corporation of India Ltd.	20. Janpath Hotels Ltd.
27. Triveni Structurals Ltd.	

1	2
	21. Manganese Ore (India) Ltd.
	22. Mazagon Dock Ltd.
	23. Minerals and Metals Trading Corporation India Ltd.
	24. National Buildings Construction Corporation Ltd.
	25. National Industrial Development Corporation Ltd.
	26. National Instruments Ltd.
	27. Neyveli Lignite Corporation Ltd.
	28. National Mineral Development Corporation Ltd.
	29. National Projects Construction Corporation Ltd.
	30. National Research Development Corporation Ltd.
	31. National Seeds Corporation Ltd.
	32. National Small Industries Corporation Ltd.
	33. Oil and Natural Gas Commission.
	34. Praga Tools Ltd.
	35. Rehabilitation Industries Coriporation Ltd.
	36. Shipping Corporation of Inda Ltd.

APPENDIX VIII

(*Vide* Para 130)

Statement showing Financial Results

Undertakings earning profit	Undertakings running at a loss	Undertakings under construction
1. Air India.	1. Bharat Heavy Electricals Ltd.	1. Bharat Aluminium Co. Ltd.
2. Asoka Hotels Ltd. (Since 1959-60).	2. Central Fisheries Corporation Ltd.	2. Bharat Heavy Plate and Vessels Ltd.
3. Bharat Earth Movers Ltd.	3. Central Road Transport Corporation Ltd.	3. Bokaro Steel Ltd.
4. Bharat Electronics Ltd.	4. Central Warehousing Corporation.	4. Cement Corporation of India Ltd.
5. Cochin Refineries Ltd. (Profit anticipated in the first year of operation).	5. Damodar Valley Corporation.	5. Hindustan Organic Chemicals Ltd.
6. Fertilizer Corporation of India Ltd. (2 units).	6. Engineers India Ltd. (In the first two years).	6. Indian Drugs and Pharmaceuticals Ltd. (One unit has gone into production and is running at a loss).

7. Garden Reach Workshops Ltd.	7. Fertilizers and Chemicals Travancore Ltd. (Earned profit in 1966-67)	7. Instrumentation Ltd.
8. Hindustan Antibiotics Ltd.	8. Film Finance Corporation Ltd.	8. Lubrizol India Ltd.
9. Hindustan Cables Ltd. (Except in 1965-66).	9. Heavy Electricals (India) Ltd.	9. Madras Refineries Ltd.
10. Hindustan Housing Factory Ltd.	10. Heavy Engineering Corporation Ltd.	10. National Mineral Development Corporation Ltd.
11. Hindustan Insecticides Ltd.	11. Hindustan Salts Ltd.	11. Pyrites and Chemicals Development Co. Ltd.
12. Hindustan Machine Tools Ltd.	12. Hindustan Shipyard Ltd.	12. Triveni Structurals Ltd.
13. Hindustan Steelworks Construction Ltd.	13. Hindustan Teleprinters Ltd. (Broke even in 1965-66. Loss in 1966-67 due to devaluation).	
14. Indian Airlines Corporation (From 1-4-1960 onwards except 1966-67).	14. Hindustan Steel Ltd.	
15. Industrial Finance Corporation of India.		
16. Indian Oil Corporation Ltd.	15. India Tourism Development Corporation Ltd.	

1	2	3	4
	17. Indian Rare Earths Ltd.	16. Janpath Hotels Ltd.	
	18. Indian Telephone Industries Ltd.	17. National Buildings Construction Corporation Ltd.	
	19. Manganese Ore (India) Ltd.	18. National Instruments Ltd. (Profit and loss fluctuating).	
	20. Mazagon Dock Ltd.	19. Neyveli Lignite Corporation Ltd.	
	21. Minerals and Metals Trading Corporation of India Ltd.	20. National Research Development Corporation Ltd.	
	22. The Mogul Line Ltd.	21. Praga Tools Ltd. (Profit and loss fluctuating)	
	23. National Industrial Development Corporation Ltd.	22. Rehabilitation Industries Corporation Ltd.	
	24. National Instruments Ltd. (Profit and loss fluctuating)		
	25. National Newsprint & Paper Mills Ltd.		
	26. National Projects Construction Corporation Ltd.		
	27. National Seeds Corporation Ltd.		

28. National Small Industries Corporation Ltd.
29. Oil & Natural Gas Commission (Except 1964-65).
30. Shipping Corporation of India Ltd.
31. State Trading Corporation of India Ltd.

APPENDIX IX

(*Vide* para 130)

Undertakings which are giving return but not a return which they consider adequate

1. Ashoka Hotels Ltd.
2. Bharat Earth Movers Ltd.
3. Fertilizer Corporation of India Ltd.
4. Hindustan Antibiotics Ltd.
5. Hindustan Cables Ltd.
6. Indian Airlines Corporation.
7. Indian Oil Corporation Ltd.
8. The Mogul Line Ltd.
9. National Small Industries Corporation Ltd.
10. National Newsprint & Paper Mills Ltd.
11. Oil & Natural Gas Commission.

APPENDIX X

(*Vide* para 143)

List of undertakings which prepare projected profit and loss account and Balance Sheet

1. Bharat Aluminium Co. Ltd.
2. Bharat Earth Movers Ltd.
3. Bharat Electronics Ltd.
4. Cochin Refineries Ltd.
5. Damodar Valley Corporation.
6. Garden Reach Workshops Ltd.
7. Heavy Electricals (India) Ltd.
8. Heavy Engineering Corporation Ltd.
9. Hindustan Insecticides Ltd.
10. Hindustan Organic Chemicals Ltd. (Propose to undertake)
11. Hindustan Steel Ltd. (P & L A|c only)
12. Indian Oil Corporation Ltd. (Marketing Division— P & L account only)
13. Indian Telephone Industries Ltd.
14. Lubrizol India Ltd.
15. National Seeds Corporation Ltd.
16. Shipping Corporation of India Ltd.
17. Triveni Structurals Ltd.

APPENDIX XI

(*Vide* para 146)

Undertakings which have declared dividend so far

1. Air India.
2. Ashoka Hotels Ltd.
3. Bharat Electronics Ltd.
4. Central Road Transport Corporation Ltd.
5. Central Warehousing Corporation.
6. Garden Reach Workshops Ltd.
7. Hindustan Antibiotics Ltd.
8. Hindustan Cables Ltd.
9. Hindustan Housing Factory Ltd.
10. Hindustan Insecticides Ltd.
11. Hindustan Machine Tools Ltd.
12. Hindustan Steelworks Construction Ltd.
13. Hindustan Teleprinters Ltd.
14. Indian Airlines Corporation.
15. Indian Oil Corporation Ltd.
16. Indian Rare Earths Ltd.
17. Indian Telephone Industries Ltd.
18. Industrial Finance Corporation of India.
19. Manganese Ore (India) Ltd.
20. Mazagon Dock Ltd.
21. Minerals & Metals Trading Corporation of India Ltd.
22. The Mogul Line Ltd.
23. National Newsprint & Paper Mills Ltd.
24. National Instruments Ltd.
25. National Projects Construction Corporation Ltd.
26. Praga Tools Ltd.
27. Sambhar Salts Ltd. (A subsidiary of Hindustan Salts Ltd.)
28. State Trading Corporation of India Ltd.

APPENDIX XII

(*Vide* para 152)

List of undertakings which have not laid down the procedure for preparation of budget

1. Ashoka Hotels Ltd.
2. Bharat Heavy Plate & Vessels Lad.
3. Cement Corporation of India Ltd.
4. Engineers India Ltd.
5. Export Credit & Guarantee Corporation Ltd.
6. Fertilizers & Chemicals Travancore Ltd.
7. Film Finance Corporation Ltd.
8. Hindustan Antibiotics Ltd.
9. Hindustan Organic Chemicals Ltd.
10. Hindustan Shipyard Ltd.
11. Hindustan Steelworks Construction Ltd.
12. India Tourism Development Corporation Ltd.
13. Lubrizol India Ltd.
14. Mazagon Dock Ltd.
15. Madras Refineries Ltd.
16. National Buildings Construction Corporation Ltd.
17. National Seeds Corporation Ltd.
18. Praga Tools Ltd.
19. Pyrites & Chemicals Development Co. Ltd.
20. Rehabilitation Industries Corporation Ltd.

APPENDIX XIII

(*Vide* para 154)

List of undertakings which get the budgets of constituent units prepared at Head Office

1. Central Fisheries Corporation Ltd.
2. Central Warehousing Corporation.
3. Export Credit & Guarantee Corporation Ltd.
4. India Tourism Development Corporation Ltd.
5. Janpath Hotels Ltd.
6. Mazagon Dock Ltd.
7. National Research Development Corporation Ltd.
8. National Seeds Corporation Ltd.
9. Rehabilitation Industries Corporation Ltd.
10. Shipping Corporation of India Ltd.

APPENDIX XIV

(*Vide* para 158)

List of undertakings which submit their revenue budgets to Government for approval

1. Bharat Heavy Electricals Ltd.
2. Cement Corporation of India Ltd.
3. Central Warehousing Corporation.
4. Heavy Electricals (India) Ltd.
5. Heavy Engineering Corporation Ltd.
6. Hindustan Organic Chemicals Ltd.
7. India Tourism Development Corporation Ltd.
8. National Industrial Development Corporation Ltd.
9. National Research Development Corporation Ltd.
10. National Small Industries Corporation Ltd.
11. Neyveli Lignite Corporation Ltd.
12. Oil & Natural Gas Commission.
13. Rehabilitation Industries Corporation Ltd.

APPENDIX XV

(*Vide* para 170)

List of Undertakings which do not have cost accounting system

1. Bharat Aluminium Co. Ltd.
2. Bharat Heavy Plate & Vessels Ltd.
3. Bokaro Steel Ltd.
4. Cement Corporation of India Ltd.
5. Central Fisheries Corporation Ltd.
6. Central Road Transport Corporation Ltd.
7. Central Warehousing Corporation.
8. Engineers India Ltd.
9. Export Credit & Guarantee Corporation Ltd.
10. Film Finance Corporation Ltd.
11. Hindustan Organic Chemicals Ltd.
12. Hindustan Steelworks Construction Ltd.
13. India Tourism Development Corporation Ltd.
14. Instrumentation Ltd.
15. Life Insurance Corporation of India Ltd.
16. Lubrizol India Ltd.
17. Madras Refineries Ltd.
18. Minerals & Metals Trading Corporation of India Ltd.
19. The Mogul Line Ltd.
20. National Industrial Development Corporation Ltd.
21. National Research Development Corporation Ltd.
22. Rehabilitation Industries Corporation Ltd.
23. State Trading Corporation of India Ltd.
24. Triveni Structurals Ltd.

APPENDIX XVI

(*Vide* para 175)

Statement showing the time taken by Undertakings in compiling cost data

1. Ashoka Hotels Ltd. .	(Daily)
2. Bharat Earth Movers Ltd	(3 to 4 months)
3. Bharat Electronics Ltd . .	(1 month)
4. Bharat Heavy Electricals Ltd.	(Before the end of the following month)
5. Bharat Heavy Plate & Vessels Ltd. .	(Under construction).
6. Cochin Refineries Ltd. .	(15 days)
7. Damodar Valley Corporation	(25 days)
8. Engineers India Ltd. . . .	(Information not furnished)
9. Fertilizers & Chemicals Travancore Ltd.	(Month following):
10. Fertilizer Corrporation of India Ltd.	(4th week of the following month)
11. Heavy Electricals (India) Ltd. .	(3 months)
12. Heavy Engineering Corporation Ltd.	(1 month in HMBP and 2 months in FFP)
13. Hindustan Aeronautics Ltd.	(Second month following).
14. Hindustan Antibiotics Ltd.	(3 weeks)
15. Hindustan Cables Ltd. .	(1½ months)
16. Hindustan Housing Factory Ltd.	(3 weeks).
17. Hindustan Insecticides Ltd. .	(15 days).
18. Hindustan Machine Tools Ltd.	(3 weeks.)
19. Hindustan Shipyard Ltd.	(20 days).
20. Hindustan Steel Ltd. .	(Middle of succeeding month).
21. Hindustan Teleprinters Ltd. .	(about 1 month)
22. Indian Airlines Coporation	(1 month).
23. Indian Drugs & Pharmaceuticals Ltd.	(10 days).
24. Indian Oil Corporation Ltd.	(15 to 20 days after closing of accounts in respect of Refineries and Pipelines Division Information regarding Marketing Division not furnished.)
25. Indian Rare Earths Ltd. . .	(2nd or 3rd week of next month)
26. Indian Telephone Industries Ltd. .	(By second following months).
27. Janpath Hotels Ltd.	(1 day)
28. Madras Refineries Ltd. . .	(Daily)

29. Manganese Ore (India) Ltd. .	(end of next month).
30. Mazagon Dock Ltd. . .	(end of next months).
31. Minerals & Metals Trading Corporation of India Ltd.	(3 weeks).
32. National Instruments Ltd. . .	(3 to 4 months).
33. Neyveli Lignite Corporation Ltd. .	(3 to 4 weeks).
34. National Mineral Development Corporation Ltd.	(end of next month).
35. National Newsprint & Paper Mills Ltd.	(10 days after receipt of reports from production departments.)
36. National Projects Construction Corporation Ltd.	(end of following month).
37. National Small Industries Corporation Ltd.	(Information not furnished.)
38. Oil & Natural Gas Commission	(No time schedule at present: Propose to compile in 8 weeks' time).
39. Shipping Corporation of India Ltd.	(8 to 10 weeks).
40. State Trading Corporation of India Ltd.	(10 days.)

APPENDIX XVII

(*Vide* para 176)

Undertakings having or in favour of having standard cost system

1. Fertilizer Corporation of India Ltd.
2. Fertilizers & Chemicals Travancore Ltd.
3. Garden Reach Workshops Ltd.
4. Hindustan Housing Factory Ltd.
5. Hindustan Insecticides Ltd.
6. Hindustan Organic Chemicals Ltd.
7. Indian Telephone Industries Ltd.
8. Madras Refineries Ltd.
9. National Instruments Ltd.
10. Praga Tools Ltd.
11. Rehabilitation Industries Corporation Ltd.

APPENDIX XVIII

(*Vide* para 178)

Undertakings which enjoy freedom of determining pricing policy.

1. Bharat Electronics Ltd.
2. Bharat Heavy Electricals Ltd.
3. Damodar Valley Corporation.
4. Export Credit & Guarantee Corporation Ltd.
5. Engineers India Ltd.
6. Garden Reach Workshops Ltd.
7. Heavy Engineering Corporation Ltd.
8. Hindustan Housing Factory Ltd.
9. Hindustan Insecticides Ltd.
10. Hindustan Machine Tools Ltd.
11. Hindustan Salts Ltd.
12. Hindustan Teleprinters Ltd.
13. Indian Drugs & Pharmaceuticals Ltd.
14. Indian Rare Earths Ltd.
15. India Tourism Development Corporation Ltd.
16. Lubrizol India Ltd.
17. Mazagon Dock Ltd.
18. Minerals & Metals Trading Corporation of India Ltd.
19. National Instruments Ltd.
20. Neyveli Lignite Corporation Ltd.
21. National Seeds Corporation Ltd.
22. Praga Tools Ltd.
23. State Trading Corporation of India Ltd.
24. Triveni Structurals Ltd.

APPENDIX XIX

(*Vide* para 189)

Directions given by Comptroller & Auditor General to statutory auditors under Section 619(3) *of the Companies Act,* 1956.

I. *System of Accounts and Book-keeping.*

In respect of the following matters, please offer your observations on the basis of your examination of the books of accounts of the Company:—

(1) Are there any important deficiencies in the accounting system for the purpose of "auditing in depth" and in the manuals and other instructions laying down the detailed accounting procedure and specifying the financial powers, duties and responsibilities of the different officers?

(2) Is there an effective system of reconciliation of the books by taking out periodical trial balances and is the reconciliation of the bank accounts, control accounts and subsidiary accounts (including those pertaining to the branches and units) upto-date?

(3) Are property/Plant Registers kept up-to-date and reconciled with the financial books? Any important cases of failure to report to the Accounts Department regarding the disposal of items of property, plant and equipment may be mentioned.

(4) Is the allocation of expenditure during construction between Capital and Revenue properly done so that the cost of an identifiable unit of plant (*e.g.* coke oven in Steel Plant) can be ascertained? If not the defective cases should be indicated.

II. *Internal Control.*

(1) Has a Manual outlining the scope and programme of work for the internal audit been drawn up? If so, is the programme kept up?

(2) (a) Are you satisfied that the important points thrown up by the internal audit have been considered by the Administration and necessary action taken? If not, indicate the more important points on which consideration/action is outstanding. Have any drawbacks in the system of internal control been noticed?

(b) Is the procedure for write-off, discounts, refunds, etc. adequate?

(3) Does the Company prepare capital, revenue, production and sales budgets for a financial year with adequate details sufficiently in advance? If so, the actual performance, in relation to the budget provision and the reasons given by the Management for abnormal variations, if any, may be indicated.

III. *Manufacturing and Production Accounts.*

(1) Does the Company maintain periodical quantity accounts of production of the major products? How do these compare with the periodical targets fixed?

(2) Are the existing Manufacturing Accounts drawn up properly? Where appropriate, the lines of improvement may be suggested.

(3) Are records maintained for determining the rejections in production? Have you noticed any abnormal variation?

(4) *Cost Accounts*:—

(a) Does the Company prepare accounts indicating the cost of each unit of its major products? Have you any comments to make on the effectiveness of the system of costing and also any suggestions to make on the maintenance of Cost records or distribution of overheads? Are the costs compiled in time, or is there a time lag in the compilation of costs?

(b) Does the Company have a system for ascertaining the idle time for labour and machinery, specifying the reasons therefor?

IV. *Profit & Loss Account.*

(1) Is the method of valuation of closing stock and work-in-progress acceptable? Defects, if any, may be indicated with any suggestions for improvement.

(2) Indicate the method of depreciation adopted and your comments, if any.

(3) How do the selling prices compare with cost of production? Indicate separately whether material losses were incurred on the sale/trade of major commodities dealt with. Give the Management's reasons for the loss.

(4) Were there any special features in the year which have affected the results shown by the Profit & Loss Account substantially?

(5) What is the break-up of turn-over, *i.e.* value of sales/business in respect of major products for the past 3 years? The percentage of increase or decrease for the total turnover of major products, with the Management's reasons for the variation, may be given.

V. *Balance Sheet.*

(1) *Sundry Debtors.*

(a) Mention important cases of failure to obtain confirmation of outstanding debts.

(b) Please mention the details of debts outstanding for more than one year in the following form:—

	Government Deptts.	Others.
(i) Debts over 1 year but less than 2 years.		
(ii) Debts outstanding for 2 years but less than 3 years.		
(iii) Debts outstanding for 3 years and above		

(2) *Plant & Machinery.*

Have all items of Plant & Machinery costing more than Rs. 5 lakhs each been installed and commissioned? In cases of non-commissioning of such Plant, what are the reasons given by the Management?

(3) *Inventory procedure & Control.*

(a) Is the pricing of stores issued done on a uniform basis?

(b) What are the results of the physical verification of stocks of finished and semi-finished goods, stores and spares and raw materials conducted periodically by the Company? What action has been taken by the Management on the excesses and shortages revealed as a result of such physical verification? Are you satisfied with the system of physical verification?

(c) Does the system of procurement and disposal of stores ensure that (i) stores in excess of the reasonable requirements of maintenance and production are not accumulated; (ii) the amount of (a) surplus (b) unserviceable stores are periodically determined; (iii) surplus and unserviceable stores are disposed of without undue delay?

What is the value of stores declared as surplus in the last three years? Indicate how much has been awaiting disposal for more than (a) one year, (b) two years.

(d) How many months' cost of production did the total stock inventory work out to for the past 3 years? A table may be given in the following form:—

	Year 1962-63	Year 1963-64	Year 1964-65
1. Cost of production			
2. Inventory as at the end of the year			
3. Inventory in terms of number of months' cost of production.			

(e) How many months' consumption was represented by the stock of raw materials, stores and spares held as at the date of the Balance sheet during the past 3 years?

(f) How many months' cost of production was the work-in-progress equivalent to during the past 3 years? The figures of total cost of production and work-in-progress for these years may also be given.

(4) *Working Capital.*

How many months' cost of production/business was represented by the total working capital?

VI. *General Review.*

(1) Are *pro-forma* accounts maintained in respect of the operation of service units for the benefit of staff during the last 3 years; *e.g.* transport, canteen, etc. If so, the results may be indicated.

(2) The following ratios for the last three years may be given:—

(a) Long-term loans to paid-up capital.

(b) Net Current Assets to Fixed Assets.

(c) Gross profit to Sales.

(d) Return on Capital invested (share-capital, long-term loans and free reserves). The profit will include interest on long-term loans.

You may also give any other ratios which you feel might offer significant information in the case of the particular Company under review.

VII. *Township.*

(1) What is the amount of financial assistance, if any, availed of by the Company under the subsidised Housing Scheme for industrial workers? The amount of financial assistance sanctioned but not availed of, and the reasons therefor given by the Management may be indicated.

(2) The actual expenditure on Township and the percentage of such expenditure to the actual Capital outlay may be given.

VIII. *General.*

A general analysis of the accounts indicating Capital formation, growth of the Company, sources and uses of funds may be given in the *pro forma* appended. (Tables I and II).

TABLE I

Growth & Working of

Particulars	1961-62	1962-63	1963-64	1964-65
I. Rates of growth [percentage increase (+) or decrease (—) per annum].				
A. *Liabilities and assets :*				
1. Paid-up capital plus reserves and surplus (Net worth) .				
2. (*a*) Gross fixed assets . .				
(*b*) Net fixed assets . .				
3. Inventories . . .				
4. (*a*) Gross fixed assets plus inventories . . .				
(*b*) Net fixed assets plus inventories . . .				
5. (*a*) Total Gross assets . .				
(*b*) Total net assets . .				
B. *Income and Profits :*				
1. Total income . .				
2. Sales . . .				
3. Cost of production .				
4. Profits before tax .				
5. Profits after tax . . .				
6. Retained profits . . .				
7. Dividends				
II. *Profit Ratios :*				
1. Retained profits as percentage of profits before tax . . .				
2. Gross profits as percentage of total capital employed . .				
3. Gross profits as percentage of sales				
4. Profits after tax as percentage of net worth				

5. Dividends as percentage of paid up capital . . . . . .
6. Dividends as percentage of net worth . . . . . .

III. *Other ratios :*

1. External sources as percentage of total sources of funds . . .
2. Increase in borrowings from Government as percentage of external sources . . . .

TABLE II

Statement showing source and Application of Funds

SOURCE OF FUNDS :

Internal Sources

Net Profit (loss) for the year after taxation .
Depreciation provided in the accounts . .
Increase in reserves by debit "above the line"
Increase in non-current provisions, such as Provision for Gratuity, etc. . . .
Sale of Investments . . . . .
Sale of Fixed Assets . .

External Sources

Paid up capital . . . . . .
Borrowing from Government/Banks . .
Borrowings from statutory Financial Corporations . . . .
Issue of Debentures . . . . .
Other borrowings . . . . .
Decrease in net current assets . .

APPLICATION OF FUNDS :

Additions to Fixed Assets

Land . . . .
Buildings . . . .
Plant and Machinery . .
Others . . . .
Purchase of Investments . .
Increase in net current assets .
Intangible assets . . .
Miscellaneous Expenditure . .

APPENDIX XX

(*Vide* para 192)

Undertakings which experienced some difficulties on account of audit by two agencies

1. Bharat Earth Movers Ltd.
2. Bharat Electronics Ltd.
3. Bharat Heavy Electricals Ltd.
4. Central Road Transport Corporaton Ltd.
5. Cochin Refineries Ltd.
6. Fertilizer Corporation of India Ltd.
7. Fertilizers & Chemicals Travancore Ltd .
8. Heavy Electricals (India) Ltd.
9. Hindustan Housing Factory Ltd.
10. Hindustan Machine Tools Ltd.
11. Hindustan Steel Ltd.
12. Indian Drugs & Pharmaceuticals Ltd.
13. Indian Rare Earths Ltd.
14. Manganese Ore (India) Ltd.
15. Minerals & Metals Trading Corporation of India Ltd.
16. National Instruments Ltd.
17. National Mineral Development Corporation Ltd.
18. National Seeds Corporation Ltd.
19. Neyveli Lignite Corporation Ltd.

APPENDIX XXI

(*Vide* para 202)

Undertakings which have not organised internal audit

1. Bharat Aluminium Co. Ltd.
2. Bharat Heavy Plate & Vessels Ltd.
3. Cement Corporation of India Ltd.
4. Central Fisheries Corporation Ltd.
5. Central Warehousing Corporation.
6. Engineers India Ltd.
7. Film Finance Corporation Ltd.
8. Hindustan Salts Ltd.
9. Hindustan Steelworks Construction Ltd.
10. India Tourism Development Corporation Ltd.
11. Instrumentation Ltd.
12. Lubrizol India Ltd.
13. Madras Refineries Ltd.
14. National Industrial Development Corporation Ltd.
15. National Instruments Ltd.
16. National Research Development Corporation Ltd.
17. National Small Industries Corporation Ltd.
18. State Trading Corporation of India Ltd.

APPENDIX XXII

(*Vide* para 208)

Undertakings which are following the reducing balance method in providing for depriciation.

1. Ashoka Hotels Ltd.
2. Bharat Electronics Ltd.
3. Central Fisheries Corporation Ltd.
4. Engineers India Ltd.
5. Hindustan Antibiotics Ltd.
6. Hindustan Cables Ltd.
7. Hindustan Housing Factory Ltd.
8. Hindustan Salts Ltd.
9. National Instruments Ltd.
10. National Seeds Corporation Ltd.
11. Oil & Natural Gas Commission.
12. Rehabilitation Industries Corporation Ltd.
13. Shipping Corporation of India Ltd.

APPENDIX XXIII

(*Vide* para 211)

Undertakings which desire enhancement of their financial powers

1. Air India.
2. Cochin Refineries Ltd.
3. Film Finance Corporation Ltd.
4. Hindustan Antibiotics Ltd.
5. Hindustan Insecticides Ltd.
6. Hindustan Machine Tools Ltd.
7. Hindustan Organic Chemicals Ltd.
8. Indian Airlines Corporation.
9. Janpath Hotels Ltd.
10. Mazagon Dock Ltd.
11. Madras Refineries Ltd.
12. National Mineral Development Corporation Ltd.
13. Neyveli Lignite Corporation Ltd.

APPENDIX XXIV

(*Vide* para 212)

Financial Rules

Undertakings adopting Government rules or following Government rules largely	Undertakings having their own financial rules
1	2
1. Bharat Electronics Ltd.	1. Air India.
2. Bharat Heavy Electricals Ltd.	2. Ashoka Hotels Ltd.
3. Bokaro Steel Ltd.	3. Bharat Aluminium Co. Ltd.
4. Cement Corporation of India Ltd.	4. Bharat Earth Movers Ltd.
5. Central Fisheries Corporation Ltd.	5. Bharat Heavy Plate & Vessels Ltd.
6. Central Road Transport Corporation Ltd.	6. Engineers India Ltd.
7. Central Warehousing Corporation	7. Fertilisers & Chemicals Travancore Ltd.
8. Damodar Valley Corporation	8. Garden Reach Workshops L
9. Cochin Refineries Ltd.	9. Hindustan Antibiotics Ltd.
10. Export Credit & Guarantee Corporation Ltd.	10. Hindustan Cables Ltd.
11. Fertilizer Corporation of India Ltd.	11. Hindustan Housing Factory Ltd.
12. Heavy Electricals (India) Ltd.	12. Hindustan Machine Tools Ltd.
13. Heavy Engineering Corporation Ltd.	13. Hindustan Organic Chemicals Ltd.
14. Hindustan Aeronautics Ltd.	14. Hindustan Shipyard Ltd.
15. Hindustan Insecticides Ltd.	15. Hindustan Steel Ltd.
16. Hindustan Salts Ltd.	16. Hindustan Steel works Construction Ltd.
17. Indian Drugs & Pharmaceuticals Ltd.	17. Hindustan Teleprinters Ltd.
18. Indian Oil Corporation Ltd.	18. Indian Airlines Corporation.
19. India Tourism Development Corporation Ltd.	19. Indian Rare Earths Ltd.
20. Instrumentation Ltd.	20. Indian Telephone Industries Ltd.

1	2
21. Janpath Hotels Ltd. .	21. Life Insurance Corporation of India.
22. Lubrizol India Ltd. . . .	22. Madras Refineries Ltd.
23. Minerals & Metals Trading Corporation of India Ltd.	23. Mazagon Dock Ltd.
. National Buildings Construction Corporation Ltd.	24. National Mineral Development Corporation Ltd.
25. National Industrial Development Corporation Ltd.	25. National Newsprint & Paper Mills Ltd.
26. National Instruments Ltd. . .	26. Shipping Corporation of India Ltd.
27. Neyveli Lignite Corporation Ltd.	27. State Trading Corporation India Ltd.
28. National Projects Construction Corporation Ltd.	
29. National Research Development Corporation Ltd.	
30. National Seeds Corporation Ltd.	
31. National Small Industries Corporation Ltd.	
32. Oil & Natural Gas Commission.	
33. Pyrities & Chemicals Development Co. Ltd.	
34. Rehabilitation Industries Corporation Ltd.	
35. Triveni Structurals Ltd. . .	

APPENDIX XXV

(*Vide* para 215)

Undertakings which have same account heads in detailed project reports and account books

1. Bharat Aluminium Co. Ltd.
2. Bharat Earth Movers Ltd.
3. Bharat Electronics Ltd.
4. Bharat Heavy Electricals Ltd.
5. Bharat Heavy Plate & Vessels Ltd.
6. Bokaro Steel Ltd.
7. Damodar Valley Corporation.
8. Fertilizers & Chemicals Travancore Ltd.
9. Heavy Electricals (India) Ltd.
10. Hindustan Insecticides Ltd.
11. Hindustan Machine Tools Ltd.
12. Hindustan Organic Chemicals Ltd.
13. Hindustan Salts Ltd.
14. Hindustan Teleprinters Ltd.
15. Indian Drugs & Pharmaceuticals Ltd.
16. Indian Oil Corporation Ltd.
17. Indian Rare Earths Ltd.
18. India Tourism Development Corporation Ltd.
19. Instrumentation Ltd.
20. Janpath Hotels Ltd.
21. Lubrizol India Ltd.
22. National Mineral Development Corporation Ltd.
23. National Newsprint & Paper Mills Ltd.
24. National Projects Construction Corporation Ltd.
25. Neyveli Lignite Corporation Ltd.
26. Oil & Natural Gas Commission.
27. Shipping Corporation of India Ltd.

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APPENDIX XXVI

Summary of Conclusions/Recommendations contained in the Report

S. No.	Reference to para No. of the Report	Summary of Conclusions/Recommendations
1	2	3
1.	11.	There is little doubt that as a general rule a separate and well-organised Financial Division is absolutely essential for the efficient financial management of a public undertaking. It is also necessary that a Financial Division with a nucleus staff should be organised even from the time of project stage, so that its expert guidance or advice regarding the various proposals is available to the management or the project administrator at a stage when both money and time have to be conserved.
2.	14-16.	The Committee feel that the present system of the administrative Ministry and the Ministry of Finance taking a whole range of basic decisions which affect the economic viability of the project without associating at the earliest opportunity the persons who are to ultimately manage or operate the project as its Chief Executive and Financial Adviser, is not sound. They consider that these two persons in all projects of a major nature at least should be associated with it as soon as it is conceived so that they are fully aware of the circumstances, problems, etc. connected with it and know as to what is expected of the project. At any rate they would be able to point out practical limitations to the expectations and help in laying down realistic targets and time schedules for completion of construction, commencement of production, delays in both of which have damaged the image of public undertakings unnecessarily. Having been associated at the initial stage itself, they could also be held squarely responsible for the achievement of targets

1	2	3
		and adherence to the time schedules laid down as well as tested as to their abilities and efficiency. The Committee appreciate that preparation of techno-economic feasibility studies and detailed project reports may, in certain cases, have to be entrusted to a foreign consultant but this does not detract from the need to make timely appointment of the Chief Executive and the Financial Adviser. The appointment of the Chief Executive and the Financial Adviser at the initial stage should help the timely and economic completion of the projects. As regards the argument that it would be a waste of man-power if there was not sufficient work at the beginning, the Committee feel that undue importance should not be given to this aspect, because the usefulness of the top executives at that stage, as already indicated, cannot be measured in terms of volume of work but in terms of adherence and fulfilment of time schedules and cost estimates. The processes of consideration and approval of detailed project reports and completion of preliminaries relating to the setting up of a new public undertaking which are at present protracted would be considerably expedited if the Chief Executive and the Financial Adviser are appointed in the early stages.
8.	19.	The Committee feel that the need for studying the organisational set up of Financial Divisions in comparable enterprises in India and abroad has not been given the importance it deserves by the public undertakings from inception. They have been content to follow any set pattern without trying to evolve a set up which would be most suitable to the particular industry. It needs no reiteration that the efficient running of a commercial enterprise depends greatly on the efficiency of the organisational set up and particularly that of the Financial Division which is expected to examine all proposals, correctly gauge the economics of different activities and feed the management with basic data required for taking correct decisions. The Committee

1	2	3
		recommend that before organising their Financial Divisions, the public undertakings should carry out a systematic study to determine the set up that would be most suitable to their organisations.
4.	20.	In the case of even those undertakings which have already set up their Financial Divisions, the Committee recommend that a review on the lines suggested above, could be undertaken with benefit to the undertaking.
5.	33.	There is no doubt that the appointment of Financial Adviser has far reaching implications. He has to be independent in expressing his views, particularly because he has to comment critically on the proposals of the management. At the same time the need for independence has to be balanced with the other factor whether it would come in the way of his being treated as an integral part of the management. In the circumstances, the Committee feel that a solution to the problem can be found only in a suitable combination of the two methods followed at present. The Committee therefore, recommend that initiative to select the Financial Adviser in all major undertakings should be taken by the Board of Directors, the appointment being made with the approval of the Government whereafter he should be responsible to the Board just as the Chief Executive himself is responsible to it. To help the public undertakings in making a selection, the administrative Ministry and the Bureau of Public Enterprises may draw up a panel of eligible persons from which the public undertaking could draw, the actual appointment being made by the Board of Directors with the approval of the Government.
6.	36—39.	The Committee agree that the appointment of the head of the Financial Division as a Director will meet to a great extent the twin requirements of independence of the Financial Adviser and his being made part of the management. They do not, however, think that a full time Director of Finance can be appointed only where other functional directors

1	2	3
		for Production, Materials etc. exist. They feel that there would be adequate work for a full-time Finance Director in a number of large public undertakings, even if there may not be justification for having other functional directors. The Committee, therefore recommend that, to start with, this proposal may be introduced in big undertakings where there is justification for employing a full-time Finance Director. In their Twenty Eighth Report (1966) the Committee have expressed themselves in favour of a functional board as far as Hindustan Steel Ltd. is concerned. On the general question of functional Boards, the Estimates Committee had recommended mixed Boards, consisting of some part-time and some full-time directors. (52nd Report of EC. on Personnel Policies in Public Undertakings. (Para 26). The Committee trust that Government will take into account all relevant factors and arrive at a decision. However, as regards Finance Director, they feel that this should be considered a separate issue and wherever there is justification, the heads of Financial Divisions should be made full-time Directors.
7.	41.	The Committee agree with the desirability of bifurcating the functions relating to maintenance of accounts and rendering of financial advice in large public undertakings. They feel that one way of bifurcating the two functions and yet maintaining the necessary co-ordination would be to make the Director (Finance) responsible for rendering financial advice only and to appoint a person under him to look after maintenance of accounts.
8.	47—49.	On the basis of the evidence before the Committee, they cannot recommend scrapping of the system of submission of quarterly financial reviews which has been found to be very advantages so far. The quarterly financial review keeps the management alert and the government well-informed. The Committee

1	2	3

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understand that to make the quarterly financial review a useful tool in management, a practice has been evolved in many undertakings to show the review to the Chief Executive at the draft stage and to have controversial points resolved. The Committee consider this an adequate safeguard against any unreasonable criticism by the Financial Adviser based on inadequate facts.

The Committee do not consider that the Financial Adviser becomes a "watch-dog" of government merely because he submits the quarterly financial reviews or by reason of his being appointed by Government. The responsibility to submit the quarterly financial reviews is not intended to place him in a position of pre-eminence or to endow him with the powers of veto over the Chief Executive and the Board of Directors. The Financial Adviser should be responsible to the Chief Executive and the Board of Directors and should consider himself an integral part of the management. But it is equally important that he should get the reciprocal feeling that he is considered as part of the management by the Chief Executive and other heads of departments and that he enjoys their confidence. It is only in such an atmosphere that a person can give his best.

In the opinion of the Committee, the feeling on the part of the Chief Executives that the provision relating to the submission of quarterly financial reviews by the Financial Adviser to the Government and the requirement about differences with him being referred to the Board of Directors compromise their authority is not justified. The example of private sector is quoted by them to reinforce their contention that if the Chief Executive is to be held solely responsible, he must be given full and complete powers. The Committee agree that the Chief Executive of a public undertaking should be given powers corresponding to his responsibilities.

1	2	3
		But they do not agree that the provisions relating to submission of financial reviews and reference of differences of opinion between him and the Financial Adviser to the Board reduce in any way his effectiveness or authority. In quite a number of undertakings, the Chief Executive is vested with the power to overrule the Financial Adviser if circumstances warrant. Thus, he has been given full powers to run the organisation efficiently. The requirement that differences of opinion shall be referred to the Board of Directors acts as a check on the exercise of power and responsibilities by either of them. The Committee therefore feel that the present arrangement should continue.
9.	53.	The Committee recommend that more chartered accountants should be employed by the public undertakings for manning suitable positions in the Financial Divisions. If necessary, the conditions of service may be improved, so as to attract the best talent from the market.
10.	54.	The Committee consider that it is equally important to give chance of promotion to persons who have worked in the organisation and proved their worth. They trust that the undertakings will give due consideration to their claims.
11.	60.	The Committee do not think that a Financial Adviser can function fearlessly only if he is a deputationist. Similarly, it is also not true to say that the deputationists tend to bide their time. These views represent only the two extremes. In the opinion of the Committee' a capable man can function effectively whether he is a deputationist or a direct recruit. The effort should therefore be to select the best man available from all the sources. There should be neither too much dependence on deputationists as at present nor should a competent person be disqualified from holding the post merely because he happens to

1	2	3
		be a deputationist. It is the person and his competence that matter and not the service or source from which he is drawn.
12.	61.	The Committee were informed that the question whether persons who were initially taken on deputation should be permanently absorbed or allowed to come back to their parent departments was under the consideration of Government. The Committee are inclined to think that the balance of advantage would lie in absorbing them permanently in the undertaking, if found fit.
13.	64-65.	The Committee feel that the functions of an important executive like the Financial Adviser should not be left undefined. An indication in the delegation of powers of the cases that would require to be referred to him can, by no means, be considered as exhaustive because his functions do not end with examining what is referred to him. He has to play a positive role in helping the management to run the enterprise efficiently. For this purpose, he has to undertake systematic study of progress reports, statistical statements, inputs and out puts, export Committee reports etc. The Committee, therefore, recommend that the main functions, responsibilities and powers of the Financial Adviser should be clearly laid down.
		While all the undertakings agreed that there is wide scope for the Financial Adviser to carry out studies for improving the working of the organisation as a whole and indicating possible economies, the Committee find that such regular studies have been undertaken in only eight undertakings. This clearly shows

1	2	3
		that the Financial Divisions have not paid adequate attention to this aspect but have been content to maintain the accounts and to do such work as was specially given to them. The Committee would, therefore, urge that the Financial Advisers should take more initiative and make useful contributions towards successful running of an undertaking. This can be better achieved if there is a clear definition of the basic objectives for which the Financial Division is set up, so that the Financial Adviser plans his work in such a manner as to fulfil them.
14.	68-69.	The Committee recommend that at least major public undertakings should introduce a regular system of Management Accounting soon. The job calls for high intellectual acumen and an innate ability to analyse and interpret facts and figures and experience in examining the working of the organisation as a whole. On the basis of the experience of major public undertakings, the smaller undertakings may also introduce such a system in their organisations by getting their staff trained in the bigger undertakings.
15.	71.	The Committee consider that the efforts of various public undertakings at organising separately training courses for their staff could be advantageously co-ordinated at one place. The staff working in the Finance Divisions can be posted in batches to undergo training along with persons recruited from the open market. Each undertaking can phase the training programme in such a manner as to avoid current work falling into arrears. Since all the public undertakings will be sending their personnel to a Central Training Organisation it will also be economical.
16.	73.	The Committee consider that arrangements made so far for the training of Financial Advisers are inadequate. They are not sure if the courses organised by the institutes of management would meet the peculiar

1	2	3
		requirements of public sector undertakings. The person who is to be posted as Financial Adviser should be given thorough training in the intricacies of commercial accounts, projection of facts and figures in the form of periodical statements, preparation of quarterly financial review and the technique of rendering financial advice. In the case of persons who are taken on deputation from government departments, training in commercial accounting should be given in sufficient detail and depth.
17	74	In addition to such courses as might be arranged to give effect to the above recommendation, the Committee suggest that the persons who are to be appointed as Financial Advisers should be given practical training by posting them for at least six months to one of the public undertakings as understudies or as deputies to the Financial Advisers.
18	75-76	The Committee also suggest that a specified number of officers serving in Government departments might be selected and trained in financial management techniques so that when there is a vacancy in any undertaking, persons so trained might be considered along with the candidates from the open market and those serving in the organisation and a selection may be made of the best man among them. The training should be a regular feature and the list of persons so trained and who are available for appointment should be maintained by the Bureau of Public Enterprises and made available to the undertakings as and when required.
19	82	The Committee consider that the issuing of instructions to the effect that the Financial Advisers should invariably be invited to attend the meetings of the Board of Directors is a step in the right direction. It would give the Financial Adviser a much needed sense of participation in managing the affairs of the undertaking. The Committee feel that it is not enough, if he is in attendance only. He should be

1	2	3
		encouraged to actively participate in the Board meetings, put forward his views whenever he considers it necessary rather than doing it only when asked to do so. The Committee recommend that suitable instructions should be issued to all the undertakings.
20.	87	The Committee regret to note that satisfactory arrangements for consultation with finance have not been made in an important undertaking like Hindustan Steel Ltd. A situation where the Financial Adviser is consulted only when it is required, is not a happy one. The corporate form itself contemplates management by a committee or group rather than decision by one individual particularly when important decisions have far reaching financial implications and Corporations tend to grow considerably in size. The Committee feel that it was wrong not to make it obigatory for the Chief Executive to consult finance on all important matters. That in practice the General Managers consulted finance on all important matters and that the present Vice-Chairman consults the Financial Adviser on all matters is itself an argument that the Financial Adviser should be a necessary party to all decisions. The Committee recommend that steps should be taken to make consultation with finance obligatory on prescribed matters.
21	88	The Committee are unhappy that even though the Financial Adviser brought to the notice of the Chairman of Hindustan Steel Ltd. and the then Secretary, Ministry of Iron and Steel, the fact that he had not been consulted on various matters, no remedial action was taken. Government have overall responsibility for the efficient working of public undertakings and certain powers have been vested in them to ensure this. It is strange that Government were in the first instance not aware of what was going on in Hindustan Steel Ltd. What is more surprising is that even after it was brought to their notice, nothing was done to set matters right as testified by the

1	2	3
		Financial Adviser. If such matters are not set right effectively and immediately, they work ultimately to the detriment of the undertakings. The Committee recommend that due note should be taken of this instance and appropriate action initiated to ensure that there is no such recurrence.
22.	90.	The Committee have outlined the role of the Financial Adviser in paras 42 to 49. In order to enable him to discharge his functions in conformity with that, it is necessary that he is consulted on all matters having a financial bearing, even where no immediate expenditure is involved. It will not only keep him well posted but also infuse a sense of participation in him.
23.	97.	The Committee are of the view that whereas in most cases involving financial implication, consultation with finance may be sufficient, it is necessary to obtain prior concurrence to major proposals involving long term financial obligations or departure from approved plans. It should be left to the Board of Directors to determine the matters which will be reserved for concurrence of finance and what will be reserved for their consultation. In this context, the importance of bringing the right attitude on the part of the Chief Executive and the Financial Adviser is of vital importance. The Chief Executive on his part should appreciate that the Financial Adviser has a useful contribution to make. The Financial Adviser, on his part, should feel that he has a constructive role to play rather than controlling expenditure only.
24	102	The Committee suggest that whenever demands for additional investment in public undertakings either by way of loan or equity, are placed before Parliament, detailed up-to-date information about the past

(1)	(2)	(3)
		investments in such undertakings, their achievements and working results should be given so that Parliament can exercise more effective scrutiny before approving the demands.
25.	103	So far as new public undertakings are concerned, the Committee are of the view that prior approval of Parliament should be obtained before registering a Government Company as far as possible. Government should also lay before Parliament a document giving in detail the objectives of the proposed undertaking, its expected profitability, financial and other obligations.
26.	112	There is thus a marked divergence of opinion between the undertakings and the Ministries in regard to equity debt ratio. After considering the replies given by all the undertakings and the evidence given before them, the Committee are inclined to think that there cannot be one common ratio applicable to all the undertakings. Moreover, for the same undertaking also one ratio cannot be made applicable for all times. The Committee, therefore, recommend that rigidity may be avoided in applying this ratio to all public undertakings. If some undertakings make out a strong case for altering the ratio, Government should give it due consideration. The suggestion that the first half of total investment should be in the form of equity and the other half might be in the form of loan also merits consideration.
27.	113	Another factor which leads to objection to the prevailing equity-debt ratio of 1 : 1 is the obligation to pay interest on loan. It appears that the real objection of the undertakings is to interest liability and no to the ratio itself. If a satisfactory solution could be found to this problem, the Committee feel that much of he present objection to the equity-debt ratio of 1 : 1 will lose its edge. An arrangement which appeals to the Committee is to capitalise interest

(1)	(2)	(3)
		liability during the construction period and to write it off from profits in the later years. This would afford adequate relief to the undertakings during construction period and also ensure that Government do not lose in the bargain.
28.	117	It is obvious that the efforts of the individual undertakings in going into the reasons for revision of capital estimates have not been successful in eliminating the causes of revisions. Nor do Government appear to have profited by such exercises because the same phenomenon has been repeating itself. The Committee are convinced that there is need for intensive study in this regard. Such a study can be carried out by the Bureau of Public Enterprises. It would, however, be more effective if the Bureau co-opts a few officers of the administrative ministries. In the first instance, a few undertakings may be selected for study and in the light of the experience gained, it may be determined whether those studies would be sufficient for drawing guidelines for the preparation of capital cost estimates, or some further studies should be carried out.
29.	118	The importance of estimates in the detailed project report being as realistic as possible needs hardly any emphasis as the project report forms the very basis on which Government approve the project and the capital outlay. It is therefore essential that the estimates take into account all foreseeable items of expenditure and indicate the outlay as accurately as possible.
30.	119	The practice of making significant increases in the capital cost estimates is undesirable. If substantial increases in capital outlay are placed before Government for approval after the project has been launched, Government are left with no alternative except to approve the increase. However justifiable the reasons might be for increase in capital cost estimates of individual undertakings, the Committee cannot but de-

(1)	(2)	(3)
		precate the practice. They have pointed out the undesirability of this practice in their earlier reports. They recommend that stern action is called for on the part of Government to put an end to this unhealthy practice.
31.	120	In addition to taking stern action to put an end to the unhealthy practice of revising the capital cost estimates frequently, it should be ensured that there is no laxity or wastage on the part of the project authorities in the implementation of the projects. In the opinion of the Committee, this has been a contributory factor to the considerable increase in the capital cost estimates of projects. Such increases in capital cost lead to increased burden by way of depreciation and interest which would be a recurring liability.
32.	123	The Committee agree that to a certain extent it wil be in the economic interest of a plant to provide for in-built capacity. But it should not be resorted to as a matter of course in each case. Before it is decided to provide in-built capacity, there should be a realistic estimate of the potential and effective demand yearwise and if the demand is likely to increase substantially within say four or five years, then only in-built capacity should be provided. As admitted by the Secretary, Ministry of Finance and the Secretary, Department of Iron and Steel, the earlier assessments regarding demand for steel have not been correct. The Committee have come across several other cases of wrong assessment of demand of steel, coal, heavy electrical equipment etc. which they have pointed out in their reports. Since substantial sums are involved in providing in-built capacity and profitability of the undertakings is also jeopardised due to mistaken assessment, the Committee recommend that utmost care should be exercised in assessing the demand. Persons with proven ability and experience should be drafted for such work.

(1)	(2)	(3)
33.	127	The Committee find that the public undertakings are being put to unnecessary difficulties on account of inadequate working capital with the result that their efforts and time have to be diverted from the important objectives of maximising production and keeping the costs low. If sufficient funds could not be provided by Government, the least that could have been done by Government was to arrange for the State Bank of India to extend cash credit arrangements expeditiously. It is regrettable that Government have not taken adequate steps to resolve these difficulties for the undertakings.
34.	128	The Committee recommend that Government should find out whether State Bank of India will be able to meet the working capital requirements of all public undertakings on suitable terms. If it is not possible, the undertakings should be free to raise cash credit from other banks.
35.	129	On their part, the public undertakings should work out their working capital requirements and exercise stricter control on outstandings, inventories and other current assets. In the opinion of the Committee, adequate care has not been exercised in this regard with the result that the requirements of working capital of public undertakings have increased.
36.	132	Over-capitalisation has been dealt with in paras 121 to 123. As regards under utilisation of capacity, the Committee suggest that each undertaking should immediately carry out a study for determining the extent of idle capacity, the reasons therefor, the remedial steps required to be taken and the time by which full capacity is expected to be utilised and submit such study to Government. Government should keep a watch over its implementation and also provide such help as might be necessary to the undertakings. In future, wherever there is under

(1)	(2)	(3)
		utilisation of capacity, such study should become a regular feature and the work should be entrusted to the Financial Divisions.
37.	133	The problem of surplus staff will have to be tackled on a nation-wide scale as the category of undertakings with surplus staff is ever on the increase. The Committee have come to the conclusion that assessment of staff made by the undertakings themselves is usually on the high side. Assessment may be made by specialised agencies. After such fixation of staff strength, increase in any category should only be allowed on the basis of increase in production.
38.	134	The difficulty in laying off construction staff after the completion of construction has been a vexatious problem for the public undertakings. Various solutions have been attempted including that of employing them in the production department after some training. This has its own problems because quite often they lack basic skills and as such their productivity is so low as to affect the production and profitability of the undertaking. The Heavy Engineering Corporation Ltd. is a case in point. The Committee therefore recommend that the feasibility of getting civil engineering works done on contract basis, or by National Buildings Construction Corporation or a specialised agency to be created for the purpose may be examined. This will ensure that the construction staff do not become a permanent liability on the project, when construction is over.
39.	135	Labour relations is a delicate subject and has to be handled with care. Judging by the number of undertakings which have been affected by labour trouble, it is obvious that there is need for co-ordinated effort in this regard. The Committee recommend that a study should be made of the reasons for labour trouble in various public undertakings and the steps taken to remedy the situation and improve labour-management relations.

(1)	(2)	(3)
40.	136	The Committee have already referred to the studies made by the Bureau of Public Enterprises. The Committee would recommend that besides the individual undertakings carrying out the studies referred to in the paragraphs 132 to 135, it would be useful if the Bureau undertakes studies on such subjects as losses, low return on investment, idle capacity, labour relations and draw conclusions to enable the Government to take remedial measures.
41.	138	The extent of under-utilisation of capacity in public undertakings is a matter of serious concern. While the circumstances referred to in the preceding para are genuine enough to warrant fresh investment, such cases should be only by way of exception. The Committee would urge that every undertaking should devote all attention to the early achievement of the optimum output. The Committee do not think that demand is changing so fast in the case of the majority of items produced by public undertakings as to render difficult a fairly accurate assessment. If the assessment of the demand is correctly made, there would be no need for changing the product-mix at a later stage. The Committee recommend that great care should be exercised in determining the product-mix which should be based on a thorough assessment of the demand.
42.	140	The Committee feel that it is in the interest of each undertaking to know the investment and return from each of its projects and phases thereof. If this information is not available, adverse trends in the working of the first phase would go unnoticed. Even if separate accounts are not maintained, the undertakings should allocate the expenditure to the respective projects and in the case of common expenditure distribute it on a percentage basis, so as to get a clear picture of the profitability of each phase. Such proforma allocation of expenses is being made by Hindustan Steel Ltd. and it should be possible for the other undertakings also to do the same.
43.	141	The Committee consider that preparation of periodical profit and loss accounts should be considered

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		as one of the main functions of the Financial Divisions. They accordingly recommend that all undertakings should prepare such statements at least quarterly, because only then it will be possible for the management to know the operational results in time and effect adjustments as might be necessary for improving the operational results.
44.	142	Concerted efforts are also called for to increase labour productivity in all the public undertakings. In the opinion of the Committee, the present policy of "neither carrots nor sticks" has not worked very well. The Committee recommend that proper incentive schemes should be worked out for all levels of management staff and labour. Research studies should also be undertaken for groups of undertakings in the same industry. Simultaneously, there should be stricter discipline and public undertakings should not hesitate to dispense with the persistently difficult and recalcitrant staff.
45.	145	The Committee consider that projected profit and loss statements and balance sheets are necessary adjuncts to proper planning of operations of an undertaking. Such statements should be reviewed each year in the light of experience gained during the previous year. No doubt various factors are involved in such calculations and there might be quite a degree of variation which would render close estimates of the profitability forecast a difficult task. But this factor should not deter the undertakings from making as accurate an estimate as possible.
46.	149—150	The policy guidelines referred to in the preceding para were laid down only in January, 1968. The Committee are surprised that it took Government such a long time to lay down the policy guidelines. A perusal of these instructions shows that declaration of dividends should be considered after appropriating funds "to build up reasonable reserves and to augment their internal resources to finance the approved schemes of capital expenditure and/or to meet its immediate financial obligations without much strain".

(1)	(2)	(3)
		The Committee feel that unless the maximum percentage of profits that can be utilised for building up internal resources is laid down, dividends may not be declared for years despite profits. The Committee, therefore, recommend that the maximum percentage of profits that can be utilised for building up internal resources should be indicated so that some minimum portion of the surplus is declared as dividend. The Committee recommend that suitable instructions may be issued to all the undertakings in the light of the above remarks.
47.	151	A view was expressed that there should be a specific instruction or provision in the Articles of Association to the effect that no work should be undertaken without a budget. The Committee are of the opinion that the Government should make it obligatory for undertakings to prepare detailed budget estimates.
48.	152	The Committee consider that it would be in the interest of public undertakings to lay down the procedure and form of budget.
49.	152	The Committee are inclined to think that the balance of advantage would lie in favour of having the analysis of the reasons for variations between budget estimates and actuals done by a section other than that which prepares the budget. They would commend this system to all public undertakings.
50.	154	The Committee feel that if the units concerned are asked to prepare their own budgets, they will be more realistic because they will be prepared by persons with first hand knowledge. Moreover, the units will feel more responsible for adhering to the estimates. The Committee recommend that the system of concerned unit preparing its own budget may be adopted by all the public undertakings. The budgets of the units will of course have to be approved by the Board of Directors at the Head Office.
51.	156-157	The Committee recommend that in order to have better financial control over various activities of the undertaking, all undertakings should prepare subsidiary budgets suited to their requirements. For the

(1)	(2)	(3)
		industrial undertakings, it is necessary to prepare a Sales Budget before fixing the production programme. Based on this programme, the different subsidiary budgets should be prepared and the general budget should be a consolidation of those budgets. Such a break up of the overall budget into subsidiary budgets would render easy an analysis of reasons for variation. A very important subsidiary budget for any undertaking is the Cash Flow statement which is necessary for ensuring optimum utilisation of funds. It aims at forecasting the time of expenditure and makes estimates of sales realisations, realisations of outstandings and utilisation of internal resources, so that only the balance will have to be raised by way of cash credit from banks or loans from Government. This will help in ensuring that the outstandings are not allowed to accumulate and that interest bearing loans or cash credits are restricted to the minimum possible.
52.	160	The Committee are in agreement with the recommendation of the Administrative Reforms Commission that a public undertaking need not be required to submit its revenue target for Government approval unless it is a deficit budget and Government are expected to make up the deficit. They would, however, like to add that as soon as the Budget is approved by the Board of Directors, it should be sent to Government for information.
53.	161	The Committee think that a capital budget should not be looked at from the point of view of funds alone. Even though an undertaking may have created surpluses to finance its capital budget, Government should be satisfied that the undertaking is employing them judiciously. The Committee are therefore of the view that the capital budget should continue to be submitted to Government for prior approval.
54.	165	The Committee agree that the absence of proper checks may lead to premature withdrawal of funds by the undertakings. They however feel that Government had gone to the other extreme of excessive control by allowing release of funds monthly. They

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		consider that both the points of view would be met if the funds are released on quarterly basis. The Committee do not think that it would be advisable to give full freedom to public undertakings to draw upto 90 per cent of the budget amount without reference to the administrative Ministry. As long as they get the required funds released by the Ministry within a reasonable time, there is no need for giving such freedom. Since, under the new procedure, there is no need to consult the Ministry of Finance during the first three quarters, there should be no delay on the part of the administrative Ministry to release funds.
55.	169	The Committee feel that since public undertakings are to function as commercial enterprises in the true sense, they should be given the necessary flexibility in the utilisation of the funds at their disposal. There are of course certain undertakings which produce some specific items necessary for the economic and industrial development of the country. Barring such cases, which involve public interest, and where adherence to the production plan is essential, the other undertakings must be encouraged to bring in a flexible approach in regard to adjusting the production programme in such a way as to earn maximum profits.
56.	171	The whole economic success of any project depends on an efficient and accurate system of cost control. The Committee would, therefore, urge that a proper costing system should be introduced in all public undertakings. Without a proper costing system, it will not be possible to fix the prices correctly and to exercise adequate control over various elements of cost.
57.	172	The Committee further consider that since the detailed project report is the basis of judging the profitability of a project, Government should insist that an estimate of the cost of production must be included in the detailed project report. The vast experience gained so far in establishing and running of industrial projects should be utilised in making

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		available to the consultants/collaborators such data as may be required by them for correctly estimating the cost of production and for making an independent check of the estimate made by them.
58.	173	The Committee note that 35 undertakings have laid down the procedure for costing and some out of them have also evolved proforma cost sheets. The Committee recommend that similar action should be taken by all public undertakings.
59.	175.	The Committee consider that each undertaking will be in the best position to judge whether or not the integrated system of cost and financial accounts would be suited to it. But whatever the system, collection of cost data should be completed as speedily as possible. It will be seen from the statement at Appendix XVI that in a number of undertakings, the compilation of cost data takes more than a month's time, and in some cases it takes as much as three months. Prompt steps for cost reduction can be taken only if full data for cost analysis is readily available. The Committee therefore recommend that the undertakings should gear up their costing organisations so that cost data is compiled by each undertaking within the shortest possible time.
60.	177	The Committee feel that introduction of standard cost is very necessary for exercising effective cost control. The standard cost should be calculated on the basis of normal levels of activity and efficiency and should be reviewed periodically so as to take into account changing conditions. There may be some difficulty in expressing the standard cost in monetary terms, as due to the allround increase in price, standard cost is likely to become out of date very often. The Committee, therefore, consider that it will be advantageous to lay down physical norms for determining standard cost, *i.e.* the quantity of materials that should be consumed per unit of end product, labour hours, machine hours etc. per unit of end product.

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61.	181	The Committee agree that Government should be the ultimate authority to decide the items whose price should be fixed by it. But they feel that it would be in the fitness of things if the method of price fixation is fair to the undertaking concerned.
62.	183	The Committee feel that it is not possible to lay down any uniform method on the basis of which the public undertakings can be asked to determine the prices of their products. Their pricing policy will naturally depend on different selling conditions, such as competitive selling, partial monopoly, total monopoly, selling in public interest, selling only to Government etc. Public undertakings should not, however, lose sight of the basic fact that they must prove to be viable economic units and earn a reasonable return on capital employed so that they could contribute to general revenues.
63.	184	When an undertaking is to sell in a competitive market, market price should be the guiding factor. If, however, the public undertaking is able to produce at a much cheaper rate than the market price, it should set an example by adjusting its price to the level of cost of production plus an adequate return on investment.
64.	185	In the case of partial and total monopoly, the principle of cost of production plus reasonable margin will have to be carefully applied because it will not leave any incentive to reduce the cost of production. Rather, the guaranteed return will be acting as an adverse factor in controlling costs. A suggestion made in this regard is to apply the import-parity price. The difficulty in this method is that Indian conditions differ vastly from conditions in foreign countries and therefore comparison should, more appropriately, be made with the home market price in those countries and not to the landed cost, because not infrequently, export prices are subsidised directly or indirectly.

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65.	186	Quite often public undertakings are given partial or total monopoly in producing certain items as an import substitution measure or for boosting exports. It is but right that when undertakings discharge such responsibilities, they should not be asked to run at a loss by being compelled to sell at prices lower than their cost of production. In such cases, the cost of production and a reasonable margin should be allowed to the undertakings. But to counter any apprehension that it would lead to laxity on the part of the undertakings in controlling costs, the cost of production should be determined by a body of persons which includes some impartial outsiders also. The same considerations apply when the undertakings are required to sell something in public interest at a price lower than the cost of production. In cases where the only buyer is a Government department, the price should not be allowed to exceed the cost of production plus a reasonable margin.
66.	187	The Committee are of the view that in cases where the public undertakings are required to undertake the production of an unprofitable item at the instance of Government, specific directives should be issued by Government to the undertaking concerned.
67.	188	These are only general guidelines. The Committee recommend that the items produced by different public undertakings should be classified into distinct groups and the guiding factors for determining the pricing policy for each group should be laid down by Government having due regard to the consumers' interests.
68.	199-200	The Committee are convinced that the supplementary or test audit of the accounts of public undertakings by the Comptroller and Auditor General in some form or the other is essential to ensure their accountability to Government and Parliament. They feel that the existing arrangements have been working by and large satisfactorily. If some undertakings have ex-

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		perienced procedural difficulties in attending to two audit parties at the same time, these can be solved by greater co-ordination between the Comptroller and Auditor General's office and the statutory auditors. The statutory auditors are responsible for the accuracy of the accounts and for certifying that the balance-sheet and profit and loss account give a true and fair view of the affairs of the company. The Committee find that the scope of the normal audit by the statutory auditors has been considerably enlarged by the directions issued to them by the Comptroller and Auditor General. Normally, therefore, there may be no need for the Comptroller & Auditor General to examine the initial accounts and go over the ground already covered by the statutory auditors. The Committee are of the view that the supplementary audit of the Comptroller and Auditor General should concentrate more on efficiency-*cum*-propriety-audit so that his reports to Parliament give an overall appraisal of the financial working of the undertakings. The Committee further recommend that technical personnel may be associated by the Comptroller & Auditor General with his staff, so that the audit parties may be reinforced in evaluating and appraising efficiency in operation and management of the undertakings. The Committee suggest that a beginning may be made in this direction on an experimental basis.
69.	201	The Committee would not like to express any opinion on the recommendations of the Administrative Reforms Commission regarding formation of Audit Boards. From the evidence before them, it appears that the Government consider it to be a distinct improvement over the present arrangements. During discussions, the major undertakings also appeared to welcome the proposal if it would mean ending the present duality of audit work. The Committee have no doubt that before taking a decision in this matter, the Government will ensure that any new

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		system will not only make audit more purposeful, but also go a step further in making Parliament's control over the public undertakings more effective.
70.	204	An effective system of Internal Audit is an important instrument of financial control. The Committee, therefore, urge that those undertakings which have not so far set up Internal Audit Departments should do so immediately.
71.	205	The review of the accounts of Public undertakings presently done by the Director of Commercial Audit gives a useful analysis of accounts and a limited number of ratios are calculated. Since the review is in the nature of a *post-mortem*, the exercise has limited utility. The Committee have carefully considered the need for proving a mechanism for continuous appraisal of efficiency during the operation of a concern. They feel that internal audit should discharge this function. Besides, quarterly profit and loss accounts should be prepared as suggested in para 141 and they should be analysed and various accounting ratios should be worked out. A considerable amount of information can be gleaned from such ratios and analytical study, which could provide guidelines for effecting improvements in operation and performance. They also assist in identifying areas of weakness and laxity in control. Where feasible inter-unit comparison may also be effected.
72.	206	The Committee are also of the view that functions of an Internal Audit Department should include a critical review of the systems, procedures and the operations as a whole, rather than merely of the accounting work. They are inclined to agree with the idea to associate technically qualified persons with professional accountants and to make internal audit a part of the functions of the management audit team. As regards actual extent and nature of checks to be exercised by the Internal Audit Department, the Committee feel that no uniformity can be prescribed as the checks will depend upon the peculiarity of the

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		organisation and the quality of internal control in each undertaking.
73.	207	The Committee are also of the view that for being effective, it is necessary to give certain amount of independence to the Internal Audit Department within the administrative set-up of the undertaking. They therefore feel that the Internal Audit Department should not function under the person who is responsible for maintenance of accounts, but should be directly under the Financial Adviser, or the Managing Director as the case may be.
74.	209	Considering all aspects of the ffuestion, the Committee are in agreement with the decision to introduce straight line method for providing for depreciation and would recommend its adoption by the undertakings which have not introduced it so far.
75.	210	The Committee note that different undertakings have laid down different rates of depreciation for same class of assets. The Committee consider that for enabling a comparison of the working of public Undertakings, standardisation of the different classes of assets and laying down the rates at which they should be depreciated would be necessary. If for purposes of rates of depreciation, it becomes difficult to treat all public undertakings alike, they should be grouped according to the nature of the industry and uniform rates of depreciation of assets should be made applicable to the undertakings in each group.
76.	212	It will be seen that while smaller undertakings have been given authority to incur capital expenditure upto a higher limit, the limits for bigger undertakings like Air India, Indian Airlines Corporation and Hindustan Machine Tools Ltd. are lower. The Committee recommended that the powers enjoyed by all the undertakings should be reviewed and refixed in such a manner as to bear relationship to the total capital outlay and the annual capital expenditure incurred by an

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		undertaking. Such limits should be reviewed periodically with a view to making suitable adjustments.
77.	214	The Committee recommend that efforts should be made to standardise the financial rules applicable to public undertakings on the basis of the experience so far gained. A Standard Accounts Manual should also be compiled and adopted by the individual undertakings with such modifications as might be considered necessary.
78.	215.	The Committee, therefore, recommend that all public undertakings should use the same account heads in the Account Books as given in the Project Reports as far as possible. In the case of those undertakings where detailed project reports are already in existence, action may be taken to redistribute the expenditure estimated in the detailed project reports under heads used in the account books. The feasibility of drawing up a list of standard account heads under which expenditure should be estimated while preparing a detailed project report may also be examined.
79.	216.	In addition, the account heads should also correspond to the budget heads so that progressive expenditure under each head can be watched against the budget provision and any variation can be promptly brought to the notice of the management.

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