Chapter IV

4. Transaction Audit Observations

Important audit findings emerging from test check of transactions made by the State Government companies/Statutory corporations are included in this Chapter.

Government companies

GRIDCO Limited

4.1 Undue favour

By allowing BPSL to sell power in Open Access ignoring the terms of MoU executed by them with GoO and purchasing their surplus power at higher rate, the Company not only extended undue favour of Rs. 23.51 crore to BPSL and BSL but was also deprived of earning revenue of Rs. 93.68 crore.

Bhusan Group of Companies (BGC) comprising of Bhusan Limited[#] (BL) and Bhusan Steel and Strips Limited[$] (BSSL) signed (May 2002) a Memorandum of Understanding (MoU) with the Government of Orissa (GoO) for setting up a steel plant in Orissa with a Captive Power Plant (CPP) to meet its energy requirement. As per the MoU, the surplus power of the CPP was to be sold to the Company for which BPSL was to approach the Company for execution of a Power Purchase Agreement (PPA). Subsequently (August 2002 and February 2003), though it was decided that BPSL would submit a draft PPA and tariff calculation details for determination of sale price of the power, no PPA was submitted by BPSL. Further, BSL also did not submit any PPA for sale of its surplus power to the Company.

In the meantime BPSL approached (2003) Orissa Electricity Regulatory Commission (OERC) for grant of permission for sale of power through Open Access as per provisions of the Electricity Act, 2003, which was allowed (February 2004) by OERC. The representative of the Company, present during hearing of the matter by OERC, did not give any commitment regarding purchase of surplus power from BPSL, the reasons for which are not on record. Accordingly, BPSL sold 247 million units (MU) of power outside the State during September 2005 to December 2006. The Company, however, intimated (October/December 2006) BPSL its willingness to purchase the surplus power of their CPP as per terms of MoU with GoO at a rate of

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[#] Now Bhusan Limited has become Bhusan Power and Steel Limited (BPSL).
[$] Now Bhusan Steel and Strips Limited has become Bhusan Steel Limited (BSL).

Rs. 2.02 per unit though it was purchasing power from other CPPs having MoU with GoO at rates ranging between Re. 0.65 and Rs. 1.10 per unit during that period.

Audit observed the following:

- Since GoO provided facilities like land, water, coal and iron ore to BPSL at concessional rate and there was a provision in the MoU for sale of their surplus power through execution of PPA, the Company should have compelled BPSL to finalise the PPA as was done with other CPPs. Had the Company purchased their surplus power of 247 MU at Rs. 1.10 per unit for sale through inter-state trading made by it at rates ranging between Rs. 3 and Rs. 5.64 per unit, it could have earned Rs. 93.68 crore during September 2005 to December 2006.
- The Company's decision not to purchase surplus power from BPSL for reasons not on record, gave latter the opportunity to sell their surplus power through Open Access, which amounts to extension of undue favour to them.
- The Company purchased 211 MU power from BPSL and BSL only from April 2007 and April 2008 respectively and during 2007-08 and 2008-09 (up to September 2008) at a rate ranging between Rs. 2.02 and Rs. 2.30 per unit. Considering the maximum rate paid to other CPPs having MoU with GoO as Rs. 1.10 per unit, the Company extended undue favour of Rs. 23.51 crore to BPSL and BSL.

The Management stated (June 2009) that no firm commitment was given to BPSL to procure its surplus power due to the fact that uncertainty was prevailing regarding trading of power by the Company beyond 9 June 2004 as trading activity was separated from transmission functions as per the provisions under Electricity Act, 2003. It was added that in the absence of CPP policy, the Company adopted competitive graded rates of Rs. 2.02 to Rs. 2.50 per unit of power supply by the CPPs.

The fact remained that the Company traded 4,527 MU and 2,186 MU of its surplus power during 2004-05 and 2005-06 respectively and was purchasing the surplus power of other CPPs having MoU with the Government of Orissa at rates ranging between Re. 0.65 and Rs. 1.10 per unit during that period.

Thus, by allowing BPSL to sell power in Open Access ignoring the terms of MoU executed by them with the GoO and purchasing their surplus power at higher rate, the Company not only extended undue favour of Rs. 23.51 crore to BPSL and BSL but was also deprived of earning revenue of Rs. 93.68 crore.

It is recommended that the Company should fix responsibility on the erring officials for whom it could not generate additional revenue.

The matter was reported to the Government (May 2009); their reply had not been received (October 2009).

4.2 Undue favour

Purchase of inadvertent power at the rate applicable for scheduled power resulted in extra expenditure as well as undue favour of Rs. 8.84 crore.

Consequent upon the separation of generation of power from bulk supply/ distribution as a fallout of power sector reforms in Orissa, the Company purchases power from various generators including CPP for sale to the distribution companies as well as for inter-state trading. As per the provision of the Orissa Grid Code (OGC) with effect from January 2004, the generators are required to furnish day ahead schedule detailing hourly quantum of supply to the State Load Despatch Centre. Any supply of power without schedule is liable to be treated as 'inadvertent power'.

Nava Bharat Ferro Alloys Limited (NBFAL) requested (17 January 2005) the Company to purchase power from their CPP on a short term basis at a mutually acceptable rate. Instead of executing any agreement with NBFAL in respect of the type, quantum and rate of supply of power, the Company started purchasing power from NBFAL from 24 January 2005 onwards at Rs. 2.02 *per* unit against supply of scheduled power. Though no rate was initially decided for supply of inadvertent power, the Company decided (April 2005) to pay at the same rate as the variable cost of generation of power of Talcher Super Thermal Power Plant, Kaniha[*] in the corresponding month.

Audit observed that during January 2005 - March 2006, out of 66.090 MU of power drawn by the Company from NBFAL, in respect of 62.532[&] MU, the schedule of supply was not furnished. Hence, those supplies were to be treated as inadvertent supply within the meaning of the provisions of the OGC. Instead the Company paid at the rate applicable for scheduled supply, resulting in extra expenditure of Rs. 8.84 crore, which was tantamount to extension of undue favour to NBFAL.

It is recommended that the Company should strictly adhere to the codal provisions in its business transactions.

The matter was reported to the Management/ Government (April/ May 2009); their replies had not been received (October 2009).

[*] A unit of National Thermal Power Corporation Limited.
[&] Supplies made during 24 January 2005-30 April 2005, 10-29 December 2005 and 1-31 January 2006.

Orissa Mining Corporation Limited

4.3 Avoidable payment of penal interest

Improper calculation of tax liability led to shortfall in deposit of advance income tax resulting in avoidable payment of interest of Rs. 23.92 crore.

Under the Income Tax Act, 1961, a corporate assessee pays in four instalments[#] at the prescribed rates, advance income tax on total taxable income for the financial year (FY) preceding the assessment year. Failure to deposit minimum 90 *per cent* of the tax in advance and shortfall in depositing tax as per the prescribed slab attracts interest at a rate of one *per cent* per month as per Section 234B and 234C of the Act respectively. Therefore, proper estimation of taxable income and deposit of tax payable in advance is not only a necessity for compliance with the statute but also saves the assessee from paying interest.

The Company deposited advance tax of Rs. 180.60 crore and Rs. 395.01 crore for FY 2006-07 and FY 2007-08 by 15 March of the concerned financial year, against the annual tax liability of Rs. 231.01 crore and Rs. 557.75 crore respectively, leading to short payment of income tax of Rs. 50.41 crore and Rs. 162.74 crore. Consequently, the Company had to pay avoidable interest of Rs. 9.57 crore and Rs. 14.35 crore under Section 234B and 234C for FY 2006-07 and FY 2007-08 respectively.

Audit observed that the Company was estimating the quantum of tax on the basis of budgeted figures. While estimating the tax liability, factors like increase in sales price as well as sales volume were not being assessed properly. Thus, actual increase in revenues was not being considered. As a result, the tax liability was not being determined accurately. Though the Company had adopted System Application and Products in Data Processing (SAP) from FY 2004-05 onwards, it had not taken advantage of the system to arrive at an accurate estimate of income for deposit of advance tax.

Thus, improper calculation of tax liability led to shortfall in deposit of advance income tax resulting in avoidable payment of interest of Rs. 23.92 crore for 2006-07 and 2007-08. Considering that the delay enabled the Company to retain cash with it for a longer period and the Company could have earned interest on it at about 4.25 *per cent* (the minimum rate of interest in flexi account for the period), the Company stood to suffer a loss of Rs. 14.29 crore on interest differential, besides non-compliance with the tax law.

The Government stated (June 2009) that estimation of actual tax liability in advance was not possible in view of various constraints in the SAP system in

[#] On or before 15 June, 15 September, 15 December and 15 March of the financial year preceding the assessment year.

capturing all relevant data on income and expenses coupled with wide fluctuations in domestic as well as international market. The fact, however, remained that the Company deposited the advance tax based on budgeted figures of the previous year and should have evolved a system to take care of the areas where SAP system is lacking. Further, the Company should have strengthened its Management Information System to estimate the profit as accurately as possible.

It is recommended that the Management should put in place a proper system of determining the tax liability taking into account all relevant factors.

4.4 Loss due to export of ore after expiry of the contract

Export of ore after expiry of the contract coupled with failure to execute agreement with the buyer for revision of price before commencement of loading resulted in loss of Rs. 2.68 crore.

The Company entered into (20 February 2006) a contract with VISA Comtrade AG, Switzerland (VISA) for sale of 30,000 MT ±10 *per cent* 50/48 grade chrome concentrate at the rate of US$ 115 per Dry Metric Tonne (DMT), FOB Paradeep to be shipped by 7 March 2006. The terms of the contract, *inter alia*, included that (i) the shipment period may be extended through an agreement taking into consideration the prevailing market price of the ore or at a price mutually agreed between the seller and the buyer and (ii) if no mutual agreement either for extension of time for supply of chrome concentrate by shipment or price is arrived at, the contract may be terminated at the option of the seller without any liability. The contract further provided that any change or modification to the contract would be taken to have been changed or modified when confirmed by both the seller and the buyer in writing and such an event would always be prospective in operation.

The shipment period was extended (7 March 2006) till 17 March 2006 by the Company at the request (6 March 2006) of VISA without execution of an agreement with respect to revision of rate prevailing on the date of shipment. VISA nominated (13 March 2006) a vessel with lay can* 14 to 16 March 2006 for lifting 26,500 MT, which was accepted (16 March 2006) by the Company. The ship actually berthed at Paradeep port at 01:20 hours on 18 March 2006 i.e. after expiry of the extended period of the contract. The Company commenced loading at 03:45 hours of 18 March 2006 and completed loading of 24,132 DMT on 21 March 2006.

Meanwhile, the selling price of another tender of similar grade ore, floated (11 March 2006) by the Company, was opened on 18 March 2006 (15:00 hours) which established a price of US$ 141 per DMT, FOB Paradeep. Basing on this price, the Company demanded (18 March 2006) US$ 6,86,400 from VISA, followed by reminders on 20 and 21 March 2006. VISA rejected (21 March

* The period available for loading of material onto the vessel.

2006) the revised price and the Company invoked (September 2006) the Bank Guarantee (BG) of US $ 1,72,500 deposited by VISA as security. The Company then referred the matter to the Arbitrator who rejected (May 2008) the claim of the Company on the ground that the revision of price was not mutually accepted by the parties before commencement of loading. The Arbitrator awarded refund of encashed BG alongwith interest (Rs. 18.50 lakh) and cost of arbitration (Rs. 5 lakh) to VISA.

Audit observed the following:

- As per terms of the contract, the Company should not have extended the shipment period and should not have commenced loading after the contractual period was over before entering into a written agreement with VISA for enforcing the prevailing market price on the date of shipment. In case of non-acceptance by VISA, the contract should have been terminated.
- The contract signed (14 March 2006) with Mineral & Metal Trading Corporation Limited for export of 10,000 MT of similar grade ore provided that in case of shipment between 18 and 31 March 2006, the price applicable would be US$ 115 per DMT or the price established in the tender due for opening on 18 March 2006, whichever would be higher. No such rider clause was, however, notified while accepting the nominated vessel nor before commencement of loading. As a result, the Company failed to validate its claim for the increased price before the Arbitrator and thereby lost the opportunity of earning additional revenue.

The Government stated (June 2009) that the vessel had reported its arrival to the port authorities (21:55 hours of 17 March 2006) within the contractual period and thus the contract could not have been terminated. The reply does not address the fact that the vessel was not only required to report the arrival during the tenure of the contract, but the loading was also required to be completed within the lay can period. Since the vessel berthed at 1:20 hours on 18 March 2006, the contract could not have been performed within the contractual period and thereby the Company had the option either to extend or to cancel the contract. The Company, however, neither cancelled the contract nor commenced loading of ore in the ship after getting written consent of the buyer for revision of price of the ore.

Thus, export of ore after expiry of the contract coupled with failure to execute agreement with the buyer for revision of price before commencement of loading resulted in loss of Rs. 2.68 crore.

4.5 Loss of revenue

Sale of lump ore without value addition by crushing deprived the Company of earning revenue of Rs. 1.48 crore.

The Company entered (August 2005) into an agreement with Kalinga Commercial Corporation (KCC) for excavation, raising and sizing of 4.20 lakh MT of iron ore per year at Kurmitar Iron Ore Mines during 25 July 2005 to 24 July 2006 which was extended from time to time upto 24 July 2009. The quantity was enhanced (May 2008 and February 2009) upto 24.50 lakh and 24 lakh MT for the third and fourth year of the contracts due to installation of new machineries and equipments by KCC. The increased quantity of ore produced by the KCC was sold in the domestic market without exploring the possibility of further value addition by producing Calibrated Lump Ore (CLO) of +65 *per cent* iron content to earn more revenue. The Company, however, decided (2 May 2008) to produce upto 1.40 lakh MT of 5 to 18 mm CLO to boost the sales revenue. The Purchase and Contract Committee (PCC) of the Company also suggested (26 May 2008) to examine the possibility of production of 5 to 18 mm CLO during extension of the contract with KCC for the fourth year (25 July 2008 to 24 July 2009) by deciding a suitable rate taking into account the cost economy and after obtaining consent of the contractor. Though the Company executed (August 2008) the contract for the fourth year with KCC for excavation/raising of iron ore, it did not mention regarding production of 5 to 18 mm of CLO due to non-finalisation of the rate of production though there was sufficient demand for CLO and selling CLO was more profitable than selling lump ore. As a result, the Company was deprived of the opportunity of earning better revenue in spite of its potential to produce 1.40 lakh MT of 5 to 18 mm CLO.

Audit observed that:

- As per the recommendation of the PCC, the Company was to derive the rate for production of 5 to 18 mm CLO for inclusion in the agreement to be executed with KCC for the fourth year. Though it was known to the Management that the rate of CLO was very high in comparison to lump ore and it was decided (August 2008) for inclusion of the rate of CLO in the agreement with KCC for the fourth year, the same was not done due to non-finalisation of the cost estimate for conversion of lump ore to CLO for which the Company could not produce 1.40 lakh MT of CLO.
- During July to December 2008, the Company could have produced 32,802 MT of 5 to 18 mm CLO from 50,465 MT of iron ore sold as lump ore. This resulted in loss of Rs. 1.48 crore[⊕].

[⊕] Total sale value of CLO and fines: Rs.15.40 crore *less* [sale value of lump ore: Rs. 13.41 crore *plus* cost of crushing (as estimated by the Regional Officer, Koira): Rs.0.51 crore]

The Government stated (June 2009) that due to space constraints at the mine head, engagement of another contractor to crush the ore in the limited mining space was not feasible. It was added that they were negotiating with KCC to crush lump ore in the existing crusher for the remaining period of the contract. The fact, however, remained that despite taking the decision in May 2008 to crush the ore during the rainy season for getting 5 to 18 mm CLO, the Company could not execute the same due to non-finalisation of the cost estimate for conversion of lump ore to CLO.

It is recommended that the Company should consider stopping sale of lump ore and selling it only after crushing, keeping in view the prospects of generating additional revenue and profit.

Orissa Construction Corporation Limited

4.6 Loss of revenue due to non-inclusion of Service Tax in the offer price

Ignorance of Service Tax implications on its commercial construction services resulted in avoidable burden of Rs. 41.36 lakh to the Company.

The Company participated in a tender floated (July 2006) by Orissa Power Generation Corporation Limited (OPGC) for development of Ash Pond at Banharpalli, Jharsuguda. The terms of the tender, *inter alia*, envisaged that the quoted price would be inclusive of all taxes, duties, levies, etc. including Service Tax (ST). The work was awarded (December 2006) to the Company at its quoted L_1 price of Rs. 24.33 crore (inclusive of all taxes, duties and levies) with the stipulation to complete the same by August 2007/June 2008. As of February 2009, the Company completed works valued at Rs. 21.40 crore only.

Audit observed that Construction services (commercial and industrial buildings or civil structures) were liable to service tax with effect from September 2004. The Company, however, included ST component of Rs. 8.02 lakh only pertaining to erection of equipment in the bid price and did not include ST on the other components of work presuming that these services were not taxable.

The Company became aware of its ST liability only when OPGC withheld (May 2007) ST from its bills. Thereafter, the Company registered (October 2007) itself under the Service Tax Act, 1994 for paying ST and secured release of the withheld amount from OPGC. The Company deposited Rs. 49.38 lakh till February 2009 towards ST but could not pass on this burden to OPGC due to its failure to load this onto the bid price resulting in loss of revenue of Rs. 41.36[*] lakh to the Company.

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[*] Total payment of Rs. 49.38 lakh paid towards ST *less* Rs. 8.02 lakh already included in the bid price.

The Government stated (June 2009) that they had not included service tax in the offer price considering its meager amount and the margin available in the work. The fact remained that the Company was ignorant about incidence of ST on civil, mechanical and electrical works and therefore ST had not been included in the offer price.

It is recommended that the Management should keep abreast of changes in rules and regulations which are relevant to its business operations.

Orissa State Civil Supplies Corporation Limited

4.7 Inadequate monitoring

Inadequate monitoring and improper financial management led to non-recovery/levy of holding charges of Rs. 1.21 crore and loss of interest of Rs. 3.02 crore due to delay in remittance of sale proceeds.

The Company procured paddy for Kharif Marketing Season (KMS) 2006-07 (October 2006 to September 2007) under the Decentralised Procurement Scheme to ensure payment of minimum support price to the farmers. The paddy procured under the scheme was to be milled through the Custom Millers (CMs) appointed by the Company and the resultant rice was to be distributed through the Public Distribution System (PDS) channel. The CMs were required to supply the rice within 20 days of delivery of paddy. In case of non-delivery in time the District Managers (DMs) were to inspect the mills to ensure the receipt of resultant rice. Failure to supply within the stipulated period would render the CMs liable to pay holding charges at the rate of 20 paise per quintal of rice per day.

The Company procured 8.12 lakh MT of paddy in 30 districts during KMS 2006-07 and received 5.36 lakh MT of resultant rice[$]. Balance 1,486[@] MT of rice worth Rs. 83.96 lakh was not received due to loss on account of fire and misappropriation for which the Company had initiated legal action.

The paddy procured in the Decentralised Procurement Centres was delivered to the CMs and the rice supplied by the CMs was sold to storage agents for ultimate distribution under PDS. The sale proceeds were kept in a separate current account for remittance to the Head Office immediately. During November 2006 to September 2007, the Company sold 4.96 lakh MT of custom milled rice (CMR) and received Rs. 280.07 crore in 30 districts against which the concerned DMs remitted Rs. 235.96 crore to the Head Office by the end of KMS 2006-07 (September 2007). Balance amount of Rs. 44.11 crore remained in the Current Accounts in the districts, of which Rs. 38.94 crore was remitted during November 2007 to January 2008.

[$] 68 *per cent* parboiled rice or 67 *per cent* raw rice and 66 *per cent* parboiled rice or 65 *per cent* raw rice under Fair Average Quality and Under Relaxed Specification paddy respectively.

[@]Bargarh-665 MT lost due to fire, Dhenkanal -223 MT and Subarnapur-598 MT loss due to misappropriation.

Audit observed that:

- In 25 districts the CMs delivered (December 2006 to September 2007) the resultant rice with delays ranging between one and 220 days.
- As against the levied penalty of Rs. 1.46 crore, the Company recovered Rs. 0.20 crore and waived Rs. 0.82 crore. Thus, Rs. 0.44 crore still remained to be recovered.
- The Company also did not levy the penalty of Rs. 0.77 crore in 11 districts.
- Further, sale proceeds of CMR was retained by DMs and the monthly balances up to Rs. 23.26 crore was kept in the Current Accounts violating the instruction (December 2004/February 2007) of the Company to deposit the sale proceed to Head office immediately. This indicates lack of monitoring by the Head Office of the Company. Had the sale proceeds been remitted immediately to the Head Office, the Company could have saved interest of Rs. 3.02 crore on the cash credit loan availed for financing the operation of the scheme.

The Management stated (September 2009) that action was being taken to impose holding charges on the rest of the millers after ascertaining the reasons for delay in delivery of rice besides instructing the District Managers to remit sales proceeds to the head office immediately. It was added that action was being initiated to ascertain blockage of fund, if any, at the district level.

The fact remained that the Management failed to find out the specific reasons for delay in delivery of rice by CMs and blockage of fund with the DMs even after a lapse of two years from the end of KMS 2006-07.

Thus, inadequate monitoring and improper financial management led to non-recovery/levy of holding charges and loss of interest due to delay in remittance of sale proceeds amounting to Rs. 4.23[♣] crore.

It is recommended that the Company should recover/levy penalty for delay in supply of CMR by the millers, initiate action against the erring officials for inadequate monitoring in receipt of CMR and non-remittance of sale proceeds of CMR to the Head Office.

The matter was reported to the Government (May 2009); their reply had not been received (October 2009).

[♣] Non-recovery- Rs. 0.44 crore, non-levy- Rs. 0.77 crore and Interest- Rs. 3.02 crore.

4.8 Avoidable expenditure

Failure of the Company to let out the godowns resulted in blockage of fund of Rs. 3.65 crore coupled with avoidable expenditure of Rs. 46.15 lakh towards storage commission.

Government of India (GoI), Ministry of Consumer Affairs and Public Distribution, New Delhi approved (January/March 2000) a centrally sponsored scheme for construction of 96 godowns in 11 cyclone prone districts in the State of Orissa for creating 58,500 MT* storage facilities for Public Distribution System (PDS) at a cost of Rs. 15.40 crore to be financed by GoI as 50 *per cent* subsidy and 50 *per cent* loan. GoI released (March and May 2000) Rs.15.40 crore to the Government of Orissa (GoO), who in turn released the fund to the Company between October 2000 and August 2002. The Company deposited a total amount of Rs. 17.15 crore (including its own fund of Rs.1.75 crore) with the contractor, Orissa Industrial Infrastructure Development Corporation (IDCO) as against requirement of Rs. 21.48 crore (revised estimate dated 8 May 2003) for completion of the entire work. Of the 96 godowns to be constructed up to November 2002, 86 were completed at a cost of Rs. 16.09 crore during January 2001 to April 2007, seven were incomplete after incurring an expenditure of Rs. 1.30 crore up to July 2005 and construction plans of three were dropped due to non-availability of suitable land.

Audit observed the following:

- Fifteen godowns# completed at a cost of Rs. 2.34 crore were lying vacant since their construction (June 2002 to April 2006) i.e. for 23 to 69 months up to 31 March 2008. Of these, four godowns& could not be made operational for want of approach roads though it was certified by the State Government earlier (January 2002) that all the proposed sites had approach roads and movement of commodity would not be a problem. There was no demand for the remaining 11 godowns. This indicates deficiencies in the planning process.
- As per the terms of the agreement with the Storage Agents (SAs) appointed by the Company for distribution of PDS commodities, the Company's godowns were required to be hired to SAs of their respective area of operation at the prescribed rate. The Managing Director of the Company belatedly instructed (September 2003/July 2006) that in case the Company's godowns were not given to the SAs of the concerned locality, the storage commission on the PDS commodities would not be paid to them. The instructions were, however, not carried out for reasons not on record and the Company paid storage commission of Rs. 24.22 lakh during

* (7 godowns x 2,000 MT) + (89 godowns x 500 MT)
# Godown at Nimapara was used for procurement of paddy only from May 2007.
& Balipatna, Baruan, Jaleswar and Niali.

2003-08 to the SAs in the same localities where the Company had constructed 15 godowns which remained vacant.

- Though the Company spent Rs. 1.30 crore towards construction of seven godowns to be completed during April - December 2001, those could not be completed so far (January 2009) due to taking up construction in low lying areas, land dispute and paucity of funds. Storage commission of Rs. 21.93 lakh has been paid to the SAs during 2003-08 in these localities.

The Government stated (October 2009) that the godowns were constructed in the coastal districts to store food grains for utilisation during natural calamities. It was added that the godowns were let out at lower rents as per recommendation of the concerned District Collectors. The reply is contrary to the fact that the sole intention behind construction of godowns was to create storage facility and maintain the food chain in the coastal districts vulnerable to cyclones and floods. The reply is silent on the fact that 14 godowns could not be let out even at the lower negotiated rents as instructed by the Company though storage commission was paid to the SAs in the same locality where those were constructed.

Thus, planning deficiencies and failure of the Company to let out the godowns resulted in blockage of fund of Rs. 3.65 crore coupled with avoidable expenditure of Rs. 46.15 lakh towards storage commission.

It is recommended that the Company should take concrete steps to let out the godowns to earn revenue or get those utilised by the SAs for storage of PDS commodities to avoid payment of storage commission to them.

Orissa Rural Housing and Development Corporation Limited

4.9 Avoidable payment of Guarantee Commission

Failure of the Company to reduce the Government guarantee against the unutilised loan and amount repaid from time to time resulted in avoidable expenditure of Rs. 3.54 crore towards Guarantee Commission.

The Company was liable to pay Guarantee Commission (GC) at the rate of 0.5 *per cent* per annum to the State Government on the maximum amount of guarantee sanctioned irrespective of the amount availed/outstanding on 1 April of each year till liquidation of the loan as per the guidelines (12 November 2002) of Government of Orissa (GoO). For reduction of guarantee the Finance Department (FD) clarified (26 November 2002/June 2003) that concurrence of the FD should be obtained by the concerned Administrative Department on production of proof of payment of up-to-date GC, letter of the lending financial institution certifying repayment of the loan and other concerned supporting papers. In that case, GC would be paid on the reduced guarantee amount only.

The State Government sanctioned (March 1996 to November 2002) guarantee of Rs. 484.12 crore to the Company for availing loans from Housing and Urban Development Corporation Limited. The Company, however, availed loans of Rs. 438.33 crore and the balance guarantee of Rs. 45.79 crore remained unutilised from 1997-98 to 31 March 2008. The GoO recovered GC of Rs. 18.01 crore by March 2005 from the Company though such amount was not due for payment. Subsequent amount accrued towards GC was adjusted from that amount and considering that Rs. 16.58 crore was due for payment by 31 March 2008 there was excess payment of Rs. 1.43 crore towards GC.

Audit observed that:

- Though the Company repaid loans of Rs. 202.17 crore between April 1995 and March 2009, it did not initiate action to reduce the guarantee outstanding to the extent of the repaid amount in the relevant years of repayment as per the instructions of the FD (November 2002) and incurred avoidable expenditure of Rs. 2.17 crore towards GC. The reason for not initiating action for reduction of guarantee amount was not on record.
- Further, the Company did not submit the surrender proposal to the Government for the unutilised portion of guarantee but paid GC of Rs. 1.37 crore during April 2003 to March 2008 which was avoidable.

Had the Company adequately monitored the issue of payment of GC and taken steps as per the instructions of the FD to reduce the guarantee to the extent of the loan repaid from time to time and loan not availed in the relevant years, it could have avoided payment of GC of Rs. 3.54 crore.

The Government while accepting the audit observation stated (May 2009) that the position of excess payment of GC had been arrived on account of circumstances beyond the scope and control of the Company. It was also added that the matter would be pursued for surrender of unutilised Government guarantee. The fact remained that the Company paid excess GC due to its failure to reduce the Government guarantees in time.

It is recommended that the higher management of the Company should ensure strict adherence to the instructions of the FD with respect to surrender/ closure/reduction of Government Guarantees and responsibility should be fixed on erring officials.

Orissa Power Generation Corporation Limited

4.10 Loss due to non-maintenance of critical spares

Failure of the Management in keeping inventory of critical spares led to forced outage of plant resulting in loss of Rs. 2.59 crore.

The Company operates two thermal power units (I and II) with installed capacity of 210 MW each at Banharpalli, Jharsuguda. Unit-II of the power station stopped functioning (1 June 2007) due to damage of seven low pressure turbine blades. Since the Company did not have adequate spare blades in stock, it contacted (13 June 2007) the Original Equipment Manufacturer, Bharat Heavy Electricals Limited (BHEL), who intimated (16 June 2007) that they would take 24 months to supply the new set[⊕] of blades. The Company obtained (20 June 2007) 25 blades from North Chennai Thermal Power Station (NCTPS) on loan basis. The Company sent (20/21 June 2007) 140 blades (114 old and 26 new) to BHEL, Haridwar for repairing and sequencing which were received back on 5 July 2007. After refitting of the blades, the unit resumed generation from 21 July 2007 after a total shutdown of 50 days (1 June to 20 July 2007). Thereafter the Company placed purchase order (21 March 2008) for procurement of 123 blades with its ancillary spares at a total cost of Rs. 3.41 crore in order to keep a stock of spare set of blades to meet emergent situations and for return of the blades borrowed from NCTPS.

Audit observed that in June 2003 six blades of this particular unit were damaged and the unit was under forced shutdown. While replacing the damaged blades, BHEL had recommended (July 2003) to keep one complete set of spare blades for contingencies. The Company, however, did not act upon the recommendation of BHEL for reasons not on record and did not maintain the stock of essential critical spares. It had also not evolved any system to identify and replace worn out equipments to avoid forced outage of the generating unit.

Had the Company acted upon the recommendation of BHEL and maintained inventory of blades, the outage period could have been reduced by 16 days and the unit could have generated 79.419 MU[*]. Considering this loss in generation, the Company lost revenue of Rs. 2.59 crore (Rs. 2.40 crore as incentive[**] and Rs. 0.19 crore as margin on variable cost).

The Management stated (June 2009) that after blade failure in June 2003 due to high frequency of operation, the plant was connected to the Western Regional Electricity Board, where the frequency was normal. Therefore, it was not expected that there would be repeat blade failure for which full set of blades had not been kept. The fact, however, remained that non-implementation of BHEL's advice on the basis of an assumption was not a prudent inventory management practice and adversely affected the generation of power by the Company.

It is recommended that the Company should maintain inventory of critical spares to avoid forced shutdown. The Enterprise Resource Planning System

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[⊕] A set comprises Low Pressure (LP) 3L (generator end) -58 blades and LP-3R (turbine end) - 58 blades.

[*] Considering the average generation per hour achieved in May 2007.

[**] As per the CERC's regulation, a generator of power is entitled to incentive for achieving Plant Load Factor (PLF) over 80 per cent, which is paid at 35 *per cent* of 30 *per cent* of project cost multiplied by the excess PLF achieved.

should be properly utilised to serve as a reliable Management Information System to avoid such lapses in future.

The matter was reported to the Government (June 2009); their reply had not been received (October 2009).

Industrial Promotion and Investment Corporation of Orissa Limited

4.11 Loss due to imprudent decision

Failure to take timely action for disinvestment resulted in non-realisation of Rs. 3.15 crore.

In pursuance of its primary objective of promoting large and medium scale industries in the State, the Company enters into joint venture agreements with other promoters and participates in equity for establishment of new industrial units as well as for expansion, diversification and modernisation of existing units. Timely disinvestment of shares held by the Company is essential in order to generate funds for carrying out the objectives of the Company of promoting new industries and for its survival also. On the matter of disinvestment, the Committee on Public Undertakings in their second report (Twelfth Assembly) recommended (August 2000) that (i) the Company should take timely decision in case of disinvestment, (ii) as the purpose of the Company was to promote entrepreneurship, disinvestment of funds should be made in time for recycling the funds in other ventures and (iii) responsibility should be fixed on officials dealing with disinvestment policy because negligence of a few officials for not disinvesting in time had resulted in failure of the very purpose for which the Company was established.

The Company invested Rs. 8.14 crore during April 1984 to December 1991 in Orissa Synthetics Limited[♣] (OSL). After restructuring (January 1994) of OSL, the Company was allotted (January 1994) 5,42,665 shares in JK Lakshmi Cement Limited (JKLCL) and 60,295 shares in Ashim Investment Limited (AIL) with face value of Rs. 10 per share.

In order to meet loan repayment commitments of Rs. 20.66 crore, the Board of Directors (BoD) of the Company decided (7 November 2007) to sell the shareholding of the Company in JKLCL at a consideration of Rs. 186 per share or the price prevailing in the Bombay Stock Exchange (BSE) on the date of sale, whichever was higher. The Company accordingly sold 3,89,550 shares for Rs. 7.77 crore during 19 November to 6 December 2007 at prices ranging

[♣] The Company invested in Orissa Synthetics Limited (OSL) promoted by Straw Products Limited, later known as JK Corporation Limited (JCL). OSL merged with JCL in January 1994 and the Company was allotted only 6,02,960 shares in JCL. JCL was renamed as JKLCL in October 2005 which was again restructured (April 2005) as JKLCL and AIL. The restructuring was given effect on 31 March 2006.

from Rs. 195 to Rs. 200 per share. The balance 1,53,115 shares were not sold in view of the decision (6 December 2007) of the BoD that (i) the share prices were likely to increase further in future, (ii) there was no urgent requirement of fund. The BoD, however advised to place the proposal for sale of the balance shares at an appropriate time. The balance shares were not sold and the price of the shares in the BSE was Rs. 103 per share on 22 June 2009.

Audit observed the following:

- The share price of JKLCL started declining from Rs. 221 (17 December 2007) and went below Rs. 186 (the price approved by BoD for sale) on 11 January 2008. The proposal for sale of the balance 1,53,115 shares was, however, not placed before the BoD as per their direction of 6 December 2007.
- The Company decided (7 November 2007) to disinvest five lakh shares in Orissa Sponge Iron Limited (OSIL) at a consideration of Rs. 676 per share. Since the shares of OSIL traded below Rs. 500 per share during December 2007, the BoD decided (4 January 2008) to sell 7.5 lakh shares of OSIL at a minimum price of Rs. 500 per share, as a result of which 2,54,169 shares were sold for Rs. 16.54 crore during 4 January 2008 to 18 January 2008 at prices ranging from Rs. 505 to Rs. 689.
- There was requirement of funds of Rs. 20.66 crore towards repayment of loans of Small Industries Development Bank of India (Rs. 5.45 crore) and Government of Orissa (Rs. 15.21 crore). Further, as per the action plan of the Company (June 2007) for 2007-08 it was aiming to create a corpus of surplus fund of about Rs. 50 crore within a period of four years yielding risk free return of about 9 to 10 *per cent* per annum by liquidating its investments in assisted units. The sale of shares of OSIL at a lower price indicates that there was requirement of funds. Hence, the decision to stop the sale of shares of JKLCL when the share prices were increasing was not prudent. Had the Company sold the balance shares at the average price of Rs. 206 per share as on 4 January 2008 it could have generated Rs. 3.15 crore with a profit of Rs. 1.09[℘] crore and invested the funds for getting risk free return of Rs. 49.68 lakh from January 2008 to September 2009.

The Government stated (October 2009) that the entire shares of JKLCL could not be sold by 6 December 2007 due to non-availability of buyers in the market. It was added that the BoD had advised to place the proposal for sale of the shares at the appropriate time. The fact remained that during 7 to 31 December 2007, 20 lakh shares of JKLCL were traded in the market at prices ranging from Rs. 199 to Rs. 206 *per* share. Further, the Company did not place the proposal to sell the balance shares despite the Board's advice in December 2007.

[℘] 1,53,115 share x 71 (Realisable value as on 1 April 2008: Rs. 206 – Cost price: Rs. 135) = Rs. 1.09 crore

It is recommended that the Company should strictly follow the recommendations of the COPU and take timely action for disinvestment.

Thus, failure to take timely action for disinvestment resulted in non-realisation of Rs. 3.15 crore besides loss of interest of Rs. 49.68[&] lakh up to September 2009.

Orissa Power Transmission Corporation Limited

4.12 Undue favour to parties

Failure of the Company to invoke the penal provisions for delay in availing power supply as per the terms of the agreements resulted in undue favour to the defaulted industries for Rs. 1.54 crore.

In order to make available sufficient quality power to the upcoming industries in Duburi region, the Government of Orissa (GoO) decided (April 2004), *inter alia*, that the industries would (i) spell out their demand of power on quarterly basis, (ii) extend interest free loan of Rs. 10 lakh per MW on maximum demand to the Company and (iii) sign agreement in this regard with the Company[$] and the distribution companies. It was also decided in that meeting that for non-availment of power and non-supply of power as per spelled out demand, penal interest at the rate of 12 *per cent* per annum on the loan amount would be paid by the industries and the Company respectively for the period of delay. The Board of Directors (BoD) of the Company decided (August 2004) that interest at the rate of six *per cent* per annum would be paid by the Company on the amount of loan deposited by all upcoming industries in the State. The BoD, however, decided (October 2005) that in case of failure of the Company to provide the agreed power, the penal interest payable would be 12 *per cent* per annum in lieu of six *per cent* interest on loan, while in case of non-availment of power by the industries for any reason they would pay 12 *per cent* per annum interest on the amount of loan deposited by them and no interest would be paid by the Company on such loan. The Company received loan of Rs. 48.51 crore during November 2004 to February 2008 from 35 industries for effecting power supply to them.

Audit observed that seven industries availed power supply with delays ranging from 60 to 259 days during July 2005 to November 2007 although the Company was in a position to supply power on the due dates. The Company neither claimed penal interest of Rs. 1.17 crore from the industries for delay in availing power during July 2005 to November 2007 nor disallowed interest of Rs. 57.41 lakh on the loans deposited by those industries as per the terms of the agreement. On this being pointed out by Audit (August 2007 and November 2008) the Company recovered (March 2009) Rs. 19.58 lakh

[&] Nine *per cent* interest on expected realisable value of Rs. 315.42 lakh for 21 months from January 2008 to September 2009.
[$] Then GRID Corporation of Orissa Limited till March 2005.

towards penal interest from one industry (Mangilall Rungta) for delay in availing power supply. In respect of the other six industries action had not been taken to recover Rs. 1.54[#] crore, the reasons for which were not on record. In response to an audit query, the Management had stated (September 2007) that it would claim penal interest from all applicable cases after due verification.

Thus, failure of the Company to invoke the penal provisions for delay in availing power supply as per the terms of the agreement resulted in undue favour amounting to Rs. 1.54 crore.

It is recommended that the Company should put in place a system to prevent recurrence of such cases. Further, it should also review all the cases of delay in availing power supply by the industries as per terms of the agreement and claim penal interest from them.

The matter was reported to the Management/ Government (March 2009); their replies had not been received (October 2009).

4.13 Lack of remedial action on audit observation

One PSU did not either take remedial action or pursue the matter to its logical end in respect of one IR para, resulting in foregoing the opportunity to improve its functioning.

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods up to 2003-04 showed that there was one para in respect of one PSU, Orissa Power Transmission Corporation Limited, which pointed out deficiencies in its functioning. As per the extant instructions of Government of Orissa, the Company is required to take remedial action within one month after receipt of IRs from Audit. However, no effective action has been taken to take the matter to its logical end, i.e., to take remedial action to address this deficiency. As a result, the Company has so far lost the opportunity to improve its functioning in this regard. The details of the para included in IR No.98 of 2003-04 is stated below.

In Load Despatch and Telecommunication Division, Bhubaneswar, against the sanctioned strength of 65, the men-in-position in different cadres of the Division were 87 resulting in payment of idle wages of Rs. 40.94 lakh from June 2002 to August 2003. Though the Management stated (August 2004) that the revised manpower structure of 65 employees had not been implemented, no response was received thereafter, despite continuance of the surplus manpower.

[#] Penal Interest: Rs. 1.17 crore *plus* Disallowed Interest: Rs. 0.57 crore *minus* Recovered: Rs. 0.20 crore.

The above case points out the failure of the Company to address the specific deficiency and ensure accountability of its staff. Audit observation and its repeated follow up by Audit, including bringing the pendency to the notice of the Administrative/Finance Department and the Management periodically, has not yielded the desired result in this case.

The Company should initiate immediate steps to take remedial action on this para and complete the exercise in a time bound manner.

The matter was reported to the Management/ Government (June 2009); their replies had not been received (October 2009).

IDCOL Ferro Chrome and Alloys Limited

4.14 Avoidable payment of water cess

Non-compliance of the statutory provisions of environment and water pollution control laws resulted in avoidable expenditure/liability of Rs. 38 lakh towards water cess at higher rate.

Tailangi Chromite Mines (TCM) of Industrial Development Corporation of Orissa Limited (IDCOL) is operated by the Company, which is a subsidiary of IDCOL. TCM consumes water from its own borewell for domestic purposes. The water required for spraying on haulage roads and repairing and washing of heavy vehicles/earth moving equipments in the workshop is drawn from the nearby Damasala nallah. The mine drainage water is used for washing of ore in Chrome Ore Beneficiation Plants and the balance mine drainage water is discharged to Damasala nallah without treatment.

The Company is required to pay water cess to the Orissa State Pollution Control Board (OSPCB) as per provisions of the Water (Prevention and Control of Pollution) Cess Act, 1977 (WPCPC Act). The WPCPC Act provides, *inter alia*, for a rebate of 25 *per cent* of the cess payable if the industry installs a plant for the treatment of sewage or trade effluent. In case the industry fails to comply with any of the provisions of Section 25 of Water (Prevention and Control of Pollution) Act, 1974 or any of the standards laid down by the Central Government under the Environment (Protection) Act, 1986, besides disallowance of the rebate of 25 *per cent* of the cess payable, the industry would also be liable to pay higher amount of water cess.

Audit observed that the Company did not comply with the statutory requirements like fixation of separate water flow meters at each consumption head as required under Section 4 of the WPCPC Act. The Effluent Treatment Plant (ETP) of quarry-I of the mine was completely damaged. The ETP of quarry-II, though found to be operative in July 2008, yet a part of the mine water was discharged directly to the Damasala nallah without being routed through the ETP, which had adverse impact on the environment. Another ETP for quarry-II was under construction. In the absence of water meters, the

OSPCB authorities assessed the water consumption as 145.09 lakh Kilo Litre (KL) at higher rates on the basis of actual pumps deployed, while the Company stated to have actually consumed 65 lakh KL of water during March 2004 to February 2009. As a result, there was excess payment/liability[#] of Rs. 32.79 lakh towards water cess. Further, due to non-compliance with Section 25 of the WPCPC Act, the Company could not avail rebate amounting to Rs. 5.21 lakh.

The Government while accepting the fact stated (April 2009) that it would take up the matter for re-fixation of water cess and grant of rebate with OSPCB after installation of water-flow meter and operation of ETP.

Thus, due to non-compliance of the statutory provisions of environment and water pollution control laws the Company was liable for payment of Rs. 38 lakh towards water cess at higher rate.

It is recommended that the Company should comply with various provisions of environment control well in time.

Orissa Power Transmission Corporation Limited and Orissa State Civil Supplies Corporation Limited

4.15 Opportunity to recover money ignored

Two PSUs did not either seize the opportunity to recover their money or pursue the matter to their logical end. As a result, recovery of Rs. 59.63 lakh remains doubtful.

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods up to 2003-04 showed that there were 13 paras in respect of two PSUs involving a recovery of Rs. 59.63 lakh. As per the extant instructions of Government of Orissa, Finance department, the PSUs are required to take remedial action within one month after receipt of IRs from Audit. However, no effective action has been taken to take the matters to their logical end, i.e., to recover money from the concerned parties. As a result, these PSUs have so far lost the opportunity to recover their money.

[#] The Company had gone for appeal (July 2006) against water cess payable during March 2004 to April 2006 amounting to Rs. 27.97 lakh which is still pending with OSPCB.

The PSU-wise details of paras and recovery amount are given below. The list of individual paras is given in **Annexure 8**.

Sl. No.	PSU Name	No. of paras	Amount for recovery (Rs. in lakh)
1.	Orissa State Civil Supplies Corporation Limited	4	7.75
2.	Orissa Power Transmission Corporation Limited	9	51.88
	Total	**13**	**59.63**

The paras mainly pertain to recovery on account of excess payment to employees and contractors.

The above cases point out the failure of the respective PSU authorities to safeguard their financial interests. Audit observations and their repeated follow up by Audit, including bringing the pendency to the notice of the Administrative/Finance Department and PSU Management periodically, have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to recover the money.

The matter was reported to the Managements/ Government (June 2009); their replies had not been received (October 2009).

Statutory corporation

Orissa State Financial Corporation

4.16 Loss due to deviation from the Government guidelines

Deviation from the Government approved One Time Settlement Scheme resulted in loss of Rs. 25.95 crore and short realisation of initial security deposit of Rs. 41.75 lakh.

Government of Orissa (GoO) approved (February 2007) the One Time Settlement (OTS) Scheme, 2007 of Orissa State Financial Corporation (Corporation) with the objective of (i) reduction of the high level of Non-Performing Assets, (ii) maximising recovery of outstanding loan dues from Small Scale Industries (SSI) and (iii) enhancing viability of the Corporation. The OTS scheme was formulated after taking into consideration the facts placed by the Corporation and suggestions made by the Industries

Associations. The approved OTS scheme, which was communicated (March 2007) to the Corporation for implementation, *inter alia*, envisaged the following:

- Each loan disbursed was to be taken as a separate loan for computation of the settlement amount*.
- In case of switchover cases from earlier OTS schemes, the initial security deposit (ISD) would be 25 *per cent* of the earlier settled amount.
- The scheme would not cover cyclone loans disbursed on account of the super cyclone of 1999, hire purchase (HP) and Short-Term Working Capital (STWC) loans.

After getting the approval (7 March 2007) of the Board of Directors (BoD), the Corporation implemented the OTS scheme from 15 March 2007 to March 2009 and settled 1,496 cases for Rs. 85.67 crore against the outstanding amount of Rs. 322 crore. Scrutiny of 31 out of 247 switchover cases and 27 out of 32 cases involving disbursement above Rs. 20 lakh revealed the following:

- The Government while directing the Corporation to implement the scheme, had not authorised the BoD to alter or modify the core issue of the scheme. The BoD were appraised (March 2007) through an illustration that the modified formula would be financially beneficial to the Corporation than the formula approved by the Government. Based on the illustration, the BoD modified the Government-approved scheme as per which the sum total of all the loans outstanding against a loanee was to be treated as a single loan for arriving at the settlement amount. The illustration, however, had been placed before the BoD with incorrect interpretation of the Government approved settlement formula. As a result, there was loss of Rs. 99.95 lakh in eight cases involving disbursement above Rs. 20 lakh.
- The BoD also reduced the ISD for switchover cases from 25 *per cent* of the earlier settlement amount to 10 *per cent* of principal outstanding. As a result, there was short realisation of ISD of Rs. 41.75 lakh in 31 cases.
- The Government-approved OTS scheme was not applicable to STWC and HP loans. The BoD, however, included (April 2007) these two loan portfolios and settled 27 cases under the OTS-2007. As a result, the Corporation suffered a loss of Rs. 24.95# crore which amounted to extension of undue favour to the loanees.

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* For loans above Rs. 20 lakh, the settlement would be the amount disbursed *plus* interest at the prescribed rates till cut off date *less* repayments since inception till date of application or the principal outstanding as on date of application, whichever is higher.

STWC Loans (12 cases)– Rs. 3.68 crore and HP loans (15 cases) – Rs. 21.27 crore.

The OTS-2007 scheme of the Corporation was finalised by the GoO in consultation with the Industries Associations and was communicated to the Corporation for implementation only. Thus, any modification of the scheme should have been done only with the approval of the Government. Implementation of the modified scheme resulted in short realisation of ISD of Rs. 41.75 lakh and loss of Rs. 25.95 crore.

The Government stated (September 2009) that the BoD revised the provisions of the scheme for attracting more number of loanees so as to contain the level of non-performing assets. It was further stated that the BoD was competent to extend the OTS to STWC and HP loans under section 39 of the SFCs Act, 1951. The reply is not convincing as the BoD was appraised that deviation from the scheme would have been more beneficial for the Corporation whereas the methodology to calculate the benefit was incorrectly adopted, which resulted in extending undue benefits to the loanees at the cost of the Government exchequer. Further, there was no recorded reason showing the merits for extending OTS to STWC and HP loans.

It is recommended that the Corporation should scrupulously follow the instructions/ guidelines framed by the Government.

4.17 Loss due to delay in realisation of dues

Lack of monitoring and inaction on the part of the Management in taking steps for realisation of dues led to loss of Rs. 6.99 crore.

The Corporation seized (August 1997) a financed industrial unit under Section 29 of the State Financial Corporations Act, 1951 due to failure of its promoter in repaying the loan amount of Rs. 121.32 lakh (Principal – Rs. 52.40 lakh; interest – Rs. 68.92 lakh) outstanding as on 31 December 1996. The seized assets included 3.96 acres of land, buildings, 37 items of plant and machinery and other equipment. The Corporation, however, released the assets at the request of and on repayment (17 September 1997) of only Rupees one lakh by the loanee under an agreement of Zimanama[*] (September 1997). As per the agreement, the loanee was required to submit a firm repayment programme by December 1997 and to pay further amount of Rupees four lakh by March 1998. The loanee, however, did not comply with any of the conditions of Zimanama. After 11 years, the Corporation invoked (5 September 2008) the Zimanama agreement and took over the assets. No reason was available on record for not taking action for such a long time. The inventory list of the industrial unit on takeover indicated that the factory shed and godown were completely damaged without doors and windows and no machinery and equipment were available. Hence, only the land was sold (29 November 2008) by public auction at Rs. 6.10 lakh as against the outstanding dues of Rs. 704.84 lakh as on 31 December 2008 resulting in loss of Rs. 698.74 lakh.

[*] Conferring the right to possession only without vesting ownership of the property.

Audit observed that the Management was aware (31 January 1998) that the unit was a partially implemented project and electricity connection had also been snapped (January 1998) after takeover of the unit by the loanee after entering into the Zimanama agreement. Despite this, the Management did not consider reviewing the Zimanama agreement forthwith (February 1998) particularly when the loanee had failed to honour the terms of the agreement. The Management only recalled (19 March 2005) the entire dues of Rs. 451.52 lakh outstanding as on 31 December 2004 after a long gap of seven years. Even though the loanee did not respond to the recall notice, the legal notice was served after 33 months i.e. on 18 December 2007. This indicates laxity in taking steps for realisation of the long outstanding dues.

It was further observed that as per the provisions of Zimanama, the loanee was to furnish the statement of accounts and the Corporation had the right to inspect the unit. The Management, however, neither called for the statement of accounts nor inspected the premises during the period September 1997 to August 2007. Thus, the monitoring mechanism of the Corporation was completely ineffective leading to loss of Rs. 6.99 crore.

The Government stated (June 2009) that it would avail the option of invoking Section 31 of SFCs Act for recovering the balance dues. The fact, however, remained that the Corporation had not taken steps to invoke Section 31 to recover the dues even after a lapse of 10 months from the date (5 September 2008) of taking over or repossession of the assets of the unit and property details of the promoter were also not available with the Corporation. Moreover, the Corporation did not have the collateral securities to recover the balance amount.

It is recommended that the Management should take adequate and timely follow up action for recovery of dues in all cases of default in order to minimise the loss to the Corporation.

General

4.18 Follow-up action on Audit Reports

Explanatory Notes outstanding

4.18.1 The Comptroller and Auditor General of India’s Audit Reports represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various offices and departments of Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance Department, Government of Orissa issued instructions (December 1993) to all Administrative Departments to submit explanatory notes indicating corrective/remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Though the Audit Reports for the years 1999-2000 to 2007-08 were presented to the State Legislature, 12 out of 15 departments which were commented upon did not submit explanatory notes on 40 out of 210 paragraphs/reviews as on 30 September 2009, as indicated in the following table.

Year of the Audit Report (Commercial)	Date of presentation	Total Paragraphs/ Reviews in Audit Report	No. of paragraphs/ reviews for which explanatory notes were not received
1999-00	1 August 2001	29	1
2000-01	22 March 2002	25	Nil
2001-02	24 March 2003	17	1
2002-03	23 December 2003	24	Nil
2003-04	14 March 2005	27	2
2004-05	20 February 2006	17	2
2005-06	29 March 2007	21	3
2006-07	17 March 2008	25	6
2007-08	18 June 2009	25	25
Total		**210**	**40**

Department-wise analysis is given in **Annexure 9**. PSUs under the Energy, Industries and Public Enterprises Department were largely responsible for non-submission of explanatory notes. The Government did not respond to even reviews highlighting important issues like system failures, mismanagement and non-adherence to extant provisions.

Compliance to Reports of Committee on Public Undertakings (COPU) outstanding

4.18.2 Action Taken Notes (ATNs) to 74 recommendations pertaining to seven Reports of the COPU presented to the State Legislature between April 1999 and August 2008 had not been received as on 30 September 2009 as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of recommendations where ATNs not received
1999-2000	1	18
2001-02	1	8
2007-08	1	1
2008-09	4	47
Total	**7**	**74**

The replies to the recommendations were required to be furnished within six months from the date of presentation of the Reports.

Response to Inspection Reports, Draft Paragraphs and Reviews

4.18.3 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and the concerned administrative departments of State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective heads of departments within a period of four weeks. Inspection Reports issued up to March 2009 pertaining to 32 PSUs disclosed that 1,425 paragraphs relating to 325 Inspection Reports remained outstanding at the end of 30 September 2009. Even the initial replies were not received in respect of 723 paragraphs pertaining to 143 Inspection Reports. Department-wise break-up of Inspection Reports and Audit observations outstanding at the end of September 2009 is given in **Annexure 10**. Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that out of 17 draft paragraphs and two draft performance reviews forwarded to various departments between March and August 2009, as detailed in **Annexure 11**, replies to seven draft paragraphs and one draft performance review were awaited (October 2009). It is recommended that the Government should ensure that (a) procedure exists for action against the officials who fail to send replies to Inspection Reports/ draft paragraphs/performance reviews and ATNs on recommendations of COPU as per the prescribed time schedule, (b) action is taken to recover loss/outstanding advances/ overpayments in a time-bound schedule and (c) the system of responding to audit observations is revamped.

Bhubaneswar
The

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Countersigned

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The

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