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

The Orissa Mining Corporation Limited

3.1 Avoidable expenditure on Service Tax

Failure of the Management to avail the abatement of Service Tax as per the statutory provisions resulted in avoidable expenditure of ₹ 2.99 crore.

The Company executed (April/August 2008) agreements with Vijay Infrastructure Limited (VIL) and Arun Udyog (P) Limited (AUL) respectively for production and transportation of Calibrated Lump Ore (CLO) and fines during 2008-10. The contracts were awarded at two different rates *viz.,* for (i) drilling, blasting, excavation, transportation of iron ore to crushing plants and crushing and (ii) transportation of CLO/fines to stockyard/railway siding. As per the terms of the agreements, the Service Tax was to be reimbursed/paid by the Company to AUL and VIL on production of registration certificate for the services.

Service Tax on the mining activities[103] was chargeable under the head mining services, with effect from June 2007. Transportation of processed ores to different stockyards, being the post mining services, however, was taxable under "Goods Transport Agency (GTA)" services. Further, in terms of Section 68(2) of Finance Act, 1994, services rendered by GTAs were taxable under 'reverse charge' method i.e.*,* the recipient of GTA services (i.e.*,* Company) was responsible for collection and deposit of Tax. As per the Central Board of Excise and Customs (CBEC) notifications of March 2006 and March 2008, the taxable service provided by a GTA in excess of 25 *per cent* of the gross amount was exempted from payment of Service Tax.

We observed that during 2008-09 and 2009-10 the Company, instead of retaining the Service Tax component from the bills of the contractors as per the provisions of the Finance Act, 1994 for remitting to the Tax authorities, paid Service Tax of ₹ 3.98 crore to the contractors for transportation of 28.32 lakh MT of CLO/fines produced by the contractors on the full value of the

[103] Drilling, blasting, excavation and transportation of Run of Mines (ROM-unprocessed minerals of larger size) to Crushing and Screening Plant, crushing and screening of ROM to CLOs/Fines

transportation services rendered i.e., basic mining operations and transportation cost. Further, ignoring the fact that the Gross Value of transportation charges was exempted upto 75 *per cent* and the Company was liable to pay ₹ 0.99 crore to the Tax Authorities, it paid the full amount of Service Tax to the contractors. Consequently, the Company paid excess Service Tax of ₹ 2.99 crore[104] to the contractors towards transportation of 28.32 lakh MT of iron ores during the period 2008-10. The Company was also not in a position to claim refund of excess payment of Service Tax of ₹ 2.99 crore as the time ceiling of one year from the date of payment of Service Tax, as prescribed under Central Excise Act, 1944 for filing the claim for Refund, had already expired.

Thus, failure of the Management to avail the abatement of Service Tax as per the statutory provisions resulted in avoidable expenditure of ₹ 2.99 crore.

The Management accepted (July 2011) the audit observation and assured to implement the suggestion on ongoing raising contracts. The Government endorsed (August 2011) the views of the Management.

3.2 Avoidable payment of wharfage charges

Deficient planning of the Company for the export activities in line with the Paradeep Port Trust target resulted in avoidable payment of wharfage charges of ₹ 2.37 crore.

The Company exports iron ore fines from Daitari, Gandhamardan mines through Paradeep Port Trust (PPT). It holds 8,700 square meters of mechanical iron ore plot at PPT suitable for storage and export of iron ore only by mechanical means against the payment of plot rent. In June 2008, PPT fixed annual traffic target for 14 mechanical iron ore exporters on the basis of area allotted to them. In case of failure to achieve the target, the exporters were liable to pay wharfage charges at the rate of ₹ 34.50 per MT of shortfall in quantity. The target for the Company was fixed by PPT at 3.48 lakh MT (2008-09), 4.35 lakh MT (2009-10) and 3.48 lakh MT (2010-11). Thus, it was a pre-requisite to formulate an effective planning to achieve the target fixed by the PPT so as to avoid the payment of wharfage charges.

We observed that despite availability of iron ore fines, the Board of Directors (BoD) fixed the export target of the Company at 10 lakh MT against the PPT target of 11.31 lakh MT during the period 2008-11, which was further reduced to 4.51 lakh MT by the BoD without recording any reasons. The Company actually exported a total quantity of only 4.45 lakh MT during these years which was not only far below the export target fixed by the PPT but also below its own revised target.

We noticed that while the annual average export by the Company was 3.57 lakh MT during 2003-08, the same was only 1.48 lakh MT during 2008-11. Though the export of iron ore fines was more profitable than the domestic sales by ₹ 95-750 per MT as assessed by the Management, they did not

[104] AUL--₹ 1.35 crore and VIL-₹ 1.64 crore

attempt to take steps to enhance the export sales. The poor export performance of the Company was also not reviewed by the BoD to take corrective action. As a result, the Company failed to achieve the PPT target by 6.86 lakh MT (61 *per cent*) which resulted in payment[105] of wharfage charges of ₹ 2.37[106] crore to PPT.

Thus, lackadaisical approach of the Company to export iron ore fines in line with the PPT target resulted in avoidable payment of wharfage charges of ₹ 2.37 crore.

The Management stated (July 2011) that due to various reasons there had been poor convergence of cargo to the Paradeep Port from the mines for onward export. The constraints for export had, however, been removed and the Company had started exporting in a big way from April 2011. The Government endorsed (August 2011) the views of the Management. The contention of the Management for poor convergence of cargo to Paradeep was not acceptable because during the same period of 2008-11, eight exporters had exceeded the export target fixed by PPT by 5 to 191 *per cent* and the action taken by the Company to improve upon the export could have been taken earlier in time so as to avoid payment of wharfage charges.

It is recommended that the Company should strengthen its planning mechanism to meet the export target to avoid payment of wharfage charges.

IDCOL Kalinga Iron Works Limited

3.3 Extra expenditure in removal of overburden

Improper fixation of target for overburden removal coupled with lack of monitoring resulted in extra expenditure of ₹ 98.92 lakh.

The Company issued (25 June 2007) a Work Order to Orissa Stevedores Limited (OSL) on lowest tender basis for raising of lump ore (₹ 97 per MT) and removal of overburden {₹ 21 per cubic meter (cum)} from its Roida 'C' mines for a period of three years from 1 October 2007 to 30 September 2010. The scope of work, *inter alia*, provided that OSL was to raise lump ore as per the target indicated in the work order. As regards the removal of overburden by OSL, however, the Mines Manager of the Company was to give monthly targets for the same and also to intimate the place from where it would be removed. In the event of failure to remove the overburden, all payments to OSL should be held up till the given targets were achieved in full covering all shortfalls.

At the time of finalisation of the tender, the Company estimated to raise 16.68 lakh MT of lump ore as well as to remove 9 lakh cum overburden. Subsequent to the placement of the work order, it was decided (August 2007) in a joint

[105] April 2009-₹ 51.04 lakh, March 2010-₹ 85.99 lakh and March 2011-₹ 99.71 lakh
[106] (11.31 lakh MT *less* 4.45 lakh MT) x ₹ 34.50 = ₹ 2.37 crore

meeting that OSL would raise 15.48 lakh MT of lump ore and remove overburden of 10.80 lakh cum (1:0.70) during the contractual period.

We observed that instead of fixing monthly targets for removal of 10.80 lakh cum of overburden by OSL, the Mines Manager/Deputy General Manager (Mines) intermittently indicated for removal of only 3.87 lakh cum of overburden in seven occasions. OSL, however, failed to achieve even this lower target and could actually remove total 2.35 lakh cum overburden and also raised 10 lakh MT[107] of ore during the entire contractual period. Thus, there was a total shortfall of 4.65 lakh cum[108] in removal of overburden against 10 lakh MT of lump ore raised during the contract period. Despite the said significant shortfall, the Mines Manager/Deputy General Manager (Mines) did not follow-up with OSL for achievement of target. The Company also released unpaid dues of ₹ 54.48 lakh to OSL in contravention of the contractual provision. Subsequently, the Company entered into (September 2010) a fresh contract with OSL for removal of overburden at higher rate of ₹ 80 per cum and a total 2.25 lakh cum of overburden had been lifted up to August 2011. Thus, on the basis of estimated ore and overburden ratio (1:0.70) under the previous contract, total backlog overburden to the extent of 4.65 lakh cum, might have to be lifted at higher rates.

Even if the conservative approach was adopted in arriving at loss figure, the Company had to incur extra expenditure of ₹ 98.92[109] lakh for lifting of backlog quantity of at least 1.52 lakh cum considering the lower overburden removal target of 3.87 lakh cum given to OSL in previous contract.

Thus, absence of monthly target for overburden removal and lack of monitoring over performance of the contractor led to extra expenditure of ₹ 98.92 lakh.

The Management while accepting the fact of increase in overburden to ore ratio stated (May 2011) that it was not easy to remove overburden from the top of the quarry benches while workers were working at the bottom of the same quarry. It was further stated that during excavation of overburden, the overburden boulders at times were rolling down leading to labour discontentment and unrest causing the equipments of the contractor idle. The Government endorsed (October 2011) the views of the Management.

The reply was not acceptable because the Management and OSL had agreed over the quantities of overburden to be removed and ore to be raised after conducting joint inspection (9 and 10 August 2007) of quarry. Thereafter, it was the responsibility of the Management as well as OSL to chalk-out an appropriate plan to remove the required quantity of overburden without compromising the level of production.

---

[107] Lump ore-6,01,440 MT + Equivalent production of lump ore of 3,98,632 MT against 2,67,083 MT of CLO actually produced considering recovery percentage of CLO at 67 *per cent*

[108] *i.e.* 7 lakh cum due to be removed *minus* 2.35 lakh cum actually removed by OSL

[109] Calculated for 1.52 lakh cum of overburden @ ₹ 59 (₹ 80-₹ 21) per cum plus service tax at the rate of 10.3 *per cent*.

3.4 Extra payment on procurement of LAM coke

Failure to obtain laboratory test reports from MMTC Limited at the time of loading of coke coupled with non-inclusion of enabling provision for recovery towards excess moisture content in the purchase orders, resulted in extra payment of ₹ 90.62 lakh.

The Company procures Low Ash Metallurgical (LAM) coke from Neelachal Ispat Nigam Limited (NINL) through MMTC Limited (MMTC) as per the rate offered by MMTC for production of pig iron. MMTC submitted (October 2009) an offer for sale of 5000 MT of 20-80 mm LAM coke at a price of ₹ 16,600 per MT ex-plant, Duburi plus taxes against full advance payment. The offer, *inter alia*, specified that coke would contain maximum one *per cent* of moisture subject to the laboratory report of NINL at the plant head at the time of loading. The Company placed purchase orders on MMTC for supply of 25,500 MT of LAM coke during December 2009 to November 2010 stipulating the quality parameter to be as per NINL laboratory report at the plant head at the time of loading.

We observed that the Company normally included the standard clause in all the purchase orders placed with the suppliers (including MMTC) for recovery of penalty towards higher moisture content with reference to the offered specification. It did not, however, include similar condition while placing supply orders for 25,500 MT of LAM coke on MMTC for reason not on record. The Company received 29,827 MT of NINL coke between October 2009 and December 2010. But, it did not insist for laboratory test report from MMTC nor did the internal operational manual provide for laboratory test report from MMTC to ascertain the moisture content in the LAM coke received.

We observed that the Company conducted (October 2009) physical/chemical analysis of the coke and found moisture content of 2.58 *per cent* in the coke. Subsequent analysis of each lot of the coke received during October 2009 to December 2010 revealed moisture content of upto 9.11 *per cent* in 23,220[110] MT of coke supplied by MMTC during that period which resulted in under tonnage of 495 MT of coke valued at ₹ 90.62 lakh. In the absence of any enabling provision in the purchase orders, the Company failed to recover compensation from MMTC for supply of coke with high moisture content which resulted in excess expenditure of ₹ 90.62 lakh.

Thus, failure to obtain laboratory test reports from MMTC at the time of loading of coke coupled with non-inclusion of enabling provision for recovery towards moisture variation in the purchase orders, resulted in extra payment of ₹ 90.62 lakh.

[110] Analysis report of 1,935 trips of 12 MT each

The Management assured (June 2011) that they would collect the analysis certificate against delivery orders issued by MMTC from NINL plant and would take care for the above during future procurement of coke through MMTC. The Government also endorsed (July 2011) the views of the Management.

It is recommended that the Company should ensure adherence to quality parameters in procurement of materials to safeguard its financial interest.

3.5 Undue favour to a private party

Imprudent financial management and inclusion of same liaisoning work under two contracts awarded to the private party led to avoidable interest payment of ₹ 21.76 lakh and extra expenditure of ₹ 63.83 lakh.

3.5.1 Under a Memorandum of Understanding (June 2004) with Bharat Coking Coal Limited (BCCL), the Company procured coal from BCCL for conversion into coke in the coke oven plant at Barbil, set up under an agreement (September 1993) with Utkal Moulders Private Limited (UTML)[111]. The Board of Directors (BoD) of the Company decided (February 2005) that UTML would arrange to provide 60 days' finance towards the cost of monthly coal procurement against a payment of service charge of ₹ 100 per MT on the ground of critical financial condition of the Company. Accordingly, the work order placed (March 2005) on UTML for conversion of coal into coke for a period of three months, *inter alia,* provided for payment of service charges of ₹ 100 per MT which included interest for financing coal cost (₹ 65 per MT) and liaisoning charges with BCCL towards dispatch of coal (₹ 35 per MT). The work order was extended from time to time upto 31 March 2014.

The Company continued to pay ₹ 100 per MT towards service charges to UTML till August 2008, when the latter requested the Company to enhance the service charges to ₹ 250 per MT due to increase in coal cost and cost of services. The BoD, however, approved (September 2008) to increase the financing charges to ₹ 163 per MT (at the rate of 15 *per cent per annum* for 60 days' finance) without any change in the existing liaisoning charges of ₹ 35 per MT. BoD further directed (September 2008) the Management to review the situation after six months. Accordingly, the revised service charges of ₹ 198 per MT became effective from 1 September 2008.

We observed that the Company had cash credit facility of ₹ 16.75 crore with effect from 16 November 2007 at the interest rate of Banks' Prime Lending Rate (BPLR). The cash credit facility was revised to ₹ 3.50 crore with effect from 28 April 2009 at an interest rate of 1.5 *per cent* over BPLR. The Company did not assess the requirement of fund for financing the coal cost by utilising the existing cash credit facility nor did it review the system of financing the coal cost through UTML ignoring the BoD's direction (September 2008) in this regard.

[111] The Company has investment of ₹ 55 lakh (11 *per cent*) in UTML.

We noticed that the Company failed to utilise the cash credit facility fully during September 2008 to July 2010 and consequently, the available cash credit remained unutilised ranging between ₹ 73.66 lakh and ₹ 16.75 crore during September 2008 to July 2010 which was adequate to meet the coal cost ranging from ₹ 20.20 lakh to ₹ 1.22 crore. Thus, Company's decision to avail finance from UTML at higher cost to meet the cost of coal procured (39,238 MT) during September 2008 to July 2010 instead of utilising the available cash credit facility resulted in extra expenditure of ₹ 21.76 lakh[112] towards higher financing charges. We further observed that the proposal submitted to the Board (September 2008) for increase in the financing charges payable to UTML at 15 *per cent per annum* for 60 days' finance was erroneously calculated at ₹ 163 per MT instead of correct figure of ₹ 152 per MT. Hence, UTML was overpaid towards the finance cost of 39,238 MT coal to the extent of ₹ 16.68 lakh, which was also included in overall extra expenditure of ₹ 21.76 lakh as pointed out above.

Thus, due to imprudent financial management the Company incurred avoidable expenditure of ₹ 21.76 lakh towards interest and extended undue benefit to UTML to that extent.

The Management stated (July 2011) that decision to avail finance from UTML was taken for uninterrupted supply of BCCL coal. The reply did not address the facts that (a) the Company had available unutilised cash credit balance which was adequate to meet the coal cost so as to ensure uninterrupted supply, and (b) it did not review the situation in terms of the direction of the BoD so as to assess the funds available in the cash credit vis-à-vis the requirement of fund for coal cost so that the Company could have avoided the finances at a higher cost from UTML.

3.5.2 The Company, without inviting any tender, issued (June 2005) a work order on UTML for transportation of coal by road from different collieries of BCCL to the coke oven plant at Barbil. The scope of work included handling, manual loading, transportation and liaisoning of coal from BCCL mines. The work order was extended from time to time upto 30 November 2008 at the rates ranging from ₹ 900 to ₹ 1,465 per MT. Subsequently, against the short tender invited (September 2008) by the Company, UTML was awarded the same work in November 2008 at a consolidated price of ₹ 1,750 per MT for a period of one year which was further extended upto 30 November 2010.

We observed that though the Company allotted the liaisoning work with BCCL under the transportation contract, it again paid ₹ 35 per MT as a part of service charge under the conversion agreement with UTML, as mentioned at **3.5.1** above, for liaisoning with BCCL towards dispatch of coal during March 2005 to July 2010. This resulted in excess payment of ₹ 63.83 lakh to UTML for procurement of 1,82,370 MT of coal during 2005-06 to 2010-11 (upto August 2010) which was an undue benefit extended to UTML.

[112] Difference between the interest payable (₹ 42.20 lakh) if available cash credit was utilised and the financing cost (₹ 63.96 lakh) actually paid.

Thus, due to inclusion of same work under two contracts awarded to the same party, the Company paid excess amount of ₹ 63.83 lakh to UTML and extended undue benefit to that extent.

The Management stated (July 2011) that the liaisoning charges of ₹ 35 per MT included in the finance charges was exclusively for the work at BCCL Kolkata Office, Dhanbad Office and Bank and another ₹ 35 per MT was paid for liaisoning for lifting and transportation of coal and both the works were considered separately. The Government had simply endorsed (August 2011) the views of the Management. The contention of the Management was not acceptable because ₹ 35 per MT was paid to UTML towards liaisoning work with BCCL for despatch of coal and hence further amount towards same liaisoning work should not have been considered for transport of BCCL coal.

It is recommended that the Company should safeguard its financial interest while awarding work under different contracts.

3.6 Imprudent decision for non-procurement of NINL coke

Non-acceptance of the offer of MMTC Limited for supply of coke from Neelachal Ispat Nigam Limited resulted in extra expenditure of ₹ 62.07 lakh.

The Company procures Low Ash Metallurgical (LAM)/High Ash Metallurgical (HAM)/NUT coke from various sources for use in its furnaces for production of pig iron. As the quality and price of coke procured from those sources differ, the Company had to go for an appropriate mix of coke procured from various sources to get optimum benefit. On the ground of its low moisture, less under-size and suitability for operation of furnaces, the Company used to procure LAM coke from Neelachal Ispat Nigam Limited (NINL) through MMTC Limited (MMTC), the marketing agency of NINL, for blending with other coke despite having comparatively higher price of NINL coke.

The Company requested (December 2009) MMTC to offer price for supply of 5,000 MT of NINL LAM coke of the size of 20-80 mm. On receipt of the offer (31 December 2009) for only 2,500 MT at the rate of ₹ 16,300 per MT Ex-Plant, Duburi, the Company placed (January 2010) Purchase Order (PO) for the entire quantity offered and pursued for the balance quantity. MMTC offered (3 February 2010) to supply the balance quantity of 2,500 MT at the rate of ₹ 19,500 per MT. The Company approached (February 2010) MMTC to reduce the price to earlier rate of ₹ 16,300 per MT on the ground that the operation of furnace with this high priced coke would be uneconomical. Ultimately, the Company did not place any order on MMTC for balance quantity (2,500 MT) of coke due to higher price. Accordingly, the Company operated furnaces without blending of NINL LAM Coke during March to June 2010 and met the requirement by sourcing coke from a private party *viz*. Ennore Coke Limited. Subsequently, POs were placed on MMTC in May and

June 2010 for supply of 2,000 MT and 5,000 MT of NINL coke at the rates of ₹ 23,000 and ₹ 20,100 per MT respectively which was used (July 2010) in furnaces.

We observed that the average cost of coke mix as charged to the furnaces for consumption in March, 2010 was ₹ 15,815 per MT, whereas the landed cost of NINL coke at the MMTC offered (3 February 2010) basic rate of ₹ 19,500 per MT worked out to ₹ 20,308 per MT. The Company consumed 1.182 MT of other coke during March 2010 to produce one MT of graded pig iron (GPI). As against this, it would have consumed 0.820 MT of NINL LAM coke for production of one MT of GPI. On the basis of landed cost and coke consumption, the cost of NINL coke per MT of GPI worked out to ₹ 16,652. The coke cost achieved during March 2010 (without NINL coke) worked out to ₹ 18,688 per MT of GPI. Hence, use of NINL coke even at a higher basic price of ₹ 19,500 per MT would have been beneficial for blending due to its better quality. This could have caused savings of ₹ 2,036 (₹ 18,688 -₹ 16,652) per MT of GPI for that month to the Company.

Thus, injudicious decision to reject the offer of MMTC for supply of 2,500 MT of NINL coke in February 2010 resulted in extra expenditure of ₹ 62.07[113] lakh on consumption of coke.

The Management stated (July 2011) that the decision for not procuring NINL coke at an offered price of ₹ 19,500 per MT was taken on the basis of comparative chargeable coke cost and marginal cost and on the basis of their past performance prior to plant operation in March 2010. The coke cost per MT of graded pig iron by use of NINL coke worked out to ₹ 19,004, whereas the same by use of coke from other source was lower at ₹ 18,958 per MT, achieved in March 2010. The Government endorsed (August 2011) the views of the Management. The contention of the Management was not acceptable because despite agreeing to the fact that quality of NINL coke was better than the coke of other suppliers, they made the comparative cost-benefit analysis by adopting a uniform quality parameter (i.e., coke rate at 0.900 MT) for NINL coke as well as coke from other sources. Thus, the results of the cost benefit analysis conducted by the Management were incorrect and misleading which led to extra expenditure of ₹ 62.07 lakh on procurement of coke.

It is recommended that the Company should make cost-benefit analysis based on the realistic assumption before procurement of raw material so as to minimise the cost of production.

3.7 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 ₹ 49.76 lakh.

The Company sells different grades of pig iron manufactured by it through open tender from its factory at Barbil on ex-works basis. We noticed that the

[113] From 2,500 MT of NINL coke 3,049 MT (2,500/0.820) of GPI would have been produced and thereby saving in cost of production would have been 3,049MT x ₹ 2,036 = ₹ 62.07 lakh.

stock of pig iron at Barbil ranged between 22,689 and 24,755 MT during April to August 2008 against the normal stockholding of 12,500 MT.

The Company invited two tenders during July and August 2008 for sale of a rake load of 2500 MT (approximately) of Low Metallurgical (LM)-II grade pig iron in North India. The highest prices offered against these two tenders were ₹ 30,752 (25 July 2008) and ₹ 29,418 per MT (11 August 2008). The Company cancelled both the tenders considering high cost of fuel (coke) used in manufacturing process and also the ex-works price of pig iron produced which were more than the highest offer received in the tenders. The Company, however, subsequently sold 2,775 MT of pig iron of LM-II grade at a lower price of ₹ 27,625 per MT against the tender received in September 2008 on the ground of recession in pig iron market and huge stock piling.

We observed that the highest prices offered for pig iron during July and August 2008 were higher than the selling prices of ₹ 26,476 to ₹ 28,751 per MT offered during May and June 2008. Further, the Zonal Manager (Marketing) of the Company intimated (4 August 2008) the Managing Director about the adverse market condition of pig iron in Northern India as the downstream industry did not show any interest for buying pig iron at higher price. Despite knowing the unfavourable market condition of pig iron, the decision for cancellation of tender received on 11 August 2008 was imprudent which resulted in loss of ₹ 49.76[114] lakh on sale of pig iron of 2,775 MT at a lower price.

Thus, due to imprudent decision for cancellation of tender for sale of pig iron received in August 2008, despite aware of adverse market condition, the Company incurred loss of ₹ 49.76 lakh on sale of 2775 MT of pig iron.

The Management stated (May 2011) that the tender was cancelled as the prices received were less than the ex-works price and it was anticipated that pig iron price would go upward. It was also added that due to severe financial crunch the prices received in subsequent tenders were accepted to liquidate the stock for meeting various fund requirements. The Government endorsed (October 2011) the views of the Management. The contention was not acceptable since the decision to cancel the tender received on 11 August 2008 was not in the interest of the Company especially when it was already aware (4 August 2008) of its mounting stock position and low market sentiment of the pig iron in the Northern India.

Orissa State Beverages Corporation Limited

3.8 Undue benefit to suppliers

Failure to install appropriate software to avail cash discount from suppliers led to undue benefit to them to the extent of ₹ 83.97 lakh.

The Company was engaged in wholesale trade of beverages *viz.,* India Made Foreign Liquor (IMFL), beer and country spirit in the State. It enters into

[114] 2775 MT x (₹ 29,418-₹ 27,625)

agreements with the manufacturers/ suppliers each year for procurement of various brands of beverages. The agreements, *inter alia*, provided that the Company was entitled for Cash Discount (CD) of 1.5, 1 and 0.5 *per cent* on the cost of stock sold and paid to the manufacturers/suppliers within 15, 30 and 45 days respectively from the date of receipt of materials from them.

In view of the voluminous data of sales and in absence of a proper software, the Company experienced difficulties in determining the cash discount figures for claiming the benefits from the manufacturers/suppliers. The Board of Directors (BoD), therefore, constituted (September 2006) a Committee which recommended (November 2006) for payment of CD at a flat rate of 0.75 *per cent* on *ad hoc* basis and for installation of a software within three months through a outside agency. The Company, however, failed to install a software so far (November 2011).

We observed on test check basis that in respect of nine brands supplied by six[115] manufacturers during 2009-10, the Company sold 19.74 lakh cases[116] of IMFL, beer and country spirit within 15 days of receipt of the materials and paid their dues amounting to ₹ 121.39 crore to the suppliers within the same period. Thus, as per the terms of the agreement, the Company was entitled to CD of 1.50 *per cent* aggregating to ₹ 182.08 lakh against which it deducted CD of ₹ 98.11 lakh[117]. This resulted in under recovery of CD to the extent of ₹ 83.97 lakh from the suppliers.

Thus, failure of Management to properly monitor and claim the CD led to undue benefit to suppliers to the extent of ₹ 83.97 lakh.

While accepting the facts, the Management stated (June 2011) that every effort was being made to develop a software expeditiously in order to determine the quantum of cash discount receivable from the supplier. The Government endorsed (July 2011) the views of the Management. The fact, thus, remained that though the Company initiated action for development of software in March 2007, such software could not be finalised even after lapse of four years due to lack of planning and monitoring.

It is recommended that the Company should evolve a proper system for availing cash discount from the suppliers so as to safeguard its financial interest.

---

[115] United Beverages Limited, United Spirit Limited, Jagjit Industries Limited, Pernod Records India, Shaw Wallace Breweries Limited and Aska Sugar Co-operative Industries Limited

[116] In case of IMFL, one case means 12 bottles of 750 ml or 24 bottles of 375 or 48 bottles of 180 ml or 96 bottles of 90 ml, in case of beer 12 bottles of 650 ml or 24 bottles of 330 ml or 24 canes of 500 ml and in case of country spirit, it is 50 pouches of 200 ml.

[117] At the rate of 0.75 *per cent* from five suppliers for bill amount of ₹ 93.11 crore and from one supplier i.e., Aska Sugar Co-operative Industries Limited at the rate of one *per cent* for bill amount of ₹ 28.21 crore

Orissa State Beverages Corporation Limited and The Orissa Mining Corporation Limited

3.9 Imprudent fund management

Absence of proper fund management system in Orissa State Beverages Corporation Limited and delayed transfer of funds from current/ collection accounts in The Orissa Mining Corporation Limited led to interest loss of ₹ 2.07 crore and ₹ 1.04 crore respectively.

Orissa State Beverages Corporation Limited

3.9.1 GoO issued (November 1996) guidelines for investment of surplus funds by the State PSUs. The guidelines, *inter alia*, stipulated that the PSUs should assess the availability of funds based on cash flow estimates and take the investment decision based on commercial judgment. We observed that the Company generated huge cash surplus. It did not, however, formulate any investment policy nor did it periodically prepare the cash flow statement to assess the requirement of funds and determine the surplus fund available for investment in line with the guidelines of GoO.

During 2007-08 to 2009-10, the Chairman/ Managing Director decided to invest surplus funds ranging from ₹ 23.01 crore to ₹ 90.92 crore in term deposits for 7 to 366 days with interest rates ranging from 3 to 11 *per cent per annum* without the approval of the Board of Directors (BoD). On maturity, the Company renewed/ reinvested those deposits upto seven occasions for further period of 7 to 366 days. No term deposit was withdrawn by the Company before the maturity period. This indicated that the Company had no immediate requirement of those surplus funds and as such, the said funds should have been deposited for longer periods of at least upto two years so as to yield higher interest.

Thus, in absence of a suitable investment policy for determining the period of investment, the Company could not deposit surplus funds ranging from ₹ 23.01 crore to ₹ 90.92 crore in term deposits for a longer period upto two years at higher rates of interest ranging from 8.5 to 11.75 *per cent, ab initio,* leading to interest loss of ₹ 1.95 crore.

We further observed that the BoD of the Company issued (July 2008) directions for conversion of the current account maintained in UBI into flexi account so as to optimise the returns on investment. The Company accordingly converted the current account in UBI into flexi account. It, however, did not convert the current account maintained at Industrial Development Bank of India (IDBI), Bhubaneswar into flexi account adopting the same principle. The idle balance in the current account in IDBI ranged between ₹ 27.34 lakh and ₹ 5.49 crore during July 2008 to March 2010. On this being pointed out (November 2010) by us, the Company converted (March 2011) the current account to flexi account. Due to inordinate delay in conversion of the current account to flexi account in line with the direction of BoD with three *per cent* rate of interest, the Company lost the opportunity to earn ₹ 11.79 lakh towards interest during that period.

Thus, due to absence of proper fund management system the Company sustained loss of revenue of ₹ 2.07 crore.

While accepting the facts, the Management stated (June 2011) that (a) the matter regarding delegation of power to the Chairman for investment decision would be placed before the BoD for necessary ratification and (b) the deployment of one "Fund Manager" was being contemplated to examine the issues of investment for short and long duration so as to ensure maximum return on the investment basing on criteria/yardstick for investment. The reply was, however, silent on Management's failure to put in place a proper cash management mechanism for ensuring judicious investment of surplus funds.

It is recommended that the Company should devise an appropriate system for assessment of requirement of funds on scientific basis and to invest the surplus funds in a planned and prudent manner so as to optimise the interest income.

The Orissa Mining Corporation Limited

3.9.2 The Head Office (HO) of The Orissa Mining Corporation Limited (Company) directed (September 2005/April 2007) its Regional Office (RO), Koira to maintain ₹ 1 crore as maximum permissible balance in their current account and to remit the surplus fund beyond the above limit to HO on any day of the month when it exceeded the limit.

We observed that during March 2008 to May 2011, the RO, Koira, despite having balances ranging from ₹ 1.62 lakh to ₹ 21.55 crore in excess of the ceiling (₹ 1 crore) in its current account, failed to transfer those surplus fund to HO on the same day in compliance to the directions of HO. This resulted in loss of interest of ₹ 35.04 lakh on that idle fund (at the rate of minimum three *per cent* earned by the HO of the Company on flexi account).

We further observed that the RO, JK Road of the Company operated a collection account (non-interest bearing) and three current accounts for meeting its day-to-day expenditure. Thus, all receipts under collection account needed to be remitted immediately to HO. During March 2008 to May 2011, there was, however, delay upto 18 days by the RO in remittance of such fund to HO which led to accumulation of idle fund upto ₹ 61.25 crore in the collection account. This resulted in loss of interest of ₹ 69.16 lakh on the idle fund (at the rate of minimum three *per cent* earned by the HO of the Company on flexi account).

Thus, due to delayed transfer of fund by ROs from the current/collection accounts to HO, the Company suffered an interest loss of ₹ 1.04 crore.

The Management stated (July 2011) that ROs sometimes retained higher amount than the limit to meet the anticipated immediate payments and banks sometimes delayed the remittance in their own interest. The Government endorsed (August 2011) the views of the Management. The contention of the Management/Government was not acceptable as the closing balances in the bank accounts of ROs were on higher side even after keeping aside ₹ 1 crore to meet the contingencies. Further, instead of depending on the banks to transfer the fund to the HO bank account at Bhubaneswar, the HO/ROs should directly transfer the fund to HO bank account with the help of core internet banking facility.

It is recommended that HO should closely follow-up transfer of surplus fund by the ROs to avoid loss of interest.

Orissa Forest Development Corporation Limited

3.10 Loss on cashew plantation activity

Non inclusion of new plantations in the list of cashew plantation lots for auction and non-enforcement of terms of the agreement towards recovery of dues from the defaulting licensees resulted in loss of ₹ 1.06 crore and ₹ 33.49 lakh respectively.

3.10.1 Loss of revenue due to non-inclusion of new plantation in auction

The Company has Cashew plantations which are leased out through tender/auction for collection of cashew nuts and maintenance of plantations for a period of three years. At the time of issue of tender notice, the Company prepares the list of cashew plantation lots incorporating therein the name/year of the plantation, area in hectare (ha) and number of fruiting trees to facilitate the tenderers for submitting separate bid for each lot. The harvesting activity of the remaining plantations not leased out was done departmentally by the Company.

Under National Horticulture Mission, the Company replanted (July 2007) high yield variety (HYV) cashew in an area of 893.77 ha in two divisions (Bhubaneswar-603.77 ha and Berhampur-290 ha) during 2007-08 crop year[118] to fill the gap in its 31 lots of existing plantations. Though the HYV plantations started giving production from the third year, the same were put to auction from fourth year as maintenance of plantation was carried out upto the third year. Further, the Company also started earning incremental revenue on account of inclusion of the replanted cashew lots in the auction on the fourth year of plantation.

We observed that on completion of third year (July 2010), there were 1.24 lakh new plants covered under 31 lots in two divisions (Bhubaneswar-0.78 lakh and Berhampur-0.46 lakh) ready for harvesting. The Company leased out the above lots of cashew plantation in October 2009 through auction for three crop years from 2010 to 2012.

Out of said 31 lots of HYV plantations the Company included eight lots of Berhampur division having 0.30 lakh new plants in the auction (November 2010). The balance 23 lots having 0.94 lakh new plants (Bhubaneswar-0.78

[118] A crop year is from 1 October to 30 September of the succeeding year.

lakh, Berhampur-0.16 lakh) were, however, not included in the auction though they were ready for harvesting nor did it take any action to collect the cashew nuts departmentally from those plants. Consequently, the bidders did not offer any amount against those plantations. Since those 0.94 lakh new plants ready for harvesting, were not included in the list of cashew plantation lots put to auction, the chances of reaping the fruits by the bidders from those re-plantations could not be ruled out.

Thus, failure of the Company to include 0.94 lakh new cashew plants in the auction, in departure from its own practice, resulted in potential loss of revenue of ₹ 1.06 crore (considering average yield of 2.5 kg per tree during fourth and fifth year and sale price of ₹ 45 per kg during 2009).

The Management stated (June 2011) that the flowering /fruiting in cashew grafts in early ages (upto five years) was sporadic and rudimentary. Hence, it would not be commercially viable to include the same in the tender. It was further stated that as per the direction of Directorate of Cashewnut and Cocoa Development (DCCD), Kerala, the plantation should be put to tender from the fifth year onwards. The reply was not acceptable due to the fact that as per cashew plantation scheme 2007-08 of the Company, the cashew plantation starts yield from the fourth year of plantation. Further, another state PSU (Orissa State Cashew Development Corporation Limited) was also including the cashew plantation for auctioning from the fourth year of plantation. The Company had also partially included the HYV plantations (eight lots) for auction in Berhampur Division. Hence, non-inclusion of balance 0.94 lakh new plants in the auction from the fourth year, in departure from its own practice, lacked justification.

3.10.2 Loss due to non-enforcement of terms of the agreement

The Company put to tender/auction 205 cashew plantations in its Berhampur, Bhanjanagar and Bhubaneswar divisions in October 2006 for collection of cashew nuts and maintenance of cashew plantations for three crop years 2007 to 2009. The agreements with the highest bidders (Licensee) *inter alia* provided that (a) the licensees were to deposit 10 *per cent* of the bid price towards security deposit as well as to pay one-third of the bid price in advance during each of the three years before 30 September i.e., before commencement of each crop year. In case of failure in depositing the advance against bid price, the Company would forfeit the security deposit and recover the loss caused by the licensee by way of institution of money suit and (b) no complaint by the licensee regarding shortfall in quantity and quality of the cashew nuts from the lots would be entertained.

We observed that in respect of 16 plantations auctioned (October 2006) for an aggregate bid value of ₹ 71.71 lakh, the bidders after depositing the security deposit (₹ 7.17 lakh) and advance (₹ 23.90 lakh) towards one-third of the bid value for the first crop year (2007), failed to deposit the said advance for the subsequent crop years-2008 and 2009. Hence, the Company rescinded the agreements with those bidders and forfeited their security deposit of ₹ 7.17 lakh. Subsequently, the Company could realise ₹ 18.58 lakh only from those plantations through departmental collection/re-auction against the proportionate auction value of ₹ 47.81 lakh recoverable from the bidders for the remaining period. Consequently, the Company sustained loss of ₹ 22.06 lakh[119].

Similarly, against 28 plantations auctioned (October 2006) for bid value of ₹ 1.21 crore, the bidders did not deposit advance of ₹ 40.49 lakh against the bid value for the third crop year, 2009. The Company forfeited security deposit of ₹ 12.15 lakh and realised ₹ 16.91 lakh only from those plantations through departmental collection/re-auction, resulting in loss of ₹ 11.43 lakh[120] considering the proportionate auction value of ₹ 40.49 lakh.

We further observed that despite having enabling provision in the agreements to recover the loss amount from the defaulting licensees, the Company failed to enforce the same towards recoupment of the loss. Further, in view of the difficulty in realisation of the loss amount, the Company contemplated (June 2006) to collect 50 *per cent* of the offer price for the first crop year and 25 *per cent* of the offer price in each of the subsequent crop year. No action was, however, taken accordingly for modification of the terms of the agreement nor did it take protective measures like collection of bank guarantees to safeguard its financial interest. Thus, due to non-enforcement of the terms of the agreement for recovery of dues from the bidders, the Company sustained a loss of ₹ 33.49 lakh.

The Management stated (June 2011) that the lease holders only in extreme circumstances became defaulters when they expected poor cropping in future and anticipated loss. Further, the terms and conditions of agreement were to deter the purchasers against mischief and to render pressure on lease holders and also to reduce the expense, time consumption and the uncertain outcome. The contention of the Management was not justifiable because the bidders participated in the auction after considering the cropping pattern and as per the terms of the agreement, no complaint of the bidders about poor cropping should be entertained by the Company. The reply was, however, silent on inadequacy of protection measures to avoid financial losses in case of default by the bidders.

It is recommended that Company should formulate appropriate guidelines for tender/auction of cashew plantations.

The matter was reported to the Government (May 2011); their reply had not been received (September 2011).

[119] Total bid value – ₹ 71.71 lakh *minus* amount received of ₹ 49.65 lakh (₹ 23.90 lakh as advance *plus* ₹ 7.17 lakh for forfeiture of security deposit *plus* ₹ 18.58 lakh received through departmental collection)
[120] Bid value receivable of ₹ 40.49 lakh *minus* amount received of ₹ 29.06 lakh (₹ 12.15 lakh towards forfeiture of security deposit *plus* ₹ 16.91 lakh received through departmental collection)

3.11 Loss of revenue due to improper implementation of scheme

Lack of monitoring and control mechanism on sale of timber led to loss of ₹ 30 lakh besides defeating the objective of Government sale policy.

Government of Orissa (GoO) framed (May 2006) a sale policy of timber which, *inter alia*, envisaged that 30 *per cent* of the outturn of timber received at the central depots of the Company would be kept for local retail sale at a subsidised rate. The said subsidised rate of timber was to be calculated on the basis of ₹ 200 per cubic feet (cft) in the girth class of 3 to 4 feet of timber. GoO also directed the Company to formulate appropriate sales regulation for ensuring that one family would be allowed to buy maximum one cubic meter (or 35 cft) of timber per year at the subsidised rates. Accordingly, the Company formulated (August 2006 and December 2009) a Regulation wherein it was envisaged that persons buying more than 35 cft within a year would be liable to pay 25 *per cent* more than the subsidised rate on the whole quantity lifted, which was revised to 40 *per cent* with effect from December 2009. The basic aim of GoO behind restricting the retail sale of timber at subsidised rates was to ensure that the retail sale provisions were not misused by the unscrupulous elements for wrongful gains.

We observed that the Company did not put in place any control mechanism to monitor and safeguard against misuse of timber ignoring Government's direction (May 2006) in this regard. In six, out of 18 divisions, in 746 instances the Company sold (December 2008 to May 2010) 27,032 cft of timber allowing more than 35 cft of timber to individuals/different persons of same family/traders without charging extra 25/40 *per cent* on the subsidised rates in violation of its own sales regulations. Thus, in absence of proper control mechanism, the basic objective of the State Government sales policy for providing the timber to deserving retail consumers at subsidised rates was defeated besides causing the loss of revenue of ₹ 30 lakh to the Company.

While accepting the facts, the Management stated (July 2011) that necessary assessment was being made case to case basis for taking suitable action and steps were being taken to fix up responsibility on concerned staff. It was further added that in order to check mis-utilisation, the retail sale of subsidised timber had since been centralised at Division Offices level from 2010-11 onwards.

It is recommended that the Company should ensure that retail sale of timber is made as per Government directions and fix responsibility on erring officials.

The matter was reported to the Government (May 2011); their reply had not been received (September 2011).

Orissa Hydro Power Corporation Limited

3.12 Extra expenditure on procurement

Delay in placing order for procurement of non-contractual spares resulted in extra expenditure of ₹ 62.21 lakh.

The Company awarded (March 2002) a contract to Voith Siemens Hydro Kraftwerkstechnik GmbH & Co.KG, Germany (VSH) for carrying out the works of renovation, modernisation and uprating of Units 3 and 4 of Burla Hydro Electric Project (BHEP). The terms of the agreement, *inter alia,* provided that the Company had the option of ordering additional recommended spares not covered under the contract. In order to enable the Company for analysing the demand and finalising the list of spares VSH submitted (January 2005) a list of recommended spares without indicating item-wise price. The Company, without finalising the list of required spares, requested (September 2005) VSH to submit the list of spares with item-wise price. Accordingly, VSH submitted (25 April 2006) the CIF Kolkata price of spares at Euro 9,64,284 (contractual[121] spares: Euro 1,10,651 and non-contractual[122] spares: Euro 8,53,633) with price validity upto 31 July 2006.

We observed that after lapse of three months the unit management of the Company, while communicating (27 July 2006) some revision in quantity of spares to be purchased, intimated the corporate office that some of the spares recommended by VSH were already covered in the original agreement (March 2002) and were to be supplied by VSH at originally agreed rates. Though the Company inordinately delayed to respond to the offer, it did not even finalise the list of spares by the time. The Company took another 21 days i.e., after the expiry of price validity period, to intimate (18 August 2006) the final requirement to VSH with request to revalidate their offer upto 30 June 2007. While rejecting the Company's request for revalidating the earlier offer (April 2006), VSH stated (October 2006) that they would submit a revised offer as the project had already been delayed by more than 18 months. Accordingly, VSH submitted (May 2007) their revised offer with higher prices of the spares. Based on the Company's subsequent request, VSH, however, agreed (May 2007) to supply the contractual spares at the rates (Euro 1,10,651) originally offered by them. The Company finally placed (December 2007) the purchase order on VSH at Euro 10,54,495 (Contractual spares Euro 1,10,651 as per the original offer of VSH and non-contractual spares Euro 9,43,844 on the basis of the revised offer). The spares were received during the year 2009 and ₹ 7.62 crore was paid to VSH in September 2009 at the revised price of May 2007.

We observed that despite being aware of the validity of VSH's offer upto July 2006, the Company failed to finalise the list of spares within the validity

---

[121] Recommended spares to be supplied by the supplier with itemised price valid for one year from the date of final takeover of the project

[122] Spares to be supplied by the supplier in addition to the recommended spares as per indent placed by the Company

period which led to delay in placing the order. Consequently, the Company incurred extra expenditure of ₹ 62.21[123] lakh on procurement of non-contractual spares.

The Management stated (July 2011) that the rates quoted by VSH (April 2006) for contractual spares were higher than those provided in the original agreement (March 2002). After negotiation, the Company, however, could save ₹ 4.75 crore in respect of contractual spares which would set off the losses in respect of non-contractual spares. The Government only endorsed (September 2011) the reply of the Management. The reply was not acceptable as the Company, while negotiating for reduction in price for contractual spares, should have simultaneously placed the orders for non-contractual spares within the validity period at VSH offered rates of April 2006. Thus, by de-linking the supply orders for non-contractual and contractual spares, the Company could have avoided extra expenditure of ₹ 62.21 lakh.

The Company, therefore, needs to streamline its procurement action to avoid delay in placement of orders so as to avoid recurrence of similar lapse.

Orissa Construction Corporation Limited

3.13 Loss on execution of extra work

Execution of extra work without written approval of the competent authority and without recording the measurements in the Measurement Book/level book resulted in loss of ₹ 60.66 lakh.

The Company received (November 2001) a work order from the Department of Water Resources (DoWR), Government of Odisha to construct spillway of Lower Indra Irrigation Project (LIIP) at a cost of ₹ 53.25 crore. The work, *inter alia*, included clearance of 23,768 cubic metre (cum) of silt at a cost of ₹ 17.59 lakh. The work was scheduled to be commenced in November 2001 and completed in November 2004. The terms of agreement, *inter alia*, provided that (a) additional work would be executed only after obtaining the written approval of the Engineer-in-charge and (b) before execution of earth work the Company was to take the sectional measurement by recording the longitudinal section and cross section of the existing ground levels.

The Company failed to complete the execution within the stipulated date and the work was still under execution (September 2011). Meanwhile, the Chief Engineer (CE) of LIIP, in terms of the agreement, approved (September 2004) the first deviation proposal for clearance of 1,17,570 cum of silt.

We observed that against the first deviation proposal, the unit office of the Company cleared 1,47,461 cum of silt upto June 2007 through job contractors at a cost of ₹ 73.25 lakh without written approval of the Engineer-in-charge. Further, it did not record the measurement of silt in the Measurement Book (MB)/ level book for clearance of 1,47,461 cum before releasing payment to

[123] Cost difference of Euro 86,337 (which excludes cost of extra spares valued at Euro 3874) at conversion rate of ₹ 72.05 per Euro

the job contractors. It maintained the record of silt clearance only for 17,009 cum in the MB. Consequently, against the claim of 1,47,461 cum of silt cleared by the Company, CE approved (March 2008) the second deviation proposal for clearance of 17,009 cum of silt only and rejected (April 2008) the claim for clearance of extra 1,30,452 cum of silt. As a result, the Company received only ₹ 12.59 lakh against the expenditure of ₹ 73.25 lakh and incurred loss of ₹ 60.66 lakh due to clearance of extra 1,30,452 (1,47,461 *minus* 17,009) cum of silt without the written approval of the competent authority and non-recording measurements.

Thus, payment to job contractors for execution of extra work without the written approval of the competent authority and without recording the measurements in MB/level book resulted in loss of ₹ 60.66 lakh.

The Management stated (May 2011) that payment was made to job workers after assurance by the DoWR (September 2006) to release the payment within October 2006 since the work was actually executed and deviation was sanctioned. The contention of Management was not acceptable because the Company had made payment of ₹ 72.07 lakh to the job-workers by 31 March 2006 i.e., even before the receipt of assurance (September 2006) from the Government and without maintenance of required records against such payment.

It is recommended that the Company should strictly adhere to the contractual provisions and record the measurement of work done by the job-workers in the MB/level book before releasing payment to them. Responsibility should be fixed on the erring officials.

The matter was reported to the Government (April 2011); their reply had not been received (September 2011).

The Orissa Small Industries Corporation Limited

3.14 Distribution of coal under New Coal Distribution Policy

Introduction

3.14.1 Micro, Small and Medium Enterprises (MSMEs) met their requirements of coal from Coal India Limited (CIL), a Central Government Public Sector Undertaking, through the agencies sponsored by the State Governments. After receiving a large number of complaints about diversion of coal under the above arrangement, CIL, based on verification drive, found that there was diversion of coal meant for eligible units to non-existing and non-working units. To address the issue, the Ministry of Coal (MoC), GoI formulated (October 2007) a New Coal Distribution Policy (NCDP), effective from 1 April 2008, for distribution of coal to MSMEs, through State Governments/Central Government nominated agencies, whose requirement was less than 4,200 MT per annum.

3.14.2 The NCDP required the State Government to: (a) work out genuine requirement of MSMEs for various grades of coal on a transparent and scientific basis, distribute coal to them, evaluate genuine consumption and monitor use of coal by MSMEs, (b) notify agencies for undertaking distribution of coal in the State which were to enter into Fuel Supply Agreement (FSA) with the coal companies and (c) the agencies would devise their own coal distribution mechanism to ensure distribution of coal in a transparent manner and to take appropriate action to prevent misuse of coal.

Appointment of nominated agent and agreement with MCL

3.14.3 In line with the NCDP, the Government of Odisha (GoO) designated (April 2008) The Orissa Small Industries Corporation Limited (Company) as one of its nominated agencies[124].

For distribution of coal under NCDP, the Company entered into a FSA (April 2008/May 2009) with Mahanadi Coalfields Limited (MCL) for procurement of coal. During 2008-09 and 2009-10, the Company procured 2.54 lakh MT[125] of different grades of coal at an aggregated cost of ₹ 24.52 crore.

Operational mechanism

3.14.4 To implement the NCDP, the Director of Industries (DoI), GoO devised (February/June 2008) an 'Operational Mechanism' (OM) which provided that (a) District Industries Centers[126] (DICs) shall furnish the list of coal consuming units along with their annual requirements to the Company at the beginning of every year under intimation to DoI, (b) DICs were to recommend the MSMEs having valid Permanent Registration Certificate (PMT)/Entrepreneurs Memorandum (EM)[127]-II number only, (c) the Company was to distribute coal to MSMEs, as recommended by DICs and to furnish the list quarterly/half-yearly to DICs under intimation to DoI and (d) DICs were responsible to verify the utilisation of coal issued to the consumers and to recommend the quantum of coal required by them in the next year.

The GoO modified (August 2009) the OM for allocation of coal to MSMEs. As per the revised OM effective from August 2009, the coal requirements of the MSMEs were to be assessed jointly by DICs and other organisations[128] based on the items of production by the concerned MSMEs, their annual installed capacity, actual production and actual consumption of coal during previous year. Further, in addition to the MSMEs having valid PMT and EM-II, MSMEs having Provisional Registration Certificate (PRC) or EM-I were

[124] The other agency was not under the audit purview.
[125] 73,901 MT (₹ 6.93 crore) and 1,80,193 MT (₹ 17.59 crore) against the FSA quantity of 1,00,000 MT and 2,00,000 MT during 2008-09 and 2009-10 respectively
[126] DICs in the State were functioning under the administrative control of Director of Industries, Government of Odisha.
[127] MSMEs to be registered with DICs were required to file Entrepreneurs Memorandum (EM) under Sub-section (1) of Section 8 of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. EM-I was to be filed for pre-operative periods and EM-II on commencement of production or services. In both cases, concerned DIC allotted EM numbers.
[128] Micro, Small and Medium Enterprises Development Institute, National Small Industries Corporation Limited, Director of Technical Education and Training, etc.

also made eligible to be recommended for coal allocation subject to the confirmation that these MSMEs were in existence and running after their physical verification by DICs.

Scope of Audit

3.14.5 We conducted audit on distribution of coal to MSMEs by the Company on the basis of recommendations of 16 DICs out of 31 DICs of the State to assess the transparency and accountability in the implementation of NCDP starting from 1 April 2008 with regard to the achievement of its objective. Other 15 DICs were not involved in the coal distribution. We noticed the deficiencies and shortcomings in the areas of recommendations by DICs, appointment of Contract Operated Coal Depots (CODs), lifting and distribution of coal, raising of bills on MSMEs and monitoring as discussed in succeeding paragraphs.

Recommendations by DICs

3.14.6 During the years 2008-09 and 2009-10, the Company distributed coal to 115 MSMEs and 204 MSMEs respectively. We observed the following deficiencies in the recommendations of DICs which carried the risk of compromised transparency and accountability as well as failure in ensuring the proper utilisation of coal as per NCDP.

Recommendations for ineligible MSMEs

- As per the pre-revised Operational Mechanism (OM) (February 2008) and subsequent instruction (June 2008) of DoI, no recommendation for supply of coal was to be made against the MSMEs not having PMT/EM-II numbers. Despite this eight[129] DICs recommended (during April 2008 to August 2009) the names of 47 MSMEs and the Company supplied 27,356 MT of coal valued at ₹ 2.30 crore to 39 ineligible MSMEs upto July 2009.
- Nine DICs,[130] out of 16 DICs test checked, made recommendation for 37 MSMEs to be allotted 71,480 MT of coal after 6 August 2009 to March 2010 without conducting joint capacity assessment to ascertain coal requirements of those MSMEs, as required under the revised OM (August 2009). Against the recommended quantity of 71,480 MT, 32 MSMEs were supplied with 12,207 MT coal valued at ₹ 1.31 crore.

[129] Bhadrak, Cuttack, Dhenkanal, Ganjam, Jagatpur, Keonjhar, Puri and Sundargarh
[130] Balasore, Bolangir, Cuttack, Ganjam, Jagatpur, Jagatsinghpur, Kendrapara, Mayurbhanj and Puri

- In deviation of NCDP, three DICs (Bhubaneswar, Cuttack and Jagatpur) recommended 10 MSMEs[131] for the year 2009-10 ineligible for coal allocation under NCDP as their annual requirement of coal was more than 4,200 MT. These MSMEs were irregularly supplied 11,285 MT of coal valued at ₹ 1.27 crore by the Company.

Recommendations for excess quantity

- As against the total quantity of 5,300 MT applied for by four[132] MSMEs, two DICs, (Bhubaneswar and Bhadrak), recommended 6,960 MT of coal for 2009-10 resulting in excess recommendation of 1,660 MT against which actual supplies were also made**.** The reasons for recommendation in excess of the actual requirement were not recorded.

Distribution of coal

3.14.7 The DICs recommended the list of MSMEs alongwith quantity of coal to be issued by the Company. The Company secured deposits from the recommended MSMEs in advance and deposited the same with MCL who in turn issued Delivery Orders (DOs). The Company engaged individuals/ agencies as Contract Operated Coal Depots (CODs)[133] who collected DOs and lifted coal from MCL on behalf of the Company and stored in their own designated depots. The Company issued Release Orders (ROs)[134] in favour of MSMEs and the CODs were to supply coal to them on the basis of these ROs. The Company discontinued the practice of storing coal in the depots of the CODs for 2009-10 and supplied coal to the MSMEs through CODs directly from the pit heads (ex-Talcher) of MCL without routing through designated depots of CODs.

Deficiencies in appointment of Contract Operated Coal Depots

3.14.8 During April 2008 to August 2008 the Company, without inviting tenders, engaged four firms[135] for appointment as Contract Operated Coal Depots (CODs) in continuation with previous contracts extended from time to time. During September 2008 to March 2009, the Company awarded the work to existing agencies through invitation of tender. For appointment of CODs for the year 2009-10, the Company had issued (March 2009) Tender Notice for six locations *viz.,* Angul, Balasore, Berhampur, Cuttack, Sambalpur and Rourkela against which eight parties submitted nine offers. After evaluation of offers,

[131] Debsib Construction Private Limited (Bhubaneswar), Debsib Construction Private Limited (Cuttack), Madan Mohan Coke, Manas Coke, Konark Ceramic Private Limited, Utkal Chromium Private Limited, Sriram Coal Briquettes, Nilachal Carbo Metaliks (P) Limited, Rameswar Industries and Pritam Industries

[132] P.K.N. Bricks, Baba & Co, Diamond Bricks (P) Ltd and Mayur Brick Fields

[133] CODs were the private agencies appointed by the Company for distribution of coal to the MSMEs.

[134] RO is prepared in triplicate. Main copy is meant for Area Manager of concerned Branch Office the Company, second copy to the concerned COD and the third copy to the concerned MSME.

[135] Balaji Coal Traders (Manguli), Kalinga Coal Distributors (Balasore), Manikeswari Constructions (Jharsuguda) and Shantilata Sahu (Berhampur)

the Tender Evaluation Committee (TEC) recommended (March 2009) to award the work to five parties.[136] The recommendations of TEC were approved (27 March 2009) by the Managing Director (MD) of the Company. The BoD, however, was not apprised of the same.

In this connection, we observed that the Company was to pay Miscellaneous Service Charges (MSCs) to the CODs for the services like, empanelment of MSMEs, booking, liaisoning, handling and documentation of coal etc., which was similar for all locations. We observed that for finalisation of the rate of MSCs payable to the CODs, the Company though invited (March 2009) tender separately for six locations, it did not include condition in the notice inviting tender that the lowest rate obtained through tender would be binding for all locations, since the nature of work was same. Consequently, against the rates quoted by the bidders ranging from ₹ 19.30 to ₹ 45.22 per MT for five locations, the MD approved and awarded the work at the average of the rates quoted by the bidders i.e., ₹ 33 per MT instead of the lowest quote of ₹ 19.30 per MT. The Company also added this amount of ₹ 33 per MT to the cost of coal and collected the amount from MSMEs against distribution of 1,80,193 MT coal to MSMEs. Hence, MSMEs were unnecessarily burdened with ₹ 24.69 lakh on this account.

Deficiencies in distribution

3.14.9 The Company had not evolved any detailed procedure in the matters of receipt of deposits from the MSMEs, receipt and handing over of ROs to CODs, periodic reconciliation of the quantity of coal allotted, lifted, distributed and billed so as to ensure distribution of coal in a transparent manner and prevention of mis-utilisation of coal. We noticed the following deficiencies:

- Though the BoD decided (February 2009) to award the work of booking and distribution of coal to CODs from 2009-10, no system was put in place to ensure that the genuine end user had booked the coal as the CODs were in-charge of both collection of advance deposit and supply of coal to MSMEs based on Release Orders (ROs) issued by the Company.

- The consumer (MSMEs) copy of ROs against the quantities booked by CODs were required to be handed over to the concerned MSMEs to take delivery of coal at pit-head of MCL. The General Manager (Operation) of the Company proposed (July 2009) to the MD to allow handing over the copies of ROs meant for MSMEs, to CODs on the plea ‘to streamline the work and avoid the extra paper work’. The MD, however, without according specific approval to this proposal, directed (July 2009) to evolve a ‘hassle free procedure’.

[136] Laxmi Transport (Angul), Kalinga Coal Distributors (Balasore), Shantilata Sahu (Berhampur), Metal Syandicate (Cuttack) and Perfect Enterprises (Rourkela)

We observed that in practice, consumers copies of ROs were irregularly handed over by General Manager (Operations) to the concerned CODs. This type of practice left with the scope of diversion/misutilisation of the coal by CODs.

- The Company had also never submitted any periodical returns (*viz.,* quarterly/ monthly return) to the GoO showing month-wise, consumer-wise, unit-wise coal supplied, as required under the FSA with MCL and despite being specifically called for on many occasions. Despite persistent negligence by the Company, GoO did not take any action against the erring officials.

- The Company issued ROs with the same serial numbers and dates to different MSMEs involving 51,479 MT coal leaving scope for malpractices.

- Though MSMEs were required to provide details of VAT registration, so as to avail benefits of the scheme, the condition was relaxed subsequently by the MD (May 2009) on the request of the CODs.

The above deficiencies were indicative of lack of effective control over distribution of coal by the Company and carried the risk of diversion and mis-utilisation of coal.

Lack of monitoring of documentation of coal stock

3.14.10 The Company had not put in place any mechanism to monitor the submission of various returns by CODs in respect of the coal distributed by them to MSMEs. We observed that during 2009-10, none of the five CODs furnished the weekly lifting and delivery statement to the Company alongwith the requisite documents *viz.,* Delivery Challans, Transit Passes, acknowledgements from MSMEs, etc. This raised doubts on actual delivery of allocated quantity of coal to the respective MSMEs. Despite this, the Company neither terminated the contracts with CODs nor forfeited the Security Deposits obtained from the CODs as per the terms of the agreements. Instead, the Company extended (June 2009) their agreements for another period of three years within one month of execution of initial agreements with the CODs, which appeared to be a hasty decision with a view to extend undue benefits to the CODs.

During the year 2008-09 Balaji Coal Traders COD-in-charge of Manguli Depot recorded the date-wise receipt of 3,730 MT of coal in the Stock Register one to nine days before their actual receipt from MCL. Further, in seven cases the entry for 10,222 MT of coal was made after a delay of 1 to 46 days from the date of lifting of coal. Similarly, the COD-in-charge of Berhampur Depot, recorded receipt of 7,720 MT of coal after delays of 3 to 41 days from the date of lifting from MCL pit-head during 2008-09. Despite this gross irregularity in stock accounting, the Company did not take any action against CODs or against the Depot-in-charge of the Company deputed at the depot of the COD who was also responsible to jointly sign the Stock Statements.

We further observed that as per the Stock Register, the COD, Manguli Depot had Opening Stock of 3,047 MT of coal as on 1 April 2008. It received 54,397 MT of coal and issued 55,054 MT of coal to the MSMEs during 2008-09. Hence, the Closing Stock should have been 2,390 MT (valued at ₹ 33.98 lakh) as on 31 March 2009. The Depot-in-charge of the Company deputed at Manguli Depot, however, tampered the stock records to show the Opening Stock as 3,522 MT, received quantity as 49,559 MT and issued quantity as 53,081 MT whereby the Closing Stock was depicted as 'nil' for reasons not on record. Thus, this deliberate manipulation of stock records by the Depot-in-charge of the Company was indicative of possible diversion of 2,390 MT of coal.

Thus, lack of monitoring over the stock accounting raised doubt about the actual receipt and sale of coal to genuine MSMEs.

Deficiencies in allotment and lifting of coal

3.14.11 We noticed that the Company issued coal to MSMEs in excess of the quantities recommended by the DICs, without recommendation of DICs and also despatched in excess of quantities mentioned in the ROs and to MSMEs which were non-working as discussed below:

- During 2009-10, the Company issued 440 MT (₹ 4.86 lakh) coal through CODs to four MSMEs[137] located at Jajpur district, without the recommendation of DIC, Jagatpur. Further, the Company issued 23,943 MT of coal valuing ₹ 2.33 crore to 40[138] MSMEs during 2008-09 and 2009-10. The Company, however, did not produce the recommendations of concerned DICs for verification. In the absence of such recommendations, the actual distribution of allocated quantity of coal to the genuine end users (MSMEs) could not be vouchsafed.

- The Company allotted 26 MT (two MSMEs) and 446 MT (nine MSMEs) of coal valuing ₹ 5.17 lakh in the years 2008-09 and 2009-10 respectively in excess of quantities recommended by DICs for reasons not on record.

- DIC, Jagatpur intimated (September 2009 to January 2010) the Company about closure/ non-existence of 12 MSMEs. Despite this, the Company allotted and supplied 2,445 MT of coal valued at ₹ 26.69 lakh to 10 out of those 12 ineligible MSMEs after the date of intimation.

- Metal Syndicate, COD of Cuttack supplied 2,935 MT coal of ₹ 31.48 lakh in excess of RO quantity (issued upto December 2009) to 13 MSMEs of Cuttack and Jajpur districts. Subsequently, on verification (January 2010) DICs found that these MSMEs were either non-working or misutilising coal. No action was, however, taken by the

[137] Arjun Bricks (140 MT) and Laxmi Bricks, BB Bricks and Radheshyam Bricks (100 MT each)
[138] 31 of 2008-09 and 9 of 2009-10

Company against the concerned COD for irregular supply of coal, which was indicative of ineffective control mechanism of the Company over activities of the CODs.

Deficiencies in raising of bills on MSMEs

3.14.12 During the year 2008-09, the Company deputed its officials (Depot-in-charge) to all CODs who were responsible to verify and issue bills to concerned MSMEs with due acknowledgements, signature and seal of the MSMEs and send the same to the Head Office of the Company for processing the claims of CODs.

Cancellation of Delivery Challans after preparation of Sales Statements

3.14.13 We observed that during the year 2008-09, no separate bill was prepared by any of the Depots-in-charge of the Company in violation of the aforesaid norms. They issued Delivery Challan-cum-Tax/Retail (DCTR) invoices against the supply of coal. On scrutiny of copies (Vol-1 to 13) of DCTR invoices of Manguli Depot we noticed that the Depot-in-charge deputed to Manguli Depot cancelled 28 DCTR invoices raised against 24 MSMEs involving 3,463 MT of coal valuing ₹ 48.79 lakh after submission of Sales Statements to Head Office and without recording the date of cancellation. We further noticed that out of the above mentioned 3,463 MT of coal, the Company also had paid transportation and handling charges of ₹ 3.13 lakh to the COD on 886 MT valuing ₹ 12.52 lakh. Since the DCTR invoices were to be raised at the time of delivery of goods to the MSMEs, the cancellation of the same after preparation of Sales Statements raised doubt over the authenticity of the transactions.

3.14.14 The Company revised (May 2009) the procedure for raising bills for coal issued during the year 2009-10 and entrusted the work of raising the sales invoices to the Raw Material Depots (RMDPs) of the Company. The deficiencies in raising of bills by the RMDPs are discussed below:

Deficiencies in raising of bills by Raw Material Depots

3.14.15 In terms of MD's instruction (25 May 2009), the RMDPs were responsible to raise sales invoices (which were actually bills) for the quantity of coal as mentioned in the Transit Pass (TP), Delivery Challans and acknowledgement in the letter pad of the MSMEs. Thus, it was imperative to put in place a system to collect these required documents from CODs who were responsible to deliver coal at pit head to coal consumers so as to ensure receipt of coal by genuine MSMEs.

The status of lifting and invoices raised against the supply of coal for the year 2009-10 was as follows:

Name of RMDPs	No. of MSMEs	Quantity Lifted (MT)	Quantity Billed (MT) as per invoice	No. of invoices raised	Value (₹ in crore)
Cuttack	106	81,800	56,126	300	6.10
Anugul	19	21,284	19,048	122	2.34
Berhampur	16	33,175	22,626	95	2.36
Rourkela	11	18,909	14,326	64	1.56
Balasore	52	25,025	21,152	197	2.12
Total	**204**	**1,80,193**	**1,33,278**	**778**	**14.48**
Billed at Headquarter (April and May 2009)			**22,967**		**2.48**
Grand Total			**1,56,245**		**16.96**

In this connection we noticed:

- Against total supply of 1,80,193 MT during the year 2009-10, the Company raised sales invoices only against 1,56,245 MT for ₹ 16.96 crore, while invoices (bills) for balance quantity of 23,949 MT valuing ₹ 2.65 crore were yet to be raised as the CODs did not furnish the required documents. The Company, however, did not take any action against the defaulting CODs. Hence, genuineness of the sales of 23,949 MT to MSMEs could not be ascertained by us.
- Contrary to the direction (May 2009) of the MD, the General Manager (Operation) instructed (February 2010) the RMDPs to raise invoices only on the basis of acknowledgements from the MSMEs as the proof of delivery without any reference of obtaining other documents. In reply to audit query, the Management stated (August 2011) that as CODs had not furnished the required information (i.e., Delivery Challans, Transit Passes etc.), RMDPs were allowed to raise invoices only on the basis of acknowledgements of the customers as per the letter of the ex-GM (Operation). The reply was silent as to why no action was taken against the defaulting CODs for non-submission of requisite documents.
- The Company did not furnish to us records like Sales Invoice, Transit Pass, Delivery Challans, acknowledgement of MSMEs, etc., in support of the sale of 22,967 MT of coal valuing ₹ 2.48 crore made by the Head Office of the Company in April and May 2009 raising doubt about genuineness of such sale.

- Against 778 invoices relating to supply of 1,33,278 MT of coal, 71[139] invoices were raised by RMDPs for 8,130 MT of coal valued at ₹ 0.97 crore without obtaining any acknowledgement from MSMEs. Therefore, the genuineness of sale of 8,130 MT of coal to eligible MSMEs could not be ascertained by us.
- In case of RMDP, Cuttack, 29 invoices for 4,351 MT valued at ₹ 49.95 lakh were raised before receipt of coal by MSMEs, while another 26 invoices were raised for 4,346 MT of coal for ₹ 51.03 lakh before receiving acknowledgements from the MSMEs. This raised doubt about the actual receipt of coal by MSMEs.
- In respect of RMDP, Angul, all 122 invoices for 19,048 MT (valued at ₹ 2.34 crore) were raised before receiving acknowledgements from MSMEs. Subsequently, those invoices were handed over to the CODs for collecting acknowledgements. CODs, however, had submitted acknowledgements for 81 invoices so far to the Company.
- In case of RMDP, Balasore, nine MSMEs had furnished acknowledgements in different letter pads for receipt of 6,605 MT of coal valued at ₹ 66.13 lakh. Further, 89 sales invoices against supply of 6,338 MT of coal valued at ₹ 62.55 lakh were raised against 74 acknowledgements wherein the signatures of the proprietors of concerned MSMEs were scanned. Thus, the possibilities of diversion of 6,338 MT of coal could not be ruled out.
- In Bhadrak district, 21 MSMEs had neither deposited money with the Company nor did they receive any coal from the concerned COD. Thus, sale and actual delivery of 2,846 MT of coal valued at ₹ 28.53 lakh to those MSMEs was not ascertainable.

Thus, the billing mechanism without ensuring receipt of required documents from MSMEs was deficient and fraught with the risk of compromised transparency and accountability in ensuring delivery of coal to genuine MSMEs.

Payment of miscellaneous service charges to CODs

3.14.16 As per terms of the Notice for Invitation of Tenders (NIT), the CODs were required to submit bills towards claim of Miscellaneous Service Charges (MSCs) fortnightly along with “handling statements”. We observed that five CODs lifted 1,80,193 MT of coal from MCL during 2009-10. Only COD, Balasore submitted bills towards claim of MSCs of ₹ 7.64 lakh against 23,152 MT of coal at the rate of ₹ 33 per MT though it actually lifted 25,024 MT of coal during 2009-10. The other four CODs did not submit (August 2011) any bills towards claim of MSCs against lifting of 1,55,169 MT of coal by them during said period for reasons not on record. None of the CODs, however, had submitted any claim against the Company for refund of their security deposits of ₹ 20 lakh and bank guarantee of ₹ 10 lakh as well as performance guarantee of ₹ 86.50 lakh deposited in cash with the Company. Non-claiming of huge

[139] Angul-41, Balasore-1, Berhampur-5, Cuttack-22 and Rourkela-2

service charges of ₹ 51.21 lakh against execution of works by four CODs and also non-claiming the refund of security deposits/bank guarantees/ performance guarantees by any of the five COD, raised doubts on possible diversion and mis-utilisation of coal.

Monitoring

3.14.17 The NCDP of the GoI had emphasised (October 2007) the need of maintaining transparency and fairness in distribution of coal and to take appropriate action to prevent its misuse. Though the GoO issued an operational guideline for implementation of NCDP, the Company did not frame a detailed procedure with adequate controls in place. The BoD had not issued instruction for detailed checks and controls to be in place while authorising CODs to handle the procurement and supply of coal to MSMEs. Despite persistent irregularities in the receipt and distribution of coal and lack of effective internal control over the functioning of CODs and documentation, the Government did not monitor the coal distribution mechanism to ensure transparency and fairness. Thus, monitoring by the top level Management and Government on the distribution of coal was deficient and ineffective.

To Sum up

- **The objective of New Coal Distribution Policy was to ensure the supply of coal to MSMEs in a transparent manner as well as to prevent misuse of coal.**
- **Due to deficient recommendations by DICs for ineligible MSMEs, allotment of coal by the Company beyond the quantities recommended by DICs, supply of coal by the Company in excess of quantity mentioned in Release Order, tampering of stock records, cancellation of Delivery Challan-cum-Tax/Retail invoices after supply of coal, deficiencies in billing and improper monitoring by the top management of the Company and GoO the objective of NCDP was not achieved.**
- **We are not certain that eligible MSMEs were supplied with coal and there was need for thorough investigation of all the transactions relating to distribution of coal.**

The matter was reported to the Management/Government (September 2011). The Management stated (October 2011) that the State Vigilance Cell had seized the records relating to coal business which were not returned to the Company; hence it was not possible to reply to audit observation.

General

3.15 Follow-up action on Audit Reports

Explanatory Notes outstanding

3.15.1 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 Odisha 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 performance audits 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 2009-10 were presented to the State Legislature, 12 out of 16 departments which were commented upon did not submit explanatory notes on 59 out of 197 paragraphs/performance audits as on 30 September 2011, as indicated in the following table:

Year of the Audit Report (Commercial)	Date of presentation	Total paragraphs/ Performance audits in Audit Reports	No. of paragraphs/ performance audits 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	2
2006-07	17 March 2008	25	6
2007-08	18 June 2009	25	20
2008-09	16 March 2010	19	11
2009-10	28 March 2011	17	14
Total		**197**	**59**

Department-wise analysis is given in **Annexure 12**. PSUs under the Energy, Industries and Public Enterprises Departments were largely responsible for non-submission of explanatory notes. The Government did not respond to even performance audits highlighting important issues like system failures, mismanagement and non-adherence to extant provisions.

Compliance to Reports of Committee on Public Undertakings (COPU) outstanding

3.15.2 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 2011 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 Performance Audits

3.15.3 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 2011 pertaining to 36 PSUs disclosed that 1,497 paragraphs relating to 395 Inspection Reports remained outstanding at the end of 30 September 2011. Even the initial replies were not received in respect of 104 Inspection Reports containing 641 paragraphs. Department-wise break-up of Inspection Reports and Audit observations outstanding at the end of 30 September 2011 is given in **Annexure 13**. Similarly, draft paragraphs and performance audits 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 15 draft paragraphs and three performance audits (including IT Audit) forwarded to various departments between April and September 2011, as detailed in **Annexure 14,** replies to four draft paragraphs and one draft performance audit were awaited (September 2011). 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 reports and ATNs 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), Odisha

Countersigned

New Delhi
The

(Vinod Rai)
Comptroller and Auditor General of India