

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 2010, the State of Orissa had 35 working PSUs (32 companies and 3 Statutory corporations) and 33 non-working PSUs (all companies), of which working PSUs employed 0.25 lakh employees. The working PSUs registered a turnover of ₹8,573.26 crore for 2009-10 as per their latest finalised accounts as on 30 September 2010. This turnover was equal to 5.68 per cent of State GDP indicating an important role played by State PSUs in the economy. The working PSUs earned an aggregate profit of ₹2,175.29 crore for 2009-10 and had accumulated profits of ₹2,350.47 crore.

Investments in PSUs

As on 31 March 2010, the investment (capital and long term loans) in 68 PSUs was ₹8,014 crore. It decreased by 21.78 per cent from ₹10,245.64 crore in 2004-05 to ₹8,014 crore in 2009-10 due to repayment of loan in power sector. The thrust of PSU investment was mainly in power sector though percentage share of investment in power sector declined from 81.03 in 2004-05 to 76.10 in 2009-10.

Performance of PSUs

During the year 2009-10, out of 35 working PSUs, 22 PSUs earned profit of ₹2,241.30 crore and seven PSUs incurred loss of ₹66.01 crore as per their latest finalised accounts as on 30 September 2010. The major contributors to profit were Orissa Mining Corporation Limited (₹1,890.22 crore), Orissa Power Generation Corporation Limited (₹126.25 crore), GRIDCO Limited

(₹98.14 crore) and Orissa Hydro Power Corporation Limited (₹32.74 crore). Heavy losses were incurred by IDCOL Kalinga Iron Works Limited (₹39.61 crore), Orissa Power Transmission Corporation Limited (₹18.30 crore) and Orissa Rural Housing and Development Corporation Limited (₹5.45 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 ₹1,787.23 crore and infructuous investments of ₹268.56 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and enhance profits/ 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. Forty five out of 46 accounts finalised during October 2009 to September 2010 received qualified certificates. There were 29 instances of non-compliance with Accounting Standards in 14 accounts. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Twenty-seven working PSUs had arrears of 43 accounts as of September 2010. 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, these need to be wound up quickly.

(Chapter 1)

2. Performance review relating to Government companies

Performance reviews relating to ‘Functioning of **Orissa Power Generation Corporation Limited**’ and ‘Execution of Lift Irrigation Projects by **Orissa Lift Irrigation Corporation Limited**’ was conducted. Executive summary of the audit findings are given below:

Functioning of Orissa Power Generation Corporation Limited

Power is an essential requirement for all facets of life and has been recognised as a basic human need. In view of phenomenal growth in the demand of power since 2005-06, capacity addition was not adequate to meet the peak demand leaving a deficit of 700 MW during 2009-10. In the background of power shortage in the State, it was considered desirable to conduct performance audit of Orissa Power Generation Corporation Limited to assess the status of power generation vis-a-vis requirement for power during the period 2005-06 to 2009-10. The audit findings are discussed below.

Planning for future requirement

The total installed capacity of the State PSUs increased from 2,317 MW as on 1 April 2005 to 2,482 MW as on 31 March 2010. During 2005-10 actual capacity addition was 165 MW only. Over and above the capacity addition under five year plan, the Company’s unit-3 and 4 were scheduled to be commissioned in 2004-05 with total capacity addition of 420 MW subsequently revised to 1,320 MW in July 2009. In spite of availability of all statutory clearances, common infrastructural facilities and surplus funds varying from ₹ 142.26 to ₹ 540.09 crore with the Company, the project could not come up due to non-finalisation of modalities of sale of power and dispute over the existing PPA. The State met the demand through procurement of power from the Central Sector Power Companies, Captive power plants and other States. During 2009-10, even after purchase of power, average demand could not be met leaving a deficit of 22 per cent of total requirement. The State had to purchase power from CPSUs and other states at an extra cost of ₹ 660.18 crore during review period.

Input Efficiency

During the years 2005-09 due to receipt of 3.12 lakh MT of inferior grade coal, the Company sustained loss of ₹ 3.86 crore. The claim of ₹ 1.39 crore for 2009-10 had also not been settled by MCL so far. Against the specific consumption norm of 0.784 Kg for coal, the actual consumption varied from 0.822 to 0.887 Kg leading to excess consumption of 11.52 lakh MT of coal valued at ₹ 72.02 crore. Despite Board’s decision in 2008 to import 50,000 MT of low ash coal for blending with high ash coal as received from MCL, the Management did not resort to import of low ash coal or use of washed coal to maximise its generation.

Output Efficiency

The Plant Load Factor (PLF) of the Company, though remained above the national average, decreased from 90.16 per cent (2006-07) to 80.46 per cent (2009-10). Plant availability remained above CEA norm of 86/85 per cent. Despite this, the Company was not able to meet the generation schedule in 2008-09 and 2009-10 and sustained generation loss of 231 MU. Against the designed generation of 17,146 MU, the actual generation was 15,612 MU leading to a shortfall of 1,534 MU during 2005-10. The auxiliary consumption of the plants remained in the range of 10.24 to 10.64 per cent against the CEA norm of 7.5 per cent.

Outstanding Claims and Dues

The energy bills of ₹ 92.61 crore raised during 2006-07 to 2008-09 on GRIDCO remained outstanding till date as GRIDCO disputed the criteria of 68.49 per cent PLF for calculation of incentive as stipulated in PPA.

Monitoring by Top Management

The Company has effective management systems of operations, service standards and targets. The performance reports were evaluated by the Board of Directors on quarterly basis and remedial actions were suggested for arresting operational deficiencies, if any.

Conclusion and Recommendations

Timely commissioning of unit-3 and 4 could have enabled the Company to generate additional

power to the extent of 1,320 MW. Inadequate capacity addition has increased the dependence of the State on high cost power purchase. The review contains five recommendations which inter alia include intensifying its capacity addition programme, reduction of cost of generation by use of imported/washed coal and take up the issue of receipt of poor quality coal with Union Ministry of Power/Coal.

(Chapter 2.1)

Execution of Lift Irrigation Projects by Orissa Lift Irrigation Corporation Limited

The Company was incorporated in October 1973 with the main objective of installation, operation and maintenance of lift irrigation projects (LIPs) as well as for collection of economic water rates from the cultivators for water supplied from the LIPs. The activities relating to operation and maintenance as well as collection of water rate were transferred to the Pani Panchayats (PPs) after implementation of PP Act, 2002. The activities of the Company for execution of LIPs were reviewed to assess the adequacy in planning of the Company for creation of irrigation potential, execution of LIPs under various schemes in an economic, efficient and effective manner, revival of defunct LIPs, proper utilisation of grants and adequacy of internal control and effectiveness of the monitoring activities of top management.

Planning of the Company for execution of LIPs

Orissa being an agrarian State, irrigation plays a major role in poverty alleviation. Out of total cultivable land of 61.65 lakh hectares (Ha.) in the State, 8.90 lakh Ha. had lift irrigation potential. Neither the State Government nor did the Company prepare any perspective plan for development of irrigation facility till September 2009. The Company, however, prepared (October 2009) a perspective plan (2009-14) to install 7,739 LIPs with designed irrigation potential of 1.57 lakh Ha. The Government of Orissa (GoO) had also decided (May 2005) to prepare State master plan to provide irrigation facilities to 35 per cent of the cultivable area in every block during 2005-10 under which the Company was required to install 9,391 LIPs in 174 deficit blocks to create irrigation potential in 1.82 lakh Ha. Against this, the Company installed only 1,532 LIPs (16 per cent) during 2005-10 which indicates the lack of focus and direction for achievement of the objectives of the State master plan. Further, due

to non-prioritisation of execution of LIPs in deficit blocks, 2,367 LIPs were installed in non-deficit blocks.

Execution of LIPs under various schemes

The creation of irrigation potential by the Company during 2005-10 was lagging behind since the Company could achieve irrigation potential of 86,058 Ha. against the target of 1,33,598 Ha. The implementation of LIPs under Biju Krushak Vikas Yojana (BKVY) during 2005-10 was also not satisfactory since against the target of 3,083 LIPs sanctioned by NABARD at an estimated cost of ₹ 244.60 crore, the Company installed only 2,800 LIPs at a cost of ₹ 192.95 crore. Further, due to deficiencies on the part of the Company during implementation, designed ayacut of 53,036 Ha. could not be achieved. The Company could not execute 323 new LIPs targeted during 2005-10 under BKVY scheme (283 LIPs) and Biju KBK scheme (40 LIPs) due to delayed execution of works/ release of funds, etc. The basis adopted for working out BCR were not uniform and in absence of centralised scrutiny at HO level, the viability assessed for the proposed projects under various schemes was not realistic.

Revival of defunct LIPs

Out of 20,895 LIPs installed as of 31 March 2010, 31 per cent (6,444 LIPs) were in-operative/defunct due to various reasons like damage of head works, damage of distribution system, change of river course etc. Against the life of 20 years normally considered for LIP, 3,145 LIPs were defunct within one to 19 years due to improper maintenance which resulted in non-availability of projected benefit of ₹ 1,090.18 crore. There was no perspective plan for revival of defunct LIPs.

Utilisation of flood grants

Against receipt of ₹21.98 crore for revival of 9,737 LIPs under flood grants, the Company utilised ₹19.85 crore on revival of 9,222 LIPs as of 31 March 2010. The claims for utilisation of this grant were not supported with the requisite certificate that LIPs had become defunct due to the flood and become operable after revival. Besides, the Company spent ₹1.80 crore for revival of 590 LIPs in 15 districts, those LIPs were defunct prior to the flood and remained defunct even after revival. Such instances cast doubt on such expenditure.

Manpower deployment, Internal control, Monitoring by top Management

The manpower deployment of the Company was disproportionate since the Company deployed 10 to 13 per cent manpower in Kalahandi, Bolangir and Koraput (KBK) districts against the installation of 10 to 60 per cent of total LIPs installed during 2005-10 which had an adverse impact on execution of LIPs in KBK districts. The Company failed to monitor the recovery of advances of ₹1.72 crore pending against 291 ex-employees for three to 10 years. Despite report of the store verification party for discrepancy of

₹18.60 crore including shortage of store valuing ₹5.41 crore as on 31 March 2009, neither reasons for discrepancies were investigated nor corrective steps were taken to avoid recurrence of the same in future.

Conclusion and Recommendations

Proper planning by the Company could have enabled it for installation of new LIPs as well as revival of defunct LIPs to meet the growing requirement for lift irrigation facility in the State. This review contains seven recommendations to improve the performance of LIPs, i.e. preparation of realistic plan for execution of LIPs, flexibility/adequacy in cost estimates so as to ensure coverage of the designed ayacut under irrigation, simplification of cumbersome procedures of sanction of schemes under BKVY, devising simplified formulae for assessing project viability, ensuring adequate/effective coordination among the Company, funding agencies and various departments of GoO, strengthening of monitoring mechanism and sensitising the water users through awareness campaign to contribute their share of project cost.

(Chapter 2.2)

3. 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 ₹8.27 crore in three cases due to non-compliance with rules, directives, procedures and terms and conditions of contracts.

(Paragraphs 3.4, 3.5, and 3.7)

Loss of ₹14.08 crore in five cases due to non-safeguarding the financial interests of organisation.

(Paragraphs 3.2, 3.3, 3.8, 3.9 and 3.13)

Loss of ₹33.17 crore in four cases due to defective/deficient planning.

(Paragraphs 3.1, 3.10, 3.11 and 3.12)

Loss of ₹0.32 crore in one case due to lack of fairness, transparency and competitiveness in operation.

(Paragraph 3.15)

Loss of ₹1.24 crore in one case due to inadequate/deficient monitoring.

(Paragraph 3.6)

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

Unplanned procurement of coke by **IDCOL Kalinga Iron Works Limited** without finalising financial arrangement and disregarding availability of stock led to loss of ₹ 28.52 crore.

(Paragraph 3.1)

Cancellation of tenders for sale of pig iron by **IDCOL Kalinga Iron Works Limited** despite being aware of downward trend of market prices resulted in loss of ₹ 1.82 crore.

(Paragraph 3.2)

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

(Paragraph 3.3)

GRIDCO Limited sustained loss of ₹ 5.93 crore due to absence of a proper monitoring and control system for supply and billing of emergency/ backup power.

(Paragraph 3.4)

Failure of **Orissa Mining Corporation Limited** to enforce the contractual provision led to non-recovery of penalty to the tune of ₹ 2.09 crore from the transport contractors.

(Paragraph 3.5)

Orissa Hydro Power Corporation Limited sustained loss of interest of ₹ 1.24 crore due to unnecessary delay in claiming reimbursement of income tax directly from GRIDCO.

(Paragraph 3.6)

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.

(Paragraph 3.12)