# EXECUTIVE SUMMARY

## I Introduction

**1.** This Report includes important Audit findings noticed as a result of test check of accounts and records of Central Government Companies and Corporations conducted by the officers of the C&AG of India under Section 619(3) (b) of the Companies Act, 1956 or the statutes governing the particular Corporations.

**2.** The Report contains 80 paragraphs relating to 52 PSUs[*] under 20 Ministries/ Departments. The draft paragraphs were forwarded to the Secretaries of the concerned Ministries/Departments under whose administrative control the PSUs are working, to give them an opportunity to furnish their replies/comments in each case within a period of six weeks. Replies to 48 paragraphs were not received even as this report was being finalised in November 2009. Earlier, the draft paragraphs were sent to the Management of the PSUs concerned - in respect of one paragraph[♣], the Management did not respond.

**3.** The paragraphs included in this report relate to the PSUs under the administrative control of the following Ministries/Departments of the Government of India:

| **Ministry/Department (Total number of PSUs/ PSUs involved here)** | **Number of para-graphs** | **Financial implication in the paragraphs (Rs. in crore)** | **Number of paragraphs in respect of which Ministry reply was awaited** |
|---|---|---|---|
| 1. Biotechnology (2/**1**) | 1 | 7.80 | - |
| 2. Civil Aviation (10/**3**) | 8 | 43.91 | 5 |
| 3. Coal (12/**7**) | 8 | 467.84 | 4 |
| 4. Commerce and Industry (11/**3**) | 3 | 1171.82 | 2 |
| 5. Communications and Information Technology (7/**2**) | 8 | 92.25 | 8 |
| 6. Consumer Affairs, Food and Public Distribution (3/**1**) | 6 | 1275.25 | 4 |
| 7. Defence (10/**3**) | 5 | 57.50 | 2 |
| 8. Fertilizers (10/**1**) | 2 | 6.14 | - |
| 9. Finance (15/**4**) | 6 | 34.51 | 2 |

[*] ***This includes five PSUs whose paras have been shown under the Department of Public Enterprises as consolidated paras.***

[♣] ***GAIL (India) Limited in respect of para no. 13.6.1***

| | | | |
|---|---|---|---|
| 10. Heavy Industries (54/**2**) | 2 | 9.41 | 1 |
| 11. Housing and Urban Poverty Alleviation (2/**1**) | 1 | 0.00 | 1 |
| 12. Mines (4/**1**) | 1 | 44.18 | 1 |
| 13. Petroleum and Natural Gas (21/**7**) | 12 | 2122.49 | 8 |
| 14. Power (35/**3**) | 3 | 29.90 | 2 |
| 15. Public Enterprises ([1]/[2]) | 2 | 47.11 | - |
| 16. Railways (14/**2**) | 3 | 43.96 | 1 |
| 17. Road Transport and Highways (2/**1**) | 2 | 7.45 | 2 |
| 18. Shipping (9/**1**) | 1 | 17.82 | 1 |
| 19. Steel (15/**3**) | 5 | 137.39 | 3 |
| 20. Textiles (18/**1**) | 1 | 2.26 | 1 |
| **Total** (254/**52**) | **80** | **5618.99** | **48** |

**4.** The audit observations included in this Report are broadly of the following nature:

- Non- compliance with rules, directives, procedures, terms and conditions of the contract etc. involving Rs.1847.71 crore in twenty eight paras.
- Non-safeguarding of financial interests of organisation involving Rs.1756.85 crore in thirty paras.
- Defective/deficient planning involving Rs.177.81 crore in nine paras.
- Lack of fairness, transparency and competitiveness in operations involving Rs.1634.71 crore in four paras.
- Inadequate/deficient monitoring involving Rs.147 crore in six paras.
- Non-realisation/partial realisation of objectives involving Rs.7.80 crore in one para.
- Rs.47.11 crore were recovered at the instance of Audit in one para.
- Corrections/rectifications at the instance of Audit in one para.

[1] ***All the PSUs are under the Department of Public Enterprises.***
[2] ***Five PSUs covered in the para are not appearing in the respective Ministry/Department.***

## II Highlights of the significant paras included in the Report are given below:

**1.** STCL Limited**,** a company dealing in spices, entered a new business of trading in iron ore and metal scrap in 2004-05. The company undertook third country export of metal scrap with the help of Business Associates (Future Metal Private Limited and Future Exim (India) Private Limited). In this export, both the buyers and sellers were located overseas. Under the arrangement, the Company was to issue Letters of Credit (LCs) in favour of overseas sellers and release shipping documents to buyers on receiving remittances from them.

The Company failed to safeguard its financial interests as it did not insist on back- to-back LC from buyers. The Company did not appoint its own agency for pre-shipment inspection. The sellers exploited these weak linkages and dispatched inferior material (including sand and tyres) instead of proper metal scrap. The sellers received their payments as the Company had issued LCs in their favour. As the buyers did not pay in full, the Company ultimately suffered a loss of Rs.1167.48 crore, mainly during 2008-09.

***(Para no. 4.3.1)***

**2.** Oil and Natural Gas Corporation Limited had been valuing the condensate produced from its own Bassein gas field at gas price. The Company was also jointly operating the Tapti gas field as a joint venture with Reliance Industries Limited and British Gas Exploration and Production India Limited as per the Production Sharing Contract (PSC) executed in December 1994. The condensate produced from the JV gas field was retained by the Company in return of gas. Ministry of Petroleum and Natural Gas (MOPNG) had directed in May 1998 that condensate is to be treated as gas. A study conducted by Engineers India Limited in February 2005 at the instance of MOPNG also concluded (March 2005) that condensate obtained from Tapti field could be treated as gas. In deviation of (i) the Company's own practice of valuing the condensate produced from gas field at gas price, (ii) directive of MOPNG and the study conducted by EIL, the Company treated the condensate produced from the Tapti gas field at crude oil price. This resulted in loss of Rs.853.09 crore (till March 2009) to the Company. Considering the average price paid for condensate (i.e. US$69.56 per barrel), loss to the Company over the remaining period of the contract is estimated at Rs.1091.58 crore.

***(Para no. 13.5.1)***

**3.** Oil and Natural Gas Corporation Limited had assigned the operation and maintenance of its owned offshore vessels (OSVs) to two private contractors. Due to failure of the Company to oversee compliance with the statutory requirements by the operation and maintenance contractors for the operations of offshore supply vessels (OSVs), 1 of the 31 owned OSVs capsized during operation in July 2007. Following this, the Director General of Shipping reviewed the remaining 30 OSVs and observed that the OSVs were being operated without valid statutory certificates and, therefore, withdrew (July 2007) the Document of Compliance of the contractors. Subsequently defects were revealed in the remaining OSVs. As a result, a number of OSVs remained under repairs and dry docking after July 2007. As of May 2009, only 19 of the 30 OSVs were in operation. Short supply of the OSVs resulted in idling of 27 chartered and owned rigs for a total of 1,161 days from July 2007 to May 2009 and consequent expenditure of Rs.576.29 crore on idling of rigs.

***(Para no. 13.5.2)***

**4.** Food Corporation of India (FCI) procures rice through levy and custom milling for the Central pool. During storage rice loses weight due to loss of moisture. The Government of India issued instructions (April 1980) that FCI should prescribe by 30 September 1980, the limits of storage loss on account of loss in weight and deterioration of stock. No norms for storage loss have been fixed by FCI till date and the storage loss was being accounted for on actual basis as the difference between the receipt weight and the issue weight. Storage loss account in Punjab region revealed that the average storage loss in rice during the period 2003-04 to 2007-08 was 1.02 *per cent* whereas in Haryana region where climatic condition was similar, the average storage loss in rice was observed at 0.33 *per cent* only. Thus, when compared to Haryana region, Punjab region incurred excess storage loss of 3.23 lakh MT valuing Rs.450.65 crore during the period 2003-04 to 2007-08.

***(Para no. 6.1.2)***

**5.** Indian Oil Corporation Limited (IOCL), a company dealing in petroleum products, planned the capacity expansion of its Barauni Refinery to six Million Metric Ton per Annum (MMTPA). This involved processing of one MMPTA high sulphur imported crude and five MMPTA low sulphur imported crude. Elimination of generation of Light Diesel Oil (LDO), a low value product, was also a part of project which was commissioned in December 2002.

The Company, however, could not achieve the above objectives as it diverted 3.7 lakh MT High Speed Diesel (HSD) components for generation of LDO instead of production of HSD, a high value product, during the period from 2003-04 to 2007-08. Further, the refinery also could not process the desired quantity of High Sulphur crude due to metallurgical constraints of major equipment restricting the actual processing of HS crude lower than the design by 8.12 lakh MT during the above period. Thus, the Company suffered loss of Rs.212.71 crore by diverting high value product components for generation of low value product (LDO) and also it could not process cheaper high sulphur crude due to the constraints in its processing unit resulting in additional expenditure of Rs.180.32 crore on account of costly Low Sulphur crude instead of cheaper High Sulphur crude.

***(Para no. 13.4.1)***

**6.** Section 292 (3) of the Indian Companies Act, 1956 stipulates that delegation of powers to any committee of the company to invest surplus funds should specify the total amount up to which the funds may be invested by such committee. Neyveli Lignite Corporation Limited while delegating powers to the Committee of General managers to recommend investment of surplus funds in commercial bank(s) up to one-year did not specify the total amount up to which the committee could invest. Tamil Nadu and Karnataka State Electricity Boards prematurely redeemed (March 2007) power bonds amounting to Rs.1480.87 crore and the Committee, without apprising the Board of Directors of this unexpected receipt, invested (March 2007) this money in short term deposit with four banks. On maturity these funds were re-invested in short term deposits in February 2008 and in February 2009 without carrying out any commercial appreciation of the opportunities available for long term investments. Thus, the Company lost an opportunity to earn additional revenue of Rs.89.17 crore on the funds received from the State Electricity Boards by investing the surplus funds in short term deposit.

***(Para no. 3.6.2)***

**7.** Coal produced at Chitra mines of Eastern Coalfields Limited was mainly sold to Thermal Power Stations of NTPC Limited. In order to ensure supply of coal in required sizes and quality, the stones/ shales and extraneous material contained in the coal were picked out before crushing the same below 200 mm size. These activities were outsourced during 2004-05 to 2007-08. The Company adopted derived method (based on volumetric measurement) to check en-route shortage. This method involved human error as it gave approximate figures. Despite the fact that the local Company staff regularly reported pilferage of coal en-route between dump yard and railway siding to the local police, cost of negligible shortage of 542.19 tonne, i.e., Rs.0.11 crore was recovered from contractors' bills. The Thermal Power Stations deducted Rs.65.17 crore for grade slippage of coal (supply of stones/ shales etc.). The contractors were not made responsible for the amount deducted by the customers for grade slippage as well for supply of oversized stone.

***(Para no. 3.4.1)***

**8.** The Coal Preparation Plant (CPP) in Piparwar Area of Central Coalfields Limited receives raw coal for washing mainly from lower and upper Dakra seam of Piparwar Area. The washed coal of the CPP is supplied to Power Houses. The price of the washed coal supplied to Power Houses other than NTPC is unilaterally fixed by the Company taking into account the various input cost components viz. raw coal price, power tariff, diesel rate, All India/ Wholesale Price Index and other related factors. The price so fixed is subject to mid term revision if there is any change in the cost components.

The coal of upper Dakra seam of Piparwar Area was declared as E grade in 2001-02 and the CPP started using both E grade and F grade coal from upper and lower Dakra seam respectively from 2002-03 onwards. However, while fixing the price of washed coal, the Company considered the raw coal price of cheaper F grade coal only, for the total quantity of coal fed to the CPP instead of considering the raw coal prices of both E and F grade in proportion to their quantity fed. It was seen that during 2004-05 to 2008-09, the ratio of E and F grade coal used in the CPP ranged between 27:73 and 49:51 and there was short realisation of revenue varying between Rs.40.50 to Rs.84.50 per tonne during the above period for washed coal supplied to Power Houses. This resulted in under realisation of revenue to the tune of Rs.67.83 crore for 11.02 million tonne of washed coal sold to Power Houses.

***(Para no. 3.2.1)***

**9.** Bharat Sanchar Nigam Limited as one of the largest telecom operators has clear rules for the disconnection of telecom facilities in case of non payment by the subscribers. In 15 Secondary Switching Areas under Bihar, Madhya Pradesh, Maharashtra and Rajasthan telecom circles of the Company, the telephone/circuit connections of subscribers and STD PCO operators were not disconnected in spite of non-payment of bills even after the due dates. This resulted in accumulation and non-recovery of revenue of Rs.16.09 crore out of which only Rs.0.86 crore could be realised/adjusted by the Company.

**(*Para no. 5.1.2*)**

**10.** Bharat Gold Mines Limited was referred to BIFR in 1992 as its net worth was fully eroded. The Company was closed in March 2001. The closure was upheld (September 2003) by the High Court of Karnataka with the recommendation to consider transfer/conveyance of the quarters/houses allotted to the employees at concessional rate.

The Company's inept handling of its estate after the closure of its production activities resulted in (i) unauthorised encroachment of 502.48 acres of land (valued at Rs.26.27 crore), (ii) of the 4410 quarters allotted to ex-employees, 4331 allottees were irregular in payment of rent resulting in an overdue amount of Rs.4.93 crore from defaulters, and (iii) the transfer of the quarters/houses on the basis of plinth area excluding courtyard/vacant land of the building instead of sital area resulted in loss of Rs.11.26 crore in respect of 2829 houses handed over to ex-employees.

***(Para no. 12.1.1)***

**11.** Container Corporation of India Limited, a company dealing in transportation of containers and logistics business, entered a new business of purchase, storage and trading of the apples in 2006-07. Before entering into the new business the Company had identified some risk factors associated with the fruit trading business like lack of expertise, exposure of the business to demand risk, price risk, cost risk and crop failure risk. However, the Company did not mitigate these perceived risks before entering into this business and consequently suffered losses of Rs.30.37 crore during the period 2006-07 to 2008-09.

***(Para no. 16.1.1)***