

## Overview

### 1. Overview of Government companies and Statutory corporations

*Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2009, the State of Orissa had 33 working PSUs (30 companies and 3 Statutory corporations) and 33 non-working PSUs (all companies), which employed 0.25 lakh employees. The working PSUs registered a turnover of Rs. 8,093.78 crore for 2008-09 as per their latest finalised accounts. This turnover was equal to 6.63 per cent of state GDP indicating an important role played by State PSUs in the economy. The PSUs earned an aggregate profit of Rs. 1,177.42 crore and had accumulated profit of Rs. 1,269.44 crore for 2008-09.*

#### **Investments in PSUs**

*As on 31 March 2009, the investment (capital and long term loans) in 66 PSUs was Rs. 8,000.29 crore. It decreased by 35.57 per cent from Rs. 12,416.95 crore in 2003-04 to Rs. 8,000.29 crore in 2008-09 due to repayment of loan in power sector. Power sector accounted for nearly 76.27 per cent of total investment in 2008-09. The Government contributed Rs. 715.20 crore towards equity, loans and grants/subsidies during 2008-09.*

#### **Performance of PSUs**

*During the year 2008-09, out of 33 working PSUs, 20 PSUs earned profit of Rs. 1,231.53 crore and nine PSUs incurred loss of Rs. 40.37 crore. The major contributors to profit were Orissa Mining Corporation Limited (Rs. 879.26 crore), Orissa Power Generation Corporation Limited (Rs. 161.29 crore), GRIDCO Limited (Rs. 98.14 crore) and Industrial Promotion and Investment Corporation of Orissa Limited (Rs. 24.91 crore). Heavy losses were incurred by Orissa Power Transmission Corporation Limited (Rs. 15.22 crore), Orissa Rural Housing and Development*

*Corporation Limited (Rs. 12.40 crore) and Orissa Forest Development Corporation Limited (Rs. 5.59 crore).*

*The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of CAG shows that the State PSUs' losses of Rs. 1,000.37 crore and infructuous investments of Rs. 409.43 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and enhance profit/ minimise losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for greater professionalism and accountability in the functioning of PSUs.*

#### **Quality of accounts**

*The quality of accounts of PSUs needs improvement. All 34 accounts finalised during October 2008 to September 2009 received qualified certificates. There were 25 instances of non-compliance with Accounting Standards. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.*

#### **Arrears in accounts and winding up**

*Twenty-eight working PSUs had arrears of 54 accounts as of September 2009. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There were 33 non-working companies. As no purpose is served by keeping these PSUs in existence, they need to be wound up quickly.*

#### **Discussion of Audit Reports by COPU**

*The Audit Reports (Commercial) for 2005-06 and onwards are yet to be discussed fully by COPU. These three audit reports contained 13 reviews and 58 paragraphs of which one review and one paragraph have been discussed.*

*(Chapter 1)*

## 2. Performance review relating to Government company

Performance review relating to 'Operation and Maintenance Activities of **Orissa Hydro Power Corporation Limited**' was conducted. Executive summary of the audit findings are given below:

### *Operation and Maintenance Activities of Orissa Hydro Power Corporation Limited*

*In pursuance of the Orissa Electricity Reforms Act, 1995, the Company was incorporated in April 1995 with the main objective of carrying on the generation of hydropower and maintenance of hydro power stations. It has six hydro power stations with aggregate installed capacity of 1,877.50 MW besides share of 34.50 MW in Machkund Hydro Power Station, a joint venture project. The peak hour and off-peak hour demand in the State for the year 2008-09 was 3,021 MW and 1,931 MW respectively against which the installed capacity of power in the state was 2,332 MW. During 2008-09, the total energy drawal was 19,398 MU from different sources including 5,692 MU from hydel power. The Operation and Maintenance activities of the Company were reviewed to assess the adequacy in planning of the Company with regard to future requirement, utilisation of generating capacity as well as water resources in an economical, efficient and effective manner, generation of energy upto the optimum level, timely Renovation, Modernisation and Uprating of the existing units and reservoirs and adequacy of internal control and management of various activities.*

#### **Planning of the Company with regard to future requirement**

*The Government of Orissa (GoO) identified (August 2007) nine hydro power projects of 1,500 MW installed capacity through joint venture with National Hydro Power Corporation Limited and the Company on which further action is awaited. Though the Company planned for capacity addition of 2,171 MW during the Eleventh Plan period in four projects, extension of Balimela Hydro Electric Project (BHEP) (150 MW) was completed by January 2009 and the possibility of addition of balance 2,021 MW during the Eleventh plan period is remote. Further, the capacity addition of 320 MW planned to establish Sindol I, II, III hydro power projects is not executed as Detailed Project Report has not been prepared so far (September 2009). There was unfruitful capacity addition at a cost of Rs. 206.07*

*crore in BHEP and wasteful expenditure of Rs. 37 crore on Potteru Small Hydro Electric Project.*

#### **Utilisation of generating capacity and water reservoir**

*Though the achievement against target of the Company for generation was satisfactory, yet the actual generation in four generating stations was less than the design energy resulting in loss of Rs. 71.63 crore. The machine availability of the Company during 2004-09 ranged between 62.75 and 93.90 per cent. Due to non-availability of normative machine hours the Company failed to recover capacity charges of Rs. 15.52 crore during 2005-09 besides non-receipt of incentive of Rs. 16.98 crore from GRIDCO Limited. The Company sustained avoidable generation loss of 4,274 MU valued at Rs. 156.05 crore during 2004-09. As against availability of 2,72,727 MCM of water for generation the Company could utilise only 1,39,779 MCM (52.25 per cent). The Company did not claim Rs. 28.49 crore from 18 industrial units towards drawal of water from the reservoirs during 2004-09.*

#### **Generation of energy upto optimum level**

*The gross generation during 2004-09 ranged between 5,030 MU and 7,850 MU. The auxiliary consumption was excess by 19.66 MU over the norms fixed by CERC resulting in loss of Rs. 42.44 lakh. The transformation loss was in excess of the norm by 355.28 MU resulting in loss of Rs. 13.39 crore.*

#### **Renovation, Modernisation and Uprating (RMU)**

*The Company did not make any plan for RMU of five units of BHEP which outlived their normal economic life. The upgradation of one unit of Hirakud Power System (HPS), Burla was not effective resulting in generation loss of 6.06 MU valued at Rs. 24.91 lakh per annum. Due to indecisiveness of the Company, the RMU of unit 5 and 6 of HPS, Burla and unit 3 of HPS, Chipilima was not completed till date (July 2009).*

*The Operation and Maintenance (O&M) expenses was excess over the norms fixed by Orissa*

*Electricity Regulatory Commission (OERC) which ranged between Rs. 12.35 crore and Rs. 94.13 crore during 2006-09. The Company had not standardised the formats for the monthly performance reports and load reports.*

#### **Internal Control and Management**

*The Company failed to comply with CEA regulations with respect to installation and operation of meters. It sustained interest loss of Rs. 3.07 crore during 2004-09 due to blockage of fund in excess inventory. The contract management, environment management and internal control system of the Company was also inadequate. The manpower management of the Company was deficient since its technical*

*manpower position was less than the norms while the non-technical manpower position was higher than the norms fixed in the National Electricity Plan of April 2007.*

#### **Conclusion and Recommendations**

*Proper planning by the Company could have enabled it for capacity addition of 2,341 MW. With proper preventive maintenance and water management, the Company could have generated 9,064 MU during 2004-09. The review contains five recommendations which includes increasing the installed capacity and reducing operating and maintenance expenditure.*

(Chapter 2)

### **3. Performance review relating to Statutory corporation**

Performance review relating to 'Functioning of Orissa State Road Transport Corporation' was conducted. Executive summary of the audit findings are given below:

#### **Functioning of Orissa State Road Transport Corporation**

*The Orissa State Road Transport Corporation (Corporation) provides public transport in the State through its 14 depots. The Corporation had fleet strength of 312 buses as on 31 March 2009 and carried an average of 0.14 lakh passengers per day. The performance audit of the Corporation for the period 2004-09 was conducted to assess efficiency and economy of its operations, ability to meet its financial commitments, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the Corporation.*

#### **Finances and Performance**

*The Corporation earned a profit of Rs. 7.11 crore in 2008-09. Its accumulated losses and borrowings stood at Rs. 221.11 crore and Rs. 24.85 crore as at 31 March 2009, respectively. The Corporation earned Rs. 18.26 per kilometre and expended Rs. 15.95 per kilometre in 2008-09. Audit noticed that with the right kind of policy measures and better management of its affairs, it is possible to increase revenue and reduce costs, so as to earn profit and serve its cause better.*

#### **Declining Share**

*Of 7,732 buses licensed for public transport in 2008-09, 4.04 per cent belonged to the Corporation. The percentage share declined marginally from 4.29 per cent in 2004-05. The*

*decline in share was mainly due to its operational inefficiency (leading to non-availability of adequate funds to replace/add new buses) and lack of support from the State Government. Nonetheless, vehicle density (including private operators' buses) per one lakh population increased marginally from 16 in 2004-05 to 19 in 2008-09 indicating stability in the level of public transport in the State.*

#### **Vehicle profile and utilisation**

*The Corporation's buses consisted of its own fleet of 312 buses as of March 2009. Of its own fleet, 152 (49 per cent) were overage, i.e., eight years old/covered more than five lakh Kms. The percentage of overage buses increased from 22 in 2004-05 to 49 in 2008-09 due to its non-replacement despite acquisition of 168 new buses during 2004-09 at a cost of Rs. 26.72 crore. The acquisition was funded by Government (Rs. 14.95 crore) and own sources (Rs. 11.77 crore).*

*The Corporation's fleet utilisation at 90 per cent in 2008-09 was below the All India Average (AIA) of 94.2 per cent. Its vehicle productivity at 287 kilometres per day per bus was below the AIA of 341 kilometres. The load factor at 71 per cent remained above the AIA of 63 per cent. However, the Corporation could not achieve its own targets of vehicle productivity and load factor though the same were fixed after taking into consideration the local factors and constraints. Around 71 per*

cent of the routes operated were unprofitable due to high cost of operations and non-reimbursement of cost of operation on uneconomical routes and free/concessional passes by the Government. The Corporation's performance on scheduled preventive maintenance and major repairs was poor.

#### **Economy in operations**

Manpower and fuel constitute 68 per cent of total cost. Interest, depreciation and taxes account for 17 per cent and are not controllable in the short term. Thus, the expenditure control has to come mainly from fuel which was 53 per cent of total cost. The Corporation succeeded in reducing the manpower per bus from 5.99 in 2004-05 to 5.02 in 2008-09. The Corporation did not attain its own fuel consumption targets resulting in excess consumption of fuel valued at Rs. 2.93 crore during 2005-09.

The Corporation does not operate any scheme for hiring private buses. Though the Transport Commissioner proposed to implement the scheme, the same was not agreed to by the Corporation as it did not enjoy any special provision on issue of permits.

#### **Revenue Maximisation**

The Corporation's claim of Rs. 39.60 crore towards free/concessional passes, bus warrant, loss on merger of ORT Company and payment to State Transport Service employees were receivable from Government of Orissa. Further, as the Corporation has about 138.47 acres of land at 85 locations and utilises only a small portion of the available land for its operations, the vacant/unutilised land can be developed on public-private partnership basis to earn steady income which can be used to cross-subsidise its operations. The Corporation has not framed any policy in this regard.

#### **Need for a regulator**

The fare per kilometre stood at 43 paise to 72 paise from 17 December 2008 in respect of ordinary, express, deluxe and air-conditioned buses. Though the Government approves the fare increase, there is no scientific basis for its calculation. The Corporation has also not fixed norms for providing services on uneconomical schedules. Thus, it would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify operations on uneconomical routes and address grievances of commuters. Though the Transport Policy adopted by the Government of Orissa envisaged for formation of Orissa Transport Regulatory and Advisory Council (OTRAC), the same is yet to be formed.

#### **Inadequate monitoring**

The fixation of targets for various operational parameters and an effective Management Information System (MIS) for obtaining feedback on achievement thereof are essential for monitoring by the top management. The monitoring by the Board of Directors fell short as it did not recommend suitable measures to control the cost and increase the revenue. Though the operational performance was monitored by the top management, no follow-up action was initiated.

#### **Conclusion and Recommendations**

Though the Corporation is earning profit at the end of 2008-09 it can still control cost and increase revenue by resorting to hiring of buses and tapping non-conventional sources of revenue. This review contains five recommendations to improve the Corporation's performance. Creating a regulator to regulate fares and services and tapping non-conventional sources of revenue by undertaking PPP projects are some of these recommendations.

(Chapter 3)

## **4. Transaction audit observations**

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

*Loss of Rs. 162.32 crore in eight cases due to non-compliance with rules, directives, procedures and terms and conditions of contracts.*

(Paragraphs 4.1 to 4.4, 4.7, 4.9, 4.12 and 4.14)

*Loss of Rs. 29.44 crore in four cases due to non-safeguarding the financial interests of organisation.*

*(Paragraphs 4.5, 4.11, 4.15 and 4.16)*

*Loss of Rs. 3.46 crore in three cases due to defective/deficient planning.*

*(Paragraphs 4.6, 4.8 and 4.10)*

*Loss of Rs. 6.99 crore in two cases due to inadequate/deficient monitoring.*

*(Paragraphs 4.13 and 4.17)*

Gist of some of the important audit observations is given below:

By allowing BPSL to sell power in Open Access ignoring the terms of the MoU executed by them with the GoO and purchasing their surplus power at higher rate, **GRIDCO Limited** 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.

*(Paragraph 4.1)*

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

*(Paragraph 4.2)*

Improper calculation of tax liability by **Orissa Mining Corporation Limited** led to shortfall in deposit of advance income tax resulting in avoidable payment of interest of Rs. 23.92 crore.

*(Paragraph 4.3)*

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

*(Paragraph 4.16)*