Chapter III

3. 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

IDCOL Kalinga Iron Works Limited

3.1 Loss due to unplanned procurement of coke

Unplanned procurement of coke without finalising financial arrangement and disregarding availability of stock led to loss of ₹ 28.52 crore.

The pig iron factory of the Company at Barbil had three operational blast furnaces (BF). Due to disproportionate increase in price of the input raw material (viz. coke and iron ore) compared to selling price of pig iron, the Board of Directors (BoD) decided (June 2008) to discontinue the operation of one furnace. For procurement of coke, the Company had placed (26 June 2008) a purchase order on a supplier[54] for supply of 15,000 MT of imported LAM coke to be supplied by August 2008 when it had a stock of 9,000 MT. Against the purchase order, the Company had received 18,013.41 MT between July and October 2008. Thus, the quantity of coke available with the Company was sufficient to meet the requirement upto October 2008[55] for operation of the two furnaces.

The Company, however, disregarding the imminent requirement of coke and also without arranging the required fund, placed (22 July 2008) another order on MMTC for procurement of 14,420 Metric Tonne (MT) of Low Ash Metallurgical (LAM) coke at a rate of US$ 785.85 per MT (including insurance and freight). The Board was also not apprised of the procurement order despite their earlier decision of operating with only two furnaces. As per agreement (August 2008) with MMTC, the Company was to lift the entire materials within interest free period of 90 days from the date of bill of lading on 'cash and carry' basis failing which the Company was liable to pay interest at the rate of 15.75 *per cent* on the outstanding amount. Though MMTC issued bill of lading (2 August 2008) and raised (13 August 2008) the commercial invoice for ₹ 47.62 crore (₹ 33,725[56] per MT at exchange rate of ₹ 42.94) for 14,120 MT[57], the Company could not lift the stock due to fund crunch on account of continuous downfall in pig iron market. The Company could lift

[54] Fair Deal Suppliers (Private) Limited.
[55] Requirement of LAM coke per furnace per month being 3,000 MT.
[56] (₹ 33,725 - ₹ 20,000) x 14,120 MT
[57] After deducting moisture content of 300 MT.

the stock during February to May 2009 after a lapse of four months from the expiry of interest free period of 90 days on payment of ₹ 54.57 crore (at exchange rate of ₹ 49.20) towards the basic price of coke and ₹ 2.02 crore[58] towards interest due to delay in lifting. Besides, the Company also incurred additional expenditure of ₹ 6.95 crore due to exchange rate variation and penal license fee (₹ 16.88 lakh) towards plot rent for the extended period of storage at the port.

We further observed that due to sluggishness in the market, the price of imported coke had come down to the range of ₹ 16,000 to ₹ 20,000 per MT during September and October 2008. As against this, the Company utilised the coke procured from MMTC during February to May 2009 at a cost of ₹ 33,725[59] per MT resulting in excess expenditure of ₹ 19.38[60] crore. The extra expenditure incurred on procurement of LAM coke could have been avoided through better planning by deferring the placement of purchase orders with MMTC upto September to October 2008.

Thus, the decision of the Company to place order on MMTC for procurement of coke disregarding the scaling down of level of operation vis-à-vis available stock of coke and without arranging the source of fund for procurement, indicated deficient planning in procurement. As a result, the Company suffered loss of ₹ 28.52 crore towards high incidence of purchase price, adverse forex variation, interest and port rent.

The Management stated (July 2010) that it planned to meet the requirement of LAM coke upto December 2008 for operation of three furnaces. It was added that the pig iron market suddenly slowed down which affected the liquidity of the Company as a result of which it could not lift the imported coke in time. The contention is not acceptable as the Company procured the coke from MMTC ignoring its stock position which was sufficient to meet the requirement of the two operational furnaces upto October 2008. The Company also failed to tie up for the financial arrangement to meet the cost of procurement despite having knowledge of possible decline in the sales realisation due to sluggish demand of pig iron.

Thus, unplanned procurement of coke without finalising financial arrangement led to excess expenditure of ₹ 28.52 crore.

It is recommended that the Company should procure the raw material after proper planning taking into consideration the market trend and consumption pattern.

The matter was reported to the Government (July 2010); their reply had not been received (September 2010).

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[58] At a concessional rate of 10 *per cent* per annum after negotiation
[59] ₹ 47.62 crore ÷ 14,120 MT = ₹ 33,725
[60] (₹ 33,725 - ₹ 20,000) x 14,120 MT

3.2 Loss of revenue due to imprudent decision

Cancellation of tenders for sale of pig iron despite being aware of downward trend of market prices resulted in loss of ₹ 1.82 crore.

The Company sells different grades of pig iron manufactured by it through open tender from its Kolkata stockyard and from its factory at Barbil on ex-works basis. We noticed that the stock of pig iron increased from 22,689 MT in April 2008 to 24,755 MT in August 2008 against the normal stockholding of 12,500 MT. The Company received three tenders during July, August and September 2008 for sale of different grades of pig iron, which were cancelled on the ground that highest prices offered were less than the ex-works price and the previous tendered prices as detailed below:

Date of opening of tender	LM II		LM III		Special grade	
	Quantity (in MT)	*Rate (in ₹)*	*Quantity (in MT)*	*Rate (in ₹)*	*Quantity (in MT)*	*Rate (in ₹)*
29 July 2008	2,080	36,400	380	35,800	125	36,700
11 August 2008	2,080	33,240	380	32,240	125	33,340
9 September 2008	2,080	31,571	380	30,871	125	31,771

The Company, subsequently, sold 2,095 MT of pig iron of different grades against tenders received in November and December 2008 at lower prices ranging from ₹ 22,000 to ₹ 23,100 per MT on the ground of recession in pig iron market and huge stock piling. We observed that the Company was aware (10 September 2008) of the downward trend in pig iron market due to low market sentiment. Hence, the decision for cancellation of tenders received in September 2008 was imprudent, which resulted in loss of ₹ 1.82 crore on sale of 2,095 MT of different grade of pig iron.

The Management stated (June 2010) that decision was taken to cancel the tender as the selling price was not acceptable considering high cost of coke as well as variable cost of production. It was added that to meet fund requirement the material was sold in November and December 2008 since the prices continued to fall and the magnitude of the crisis was beyond anybody's imagination. The Government endorsed (July 2010) the views of the Management. The reply is not acceptable since the decision to cancel the tender received in September 2008 was not in the interest of the Company especially when it was already aware of its mounting stock position and that other manufacturers were selling their products by cutting prices due to decreasing trend of prices from July 2008.

Thus, due to imprudent decision for cancellation of tenders for sale of pig iron received in September 2008 despite aware of low market sentiment and downward trend in pig iron market, the Company incurred loss of ₹ 1.82 crore on sale of 2,095 MT of pig iron.

The Company needs to avoid such losses in future by taking prudent decision for sale of pig iron considering the stockholding and prevailing market condition.

GRIDCO Limited

3.3 Sale of surplus power at lower price

The Company sustained loss of ₹ 10.38 crore due to sale of surplus power at lower rate through Unscheduled Interchange route.

The Company issued (1 October 2007) a tender notice for sale of 250 Mega Watt (MW) surplus power during 5 to 20 October 2007 on 'Take or Pay basis'[61], against which the offered rates of three parties ranged between ₹ 3.08 and ₹ 3.76 per unit. The tender committee (TC), while recommending (4 October 2007) for cancellation of the tender not being lucrative, suggested to offer 50 MW round the clock (RTC) power each to Tata Power and Trading Company Limited (TPTCL) and LANCO Electric Utility Limited (LANCO) at ₹ 6.15 per unit. TPTCL and LANCO also offered (5 October 2007) to purchase 76.80 million units (MU) at ₹ 6.03 per unit and 4.20 MU at ₹ 6.24 per unit respectively during 5 to 20 October 2007.

We observed that the Director (Commercial), who was a member of the TC did not take any action on the recommendation of the TC or on the offers of TPTCL and LANCO for getting the approval of the Chairman-cum-Managing Director for sale of power. Resultantly, the Company failed to trade surplus power (81 MU) at higher rates of ₹ 6.03 to ₹ 6.24 per unit offered by TPTCL and LANCO. Ultimately, it resorted to sell this surplus power through UI[62] route at lower rate of ₹ 4.76 per unit during October 2007, which resulted in loss of ₹ 10.38[63] crore.

The Management stated (June 2010) that there was no need to go by the suggestion of TC since the market rate of power was ₹ 3.76 per unit, and placing of order at ₹ 6.15 per unit would not have been transactable. The contention of the Management regarding non-transactability of per unit rate of ₹ 6.15 is not acceptable since Adani Enterprise Limited purchased 22.85 MU and 58.25 MU at the rate of ₹ 6.15 (RTC) and ₹ 6.12 (off-peak) per unit of power respectively from the Company during October 2007. Further, the Company also sold its surplus power at the rate of ₹ 7.10 to ₹ 7.40 per unit during January to March 2008.

[61] Irrespective of drawal of power, payment is to be made on the agreed quantity.
[62] Variation between actual generation or actual drawal and schedule generation or schedule drawal had to be accounted for through Unscheduled Interchange (UI) charges. The charges for all UI transaction would be based on average frequency of the time-block at the applicable rate.
[63] 76.8 MU x (₹ 6.03 – ₹ 4.76) + 4.2 MU x (₹ 6.24 – ₹ 4.76)

It is recommended that the Management should put in place the system of obtaining the approval of the competent authority expeditiously to trade its surplus power for maximisation of its revenue.

The matter was reported to the Government (April 2010); their reply had not been received (September 2010).

3.4 Loss on sale of emergency/backup power

Due to absence of a proper monitoring and control system for supply and billing of emergency/ backup power the Company sustained loss of ₹ 5.93 crore.

The Company entered (August 2004/February 2006) into contracts with National Aluminium Company Limited (NALCO) as per which NALCO was to sell a minimum of 30 MU of its surplus power per month from its captive generating plants (CGPs) at a rate of ₹ 1.10 to ₹ 2.40 per unit depending on the quantum of supply. In case NALCO was not in a position to generate adequate power, the Company was to provide emergency/backup power at three times of the weighted average rate of power supplied by NALCO during the month applicable to first 30 MU supply of power per month. Though the exact quantum of emergency/backup power to be supplied was not specified in the contracts, the Orissa Electricity Regulatory Commission (OERC) approved (March 2008) the total quantum of the emergency drawal of power by CGPs at 10 MU during the year 2008-09. The OERC also revised (June 2009) the rate of emergency/backup power at ₹ 4.20 per unit.

We noticed that instead of supplying surplus power to the Company, NALCO overdrew 130 MU emergency/backup power during eight months of 2008-09 (April to November 2008), which was much higher than the quantum of 10 MU per year fixed by OERC. Since there was shortage of power in the State, the Company supplied this power through unscheduled interchange (UI)[64] mechanism. As the average UI rate (₹ 3.99 per unit) was higher than the rate realised from NALCO (₹ 3.33 per unit) in four[65] months the Company sustained a loss of ₹ 5.93 crore on supply of 91 MU during that period .

We further noticed that NALCO continued overdrawing power during 2009-10 (upto January 2010) aggregating 279 MU. The Company, however, failed to restrict the overdrawal. Meanwhile, the contract with NALCO had also expired in August 2009. The Company neither insisted effectively upon NALCO for revising the contract to safeguard its financial interest nor did it take up the matter with OERC to desist NALCO from overdrawal of power. As no separate details were available for UI charges payable/receivable for overdrawal and underdrawal of power the exact loss on account of overdrawal by NALCO during 2009-10 (upto January 2010) was not quantifiable.

[64] Variation between actual generation or actual drawal and schedule generation or schedule drawal had be accounted for through UI charges. The charges for all UI transaction would be based on average frequency of the time-block at the applicable rate.
[65] July, August, October and November 2008.

The Management, while accepting the facts, stated (August 2010) that the differential cost would be recovered from the fuel price adjustment (FPA) bills of NALCO once they submit FPA bills for the months from August 2008 to February 2009, so as to recover the excess cost incurred by the Company on purchase of power through UI route for uninterrupted back-up and emergency supply to NALCO. The Government endorsed (September 2010) the views of the Management. The contention of the Management is not acceptable because in terms of the contract NALCO was to raise the FPA bills only for supply of its surplus power (upto 30 MU per month) to the Company. However, there was no enabling provision in the contract so that the Company could raise FPA bills for overdrawal of power by NALCO. Hence, there was no possibility of recovering ₹ 5.93 crore from NALCO.

Thus, due to absence of a proper monitoring and control system for supply and billing of emergency/ backup power the Company sustained loss of ₹ 5.93 crore.

It is recommended that the Company should devise a suitable mechanism to regulate the supply and billing of emergency/backup power.

Orissa Mining Corporation Limited

3.5 Undue favour to the contractors

Failure to enforce the contractual provision led to non-recovery of penalty of ₹ 2.09 crore from the transport contractors.

Delivery of inferior grade of ore by the contractor was a serious issue and was pointed out vide Paragraph 2.1.25 of the Report of the Comptroller and Auditor General of India (Commercial), Government of Orissa, for the year ended 31 March 2004.

The Company engaged (July 2008) SAR Parivahan (P) Limited (SAPPL) for transportation of 80,000 MT (±20 *per cent*) chrome ore/concentrate from Kaliapani Chrome Zone to Paradeep Port for a period of three months with effect from 7 July 2008 at a rate of ₹ 1,270 per MT. Subsequently, for the same work, the Company engaged (December 2008) Jain Transport (JT) for transportation of 30,000 MT (±20 *per cent*) for a period of two months with effect from 8 December 2008 at a rate of ₹ 990 per MT.

The terms of the agreements, *inter alia,* envisaged that in the event of grade difference found at Paradeep on visual inspection before delivery the Company would analyse the sample and on receipt of analysis report, if lesser grade ore was found delivered, penalty would be levied on the agency (i) at the rate of two times of differential FOB sales value of ore at loading point and ore received at Paradeep, if the variation in chrome content was within two *per cent,* and (ii) at the rate of two times of FOB sales value of the entire ore loaded, if this variation was more than two *per cent*.

We observed that no visual inspection was done for seizure of trucks and drawal of samples for determining the quality/grade of ore carried by the transporters on the ground of impracticability. On the other hand samples of the ore were drawn after delivery and grade analysis reports indicated receipt of lesser grade ore. SAPPL and JT delivered 29,934 MT and 29,036 MT of chrome ore/concentrate respectively during the contractual period, of which 15,459 MT (SAPPL: 8,377 MT and JT: 7,082 MT) of ore was found to be of lesser grade which ranged between 0.67 and 2.74 *per cent*.

As the ore delivered was of inferior grade the field office proposed to deduct penalty from the bills of the contractors which was ignored by the Head Office. The Company rather passed (September 2008 to May 2009) the bills of the contractors for transportation charges of ₹ 6.64 crore (SAPPL: ₹ 3.79 crore and JT : ₹ 2.85 crore) without levying any penalty. Had the contractual clause been effectively enforced the Company could have imposed a penalty of ₹ 2.09 crore.

The Management stated (May 2010) that the analysis of lots despatched from mines/COBP by carriers might vary in grade and quality with the analysis of lots unloaded at Paradeep, but the average analysis of the material despatched from mines/COBP were found to be at par with the grade/quality of the material unloaded at Paradeep for which there was no financial loss due to grade variation during transportation. The reply is not acceptable as (a) the Company had never adhered to the contractual provision for grade analysis on visual inspection, (b) though the rate is fixed initially on grade basis, the firm price of the exported ore is determined proportionately based on actual chrome contents and (c) realisation of lesser value due to delivery of low grade ore should have been compensated by way of recovering penalty from the contractors by invoking the contractual provision.

Thus, failure to effectively enforce the contractual provisions resulted in non-recovery of penalty of ₹ 2.09 crore which tantamounted to extension of undue favour to the defaulting contractors.

It is recommended that the Company should put in place a workable mechanism to enforce the contractual provisions against the defaulting contractors and strengthen its internal control system to monitor this aspect, besides fixing the responsibility for the lapses so as to avoid recurrence of such losses in future.

The matter was reported to the Government (April 2010); their reply had not been received (September 2010).

Orissa Hydro Power Corporation Limited

3.6 Avoidable loss

The Company sustained loss of interest of ₹ 1.24 crore due to unnecessary delay in claiming reimbursement of income tax directly from GRIDCO.

The Company generates hydropower and sells the entire power to GRIDCO Limited (GRIDCO). The terms of the transaction with GRIDCO including the tariff fixation are determined by the Orissa Electricity Regulatory Commission (OERC) in terms of the regulations issued (March 2004) by the Central Electricity Regulatory Commission (CERC). The CERC Regulations (March 2004), *inter alia*, provides that the income tax (IT) paid by the generating company on the income earned from its core business would be considered as an expense and recovered by the generating company from the beneficiary directly without filing any application before the OERC.

The Company, however, in deviation of CERC Regulation (March 2004), claimed for reimbursement of IT paid for the financial years (FY) 2005-06 and 2006-07 as expenses in the application made to OERC for Annual Revenue Requirement (ARR) for the years 2007-08 and 2008-09 respectively, which was allowed by OERC. Similarly, the Company claimed for reimbursement of IT for FY 2007-08 in the application of ARR for the year 2009-10. OERC, however, directed (20 March 2009) the Company to claim the reimbursement directly from GRIDCO. Though the Company deposited ₹ 15.51 crore between January and September 2008 with the IT authorities, it belatedly claimed (2 May 2009) the reimbursement of IT from GRIDCO and that too without furnishing the requisite certificate from its tax auditors regarding payment of IT relating to core activities. On the request (15 May 2009) of GRIDCO, the Company submitted (27 June 2009) the tax auditors' certificate confirming that IT to the extent of ₹ 13.75 crore only was related to its core activities. Accordingly, GRIDCO reimbursed (7 August 2009) the amount to the Company.

We observed that the Company should have claimed the reimbursement of IT paid directly from GRIDCO immediately after certification of the accounts for the year 2007-08 on 28 July 2008 along with the tax auditors' certificate as per the CERC regulation. Thereby it could have saved ₹ 1.24 crore towards loss of interest on borrowed funds. Even if the Company had avoided delay of 95 days from the date of direction (20 March 2009) of OERC in submitting the claims to GRIDCO Limited, it could have saved the loss of Rs. 35.80[66] lakh towards interest.

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[66] Interest at the rate of 10 *per cent* per annum being the minimum rate of interest at which the Company had borrowed funds for the period from the date of order of OERC/certification of accounts and receipt of the amount (7 August 2009) excluding 45 days for raising of claim (15 days) and payment by GRIDCO (30 days).

Thus, the Company sustained loss of interest of ₹ 1.24 crore due to its failure in claiming reimbursement of the income tax paid on its core activities directly from GRIDCO, which is an indication of its weak internal control mechanism.

The Management stated (July 2010) that recovery of tax was a pass through the tariff for which the tax paid in a year was claimed from GRIDCO through the tariff of a subsequent year. The Government endorsed (October 2010) the views of the Management. The reply does not address the fact that in terms of CERC regulation the Company should have claimed the income tax amount directly from GRIDCO immediately after making such payment.

It is recommended that the Company should ensure effective control mechanism in place for claiming the amount directly from the concerned parties immediately after it became due so as to avoid interest loss on unrecovered amount.

3.7 Avoidable payment of interest

Improper assessment of tax liability led to short payment of advance income tax resulting in avoidable payment of interest of ₹ 24.64 lakh.

Under the Income Tax Act, 1961, a corporate assessee is required to pay in four advance instalments[67] at the prescribed rates, 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 as well as shortfall in depositing tax as per the prescribed slab attract interest at the rate of one *per cent* per month separately under Section 234B and 234C of the Act. 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 avoids the payment of interest by the assessee.

We observed that the Company had no effective system in force to assess the Income Tax (IT) in advance and deposit the same as required under the Act, though the quantum of generation and tariff of electricity is finalised by the Orissa Electricity Regulatory Commission well in advance of the commencement of the financial year.

Against the total IT liability of ₹ 15.51 crore for the FY 2007-08, the Company did not deposit any amount in the first three quarters. Instead, on the basis of self assessment of tax liability for ₹ 10.96 crore (excluding tax deducted at source of ₹ 4.55 crore), it deposited (January/March 2008) only ₹ 7.60 crore in the fourth quarter. The balance amount of IT for ₹ 3.36 crore was paid by the Company in July/September 2008. As a result of delay in payment of advance tax coupled with shortfall in deposit, the Company had to pay avoidable interest of ₹ 61.17 lakh under Section 234B (₹ 13.44 lakh) and 234C (₹ 47.73 lakh) of the Act, *ibid*, despite availability of sufficient fund with it. After taking into account the interest income of ₹ 36.53 lakh earned in

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

short term deposits by deferring the advance tax payments, the Company incurred net avoidable loss of ₹ 24.64 lakh on this account.

The Management while accepting the facts stated (July 2010) that against the interest payment of ₹ 47.73 lakh under Section 234C, the Company earned interest of ₹ 48.53 lakh on short term deposit out of unpaid IT amount at average interest rate of 9.75 *per cent*. The contention of earning interest income by deferring statutory liability is not logical. Further, the Company had actually earned interest of ₹ 36.53 lakh at interest rate ranging from 8.25 to 9.50 *per cent*. The Management, however, added that the constraints faced in accurately estimating the income would be overcome by drawal of provisional quarterly accounts, analysis of quarterly budget expenses and income, determination of terminal benefits at the end of third quarter and accounting of quarterly interest income on short term deposit so as to deposit the tax liability in time. The Government endorsed (October 2010) the views of the Management.

The Company needs to devise an appropriate mechanism for ensuring proper assessment of tax liability and deposit of advance income tax as per the statutory requirements.

Industrial Development Corporation of Orissa Limited

3.8 Extra expenditure on transportation of ore

The Company incurred avoidable expenditure of ₹ 1.17 crore towards transportation of chrome ore due to incorrect mention of the distance in tender call notices.

The Company exports chrome ore/concentrate through MMTC Limited (MMTC) from Paradeep Port. It engages transport contractors for transportation of chrome ore/concentrate to the port on the basis of quantity allotted by MMTC. Its subsidiary company, IDCOL Ferro Chrome and Alloys Limited (IFCAL), handles the transport contract on behalf of the Company.

IFCAL invited (January 2007) an open tender for transportation of chrome ore/ concentrate from Talangi mines to Paradeep port specifying the route 'Talangi Mines-Duburi-Panikoili-Paradeep Port' with the distance indicated as 180 km. The Tender Committee (TC) selected (4 May 2007) Siddhartha Road Carrier (SRC) for transportation of material at ₹ 729 per MT. On the same day, the TC negotiated with SRC to reduce the rate of transportation proportionately as the shorter route from Talangi mines to Paradeep Port with a distance of 150 km (i.e. Talangi – Tomka – Duburi – Chandikhol – Paradeep Port) became operational. But SRC did not agree to reduce the offered rate. Ultimately, the work was awarded (July 2007) to SRC at a rate of ₹ 729 per MT.

Subsequently, the Company floated (August 2007 to November 2008) tenders for transportation of chrome ore/concentrate from Talangi mines to Paradeep Port through the shorter route i.e. Talang mines–Tomka–Duburi–Chandikhol–Paradeep Port and the work was accordingly awarded to five contractors[68].

We observed that the Company continued to indicate the distance of the route as 180 km in the Special Conditions of the Contract (SCC) of all tenders, instead of 150 km. Though the contractors followed the shorter route covering distance of 150 km, they were paid by the Company based on the distance of the route as 180 km. Against the transportation (September 2007 to March 2009) of 61,438 MT of chrome ore by the contractors selected through tenders floated in August 2007 to November 2008, the Company should have paid ₹ 5.89[69] crore to the contractors, against ₹ 7.06 crore actually paid. As a result, the Company incurred additional expenditure of ₹ 1.17 crore towards transportation of chrome ore due to incorrect mention of distance in the tender notices.

The Management stated (July 2010) that for transportation of chrome concentrate to Paradeep Port, the route was specified as "TC Mines – Tomka – Duburi – Chadikhol – Paradeep" in the SCC of the tender invited in January 2007, but the distance was mentioned as "180 km instead of actual 150 km" due to oversight. It was further added that the Trucks Owners' Association fixed the rate on point-to-point basis based on oil consumption, irrespective of the distance. The reply is not acceptable because (i) the SCC of the tender (January 2007) actually indicated the route "TC Mines – Duburi – Panikoili – Paradeep" for transportation with a distance of 180 km, (ii) while inviting tenders during August 2007 to November 2008, though the Company was aware of the shorter route (150 km), its repeated failure to mention the distance as 150 km on the ground of "oversight" indicated lack of internal control in the preparation of tender. Thus, failure of the Management to mention the distance correctly in the tenders caused the truck owners to claim the transportation charges on the higher side.

Thus, the Company incurred avoidable expenditure of ₹ 1.17 crore towards transportation of chrome ore due to incorrect mention of distance in the SCC. The Company needs to fix the responsibility on the erring officials.

It is recommended that the Company should consider all the elements in transport contract including the distance correctly in the tender notice and strengthen the internal control system to avoid such lapses.

The matter was reported to the Government (July 2010); their reply had not been received (September 2010).

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[68] Mahalaxmi Transporter, Parida Transporter and Suppliers, RITCO, Shree Gopal Transporter, and Vinod Transporter.
[69] Proportionate transportation cost for 150 km i.e. ₹ 7.06 crore x (150/180).

Orissa Power Transmission Corporation Limited

3.9 Excess expenditure on sand filling

Sand filling in excess of the requirement led to extra expenditure of ₹ 31.14 lakh.

The Company awarded (May 2007) the work of supply, erection and commissioning of grid substation at Basta to Tesla Transformers Limited (contractor), Bhopal at ₹ 12.40 crore for completion by November 2008. The scope of work, *inter alia*, provided for filling the substation with 35,794 cubic metre (cum) of earth at a rate of ₹ 200 per cum and 10,000 cum with sand at a rate of ₹ 618.50 per cum. The contractor completed (January 2008) the sand filling as per the work order and received payment of ₹ 61.85 lakh in February 2008 (₹ 55.35 lakh) and March 2009 (₹ 6.50 lakh).

We observed that the Company did not carry out site-specific study and prepare any contour map before estimating the requirement of 10,000 cum of sand for filling the substation. As per the approved drawing of the substation, earth filling was required for raising the land level of the substation while sand filling was required for construction of the retaining wall around the substation area. Thus, actual requirement of sand was worked out to 2,558.50 cum as per the approved plan. As against this, the Company allowed the contractor to use 7,441.50 cum of sand in excess for levelling the switchyard, where earth could have been utilised being cheaper than sand. Consequently, the Company incurred an avoidable expenditure of ₹ 31.14[70] lakh.

While accepting the facts the Management stated (September 2010) in very general terms that the purpose of providing sand was to bring the sub-station area to workable condition as well as to provide proper compaction and added that in future, before award of contract site specific study would be made to assess the exact quantity of work on case to case basis. The Government endorsed (September 2010) the views of the Management. The reply was not specific as to why sand was utilised for filling other areas of sub-station though it was to be used only for construction of retaining wall around the sub-station area.

It is recommended that the Company should ensure appropriate survey and based on site specific plan, should prepare the contour map of the switchyard for estimating the material requirements for construction of the substation.

[70] 7,441.50 cum x (₹ 618.50 per cum of sand – ₹ 200 per cum of earth)=₹ 31.14 lakh.

Industrial Promotion and Investment Corporation of Orissa Limited

3.10 Loss of revenue due to delay in selection of a suitable custodian

Due to delay in appointment of a suitable custodian for selling its investment, the Company lost the opportunity to earn additional revenue of ₹ 25.88 lakh.

The Company invested ₹ 3.95 crore in Powmex Steels Limited (PSL) in 1989-90 of which PSL purchased back (September 1990) ₹ 1.50 crore. Consequent upon its merger (October 1995) with GKW Limited (GKW), the Company was issued 2,04,166 shares valued at ₹ 20.42 lakh in GKW in consideration of balance investment of ₹ 2.45 crore in PSL. GKW also became sick and was referred to the Board for Industrial and Financial Reconstruction in 2002. The Board of Directors (BoD) of the Company decided (June 2005) to disinvest the entire shareholding in GKW traded only in National Stock Exchange (NSE). The Company, being an institutional investor, was required to appoint a custodian by opening a demat and trading account for sale of its shares.

Accordingly, the BoD decided (December 2006) to open demat and trading account with Stock Holding Corporation of India Limited (SHCIL) without verifying the SHCIL's claim (September 2006) of having its membership in NSE which was essential for disposal of the shareholdings of the Company in GKW. Though the Company became aware (19 March 2007) that SHCIL had membership only in Bombay Stock Exchange (BSE), it opened the demat and trading account with SHCIL on 26 March 2007.

In order to meet the repayment commitments, the BoD again decided (6 December 2007) for disinvestment of the entire shareholding in GKW. The Company transferred (17 December 2007) the entire shareholding in GKW to SHCIL for sale but SHCIL expressed its inability to sell such shares since the shares were traded only in NSE in which it was not a member. The Company, thereafter, decided (27 December 2007) to open another demat account with Kotak Securities Limited (KSL), a member of NSE, which could be opened only in July 2008 due to Management's failure in furnishing the requisite documents in time to KSL. Ultimately, the entire shareholding in GKW was sold at ₹ 1.54 crore between 16 July and 12 August 2008 at an average selling price of ₹ 75.19 per share.

We observed that the Company was aware of trading of shares of GKW only in NSE. Despite that it did not take effective action for appointment of a custodian having membership in NSE in March 2007 itself or even during December 2007 to February 2008 when the average selling price per share ranged between ₹ 87.87 and ₹ 95.76. Due to Management's failure to appoint a custodian having NSE membership, the Company lost the opportunity to earn revenue of ₹ 25.88[71] lakh.

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[71] ₹ 87.87 per share in December 2007 x 2,04,166 = 1,79,40,066 *less* actual sale value ₹ 1,53,51,651.

The Management admitted (May 2010) that before receipt of a reply from SHCIL the Company was not aware that it was not a member of NSE. It further added that opening of trading account with KSL was delayed due to lack of initiation by KSL. The Government endorsed (June 2010) the views of the Management. The contention is not acceptable because (a) the Company was aware (19 March 2007) that SHCIL was not a member of NSE before opening the demat/trading account with SHCIL (26 March 2007) and (b) the opening of the trading account with KSL was delayed due to management's failure in submitting the requisite documents in time to KSL. Consequently, the shares of GKW could not be sold at opportune moment when share prices were high, which led to loss of opportunity to earn revenue of ₹ 25.88 lakh.

It is recommended that the Company should take timely action for disinvestment of shares in order to avail the opportunity to earn more revenue and strengthen its internal control mechanism so as to avoid recurrence of such loss in future.

Orissa Tourism Development Corporation Limited

3.11 Deficient planning

Poor planning and execution of the projects by the Company/State Government resulted in inefficient use of the Government grants and non-achievement of the intended objectives. Further, an amount of ₹ 27.47 lakh was spent towards watch and ward on idle assets.

During Tenth five-year Plan, the Government of India (GoI) formulated a scheme, "Product/infrastructure Development for Destination and Circuits" to focus on integrated infrastructure development of the tourist sites. The tourist destination to be developed was to be selected on the basis of tourism potential in consultation with the State Government and Detailed Project Report (DPR) was to be prepared for each project. The GoI was to bear 100 *per cent* of the project cost excluding the items like (i) land, (ii) operation, maintenance and management of the assets, etc., which were the sole responsibility of the State Government. Further, a State Level Monitoring Committee (SLMC) was to be set up by the State Government to monitor the physical and financial progress of the projects. The execution of projects was primarily the responsibility of the State Government. Accordingly, the Company acted as an executing agency for development of different projects in the State.

During the period from March 2001 to February 2006, the GoI and Government of Orissa (GoO) provided ₹ 1.68 crore and ₹ 0.97 crore respectively to the Company for development of seven[72] projects in the State. The Company completed the projects by February 2006 at a cost of ₹ 2.65 crore of which projects created at a cost of ₹ 2.15 crore remained unutilised so far (September 2010).

[72] OneTourist Receiption Centre at Paralakhemundi (₹ 69.02 lakh), Three Tourist Complexes at Sohela (₹ 12.74 lakh), Bari (₹ 64.44 lakh) and Ranipur Jharial (₹ 30.50 lakh), Two Wayside Amenities Centres at Gorakhanathpitha (₹ 9.72 lakh) and Ramchandi (₹ 14.29 lakh) and a Shopping complex at Satapada (₹ 64.38 lakh).

We observed the following:

- The Company did not prepare DPR for any project though the same was mentioned in GoI guidelines nor did it prepare any Project Evaluation and Review Technique/Critical Path Method for completion of projects. The estimates prepared by the Company also did not have provision for operation and maintenance expenses of the projects after completion although it was to be provided by the State Government under the scheme. The viability and operational aspect of the projects were thus ignored while undertaking the projects.
- Though the Company intimated the GoO time and again to takeover completed projects, no response was received from the GoO so far (June 2010). GoO did not also indicate any action plan to utilise these tourist complexes/centers. Consequently, these projects remained idle after completion for a period ranging from 52 to 79 months, while the Company spent ₹ 27.47 lakh towards watch and ward of these idle assets during June 2005 to August 2010. Idling of the assets also caused unauthorised encroachment of two[73] projects.

The Management, while confirming the facts and figures stated (August 2010) that steps were being taken to start bidding process for effective utilistion of the remaining projects.

Thus, execution of projects without proper planning and DPR led to inefficient use of Government grants of ₹ 2.15 crore as well as recurring expenditure on watch and ward of idle assets, besides the objectives of utilising infrastructure of the tourist sites remained unachieved.

It is recommended that the State Government/Company should assess the viability of the projects and take necessary steps towards proper use of the assets urgently.

The matter was reported to the Government (August 2010); their reply had not been received (September 2010).

Industrial Development Corporation of Orissa Limited and Orissa Mining Corporation Limited

3.12 Loss of revenue due to sale of lump ore without crushing

Sale of lump ore without value addition by crushing deprived Industrial Development Corporation of Orissa Limited and Orissa Mining Corporation Limited of earning an additional revenue of ₹ 2.64 crore and ₹ 1.48 crore respectively.

The lump iron ore raised from the mines of Industrial Development Corporation of Orissa Limited (IDCOL) and Orissa Mining Corporation Limited (OMC) is required to be crushed to calibrated lump ore (CLO) of 5-18 mm size through the contractors to fetch higher revenue, since there was

[73] Wayside Amenities Centre at Gorakhanath Pitha & Tourist Complex at Sohela.

sufficient demand for CLO in the market. Mention was made in Paragraph 3.1 and 3.3 of the Reports of the Comptroller and Auditor General of India (Commercial), Government of Orissa for the years 2005-06 (IDCOL) and 2006-07 (OMC) that these companies sustained loss of revenue of ₹ 8.28 crore (IDCOL: ₹ 7.67 crore, OMC: ₹ 0.61 crore) due to sale of lump ore without value addition by crushing lump ore to CLO. Despite being pointed out in audit, similar deficiencies persisted in both the Companies as discussed below:

3.12.1. Industrial Development Corporation of Orissa Limited

The Company issued (June 2007) a work order to Orissa Stevedores Limited (OSL) for raising iron ore from its Roida-C mines and crushing to CLO for a contractual period of three years effective from October 2007. As per provisions of the contract, OSL was to produce targeted 30,000 to 40,000 MT of lump ore (5 to 150 mm) for the first four months of the contract and 10,000 to 15,000 MT per month for the rest 32 months. After negotiation (September 2008) with OSL, it was decided for production of 4,000 MT of 5 to 18 mm CLO per month. In case of failure, OSL was liable to pay penalty at the rate of 30 *per cent* of the conversion cost of CLO per MT (i.e. ₹ 347.40) for the shortfall in production.

We observed that:

- During the period from October 2008 to November 2009, OSL raised 2.57 lakh MT of lump ore (5 to 150 mm) and 11,658 MT of CLO (5 to 18 mm). The Company sold (April to November 2009) 1.85 lakh MT of lump ore without crushing, though there was a shortfall of 44,342 MT in production of 5 to 18 mm CLO during 14 months period from October 2008 to November 2009. The shortfall in production of 5 to 18 mm CLO could have been met by crushing additional 66,182 MT[74] of lump ore out of the said 1.85 lakh MT of lump ore sold without crushing during the corresponding period.
- The rate of lump ore during October 2008 to November 2009 was between ₹ 2,661 and ₹ 1,605 per MT, while the rate of 5 to 18 mm CLO was between ₹ 5,982 and ₹ 3,261 per MT. Considering the cost of crushing at ₹ 250 per MT and the realisation from sale of fines at the rate of ₹ 504 per MT[75] generated out of crushing, it was beneficial for the Company to sell CLO instead of lump ore to fetch higher revenue. Hence, sale of lump ore to the extent of 66,182 MT without value addition by crushing to 5 to 18 mm CLO resulted in net loss of ₹ 2.64 crore[76] after considering the penalty of ₹ 0.46 crore recovered by the Company from the contractor for shortfall in production of CLO.

The Management stated (July 2010) that a suitable mechanism was being planned for optimum production of CLO during next contract as suggested by

[74] The recovery ratio of CLO and fines has been adopted at 67:33 based on the standard adopted in previous contracts.
[75] Average price of 2007-08
[76] Worked out on the basis of the weighted average price of CLO for the relevant period.

audit. The reply was silent as to why such mechanism was not introduced despite earlier audit observation in 2005-06.

3.12.2 Orissa Mining Corporation Limited

The Company placed (September 2007) a work order on Kalinga Metallics and Power Private Limited (KMPPL) for installation, operation and maintenance of a crusher to crush 1.28 lakh MT of lump iron ore to produce CLO and iron ore fines during 9 October 2007 to 8 October 2008[77] at Gandhamardan Iron Ore Mines. The minimum recovery of CLO and iron ore fines was envisaged at 65 *per cent* and 33 *per cent* respectively and the balance two *per cent* was treated as wastage.

We observed that:

- Against the requirement of providing 1,27,500 MT of lump iron ore to KMPPL for crushing to CLO during January to October 2008 the Company actually provided 89,391 MT lump iron ore. It did not supply the balance contractual quantity of 38,109 MT of lump iron ore for crushing to KMPPL despite availability of sufficient stock of lump iron ore. On the other hand, it preferred (January to September 2008) to sell 1,72,581 MT of lump iron ore without crushing to the local buyers through tenders. As a result, the Company failed to produce 24,771 MT of CLO and 12,576 MT of fines. This indicated lack of control over production planning and marketing.
- During January to September 2008 the rate of lump ore was between ₹ 2,107 and ₹ 3,371, while the rate of CLO was between ₹ 3,565 and ₹ 5,415 per MT. Besides, the iron ore fines generated out of crushing had the realisable value between ₹ 1,305 and ₹ 2,131 per MT. Considering the cost of crushing at ₹ 247 per MT and realisation from sale of fines generated out of crushing, it was beneficial for the Company to sell CLO instead of lump ore to fetch higher revenue.

Had the Company supplied required 38,109 MT of lump ore to KMPPL it could have fetched revenue of ₹ 11.55 crore[78] by selling 24,771 MT of CLO and 12,576 MT of fines. Considering the sale value of 38,109 MT of lump ore for ₹ 9.13 crore and cost of crushing for ₹ 0.94 crore, sale of lump ore resulted in loss of ₹ 1.48 crore (₹ 11.55 crore *minus* ₹ 9.13 crore *minus* ₹ 0.94 crore).

The Management stated (September 2010) that since substantial quantity of lump ore produced could not fulfill the quality parameters of 65 *per cent* Fe content to produce 5 to 18 mm CLO, the targeted quantity of lump ore could not be supplied to the contractor. It further added that in order to maintain smooth industrial harmony with the local small scale industries and other consumers some quantity of iron ore lump had to be kept for the purpose of selling. The contention is not acceptable because (a) despite availability of sufficient stock of lump ore with 65 *per cent* Fe content as evident from the

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[77] Period from 9 October 2007 to 9 January 2008 was mobilisation period.

[78] Worked out on the basis of the selling price of CLO and fines prevailing during the relevant quarter.

tender notices (June 2008) issued for sale of lump ore, the Company did not supply the same to the contractor for crushing to CLO of 5 to 18 mm size. On the other hand, it preferred to sell 1,72,581 MT of lump ore to local buyers and (b) sale of lump ore to local buyers without supplying the agreed quantity of lump ore to the contractor indicates lack of planning and monitoring the production of CLO.

Thus, sale of lump ore without value addition by crushing deprived IDCOL and OMC of earning additional revenue of ₹ 2.64 crore and ₹ 1.48 crore respectively.

It is recommended that both the Companies should evolve effective planning and monitoring mechanism to ensure optimum production of CLO to fetch higher revenue.

The matter was reported to the Government (June/July 2010); their reply had not been received (September 2010).

Agricultural Promotion and Investment Corporation of Orissa Limited & Orissa State Police Housing and Welfare Corporation Limited

3.13 Imprudent investment decision

Idling of funds in current account and investment of funds at lower rate of interest resulted in loss of interest of ₹ 40.35 lakh.

Agricultural Promotion and Investment Corporation of Orissa Limited (APICOL) acts as a promotional agency for disbursement of subsidy out of funds received from the Government of Orissa to the beneficiaries for the purpose of construction and purchase of agricultural facilities and implements. Similarly, Orissa State Police Housing and Welfare Corporation Limited (OSPHWCL) is engaged in construction, repair, maintenance and renovation of various civil structures of Police, Vigilance and Fire Service Departments of Government of Orissa. OSPHWCL receives advances from the Government and other clients for construction activities. These funds were deposited in current accounts till final disbursement. Our scrutiny revealed that none of the two Companies prepares cash budgets to forecast their cash requirement and identifies surplus funds for gainful deployment. As a result, these Companies sustained loss of interest of ₹ 40.35 lakh due to imprudent investment of surplus funds as discussed below:

- In APICOL, the surplus fund ranging from ₹ 3.87 lakh to ₹ 13.37 crore during April 2006 to October 2009 remained idle in the current accounts for 12 to 57 days without generating any interest. Due to failure of APICOL to invest these idle funds in Short Term Deposits (STDs), the Company suffered loss of interest of ₹ 29.76 lakh (considering rate of interest at 4.5 *per cent* per annum).

- Similarly, OSPHWCL invested ₹ 15.91 crore in four STDs between December 2007 and April 2008 for 6 to 18 months at rates of interest ranging from 8 to 9.25 *per cent*. On the same dates, the Company invested another ₹ 13 crore in three STDs for the same period of investment with different banks at higher rates of interest i.e. from 8.35 to 10.5 *per cent*. Thus, failure of the Company in investing the surplus funds in the banks offering higher rates of interest resulted in loss of interest of ₹ 10.59 lakh.

The Management of APICOL, while accepting the fact, stated (August 2010) that banks had been advised (December 2009) to transfer the fund above ₹ 1 crore lying in current account to fixed deposit. The fact, however, remained that fixation of the threshold limit of ₹ 1 crore was not supported by any estimate of cash requirement. On verification of current status, we further noticed that balances in current accounts still remained in excess of ₹ 1 crore, despite instruction issued to the concerned banks (June 2010).

The Management of OSPHWCL stated (June 2010) that the funds were invested with regular bankers and quotations for comparison of rates were not called for as per the policy of the Reserve Bank of India (RBI). The reply does not address the fact that investment of funds after verifying the higher rates offered by the regular bankers of the Company through internet, was not a departure from the policy of the RBI.

Thus, idling of funds on current accounts and investment of funds at lower rate of interest resulted in loss of interest of ₹ 40.35 lakh.

It is recommended that both the Companies should prepare cash flow statement to know the actual requirement of funds during a particular period and keep their surplus funds with the banks offering higher rate of interest.

The matter was reported to the Government (June 2010); their replies had not been received (September 2010).

Orissa Rural Housing and Development Corporation Limited

3.14 Arrears in finalisation of accounts

The Company failed to take sincere efforts in liquidating the arrears and making the accounts up to date despite our constant pursuance.

Section 210 of the Companies Act, 1956, read with Sections 166 and 216, casts the duty on the Board of Directors (BoD) of the Company to place the accounts of the Company along with Auditor's Report (including supplementary comments of CAG) in the Annual General Meeting of the shareholders within six months of the close of its financial year. As per Section 210 (5), if any person, being a Director of a Company, fails to take all reasonable steps to comply with the provision of Section 210, he shall be punishable with imprisonment for a term which may extend to six months or with fine which may extend to ten thousand rupees or with both. Similar

provision exists under Section 210 (6) in respect of a person who is not a Director but is charged with the duty of ensuring compliance with Section 210.

In spite of the above provisions in the Companies Act, the Company had not been finalising its accounts in time. As of 31 March 2010, the Company had finalised the accounts upto 2003-04. The accounts for the year 2004-05 as finalised (July 2010) and certified (4 September 2010) by Statutory Auditors were handed over to us for supplementary audit very recently on 17 September 2010 maintaining an arrear of five years in finalisation of accounts. We had been bringing out the position of arrears in finalisation of accounts to the notice of the Secretary to the Public Enterprises Department/ Finance Secretary/ Chief Secretary of the State Government regularly every quarter. In the meeting (October 2009) of the Committee on Papers Laid on the Table of Orissa Legislative Assembly, the Company was impressed upon for early clearance of backlog of accounts and making up-to-date the placement of the Annual Reports of the Company in the State Legislature. We observed that the Company did not initiate concrete and effective steps to liquidate the arrears in a time bound manner. Our contention had been substantiated with the fact that the Company could finalise only one account during the preceding three years upto March 2010 as against three accounts finalised during three years upto March 2007. The Company assured (July 2008) to finalise its accounts for 2003-04 and 2004-05 by August 2008 and March 2009 respectively. It, however, failed to keep its commitment and could finalise the accounts for 2003-04 and 2004-05 each after slippage of more than one year in September 2009 (2003-04) and July 2010 (2004-05).

In view of huge arrears in accounts the exact financial health of the Company could not be ascertained. During supplementary audit of accounts for the year 2003-04, CAG had commented upon under Section 619 (4) of the Companies Act, 1956 towards non/short provision of doubtful advance of ₹ 6.95 crore as well as under-provision of liability of ₹ 1.98 crore, besides on non-maintenance of statutory records, as required under the Companies Act, 1956 viz. Minutes Book of the Board of Directors and Annual General Meeting, Share Capital Register, Register of Charges and Fixed Assets Register etc. Further, Statutory Auditors, while certifying the accounts for 2004-05, pointed out short provisioning of ₹ 32.53 crore towards Non-Performing Assets.

We also noticed that presently the Company was engaged with recovering the old dues without disbursing fresh loans. However, the loan-wise ledgers were not up to date leaving scope of manipulations. The above issues remained unaddressed due to pending finalisation of accounts from 2005-06 onwards. The books of accounts for these years remained open and were exposed to the risks of fraud, leakage of public money etc., by way of possible tempering with these accounts. We further noticed that seven key personnel of the Company were placed under suspension (July 2004 onwards) due to their involvement in fifteen vigilance cases. This situation could have been avoided by detection of the irregularities through timely finalisation of accounts by the Company.

The Management stated (July 2009) that due to inadequate staff, delay in holding statutory meetings arising from frequent changes in the Management/ Board of Directors the finalisation of accounts was being delayed and steps were being taken to enhance the manpower in the accounts section. The Management further assured (August 2010) that the accounts upto 2008-09 would be completed by the end of March 2011. We noticed that the Company had not chalked out any time bound programme for pulling up arrear accounts. Further, the Statutory Auditors took an excessive period of about two months in certification (4 September 2010) of accounts for 2004-05 after their receipt (6 July 2010) mainly due to Company's poor pursuance and failure in providing the relevant records in time, which was indicative of lack of seriousness on Company's part towards clearance of backlog of accounts.

Thus, the Company failed to take sincere efforts in liquidating the arrears and making the accounts up to date as well as in maintaining proper records of accounts despite our constant pursuance.

It is recommended that the Government/ Company may arrange adequate personnel and make a time bound programme to clear the arrears and monitor it on regular basis.

The matter was referred to the Government (July 2010); their reply had not been received (September 2010).

Statutory Corporation

Orissa State Road Transport Corporation

3.15 Undue favour to a lessee

Absence of a transparent policy for allotment of open space led to undue favour to a party which resulted in loss of ₹ 31.65 lakh.

With a view to augmenting the non-traffic revenue, the Corporation had been leasing out space at its Baramunda bus stand, Bhubaneswar, but without formulating any firm and consistent policy for leasing. The Corporation received (March 2005) a letter from the Minister of State, Commerce and Transport, Government of Orissa for favourable consideration of the application of a party for allotment of open space at Baramunda bus stand to operate a vehicle servicing station. Accordingly, the Corporation allotted (September 2005) 2,500 sft. of open space to the party for a period of three years at a negotiated monthly rent of ₹ 8,000 and executed (January 2006) an agreement with the party. Meanwhile, the party, instead of taking possession of the allotted area, requested (October 2005) for allotment of additional area of 2,500 sft., adjacent to the earlier allotted area. After negotiation, the Corporation, without cancelling the first allotment, handed over (December 2006) total 5,000 sft. to the party for 15 years and accordingly executed

(December 2006) the agreement. As per the agreement, the party was to pay the monthly rent of ₹ 10,500 to be enhanced at the rate of five *per cent* at four years' interval.

Audit observed the following:

- In the meeting held with the Union of the licensees at Baramunda bus stand, the Corporation fixed (March 2006) the rent of open space allotted to other small traders at monthly rent of ₹ 12.50 per sft, with 20 *per cent* enhancement on each four years interval. Thus the rent of 5,000 sft would have been ₹ 62,500 per month to be enhanced by 20 *per cent* at four years' interval. Hence fixation of rent of ₹ 10,500 per month for 5,000 sft area and that too after entering into the contract (December 2006) resulted in undue favour to the party with consequential loss of ₹ 23.40 lakh[79] to the Corporation from December 2006 to August 2010 with monthly recurring loss of ₹ 63,975 (from December 2010) till completion of 15 years upto December 2021.
- The Corporation received (August 2006) an application from another party for allotment of 1,500 sft. space in the bus stand for operating a Vehicle Service Centre. Though the Managing Director initially decided (September 2006) to allot desired space to both the parties, it finally did not allot (December 2006) the space to the other party on the ground that the Minister repeatedly advocated the credentials of the lessee and the other party would be considered in due course. The second party was yet to be allotted any space despite availability in the bus stand. Thus, the Corporation's decision to allot space only to one party tantamounted to undue favour leading to loss of revenue of ₹ 8.25 lakh[80] up to August 2010.

The Management stated (September 2010) that (i) since open space was allotted at the fag end of the bus stand, lower rent was fixed at the request of the party by which the Corporation earned revenue from unused land and (ii) allotment of land to the other party was not possible due to non-availability of vacant space. The reply is not acceptable as (i) the rate of ₹ 12.50 per sft. was fixed in March 2006 for open space allottees irrespective of the location of the space in the bus stand and (ii) though space was available for allotment to the other party, the Corporation did not allot the same in order to extend undue favour to the first party whose case was advocated by the Minister.

Thus, absence of a transparent policy for allotment of open space at Baramunda bus stand led to undue favour to a party which resulted in loss of ₹ 31.65 lakh.

It is recommended that the Corporation should formulate transparent policy for allotment of its open space in order to augment its non-traffic revenue.

The matter was reported to the Government (August 2010); their reply had not been received (September 2010).

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[79] (₹ 62,500-₹ 10,500) x 45 months.
[80] At the rate of ₹ 12.50 per sft for 1,500 sft from January 2007 to August 2010

General

3.16 Follow-up action on Audit Reports

Explanatory Notes outstanding

3.16.1 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 2008-09 were presented to the State Legislature, 11 out of 15 departments which were commented upon did not submit explanatory notes on 51 out of 180 paragraphs/reviews as on 30 September 2010, as indicated in the following table:

Year of the Audit Report (Commercial)	Date of presentation	Total Paragraphs/ Reviews in Audit Reports	No. of paragraphs/ reviews for which explanatory notes were not received
1999-00	1 August 2001	29	1
2001-02	24 March 2003	17	1
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	20
2008-09	16 March 2010	19	16
Total		**180**	**51**

Department-wise analysis is given in **Annexure 13**. 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

3.16.2 Action Taken Notes (ATNs) to 39 recommendations pertaining to six Reports of the COPU presented to the State Legislature between August 2001 and August 2008 had not been received as on 30 September 2010 as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of recommendations where ATNs not received
2001-02	1	8
2007-08	5	31
Total	**6**	**39**

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

3.16.3 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 2010 pertaining to 32 PSUs disclosed that 1,367 paragraphs relating to 354 Inspection Reports remained outstanding at the end of 30 September 2010. Even the initial replies were not received in respect of 133 Inspection Reports containing 727 paragraphs. Department-wise break-up of Inspection Reports and Audit observations outstanding at the end of 30 September 2010 is given in **Annexure 14**. 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 16 draft paragraphs and two draft performance reviews forwarded to various departments between April and August 2010, as detailed in **Annexure 15** replies to 11[81] draft paragraphs and two draft performance review were awaited (September 2010). 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

[81] Including two draft paragraphs replies for which were received in October 2010.

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

(S R Dhall)
Accountant General
(Commercial, Works & Receipt Audit), Orissa

Countersigned

New Delhi
The

(Vinod Rai)
Comptroller and Auditor General of India