ANDHRA PRADESH LEGISLATURE

(Ninth Legislative Assembly)

TWENTY SEVENTH REPORT

OF

COMMITTEE ON PUBLIC UNDERTAKINGS

(1993-94)

ON

THE AUDIT PARAGRAPHS CONTAINED IN THE REPORT OF THE COMPTROLLER AND AUDDITOR GENERAL OF INDIA FOR THE YEAR ENDED 31ST MARCH 1991 (NO. 1 OF 1992 - COMMERCIAL) ON LEATHER INDUSTRIES DEVELOPMENT CORPORATION OF ANDHRA PRADESH LIMITED

(Presented to the Legislature on 31st March, 1994)

ANDHRA PRADESH LEGISLATURE (ASSEMBLY) SECRETARIAT

PUBLIC GARDENS, HYDERABAD - 500 486.

ANDHRA PRADESH LEGISLATURE

(Ninth Legislative Assembly)

TWENTY SEVENTH REPORT

OF

COMMITTEE ON PUBLIC UNDERTAKINGS

(1993-94)

ON

THE AUDIT PARAGRAPHS CONTAINED IN THE REPORT OF THE COMPTROLLER AND AUDDITOR GENERAL OF INDIA FOR THE YEAR ENDED 31ST MARCH 1991 (NO. 1 OF 1992 - COMMERCIAL) ON LEATHER INDUSTRIES DEVELOPMENT CORPORATION OF ANDHRA PRADESH LIMITED

(Presented to the Legislature on 31st March, 1994)

J. 54-1

COMMITTEE ON PUBLIC UNDERTAKINGS

(1993-94)

(Constituted on the 26th March, 1993)

Chairman :

1. Sri P. Narasimha Reddy

Members :

2. Sri P.V. Raghavulu
3. Sri P. Ravindra Reddy
4. Sri Thota Venkatachalam
5. Sri N. Venkataratnam Naidu
6. Sri P. Purushotham Rao
7. Smt. Eti Vijayalakshmi
8. Dr. G. Chinna Reddy
9. Sri M.K. Baig*

   Sri G. Atchuta Kumar (w.e.f. 27-12-1993)
10. Sri N.K. Ramakrishna Reddy
11. Sri N. Ramakishan Rao
12. Sri N. Sivaramakrishna Prasad
13. Sri P. Kanaka Sundara Rao
14. Sri S. Venkateswara Rao
15. Sri. Ibrahim Bin Abdullah Masquathi

Legislature Secretariat :

1. Sri A.V.G. Krishnamurthy, Secretary
2. Sri A.D. Bhaskara Reddy, Deputy Secretary
3. Sri M.H. Kesava Rao, Assistant Secretary
4. Sri J.S.R. Murthy, Section Officer.

Accountant General's Office :

1. Smt. Sabita Gopal, Accountant General (Audit)II
2. Sri B. Narayana, Deputy Accountant General
3. Sri V. Balakrishna Murty, Sr. Audit Officer
4. Sri V.V. Leeladhar, Asst. Audit Officer.

---

* Appointed as Minister w.e.f. 8-9-1993.

CONTENTS

			Page No.
1.	Introduction	..	9
2.	Organisational set-up	..	9
3.	Financial Position	..	10
4.	Working results	..	10
5.	Non-implementation of recommendations of the High Power Committee	..	12
6.	Non-implementation of schemes under Seventh Five-Year Plan and diversion of funds thereof	..	13
7.	Hyderabad Tanneries - Poor capacity utilisation	..	14
8.	Manpower analysis	..	16
9.	Yield variance in production of Bark Tanned Sole-Loss of revenue	..	17
10.	Idle machinery	..	18
11.	Low Productivity of regular workers	..	19
12.	Performance of Common Facility Centre, Warangal	..	21
13.	Common Facility Centre for Footwear at Hyderabad	..	22
14.	Marketing	..	23
15.	Execution of orders of Government department.	..	24
16.	Non-utilisation of funds released by Government	..	26
17.	Non-utilisation of grant under Special Employment Scheme for Women guild	..	26
18.	Shortages	..	27
19.	Non-recovery of margin money paid to beneficiaries under Self-Employment Scheme	..	28
20.	Non-implementation of District Rural Development Agency (DRDA) Scheme and non-utilisation of funds	..	30
21.	Amount pending recovery in respect of misappropriation cases	..	32
22.	Sundry debtors	..	32
23.	Summary of Recommendations.	..	33

INTRODUCTION

I, the Chairman of the Committee on Public Undertakins (1993-94) having been authorised by the Committee present this Report on Leather Industries Development Corporation of Andhra Pradesh Limited.

The Committee held two sittings to record the oral evidence and visited the Tanneries Unit at Hyderabad.

The Committee met on 28th March 1994, considered and approved the Draft Report.

The Committee wishes to express their thanks to the Prl. Secretary to Government, Industries & Commerce Department, the Managing Director and other officials of Leather Industries Development Corporation of Andhra Pradesh Limited for the co-operation they have extended.

The Committee places on record their appreciation of the assistance rendered to the Committee by the Accountant General (Audit) II, Andhra Pradesh, the Deputy Accountant General and other officers and staff of the Accountant General's office.

The Committee also places on record their appreciation of the assistance rendered to the Committee by the Secretary to Legislature, the other officers and staff of Legislature Secretariat in the examination of the general working and audit paras relating to Leather Industries Development Corporation of Andhra Pradesh Limited and in preparation of this Report.

Hyderabad,

Dated : 28-3-1994.

P. NARASIMHA REDDY,
Chairman,
Committee on Public Undertakings.

RECOMMENDATIONS OF THE COMMITTEE ON PUBLIC UNDERTAKINGS

(9th Legislative Assembly)

Report of the Comptroller and Auditor General of India for the year ended 31st March 1991

(No. 1 of 1992 - Commercial)

On

Leather Industries Development Corporation of Andhra Pradesh Limited

Introduction :

The Leather Industries Development Corporation of Andhra Pradesh Limited was incorporated on 4th October 1973 as a wholly-owned State Government Company with the object to assist the artisans in the production and marketing of leather goods.

1. Organisational set-up :

1.1 The Company is managed by a Board of Directors comprising of maximum 15 directors. The number of Directors on the Board during the period from 1986-87 to 1990-91 ranged from three to ten only. As on 31st March 1991, there were six Directors on the Board. The Board was without a Chairman from 23rd July 1977 to 21st November 1990 and the Vice-Chairman and Managing Director was acting as Chairman during that period.

The Vice-Chairman and Managing Director is the Chief Executive of the Company who is assisted by Manager (Administration), Manager (Finance), Manager (Development), Manager (Marketing) and Manager (Production). The Chief Executive was changed 13 times over a period of four years, as a result the continuity of the management process and periodical review thereof for affecting mid term corrections was not possible. (Paragraph 2B.3)

1.2 *The Committee strongly feels that frequent changes in the Managing Director, who is the Chief Executive led to lack of continuity, control and commitment to run the organisation efficiently, which ultimately resulted in huge accumulated losses. The Committee, therefore, directs the Government to ensure that Managing Director is not*

changed atleast for 3 years.

2. Financial position :

2.1 The Company finalised its accounts for 1985-86 in December 1990 and prepared provisional accounts up to 1989-90. Although the position of arrears in finalisation of accounts was being brought to the notice of the Company and the Government periodically, there has been no progress in clearing the arrears (December 1991). (Paragraph 2B.6)

2.2 In its explanatory notes, the Company stated that the annual accounts for the year 1986-87 were finalised and also were placed before the Legislature. It was also stated that provisional accounts upto 1992-93 were prepared and were kept ready for Audit.

2.3 *The Committee was informed that the accounts for the year 1989-90 were adopted in the Annual General Meeting held in January 1994. While appreciating the progress achieved by the Company in clearing the arrears up to 1989-90, the Committee desires that it may fix up a time schedule to finalise the accounts up to 1993-94 by March 1995, so that the Company will be in time for finalisation of accounts for 1994-95.*

2.4 *The Committee directs the Public Enterprises Management Board (PEMB) to keep a watch over this time schedule and pursue the Company to reach the target.*

3. Working results :

3.1 The Committee observed that the Company has been incurring losses since its inception and the accumulated losses as on 31st March 1990 were Rs. 499.20 lakhs, which had eroded almost the whole of the paid-up capital of Rs. 505 lakhs (including Share Capital Deposit). The main reasons for the losses were high administrative costs, low production and low productivity, non-development of marketing strategy and non- availability of adequate funds in time for procurement of raw materials for production.

3.2 In its explanatory notes, the Company stated that the main reason for the continuous losses is non-availability of working capital. Due to lack of working capital, the Company could not get the required materials in time to provide continuous work in the units. Generally, the Government used to release the Budget provision during the last quarter of every year and until then the Company had to wait to make certain purchases and to make production. In the process, the Company is losing man hours to a high extent and is not in a position to achieve the targetted production or sales every year. The Company further stated: "The Government transferred 4 of their sick units (two tanning units and

two footwear units) working under their control to the Company along with the staff. At the time of transfer, both the Tanning units were without sufficient infrastructure, but with staff and workers. The Commissioner of Industries reimbursed their staff salaries up to 1979 but later stopped. As per the terms of transfer, the staff and workers working in those units wre transferred on deputation basis but their terms of deputation have not been finalised so far. The amount of output turned out by them is very negligible but their annual salary bill comes to Rs. 20 lakhs.... As on today, the salary bill alone comes to Rs. 135 lakhs per annum, and other establishment charges come to about more than Rs. 15 lakhs per annum. The Company is finding it difficult to recover all this expenditure on the limited turn over of about Rs. 250 lakhs and hence requested the Government to subsidise the salaries and in turn the Government asked the Company to intimate the diversification of activities and accordingly the Company sent the diversification proposals in February 1993 and it is under consideration of the Government. Due to heavy establishment and other maintenance charges coupled with low productivity and not being able to use full capacity for want of adequate working capital, the Company is bound to make losses every year. It is found almost impossible to reduce the establishment and other maintenance expenditure without pruning the size of the establishment which is impossible in the present circumstances. Unless the production units of the Company are privatised with some kind of solution to retrench or to absorb the surplus employees or the Government undertakes to subsidise the salaries of the estalbishment of the Company, the situation of diversion of plan funds towards establishment expenditure will have to be continued".

3.3 In his deposition before the Committee, the Chairman of the Company stated: "This is one Company wherein there is possibility to earn crores of rupees. I request the Committee to see that only those who know something about the leather industry alone should be retained in the Company. I assure the Comittee that if an amount of Rs. one crore is given to the Company, in the next year itself, we will show you a profit of Rs. one crore after deducting all the expenditure. I have represented the same thing to the Chief Minister also."

3.4 In rerply to a query by the Chairman, COPU seeking the view point of the Government regarding the funds of Rs. one crore sought for by the Company, the Secretary, Industries Department expressed that the Government might not consider the request of the Company, because the Company is not in a position to make payment of salaries even and in such circumstances, for all practical purposes, the assistance has to be written off. The Government representative also mentioned, inter-alia,: "The basic problem of the Company has been the role and the objective. About the implementation of Shanthappa Committee recommendations,

the main hurdle was, the recommenation of the Committee was that the production activity will stop and the developmental activity only will continue. That was the main problem. A thorough review has to be done as to how it will continue. They want to dispose off the Guntakal Tannery and the response is not very encouraging. Is it a mixed up privatisation, is it a welfare activity - that sort of clear cut definition has to be undertaken which is going on in the Company and also in the Government."

3.5 *The Committee observed that the Company admitted that high administrative costs, low production and low productivity, non- development market strategy etc. which are all adverse factors are the main reasons for the losses. That means that the Management is incapable of running the Company on viable proposition. In such circumstances, the Committee wonders why should the Company be continued and by its continued existence, what purpose does it serve, except adding its burden to the exchequer to the extent of Rs. 40 lakhs per annum by way of cash losses. The Committee, therefore, recommends that the Government should take a decision as early as possible either to privatise the Company as a whole, or to privatise only the production units which are the main contributories to the losses suffered by the Company, or to provide the working capital of Rs. one crore, as a one time measure, requested by the Company, duly keeping in view the welfare of the existing employees. The Committee strongly feels that any delay in taking a decision will only add to the misery of the Company of its inability to meet even its salary bill. The Committee would like to have a report from the Government as early as possible.*

4. Non-implementation of recommendations of the High Power Committee :

4.1 Government consitituted in October, 1985, a High Power Committee headed by Dr. M. Shanthappa to go into the affairs of the Company and to submit its report within a period of three months from the date of Government Order. The Committee's report submitted in July 1987 consisted of 20 recommendations which, *inter-alia*, included (a) improvement in the management of the Company fixing the tenure of the Chief Executive for a minimum period of 3 years and filling up the post with a leather expert, (b) restructuring the Company by changing its basic objectives of manufacturing and trading activity, developmental and promotional activity and (c) other long term promotional measures such as creation of a net work of carcass recovery/ flaying/curing/by product development centres, creation of infrastructure facilities by setting up functional industrial estates, participation in joint and assisted ventures and promotion of small and cottage sectors. The Government accepted all the recommendations and directed the Company in July 1987 to

implement the same in a time bound manner. However, in view of certain practical problems raised by the Company in implementing the recommendations, the Government constituted in November 1987 an Implementation Committee. The Implementation Committee submitted its report to the Government on 9th Mary 1989 suggesting the course of action in implementing the recommendations and final decision of the Government was still awaited (April 1991). (Paragraph 2B.8).

4.2 In his deposition before the Committee, the Managing Director informed that Shanthappa Committee recommended that the commercial part of it may be left away and the Company should be for developmental activities, but no final orders have been issued by the Government.

4.3 *The Commitee observed that the Report submitted by the Implementation Committee in May 1989 has been pending with the Government for the last 4 years. In fact that the Committee submitted its recommendations about 6 years back and by now they might have become obsolete, outdated and irrelevant. Inspite of appointing the Implementation Committee, some of the accepted recommendations are yet to be implemented. The Committee is of the view that the very purpose of appointing the Committee is defeated and the Company is contunuing its operations with the existing deficient systems. The Committee recommends that the Government may take a final decision on the recommendations of the Implementation Committee, as early as possible and report compliance to this Committee.*

5. Non-implementation of schemes under Seventh Five Year-Plan and diversion of funds thereof :

5.1 The Government revised the original allocation of funds of Rs. 500 lakhs to Rs. 300 lakhs for implementing various plan schemes during the Seventh Plan period i.e., 1985-86 to 1989-90 but released only Rs. 165 lakhs during the Plan period as per allocations made in the budget and the entire amount was treated as its contribution to the Share Capital of the Company. However, even these reduced allocations released by Government had not been utilised by the Company for the purpose for which the funds were released but had been diverted to meet its working capital requirements. (Paragraph 2B.9).

5.2 In its explanatory notes, the Company stated: "During this period, the Company has established some Raw Hide Collection Centres and training programmes with the support of DRDA and found that the response was very poor from the public. Due to small amounts for payment of stipend, we could not start required number of training programmes. Now, the Company is providing assistance for setting up road-side bunks by the cobblers."

5.3 *The Committee is pained to note that during the 7th Five Year Plan period from 1985-86 to 1989-90, the Government released Rs. 165 lakhs for implementation of various schemes, but the Company utilised the whole of the amount to meet its working capital requirements, without implementing any of the schemes. If the Company needed funds for its working capital, it could have approached the Government and obtained funds for that purpose. Further, having released funds for implementation of certain specified schemes, the Government did not bother to monitor the implementation of the schemes. The Government did not also prescribe any progress reports to be submitted by the Company, which indicates that the Government was not very much particular about the implementation of the schemes. The Committee feels that the Governmnt was fully responsible for non-implementaton of the schemes, firstly by stopping reimbursement of staff salaries from 1980, thus forcing the Company to divert the plan funds to meet its working capital requirements and secondly, by not monitoring the implementation of the schemes. In this connection, it is pertinent to note the view expressed by the Managing Director during his deposition - "....Ultimately the Company will have to perish. We have recommended to the Government on behalf of the Board that it might be privatised. The development activities part may be given to the Company taking away the Commercial part of it, or we may be given salary subsidy for payment to the employees..... Unless the production units of the Company are privatised with some kind of solution to retrench or absorb the surplus employees or the Government undertakes to subsidise the salaries of the establishment of the Company, the situation of diversion of Plan Funds towards establishment expenditure will have to be continued".*

5.4 *In view of the above, the Committee recommends that the Government takes a final view on the status of the Company, in order to avoid further losses. The Committee would like to have a report from the Government as early as possible.*

6. Hyderabad Tanneries - Poor capacity utilisation :

6.1 The licensed capacity of Hyderabad Tanneries is for processing 600 hides and 1,000 skins per day and the installed capacity as fixed in 1973 by Central Leather Research Institute (CLRI), Madras for the same was 250 hides and 500 skins per day. As against these installed capacities, utilisation of hides production capacities during the five years up to 1990-91 ranged between 17 and 26 per cent.

The underutilisation of hides production facilities, as observed by Audit, was mainly due to lack of working capital, insufficient procurement of hides and underutilisation of man power.

As against the installed processing capacity of 500 skins per day,

the actual production of skins during the last seven years up to 1990-91 was nil. There were no recorded reasons for not processing skins. The Company has, however, been reporting in its annual reports that since the processing of skins was not taken up in the unit, servicing of hides and skins was being taken up from the private parties.

The installed capacity of the tanneries had not been revised inspite of installation of several new machines valued Rs. 50.48 lakhs during the period from 1975-76.

No adequate and systematic records to show data regarding available machine hours, actual machine hours worked in different cost centres with reasons for idle time under classified headings, yield percentage etc. were maintained in the tanneries. There were also no records to show the machine analysis statements to work out the operation details, provision for down time (repairs, overhauls etc.) rated output per hour, operation speed per hour and standard output per hour.

No review had been conducted by the Company to analyse the causes of the poor capacity utilisation and no efforts have been made to analyse the bottlenecks in production and to achieve the optimum capacity utilisation. (Paragraph 2B.10.1).

6.2 In its explanatory notes, the Company stated: "The Tannery was established prior to the inception of the Corporation. Almost all machines have become old and as such were facing frequent breakdowns due to wear and tear. The Corporation acquired some imported machinery during the earlier years of the Corporation and we are facing problems in importing spare parts. As indicated in the Audit para, the Corporation is not in a position to get the things done as and when required due to continuous working capital shortage. This is also one of the reasons for not being able to procure the required quantity of raw hides and chemicals to run the tannery up to the installed capacity. Regarding processing of skins, the Corporation has taken up the skins production during the early years and found that this is an expensive process and required export market and the Coporation could not stand in the competitive market and, therefore, stopped the processing of skins. Recently we have taken up job works to get some revenue by utilising the installed capacity of skins. Regarding machine-wise analysis we are introducing all such systems and will be shown to the Auditors in the next review".

6.3 *The Company explained that skin processing was found very expensive and, therefore, this activity was discontinued. The Committee desires to know the value of the machinery, exclusively procured for skin processing and how it is being utilised presently after stoppage of skin processing. The Committee further recommends that the Company may*

analyse reasons for the increase in cost of processing in the earlier years compared to that projected while procuring the machinery.

6.4 *The Committee observed that despite addition of imported machinery valued Rs. 50.48 lakhs, the Company had not revised its installed capacity. The Committee recommends that the Company may take necessary steps to ascertain the exact installed capacities presently available and adopt the same for all purposes.*

6.5 *Regarding machine-wise analysis of utilisation, the Company informed the Committee that all necessary systems are being introduced. The Committee desires to have a completion report from the Company.*

7. Manpower analysis :

7.1 The Project Report prepared by CLRI in 1975 for the processing of finished leather in Hyderabad Tanneries envisaged manpower requirement of 169 for processing of 450 hides per day. During the period from 1986-87 to 1990-91, the requirement of man-days as per the norms fixed by CLRI was 28,444 for processing 75,740 hides. However, the actual mandays utilised were 1,01,072 which resulted in excess utilisation of 72,628 man days involving an extra expenditure of Rs. 34.15 lakhs. The main reasons attributable to the excess utilisation of man days were (i) low production resulting in poor capacity utilisation and (ii) lack of supervisory staff.

The following points also deserve mention:

(a) There was no cost centrewise allocation of expenditure incurred towards wages.

(b) There were no records to show the total direct labour, ,man days available and actually worked, average number of workmen employed and direct labour cost per unit of output of the products. (Paragraph 2B.10.2).

7.2 In its explanatory notes, the Company stated: "The main reason for excess manpower utilisation is delays in procurement of raw hides and chemicals. Even when the required raw material and chemicals are not available we can not dispense with the services of labours due to the fact that the workers are on regular pay scales. However, efforts are now being made to process 250 hides i.e., installed capacity and also attending to job works to utilise the entire manpower to a maximum extent. Regarding allocation of expenditure, we are maintaining job cards for all the jobs undertaken in the Tannery including the job works. The entire production of the Tannery is being used only for our internal production of foot wear in the Corporation Units. Hence the other details like man days available, actually worked are not being maintained separately".

7.3 In his deposition before the Committee, the M.D. stated "We have five Managers, who are technically qualified. We also have foremen to supervise who are also qualified. Because of the old age and attitude, the workers are taking more time. It is true that we are taking more time and the productivity is not as it should be".

7.4 *The Committee observed that the Hyderabad Tanneries has been taking almost 4 times the time prescribed by CLRI for tanning, which is definitely on high side. The Committee feels that the Company should take remedial measures to improve the productivity of the workers.*

7.5 The Company stated that since the entire production in the Tannery is being used only for internal production of foot wear, the other details like man days available, actually worked etc. were not being maintained separately.

7.6 *The Committee opines that although the Hyderabad Tanneries is a captive unit, it is necessary to maintain the details of man days available in the tanney and man days utilised for the actual production. The advantages are two fold. One is, the Company can ascertain the labour cost of processing the hides. The other is, the Company can make an attempt to identify the productivity of each worker and take necessary action to improve productivity of such workers whose productivity is less than the norm by giving proper guidance, by arranging close supervision etc. The Committee, therefore, recommends that the Company should, in future, maintain the data regarding man days available and utilised. The Committee would like to have a compliance report.*

8. Yield variance in production of Bark Tanned Sole Loss of revenue

8.1 As per the project report of finished leathers in Hyderabad Tanneries prepared by CLRI, the approximate yield in sole leather is 58 percent from the process of wet salted buffalow hides. Audit, however, observed that the Company could achieve an yield of only 1,69,957 kgs. from out of 5,46,532 kgs. pelt weight of wet salted buffalow hides, as against the norm of yield of 3,16,988 kgs. which resulted in an adverse yield variance of 1,47,031 kgs. valued Rs. 52.55 lakhs, though there was an improvement in percentage of yield from 30.99 in 1988-89 to 33.09 in 1989-90 and further to 49.98 in 1990-91. The unit had not analysed the reasons for such adverse variance in order to take corrective measures. (Paragraph 2B.10.3).

8.2 In its explanatory notes, the Company stated: "The variation in the yield in the production of B.T. Sole is due to usage of all ranges of raw hides (i.e. 10 to 24 kgs.) and producing extra light, light, medium and havy range of B.T. Sole. Generally the percentage of yield will be lower in respect of lighter leathers (i.e. 10 to 18 kgs.) and will increase

in higher ranges (i.e. 18 to 25 kgs. and above). The CLRI, Madras might have taken higher range (20 kgs. above) to arrive at the yield of 58 per cent on pelt weight. Further the percentage of yield in B.T. Sole also depends on consumptionof chemicals like wattle extract which is a vital item".

8.3 The Company explained that CLRI might have taken higher range viz. 20 kgs. and above to arrive at the yield of 58. It is unfortunate that the Company's submission to the Committee was without properly verifying the facts but based on certain assumptions.

8.4 It was, however, verified that CLRI fixed the norm of 58 per cent taking into account the weight of 20 kgs. only. As explained by the Company, if the yield is lower from lighter leather and if the yield is more from medium and heavy range leathers, it is not clear why the Company is not procuring heavy weight leathers, in order to get better yield. The Company stated further that the yield also depends upon consumption of chemicals. In that case, the Company should have analysed the usage of chemicals and corrective steps taken to achieve the required yield.

8.5 In his oral evidence, the Secretary, Industries Department informed the Committee that the extra thickness does not improve the yield and that the extra thickness is shaved off and used as inner lining. He has also stated: "While purchasing, one should be careful about the weight, sice more salt and water are added to gain weight. In a private factory, the hides are put in the sun and are dried, but here it is hand to mouth existence".

8.6 The Committee fails to understand the exact problem the Company has been facing to achieve the norm of 58 per cent yield. Both the points put forth by the Company for less yield viz. proper examination of the hide to take care of more weight and consumption of chemicals are controllable factors and are in the hands of the Company, still the yield achieved up to 1990-91 was only 13 to 50 per cent.

8.7 *The fact remains that because of processing hides of less weight, the extra expenditure incurred due to yield variance was Rs. 52.55 lakhs. The Committee, therefore, directs that the Company should, in future, properly analyse the reasons for getting an yield of less than the norm of 58 per cent and take appropriate action to rectify the deficiency, if any, in the system.*

9. Idle machinery :

9.1 Out of the machinery and equipment of various specifications valuing Rs. 26 lakhs at the unit, machinery worth Rs. 7.69 lakhs purchased during 1983-85 has not been instaled, machinery worth

Rs.6.38 lakhs was lying idle due to low production and machinery worth Rs. 11.43 lakhs was lying idle for want of repairs, for which the Company had not even estimated the probable expenditure towards repairs (December 1991).

The above idle machinery includes machinery valuing Rs. 18.71 lakhs purchased under the modernisation and expansion scheme of the unit as envisaged in the Project Report on integrated Development of Leather Industry in A.P. 1981 on the basis of the recommendations made by CLRI in 1975. (Paragraph 2B.10.4)

9.2 In its explanatory notes, the Company stated: "Out of the machines available in the tannery, some of them are idle due to lack of required power supply, certain machines due to old age and certain other machiens due to frequent repairs etc. However, we have attended to all such omissions and are now processing 250 hides per day in addition to job work".

9.3 *The explanation of the Company is not to the satisifaction of the Committee. The Committee was informed that all the above machines pointed out by Audit are lying idle even as at the end of February 1993.*

9.4 *The Committee would like to have a report from the Company explaining the circumstances under which and the purpose for which these mahcinery were procured and why they have not been installed or they have been installed but not put to use and why the machines were not got repaired etc.*

9.5 *The Committee was informed that instructions to process 250 hides per day were issued by the Managing Director only in March 1993. The Committee would like to have a report indicating the achievement made during the period from April 1993 to March 1994 and reasons for short fall, if any, as also remedial action proposed to be taken in order to achieve the target.*

10. Low productivity of regular workers :

10.1 The Company employes regular workers as well as piece-rate workers in its two manufacturing units at Utility Leather Goods Centre, Musheerabad, Hyderabad (ULGC) and Model Leather Goods Manufacturing Unit, Vijayawada (MLGM). No production norms have been fixed in respect of regular workers and their productivity was extremely poor when compared to the productivity of the piece-rate workers. The comparative position of wages paid to the regular workers during the five years up to 1990-91, with those payable had these regular workers been paid on piece-rate basis during the same period, is detailed in the following table:

Year.	Salaries paid to the regular workers.	Wages Payable at piece-rates.	Difference.
(a) Model leather goods manufacturing unit, Vijayawada.			
1986-87	2,56,672	16,243	2,40,429
1987-88	3,20,723	18,625	3,02,098
1988-89	3,36,518	29,395	3,07,123
1989-90	4,01,776	33,152	3,68,624
1990-91	4,11,223	13,399	3,97,824
(b) Utility leather goods centre, Musheerabad, Hyderabad.			
1986-87	2,48,687	16,303	2,32,384
1987-88	2,42,178	9,262	2,32,916
1988-89	2,63,169	43,372	2,19,797
1989-90	1,96,165	4,174	1,91,991
1990-91	3,11,928	8,275	3,03,653

Thus, the total wages overhead in respect of both the manufacturing units had been far in excess of the wages overhead as per the actual production. (Paragraph 2B.11.1)

10.2 In its explanatory notes, the Company stated: "We agree with the observations of Audit regarding the turnout by regular workers at both the units. Here the main reason is that almost all the workers are nearing retirement within a span of 5 to 6 years and due to the age factor we are not able to extract more work. The other important thing is that the Corporation is not in a position to provide continuous work due to lack of funds to purchase materials/ graindaries. Efforts are being made to provide materials regularly and to get more output from the regular workers also. Production norms are also fixed for the regular workers employed in M.L.G.M. and U.L.G.C.".

10.3 In his oral evidence before the Committee, the MD explained that technical experts are on the job of fixing norms and that the job would be completed in the next two or three months.

10.4 *The Committee is astonished to note that even after 20 years of its establishment, the Company has not fixed production norms. This is a system failure, which is amply evident, as admitted by the Company, by the fact that the Company has been incurring heavy expenditure on salaries with no corresponding output in the absence of production norms.*

10.5 *The Committee, therefore, recommends that atleast now production norms are fixed and implemented without any further loss of time. The Committee would like to have a compliance report from the*

Company/Government. The Committee directs the Company further to fix production norms not only in respect of the workers in MLGM and ULGC but also in respect of regular workers of all other production units.

11. Performance of Common Facility Centre, Warangal :

11.1 To cater to the needs of small scale tanners located in and around Warangal, a Common Facility Centre at Warangal was set up during 1977-78 at a cost of Rs. 58 lakhs with mostly imported machinery, to offer common facilities like skiving, splitting, clicking etc. During the period from 1986-87 to 1990-91, the percentage of utilisation of installed capacity ranged from nil to 75. It was further observed that Dusting Machine valued Rs. 1.42 lakhs procured in January 1978 was not put to use at all (December 1991). The Unit had not maintained log books to verify the utilisation of various machines.

The number of beneficiaries to whom the Common Facility Centre could provide facilities was four in 1985-86, seven in 1986-87, sixteen each in 1987-88 and 1988-89, fifteen in 1989-90 and twenty in 1990-91. Audit observed that the centre had sustained losses during all the five years up to 1989-90. The Santappa Committee recommended in 1987 that the unit might be transferred to a more suitable location, where large number of tanners would avail the facilities of job works at the Centre. The recommendation of the Committee was still (December 1991) under consideration of the Company/Government. (Paragraph 2B.11.3)

11.2 In its explanatory notes, the Company stated: "At the time of establishment of this unit at Warangal many small local tranneries used to utilise the services of this centre as per their convenience. Subsequently some of the local tanners have acquired machinery of their own. Thus the utilisation in respect of certain machines has been reduced considerably.

Shifting of the unit to some other viable place was considered by the Management. But some of the tanners from Warangal represented not to shfit the unit from Warangal. Taking into consideration their representation the proposal was dropped.

Regarding maintenance of log books, action has been taken by the Management and informed to all the units. Now the units are maintaining the log books. This may be verified in the next review Audit".

11.3 In his oral evidence, the MD explained that the Common Facility Centre was not shifted due to the pressure brought by some local tanners and that the machinery in the centre costing around Rs. 8 lakhs is not presently being used.

11.4 *The Committee observed that the Centre established at a capital cost of Rs. 58 lakhs has served only a small sector of 78 beneficiaries during the six years from 1985-86 to 1990-91. The Committee was informed that no training was given at this centre during 1991-92 and 1992-93 and the machinery costing around Rs. 8 lakhs is not being utilised. This itself speaks of the poor performance of the centre and this is the main reason for continuous losses.*

11.5 *Apart from its not serving the purpose for which the centre was established, the attempts of the Company to shift the centre to a place of demand were foiled by few tanners. The Committee desires to have a report detailing the number of tanners so represented against shifting how many of them have actually been using the facilities afer the decision not to shift the centre was taken.*

12. Common Facility Centre for Footwear at Hyderabad :

12.1 Under the scheme of Integrated Development of Leather Industries, the Company proposed setting up of a Common Facility Centre at Hyderabad at a total cost of Rs. 7.68 lakhs to offer common facilities like skiving, splitting, clicking etc., to small scale leather industries. It submitted project proposals to the Monitoring-cum- Advisory Committee, Leather Development Fund, State Trading Corporation of India Limited, New Delhi (MCAC) for sanction of a grant to the extent of 50 per cent of the total cost towards machinery and equipment.

MCAC sanctioned a grant of Rs. 5.28 lakhs out of Leather Development Fund during 1986 and supplied imported machinery valued Rs. 6.67 lakhs.

All the machines were installed at Hyderabad Tanneries during October/ November 1989 and the Common Facility Centre started functioning from January 1990. However, the machinery was yet to be utilised for offering common facilities to small scale leather industries.

The Company had not prepared a project report with details of beneficiaries for utilising the above facilities, revenue yield per year, expenditure in respect of operation of machines, etc.

During the period from January 1990 to June 1991, only three parties availed the facility and paid service charges of Rs. 3,480. Out of five machines installed at a cost of Rs. 6.67 lakhs, only two machines were used for job works and the remaining three machines costing Rs. 3.21 lakhs were lying idle from the date of erection in January 1990. The Company had also not analysed reasons for non-utilisation of the machinery. (Paragraph 2B.11.4).

12.2 In its explanatory notes, the Company stated : "Sufficient demand from private parties is not available. The Corporation is utilising the machines in the regular production to achieve its targetted production in addition to attending to private service as and when required".

12.3 The Committee observed that the explanation offered by the Company was very vague and not convincing. Audit pointed out that only two machies were used for job works and the remaining three machines were lying idle from the date of erection in January 1990. The Company has not explained whether all the five machines have been in use now or only two machines are in use. Audit also observed that during the period from January 1990 to June 1991, only three parties availed the facility and paid service charges of Rs. 3,480.

12.4 *Now the Company is finding lack of demand for the facilities established in the centre. This indicates that the Company did not conduct any market survey regarding the demand before setting up the centre. The committee recommends that the Company may fix responsibility for this lapse.*

12.5 *The Committee would like to have a report duly covering the above aspects, as also the service charges realised during the period from July 1991 to March 1994 and also the proposals to utilise the machinery fully.*

13. Marketing :

13.1 The Marketing wing of the Company functions under the control of a Marketing Manager. However, the post of Marketing Manager has been lying vacant from 3rd December 1983 because the Company felt that considering the level of production of the Company, the services of a person qualified in Marketing are not required. The Assistant Manager (Marketing) has been holding the charge of the post from 4th December 1983.

Despite having a Marketing wing, the Company made no efforts to launch advertising and sales promotional campaigns. It had neither developed any marketig strategy nor conducted any market/competitor research or prospect analysis.

The pricing plan of the Company was built around cost of materials plus 10 per cent for overheads plus 30 percent margin but it totally ignored the price of shoes of comparable quality made by competitors.

The Company had closed down from time to time 22 of its 24 showrooms in various districts in the State, but did not make any attempt to get its products sold by other distributors. Thus, it had restricted its market to Hyderabad and Vijayawada through the remaining two

showrooms. (Paragraph 2B.12.1)

13.2 In its explanatory notes, the Company stated : "After establishment of the Corporation, the Government of Andhra Pradesh issued a G.O.Ms.No. 1145, dt. 20.8.74 asking all the Government Departments, Corporations etc. to buy their requirement of footwear, leather goods only from LIDCAP. Hence LIDCAP has got an assured market for about Rs. 3 crores. Due to several reasons the Corporation could not appoint the Manager (Marketing) but put the Asst. Manager (Sales) in full additional charge. The post has been filled up recently by Departmental promotion and fixed up a target of Rs. 6 crores turnover for the current financial year for 1993-94. Necessary efforts are being made to achieve the targets.

So far the turnover is based on the Institutional supplies only which requires no advertisement. However, the Management has taken a decision to open some new showrooms in selected places in Twin Cities and in A.P. Once the showrooms are established we will go in for advertisement campaign".

13.3 In his deposition before the Commitee, the M.D. explanied that on an experimental basis the Company decided to open only one showroom.

13.4 *The Committee would like to have a report on the woking of the proposed show room and further action proposed to be taken by the Company.*

13.5 The M.D. further informed the Committee that the main reason for less sales in its show room is the lack of involvement and lack of enthusiasm in the show room staff to attract the customers and increase the sales. In reply to a query, the M.D. informed that no training is being imparted to the show room staff to improve the attitude towards better public relations.

13.6 *The Committee recommends that the Company may consider the aspect of imparting training to its show room staff for better appreciation of their working and for achieving increased sales targets.*

14. Execution of orders of Government Departments :

14.1 The State Government issued orders in August 1974 that all the requirements of various State Government Departments/Undertakings should be obtained through the Company. Despite the fact that its main sources of activity are its operations as a captive unit for procurement of leather goods for the Government Departments and the State Undertakings, it was observed that the Company, since its incepton, had not obtained the details of the requirements of leather goods of various de-

partments and undertakings. The Company had also not maintained any records regarding the number of tenders/quotations submitted by the Company and accepted/rejected by various departments/undertakings. It had also not analysed the reasons for the decrease in the number of orders received by the Company and consequent decrease in the sales from year to year. (Paragraph 2B.12.3)

14.2 In its explanatory notes, the Company stated : "It is a fact that we are getting orders from Government Departments/Quasi Government Departments/Corporations etc. as per the G.O. Inspite of the G.O. the Corporation could not supply the ordered quantity in time due to the working capital problem and orders are carried over even for the subsequent financial year. Apart from that wherever orders for bulk quantities are not received after the quotation, the matter has been taken up with the Government for its intervention and to issue suitable instructions to place orders on LIDCAP. A list of enquiries received and orders received is being maintained in the Marketing Section. This year efforts are being made to contact all the Departments to assume the demand since the targetted sales are Rs. 6 crores for 1993-94 ".

14.3 *The Committee obseved that in the past the Company has not been able to execute in time the orders placed by the Government agencies, mainly due to funds constraint to procure required raw material etc. This was also admitted by the Company. In these circumstances, there is no justification for insisting upon all the Government agencies to place orders for their requirements only on the Company. The Company should first ensure that the orders on hand are executed strictly by the scheduled dates of delivery, before approaching these agencies for orders. Only when the Company instills confidence in these agencies regarding quality and adhering to the delivery dates the agencies may be more willing to place further orders on the Company.*

14.4 *The Committee recommends that the Government may consider issuing instructions to all these agencies to place orders along with advances, so that the financial problem of the Company can also be solved to a large extent.*

14.5 The Company's reply that a list of enquiries received and orders received is being maintained in the Marketing Section is factually incorrect. The Committee was informed that on verification of the reply it was found that no such list is being prepared by Marketing Section, but it has only a list of orders received from the customers.

14.6 Audit observation here is that if the Company ascertains the number of quotations offered by it and those materialised in a year and analyse reasons for rejection of the remaining quotations, the Company can consider taking remedial measures in order to be competitive in the

market. In the present set up, the Company is not able to know why it is not able to secure orders from the market.

14.7 *The Committee directs that Company to introduce such a system by which it can analyse reasons for not getting the orders and also to take remedial measures so as to be competitive in the market.*

15. Non-utilisation of funds released by Government :

15.1 In their 7th Five Year Plan the State Government allocated Rs. 20 lakhs and released Rs. 18 lakhs to the Company to launch the programmes of training to weaker sections to upgrade their skills and to enable them to earn reasonable livelihood.

It was, however, observed from the records made available to Audit that the Company did not formulate any scheme for training against the funds released by the Government but diverted them to working capital. (Paragraph 28.13.1)

15.2 In its explanatory notes, the Company stated: "The funds had to be diverted due to urgency and the same will be reimbursed after receipt of funds from D.G.P. and other Government Organisations to a tune of about more than Rs. 70 lakhs".

15.3 The Committee was informed that there was no improvement in the position of diversion during subsequent years. The Company continued to divert scheme funds towars working capital.

15.4 The Committee observed that the debtors as on 31st Mrach 1992 were around Rs. 85 lakhs. The main reason put forth by the Company for the continued debtors situation was delay in releasing funds by Government to the concerned departments. Although it was aware of the financial crisis being faced by the Company, the Government did not take initiative to release funds to the departments at least to the extent of dues to the Company.

15.5 *The Committee, therefore, directs the Government to ensure that funds due to the Company are relased to the departments immediately to ease the Company out of the financial problem to that extent.*

15.6 *The Committee recommends further that the Company may nominate one of its senior officers to coordinate with the Government/ Government Departments to see that the arrears are cleared as quickly as possible.*

16. Non-utilisation of grant under Special Employment Scheme for Women gild :

16.1 The State Government sanctioned to the Company an amount

of Rs. 5. 39 lakhs during the year 1979-80 as a grant for imparting training under special employment schemes for women guilds. However, the Company incurred an expenditure of only Rs. 0.71 lakh on conducting training programme during 1979-80 and the balance amount of Rs. 4.68 lakhs had remained unutilised. Reasons for non-implementation of the scheme and non-utilisation of funds during the subsequent years, called for from the Company in October 1991 had not been received (December 1991). (Paragraph 2B.13.2)

16.2 In its explanatory notes, the Company stated : "During the year 1979 -80 we have established these women guilds on co-operative lines to manufacture footwear, shoe upper, chappal upper and hand gloves etc. Out of the other things, hand gloves are not having sufficient demand and we are not able to provide full work even for a single unit. Because of this, we have not ventured to open other units for hand gloves".

16.3 The Company explained that there was no demand for the products of the guild. The Committee, however, observed that the Company did not analyse at any time to find out the reasons for the lack of demand. The Committee is of the opinion that there was no demand for the products of the guild mainly because of the poor quality of the products and high price which the Company never attempted to improve.

16.4 *The Commitee recommends that the Company should analyse the reasons for lack of demand and take necessary remedial measures to improve the working of the guild. The Committee would like to have a report from the Company indicating in detail the number of women envisaged to be employed under this scheme for the period from 1979-80 onwards, how many women were actually employed as also reasons for shortfall, if any etc.*

17. Shortages :

17.1 A review of the stores accounting records and Physical verification reports of the Company revealed the existence of heavy shortages of stores and stocks from 1978-79 on account of difference between the stocks as per Head Office records and as per physical verification reports. These shortages were attributed by the Management to transfer to the branches/Production Units/Guilds etc., in respect of which full particulars regarding consumption, shortages, pilferages and losses were not available. These amounts have been accounted for under the head 'stock adjustment Account' which was still under reconciliation and till the end of 1985-86, upto which period the accounts have been audited, the amounts booked under this head was Rs. 154 lakhs. (Paragraph 2B.14.3)

17.2 In its explanatory notes, the Company stated: "During the earlier years stocks reconciliation has not been done. During the last year stock reconciliation has been done to the tune of Rs. 50 lakhs during 1987-88 accounts. Remaining work will be attended to in 1988-89 and 1989-90 accounts and the figure will be reduced considerably after adopting the two years accounts".

17.3 *The Committee observed that the explanation given by the Company is vague. Audit pointed out about huge shortages in stock. Management admitted that the shortages were due to wrong accountal, pilferage etc. Non-reconciliation of stocks for a long period led to this situation. The Committee does not rule out the possibility of embezzlement and misappropriation of stocks.*

17.4 *The Company explained that reconciliation was done upto 1987-88 and that reconciliation for the next two years will be done at the time of finalisation of respective year's accounts. This is a very sad state of affairs. By lapse of time, it becomes difficult for the Company to fix responsibility for real shortages and the time lag induces the staff to resort to pilferage, misappropriation etc. The Committee, therefore, recommends that the Company should immediately take up the work of reconciliation of balances between the physically verified quantities and the general ledger in respect of all the years upto 1992-93 without waiting for finalisation of accounts.*

17.5 The Committee observed further that the Company has not explained the results of reconciliation in respect of the year 1987-88 indicating the real shortages recoverable from the staff responsible. The clearance was very insignificant, since even after adjustment of Rs. 50 lakhs, the amount under stock adjustment account was of the order of Rs. 188 lakhs as on 31st March, 1988.

17.6 The Committee recommends that the Company should make all out efforts to complete reconciliation upto March 1993 by June 1994 and clear the balance under stock adjustment account as much as possible. The Committee further recommends that the Company should take effective steps to recover the value of real shortages, ascertained on reconciliation, from the staff responsible and make good the loss.

18. Non-recovery of margin money paid to beneficiaries under Self-Employment Scheme :

18.1 Government of India formulated, in the year 1974-75, Self-Employment Scheme under half a million jobs scheme to the educated unemployed and financed the scheme for implementation by the State Government through the Company. According to the guidelines issued by the Government of India, the margin money/seed capital assistance

to the beneficiaries would be subject to a maximum of 10 per cent of the total cost of the project.

The Company commenced implementation of the scheme in 1974-75 and by March 1989 it had disbursed an amount of Rs. 14.69 lakhs to 2473 beneficiaries out of Rs. 15 lakhs received in March 1974 from the State Government.

From December 1976 onwards the Company sanctioned 20 per cent of the cost of the project as margin money after obtaining necessary sureties, as against 10 per cent stipulated in the guidelines of the Scheme by Government of India. In view of violation of the guidelines, the State Government recovered (September 1990) from the Company, an amount of Rs. 7.51 lakhs out of Rs. 15 lakhs. The Company has to repay an amount of Rs. 7.49 lakhs towards principal and Rs. 13.04 lakhs towards interest to end of March 1991 to the State Government.

Non-adherence of the guidelines specified under the Scheme, thus, resulted in disbursement of margin money to the extent of Rs. 7.51 lakhs by the Company out of its own funds.

According to the terms and conditions of the agreement, the margin money was to be repaid by the loanees in half yearly instalments after a moratorium period of three years. The margin money amounting to Rs. 13.94 lakhs excluding interest at four per cent had become overdue from the loanees to the end of March 1990. The Company could not take any legal action against the loanees as the claims became time barred. The Board decided (December 1980) to write-off the amount due from the loanees. The Government had approved (March 1990) to write-off Rs. 5 lakhs only. (Paragraph 2B.15)

18.2 In its explanatory notes, the Company stated: "As observed by the A.G. the margin money amounting to Rs. 13.94 lakhs had become overdue from loanees as on March 1990. The Company had discussed with the legal adviser and accordingly filed suits in the City Civil Court, Hyderabad against some of the cobblers.

Although the Company got decrees in its favour, it could not collect any money from the defaulted cobblers for the reason that they have no immovable properties in their names.

The matter will be brought to the notice of the Board of Directors, to recommend for waiving-off the amounts wherever necessary and intimate the action taken to the Committee in due course".

18.3 *The Committee observed that the explanation of the Company is incomplete. It has not explained whether any responsibility has been fixed for giving margin money/seed capital assistance to the extent of 20 per cent instead of 10 per cent envisaged in the project, that too without*

obtaining any security/surety. This is all the more necessary when the Company has not been able to recover the loans and is contemplating write-off.

18.4 *The Committee, therefore, directs that the Company should enquire into the case to fix responsibility for the irregular sanctions and make good the loss sustained by the Company.*

19. Non-Implementation of District Rural Development Agency (DRDA) Scheme and non-utilisation of funds :

19.1 With a view to improving the economic conditions of Charmakers/ Flayers at village level and to avoid exploitation by middlemen, the Company requested (February 1988) the State Government to extend financial assistance to start a Raw Hide Collection and Production Centre in each District under the District Rural Development Agency (DRDA) Programme. The Commissioner of Panchayati Raj Department, Andhra Pradesh allocated in February 1988 an amount of Rs. 34.32 lakhs (Raw Hide Collection Centres: Rs. 15 lakhs and Production Centres: Rs. 19.32 lakhs) to establish Raw Hides Collection Centres in each of the 16 District Rural Development Agencies and 22 Production Centres.

The Scheme was to be implemented by the Company with the assistance of DRDA. The terms and conditions under which the Scheme was to be implemented jointly with DRDA had not been specified. An amount of Rs. 19.86 lakhs was released by DRDA (Rs. 13.50 lakhs under Raw Hide Collection Centres and Rs. 6.36 lakhs under Production Centres) in respect of 22 districts for establishment of Raw Hide Collection and Production Centres. Out of Rs. 13.50 lakhs, the Company utilised only Rs. 3.37 lakhs in seven districts to end of 31st March 1991 and the balance of Rs. 10.13 lakhs remained unutilised. The entire amount of Rs. 6.36 lakhs released towards establishment of Production Centres was not utilised from 1988-89 till date (December 1991). The Management stated in June 1991 that since the Company's marketing potential was just sufficient to meet the existing production, starting of further production centres was considered unnecessary.

The Company could not establish the Production Centres as contemplated on the plea that the Flayers were approaching the middlemen on account of advances already drawn by them from the middlemen. Though the Company offered reasonable rates, it could not collect the minimum Raw Hides required for maintaining the centres economically and hence out of the 15 centres opened during 1988-89 and 1989-90, 10 centres have since been closed down. The expenditure of Rs. 3.37 lakhs spent towards establishment of Raw Hide Collection Centres had become unfruitful and the Company could not utilise the funds to an extent of Rs. 16.49 lakhs. (Paragraph 2B.16)

19.2 In its explanatory notes, the Company stated: "The purpose of opening these Centres in collaboration with DRDAs is to improve the economic conditions of the Flayers and the Scheduled Caste people throughout the State. Based on the Scheme, the Corporation established some 15 Raw Hide Collection Centres in different districts and closed some ten centres subsequently, due to non-viability. Regarding Production Centres the Corporation is having limited technical people and they are engaged in our Production Units. The Company could not spare the services of the technical people since DRDA has not agreed to pay the salaries of the staff deputed for such purpose".

19.3 The explanation of the Company is not satisfactory. It appears that the scheme was proposed by the Company itself and the Company proposed the scheme without properly and exhaustively examining its viability.

19.4 The very idea behind the Raw Hide Collection Centres was to improve the economic conditions of the Charmakars at village level. Now the Company explains that the collection centres were closed due to their becoming unviable. The Company did not, however, explain how and why they had become unviable. The Company should have analysed the reasons for their unviable status and taken adequate remedial measure, instead of closing them down.

19.5 In respect of Production Centres, the Company explained that the centres were not opened because the flayers were still approaching the middlemen on account of advances already drawn by them and because the Company's marketing potential was just sufficient to meet the existing production.

19.6 *The Committee is unhappy to note that the Company did not properly assess the necessity for opening the production centres. Now that these production centres were not opened, the Company should have immediately refunded the amount of Rs. 6.36 lakhs received from PR department for the purpose.*

19.7 *Further, the Committee opines that the Government also had not played its role properly. Against a scheme proposed by the Company, the Government just released the funds but did not watch or monitor its implementation. The Committee strongly feels that the Company has practically mishandled the scheme and the Government did not even know whether the scheme was implemented or to what extent the scheme was implemented and what were the reasons for non-implementation etc.*

19.8 *The Committee desires to have a detailed report from the Company/Government explaining the circumstances under which the scheme has not been implemented properly.*

20. Amounts pending recovery in respect of misappropriation cases:

20.1 In its explanatory notes, the Company informed, inter-alia, that there were 29 cases involving Rs. 4.84 lakhs, pending with CBCID (12 cases: Rs. 1.94 lakhs), referred to police department for filing charge sheets (3 cases: Rs. 0.12 lakh), referred to various departments for recovery from individuals (2 cases, Rs. 0.27 lakh) and pending with the Company for further investigation and recovery etc. (12 cases Rs. 2.52 lakhs).

20.2 *The Committee was informed that the amount of Rs. 4.84 lakhs pointed out in Audit is yet to be recovered. There was no progress of recovery between December 1991 and February 1993. The Company has not explained the details of the 12 cases involving Rs. 2.52 lakhs pending with the Company and the reasons for their pendency with the Company.*

20.3 *The Committee desires to have a detailed report in respect of these 12 cases pending with the Company explaining the reasons for their pendency and action taken by the Company to finalise them.*

21. Sundry debtors :

21.1 From Paragraph 2B.18 of the Audit Report, the Committee observed that debtors of the Company at the end of 1989-90 were Rs. 121.87 lakhs representing about 80.05 per cent of the sales of that year. The Company had not realised the debts in most of the cases within the stipulated time, on account of which the balances were accumulating from year to year. Year-wise and party-wise details of the dues were also not available with the Company.

21.2 *The Committee directs the Company to compile the party-wise details of the debtors outstanding as on 31st March 1993 and take effective steps to recover the same from the concerned departments, if necessary by taking up the matter at the level of the Secretary of the concerned Department.*

21.3 The Company stated in its explanatory notes that its customers are all Government departments like DGP, Excise, Municipalities, Fire services, Forest etc. and that they too had problem of funds, as a result of which debts are lying unrecovered.

21.4 *The Committee directs the Government to immediately release the amounts due to the Company through the concerned departments, which would go a long way to the Company in the need of the hour.*

SUMMARY OF RECOMMENDATIONS

1. The Committee strongly feels that frequent changes in the Managing Director, who is the Chief Executive led to lack of continuity, control and commitment to run the organisation efficiently, which ultimately resulted in huge accumulated losses. The Committee, therefore, directs the Governemnt to ensure that Managing Director is not changed at least for 3 years. (Paragraph 1.2)

2. The Committee was informed that the accounts for the year 1989-90 were adopted in the Annual General Meeting held in January 1994. While appreciating the progress achieved by the Company in clearing the arrears up to 1989-90, the Committee desires that it may fix up a time schedule to finalise the accounts up to 1993-94 by March 1995, so that the Company will be in time for finalisation of accounts for 1994-95. (Paragraph 2.3)

3. The Committee directs the Public Enterprises Management Board (PEMB) to keep a watch over this time schedule and pursue the Company to reach the target. (Paragraph 2.4)

4. The Committee observed that the Company admitted that high administrative costs, low production and low productivity, non- development of market strategy etc. which are all adverse factors are the main reasons for the losses. That means that the Management is incapable of running the Company on viable proposition. In such circumstances, the Committee wonders why should the Company be continued and by its continued existence, what purpose does it serve, except adding its burden to the exchequer to the extent of Rs. 40 lakhs per annum by way of cash losses. The Committee, therefore, recommends that the Government should take a decision as early as possible either to privatise the Company as a whole, or to privatise only the production units which are the main contributories to the losses suffered by the Company, or to provide the working capital of Rs. one crore, as a one time measure, requested by the Company, duly keeping in view the welfare of the existing employees. The Committee strongly feels that any delay in taking a decision will only add to the misery of the Company of its inability to meet even its salary bill. The Committee would like to have a report from the Government as early as possible. (Paragraph 3.5)

5. The Committee observed that the Report sumitted by the Implementation Committee in May 1989 has been pending with the Government for the last 4 years. In fact that Committee submitted its

recommendations about 6 years back and by now they might have become obsolete, outdated and irrelevant. Inspite of appointing the Implementation Committee, some of the accepted recommendations are yet to be implemented. The Committee is of the view that the very purpose of appointing the Committees is defeated and the Company is continuing its operations with the existing deficient systems. The Committee recommends that the Government may take a final decision on the recommendations of the Implementation Committee, as early as possible and report compliance to this Committee. (Paragraph 4.3)

6. The Committee is pained to note that during the 7th Five Year Plan period from 1985-86 to 1989-90, the Government released Rs. 165 lakhs for implementation of various schemes, but the Company utilised the whole of the amount to meet its working capital requirements, without implementing any of the schemes. If the Company needed funds for its working capital, it could have approached the Government and obtained funds for that purpose. Further, having released funds for implementation of certain specified schemes, the Government did not bother to monitor the implementation of the schemes. The Government did not also prescribe any progress reports to be submitted by the Company, which indicates that the Government was not very much particular about the implementation of the schemes. The Committee feels that the Government was fully responsible for non-implementation of the schemes, firstly by stopping reimbursement of staff salaries from 1980, thus forcing the company to divert the plan funds to meet its working capital requirements and secondly, by not monitoring the implementation of the schemes. In this connection, it is pertinent to note the view expressed by the Managing Director during his deposition - ". . . . . Ultimately the Company will have to perish. We have recommended to the Government on behalf of the Board that it might be privatised. The development activities part may be given to the Company taking away the commercial part of it, or we may be given salary subsidy for payment to the employees. . . . . Unles the production units of the Company are privatised with some kind of solution to retrench or abosorb the surplus employees or the Government undertakes to subsidise the salaries of the establishment of the Company, the situation of diversion of Plan Funds towards establishment expenditure will have to be continued." (Paragraph 5.3)

7. In view of the above, the Committee recommends that the Government takes a final view on the status of the Company, in order to avoid further losses. The Committee would like to have a report from the Government as early as possible. (Paragraph 5.4)

8. The Company explained that skin processing was found very expensive and, therefore, this activity was discontinued. The committee

desires to know the value of the machinery, exclusively procured for skin processing and how it is being utilised presently after stoppage of skin processing. The Committee further recommends that the Company may analyse reasons for the increase in cost of processing in the earlier years compared to that projected while procuring the machinery. (Paragraph 6.3)

9. The Committee observed that despite addition of imported machinery valued Rs. 50.48 lakhs, the Company had not revised its installed capacity. the committee recommends that the Company may take necessary steps to ascertain the exact installed capacities presently available and adopt the same for all purposes. (Paragraph 6.4)

10. Regarding machine-wise analysis of utilisation, the Company informed the Committee that all necessary systems are being introduced. The Committee desires to have a completion report from the Company. (Paragraph 6.5)

11. The Committee observed that the Hyderabad Tanneries has been taking almost 4 times the time prescribed by CLRI for tanning, which is definitely on high side. The Committee feels that the Company should take remedial measures to improve the productivity of the workers. (Paragraph 7.4)

12. The Committee opines that although the Hyderabad Tanneries is a captive unit, it is necessary to maintain the details of man-days available in the tannery and man-days utilised for the actual production. the advantages are two-fold. One is, the Company can ascertain the labour cost of processing the hides. The other is, the Company can make an attempt to identify the productivity of each worker and take necessary action to improve productivity of such workers whose productivity is less than the norm by giving proper guidance, by arranging close supervision etc. The Committee, therefore, recommends that the Company should, in future, maintain the data regarding man- days available and utilised. The Committee would like to have a compliance report.(Paragraph 7.6)

13. The fact remains that because of processing hides of less weight, the extra expenditure incurred due to yield variance was Rs. 52.55 lakhs. The Committee, therefore, directs that the Company should, in future, properly analyse the reasons for getting an yield of less than the norm of 58 per cent and take appropriate action to rectify the deficiency, if any, in the system. (Paragraph 8.7)

14. The explanation of the company is not to the satisfaction of the Committee. The Committee was informed that all the above machines pointed out by Audit are lying idle even as at the end of February, 1993. (Paragraph 9.3)

15. The Committee would like to have a report from the Company explaining the circumstances under which and the purpose for which these machinery were procured and why they have not been installed or they have been installed but not put to use and why the machines were not got repaired etc. (Paragraph 9.4)

16. The Committee was informed that instructions to process 250 hides per day were issued by the Managing Director only in March, 1993. The Committee would like to have a report indicating the achievement made during the period from April, 1993 to March, 1994 and reasons for short fall, if any, as also remedial action proposed to be taken in order to achieve the target. (Paragraph 9.5)

17. The Committee is astonished to note that even after 20 years of its establishment, the Company has not fixed production norms. This is a system failure, which is amply evident, as admitted by the Company, by the fact that the Company has been incurring heavy expenditure on salaries with no corresponding output in the absence of production norms. (Paragraph 10.4)

18. The Committee, therefore, recommends that at least now production norms are fixed and implemented without any further loss of time. The Committee would like to have a compliance report from the Company/ Government . The Committee directs the Company further to fix production norms not only in respect of the workers in MLGM and ULGC but also in respect of regular workers of all other production units. (Paragraph 10.5)

19. The Committee observed that the Centre established at a capital cost of Rs. 58 lakhs has served only a small sector of 78 beneficiaries during the six year from 1985-86 to 1990-91. The Committee was informed that no training was given at this centre during 1991-92 and 1992-93 and the machinery costing around Rs. 8 lakhs is not being utilised. This itself speaks of the poor performance of the centre and this is the main reason for continuous losses. (Paragraph 11.4)

20. Apart from its not serving the purpose for which the centre was established, the attempts of the Company to shift the centre to a place of demand were foiled by few tanners. The Committee desires to have a report detailing the number of tanners so represented against shifting how many of them have actually been using the facilities after the decision not to shift the centre was taken. (Paragraph 11.5)

21. Now the Company is finding lack of demand for the facilities established in the centre. This indicates that the Company did not conduct any market survey regarding the demand before setting up the centre. The Committee recommends that the Company may fix

responsibility for this lapse. (Paragraph 12.4)

22. The Committee would like to have a report duly covering the above aspects, as also the service charges realised during the period from July 1991 to March 1994 and also the proposals to utilise the machinery fully. (Paragraph 12.5)

23. The Committee would like to have a report on the working of the proposed show room and further action proposed to be taken by the Company. (Paragraph 13.4)

24. The Committee recommends that the Company may consider the aspect of imparting training to its show room staff for better appreciation of their working and for achieving increased sales targets. (Paragraph 13.6)

25. The Committee observed that in the past the Company has not been able to execute in time the orders placed by the Government agencies, mainly due to funds constraint to procure required raw material etc. This was also admitted by the Company. In these circumstances, there is no justification for insisting upon all the Government agencies to place orders for their requirements only on the Company. The Company should first ensure that the orders on hand are executed strictly by the scheduled dates of delivery, before approaching these agencies for orders. Only when the Company instills confidence in these agencies regarding quality and adhering to the delivery dates, the agencies may be more willing to place further orders on the Company. (Paragraph 14.3)

26. The Committee recommends that the Government may consider issuing instructions to all these agencies to place orders along with advances, so that the financial problem of the Company can also be solved to a large extent. (Paragraph 14.4)

27. The Committee directs the Company to introduce such a system by which it can analyse reasons for not getting the orders and also to take remedial measures so as to be competitive in the market. (Paragraph 14.7)

28. The Committee, therefore, directs the Government to ensure that funds due to the Company are released to the departments immediately to ease the Company out of the financial problem to that extent. (Paragraph 15.5)

29. The Committee recommends further that the Company may nominate one of its senior officers to coordinate with the Government/Government departments to see that the arrears are cleared as quickly as possible. (Paragraph 15.6)

30. The Committee recommends that the Company should analyse the reasons for lack of demand and take necessary remedial measures to improve the working of the guild. The Committee would like to have a report from the Company indicating in detail the number of women envisaged to be employed under this scheme for the period from 1979-80 onwards, how many women were actually employed as also reasons for shortfall, if any etc. (Paragraph 16.4)

31. The Committee observed that the explanation given by the Company is vague. Audit pointed out about huge shortages in stock. Management admitted that the shortages were due to wrong accountal, pilferage etc. Non-reconciliation of stocks for a long period led to this situation. The committee does not rule out the possibility of embezzlement and misappropriation of stocks. (Paragraph 17.3)

32. The Company explained that reconciliation was done up to 1987-88 and that reconciliation for the next two years will be done at the time of finalisation of respective year's accounts. This is a very sad state of affairs. By lapse of time, it becomes difficult for the Company to fix responsibility for real shortages and the time lag induces the staff to resort to pilferage, misappropriation etc. The Committee, therefore, recommends that the Company should immediately take up the work of reconciliation of balances between the physically verified quantities and the general ledger in respect of all the years up to 1992-93 without waiting for finalisation of accounts. (Paragraph 17.4)

33. The Committee recommends that the Company should make all out efforts to complete reconciliation up to March 1993 by June 1994 and clear the balance under stock adjustment account as much as possible. The Committee further recommends that the Company should take effecive steps to recover the value of real shortages, ascertained on reconciliation, from the staff responsible and make good the loss. (Paragraph 17.6)

34. The Committee observed that the explanation of the Company is incomplete. It has not explained whether any responsibility has been fixed for giving margin money/seed capital assistance to the extent of 20 per cent instead of 10 per cent envisaged in the project, that too without obtaining any security/suriety. This is all the more necessary when the Company has not been able to recover the loans and is contemplating write off. (Paragraph 18.3)

35. The Committee, therefore, directs that the Company should enquire into the case to fix responsibility for the irregular sanctions and make good the loss sustained by the Company. (Paragraph 18.4)

36. The Committee is unhappy to note that the Company did not properly assess the necessity for opening the production centres. Now that these production centres were not opened, the Company should have immediately refunded the amount of Rs. 6.30 lakhs received from PR department for the purpose. (Paragraph 19.6)

37. Further, the Committee opines that the Government also had not played its role properly. Against a scheme proposed by the Company, the Government just released the funds but did not watch or monitor its implementation. The Committee strongly feels that the Company has practically mishandled the scheme and the Government did not even know whether the scheme was implemented or to what extent the scheme was implemented and what were the reasons for non-implementation etc. (Paragraph 19.7)

38. The Committee desires to have a detailed report from the Comapny/ Government explaining the circumstances under which the scheme has not been implemented properly. (Paragraph 19.8)

39. The Committee was informed that the amount of Rs. 4.84 lakhs pointed out in audit is yet to be recovered. There was no progress of recovery between December 1991 and February 1993. The Company has not explained the details of the 12 cases involving Rs. 2.52 lakhs pending with the Company and the reasons for their pendency with the Company. (Paragraph 20.2)

40. The Committee desires to have a detailed report in respect of these 12 cases pending with the Company explaining the reasons for their pendency and action taken by the Company to finalise them. (Paragraph 20.3)

41. The Committee directs the Company to compile the party-wise details of the debtors outstanding as on 31st March 1993 and take effective steps to recover the same from the concerned departments, if necessary by taking up the matter at the level of the Secretary of the concerned Department. (Paragraph 21.2)

42. The Committee directs the Government to immediately release the amounts due to the Company through the concerned departments, which would go a long way to the Company in the need of the hour. (Paragraph 21.4)