



Chapter 8 Financial Management

Audit Objective 6: To assess whether the financial management was effective in aiding NRSC in carrying out its mandated activities.

8.1 Sound financial management ensures efficient use of financial resources, avoids blocking of public funds and promotes execution of the activities as planned. Instances of release of grants without assessing the requirements of NRSC thereby blocking of public funds with NRSC, inadequacies in planning process in view of wide variations in budget and actuals under various heads etc., were noticed which are discussed in the succeeding paragraphs.

8.2 The working results of NRSC for the year from 2003-04 to 2007-08 are given in **Table 9**:

Table 9
Working results of NRSC during 2003-08⁵²
(Amount: ₹ in crore)

No	Description	2003-04	2004-05	2005-06	2006-07	2007-08
1	Income from services	57.94	65.20	66.89	76.33	76.72
2	Income from interest	1.82	11.65	7.75	30.50	29.71
3	Other Miscellaneous Income	4.36	6.30	12.27	5.87	4.11
4	Total Income (1 to 3)	64.12	83.15	86.91	112.70	110.54
5	Personnel & General Expenses	35.88	39.23	47.30	49.74	50.27
6	Operational expenses	33.80	34.25	31.81	39.05	24.23
7	Other Expenses	6.10	1.15	2.13	4.24	46.34
8	Total Expenditure (5 to 8)	75.78	74.63	81.24	93.03	120.84
9	Surplus/ Deficit (-)	-11.66	8.52	5.67	19.67	-10.30

It can be seen from the Table 9 above that:

- The income from services which mainly consisted of sale of data products increased from ₹ 57.94 crore in 2003-04 to ₹ 76.72 crore in 2007-08 indicating annual compounded growth of just 7.27 *per cent*. The growth of 7.27 *per cent* was achieved despite launch of three new satellites from October 2003 to March 2008. As against this, expenditure of NRSC increased from ₹ 75.78 crore in 2003-04 to ₹ 120.84 crore in 2007-08 indicating annual compounded growth of 12.37 *per cent*.
- In spite of accounting for interest income of ₹ 81.43 crore during 2003-08, NRSC could manage an overall surplus of only ₹ 11.90 crore. The interest income alone contributed 17.81 *per cent* of total income.
- The working results deteriorated during the year 2007-08 and showed deficit of ₹ 10.30 crore, while expenditure rose by 29.89 *per cent* over the previous year.

⁵² As NRSC became a Government entity from 1 September 2008, figures up to 2007-08 was considered.

**Excessive release of Grants**

8.3 According to Rule 208 and 209 GFR 2005, if financial assistance is proposed to be granted to an organisation, the feasibility of giving such assistance as grant-in-aid should be specifically considered by sanctioning authority in consultation with Ministry of Finance. The guidelines on expenditure management including fiscal prudence and austerity were issued in September 2004. The guidelines drew attention on the cases in which substantial unutilised balance available with bodies were kept as deposits with the Banks. Ministries were advised not to release grants in such cases.

The cash flow statement of NRSC during 2003-08 is detailed in the **Table 10**.

Table 10
Cash Flow Statement of NRSC during 2003-08

(Amount: ₹ in crore)

No	Description	2003-04	2004-05	2005-06	2006-07	2007-08
1	Opening Cash/ Bank Balances	90.04	98.77	163.86	225.72	372.26
2	Cash flow from Grants (General purpose)	9.00	14.00	14.00	20.00	10.54
3	Cash flow from Special Projects grants of DOS	23.23	25.14	29.29	36.87	13.25
4	Cash flow from advances for special projects of DOS	1.78	35.57	31.53	87.98	5.38
5	Surplus from operations	0	8.52	5.67	19.67	0
6	Total Cash Flow (1 to 5)	124.05	182.00	244.35	390.24	401.43
7	Cash out flow for Assets	13.62	18.14	18.63	17.98	17.20
8	Cash out flow for deficit from operations	11.66	0	0	0	10.30
9	Total Cash out flow (7 to 8)	25.28	18.14	18.63	17.98	27.50
10	Net Cash and Bank Balance at the close	98.77	163.86	225.72	372.26	373.93

It could be seen from the table above that NRSC had an opening balance of ₹ 90.04 crore at the beginning of the year 2003-04 which had increased to ₹ 373.93 crore at the end of 2007-08 due to accumulation of unspent balances. NRSC incurred overall surplus of ₹ 11.90 crore during 2003-08 against which a general purpose grant of ₹ 67.54 crore⁵³ was received. Instead of refunding these unspent balances, NRSC deposited these substantial balances available with them in bank accounts and earned interest of ₹ 81.43 crore.

NRSC replied in November 2008 that as income from services was dependent on operational conditions like climatic and financial conditions prevalent in the country and bound for wide fluctuations, grant-in-aid on continuous basis assumed significance and became reasonable and justifiable. Reply is to be viewed in the context of the aforesaid provisions contained in GFRs.

⁵³ Grants released during the period 2003-04 to 2007-08 were ₹ 9 crore, ₹ 14 crore, ₹ 14 crore, ₹ 20 crore and ₹ 10.54 crore.

**Budgeting
and Budgetary
Control**

DOS, without furnishing details, replied that major part of opening balance during any financial year consisted of the advance payments made by users for the projects. The fact remains that ₹ 75.14 crore (in 46 projects) was blocked due to non-utilisation of balances.

8.4 Budget estimates and actuals of NRSC for 2003-04 to 2008-09 under major heads of accounts along with variations are given in **Annex-7**. It could be seen that:

- NRSC earned its major revenues from its services such as sale of data products and overheads from its aerial and satellite application projects. Revenue earned by NRSC varied between (+) 17 per cent to (-) 29.84 per cent against its estimation during 2003-09 indicating deficiencies in planning of its resources.
- The expenditure of the NRSC center varied between (+) 20 per cent and (-) 30 per cent against its estimation during 2003-09 indicating deficiencies in planning and monitoring its activities.
- The variable expenditure incurred by NRSC varied between (-) 42 per cent and (+) 58 per cent against its estimation during 2003-09 indicating deficiencies in planning and expenditure control.
- The variation was due to delay in completion of programmes/projects executed by NRSC and slow progress/ non-utilisation of funds under NNRMS projects as detailed in Chapter 6 of this report.

These significant variations were indicative of deficiencies in budgeting of revenue and expenditure control.

NRSC in November 2008 and DOS in July 2009 replied that though financial planning was made in the relevant financial year, due to operational constraints, the works spilled over to next year. In such cases, the expenditure planned would not materialise during the relevant financial year itself. It was also replied that variation in the income generation was also due to operational constraints. Reply of NRSC points to that fact that NRSC/DOS needed to exercise better monitoring and control over operational activities so as to complete these projects in accordance with planned targets.

**Commission
charges to ACL**

8.5 NRSC sold remote sensing satellite data to foreign clients through ACL. No MoU or agreement existed between NRSC and ACL laying down specific responsibilities for:

- (i) monitoring, billing and collection of dues;
- (ii) accounting for revenues and expenses incurred in respect of these contracts and working out actual revenue to be paid to NRSC; and
- (iii) providing appropriate marketing services.

**Delay in remittance of revenue by ACL**

The pricing sub-committee of NRSC had fixed (January 2008) the revenue share between NRSC and ACL in the ratio of 50:50 for the sale of IRS data to foreign clients.

We observed that though it had the monetary implication of more than ₹ 1 crore, there was no approval of the Member (Finance) of Space Commission for this arrangement which was necessary in cases where the value of the transaction exceeded ₹ 1 crore. We also observed that with this arrangement, NRSC was realising the revenue of the international sales at the domestic rates for all its international sales.

We further observed that according to an internal note (January 2008) of NRSC, the revenue share between NRSC and ACL for the supply of IRS data to foreign clients was fixed at 35 *per cent*, the remaining 15 *per cent* being re-seller's commission. For similar services⁵⁴, DOS was paying to ACL an agency commission of 15 to 20 *per cent*. Thus, NRSC was paying additional commission charges of 15 to 20 *per cent* to ACL and this resulted in reduction of NRSC revenue in the range of ₹ 1.44 crore⁵⁵ to ₹ 1.92 crore⁵⁶ during 2004-05 to 2007-08.

Noting our observations, DOS replied in July 2009 that NRSC would enter into MoU with ACL on the revenue sharing mechanism. DOS justified the higher percentage of commission to ACL by stating that the efforts required to be put in by ACL for sale of remote sensing data products of IRS satellites were higher as compared to the efforts required for leasing of transponders.

Reply of DOS is not acceptable since ACL sells the satellite data products to its international customers through its re-seller (M/s Space Imagery) by paying the sub agent commission of 15 *per cent*. Therefore, there was no additional effort on the part of ACL for getting 35 *per cent* commission.

8.6 According to the Receipt and Payment Rules (Rule 6), all government receipts should be paid in full for inclusion in Government accounts. In contravention of these provisions, we observed that ACL was allowed to deduct its commission charges from the revenues collected prior to remitting the same to NRSC. Payment of commission charges was also not included in the budget of NRSC and this resulted in lack of transparency in the disclosure of receipts of NRSC and payment of commission charges by them to ACL.

We further observed that though data were supplied from 2004-05 onwards; agency commission payable to ACL was decided as late as in January 2008.

⁵⁴ INSAT revenue generated from two segments (i) from leasing of transponders for television operations and (ii) leasing of transponders for VSAT operations.

⁵⁵ 15 *per cent* of ₹ 9.62 crore.

⁵⁶ 20 *per cent* of ₹ 9.62 crore.

**Dues from the sale of satellite data**

NRSC neither raised invoices for the services rendered to foreign clients through ACL nor did it treat the revenue receivable as sundry debtors (data products) in the accounts of NRSC up to January 2008.

Against an amount of ₹ 4.81 crore payable by ACL for 2004-05 to 2007-08, ₹ 2 crore was paid in March 2008 and an amount of ₹ 2.81 crore was yet to be received as of August 2008. The inordinate delay in deciding the revenue share had also resulted in loss of interest of ₹ 48.40 lakh to NRSC calculated at eight *per cent* per annum.

DOS stated that the outstanding amount due from ACL was ₹ 93 lakh as of July 2009 and efforts were being made to recover the outstanding amount.

8.7 Terms of payment of NRSC Data Centre (NDC) required that satellite data products should be disseminated on receipt of 100 *per cent* advance payment. We, however, observed that NRSC was selling data products on credit basis to both Government and private users. NRSC did not furnish year wise information on outstanding dues and the dates from which the dues were outstanding.

The available status of amount receivable on the sale of data products to various categories of users up to March 2008 (as of July 2008) is detailed in **Table 11**.

Table 11
Outstanding dues from the sale of satellite data

(Amount: ₹ in crore)

No	Description	No	Amount
1	Department of Space and its units	36	3.81
2	Other Government users including research institutes, academia including colleges and universities	54	0.20
3	Private users	48	2.60
4	Not known	7	0.43
	Total	145	7.04

From the above table, it can be seen that the outstanding dues (₹ 7.04 crore) were 14.68 *per cent*⁵⁷ in terms of sale of data products. In this regard we also observed that:

- ₹ 3.72 crore, to be collected from 120 clients, was outstanding for more than one year.
- Data products worth ₹ 64.14 lakh were supplied during 2007-08 to three clients⁵⁸ when ₹ 81.23 lakh was already outstanding from them.

⁵⁷ ₹ 7.04/47.95 crore.

⁵⁸ ACL, Anna University, Space Imaging in North America.



- ₹ 45.56 lakh was outstanding from eight users whose details were not available with NRSC, making recovery almost impossible. This indicated weak internal controls.

Thus, non-adherence to the basic condition of not allowing credit sales for the sale of satellite data products resulted in avoidable outstanding dues.

NRSC replied in September 2008 that for exceptionally important national projects and disaster related data requirements, credit sales were entertained with the condition of replenishing of funds. The reply needs to be viewed in the context that besides dues from government users, ₹ 2.60 crore was also outstanding from 48 private users.

DOS replied in January 2010 that satellite data outstanding dues reduced to ₹ 3.93 crore (status as of November 2009) and that efforts were on to realise these outstanding dues. The positive efforts made by DOS to recover outstanding dues need to be sustained to ensure higher levels of recovery in the future.

Adjustment of work centre advances

8.8 NRSC outsourced certain specified tasks of its application projects to Regional Remote Sensing Centres, State Remote Sensing Centre etc., for which advances were given to these agencies. These advances were to be adjusted on receipt of certificate of completion of task to be given by the Project Director and certificate of fund utilisation. In this regard we observed the following.

User projects: We observed that in eight user projects (83 instances), a total sum of ₹ 4.17 crore was outstanding and pending adjustment as of March 2008. Of this, ₹ 1.79 crore was outstanding for more than four years, the oldest being from 1999. The outstanding advances of ₹ 3.83 crore pertained to six completed projects. In one case (Rajiv Gandhi National Drinking Water Mission), even details to whom the advances (₹ 1.12 lakh) were released during 1999-2000 were not on record.

Government projects: An amount of ₹ 13.63 crore was outstanding in 140 cases of advances for settlement in 29 Government projects. Of this, ₹ 51.48 lakh was outstanding for more than five years and the oldest outstanding pertained to 1992. The outstanding advances of ₹ 50.48 lakh pertained to 11 completed projects.

While reporting subsequent adjustment of ₹ 10.71 crore, DOS stated in July 2009 that action was being initiated to get the outstanding adjusted in the shortest possible time.

**Adequacy of
Internal control
and internal
audit system**

8.9 Internal control and internal audit are essential tools for good governance and are used as an aid in ascertaining compliance with rules and regulations, systems and procedures and instructions issued by the top management in accounting, financial and administrative matters. It ensures that the targets/goals/norms are fixed for various technical and operational parameters and also sees that such targets are achieved within the timeframe to obtain best value for money. Thus, internal control and internal audit ensures economic, efficient and effective implementation of various programmes/activities/schemes and projects.

Absence of regular and effective internal control was evident from the examination of records during this performance audit wherein we observed that the basic control issues were not addressed.

The issues that are detailed below indicated that internal controls were not commensurate with the requirement of NRSC and there was a need to strengthen the same.

- relaxation in terms of payment of the projects,
- outstanding dues to be collected from users, projects entered without MoU,
- non-adherence to costing policy,
- slow progress and non-utilisation of funds under NNRMS projects,
- unrealistic budgeting and inadequate budgetary control of NRSC programmes/activities,
- sales of data products to international customer through ACL remaining out of accounts,
- relaxation in terms of payment for the sale of data products, etc.,

Internal audit of NRSC was being conducted by the internal audit wing of the DOS. We observed that internal audit for 2007-08 and 2008-09 was yet to be taken up as of December 2009. We further observed that the scope of internal audit was mainly restricted to establishment matters and there was a need to strengthen the same by covering the appropriate operational issues, while improving the frequency of internal audit.

Conclusion

There were substantial unutilised balances available with NRSC under Government projects, despite which it continued to receive advances for special projects from DOS and from other government users. Budgeting of NRSC was not realistic indicating lack of control on income and expenditure and poor monitoring of projects. There was reduction of revenue/loss of interest due to irregular fixation/ delayed fixation of agency commission payable to ACL in the sale of satellite data. Internal control and internal audit were not commensurate with the requirement of NRSC and there was a need to strengthen the same.



Our Recommendations	Action proposed by NRSC on recommendations
11. The efficiency of financial management processes should be improved to achieve more realistic budgeting and control so as to avoid locking up public funds.	NRSC noted the recommendation for compliance in February 2010.
12. NRSC may streamline commission payable to ACL, avoid credit sales and streamline system for collection of receivables.	NRSC stated in February 2010 that it was in the process of entering into a MoU with ACL Limited.
13. Proactive action may be taken by NRSC to adjust outstanding advances paid to its work centres.	NRSC agreed to ensure that all the conditions of MoU (inclusive of financial terms) were adhered to.



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Dated: 1 December, 2010

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Dated: 1 December, 2010