

**COMMITTEE ON PUBLIC
UNDERTAKINGS
(1969-,0)**

(FOURTH LOK SABHA)

FIFTY-SIXTH REPORT

**Action taken by Government on the Recommendations
contained in the Fifteenth Report of the Committee
on Public Undertakings (Fourth Lok Sabha) on
Financial Management in Public Undertakings.**



सत्यमेव जयते

**LOK SABHA SECRETARIAT
NEW DELHI**

December, 1969
Agrahayna, 1891 (S)
Price : Re. 1.70.

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Page	Sl.No. of Recommendation	Line	For	Read
1	Chapter I	13	in	is
3	1	8	nucleus	nucleus
7	8	11	evolved	evolved
8	10	29	-	<u>insert</u> the word "is" before the word "equally"
11	17 & 18	29	-	<u>delete</u> the word "be" occurring after the word "not"
14	24	27	undertakings	undertakings
22	36-37	5 from bottom	death	dealt
22	36-37	2 from bottom	therefore	therefor
26	42	17	interst	interest
32	53	18-19	-	<u>Delete</u> the words "The Boards are also authorised to sanction the Government"
32	53	24-25	Bureau of Public Undertakings	Bureau of Public Enterprises
32	53	26-27	-	<u>Delete</u> "Bureau of Public Undertakings O.M.No. 46/ADV-FIN/BPE/68 dated the 25th September, 1968"

Page	Sl.No. of Recommendation	Line	For	Read
34	60	16	undertaking	undertakings
36	68-69	7 from bottom	of	on
37	68-69	8	proprietary	propriety
42	78-79	4	these	those
42	78-79	5	existence	existence
42	78-79	8-10	Delete the 3rd sentence "The feasibility of drawing upin the accounts books "	
50	Appendix I	6	enterpriss	enterprises
50	"	14	artificially	artificially
80	Appendix XIII	17	inot	into
88	" XVI	Last line	Fesibility	Feasibility
94	" XVIII	5	therefore	therefor
95	" XIX	13	hearing	bearing
96	" XIX	4	noted	note
97	-	1	Appendix XIX	Appendix XX
129	" XXXV	4 from bottom	The	The
137	" X XXIX	15	-	Add the word "total" after the words "percentage to"

Line	For	Read
16	undertaking	undertakings
7 rom bottom	of	on
8	proprietary	propriety
4	these	those
5	existence	existence
8-10	Delete the 3rd sentence "The feasibility of drawing upin the accounts books "	
6	enterpriss	enterprises
14	artificially	artificially
17	inot	into
Last line	Fesibility	Feasibility
5	therefore	therefor
13	hearing	bearing
4	noted	note
1	Appendix XIX	Appendix XX
4 from bottom	The	The
15	-	<u>Add</u> the word "total" after the words "percentage to"

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COMMITTEE ON PUBLIC UNDERTAKINGS
(1969-70)

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3. Shri Bal Raj Madhok
4. Shri K. Ananda Nambiar
5. Shri Vishwa Nath Pandey
6. Shri T. A. Patil
7. Shri G. S. Reddi
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9. Shri Digvijaya Narain Singh
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14. Shri Rajendra Pratap Sinha
15. Shri Dattopant Thengari

SECRETARIAT

Shri S. C. Mookerjee—*Deputy Secretary*

Shri M. N. Kaul—*Under Secretary*

**STUDY GROUP ON ACTION TAKEN REPORTS COMMITTEE
ON PUBLIC UNDERTAKINGS**

(1969-70)

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2. Shri D. Thengari —*Alternate Convener*
3. Shri T. A. Patil
4. Shri G. S. Reddi
5. Shri N. K. Bhatt

SECRETARIAT

Shri S. C. Mookerjee—*Deputy Secretary*

Shri M. N. Kaul—*Under Secretary*

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INTRODUCTION

1. I, the Chairman, Committee on Public Undertakings, having been authorised by the Committee to submit the Report on their behalf, present this Fifty-sixth Report on the Action Taken by Government on the recommendations contained in the Fifteenth Report of the Committee on Public Undertakings (Fourth Lok Sabha) on Financial Management in Public Undertakings.

2. The Fifteenth Report of the Committee was presented to Lok Sabha on the 30th April, 1968. Government furnished their replies indicating the action taken on the recommendations contained in the Report on the 25th September, 8th, 14th and 30th November, 20th and 27th December, 1968, 15th January, 7th May and 29th September, 1969.

3. The replies of Government on the recommendations contained in the aforesaid Report were considered and approved by the Committee on the 15th and 25th November, 1969. The Committee authorised the Chairman to finalise the Report on the basis of the decision of the Committee and present it to Parliament.

4. The Report has been divided into the following five chapters:—

- (i) Report
- (ii) Recommendations which have been accepted by Government.
- (iii) Recommendations which the Committee do not desire to pursue in view of Government's reply.
- (iv) Recommendations in respect of which replies of Government have not been accepted by the Committee.
- (v) Recommendations in respect of which replies of Government are still awaited.

5. An analysis of the action taken by Government on the recommendations contained in the Fifteenth Report of the Committee on Public Undertakings (Fourth Lok Sabha) is given in the Appendix XXXIX. It would be observed therefrom that out of 79 recommendations contained in the Report, 90 per cent have been accepted by the Government and the Committee do not desire to pursue

(x)

3 per cent of the recommendations in view of Government replies. Replies in respect of 7 per cent of the recommendations have not been accepted by the Committee.

M. B. RANA

Chairman,

Committee on Public Undertakings.

NEW DELHI;

December 15, 1969.

Agrahayana 24, 1891 (S)

CHAPTER I

REPORT

A. TRAINING IN FINANCIAL MANAGEMENT

Recommendation (Sl. Nos. 15 and 16) (Para 71 and 73)

In Para 71 and 73 of their 15th Report (4th Lok Sabha) on Financial Management in Public Undertakings, the Committee on Public Undertakings had observed that arrangements made so far for the training of the Financial Advisers had been inadequate. They had recommended that a Central Training Organisation should be set up. In their reply, the Government have stated that the need for training the Financial Advisers, officers and staff of Finance division in the modern techniques of Financial Management and intricacies of commercial accounts is fully recognised. The reply indicates that arrangements are being made so that the public undertakings can take the advantage of the facilities and training courses available at the management and training institutes. In the circumstances, the Government do not consider it necessary to organise a separate Central Training Organisation for training to financial staff of public undertakings. The Committee have considered the reply of the Government. The reasons advanced by the Government for not setting up a Central Training Organisation are not convincing. The Committee had recommended the setting up of Central Training Organisation so that even financial advisers could receive training there. As the modern concepts and techniques of financial management had not received adequate attention in the past, the Committee reiterate their recommendation and would urge the Government to set up a Central Training Organisation of the type contemplated in the Committee's recommendations. The Committee wish to make it clear that they attach great importance to the need for setting up of such an organisation.

B. PRICING POLICY

Recommendations (Sl. Nos. 62 to 65) (Para 183 to 186)

The Committee have considered the reply of the Government to these recommendations. It is noticed that in pursuance of Committee's recommendations, while the Government had issued guide lines for enterprises which operate under monopolistic or semi-monopolistic conditions vide their O. M. No. BPE/46/ADV. F/68/25, dated 27th December, 1968. (Appendix I) the Government had not

prescribed any guide-lines for trading organisations like S. T. C., M.M.T.C. etc.

The Committee emphasise that in so far as trading organisations were concerned the Government should keep in view the recommendations made by the Committee in Para 3.136 of their 51st Report (1968-69) on the State Trading Corporation regarding mopping up of surplus profit by Government. The Committee also emphasise that in other cases referred in Para 3(c) of the O.M. ibid the views of the Tariff Board should also be obtained.

C. IMPLEMENTATION OF RECOMMENDATIONS

The Committee find that in most of the cases, the Bureau of Public Enterprises have only brought the recommendations; observations of the Committee to the notice of Public Undertakings. They desire that the Bureau should watch the actual implementation of the Committee's recommendations by the various public undertakings.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Serial No. 1)

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. (Para 11).

Reply of Government

The observations of the Committee have been brought to the notice of the concerned Ministries and Public Undertakings vide circular No. 46|Adv. F.|BPE|68|1, dated 12th September, 1968 (Appendix II).

(Bureau of Public Enterprises O.M. No. 46|ADV-FIN|BPE|68, dated the 25th September, 1968).

Recommendation (Serial No. 2)

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.

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. (Paras 14 to 16).

Reply of Government

The need for associating at the earliest opportunity the persons who are ultimately to manage the project as its Chief Executive and Financial Adviser is fully recognised. The Chief Executive/Managing Director (Designate) of a public sector undertaking in his capacity as the officer on Special Duty in the Administrative Ministry concerned is being associated from the initial stages of the project and the Financial Adviser will also be brought into position as soon as the stage is reached where there is need to associate him with the planning of the project.

(Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 20th December, 1968).

Recommendation (Serial Nos. 3 & 4)

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.

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. (Paras 19 & 20).

Reply of Government

The observations of the Committee have been brought to the notice of the Ministries/undertakings with the request that (i) in the case of new undertakings to carry on a systematic study to determine the financial set up that would be most suitable to their organisation and (ii) in the case of existing undertakings to take up a detailed review of the existing set up of finance & Accounts Division to consider whether any modifications are called for to make the finance organisation more purposeful and effective, *vide* circular No. 46|Adv.F|BPE|68|2, dated 12th September, 1968 (Appendix III).

(Bureau of Public Enterprises O.M. No. 46|ADV-FIN|BPE|68, dated the 25th September, 1968).

Recommendation (Serial Nos. 5 & 6)

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, re-

commend 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 undertakings could draw, the actual appointment being made by the Board of Directors with the approval of the Government.

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 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 directors [52nd Report of Estimates Committee 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. (Para 33, 36—39).

Reply of Government

The need to have full time Finance Director in large public undertakings is accepted. It has also been recognised that where there are functional directors, the top finance officer should be the Finance Director, and he would be appointed by Government in consultation with the Chairman of the Undertaking. In smaller units where the financial Adviser is not a member of the Board of Directors, it is considered that he could be appointed by the Board of

Directors, and Government need not be consulted on the appointment.

(Bureau of Public Enterprises O.M. No. 46|ADV-FIN|BPE|68, dated the 14th November, 1968).

Recommendation (Serial No. 8)

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 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 Executive 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 the public undertakings 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. (Paras 47—49).

Reply of Government

Noted.

(Bureau of Public Enterprises O.M. No. 46|ADV-FIN|BPE|68, dated the 25th September, 1968).

Recommendation (Serial No. 9)

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. (Para 53).

Reply of Government

The above observations of the Committee have been brought to the notice of the undertakings for appropriate action vide Circular No. BPE|46|Adv. Fin.|68|24, dated 20th December, 1968 (Appendix IV).

(Bureau of Public Enterprises O.M. No. 46|Adv.-Fin|BPE|68, dated the 20th December, 1968).

Recommendation (Serial No. 10)

The Committee consider that it 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. (Para 54).

Reply of Government

These recommendations are accepted and the observations of the Committee have been brought to the notice of the concerned ministries and undertakings vide circular No. 46|Adv. F|BPE|68|3 dated 12th September, 1968 (Appendix V).

[Bureau of Public Enterprises O.M. No. 46|ADV-FIN|BPE|68 dated the 25th September, 1968].

Recommendations (Serial Nos. 11 & 12)

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 services or source from which he is drawn.

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. (Paras 60-61).

Reply of Government

The observations of the Committee in Recommendation No. 11 have been noted.

With regard to observation in Recommendation No. 12 the overlying advantages in absorbing the deputationists in public undertakings are fully recognised. It has been decided that Government officers (excepting Defence personnel) deputed for service in Public Enterprises will be required to exercise an option within a prescribed period of time between the following alternatives:

- (i) Permanent absorption in the Public Enterprise

OR

- (ii) Revert back to the parent cadre.

(Bureau of Public Enterprises O.M. No. 46|ADV-FIN|BPE|68, dated the 8th November, 1968).

Recommendation (Serial No. 13)

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 outputs, 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 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 Adviser plans his work in such a manner as to fulfil them. (Para 64-65).

Reply of Government

The recommendation has been accepted. The observations of the Committee have been brought to the notice of the concerned Ministries and the Undertakings vide circular No. 46|Adv(F)|BPE|69|26, dated the 6th May, 1969 (Appendix VI).

(Bureau of Public Enterprises O.M. No. 46|Adv. Fin|BPE|69|26, dated the 7th May, 1969).

Recommendation (Serial No. 14)

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 undertaking may also introduce such a system in their organisations by getting their staff trained in the bigger undertakings. (Paras 68-69).

Reply of Government

These recommendations are accepted and the observations of the Committee have been brought to the notice of the concerned Ministries and Undertakings vide circular 46|Adv. F.|BPE|68|4 dated the 12th September, 1968 (Appendix VII).

(Bureau of Public Enterprises O.M. No. 46|Adv-Fin|BPE|68, dated the 25th September, 1968).

Recommendations (Serial Nos. 17 and 18)

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.

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 undertakings, 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." (Paras 74 & 75-76).

Reply of Government

While the need for proper training of the Financial Adviser in the modern techniques of Financial Management is fully recognised, it may not be always be feasible to arrange for prior training of the Financial Adviser as an under-study in an undertaking for full six months. In such cases, the undertakings have been advised vide O.M. No. 46|Adv. Fin|BPE|68|23 dated 20th December, 1968 (Appendix VIII) :—

- (a) to depute such Financial Advisers for a period of 2-3 months as an under-study to his predecessor; and
- (b) to arrange for the training of the Financial Adviser soon after his appointment in one of the Management Institutes.

2. With regard to the observations in para 18 above, panels of officers including Government officers having necessary qualifications, experience and training and who are considered suitable for posts in the Finance Division of the public undertakings are being maintained by the Bureau of Public Enterprises to assist the Ministries and Undertakings in selecting suitable officers for appointment in Finance Division in public undertakings.

[Bureau of Public Enterprises O.M. No. 46 Adv.-Fin.|BPE|68, dated the 20th December, 1968].

Recommendation (Serial No. 19)

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 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. (Para 82).

Reply of Government

The observations of the Committee have been brought to the notice of the concerned Ministries and Public Undertakings *vide* circular No. 46|Adv. F|BPE|68|5 dated 12th September, 1968 (Appendix IX).

[Bureau of Public Enterprises O.M. No. 46|Adv.-Fin.|BPE|68, dated the 25th September, 1968].

Recommendation (Serial No. 20 & 21)

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.

“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 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. (Paras 87-88).

Reply of Government

The observation of the Committee has been noted. The Management of HSL is being reorganised and in the reorganised set up there is provision for three functional Directors including the Director (Finance). Appointment of these functional Directors will be finalised shortly. Functional responsibilities of the Finance Director will be detailed by the Board of Directors as soon as the post is filled. A suitable procedure will also be prescribed by the Board of Directors regarding consultation with Director (Finance).

[Bureau of Public Enterprises O.M. No. 46|Adv.-Fin.|BPE|68, dated the 8th November, 1968].

Recommendation (Serial Nos. 22 and 23)

The Committee have outlined the role of the Financial Adviser in paras 42 and 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.

The Committee are of the view that whereas in most cases involving financial implications, 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. (Paras 90 and 97).

Reply of Government

In O.M. No. F. 1(28)E Coord|57 dated 5th July, 1958 (Appendix X) instructions were issued to Public Undertakings that all proposals having financial implications which are placed before the Board of Directors should as a rule have the concurrence of Finance Officer attached to the project and that in cases where there is any difference of opinion, the views of the Finance Officer should also be presented to the Board.

The observations of the Committee have been again brought to the notice of the concerned Ministries and public undertakings for compliance vide Circular No. 46|Adv.F|BPE|68|6, dated 12th September, 1968 (Appendix XI).

[Bureau of Public Enterprises O.M. No. 46|Adv.-Fin.|BPE|68, dated the 25th September, 1968].

Recommendation (Serial No. 24)

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 investment in such undertakings, their achievements and working results should be given so that Parliament can exercise more effective scrutiny before approving the demands. (Para 102).

Reply of Government

The recommendation is accepted. Upto date information on the working of the existing undertakings, as far as possible, will be incorporated in the budget documents whenever demand for additional investment in public undertakings whether in the form of equity or loans, are placed before the Parliament. However, it may not be possible to furnish all the data in the budget documents of the next year.

[Bureau of Public Enterprises O.M. No. 46|Adv.-Fin.|BPE|68, dated the 8th November, 1968.]

Recommendation (Serial No. 25)

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 undertakings, its expected profitability, financial and other obligations. (Page 103).

Reply of Government

The setting up of a new Public Undertaking is treated as a "New Service" which means that investment therein is made after obtaining Parliament's approval thereto either through the Annual Budget of the coming year or through a Supplementary Grant during the course of the year. In urgent cases, advances from the Contingency Fund are taken, but these are recouped by presenting Supplementary Demands to Parliament in accordance with the Contingency Fund Rules. In order to comply with the Committee's recommendation, instructions are being issued as follows:—

- (i) While obtaining approval of Parliament through the annual budget or supplementary demands, detailed information as far as possible on the objectives, scope, capital cost, foreign participation, if any, profitability, and other financial obligations will in future be incorporated in the "Notes on important Schemes" which are appended to the "Volumes of Demands for Grants of the Ministries concerned, or in the Explanation below the supplementary demands as the case may be.
- (ii) In each volume of the Demands for Grants of the Ministries concerned, a separate section will be added which will specifically contain the list of all "New Service" and "New Instruments of service" items included in the budget documents relating to Public Sector Undertakings. This section will show the details of investment either by way of loan or equity in public undertakings, indicating also the references where full details such as the objectives of the new undertakings, their capital cost, foreign participation, financial obligations, profitability, etc., are given in the budget documents. Similar information in respect of new service items will be given in the introductory note to the "Supplementary Demands."

A copy of the Instructions issued is enclosed (Appendix XII).

[Bureau of Public Enterprises O.M. No. 46|Adv.-Fin.|BPE|68, dated the 14th November, 1968].

Recommendation (Serial No. 26)

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.

(Para 112).

Reply of Government

The Committee's observations on equity debt ratio have been noted. The undertakings have been advised that there is no rigidity about the equity debt ratio of 1:1. Each case will be decided on its merits *vide* Cir. No. 46|Adv-F|BPE|68|10, dated 12th September, 1968 (Appendix XIII).

The suggestion that the first half of total investment may be in the form of equity and the other in the form of loan will be kept in view at the time of release of funds to the undertaking.

[Bureau of Public Enterprises O.M. No. 46|Adv.-Fin.|BPE|68, dated the 25th September, 1968].

Recommendation (Serial No. 27)

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 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. (Para 113).

Reply of Government

As regards capitalisation of interest liability the existing instructions provide that the interest on loans during the period of construction will be allowed to be capitalised to the extent of provision made for this purpose in the approved project cost estimates *vide* circular No. F. 7(5)-W&M/66, dated 18th November, 1966 (Appendix XIV).

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68 dated the 25th September, 1968].

Recommendations (Serial Nos. 28, 29, 32 and 41)

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.

(Para 117).

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. (Para 118).

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. (Para 123).

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. (Para 128)

Reply of Government

In order to ensure that proper capital cost estimates are prepared, the procedure has been recently rationalised and instructions issued. These instructions envisage three broad stages prior to plant construction:—

- (a) Project Formulation stage.
- (b) Preparation of a preliminary project report or feasibility study.
- (c) Preparation of Detailed Project Reports.

2. At the project formulation stage for being included in the plan, broad estimates of demand, cost, profitability etc. are gone into to

establish the need for additional investment in that area of activity in public sector.

The need for the preparation of the feasibility studies on the lines indicated in the Manual issued by the Planning Commission in May, 1966 for the preparation of feasibility studies for various projects in the public sector has been also emphasized. The main points to be covered by the feasibility studies are indicated in the Annexure. The feasibility study now forms the basis of investment decision by the Government.

The preparation of the Detailed Project Reports outlines detailed technical information, construction schedules, details of the equipment to be purchased, details of capital costs and operating costs, profitability etc. Where enough data is given in the feasibility study reports, the preparation of a detailed project report may be dispensed with.

In this connection copies of DPM's letter No. 1942-DPM/67 dated 3rd August, 1968 and of D.O. letter No. 3213-SIPF/67 dated 5th August, 1967 to the Ministries connected with public sector projects are enclosed (Appendix XV and XVI). The feasibility studies and the detailed project reports are also examined by the Bureau of Public Enterprises before the investment decisions are taken by the Government. It may be mentioned that the quality of both capital cost estimates and operating cost estimates have shown an improvement after the instructions were issued in last August.

These instructions cover two aspects of (a) a realistic and close assessment of demand so as to avoid under-utilisation of capacities and (b) careful preparation of project estimates so as to avoid later revisions etc.

As recommended under item 28, the Bureau has undertaken also a case-study of some enterprises where there have been frequent large scale revisions of original estimates.

[Bureau of Public Enterprises O.M. No. 46|Adv-Fin|BPE|68, dated the 25th September, 1968].

Recommendations (Serial Nos. 30 and 31)

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 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.

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.

(Paras 119-120).

Reply of Government

The need for the preparation of realistic capital and or expansion estimates for new projects so as to avoid subsequent revisions and the necessity to ensure that there is no laxity on the part of the undertakings in implementation of the schemes are fully recognised.

2. In circular No. 3879/JS(AM) dated 7th October, 1965 (Appendix XVII) while stressing the need for early preparation of Project reports, the Ministries concerned with Public sector enterprises were requested to ensure that:—

- (i) There is sufficient advance planning of projects with preparation of reasonably accurate overall financial estimates which would obviate the need for frequent revision of estimates once sanctioned; and
- (ii) a suitable time table is also prepared by the project authorities at the start and furnished to the Ministries concerned so that the progress of implementation could be watched and measured.

3. Recently the procedure for preparation of project reports has been rationalised and detailed instructions have been issued. These instructions envisage three stages prior to plant construction:

- (a) Project formation stage.

- (b) Preparation of preliminary project report or feasibility study.
- (c) Preparation of detailed project reports.

4. The need for the preparation of the feasibility studies on the lines indicated in the manual issued by the Planning Commission in May 1966 for the preparation of feasibility studies for industrial projects in the public sector was also emphasised. It has also been indicated that the feasibility study should normally be the basis on which investment decision is to be taken by the Government. In this connection copies of DPM's letter No. 1942-DPM/67 dated 3rd August, 1968 (Appendix XV) and D.O. letter No. 3213 SIFP/67, dated 5th August, 1968 (Appendix XVI) containing detailed instructions in this regard are enclosed.

[Bureau of Public Enterprises O.M. No. 46|Adv-Fin|BPE|68, dated the 8th November, 1969].

Recommendations (Serial Nos. 33 and 34)

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 step to resolve these difficulties for the undertakings.

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. (Paras 127-128).

Reply of Government

As regards arrangements for working capital requirements guidelines were prescribed *vide* O.M. No. 2(32)|65-F.I, dated the 16th March, 1967. These guidelines envisage that the enterprises should approach the State Bank of India for Cash Credit facilities for their working capital requirements on the security of their current assets in the first instance failing which they may approach the government for counter guarantees on the security of which ad-

ditional Cash Credit facilities may be secured from the Bank. The difficulties experienced by the Public enterprises in this regard were discussed with the Chairman State Bank of India and most of these have been sorted out. The entire question of affording Cash Credit facilities to meet the working capital requirements of public sector undertakings are being reviewed in the context of the nationalisation of major banks.

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 29th September, 1969].

Recommendation (Serial No. 35)

On their part, the public undertakings should work out their working capital requirements and exercise strict 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. (Para 129).

Reply of Government

The necessity for enforcing strict control over outstandings, inventories and other current assets is recognised and the public undertakings have been advised to review the position from time to time so that the total investment in the working capital is kept as low as possible. A series of instructions have already been issued on the introduction of modern and scientific techniques of materials management. A detailed study of the levels of inventories and the system of Inventory Planning and Control in selected five enterprises has been completed by a special committee set up by the Bureau of public enterprises. Such detailed studies are also being carried out in some more enterprises.

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 29th September, 1969].

Recommendation (Serial Nos. 36-37)

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 therefore, the remedial steps required to be taken and the time by which full capa-

city 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.

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. (Paras 132-133).

Reply of Government

The observations of the Committee have been brought to the notice of the concerned Ministries for necessary action *vide* circular No. 46/Adv.-F/BPE/68/7, dated the 12th September, 1968 (Appendix XVIII).

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 25th September, 1968].

Recommendation (Serial No. 38)

“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.” (Para 134).

Reply of Government

The feasibility of getting the civil engineering works of the public sector undertakings done through established construction agencies of the Government has been examined and in pursuance of the same, Bureau's O.M. No. 156-ADF(C)|Cir-30|68, dated 22nd January, 1968 (Appendix XIX) was issued to the Public Sector Undertakings, commending the advantages that would accrue to the public sector undertakings by utilising the services of a well-established organisation like the Central Public Works Department.

The manner in which greater utilisation of the existing Government construction agencies, such as, the National Buildings Construction Corporation, the National Projects Construction Corporation, the National Industrial Development Corporation, Engineers India Ltd., Hindustan Steel Works Construction Corporation can be encouraged is also under active consideration.

In order to alleviate the difficulties which the Public Sector Undertakings have to face in laying off construction staff after completion of project, they have been requested to send intimation to the Bureau giving full particulars of surplus personnel. Similarly, the undertakings in need of engineering personnel have also been requested to send intimation to the Bureau of their requirements so that surplus personnel could be absorbed as far as possible to prevent unemployment.

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 8th November, 1968].

Recommendation (Serial No. 39)

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. (Para 135).

Reply of Government

It has been agreed that all undertakings should have experienced and trained Personnel/Labour Officers at a sufficiently senior level to look after matters relating to industrial relations. The

above observations of the Committee are being brought to the notice of the undertakings. Case studies of Industrial relations are carried out by the Department of Labour and Employment in a number of Public Sector Undertakings. Such studies deal among other things with causes of friction between the management and labour and reasons for labour unrest, etc. in those undertakings. The reports on such studies are sent to the managements of the Public Undertakings for taking corrective action, wherever necessary. (O.M. No. 46/Adv.Fin/BPE/68/17, dated the 18th September, 1968—Appendix XX).

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 25th September, 1968].

Recommendation (Serial No. 40)

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. (Para 136).

Reply of Government

The Bureau of Public Enterprises has already initiated detailed studies of the performance of the undertakings in collaboration with the representatives of the administrative Ministries to look into the questions mentioned in this recommendation. In these studies, the areas suggested by the Committee are also examined. The studies have revealed the following as some of the causes of low profitability.

- (i) Under utilisation of capacity due to lack of orders.
- (ii) Low productivity due to lack of proper training of the operating and supervisory staff.
- (iii) Adoption of incorrect workshop practices followed.
- (iv) Introduction of incentive schemes before streamlining other areas of activities.
- (v) Lack of adequate control on inventories.

- (vi) Lack of proper cost accounting system in many cases. Even the contribution of each product towards profitability is not ascertained.
- (vii) Non-development of standard costing system by which it becomes difficult to gauge the efficiency of the actual performance.
- (viii) Lack of effective sales organisations and proper pricing policies.
- (ix) Lack of proper budgetary control and performance appraisal to identify the problem areas.

These points are brought to the notice of the Ministry concerned as well as the undertakings for taking necessary remedial action.

These studies are being carried out on a continuing basis.

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 25th September, 1968].

Recommendation (Serial No. 42)

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. (Para 140).

Reply of Government

These recommendations are accepted and the observations of the Committee have been brought to the notice of the concerned Ministries/undertakings for necessary action vide circular No. 46/Adv-F/BPE/68/8, dated the 12th September, 1968 (Appendix XXI).

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 25th September, 1968].

Recommendation (Serial No. 43)

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 when 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. (Para 141).

Reply of Government

These recommendations are accepted and the observations of the Committee have been brought to the notice of the Ministries/undertakings for necessary action *vide* Circular No. 46/Adv.-F/BPE/68/9, dated the 12th September, 1968 (Appendix XXII).

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 25th September, 1968].

Recommendation (Serial No. 44)

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 scheme 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. (Para 142).

Reply of Government

The need for having an effective incentive scheme for public sector undertakings has been recognised. The Bureau has undertaken the study of incentive schemes in operation in industrial enterprises both in India and abroad in order to assist the public undertakings to instal such schemes.

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 25th September, 1968].

Recommendation (Serial No. 45)

The Committee consider that projected profit and loss statement 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. (Para 145).

Reply of Government

The observations of the Committee have been brought to the notice of the Ministries/Undertakings for necessary action *vide* circular No. 46/Adv-F/BPE/68/11, dated 12th September, 1968 (Appendix XXIII).

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 25th September, 1968].

Recommendation (Serial No. 46)

"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".

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 dividends. The Committee recommend that suitable instructions may be issued to all the undertakings in the light of the above remarks. (Paras 149-150).

Reply of Government

Government fully appreciate the spirit behind the above observations of the Committee, but in the context of the wide variety of situations presented by the public sector complex, it would not

be desirable or practicable to lay down any hard and fast rule either in regard to the percentage of the dividends to be declared or the profits to be appropriated to the reserves of the undertakings. However, the above observations of the Committee are being brought to the notice of all the nominees of the Government on the Board of Directors of Public Enterprises with a request that these observations of the Committee should be fully kept in view of the Board of Directors at the time of the considerations of the appropriation of profits towards internal resources and declaration of dividends. A copy of the instructions issued vide D.O. No. BPE|1(14)|Adv.-Fin. 67/dated 20th December, 1968 (Appendix XXIV).

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 25th September, 1968].

Recommendation (Serial No. 47)

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. (Para 151).

Reply of Government

The above recommendation is accepted. While the need for preparing detailed budget estimates had been impressed upon undertakings, and most of them prepare such budget estimates every year for all the items of work to be undertaken in that year, it is not being made obligatory on the public undertakings to ensure that such detailed budget estimates are prepared. The Undertakings have been asked to ensure that these obligations are carried out either by amending the Articles of Association of the company or by such other method as may be necessary *vide* circular No. 46|Adv|Fin/68/20, dated 1st November, 1968 (Appendix XXV).

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 8th November, 1968].

Recommendations (Serial Nos. 48 & 51)

The Committee consider that it would be in the interest of public undertakings to lay down the procedure and form of budget.

The Committee recommend that in order to have better financial control over various activities of the undertakings all undertakings should prepare subsidiary budget 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 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. (Paras 156-157).

Reply of Government

The need for developing a comprehensive budgetary system together with subsidiary budgets, cash flow statement has been emphasised to undertakings vide our circular No. BPE|1(2)Adv. Fin|68, dated 1st March, 1968 (Appendix XXVI).

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 25th September, 1968].

Recommendation (Serial No. 49)

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 undertakings. (Para 152).

Reply of Government

The above recommendation is accepted. The observations of the Committee have been brought to the notice of all Public Undertakings for necessary action vide Circular No. 36|Adv(Fin)|BPE|68|18, dated the 18th September, 1968 (Appendix XXVII).

[Bureau of Public Enterprises O.M. No. 48|Adv-Fin|BPE|68, dated the 25th September, 1968].

Recommendation (Serial No. 50)

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. (Para 154).

Reply of Government

The above recommendation is accepted. The observations of the Committee have been brought to the notice of all Public Undertakings with the request to ensure that in case of multi-unit undertakings budget of the constituent units are prepared separately *vide* Circular No. 46/Adv.9 (Fin)/BPE/68,19, dated the 18th September, 1968 (Appendix XXVIII).

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 25th September, 1968].

Recommendation (Serial No. 52)

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 budget 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. (Para 160).

Reply of Government

The above recommendation is accepted. However, copies of the Revenue Budgets shall continue to be furnished by the public undertakings to the Government and they will be scrutinised from the points of view of production targets, profitability etc., but there would be no need to go into detailed examination of the various items of expenditure.

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 25th September, 1968].

Recommendation (Serial No. 53)

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. (Para 161).

Reply of Government

So far as the approval of Capital Budget is concerned the Board of Directors of the Undertakings have been authorised to sanction capital expenditure, without prior reference to the Government within the specified limits on works and schemes coming within the approved objectives of the undertakings. The Boards are also authorised to sanction capital expenditure in cases where detailed project reports have been prepared with estimates of different component parts of the project and where such project reports have been approved by the Government. The Boards are also authorised to sanction the Government. The Boards are also authorised to sanction expenditure in cases of variations in approved estimates upto 10 per cent for any particular component part provided there is no substantial variation in the scope of the project *vide* circular No. Pr. C. 7-1-61, dated 16th May, 1962 (Appendix XXIX).

(Bureau of Public Undertakings O.M. No. 46|ADV-FIN|BPE|68, dated the 25th September, 1968).

(Bureau of Public Undertakings O.M. No. 46|ADV-FIN|BPE|68, dated the 25th September, 1968).

Recommendation (Serial No. 54)

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 to 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 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. (Para 165).

Reply of Government

The observations of the Committee have been noted.

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 25th September, 1968].

Recommendation (Serial No. 55)

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. (Para 169).

Reply of Government

The need for having a flexible approach in the utilisation of funds to maximise profit has been recognised. So far as the Revenue Budget is concerned the present delegation of powers provide for the necessary flexibility in utilisation of funds, rendering it possible for the Board of Directors to adjust the production programme with a view to maximise profits.

With regard to capital expenditure the Board of Directors have been authorised to sanction capital expenditure in cases where detailed project reports have been prepared with the estimates of different component parts thereof and where such estimates have been approved by Government. The Boards are also authorised to sanction expenditure in cases of variations in approved estimates upto 10 per cent for any particular component part thereof without any reference to Government, provided there are no substantial variations in the scope of the project (Copy of circular No. PRC-7(1)|61, dated 16th May, 1962—Appendix XXIX).

[Bureau of Public Enterprises O.M. No. 46|Adv.-Fin.|BPE|68, dated the 25th September, 1968].

Recommendations (Serial Nos. 56 to 60)

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." (Para 171).

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. (Para 172).

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

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 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. (Para 175).

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. (Para 177)

Reply of Government

The above recommendations are accepted. The need to have an efficient cost accounting system in the undertakings has been recognised and the undertakings were advised from time to time to develop a sound cost accounting system in their organisation. The observations of the Committee have been also brought to the notice of the undertakings urging upon them to develop an efficient cost accounting system where the same has not yet been developed vide Circular No. 46|Adv.-F|BPE|68|12, dated 12th September, 1968. (Appendix XXX).

[Bureau of Public Enterprises O.M. No. 46|Adv.-Fin.|BPE|68, dated the 25th September, 1968].

Recommendation (Serial No. 61)

The Committee agree that Government could be the ultimate authority to decide the items where 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. (Para 181).

Reply of Government

With regard to the above observations, suitable guidelines with regard to the pricing policies to be adopted by enterprises operating under monopolistic or semi-monopolistic conditions have been prescribed for the consideration of the Board of Directors vide O.M. No. BPE|46|Adv.-Fin.|68|25, dated 27th December, 1968 (Appendix I). In respect of other undertakings, it is not considered necessary to lay down general guidelines in regard to the overall pricing policy to be followed by them for the reasons stated in reply to recommendation Nos. 62 to 65.

[Bureau of Public Enterprises O.M. No. 46|Adv.-Fin.|BPE|68, dated the 15th January, 1969).

Recommendation (Serial No. 66)

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. (Para 187).

Reply of Government

In the course of its normal working, the public undertakings may have to take up specific activities which in its opinion would be conducive to its successful functioning. Whether such activities are to

be deemed profitable or not would depend upon the judgment at the level of its Board of Directors and it may not be necessary for the undertaking to report such cases to Government for approval. However, a suitable directive from Government would be necessary in cases where Government themselves desire to entrust an unprofitable activity to an enterprise.

[Bureau of Public Enterprises O.M. No. 46[Adv.-Fin.[BPE]68, dated the 27th December, 1968].

Recommendation (Serial Nos. 68 and 69)

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.

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 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 of an experimental basis.

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.

Reply of Government

The need for having efficiency-cum-proprietary audit of Public enterprises is fully recognised. As recommended by the Administrative Reforms Commission in their report on Public Sector Undertakings, it has been decided by Government to set up Audit Boards for the audit of Public Enterprises. The permanent Audit Board will consist of three permanent members all nominated by the Comptroller & Auditor General and with a Chairman of the rank of an Additional Deputy Comptroller and Auditor General. For each particular sector of the Industry e.g. steel, fertilisers etc. the concerned Ministry would nominate two additional members in consultation and with the concurrence of the Comptroller & Auditor General. The Audit Boards would be under the jurisdiction and control of the C&AG and would be part of C & A.G.'s organisation.

The present system of Audit by statutory auditors would continue. The auditors would work under the direction of the Audit Boards. The C&AG would as at present give directives on the methods of conducting audit on any particular points requiring attention. The statutory auditors would do their normal regularity audit plus any other items under the Directives given to them. The Audit Boards would also do with their own staff efficiency-cum-propriety audit which is at present being done by the Director of Commercial Audit. Wherever possible, however, in order to save multiplicity of audits, these audits could be telescoped to the extent possible. The Comptroller & Auditor General in consultation with the Chartered Accountants is considering issue of further directions to secure this.

In addition to the Annual Audits by the Statutory auditors, the Audit Boards would do a periodical appraisal. The Administrative Reforms Commission has recommended once in every five years but it could be done at more frequent intervals if necessary.

The arrangements under the new system would not detract the Comptroller & Auditor General from his right to undertake any special or supplementary audit if he considers it necessary.

The comments of the audit Boards on the audit of Public Enterprises would be incorporated in the Audit Report (Commercial) placed before Parliament.

[Bureau of Public Enterprises O.M. No. 46|Adv-Fin|BPE|68, dated the 30th November, 1968].

Recommendations (Serial Nos. 70, 72 & 73)

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 Department should do so immediately. (Para 204).

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. (Para 206).

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 Undertakings. 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. (Para 207).

Reply of Government

The need to organise an efficient internal audit Department has been recognised and it was urged upon the undertakings to develop an effective system of internal audit at an early date (Ref. O.M. 9(41)|67F.I., dated 1st September, 1967) (Appendix XXXI). Most of the undertakings have organised the internal audit department. However, the observations of the Committee are being further brought to the notice of the undertakings particularly urging upon those undertakings which have not yet introduced such a system to build up an effective Internal Audit Department and to define their functions. (Copy of circular No. 46/Adv-F/BPE/68/13, dated 12th September, 1969 Appendix XXXII).

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 25th September, 1968].

Recommendation (Serial No. 71)

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 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 from 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. (Para 205).

Reply of Government

The observations of the Committee have been brought to the notice of all Undertakings for necessary action in the matter. The need for having a system for continuous appraisal of performance and efficiency has been recognised. In O.M. No. 46/Adv/Fin/BPE/68/9, dated 12th September, 1968 the Undertakings have been also advised to prepare profit and loss account and balance sheet every quarter and place the same before the Board for their perusal. The Board of Directors of the Undertakings may consider whether the analytical studies referred to by the Committee in the above recommendations be done through the medium of internal audit or any other specialised agency in their organisation. Copy of circular No. 46|Adv.Fin|68|21, dated 2nd November, 1968 Appendix XXXIII).

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated 8th November, 1968].

Recommendation (Serial No. 74)

Considering all aspects of the question, 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. (Para 209).

Reply of Government

The above recommendation is accepted. The undertakings were advised to follow the straight line method for providing depreciation vide circular No. F.3(5)-PC/62, dated 11th April, 1963 (Appendix XXXIV).

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 25th September, 1968].

Recommendation (Serial No. 75)

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. (Para 210).

Reply of Government

At present the rates of depreciation under the straight line method are determined on the basis of the useful life of the assets as suggested by the technical consultants or as may be dictated by their own or other experience. In view of the observations of the Committee action to the standardisation of different classes of assets and laying down the standard rates at which they should be depreciated has been initiated vide circular No. 46/Adv-F/BPE/68/14, dated 12th September, 1968 (Appendix XXXV).

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 25th September, 1968].

Recommendation (Serial No. 76)

It will be seen that while smaller undertakings have been given authority to incur capital expenditure upto a higher limit, the limit 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 in-

curred by an undertaking. Such limits should be reviewed periodically with a view to making suitable adjustments. (Para 212).

Reply of Government

This recommendation is accepted and a *review of the limits of capital expenditure is being undertaken to bring about necessary revisions.

[Bureau of Public Enterprises O.M. No. 46/ADV-FIN/BPE/68, dated the 25th September, 1968].

Recommendation (Serial No. 77)

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. (Para 214).

Reply of Government

It has been already urged upon the undertakings that they should prepare a self-contained Financial Manual containing the Financial and accounting procedures rules, regulations etc. A large number of undertakings have prepared such a manual. The undertakings which have so far not prepared such a manual are being asked to prepare such Financial Manual at a very early date vide circular No. 46|Adv-F|BPE|68|45, dated 12th September, 1968 (Appendix XXXVI).

[Bureau of Public Enterprises O.M. No. 46|ADV-FIN|BPE|68, dated the 25th September, 1968].

*At the time of factual verification of the Report, the Bureau of Public Enterprises have intimated that the review of the limits of capital expenditure has since been conducted and delegation of financial powers to Boards of Managements to incur capital expenditure rationalised vide O.M No. BPE/181(Adv (F)/69, dated the 22nd April, 1969 (Appendix XXXVIII).

Recommendations (Serial Nos. 78 and 79)

The Committee, therefore, recommend that all public undertakings should use the same account heads in the Accounts Books as given in the Project Reports as far as possible. In the case of these 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 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. (Para 215).

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. (Para 216).

Reply of Government

The above observations of the Committee have been brought to the notice of the Ministries|undertakings for necessary action vide circular No. 46|Adv-F|BPE|68|16, dated 12th September, 1968 (Appendix XXXVII).

[Bureau of Public Enterprises O.M. No. 46|ADV-FIN|BPE|68, dated the 25th September, 1968].

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLY

Recommendation (Serial No. 7)

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. (Para 41).

Reply of Government

In view of the development of management accounting techniques, the stress on financial side is to ensure that available resources of men, materials and machines are best utilised so as to maximise profits. The modern techniques of financial management such as standard costing, budgetary control, break-even analysis, inventory management, financial reporting system etc. are more and more being utilised for the proper financial advice. The financial viability of new capital expenditure is also examined after taking into account of the available resources, profitability, return on investment, pay back period etc. In determining pricing policies, or fixing production programme, the financial advice would be more and more based on the accounting data which constitute an integral part of the financial advice.

While at junior levels, officers are earmarked to look after the work of maintenance of accounts and rendering of financial advice, at senior level complete bifurcation may not be feasible as in many cases the officers in charge of maintenance of accounts are also nominated as members of tender Committee etc.

The functions of maintenance of Accounts and of rendering of financial advice are so inter-connected and intermingled that Government feels that on the whole there may be no distinct advantage in bifurcating these functions.

[Bureau of Public Enterprises O.M. No. 46/Adv-Fin/BPE/68, dated the 20th December, 1968].

Recommendation (Serial No. 67)

“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’ interest.” (Para 188).

Reply of Government

With regard to observations in Recommendation No. 67, suitable comprehensive guidelines in respect of those enterprises which are operating under monopolistic or semi-monopolistic conditions have been prescribed *vide* O.M. No. BPE|46|Adv.-F.|68|25, dated 27th December, 1968 (Appendix I). In respect of other undertakings it is not considered necessary to lay down general guidelines in regard to the overall pricing policies to be followed by them, for the reasons stated in reply to Recommendations 62 to 65.

[Bureau of Public Enterprises O.M. No. 46|Adv.-Fin.|BPE|68, dated the 8th November, 1968].

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendations (Serial Nos. 15 & 16)

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.

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. (Paras 71 & 73).

Reply of Government

The need for training the Financial Advisers, Officers and staff of Finance Division in modern techniques of Financial Management and intricacies of commercial accounts is fully recognised. Arrangements are being made so that the public undertakings can take the advantage of the facilities and training courses available at the Management and Training institutes. In the circumstances, it is not considered necessary to organise a separate Central Training Organisation for training the financial staff of public sector undertakings.

[Bureau of Public Enterprises O.M. No. 46|Adv.-Fin.|BPE|68, dated the 20th December, 1968].

Comments of the Committee

Please see para 1 of Chapter I of the Report.

Recommendations (Serial Nos. 62 to 65)

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 attribute to general revenues.

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 level of cost of production plus an adequate return on investment.

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.

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. (Paras 183—186).

Reply of Government

In formulating the guidelines for pricing policies in public undertakings, it has been recognised that public undertakings should be economically viable units and an all out effort should be made to increase their efficiency and establish their profitability at the earliest. It has been decided that:—

- (a) it would not be necessary or advantageous to lay down guidelines in regard to pricing policies to be followed by enterprises which produce goods in respect of which the prices are subject to regulations of a binding type either voluntarily by mutual agreements or due to domestic or international regulations;
- (b) it would not be necessary to prescribe any guidelines for trading organisations like S.T.C, M.M.T.C., etc.,
- (c) so far as the enterprises which produce goods and services in open competition with other domestic private sector producers, the normal market forces of demand and supply would operate and their products will be governed, by and large by the competitive prices prevailing in the market. However, in order to bring a general reduction in the prevailing market prices in the interest of consumers and if the public undertakings are able to produce at a much cheaper cost, the prices to be charged by them will be so adjusted which should normally cover their full economic cost and allow an adequate return on investment.

2. With regard to observations made in Recommendations Nos. 64 and 65, suitable guidelines for the enterprises which operate under monopolistic or semi-monopolistic conditions have been prescribed as contained in O.M. No. BPE/46/Adv.-F/68/25, dated the 27th December, 1968 (Appendix I).

Comments of the Committee

Please see paras 2 and 3 of Chapter I of the Report.

CHAPTER V

**RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF
GOVERNMENT ARE STILL AWAITED**

—Nil—

December 15, 1969.

Agrahayana 24, 1891 (Saka).

M. B. RANA,
Chairman,
Committee on Public Undertakings.

APPENDIX I

(Vide reply to Recommendation at Sr. Nos. 62 to 65)

No. BPE|46|ADV-F|68|25

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

BUREAU OF PUBLIC ENTERPRISES

New Delhi, the 27th December, 1968

OFFICE MEMORANDUM

SUBJECT:—Pricing Policies of Public Enterprises

The pricing policies for public enterprises were recently considered by the Government at the highest level and it has been decided that public enterprises should be economically viable units and an all out effort should be made to increase their efficiency and establish their profitability at the earliest. It was decided that it would not be necessary or advantageous to lay down guide-lines in regard to pricing policies to be followed by enterprises which produce goods in respect of which the prices are subject to regulations of a binding type either voluntarily by mutual arrangements or due to domestic or international regulations. It may also not be necessary to prescribe any guidelines for trading organizations like, STC, MMTC, etc.

2. So far as the enterprises which produce goods and services in competition with other domestic producers, the normal market forces of demand and supply will operate and their products will be governed, by and large, by the competitive prices prevailing in the market.

3. It was, however, felt that it would be useful to have suitable guidelines for those enterprises which operate under monopolistic or semi-monopolistic conditions. In regard to pricing policies to be adopted by such enterprises the following guidelines will be useful for the consideration of their Board of Directors:—

- (a) The pricing of their products should be within the basis of the landed cost of comparable imported goods which would be the normal ceiling (and not on the basis of

- c.i.f. prices). In calculating the landed cost the normal price of such goods in the country of their origin should be taken into account in cases where exports of such goods are subsidised directly. [Please see also under (c) below].
- (b) Within the ceiling of the landed cost, it would be open to the enterpriss to have price negotiations and fix prices at suitable levels for their products which would give them a reasonable return on the capital invested. It was also desirable that the prices so fixed should be operative for a period of 2-3 years.
- (c) Ordinarily, the landed cost should be regarded as the absolute ceiling. If, however, in assessing the landed cost, there are reasons to believe that the imported FOB/CIF prices are artificially low, or in other exceptional circumstances where our own cost of production is very high, it may be necessary to have the prices higher than the landed cost; in such circumstances the matter should be referred to the administrative Ministry concerned for examination in depth in consultation with the Ministry of Finance, Bureau of Public Enterprises, etc.

The Ministry of Industry etc. are requested to bring the contents of this O.M. to the notice of all undertakings under their control for their guidance.

Sd|- P. GOVINDAN NAIR,

*Secretary to the Government of India and
Director General, Bureau of Public Enterprises.*

To

All Ministries & Departments of the Govt. of India.

Copy to:

All Financial Advisers and Dy. FAs. in the Finance Ministry.

APPENDIX II

(vide reply to Recommendation at Sr. No. 1)

No. 46|Adv.(Fin.)|BPE|68|1

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

BUREAU OF PUBLIC ENTERPRISES

Dated New Delhi, the 12th Sept. 1968.

OFFICE MEMORANDUM

SUBJECT: *Financial Management in Public Undertakings—Fifteenth Report of the Committee on Public Undertakings—Set up of financial Division.*

The Committee on Public Undertakings in its Fifteenth Report have observed that as a general rule a well-organised financial division is absolutely essential for the efficient financial management of a public undertaking. It is necessary that a financial division with a nucleus staff should be organised from the time of project stage, so that expert guidance and advice regarding the various proposals is available to the Management in planning the project.

2. The Ministries connected with the public sector enterprises are requested to have the above observations in view at the time of setting up of new undertakings.

3. The Ministry of Industry etc. are also requested to bring the contents of this O.M. to the notice of all undertakings under their administrative control.

Sd|- P. GOVINDAN NAIR,

*Secretary to the Government of India and
Director General, Bureau of Public Enterprises.*

All Ministries/Departments of the Govt. of India.

Copy to the Financial Advisers.

APPENDIX III

(Vide reply to recommendation at Sr. Nos. 3 and 4)

No. 46|Adv (Fin.)|BPE|68|2

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

BUREAU OF PUBLIC ENTERPRISES

Dated. New Delhi, the 12 Sept., 1968.

OFFICE MEMORANDUM

SUBJECT: *Financial Management in Public Undertakings—FIFTEENTH REPORT of the Committee on Public Undertakings—Study of Organisational set-up of Finance Division.*

The Committee on Public Undertakings in its fifteenth report have observed that to determine the set up of finance division which would be more suitable for that Industry, a systematic study of the organisational set up of the finance divisions of comparable enterprises may be undertaken. The economic success of a commercial enterprise greatly depends on the efficiency of the financial divisions, which is expected to examine all proposals, correctly gauge the economics of different activities and feed the management with basic data. In case of new undertakings such a study be undertaken at the time of setting up of the finance division and in case of existing undertakings, they may be requested to review their set up to consider if any modifications are called for, for more efficient, and purposeful functioning of the Finance divisions.

2. The Ministry of Industry etc., are requested to bring the contents of this O. M. to the notice of the undertakings under their control for necessary further action.

Sd|- P. GOVINDAN NAIR.

*Secretary to the Govt. of India and
Director General of Bureau of Public
Enterprises.*

APPENDIX IV

(Vide reply to recommendation at Sr. No. 9)

No. BPE-46|Adv. Fin|68|24

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(Department of Expenditure)

BUREAU OF PUBLIC ENTERPRISES

New Delhi, the 20th December, 1968

Agrahayana 29, 1890 (Saka)

OFFICE MEMORANDUM

SUBJECT: *Financial Management in Public Undertakings—Fifteenth Report of the Committee on Public Undertakings—Field Selection.*

The Committee on Public Undertakings in its Fifteenth report on Financial Management in Public Undertakings have discussed the desirability of Chartered Accountants being employed as Financial Adviser in the Public Undertakings. In this connection, the Committee has made the following observations:

“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.”

2. The Ministry of Industry etc. are requested to bring the above observations of the Committee to the notice of the Public Undertakings under their administrative control for appropriate action.

Sd|P. GOVINDAN NAIR

Secretary to the Government of India and Director General, Bureau of Public Enterprises.

To

All Ministries|Departments etc.
of the Government of India.

Copy to Financial Advisers.

APPENDIX V

(Vide reply to recommendation at Sr. No. 10)

No. 46|Adv (Fin) |BPE|68|3

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

BUREAU OF PUBLIC ENTERPRISES

Dated, New Delhi, the 12th Sept. 1968.

OFFICE MEMORANDUM

SUBJECT: *Financial Management in Public Undertakings—FIFTEENTH REPORT of the Committee on Public Undertakings—field of selection of financial Advisers.*

The Committee on Public Undertakings in its fifteenth report have observed as under:—

“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 of their claims.”

2. The above recommendations have been accepted by the Government. The Ministry of Industry etc., are requested to bring the contents of this O.M. to this notice of the public undertakings under their administrative control for necessary action.

Sd|- P. GOVINDAN NAIR,

*Secretary to the Government of India and
Director General, Bureau of Public Enterprises.*

APPENDIX VI

(Vide reply to recommendation at Sr. No. 13)

No. 46|Adv(F)|BPE|69|26

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

BUREAU OF PUBLIC ENTERPRISES

6th May, 1969.

OFFICE MEMORANDUM

SUBJECT: *Main functions and responsibilities of Financial Advisers.*

The Committee on Public Undertakings in its recommendation No. 13 (copy attached) has recommended that the main functions|responsibilities of the Financial Advisers should be clearly laid down. This recommendation has been accepted by the Government. A note indicating the main functions and responsibilities of the Financial Advisers is enclosed in the attached annexure.

The Enterprises may either adopt the same in toto or make such alterations and adaptations as may be necessary to suit their requirements.

The Ministry of Industry, etc. are requested to bring the contents of this Office Memorandum to the notice of all the Undertakings under their control for appropriate action.

Sd|- A. N. BANERJI,

*Additional Secretary-cum Director
General, Bureau of Public Enterprises.*

To

All Ministries and Departments.

All Financial Advisers in the Ministry of Finance, Expenditure.

MAIN FUNCTIONS|RESPONSIBILITIES OF FINANCIAL ADVISER

The term 'Financial Adviser' used in this note would refer to the Finance Director (or) the Financial Adviser and Chief Accounts Officer, where there is no full time Finance Director, i.e. the top post in the Finance side.

2. The Financial Adviser has both 'staff' and 'Line' functions. Except for exerting line authority over his own department, Financial Adviser fills a staff role which is his major role. The accounting function is usually 'staff' with responsibilities for providing line managers and also other staff managers with specialised services. This includes advice in area of budgeting, controlling, pricing and special decisions. The line functions would include the organisation of his own office to enable him to render the staff functions and also to maintain cost and financial accounts.

3. The Financial Adviser should be recognised as the principal staff officer to the Chief Executive on all financial matters. The Financial Adviser, where there is no full time Finance Director, should invariably be invited to be present at the meetings of the Board of Directors. In many cases there has been delegation of financial powers. For exercising these powers, the Board of Directors may determine matters which will be reserved (i) for concurrence of the Financial Adviser such as (a) proposals requiring the sanction of Government; (b) major proposals involving long term financial objectives or (c) departures from approved plans; (ii) reserved for consultation with the Financial Advisers and (iii) those on which the Financial Adviser need not be consulted.

(N. B. Items mentioned in (1) above is illustrative).

4. The responsibilities of the Financial Adviser *inter alia* include the following:

- (i) Determine the financial resources required to meet the company's operating programme.
- (ii) Forecast how much of these requirements would be met by internal generation of funds by the company and how much will have to be obtained outside the firm;
- (iii) Develop the plans to obtain the external funds needed;
- (iv) Establish and maintain a system of financial control governing the allocation and use of funds;
- (v) Formulate programmes to provide most effective profit-volume-cost relationship.

- (vi) Analyse the financial results of all operations, report the facts to top management and make recommendations concerning future operations;
- (vii) Carry out special studies with a view to reduce costs, improve efficiency and profitability.

5. The above are dealt with in detail here under:—

(a) *Feasibility studies and Project reports*

In regard to capital expenditure relating to new projects or expansions, feasibility studies and detailed project reports are to be prepared by the Management and these should be examined by the Financial Adviser *inter alia* to ensure:

- (i) that the capital expenditure proposed would be in furtherance of the objectives for which the enterprises have been established;
- (ii) that the expenditure proposed to be incurred is reasonable;
- (iii) that the expenditure would result in ensuring reasonable profits;
- (iv) the overall economic viability of the proposal;
- (v) that the financial resources for meeting the expenditure would be available;

(b) *Budgeting*

The Financial Adviser will be the principal coordinating officer for:

- (i) long term operating budgets covering a period of about 10 years indicating the likely profit/loss year by year during the period;
- (ii) Preparation of long term capital expenditure budgets covering a period of about 10 years and advised the management in regard to the timing of the incurrence of capital expenditure.
- (iii) Capital expenditure budget in regard to the capital expenditure that is expected to be incurred during the year.

(iv) **The preparation of the annual operating budget.**

(v) **The budget returns that flow out of the comprehensive budgetary system in operation.**

NOTE.—The long term budgets must be developed on the basis of broad and highly tentative plans and policies and would necessarily be subject to revision from time to time. Nevertheless, it is essential that the enterprises have certain long term objectives. These involve such considerations as sales forecasts, new products, profit objectives, capital additions, reserves, etc. The annual budget brings the current portion of the long term budget into sharp focus.

For the benefit of various levels of management, he would analyse variations between budget figures and the expenditure incurred and comment on the causes that have led to such variations to facilitate the management to control expenditure by the application of the principle of exception.

(c) *Cash flow statement*

Based on the long term budget the Financial Adviser would prepare a cash flow statement indicating the inflow and outflow of cash during the periods. Similarly he will also prepare a detailed monthly cash flow statement for the year based on the annual budgets.

(d) *Working capital*

He will also make an assessment of the total working capital requirements for the fiscal year and advise the management regarding the sources of financing the working capital requirements.

(e) *Purchases*

He will be associated on all matters relating to purchase of equipments, raw materials, etc. He would also lay down suitable procedures for purchases to ensure that adequate control is exercised over such purchases and that there are no uneconomic purchases.

(f) *Pricing policies*

He will also advise the chief executive on the pricing policies to be followed in the organisation in regard to the selling prices of products, inter departmental issues, charging of material to jobs, etc.

(g) Service Conditions

He will advise the management on all service matters having financial implications such as scales of pay, dearness allowance, bonus, gratuity, etc.

(h) Accounting matters

(i) *General*.—He is the principal official in charge of accounts, budgets and internal audit of the Company. He shall maintain or cause to maintain adequate records of assets, liabilities and transactions of the company; see that adequate internal audits thereof are currently and regularly made; and recommend and, in conjunction with other officers and departmental heads enforce duly approved methods and procedures whereby the business of the company shall be conducted with the maximum safety, efficiency and economy. He shall examine all proposed disbursements from the company's funds and approve in advance payments required to be made in accordance with the prescribed administrative and accounting requirements and procedures.

(ii) *Cost Accounts*.—He would also be responsible to ensure that a proper and adequate system of cost accounts is maintained to enable compilation and control of costs. He would also be responsible to review cost of production figures and render periodical reports to the management on such costs of production and how they compare with the standards or norms established. He would also render reports to the various levels of management in regard to the items of expenditure which are under their control. These reports would indicate the actual expenditure incurred and how they compare with the budget|standards.

(ii) *Store accounts*.—He would be responsible for the maintenance of adequate system of store accounts. He would assist the management in determining the minimum, maximum and ordering levels of various items and also be responsible for the introduction and or operation of the ABC method of control with a view to reduce the inventory holdings to the optimum level.

He would also be responsible to ensure that the verification of stocks of various items of stores is carried out by ensuring:

- (a) that physical stock of selected items is verified each day;
- (b) that each item of stock is verified at least once in a year;
- (c) that the surprise element in regard to stock verification is maintained.

(iv) *Internal Audit.*—He will organise an effective Internal Audit department and will process the reports submitted by the Internal Auditor and place the same before the Board through the chief executive.

(v) *Annual accounts and audit.*—He will ensure that the annual accounts are prepared in time according to provisions of law. He will attend to all matters relating to the statutory audit and the audit by the Comptroller and Auditor General.

(vi) *Custody of cash and disbursement.*—He will be the custodian of the cash of the company. He will be the principal disbursing officer and in discharging this duty he will ensure that adequate financial control is exercised over allocation and use of funds in accordance with the approved programme and budgets and with due regard to policies and regulations laid down by the Board.

(vii) *Tax matters.*—He will be responsible for attending to all tax matters relating to the company.

6. SPECIAL STUDIES

(a) He may take up from time to time special studies particularly with reference to cost reduction, economies in administration and other overhead expenditure and such other areas which have a bearing on the profitability of the company. He may also take up for study the administrative, accounting and other procedures prescribed with a view to (i) eliminate unnecessary movement of paper and (ii) reduce clerical work.

(b) To ensure that the public sector undertakings are able to sell their products, without much of a difficulty it is necessary to have continuous market survey for the products manufactured and to be manufactured in the undertaking. He would ensure that such market surveys are in point of fact, being carried out by the management. He would also furnish to the management prospective costs of the products to enable the management to determine the optimum product-mix.

7. REPORTING

Recently a memorandum for the institution of paper reporting system has been issued *vide* Government of India, Ministry of Finance, Bureau of Public Enterprises, D.O. letter No. BPE/7(1)-Adv.-Fin/69, dt. 11th February, 1969. Since this is a very important report, the following quarterly reports included in the reporting system would be the responsibility of Financial Adviser.

- (i) Resources employed.
- (ii) Summary of cash flow for the quarter;
- (iii) Forecast of cash flow for the next quarter;
- (iv) Capital expenditure incurred during the quarter compared with sanctioned amount, Budget Estimates, etc.
- (v) Profit and loss account for the quarter;
- (vi) Ratios of (a) overheads to sales; (b) stocks to sales; (c) debtors to sales; (d) capital employed to sales.
- (vii) Expenditure on specific items of overheads items included therein.
- (viii) Cost of production of items completed during the period together with variations, if any, with standards established.
- (ix) Any other report prescribed by the undertakings relating to financial and cost matters.

The above management reporting should, however, be within the organisation and rendered to the Board of Directors through the Managing Director and the Financial Adviser should rely on the tools and services available within the organisation and a parallel system should not be developed for this purpose.

The Financial Adviser, on the other hand, should also bear in mind the fact that he is a part of the management team and that he has as much responsibility in ensuring best operation of the enterprise as any other principal staff officer of the enterprise. His entire approach to problems of the enterprise should be an integrated one and his efforts should be such as to bring optimum results.

EXTRACT OF RECOMMENDATION 13 OF CPU'S REPORT ON FINANCIAL MANAGEMENT

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, experts 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 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.

APPENDIX VII

(Vide reply to recommendation at Sr. No. 14)

No. 46|Adv. F|BPE|68|4

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

BUREAU OF PUBLIC ENTERPRISES

New Delhi, the 12th September, 1968.

OFFICE MEMORANDUM

SUBJECT:—*Financial management in Public sector undertakings—
Fifteenth Report of the Committee on Public Undertakings—
Management Accounting.*

1. The Committee on Public Undertakings in its fifteenth report have observed that Management Accounting functions have come to be recognised as a highly useful tool in modern Management. Most of the management decisions have financial implications and affects the profitability of the project. To enable the management to take financially sound decisions, they should have to measure all the relevant data before them. For this purpose, it is necessary to develop a sound financial and management reporting system so that the relevant data is collected, analysed, interpreted and placed before the management in time.

2. All public undertakings are requested to take necessary action to introduce the management accounting system in their undertakings as early as possible. In this respect the major undertakings can give a lead for the benefit of smaller undertakings. The Bureau will be prepared to give any assistance required in this regard.

3. The Ministry of Industry etc., are requested to bring the contents of this O.M. to the notice all the undertakings under their

control and impress on them the importance and necessity of developing expeditiously management accounting system in their organisation.

Sd.- P. GOVINDAN NAIR,
*Secretary to the Govt. of India
and Director General of Bureau
of Public Enterprises.*

All Ministries|Departments of the Govt. of India.

All Financial Advisers.

APPENDIX VIII

(vide reply to recommendations at Sr. Nos. 17 and 18)

No. 46|Adv. Fin|BPE|68|23

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

DEPARTMENT OF EXPENDITURE

(BUREAU OF PUBLIC ENTERPRISES)

New Delhi, the 20th December, 1969.

OFFICE MEMORANDUM

SUBJECT:—*Financial Management in Public Undertakings—15th Report of the Committee on Public Undertakings—Training.*

The Committee on Public Undertakings in its 15th Report on Financial Management in Public Undertakings have recommended that 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 Adviser. The need for proper training of Financial Adviser in the modern techniques of Financial Management and intricacies of commercial accounts has been accepted by Government; if, however, it is not feasible to arrange for prior training of Financial Adviser in an undertaking for full six months in such cases, arrangements may be made with the public sector undertakings.

- (a) to depute such Financial Adviser for a period of 2-3 months training as an under-study to his predecessor; and
- (b) to arrange for the training of the Financial Adviser soon after his appointment in one of the Management Training institutes.

2. The ministry of Industry etc. are requested to bring the contents of this office Memorandum to the notice of all undertakings under their control for appropriate action.

Sd|- P. GOVINDAN NAIR,

*Secretary to the Govt. of India
and Director General of Bureau
of Public Enterprises.*

To

All Ministries|Departments of the Govt. of India.
Copy to the Financial Advisers.

APPENDIX IX

(vide reply to recommendation at Sr. No. 19)

No. 46|Adv. F|BPE|68|5

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

BUREAU OF PUBLIC ENTERPRISES

New Delhi, the 12th September, 1968.

OFFICE MEMORANDUM

SUBJECT:—Financial Management in Public Undertakings—Fifteenth Report of the Committee on Public Undertakings—Financial Advisers to attend Board meetings

The Committee on Public Undertakings in its 15th report have observed as under:—

The Committee consider that the issue of instructions (in this connection, please refer Ministry of Finance O.M. No. 3(10)PC/64 dated 13th June, 1966. (copy enclosed) to the effect that 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 of the undertaking 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.

2. This recommendation has been accepted by Government. The Ministry of Industry etc., are requested to bring the above observations to the notice of the undertakings under their administrative control for necessary action.

Sd|- P. GOVINDAN NAIR,

*Secretary to the Govt. of India
and Director General of Bureau
of Public Enterprises.*

To

All Ministries|Departments to the Govt. of India.
Copy to all Financial Advisers.

No. 3(10)-PU|64

GOVERNMENT OF INDIA

BUREAU OF PUBLIC ENTERPRISES

New Delhi, the 13th June, 1966.

OFFICE MEMORANDUM

SUBJECT:—52nd Report of the Estimates Committee (Third Lok Sabha) on Personnel Policies of Public Undertakings.

The undersigned is directed to enclose a copy of the replies furnished to the Lok Sabha Secretariat in respect of Serial Nos. 12, 28, and 29 of the 52nd Report of the Estimates Committee (Third Lok Sabha) for information and necessary action.

Sd|- JUGAL KISHORE,

Under Secretary to the Govt. of India.

To

All Ministries|Departments of the Govt. of India.

Copy, with enclosures, forwarded to all Finance Representatives on Public Undertakings.

Sd|- JUGAL KISHORE,

Under Secretary to the Govt. of India.

Statement showing Action Taken by Govt. on the Recommendations contained in 52nd Report of the Estimates Committee (Third Lok Sabha) on Personnel Policies of Public Undertakings.

Sl. No. in the Report	Reference to para in the Report	Summary of conclusions/recommendations	Governments' reply
12	29	The Committee recommend that the desirability of appointing a full-time Director of Finance in all undertakings except of course the smaller ones, may be examined by Government. In their opinion, an arrangement under which Financial Adviser in a part of the organisation would facilitate better co-ordination.	Full-time Director of Finance will be appointed, wherever it might be considered necessary, having regard to the size, complexity of problems etc. of the undertaking and other factors in other cases. Financial Adviser should attend the meetings of the Boards of Directors.
28	69	
29	70

APPENDIX X

(vide reply to recommendations at Sr. Nos. 22 and 23)

No. F. 1(28)-E(Coord)|57

MINISTRY OF FINANCE

DEPARTMENT OF EXPENDITURE

New Delhi, Dated the 5th July, 1958.

OFFICE MEMORANDUM

SUBJECT:—Financial and accounting arrangements in projects, companies and corporations.

The undersigned is directed to refer to this Ministry Office Memoranda noted in the margin on the subject noted above and to state that the suggestion made in those letters were the subject of No. 570-E. (Coord) 57 dated 11-2-57 discussion with some of the principal Ministries concerned with Government companies and Corporations. During those discussions agreement was arrived at on most points and the substance of that agreement is recorded in the succeeding paragraphs. It is requested that the measures proposed there may be implemented at an early date.

(1) Paragraph 4(1) of the Office Memorandum dated 11-2-57

In this paragraph, there is a provision that "the delegation of substantial powers of expenditure to executive organisations will be made only where the primary safeguards necessary, viz., the existence of adequate financial and accounting arrangements and the right of the local Finance or Finance-cum-Accounting Officer to submit his views for consideration at higher level in cases of major differences of opinion exist". In this connection, it is requested that the Managing Directors of the Companies, Corporations etc., with which the Ministry of Commerce & Industry etc. are concerned, may be informed that all proposals having financial implications which are placed before the Board of Directors should as a rule, have the concurrence of the Finance Officer attached to the Project. In case there is any difference of opinion, the views of the Finance Officer should also be presented to the Board.

(2) Appointment of the Finance and Finance-cum-Accounting Officer (Paragraph 4(2) of O.M. dated 11-2-57 and O.M. dated 1-7-57)

The proposal that the appointment of Finance or Finance-cum-Accounting Officer in each Company or Corporation should be approved by the Finance Ministry, the appointment being subject to review by the Finance Ministry from time to time, has been accepted by other Ministries. In the Office Memorandum of 1st July, 1957, the question whether the Articles of association of the bodies concerned should be amended to provide for the appointment of the Financial Adviser in consultation with and subject to the review of the Government of India in the Finance Ministry was raised. In this connection, it has been pointed out that, in the constitution of the Hindustan Steel (P) Ltd. a provision has been made to the effect that the President may appoint Financial Advisers and Chief Officers for such term and at such remuneration as he may think fit and may from time to time remove him or them from office and appoint another or others in his or their place or places' *vide* relevant extracts of the Articles of Association enclosed. It has been agreed that a similar provision should be incorporated in the constitutions of the other projects, where at present there is no such provision. It is requested that, if there be no objection, steps may kindly be taken accordingly and the results intimated to this Ministry. In making actual appointments of Financial Advisers and Chief Accounts Officers, the Finance Ministry will continue to be consulted as hitherto.

(3) Paragraph 4 (3) of the Office Memorandum dated 11-2-57.

This paragraph deals with the submission of monthly and quarterly reviews to the Government of India by the Finance Officers of companies, corporations etc. and the forwarding of copies thereof to the Secretary to the Ministry of Finance. Certain Ministries have raised the question whether such reports should be sent on the responsibility of the Finance Officer himself or whether they should be submitted through the Board of Directors with their full authority. The undersigned is directed to state that the Ministry of Finance would have no objection to the reports being submitted through the Board of Directors, should that be considered necessary. It is requested that suitable steps may be taken for the preparation and prompt supply of the prescribed reports, where this is not already being done.

The question as to what changes, if any, should be made in the existing forms of reports and in their periodicity is expected to be discussed at the forthcoming meeting of Financial Advisers of projects to be held in August, 1958.

(4) Paragraph 5 of the Office Memorandum dated 11-2-57

The suggestion for the preparation of a self-contained financial hand book for each project, has been accepted by all concerned. It is requested that steps may be taken for the early preparation of such handbooks. Five copies of the handbook for each project, when ready, may kindly be supplied to this Ministry.

(5) Paragraph 6 of the Office Memorandum dated 11-2-57

In this paragraph, reference has been made to a proposal that all units of the Government of India, including autonomous organisations, should be inspected periodically by officers deputed from the Ministry of Finance, such inspecting teams including Cost Accounts Officers, where necessary. In this connection, it is clarified that it has always been the intention of the Finance Ministry that such inspections, when decided upon, would be arranged only with the full knowledge and cooperation of the administrative Ministries. Some Ministries have urged that the scope of such inspections should not be restricted to financial matters only and should also cover other aspects such as general efficiency. It has accordingly been agreed that the administrative Ministries in charge of different projects may themselves initiate action for the appointment of inspection teams at suitable intervals in consultation with the Ministry of Finance.

In this connection, attention is also invited to the Planning Commission's Office Memorandum No. Coord (1)9|57 dated the 28th February, 1957 regarding the coordination of the work of such inspection teams with the work of the Committee on Plan Projects.

2. In the Articles of Association of Government owned|controlled companies, there is generally, though not variably, a provision that any particular matter of importance may be reserved for consideration by Government and not finally decided upon by the Board. In all such cases, the decision of Government will necessitate the concurrence of the Ministry of Finance, where financial implications are involved. It is requested that the administrative Ministries may examine the existing provisions in the Articles of the undertakings with which they are concerned with a view to

seeing how far they are adequate from the point of view of financial control. It is requested that the results of the examination may kindly be intimated to the Ministry of Finance as early as possible.

Sd|- N. N. Wanchoo,
Secretary to the Govt. of India.

To

All Ministries|Departments of the Government of India,
Cabinet Secretariat, Planning Commission.

No. F. 1 (28)-E (Coord)|57.

- (i) All Heads of Divisions in the Department of Expenditure.
- (ii) All attached financial Advisers in the expenditure Department (Civil).
- (iii) Defence Division (AFA) (Coord).
- (iv) Departments of EA and Revenue.

Sd|- K. Sankaran.
Under Secretary to the Govt. of India.

ANNEXURE

Extracts from the Articles of Association of the Hindustan Steel (Private) Limited.

- 97 (a) The President may appoint General Manager or Managers or Financial Advisers and Chief Accounts Officers for such term and at such remuneration as he may think fit and may from time to time remove him or them from Office and appoint another or others in his or their place or places.
- (b) Subject to the approval of the President, the Board may from time to time entrust to and confer upon a General Manager or Managers or F. A. and C. A. O. for the time being such of the powers as they may think fit and may confer such powers for such time and to be exercised for such objects and purposes and upon such terms and conditions and with such restrictions as they may think expedient and may from time to time, revoke, withdraw, alter or vary all or any of such powers.

APPENDIX XI

(*vide* reply to recommendation at Sr. No. 22 and 23)

No. 46|Adv. F|BPE|68|6

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

BUREAU OF PUBLIC ENTERPRISES

New Delhi, the 12th September, 1968

OFFICE MEMORANDUM

SUBJECT:—*Financial Management in Public Undertakings—Fifteenth Report of the Committee on Public Undertakings—Consultation with Finance.*

The Committee on Public Undertakings in its Fifteenth Report have observed as under:—

“In order to enable the Financial Adviser discharge, his functions effectively it is necessary that he is consulted on all matters having a financial bearing even when no immediate expenditure is involved. It will not only keep him well posted but also infuse in him a sense of participation in him.

The Committee are of the view that whereas in most cases involving financial implications, 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 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.”

The recommendations of the Committee have been accepted by Government. The F.A. should be recognised as principal Adviser to the Chief Executive on all financial matters. In this connection attention is also invited to Para 1(1) of O.M. No. F. (1)28-E(Coord) | 67 dated 5th July 1958 wherein it was mentioned that all proposals having financial implications which are placed before the Board of Directors should as a rule have the concurrence of the finance officer attached to the project and that cases where there is any difference of opinion, the views of the finance officer should also be presented to the Board.

Sd| P. GOVINDAN NAIR,
*Secretary to the Govt. of India and
Director-General, Bureau of
Public Enterprises.*

All Ministries|Depts. of the Govt. of India.
Copy to Financial Advisers.

APPENDIX XII

(*vide* reply to Recommendation at Sr. No. 25)

P. GOVINDAN NAIR

SECRETARY (EXPENDITURE)

D.O. No. 46|ADV (F)|BPE|68-22

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

BUREAU OF PUBLIC ENTERPRISES

New Delhi, the 13th November, 1968.

My dear.

The Committee on Public Undertakings in its 15th Report on Financial Management in Public Undertakings has made the following observations with regard to the approval by Parliament of the capital outlay proposed to be made during the financial year on the existing public sector undertakings as well as in respect of new ones proposed to be set up.

Recom. No. 24

"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 investments in such undertakings, their achievements and working results should be given so that Parliament can exercise more effective scrutiny before approving the demands."

Recom. 25

"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 undertakings, its expected profitability, financial and other obligations."

2. The replies furnished to the Committee are reproduced below:—

“The setting up of a new public undertaking is treated as a “new service” which means that investment therein is made after obtaining Parliament’s approval thereto either through the annual budget of the coming year or through a supplementary grant during the course of the year. In urgent cases, advances from the Contingency Fund are taken, but these are recouped by presenting supplementary demands to Parliament in accordance with the Contingency Fund rules.

While obtaining approval of Parliament through the annual budget or supplementary demands, detailed information as far as possible on the objectives, scope, capital cost, foreign participation if any, profitability and other financial obligations will be incorporated in the “Notes on important Schemes” which are appended to the Volumes of Demands for Grants of the Ministries concerned, or in the explanations below the supplementary demands as the case may be.

In each Volume, the Demands for Grants of the Ministries concerned, a separate section will be added which will specifically contain the list of all “New Service” and “New instruments of Service” items included in the budget documents relating to public sector undertakings. This section will show the details of investment either by way of loan or equity in public undertakings indicating also the references where full details such as the objectives of the new undertaking, their capital cost, foreign participation, financial obligations, profitability etc. are given in respect of new service items will also be given in the introductory note to the “Supplementary Demands”.

3. In order to give effect to the proposed procedure the following may be noted.

Existing undertakings.—Alongwith the budget proposal regarding additional investment either in the form of equity or loans in an existing undertaking, a brief write up may be sent to the Budget Division of the Finance Ministry detailing up-to-date information on the performance of the undertaking, which may *inter-alia* include:

- (i) The total capital cost the project showing also the expenditure incurred up-to-date including the utilisation of internal resources for the purpose. Any likely increase in the capital cost may be also indicated.
- (ii) The total investment in the undertaking by way of loan or equity, showing also the repayment of loans, if any.
- (iii) The physical progress of the construction activities, erection of plant and machinery, township etc. and the likely date of the completion of the project and commencement of production.
- (iv) Information relating to expansions that may have been undertaken or are proposed to be undertaken in the immediate future.
- (v) Production achievements in physical terms together with a comparison of the level of previous year's production, etc. and
- (vi) Dividends, if any declared.

NEW OR PROPOSED UNDERTAKINGS

The setting up of new public undertakings is treated as a 'new service' which means the investment therein is to be made only after obtaining Parliament's approval thereto either through the annual budget of the coming year or through a supplementary grant during the course of the year. (In urgent cases advances from the Contingency Fund are taken, but these are recouped by presenting supplementary demands to Parliament in accordance with the Contingency Fund Rules). While obtaining the approval of Parliament whether through the annual budget or through supplementary demands, it will be necessary to give detailed information in the "Notes on important schemes" which are appended to the volumes of the "Demands for Grants" of the Ministries concerned or in the explanations below the supplementary demands as the case may be. In order to incorporate full information in this regard in the budget documents, it is requested that alongwith the demands for investment either in the form of equity or loan in new public undertakings a brief write up may please be sent to the Budget Division of the Finance Ministry indicating the information on the following points:—

- (a) Objectives of the proposed undertaking and its scope;

- (b) Demand assessment and details of product mix and its capacity;
- (c) Location of the undertaking;
- (d) Foreign collaboration, if any;
- (e) Capital cost estimates, together with foreign exchange components;
- (f) The likely dates of completion of project and commencement of production;
- (g) Estimates of Profitability; and likely return on capital employed when the project achieves full rated capacity production; and
- (h) Cost benefit analysis.

4. I shall be glad if you will kindly ensure that detailed information on the lines suggested above is invariably sent in future to the Budget Division of the Finance Ministry alongwith the demands for investment in public undertakings for incorporation in the Budget|Supplementary Demands documents.

Yours sincerely,

P. GOVINDAN NAIR.

APPENDIX XIII

(vide reply to Recommendation at Sl. No. 26)

No. 46|Adv.-F|BPE|68|10

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

BUREAU OF PUBLIC ENTERPRISES

New Delhi, the 12th September, 1969.

OFFICE MEMORANDUM

SUBJECT: 15th Report of the Committee on Public Undertakings on Financial Management—Equity debt ratio.

The question of equity debt ratio for financing the projects in public sector undertakings has been engaging the attention of the Government. In circular No. 9(28)|9.II|61 dated 13th June, 1961, the Ministries concerned with Public sector undertakings were advised that unless there were exceptional reasons to the contrary the equity debt ratio should be 1:1. Since then this matter has been gone into by the Committee on Public Undertakings in their 15th Report on Financial Management in public undertakings. They have recommended that rigidity may be avoided in applying the ratio of 1:1 to all public undertakings. If the undertakings made out a strong case for a different equity debt ratio, due consideration will be given on merits. Since the equity debt ratio has a direct bearing on the profitability, the assumptions made in this regard in financing the project should be clearly indicated in the feasibility study reports and detailed project reports together with the reasons for such assumptions so that at the time of examining the feasibility report, this question may be also gone into and necessary decisions taken.

Sd|- P. GOVINDAN NAIR,

*Secretary to the Government of India and
Director General, Bureau of Public Enterprises.*

To

All Ministries & Departments of the Govt. of India.

Copy to all Financial Advisers.

APPENDIX XIV

(*vide* reply to recommendation at Sr. No. 27)

No. F. 7(5)-W&M|66

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

DEPARTMENT OF ECONOMIC AFFAIRS

New Delhi, the 18th November, 1966.

OFFICE MEMORANDUM

SUBJECT: *Loans and advances to Industrial Undertakings in the Public Sector—Terms and Conditions of—*

The undersigned is directed to invite a reference to this Department O.M. No. F. 7(2)|W&M|65 dated the 1st May, 1965 wherein interest rates on loans advanced by the Central Government from 1st May, 1965 and general principles governing their terms and conditions were communicated to all Ministries|Departments. These instructions, which were extended upto 30th September, 1967 *vide* this Department O.M. No. F. 7(4)|W&M|66 dated the 19th September, 1966, prove that the period of loans to public sector undertakings should be restricted to 15 years; that repayments of principal should commence after a period to be determined with reference to each project, that interest payments should be payable from the first anniversary of the drawal of loans and that the loans should be repayable in equal annual instalments.

2. The question of amending the above terms so as to provide an incentive to the public sector industrial undertakings to complete their projects in time and according to estimates and also to avoid the need for further loan assistance to them to meet their interest and repayment obligations has been carefully examined. It has been decided that, in supersession of the earlier instructions referred to in para 1, the following instructions may be followed by Ministries|Departments in laying down terms and conditions of loans to projects which are yet to commence and for which loans terms have not been decided and communicated as on the date of issue of this Memorandum (whether such projects be for new installations or for expansion of existing installations):—

- (i) The terms and conditions of loans should be fixed with reference to the financial picture presented in the approved

project report. Once the pattern is settled, there should be no change except with the specific concurrence of the Department of Economic Affairs for reasons to be stated in writing. It is, therefore, essential that the financial projections in the project reports are made with realism.

- (ii) The capital requirements of a project should include adequate provision for interest payment on borrowings during the period of construction (as specified in the Project Report). The interest on loans due during the period of construction will be allowed to be capitalised to the extent of the provision made for this purpose in the approved project report. The payment of interest should commence immediately after the construction period is over, in other words once the construction period is over there should be no capitalisation of interest dues.
- (iii) The present rules regarding the period of moratorium in the repayment of principal (which is subject to a maximum of 5 years from the date of drawal of the loans and is allowed upto 2 years from the date of project going into production or in the case of programmes of expansion upto 2 years from the date of expanded project coming into operation) will no longer apply. In the case of fresh loans, the repayment of principal should commence one year after the project commences production. Requests for further moratorium will be considered only in exceptional cases where the project report has specified any special circumstances that may necessitate a longer period or moratorium and has indicated clearly what staggering of repayment would be needed over the necessary break period.
- (iv) The repayment of principal should be made in annual equal instalments, the number of instalments being determined with reference to the financial projections and repaying capacity specified in the project report.

3. Past cases wherein the terms and conditions of loans have already been prescribed will not be reopened.

Sd/- A. G. KRISHMAN,
Deputy Secy. to the Govt. of India.

APPENDIX XV

(*vide* reply to recommendation at Sr. No. 28, 29, 32 and 41)

No. 1942-DPM|67

DEPUTY PRIME MINISTER,
INDIA

New Delhi, August 3, 1967.

My dear

The question of improving the planning of industrial and mining projects in the public sector, and of streamlining the procedures for examination and sanction in my Ministry, has been engaging my attention for some time. The criticisms that have been voiced in many quarters, of the low returns earned by public sector plants, could have been avoided to a considerable extent if there had been a better understanding of the economics of investment proposals at the time that approvals were given to them. In accurate and generally exaggerated estimates of demand, lack of attention to the problems of economic location, plant size and product-mix, inadequate appreciation of the importance of estimating outlays and incomes over time, and the absence of any real analysis of the benefits and costs of a project to the economy as a whole, are some of the deficiencies in project-planning and appraisal.

2. With a view to eliminating these deficiencies and ensuring a thorough study of all factors relevant to project selection, the Planning Commission issued a Manual in May 1966 for the preparation of Feasibility Studies for industrial projects in the Public Sector. The Manual in its final form was issued after discussion with the Ministries concerned, and I am informed that there was broad agreement on the need for such studies.

3. I am sure demand studies, studies of alternative plant-size and product-mix, estimates of fixed and operating costs, and of the phasing of investments—and summing up these factors by way of profitability and cost-benefit analysis—are essential pre-requisites for wise investment decisions. Since all these studies have to be undertaken in any case, rather than doing these piecemeal, it should be an advantage in every case to prepare a full Feasibility Study on the lines indicated in the Manual. Such a Feasibility Study would help not only the Administrative Ministry in project selec-

tion but would also speed up consideration of the project by the Finance Ministry, since all the data necessary for an economic appraisal would be available at the same time.

4. Although the Manual was issued more than a year ago, it is noticed that project reports which are being received not only do not cover the requirements prescribed in the Manual but lack even basic essential data. The result would be a repetition of the mistakes we have made in the past, apart from the very considerable delay that would ensue due to references and cross-references between the Ministry of Finance, administrative Ministries, and project authorities concerned. I would, therefore, like to underline the absolute need for the preparation of proper Feasibility Studies as indicated in the Manual—even if it is not possible to adhere strictly to the letter of the Manual, maximum effort should be made in this direction. I shall be grateful if you could kindly look into this matter personally and impress this need to the officials in your Ministry and the project authorities concerned. An Annexure is attached which summarises the main points to be covered in the Feasibility Study.

5. It is my intention that the Feasibility Study should normally be the basis on which an investment decision can be taken by Government. Prior to the approval of the Study by the Finance Ministry, no expenditure should be incurred on a project other than the outlay on preparing the study itself. After an investment decision has been taken, and even prior to the preparation of detailed cost estimates, if there is urgency, administrative Ministries would be able to obtain Finance's clearance to specific items of preliminary expenditure such as land acquisition and the site preparation etc. Budget provision for the new project would also normally be made only after approval of the Feasibility Study.

6. The Feasibility Study will be followed by the preparation of a detailed project report or of detailed cost estimates based on full process design and engineering. Formal expenditure sanction to the project as a whole will be given after examination of the detailed project report|detailed cost estimates. Once such sanction has been given, the project authorities can incur expenditure according to the approved estimates without further reference to Government. At present, it sometimes happens that projects are commenced before the detailed cost estimates have been approved. In such cases, the project authorities are unable to exercise their powers to sanction expenditure and have to come up to Government for approval

of individual items. Apart from the fact that such piecemeal sanctioning defeats the objective of cost control and hinders any overall view of the entire project, it also means procedural delays in the Administrative and Finance Ministries.

7. The procedure that I have outlined here for feasibility studies and detailed project reports should not only help Government to avoid the sort of mistakes in planning projects that have occurred so far, but also lessen administrative delays among the various Ministries. As a corollary I should like to emphasise that once the outline of the sectoral programmes in the Plan are settled, the Ministries should take up the formulation of projects immediately. As soon as there is general agreement with the Planning Commission and the Finance Ministry on the need for a project, the administrative Ministry should undertake or commission the preparation of feasibility studies. For most of the projects likely to be undertaken during the Fourth Plan period, approvals and financial sanctions have been issued. For the few projects which remain, it is desirable that feasibility studies should be completed, and appraised by the Ministry of Finance as soon as possible. On account of the constraint on resources, investment on new projects has had to be slowed down somewhat in 1966-67 and 1967-68. The shortfall in agricultural production and slowing down of the rate of growth in the economy generally make it necessary for us to undertake fresh assessments of the demand for most commodities, including capital goods. This reassessment of demand should not be restricted to the period upto 1970-71, but should be projected forwards beyond the Fourth Plan period, to enable Ministries to formulate investment projects for the Fifth Plan, on which it may be necessary to undertake some outlay before 1970-71.

With kind regards,

Yours faithfully,
Sd/- MORARJI DESAI.

Addresses of DPM's letter dated 3rd August, 1967.

- (1) Shri Fakruddin Ali Ahmed, Minister of Industrial Development and Company Affairs, New Delhi.
- (2) Shri Asoka Mehta, Minister of Petroleum and Chemicals and Planning, New Delhi.
- (3) Prof. V. K. R. V. Rao, Minister of Transport and Shipping, New Delhi.
- (4) Dr. M. Channa Reddy, Minister of Steel, Mines and Metals, New Delhi.

- (5) Dr. Ram Subhag Singh, Minister of Parliamentary Affairs and Communications, New Delhi.
- (6) Copy to Dr. Dhananjayaram Gadgil, Deputy Chairman, Planning Commission, New Delhi.

ANNEXURE***Main points to be covered in a Feasibility Report*****1. Demand Study**

Requirements as estimated for the 5 years plan period.

Present and anticipated production.

Present imports.

Export potential.

Price elasticity.

Pattern and location of demand.

Time phasing of demand.

2. Technical Features

Process selection.

Plant size.

Raw material requirements.

Product-mix.

3. Location

In relation to raw materials.

In relation to market.

Transport, Water supply, power, etc. facilities available.

Alternative locations study and comparative advantages.

Detailed site studies undertaken.

4. Project Estimates (Capital Cost)

Construction Cost (as at page 112 of the Manual).

Foreign exchange component of capital cost, giving details of inescapable imports of plant and machinery.

5. Project Estimates (Operating and production costs)

Working capital (as at page 117 of the Manual).

Direct costs of production, overhead or Indirect costs.

Depreciation and residual value.

6. Profitability and Cash Flow Analysis

Pages 128 to 130 of the Manual.

Application of investment criteria.

7. Cost-Benefit analysis

APPENDIX XVI

(vide reply to recommendations at Sr. Nos. 28, 29, 32 and 41);

P. GOVINDAN NAIR

D.O. No. 3213-S (IPF) 67.

FINANCE SECRETARY
(Insurance & Plan Finance)
GOVERNMENT OF INDIA
MINISTRY OF FINANCE

New Delhi, the 5th August, 1967.

The Deputy Prime Minister has written to your Minister separately (copy enclosed) on the planning of industrial and mineral projects in the public sector, emphasising the need for the preparation of adequate feasibility Studies. *Mutatis Mutandis* his observations also apply to Central project in the field of Power and Transport.

2. My limited purpose in addressing you is to set out the mechanics of consultation with the Finance Ministry up to the stage of issue of a detailed financial sanction for the project. It has been the case that Administrative Ministries have had to secure clearances from different Departments of the Ministry of Finance before a project was approved. Apart from the time taken in separate references, this procedure for seeking clearances leads to avoidable duplication of effort and sometimes results in conflicting advice being tendered.

3. It is proposed to rationalise the arrangements for seeking the approval of the Ministry of Finance to new projects (including major expansion schemes) so that there will be only one focal point in the Finance Ministry for reference at each stage of a project. Broadly, the stages prior to plant construction are:—

- (1) Project formulation on the basis of the Five Year Plan.
- (2) Preparation of a preliminary project report or feasibility study.
- (3) Preparation of a detailed project report.

4. The first stage—of planning or project formulation—begins usually with sectoral studies for the Five Year Plan, and should end with the commissioning of one or more Feasibility Studies.

Besides the Administrative Ministry (which should take the initiative), the Planning Commission and the Finance Ministry are also vitally concerned with this initial stage of consideration, when the need for additional investment in the public sector has to be established, and the scope for such investment is determined in broad terms. The Departments of Expenditure and Economic Affairs in the Finance Ministry both being concerned with project formulation, it has been arranged that a joint unit will be functioning for this purpose in the Ministry, under my charge, consisting of the Joint Secretary in Economic Affairs (at present Shri Ajit Mazoomdar) and the Director (Capital Budget) in the Department of Expenditure (at present Shri R. Ganapati). I would request that Shri Ajit Mazoomdar, or in his absence Shri Ganapati, may be associated as a representative of the Finance Ministry, in all discussions preliminary studies etc., undertaken by your Ministry at the planning stage of new projects. When it is decided that a Feasibility Study is to be commissioned, the approval of your Financial Adviser has to be sought for the expenditure involved.

5. When the Preliminary Project Report or Feasibility Study has been prepared, on the lines indicated in the Planning Commission's manual entitled "Feasibility Studies for Public Sector Projects", it should be referred (enclosing at least four copies) to your Financial Adviser. From this stage onwards, the Financial Adviser will be the focal point for all references and he will be responsible for arranging such consultations as may be necessary with his colleagues in other parts of the Finance Ministry, including the Bureau of Public Enterprises and the Department of Economic Affairs. The Financial Adviser will then indicate to you the considered view of the Finance Ministry as a whole on the investment proposal. We shall try to set a time limit to the consideration of Feasibility Studies in this Ministry.

6. If at this stage particular sources of external credit have to be explored for financing the project in question, the Department of Economic Affairs, in the appropriate division, should be consulted, keeping the Financial Adviser informed.

7. When a Feasibility Study has been accepted, and the investment approved in principle, the further action which will follow will be—

- (i) Commissioning of a Detailed Project Report or preparation of detailed engineering designs and cost estimates.
- (ii) Sanction to preliminary expenditure.

(iii) Initial budget provision.

Your Financial Adviser will continue to be the sole point of reference at the stages following the investment approval. It will be for him to consult the Bureau or any other agency, while scrutinising the DPR or detailed cost estimates. The Financial Adviser will be responsible for conveying to you the view of this Ministry as a whole so far as the detailed estimates are concerned.

8. I hope this procedure will meet with your approval, and that you will ensure that the stages are understood by your officers.

Yours sincerely,
P. GOVINDAN NAIR.

APPENDIX XVII

(*vide* reply to recommendations at Sr. Nos. 30 and 31)

No. 3879|Js(AM)

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(DEPARTMENT OF COORDINATION)

New Delhi, the 7th October, 1965.

OFFICE MEMORANDUM

SUBJECT:—*Early preparation of project reports; avoidance of change in the scope of projects at a late stage; necessity of preparation of reasonably accurate financial estimates and time tables of progress.*

While examining the causes for delays in aid utilisation in the public sector the Committee on utilisation of external assistance under the chairmanship of Dr. V. K. R. V. Rao emphasized the need for early preparations of project reports for each project considered to be *prima facie* feasible observing that a major cause of delay had been the change in the scope of the projects at late stage, they recommended that such changes should be avoided. They also recommended that the project should prepare reasonably accurate overall financial estimates in advance and that a suitable time-table should also be prepared at the start, against which progress should be measured. Government have accepted these recommendations. The Ministry of Industry etc. are accordingly requested to ensure that:

- (a) once the *prima facie* feasibility of the project is established the preparation of the detailed project reports should be completed without undue delay.
- (b) there is sufficient advance planning of projects with preparation of reasonably accurate overall financial estimates which would obviate the need for frequent revision of estimates once sanctioned;

- (c) A suitable time table is also prepared by the project authorities at the start and furnished to the Ministries concerned so that the progress of implementation could be watched and measured.

Sd/- AJIT MOZOOMDAR,
Joint Secretary.

To

All the Ministries of Govt. of India.

APPENDIX XVIII

(vide reply to recommendations at Sr. Nos. 36 and 37)

No. 46|Adv-F|BPE|68|7

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(BUREAU OF PUBLIC ENTERPRISES)

New Delhi, the 12th September, 1968.

OFFICE MEMORANDUM

SUBJECT:—*Financial Management in Public Undertakings—Fifteenth Report of the Committee on Public Undertakings—Study to determine under utilisation of capacity and fixation of staff strength.*

The Committee on Public Undertakings in its fifteenth report have observed as under:—

“As regards under-utilisation of capacity, the Committee suggest that each undertaking should immediately carry out 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, where there is under utilisation of capacity, such study should become a regular feature and the work should be entrusted to the financial divisions.”

“The problem of surplus staff will have to be tackled on a nation wide scale as a 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.”

2. The recommendations of the Committee have been accepted by Government. The Ministry of Industry etc., are requested to advise the undertakings under their control to (i) determine the extent of idle capacity in their respective undertakings, the reasons therefore and the remedial measures required and (ii) have assessment of staff strength by specialised agencies and determine the extent of surplus staff.

3. It is also requested that the Bureau may be informed of the findings of such studies in due course.

Sd/- P. GOVINDAN NAIR,
*Secretary to the Govt. of India
& Director-General of Bureau of
Public Enterprises.*

APPENDIX XIX

(*vide* reply to recommendation at Sr. No. 38)

No. 156-Adv (c) | Cir-30 | 68

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(DEPARTMENT OF EXPENDITURE)

BUREAU OF PUBLIC ENTERPRISES

Dated, New Delhi, the 22nd January, 1968.

OFFICE MEMORANDUM

SUBJECT:—*Agency for execution of construction works in the Public Sector Projects.*

The selection of a suitable construction agency by the Public Sector Undertakings has an important bearing on the proper execution of civil works economically and according to schedule. The practice that has been obtaining hitherto in the Public Sector Undertakings is that the undertakings had either to resort to setting up their own elaborate engineering/architectural organisations, and/or engage private architects for execution of civil works.

2. In view of the limited period of the construction phase in the public sector projects, it is difficult to get well-qualified and suitable persons of the right calibre to man the architectural/engineering organisations. The projects which set up their own organisations were subsequently faced with the problem of retrenchment of nearly 80 per cent of their staff after the construction phase was over. In cases where private architects are engaged, the services rendered by them are limited. As such, the main burden regarding selection of suitable site, carrying out of surveys, preparation of preliminary and detailed estimates, procurement of stores, execution of works, payment to contractors, maintenance of accounts and satisfying audit etc., still vest in the undertakings in so far as the construction works are concerned, thus detracting the management from their main objective of overall co-ordination of various items of works, personnel management and production planning.

3. It would be very desirable therefore if a responsible and well-established organisation can be utilised to undertake the execution of construction works and all its connected problems, and work

under the overall direction of the management. The Ministry of Works, Housing & Supply have intimated that the CPWD is now in a position to undertake such civil construction works all over India. The attached note gives detailed information on the various types of services that can be had from the CPWD and which are not usually available with any other agency. It would be observed from the note that Public Sector Undertakings stand to benefit to a considerable extent by entrusting their civil construction works to the CPWD and would also be free from the problems referred to in para 2 above. In the matter of cost also, CPWD charges would appear to be favourable, if note is taken of all the services rendered by them and the overall cost, which an undertaking would have to incur on such services normally. This is because of the fact that CPWD charges are based on actuals without any profit element. The need of having to set up an elaborate engineering and architectural organisation and consequent problem of retrenchment would also be obviated. All that would be needed in the undertaking is a Technical Liaison Officer at an appropriate level. The CPWD is prepared to spare the services of a suitable officer for this purpose also. It would thus appear that it would be in the overall interest of Public Sector Undertakings to entrust civil construction works to the CPWD.

4. The Ministry of Industrial Development and Company Affairs, etc., are kindly requested to bring this to the notice of the public sector undertakings under their control.

Sd/- P. GOVINDAN NAIR,
 Secretary to the Government of
 India and Director-General,
 Bureau of Public Enterprises.

To

All Ministries/Departments of the Government of India.
 All FAs in the Deptt. of Expenditure.

APPENDIX XIX

(Vide reply to recommendation at Sr. No. 39)

No. 46/Adv. (Fin)/BPE/68/17

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(BUREAU OF PUBLIC UNDERTAKINGS)

New Delhi, the 18th September, 1968.

OFFICE MEMORANDUM

SUBJECT:—*Committee on Public Undertakings—15th Report on Financial Management in Public Undertakings—Employer-employee relations.*

The Committee on Public Undertakings in their 15th Report on Financial Management in Public Undertakings have observed as under:—

“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 coordinated 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.”

2. The Government of India have always been attaching a great deal of importance to labour-management relations in public sector undertakings. The recommendations of the Parliamentary Committee such as the Estimates Committee and Tripartite Conferences and the meetings of Heads of Public Undertakings have been carefully considered and suitable action taken to effect improvement in industrial relations in the public sector. The Industrial Relations Machinery in the States as well as at the centre have been endeavouring to promote harmonious industrial relations either through the process of law or through the voluntary instruments like the code of Discipline. Besides, the Implementation and Evaluation Division in Department of Labour and Employment Conducts Case studies of the industrial relations and implementation of labour laws in the

public sector undertakings; such studies are proposed to be undertaken in each public sector unit once in three years. The reports on the studies are sent to the administrative Ministries and the managements so that corrective action, wherever necessary, could be taken up by the managements concerned. The concerned State Governments are also requested to ensure that such corrective action is taken.

3. The Ministry of Industrial Development and Company Affairs etc. are requested to bring to the notice of Heads of Public Sector Undertakings under their charge the contents of this O.M. for suitable action in the matter.

Sd/- P. GOVINDAN NAIR,
*Secretary to the Government of
India and Director-General,
Bureau of Public Enterprises.*

To

All Ministries|Departments of Government of India.

Copy to Financial Advisers.

APPENDIX XXI

(Vide reply to recommendation at Sr. No. 42)

No. 46|Adv-F|BPE|68|8

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(BUREAU OF PUBLIC ENTERPRISES)

New Delhi, the 12th September, 1968.

OFFICE MEMORANDUM

SUBJECT:—*Financial Management in Public Undertakings—Fifteenth Report of the Committee on Public Undertakings—Exhibition of Capital outlay on First Phase and expansion Projects.*

The Committee on Public Undertakings in its fifteenth report have observed as under:—

“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.”

2. It has been decided by Government that in respect of multi unit undertakings Profit and Loss Accounts and Balance Sheets be prepared separately for each unit by allocating the common expenditure on an equitable basis.

3. The Ministry of Industry etc. are requested to bring the contents of the O.M. to the notice of all undertakings for their compliance.

Sd|- P. GOVINDAN NAIR,
*Secretary to the Government of
India and Director-General,
Bureau of Public Enterprises.*

To

All Ministries|Departments of Government of India.

Copy to Financial Advisers.

APPENDIX XXII

(Vide reply to recommendation at Sr. No. 43)

No. 46|Adv-F|BPE|68|9

GOVERNMENT OF INDIA
MINISTRY OF FINANCE

(BUREAU OF PUBLIC ENTERPRISES)

New Delhi, the 12th September, 1968.

OFFICE MEMORANDUM

SUBJECT:—*Committee on Public Undertakings Fifteenth Report on Financial Management in Public Undertakings—Quarterly Profit and Loss Accounts and Balance Sheets.*

The Committee on Public Undertakings in their 15th Report on Financial Management in the Public Undertakings have observed as under:—

“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.”

2. The Government has accepted the recommendation and it is necessary for the undertaking to prepare a quarterly profit and loss account, balance sheet and cost data to enable the Management to review the performance of the undertaking so that necessary timely remedial measures are taken.

3. The Ministry of Industry etc. are requested to bring the contents of this O.M. to the notice of the undertakings under their control for necessary compliance.

Sd|- P. GOVINDAN NAIR,
Secretary to the Government of
India and Director-General,
Bureau of Public Enterprises.

To

All Ministries|Departments of Government of India.
Copy to Financial Advisers.

APPENDIX XXIII

No. 46|Adv-F|BPE|68|11

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(BUREAU OF PUBLIC ENTERPRISES)

New Delhi, the 12th September, 1968.

OFFICE MEMORANDUM

SUBJECT:—*Financial Management in Public Undertakings—15th Report of the Committee on Public Undertakings—Projected profit and loss account and balance sheet.*

The Committee on Public Undertakings have suggested that projected statements are necessary for proper planning of operations of an undertaking. At present some undertakings are preparing projected profit and loss account and balance sheet for a period of 5—10 years. Such projected profit and loss account 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 variations which would render close estimates of the profitability forecast difficult. But this factor should not deter the undertakings from making as accurate estimate as possible.

2. The Ministry of Industry etc. are requested to advise the undertakings under their control to prepare projected profit and loss account and balance sheet for atleast a period of five years and review the same each year in the light of experience gained during the previous year.

Sd|- P. GOVINDAN NAIR,
*Secretary to the Government of
India and Director-General,
Bureau of Public Enterprises.*

To

All Ministries/Departments of Government of India,
Copy to Financial Advisers.

APPENDIX XXIV

(vide reply to recommendation at Sr. No. 46)

D.O. No. BPE1 (14)-Adv. Fin. 67

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

DEPARTMENT OF EXPENDITURE

BUREAU OF PUBLIC ENTERPRISES

New Delhi, the 20th December, 1968.

Dear Shri,

SUBJECT:—*Dividend policy.*

With a view to enable the undertakings to adopt a sound policy towards the appropriation of profits and declaration of dividends, certain guidelines were prescribed in my letter of even number dated the 19th January, 1968. This question has been recently examined by the Committee on Public Undertakings and they have made the following observations in their 15th Report on Financial Management in Public Undertakings:—

“The Committee feel that unless the maximum percentage of profit 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 profit that can be utilised for building up internal resources should be indicated so that minimum portion of the surplus is declared as dividend.”

While in the context of the wide variety of situation presented by the public sector complex it may not be desirable to prescribe any hard and fast rule about the percentage of the dividend to be declared (or) the profits to be appropriated to the reserves; all the same Government attaches a great importance to the spirit behind the observations made by the Committee and would like that atleast a minimum portion of the surplus is invariably utilised for the declaration of dividends. Within the framework of the guidelines conveyed in earlier letter referred to above, Government representatives on the Board may be requested to ensure that the interest of

the Government as a shareholder is fully kept in view by the Board of Directors at the time of considering the appropriation of profits towards internal resources and for declaration of dividends.

2. I shall be grateful if the contents of this circular are kindly brought to the notice of all officers of your ministry serving on the Boards of Public enterprises. The nominees of the Finance Ministry serving on the Boards of public enterprises are also being instructed accordingly.

Yours sincerely,

Sd/- P. GOVINDAN NAIR,
*Secretary to the Government of India and Director-General,
Bureau of Public Enterprises.*

To

All secretaries concerned with management of Public Undertakings.

Copy to:

Financial Advisers.

APPENDIX XXV

(vide reply to recommendation at Sr. No. 47)

No. 46|Adv.F|BPE|68|20

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

BUREAU OF PUBLIC ENTERPRISES

New Delhi, the 1st November, 1968.

OFFICE MEMORANDUM

SUBJECT:—*Financial Management in Public Undertakings—15th Report of the Committee on Public Undertakings—Preparing Detailed Budget Estimates.*

The Committee on Public Undertakings in their 15th Report on Financial Management in Public Undertakings have observed as under:—

“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.”

The above recommendation has been accepted. While the need for preparing detailed budget estimates had been impressed upon the undertakings and most of them prepare such budget estimates every year for all items of work to be undertaken in that year; it is now being made obligatory on the Public Undertakings to ensure that such detailed budget estimates are prepared. The undertakings are advised to ensure that these obligations are carried out either by amending the Articles of Association of the Company or by such other method as may be necessary.

The Ministries concerned with Public Enterprises are advised to issue necessary instructions to all undertakings under their control in this regard.

Sd/- P. GOVINDAN NAIR

*Secretary to the Govt. of India and Director General,
Bureau of Public Enterprises.*

To

All Ministries|Departments to the Government of India. Copy to the Financial Advisers.

APPENDIX XXVI

(vide reply to recommendation at Sr. Nos. 48 & 57)

No. BPE/1(2)/Adv-Fin./68

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(DEPARTMENT OF EXPENDITURE)

(BUREAU OF PUBLIC ENTERPRISES)

Dated New Delhi, the 1st March, 1968.

OFFICE MEMORANDUM

SUB. *Budgetary control in Public Undertakings.*

An effective mechanism of financial management and control can be built up only on a sound comprehensive budgetary system. Budgeting *inter alia* includes planning and preparation of both physical and financial targets; appraisal and reporting. Budgeting is essentially a managerial process and it should not be looked upon solely as an instrument providing a basic for obtaining funds or providing a ceiling for expenditure by those who are authorised to spend. The budget in case of public undertakings is a plan covering all phases of operation and a programme of action for a definite period in the future. It enables the management to review the actual performance as compared with the promise and intentions.

2. In case of industrial and commercial public undertakings, it is desirable to have a comprehensive budget to embrace the entire organisation to cover all the activities. The budgets prepared by the public undertakings may be divided as follows:—

- (i) *Revenue budgets*.—Budget of Income and Expenditure of Revenue Account.
- (ii) *Capital expenditure budget*.—Budgets covering proposals of acquisition and disposal of fixed assets including sources from which such expenditure is expected to be financed.
- (iii) *Cash budgets*.—Cash receipts and disbursements in a given period.

(i) *Revenue Budget*.—The Revenue Budget should be treated as a plan for the formulation of policies and for laying down the expected standard of performance. It should be prepared in a form which is intelligible to those who examine or approve the estimates and to those who utilise it as a standard for judging performance as compared to estimates.

The Revenue Budget should be composed of

- (a) Sales and Income Budget.
- (b) Production budget showing separate schedules of:
 - (i) Inventories.
 - (ii) Materials requirements or purchases.
 - (iii) Manpower requirements.
 - (iv) Manufacturing expenses (such as power, fuel, water services etc.)
 - (v) Overhead estimates indicating plant maintenance, depreciation etc.
- (c) Research and Development estimates.
- (b) Production budget showing separate schedules of:
 - (i) Interest on loan and working capital.
 - (ii) Township and welfare expenditure.
 - (iii) Establishment expenses.
 - (iv) General Office and Miscellaneous Expenses.
- (e) Selling costs.

The budgetary process should be a two-way process, the submission upwards of estimates for different units and the transmission downwards of provisions decided upon at higher levels. Once the budget is made the provision should be treated as firm but not fixed. A certain amount of flexibility should be built in the budget process to enable the modifications of budget provisions during its currency. The figures of actual performance would be compared with those estimated in the budget at periodical intervals preferably at the end of each quarter.

(ii) *The Capital Budget*.—The Ministries some time back were advised that detailed feasibility reports should be prepared which should contain both technical assessment and economic viability of

the projects. In this connection attention was invited to the Manual issued by the Planning Commission on the preparation of feasibility studies for industrial projects in public sector. They were also advised that major changes in the scope of the projects at a later stage should be avoided and that reasonably accurate overall financial estimates and a suitable time-table should be prepared at the commencement of the project against which the actual progress could be measured. The feasibility study should normally be the basis on which the approval for the capital budget is to be based. Within the framework of the overall capital budget the annual budget for capital expenditure may be prepared. The actual results should be periodically compared with the budget with a view to determine whether there has been any delay in the progress of work and whether the expenditure incurred commensurate with the progress achieved. Wherever necessary remedial measures to avoid delays and increase in costs be taken.

(iii) *Cash Budget*.—The Cash Budget is an integral part of a comprehensive budgetary system. It enables a balance to be maintained between the available cash and cash demanding activities and consists of two parts viz:—

- (i) Forecasts of cash receipts; and
- (ii) Forecasts of cash disbursements.

The cash Budget enables the assessment of working capital requirements and the ways and means position of an undertaking.

Appraisal and Reporting.—One of the important object of a comprehensive budgetary system is that the actuals should be compared with the budgeted figures at periodical intervals and variations ascertained. The expenditure budgets in general may be reviewed at least twice a year so that the management may be apprised of how expenditure is progressing and may make wherever necessary, modifications before the end of the year. It is suggested that the profit and loss account and the Balance Sheet of an undertaking should be prepared every quarter and placed before the Board of Directors for their perusal.

2. Apart from comparing the financial figures the physical targets should be also compared monthly|quarterly and the reasons for the variations be gone into carefully. Similarly the sales figure needs to be reviewed every year. It is suggested that the cost of production statements should be prepared every month|quarter and checked with the standards assumed at the time of preparation of the budget, and the causes of variations investigated in detail.

Budget Manual.—It is requested that public undertakings may be requested to compile a comprehensive Budget Manual to include the forms for compiling the basic information necessary for the preparation of a budget, time schedule indicating all stages from the start of budget preparation to its approval, the responsibility| cost centres, financial powers related to budgetary levels and the constitution and functions of the Budget Committee. The Budget Manual may also give details of periodical budgetary reviews for exercising budgetary control. The reporting procedures and the channel of communications between the various levels of management may be also indicated in the manual. In the preparation of the Budget Manual the Bureau of Public Enterprises will be able to assist the undertakings as it may be deemed necessary.

There should be close link between the budget heads and financial and cost accounting heads so that the reconciliation of the figures between the budget and the financial and cost accounts at periodical intervals is easy.

It is requested that a comprehensive budgetary system may be adopted by all industrial and commercial undertakings as early as possible in the organisations. The Bureau of Public Enterprises may be informed of the action taken in this regard. The Ministry of Industrial Development and Company Affairs etc. are requested to bring the contents of this Office Memorandum to the notice of all public undertakings under their administrative control for necessary action.

Sd| P. GOVINDAN NAIR,

Secretary to the Government of India and Director-General, Bureau of Public Enterprises.

All Ministries|Departments of the Government of India. Copy to all Financial Advisers in the Department of Expenditure.

APPENDIX XXVII

(*Vide* reply to recommendation at Sr. No. 49)

No. 46|Adv.(Fin)|BPE|68|18

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(BUREAU OF PUBLIC ENTERPRISES)

New Delhi, the 18th September, 1968.

OFFICE MEMORANDUM

SUBJECT: *Committee on Public Undertakings—15th Report on Financial Management in Public Undertakings—Study of Budget Variations.*

The Committee on Public Undertakings in their 15th Report on Financial Management in Public Sector Undertakings have made the following observations:—

“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 prepare the budget. They would commend this system to all public undertakings.”

2. The above recommendation has been accepted. The advantage of having the analysis made by section other than that responsible for budget preparation is that it would be more effective and independent. All Public Undertakings are advised to keep the above observations of the Committee in view while deciding the agency to analyse the reasons for variations between budget estimates and actuals.

3. The Ministry of Industrial Development and Company Affairs etc. are requested to bring the contents of this O.M. to the notice of

all Undertakings under their control for necessary action in the matter.

Sd/- P. GOVINDAN NAIR,

*Secretary to the Government of India and Director-General,
Bureau of Public Enterprises.*

To

All Ministries/Departments to the Government of India.

Copy to Financial Advisers.

APPENDIX XXVIII

(Vide reply to recommendation at Sr. No. 50)

No. 46/Adv. 9 Fin./BPE/68/19

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(BUREAU OF PUBLIC ENTERPRISES)

New Delhi, 18th September, 1968.

OFFICE MEMORANDUM

SUBJECT:—*Committee on Public Undertakings—15th Report on Financial Management in Public Undertakings—Budget Estimates.*

The Committee on Public Undertakings in their 15th Report on Financial Management in Public Undertakings have made the following observations:—

“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 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.”

2. The above recommendation is accepted. It has been brought to the notice of Government that in respect of some multi-unit undertakings the budget estimates for the constituent units are at present not being prepared separately by the units themselves. The Ministries concerned are requested to advise all public undertakings under their control to ensure that the budget estimates for the

constituent units are prepared separately by the respective units themselves and the same be placed before Head Office and the Board of Directors for consideration and approval.

Sd/- GOVINDAN NAIR,

*Secretary to the Government of India and Director-General, Bureau
of Public Enterprises.*

To

All Ministries/Departments to the Government of India.

Copy to Financial Advisers.

APPENDIX XXIX

No. Pr. C. 7(1)-61

GOVERNMENT OF INDIA

MINISTRY OF COMMERCE & INDUSTRY

New Delhi, the 16th May, 1962.

To
The Chairman/Managing Directors of Public Sector Undertakings
(as listed in the Annexure).

SUBJECT: *Delegation of powers to Board of Directors, to incur capital expenditure.*

Dear Sir,

In pursuance of the decision of Government on the recommendations of the V. K. Krishna Menon Committee the existing procedure under which the Boards of Directors of Companies have to reserve for the decision of the Central Government any programme of capital expenditure exceeding certain specified limits (as have been laid down in the respective Articles of Association) has been reviewed. In order to provide for expeditious execution of works and schemes by the Government Companies it has been decided that the Boards of Directors of Government undertakings may be delegated powers to sanction capital expenditure in cases where Detailed Project Reports have been prepared with estimates of different component parts of the Project and where such Project Reports have been approved by Government. In such cases it will ordinarily not be necessary for the Boards of Directors to obtain Government's sanction to the incurrence of capital expenditure. In the case of variation in approved estimates which are not more than 10 per cent for any particular component part the Board of Directors would also be authorised to proceed with the work without further reference to Government provided there is no substantial variation in the scope of the project. The aforesaid delegation will also cover invitation to and acceptance of tenders relating to works included in the Detailed Project Report.

2. It would thus be appreciated that the early preparation of a detailed Project Report will greatly facilitate the execution and implementation of a Project. It is, however, recognised that some

works may have to be taken up in advance of the preparation of a Detailed Project Report or otherwise as individual works. To facilitate this the existing powers of the Boards of Directors to incur capital expenditure have been reviewed and enhanced as per Annexure to this letter. The Boards of Directors may authorise, without prior reference to Government the incurrence of capital expenditure within these limits on works and schemes coming within the approved objectives of an undertaking.

A monthly statement of capital expenditure sanctioned in this manner should be furnished to Government for their information.

Yours faithfully,

Sd/- S. RANGANATHAN,

Secretary.

Copy forwarded for information to:—

1. The Ministries of the Government of India concerned with public sector undertakings.
2. All the Industries Sections concerned with public sector undertakings, in the Ministry of Commerce and Industry.
3. The Ministry of Finance (C&I Division) with reference to their Diary No. FA(C&I) Office No. 1148/62 dated 21st April, 1962.

Sd/- J. C. ELING,

Under Secretary.

ANNEXURE TO APPENDIX XXIX

S.No.	Name of Undertakings	Power of Board of Directors to sanction capital expenditure
		Rs. in Lakhs
1.	Heavy Electricals Limited.	} Rs. 50 Lakhs.
2.	Heavy Engineering Corpn. Ltd.	
3.	Fertilizer Corpn. of India Ltd.	
4.	Indian Drugs & Pharmaceuticals Ltd.	
5.	Hindustan Organic Chemicals	
6.	Rehabilitation Industries Corpn. Ltd.	
7.	Hindustan Photo Films Manufacturing Co. Ltd.	} Rs. 25 Lakhs.
8.	Hindustan Machine Tools Ltd.	
9.	Hindustan Antibiotics Ltd.	
10.	National Newsprint and Paper Mills Ltd.	
11.	Hindustan Cables Ltd.	
12.	National Instruments Ltd.	
13.	Hindustan Insecticides Ltd.	} Rs. 10 lakhs.
14.	Hindustan Salt Co. Ltd.	
15.	Praga Tools Corpn. Ltd.	
16.	Nahan Foundry Limited.	Rs. 1 lakh.

[Note : O.M. No. BPE/1/18/Adv. F/69 dated 22-4-1969 wherein the delegation of Powers to incur Capital Expenditure has been rationalised may also be seen at Appendix XXXVIII].

APPENDIX XXX

(Vide reply to recommendation at Sr. No. 56 to 60).

No. 46/Adv-F/BPE/68/12

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(BUREAU OF PUBLIC ENTERPRISES)

New Delhi, the 12th September, 1968.

OFFICE MEMORANDUM

SUBJECT: *Financial Management in Public Undertakings—15th Report of the Committee on Public Undertakings—Need for developing efficient cost accounting system.*

The Committee on Public Undertakings in its 15th Report on Financial Management in Public Undertakings have observed as under:—

‘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’.

‘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.’

‘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.'

'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.

2. Government have accepted these recommendations and attach great importance to an efficient development of cost accounting system in all undertakings. In this connection reference is also invited to this office circular No. 2(43)/66 dated 5th September, 1968 (copy enclosed). In the case of manufacturing industries, it will be desirable to develop an integrated system of cost and financial accounts so that the necessity of frequent reconciliation of figures between financial and cost accounts is avoided. Standard costing has been recognised as an essential management tool for the purpose of cost control. Standard cost provides the necessary data against which actual performance can be compared and variations determined for initiating necessary remedial measures.

3. The Ministry of Industry etc. are requested to bring the contents of this O.M. to the notice of the undertakings under their control and impress upon them the need to organise a sound cost accounting system based on integrated system of accounts wherever possible and also develop the standard costing at a very early date.

4. It is suggested that the progress made in this direction be intimated to the Bureau of Public Enterprises at an early date but not later than 31st December, 1966.

Sd/- P. GOVINDAN NAIR,

*Secretary to the Government of India and
Director-General, Bureau of Public Enterprises.*

To

All Ministries/Departments of the Government of India.
Copy to the Financial Adviser.

ENCLOSURE TO APPENDIX XXX

No. 2 (43) /66-F. I.

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(DEPARTMENT OF COORDINATION)

(BUREAU OF PUBLIC ENTERPRISES)

New Delhi, the 5th September, 1966.

OFFICE MEMORANDUM

SUBJECT: *Cost control in Public Sector Undertakings—Submission of cost data, etc. to the Board of Directors.*

The undersigned is directed to state that it has been observed that in many public sector undertakings adequate cost records are not maintained and linked with the Financial Accounts. There is also delay in preparation of Cost statements. It is, however, of utmost importance that cost data is presented regularly and promptly to the Board of Directors to enable them to take corrective action and policy decisions. The Finance Minister has emphasised in this connection the utmost need for cost consciousness, and has stated that all relevant information should be made available by the managements to the Boards of Directors so that the latter could keep a continuous watch on costs. He has also pointed out that productivity should be carefully watched, and for this purpose necessary work studies undertaken. Control of Inventories is another matter to which attention should be given by Board of Directors.

2. Ministry of Industry, etc. are, therefore, requested to bring these observations to the notice of the Board of Directors of the Public Enterprises with which they are concerned. The Board of

Directors may draw up detailed procedure to ensure that cost analysis is made promptly and watched carefully, that cost statements are fully reconciled with Financial Accounts, that productivity studies are undertaken and regular system of inventory control introduced.

Sd/- B. C. DAS GUPTA,
Finance Officer.

To

The Ministries/Departments of the Government of India.
All F.As in the Department of Expenditure.

.APPENDIX XXXI

(Vide reply to recommendation at Sr. No. 70, 72 and 73)

No. 9(41) 67-F.I

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

BUREAU OF PUBLIC ENTERPRISES

New Delhi, the 1st September, 1967.

OFFICE MEMORANDUM

SUBJECT:—*Introduction of comprehensive and effective system of internal audit in Public Enterprises and the compilation of accounting manuals.*

In view of the importance of a properly conceived and effectively implemented system of internal audit as an essential aid to industrial and commercial management, Government have always recognised the need for building up an efficient system in the Public Enterprises. As the eyes and ears of management, internal audit is concerned with ensuring prompt compliance with the various instructions issued by the management from time to time and assist the different departments in such implementation. A proper system of internal audit also helps in the examination of the existing systems with a view to seeking suitable improvements. As the size of the organisation grows, more and more use has essentially to be made of the internal reporting system in arriving at decision, implementing them and reviewing them from time to time.

2. At the Conference of Financial Advisers of Public Enterprises convened by the Finance Ministry, in November, 1964, it was considered that efficient and continuous internal audit units should be established to exercise control over organisational matters, delegation of powers, wastages, recoveries of outstanding dues, etc. Again, the comptroller & Auditor General of India issued certain directions to the statutory auditors of Government companies, in December, 1965, and these included a report on whether the important points thrown up by internal audit have been considered by the management and necessary action taken. If not, the more important points on which consideration action is outstanding have to be indicated with drawbacks noticed in the system of internal control.

3. While system of internal audit has been introduced in some enterprises, this has not been done in some other cases. The Central Government Audit Report (Commercial) 1967 has pointed out that, by the end of 1965-66, 10 companies had not introduced internal audit out of a total of 45 companies in respect of which comments are given in the Audit Report. This Report also contains comments about the system of internal audit not being comprehensive and effective in certain cases where such a system has been introduced. As Government attach great importance to this matter, it is requested that the Ministries concerned with Public Enterprises should suitably advise them to introduce a proper system of internal audit where this has not already been done. It is also suggested that the progress made in this direction should be intimated to the Bureau of Public Enterprises as early as possible but not later than the 31st December, 1967.

4. As regards the procedure for compilation and maintenance of accounts, it has already been emphasised that it would be desirable for each enterprise to prepare a self-contained Financial Manual containing the financial and accounting procedures prescribed from time to time by rules, regulations or otherwise. The Audit Reports have been drawing attention from time to time to the inadequate maintenance of accounts in a number of companies. A review has shown that a number of enterprises have not so far compiled such a manual. It is, therefore, also suggested that the enterprises should be advised to expedite the finalisation of a comprehensive manual to suit the requirements in each case. The manual should also outline the scope and programme of work for internal audit. The position in this regard may be intimated to the Bureau of Public Enterprises by the end of December, 1967, together with a copy of the manual, wherever this may have been finalised.

Sd/- P. GOVINDAN NAIR,

*Secretary to the Government of India and Director-
General, Bureau of Public Enterprises.*

To

All Ministries/Departments of the Government of India.

APPENDIX XXXII

(Vide reply to recommendation at Sr. No. 70, 72 and 73)

No. 46|Adv-F|BPE|68|13

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(BUREAU OF PUBLIC ENTERPRISES)

New Delhi, the 12th September, 1968.

OFFICE MEMORANDUM

SUBJECT:—Introduction of comprehensive and effective system of internal Audit on the public sector Enterprises.

In Office Memorandum No. 9(41)|67-F.I. dated 1-9-1967 the public sector undertakings were requested to introduce an effective system of internal audit in their organizations at an early date. The need for an internal audit cannot be over-emphasised. The internal audit has been recognised as an important management tool for the efficient functioning of an undertaking.

2. The Committee on Public Undertakings in their 15th Report on Financial Management have remarked that a number of undertakings have not yet organised their internal audit departments. The Committee has also suggested that functions of internal audit department should include a Critical review of the systems, procedures and operations as a whole, rather than merely of the accounting work. If necessary, technically qualified persons may also be associated with the internal audit. The internal audit department should be given a certain amount of independence within the administrative set up of the undertaking. As Government attaches great importance to this matter, it is requested that the Ministries concerned should suitably advise the undertakings under their control to introduce a proper system of internal audit where this has not already been done. It is suggested that the progress made in this direction should be intimated to the Bureau of Public Enterprises as early as possible but not later than 31st December, 1968.

Sd|- P. GOVINDAN NAIR,

Secretary to the Government of India and Director-
General, Bureau of Public Enterprises.

To

All Ministries/Departments of the Government of India.
Copy to Financial Advisers.

APPENDIX XXXIII

No. 46|Adv.F|BPE|68|21

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(BUREAU OF PUBLIC ENTERPRISES)

New Delhi, the 2nd November, 1968.

SUBJECT—CPU's Report on Financial Management in Public Undertakings—Continuous appraisal of Efficiency.

The C.P.U. in their fifteenth Report on Financial Management in Public Undertakings have observed as under:

“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 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.”

The need for having a system of continuous appraisal of performance and efficiency has already been brought to the notice of the undertaking in circular No. BPE|1(2)|Adv. Fin.|68 dated 1st March, 1968. The undertakings have been also advised to prepare profit and loss account and balance sheet every quarter and place the same before the Board for their consideration (O.M. No. 46|Adv. F. BPE|68|9 dated 12th September, 1968). The Board of Directors

of the undertakings may consider whether the analytical studies referred to by the Committee in the above recommendation be done through the medium of internal audit or any other specialised agency in their organisation.

The Ministry of Industrial Development and Company Affairs etc. are requested to bring the contents of the O.M. to the notice of all public undertakings under their control for necessary action in this regard.

Sd/- P. GOVINDAN NAIR.

Secretary to the Government of India and Director-General,

Bureau of Public Enterprises

All Ministries/Departments etc. of the Government of India.

Copy to all Financial Advisers.

APPENDIX XXXIV

No. F. 3(5)-PC/62

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

DEPARTMENT OF EXPENDITURE

New Delhi-2, the 11th April, 1963

OFFICE MEMORANDUM

SUBJECT:—*Policy to be followed by the Public Undertakings in providing for depreciation.*

The undersigned is directed to enclose a copy of the reply given to paragraph 47 of the 125th Report of the Estimates Committee (Second Lok Sabha) on the Neyveli Lignite Corporation on the subject mentioned above. It is requested that public undertakings may please be instructed to take necessary action on the lines indicated in the reply. The action taken may please be intimated to this Ministry in due course.

Sd/- E. R. K. MENON,

Under Secretary to the Government of India

128TH REPORT OF THE ESTIMATES COMMITTEE ON THE
NEYVELI LIGNITE CORPORATION, LTD.

Sl. No.	Para No.	Summary of Recommendation	Reply of Government
19	47	The Committee trust that Government will examine the question of policy to be followed by the Public Undertakings in providing for depreciation bearing the suggestion made in this para in mind and issue clear instructions to be followed by all public undertakings.	Necessary instructions are being issued by the Ministry of Finance to all undertakings which are following 'diminishing balance method' to switch over to the 'straight-line method' as soon as may be convenient. For this purpose the overall percentage of annual depreciation may be worked out on the basis of composition of different classes of assets and their useful lives (as suggested by their Technical Consultants or as may be dictated by their own or other experience).

APPENDIX XXXV

(vide reply to recommendation at Sr. No. 75)

No. 46/Adv-F/BPE/68/14

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(BUREAU OF PUBLIC ENTERPRISES)

New Delhi, the 12th September, 1968.

OFFICE MEMORANDUM

SUBJECT:—*Committee on Public Undertakings—15th Report on Financial Management—Depreciation policy to be followed by the public undertakings, in providing for depreciation.*

In O.M. No. F. 3(5)/PC/62 dated 11th April, 1963, the public undertakings were advised to follow the straight line method for calculating depreciation. The undertakings which were following diminishing balance method were requested to switch over to the straight line method. For the purpose of determining the rate of depreciation under the straight line method, the undertakings were advised that the additional percentage of annual depreciation may be worked out on the basis of composition of different classes of assets and their useful lives (as suggested by the Technical Consultants or as may be dictated by their own or other experience).

The Committee on Public Undertakings in their 15th Report on Financial Management in public undertakings have remarked that there are certain undertakings which are still following the diminishing balance method. The Committee has also observed that different undertakings have laid down different rates of depreciation for the same class of assets in order to have standardisation of the different classes of asset and suggesting the standard rate at which depreciation on straight line methods be calculated, all undertakings are requested to furnish the following information to the Bureau of Public Enterprises:—

- (a) The method of depreciation that is being adopted in their organisations.
- (b) The rates at which the depreciation is calculated on the different class of assets.

It is requested that this information may be furnished by 30th September, 1968 at the latest.

Sd/- P. GOVINDAN NAIR,
*Secretary to the Govt. of India & Director General,
Bureau of Public Enterprises.*

To

All Ministries/Departments of the Government of India.

Copy to Financial Advisers.

APPENDIX XXXVI

No. 46/Adv. F/BPE/68/15

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(BUREAU OF PUBLIC ENTERPRISES)

New Delhi, the 12th September, 1968.

OFFICE MEMORANDUM

SUBJECT:—C.P.U.'s 15th Report on Financial Management in Public Undertakings—Accounts Manual.

The need to prepare an Accounting Manual containing the financial and accounting procedures prescribed from time to time by rules, regulations or other-wise has been emphasised in various circulars issued by the B.P.E. Recently the Committee on Public Undertakings have gone into this question and have remarked that a number of undertakings have not yet prepared their Financial Hand-Book or Accounts Manual. Government attaches a great importance to this matter and it is requested that those undertakings which have so far not prepared the Accounts Manual may be requested to do so at an early date. In case they are experiencing any difficulties, the same may be brought to the notice of the Bureau. The position in this regard may please be intimated to the Bureau of Public Enterprises by the end of December, 1968 together with a copy of the Manual wherever this may have been prepared.

The Ministry of Industrial Development and Company Affairs etc. are requested to bring the contents of this O.M. to the notice of all Undertakings under their control for necessary compliance.

Sd/- P. GOVINDAN NAIR,

*Secretary to the Government of India and Director
General, Bureau of Public Enterprises.*

To

The Ministries/Departments of the Govt. of India.

Copy to Financial Advisers

APPENDIX XXXVII

No. 46/Adv-F/BPE/68/16

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(BUREAU OF PUBLIC ENTERPRISES)

New Delhi, the 12th September, 1968

OFFICE MEMORANDUM

SUBJECT—15th Report of the Committee on Public Undertakings on Financial Management—Account Heads.

The Committee on Public Undertakings in its 15th Report on Financial Management in Public Undertakings has made the following observations:—

“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.’

‘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.’

2. These recommendations have been accepted by the Government and all undertakings are advised that the standard list of ‘Account-Heads’ should be prepared under which the budgets can be prepared as well as the progressive expenditure incurred is booked. This would facilitate to keep a close watch on the progress of expenditure against the budget provisions. Where the projects are under construction, it will be desirable if the account heads given

in the project reports are also dovetailed within the Accounts and Budget heads, so that it may be easy to watch the progress of expenditure against the respective provisions in the project report.

3. The Ministry of Industrial Development and Company Affairs etc. are requested to bring the contents of this O.M. to the notice of all undertakings for necessary action in the matter.

Sd/- P. GOVINDAN NAIR,
*Secretary (Expenditure) & Director-General,
Bureau of Public Enterprises.*

To

The Ministries Departments of the Govt. of India.

Copy to Financial Advisers.

APPENDIX XXXVIII

No. BPE/1(18)-Adv-F/69

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
(Department of Expenditure)

New Delhi, the 22nd April, 1969.

OFFICE MEMORANDUM

SUBJECT:—*Delegation of powers to Boards of Managements to incur capital expenditure.*

The undersigned is directed to refer to the former Ministry of Commerce and Industry's letter No. Pr. C. 7(1) 61 dated the 16th May, 1962, on the above subject in which the powers delegated to the Boards of Managements of Public Enterprises to sanction capital expenditure were spelt out. As regards works which may have to be taken up in advance of the preparation of Detailed Project Reports, or otherwise as individual works, the ceilings of the values of such works which can be authorised by the Boards, without prior reference to Government, were also indicated therein in respect of various Public Enterprises.

2. In the context of the recommendations of the Administrative Reforms Commission in their Report on "Public Sector Undertakings", and also the recommendations of the Committee on Public Undertakings (1967-68) in their 15th Report on "Financial Management in Public Undertakings", those powers have been reviewed and it has been decided that the existing limit to sanction capital expenditure should be revised on the basis of the following guidelines:—

Powers to sanction
Capital expenditure
without prior refer-
ence to Govern-
ment.

	Rs.
(i) In case of undertakings where the total capital investment is likely to be of the order of Rs. 100 crores or more	1 crore
(ii) Where the total investment is likely to be between Rs. 50-100 crores	50 lakhs
(iii) Where the total investment is likely to be between Rs. 20 and Rs. 50 crores.	40 lakhs
(iv) Where the total investment is between Rs. 5 and Rs. 20 crores	20 lakhs
(v) Where the total investment is below Rs. 5 crores	15 lakhs

Provided that within any financial year the funds required will be found within the budget allocataion for the project and provided also the expenditure on such works in subsequent years would be the first call on the respective budget allocations.

If in some cases the existing ceiling in this regard are higher than those which will emerge on applying these guidelines, the existing ceilings may, however, be allowed to continue. Moreover, in respect of enterprises like Madras Fertilizers Ltd. and Madras Refineries Ltd., where there is specific provision either in the Formation Agreement or Collaboration Agreement with foreign parties with regard to these aspects, such provisions can, of course, be allowed to be operative.

3. Ministry of Steel and Heavy Engineering, etc. may take action to suitably amend the relevant Articles of Associations|Statutes of the enterprises with which they are concerned.

Sd/ P. K. BASU, 22-4-1969.

Director, Bureau of Public Enterprises.

To.

All Ministries/Departments of the Government of India. Copy to:—

- (i) Production Division/Adviser (C)/Adviser (F)/DS (I&R) / D.S.(BPE), Bureau of Public Enterprises.
- (ii) Heads of Expenditure Divisions in the Department of Expenditure (with 2 spare copies).

Sd/ P. K. BASU, 22-4-1969
Director, Bureau of Public Enterprises.

APPENDIX XXXIX

(Vide para 6 of Introduction)

Analysis of the action taken by Government on the recommendations contained in the Fifteenth Report of the Committee on Public Undertakings (Fourth Lok Sabha) on Financial Management in Public Undertakings.

I.	Total number of recommendations made	79
II.	Recommendations that have been accepted by Government.	71
	<p>(Vide Serial Nos: 1, 2, 3, 4, 5, 6, 8, 9, 10, 11, 12, 13, 14, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 66, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78 and 79).</p>	
	Number	71
	Percentage to	90%
III.	Recommendations which the Committee do not desire to pursue in view of the Government reply (<i>vide</i> Serial Nos. 7 & 67).	
	Number	
	Percentage to total	3%
IV.	Recommendations in respect of which replies of Government have not been accepted by the Committee (<i>vide</i> Serial Nos. 15, 16, 62, 63, 64, 65).	
	Number	6
	Percentage to total	7%
V.	Recommendations in respect of which replies from Government are still awaited.	
	Number	Nil

Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
DELHI				
24. Jain Book Agency, Connaught Place, New Delhi.	11	33.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi—1.	68
25. Sat Narain & Sons, 3741, Mohd. Ali Bazar, Mori Gate, Delhi.	3	34.	People's Publishing House, Rani Jhansi Road, New Delhi.	76
26. Atma Ram & Sons, Kashmere Gate, Delhi-6.	9	35.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88
27. J. M. Jains & Brothers, Mori Gate, Delhi.	11	36.	Hind Book House, 82, Janpath, New Delhi.	95
28. The Central News Agency, 23/90, Connaught Place, New Delhi.	15	37.	Bookwell, 4, Sant Narankari Colony, Kingsway Camp, Delhi-9.	96
29. The English Book Store, 7-L, Connaught Circus, New Delhi.	20	MANIPUR		
30. Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	23	38.	Shri N. Chaoba Singh, News Agent, Ramlal Paul High School Annexe, Imphal.	77
31. Bahree Brothers, 188 Lajpatrai Market, Delhi-6.	27	AGENTS IN FOREIGN-COUNTRIES		
32. Jayana Book Depot, Chaparwala Kuan, Karol Bagh, New Delhi.	66	39.	The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, LONDON W.C.—2.	59

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PUBLISHED UNDER RULE 382 OF THE RULES OF PROCEDURE AND CONDUCT OF
BUSINESS IN LOK SABHA (FIFTH EDITION) AND PRINTED BY THE GENERAL
MANAGER, GOVERNMENT OF INDIA PRESS, MINTO ROAD, NEW DELHI.
