EXECUTIVE SUMMARY

I Introduction

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

2. The concept of thematic study was introduced during the year to shift to system based quality audit reporting using risk based audit approach. The Report contains 34 theme based audit/IT audits and 37 individual observations relating to 50 PSUs[1] under 17 Ministries/Departments. The draft observations were forwarded to the Secretaries of the concerned Ministries/Departments under whose administrative control the PSUs are working to give them an opportunity to furnish their replies/comments in each case within a period of six weeks. Replies to 51 observations were not received even as this report was being finalised in March 2011. Earlier, the draft observations were sent to the Managements of the PSUs concerned. In respect of six paragraphs[2], the Managements did not respond.

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

Ministry/Department (Total number of PSUs/ **PSUs involved here)**	**Number of para-graphs**	**Number of thematic studies/IT audits**	**Number of paragraphs/ thematic studies/IT audits in respect of which Ministry reply was awaited**
1. Atomic Energy (5/**1**)	1	-	1
2. Civil Aviation (10/**1**)	3	3	6
3. Coal (12/**3**)	2	1	1
4. Commerce and Industry (11/**1**)	-	1	-
5. Communications and Information Technology (7/**1**)	3	4	6
6. Consumer Affairs, Food and Public Distribution (3/**1**)	2	3	5

[1] ***This includes 14 PSUs whose paras have been shown under the Department of Public Enterprises as consolidated paras.***

[2] ***AAI in respect of para number 2.1 and 2.3; BSNL in respect of para number 5.1, 5.2 and 5.3 and FCI in respect of para number 6.2.***

7. Defence (10/3)	3	2	5
8. Fertiliser (12/2)	-	2	2
9. Finance (22/5)	3	3	3
10. Heavy Industries (52/1)	1	2	3
11. Housing and Urban Poverty Alleviation (2/1)	-	1	1
12. Petroleum and Natural Gas (23/7)	7	2	2
13. Power (39/3)	1	4	1
14. Public Enterprises ([1]/[2])	4	1	3
15. Road Transport and Highways (2/1)	1	-	1
16. Shipping (9/1)	1	1	2
17. Steel (15/4)	5	4	9
Total (234/50)	37	34	51

4. Total financial implication of audit observations included in 34 thematic studies/ IT Audits was ₹ 5353.74 crore.

5. Individual Audit observations in this Report are broadly of the following nature:

- Non-compliance with rules, directives, procedures, terms and conditions of the contract etc. involving ₹ 1022.39 crore in 13 paras.
- Non-safeguarding of financial interest of organisations involving ₹ 505.36 crore in 11 paras.
- Defective/deficient planning involving ₹ 868.96 crore in eight paras.
- Inadequate/deficient monitoring involving ₹ 28.77 crore in two paras.
- Non-realisation/ partial realisation of objectives involving ₹ 21.16 crore in one para.
- Recovery at the instance of Audit involving ₹ 7.21 crore in one para.
- Corrections/rectifications at the instance of audit in one para.

[1] All the PSUs are under the Department of Public Enterprises

[2] 14 PSUs covered in the para are not appearing in the respective Ministry/Department

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

1. Oil and Natural Gas Corporation Limited (ONGC) set up C_2C_3 plant at Dahej (Gujarat) at a cost of ₹ 573 crore for extraction of C_2 (ethane), C_3 (propane) and C_4 (butane) from the Liquified Natural Gas (LNG) for supply to IPCL/RIL through a pipeline till the Company could set up its own petrochemical plant. Though C_2C_3 plant had been mechanically completed by December 2008, it could not be commissioned till December 2010 as there was no arrangement to off-take the products.

Contract for laying of the pipeline was awarded in July 2009 and completed in July 2010 at a cost of ₹ 8.45 crore but no agreement could be reached with RIL till date (December 2010).

As RIL expressed interest in off-taking only C_2 for the interim period, ONGC awarded contract for truck loading facility for supplying C_3 and C_4 to oil marketing companies. An expenditure of ₹ 71.83 crore had been incurred on truck loading facility which had not been completed till December 2010.

As the petrochemical complex of ONGC was scheduled for completion by December 2012, the Company had to obtain the extended process performance guarantee for the plant and till December 2010 and an expenditure of ₹ 20.19 crore has been incurred on this account.

Consequently, the C_2C_3 plant completed in December 2008 at a cost of ₹ 573.29 crore proved to be unproductive besides incurring expenditure of ₹ 100.47 crore in creating interim facilities for offtake of the products and extended performance guarantee.

(Para 12.6)

2. MSTC Limited entered into agreements with associates for export of gold jewellery. The associates were required to indentify the foreign buyers, obtain export orders and export the jewellery in the name of the Company. The foreign buyers were required to pay the export proceeds after 170 days from the date of dispatch. The Company was required to release advance up to 80 *per cent* of the invoice value to associates immediately after export. It was also stipulated that the associates would bear all the risks and costs in the event of non payment of export proceeds by the buyers. The Company did not verify the credentials of the associates and the foreign buyers. A few of the associates and foreign buyers were having common Directors but the Company ignored the same. The Company ventured into this risky business with no security against the advances provided to the associates. The Company ended up with a financial burden of ₹ 611.79 crore due to non-recovery of advance and related financial expenses, from the associates for gold jewellery exports during the year 2008-09 as 46 out of 47 foreign buyers did not pay their dues. The insurers also refused to make good the loss on the ground that the Company did not have any insurable interest in the business as all the risks and costs in the business were to be borne by the associates only.

(Para 17.2)

3. The Ministry of Petroleum & Natural Gas restricted use of APM gas only for fertilizer and for power generating companies supplying electricity to the grid for distribution to the consumers through public utilities/licensed distribution companies. Accordingly, the Ministry revised the rates for APM gas supplied to consumers other than power and fertilizer sector consumer from ₹ 3200 to ₹ 3840 per Metric Standard Cubic Meter. GAIL (India) Limited continued to supply the gas at pre revised rates of

₹ 3200 to consumers generating electricity and supplying to their consumers at commercially agreed rates through wheeling arrangement with the state electricity board. Thus, GAIL extended benefit to private parties taking shelter under the argument that the matter stood referred to the Ministry for clarification and leaving the matter unresolved for an indefinite period. This resulted in loss of revenue of ₹ 227.37 crore during April 2006 to March 2010.

(Para 12.2)

4. STCL Limited carried out trading in iron ore by entering into agreements with Business Associates (BAs) for procuring iron ore from different sources and bringing the ore to the nominated port under the custody of the Company. The Company advanced 80 *per cent* (revised to 90 *per cent*) against the proposals from BAs who brought in the ore and made the shipments.

Audit observed that the system of selection of BAs was neither competitive nor transparent. The Company accepted to act as facilitator for iron ore trade with BAs without ensuring their financial credentials and without insisting on back-to-back contracts. The Company had not framed any guidelines for conducting iron ore trading.

Consequent to fall in iron ore prices from 2008-09 and in the absence of financial and contractual safeguards, the advance of ₹ 54.37 crore paid by the Company to three BAs became unrecoverable as on March 2010 due to the BAs failing to fulfill their export obligations.

On many occasions, the Company had advanced funds to the BAs in excess of sale proceeds. Advances released were not reconciled. Failure of internal control to keep track of payments resulted in excess payment of ₹ 11 crore to BAs.

The Company failed to exercise basic inventory control and was unaware of the physical unavailability of stocks valued at ₹ 95.79 crore. It relied entirely on the stock details furnished by the BAs and C&F agents which proved to be misleading.

(Para 4.1)

5. Government of India decided in February 2006 to import wheat in view of depleting stock position in the buffer stock. The import was planned in two phases i.e., Phase - I in 2006-07 and Phase II in 2007-08. The import was through STC/MMTC/PFC on high sea sales basis on behalf of Food Corporation of India. Planning by FCI for berthing of vessels at Indian ports was not proper. Out of 72 lakh MT wheat import throughout India 55 lakh MT (76 *per cent*) was routed through Mundra and Kandla ports. Out of 142 vessels 109 vessels were berthed at Mundra and Kandla ports and unscheduled arrival of large number of vessels at these ports resulted in heavy pre berthing demurrage, amounting to ₹ 24.05 crore. Portion of the wheat discharged from ships berthed at Chennai port was moved to various states viz. West Bengal, Assam, Bihar, Chhattisgarh etc. by incurring heavy rail freight amounting to ₹ 7.85 crore. These vessels could have been allocated to eastern coast ports like Vizag and Kakinada to avoid extra expenditure. Wheat from Kandla and Mundra ports was also transported to southern states by incurring heavy rail freight which resulted in excess transportation cost to the extent of ₹ 5.29 crore. Smaller ships of less than 36,750 MT were berthed at Kandla/Mundra ports carrying 3.29 lakh MT. By berthing smaller ships at Mumbai port additional expenditure of ₹ 10.51 crore on transportation by rail from Kandla and Mundra to places which were close to Mumbai port could have been avoided. Wheat was

transported through road to three rail-fed depots under Gujarat Region during the year 2006-07 and 2007-08 by incurring extra expenditure of ₹12.57 crore. Though the grab was to be provided by the sellers at their cost or by SCH&T contractors, ₹ 21 crore was paid as grab charges to SCH&T contractors for discharge. FCI suffered a loss of 32523.315 MT above standard allowance, amounting to ₹17.27 crore on account of Rail Transit Losses, which could not be recovered from the contractors as there was no provision in the contract. Similarly, the claims towards losses/shortages/damaged gunnies to the extent of ₹ 6.19 crore were pending settlement as the contractors had disputed the amount.

(Para 6.2)

6. Steel Authority of India Limited decided to set up Steel Processing Units (SPUs) in different parts of the country especially in states where there was no steel plant to meet customer demand for sized and finished steel near the point of consumption, to increase consumption of steel in rural areas and to expand market base. The Company accorded 'in principle' approval for installation of 10 SPUs in six states where no integrated steel plant was located at an investment of ₹ 1259.67 crore during October 2007 to February 2009.

However, it was observed that in six sites necessary facilities like loading and un-loading arrangement, power, water, and approach road were not available or the land was not suitable. As per feasibility reports viability of the project was dependent on availability of certain concessions/relief from State Governments; in seven cases the Company's request for the concessions was either refused, conditionally agreed to or had not been granted so far. The Company could not get the intended benefits of setting up of SPUs as final approval of only two units was accorded after lapse of 8-33 months of 'in-principle' approval and actual work of construction/erection had started at one site only.

(Para 17.6)

7. Pratt & Whitney, Canada (P&WC), the manufacturer of Aero-Engines, expressed their interest (February 2006) for outsourcing critical rotating components to Koraput Division of Hindustan Aeronautics Limited. The Division set up dedicated facilities for undertaking export orders without firm commitment or equity participation with P&WC. During July 2009, that is, after 27 months from the date of signing agreement, P&WC cancelled the orders on the pretext that their personnel were not comfortable with regard to manufacturing of critical rotating parts outside their direct supervision and the sustained concerns of their Senior Management regarding their personnel security. This resulted in blocking up of funds of ₹ 53.57 crore as well as infructuous expenditure of ₹ 46.97 crore.

(Para 7.5)

8. To fill in the deficit of its large scale operation in rural areas, Bharat Sanchar Nigam Limited levied Access Deficit Charge (ADC) on all private telecom service providers (PSPs) using WLL(M) viz. 'Wireless in local loop Mobile' for their all outgoing calls and incoming international calls. 'Unlimited Cordless' and 'Walky' services of Reliance Communications Limited, Tata Teleservices Limited and Tata Teleservices (Maharashtra) Limited were found to be the services from WLL (M) and, hence, ADC was levied on them for the period November 2004 to February 2006. Contention of the PSPs that their services were not WLL (M) services was dismissed by Telecom Dispute Settlement and Appellate Authority and the Hon'able Supreme Court in

April 2008. Accordingly, the PSPs paid 75 *per cent* of the claim that was raised by the Company during the period October 2005 to June 2008.

Test check in four telecom circles revealed that dues for ₹ 50.51 crore for the balance ADC for the period from November 2004 to February 2006 (with interest upto May/June 2008) had not been paid by the PSPs, despite the above judgement of the Court. All the four circles had also not raised interest claims on these PSPs for subsequent periods for the delayed payments.

The bills for the interest claim of ₹ 12.98 crore upto May 2010 were raised on PSPs by the circles on being pointed out by Audit. Thus, all the four telecom circles of the Company test checked in Audit failed to realise Access Deficit Charge and interest thereon for ₹ 63.49 crore from the PSPs.

(Para 5.5)

9. As a part of diversification activity, BEML Limited decided to form a Joint Venture Company (JVC) for entering into the contract mining business. Adequate publicity was not given in press for calling for Expression of Interest from prospective partners. Selection of M/s Midwest Granite Private Limited, Hyderabad (MGPL) as a JV partner was justified by the Company by adopting incorrect data of turnover, staff strength and experience of MGPL. The Ministry of Defense had drawn attention of the Company to the need for proper credit rating to ensure financial soundness. Even then, the Company's Board approved formation of the JVC with MGPL. The Chairman of the Company was the Chairman of the JVC.

To help MGPL gain contract mining experience before incorporation of the JVC, the Company obtained work relating to contract mining from MOIL Limited and subcontracted to MGPL. MGPL could execute a small fraction of the work. The JVC undertook the balance work and sustained a loss of ₹ 1.41 crore.

With no further orders on contract mining, the Company persuaded the JVC into trading of iron ore which was neither one of the objectives of its formation, nor an activity for which it had any previous experience. BEML funded the activity by providing an advance of ₹ 112.61 crore. In addition, BEML provided a Corporate Guarantee of ₹ 19.15 crore to the JVC against credit facilities from bank which lacked justification. Out of the credit of ₹ 13.41 crore availed by the JVC, ₹ 11 crore was misappropriated by a nominee Director of MGPL and JVC incurred forward cover loss of ₹ 18.66 crore.

Though the Company recovered the advance, it spent ₹ 1.52 crore (2007-08 to 2009-10) to meet day-to-day expenses of the JVC not in operation. Thus, failure to ensure financial credentials of the JV partner resulted in unfruitful investment of ₹ 6.94 crore (₹ 5.42 crore equity plus ₹ 1.52 crore maintenance expenses) besides impending threat of invoking of Corporate Guarantee of ₹ 19.15 crore.

(Para 7.3)

10. Food Corporation of India (FCI) as well as State Government agencies procured foodgrains for the Central Pool from the mandis established by the State Marketing Boards. For transportation of foodgrains from these mandis to the storage points committees at district level were constituted to finalise appointment of labour and transport contractors in order to have uniform rates in all mandis/procurement centres.

The contracts for transportation from mandis to storage points were awarded in Punjab on adhoc basis by allowing a certain *percentage* enhancement over the previous years' rates. Examination of rates in five Districts in Punjab region revealed that the rates for same distance ranged from ₹ 6.25 to ₹ 36.05 *per* quintal *per* kilometer during 2005-06 to 2009-10. Fixation of different *per* quintal *per* kilometer rates for same distance resulted in extra expenditure of ₹ 24.34 crore for transportation of 23.52 lakh MT of foodgrains during 2005-06 to 2009-10.

(Para 6.4)

11. In September 2003, the Government of India decided to restructure Indira Gandhi International Airport, Delhi to develop it as a world class airport by involving private sector. Accordingly, Airports Authority of India (AAI) signed Operation, Management and Development Agreement (OMDA) with Delhi International Airport Private Limited (DIAL), a Joint Venture Company.

Audit observed that DIAL had formed 11 Joint Ventures (JV) to undertake non-aeronautical services with revenue share of DIAL ranging from 10 to 61 *per cent* of gross revenue generated by the JVs. Audit scrutiny of cargo and car parking services revealed that the revenue share of DIAL reduced substantially in spite of increase in business. This resulted in reduction in revenue share of AAI by ₹ 103.29 crore during the period December 2009 to December 2010. The JVs were not in consonance with OMDA provision on Annual Fee. The AAI was bound to suffer further losses during the currency of JVs in their present form.

Audit also observed that DIAL benefitted due to non-levy of interest on excess annual fee actually received over that provided for in OMDA. Besides, due to absence of enabling provisions, AAI was not in a position to levy penal interest on delayed payments by DIAL. It was also observed that there was delay in getting reimbursements for payments made by AAI to contractors on behalf of DIAL which was against the provisions of OMDA. Had AAI managed this contract more pro-actively, it could have earned additional revenue from 23 to 24 *per cent* of the revenue that they were earning.

(Para 2.3)

12. Aviation Fuel Station (AFS) of all three oil marketing PSU viz., IOCL, BPCL and HPCL at Chennai receive Aviation Turbine Fuel (ATF) from Chennai Petroleum Corporation Limited, a subsidiary of IOCL (Refinery). IOCL commissioned dedicated ATF pipeline between the Refinery and Chennai AFS at a cost of ₹48 crore. HPCL used the pipeline on two occasions and the sharing arrangement came to an end as IOCL's demand of transportation charges at the rate of ₹ 612 per MT was not agreed to by HPCL as it was incurring ₹183 per MT for transportation through tank trucks. The other two OMCs had transported a total of 2,82,466 MT of ATF by tank trucks during December 2008 to September 2010 incurring expenditure of ₹ 15.99 crore estimated towards quality checking, handling and other expenses and ₹ 5.17 crore on transportation which could be avoided by transportation through pipeline. Besides IOCL lost revenue on pipeline usage which would have been between ₹ 5.17 crore and ₹ 17.29 crore based on the rates to be decided by OMCs.

(Para 12.1)

13. Hindustan Steelworks Construction Limited (HSCL) entered into an agreement with Sricon Infrastructure Pvt. Ltd (SIPL) to form a Joint Venture (JV), sharing financial

responsibility in the ratio of 51:49 respectively. JV submitted bid for 4 laning of Nagpur-Hyderabad Section of National Highway - 7 from KM 94 to KM 123. National Highway Authority of India (NHAI) awarded the work to JV at a contract price of ₹ 105.27 crore. JV could not complete the work and left the work site. NHAI terminated the contract and forfeited the Bank Guarantee of ₹ 8.00 crore. HSCL further incurred loss of ₹ 8.64 crore being the fund provided to JV from time to time.

It was noticed that the Chairman–Cum-Managing Director, HSCL approved formation of JV with SIPL for the purpose of executing a job of the value of ₹ 105 crore which was beyond his power. There was no record available with the company on method and criteria for selection of JV partner. Even the credentials of the JV partner were not evaluated before selection. Due to failure of the Company in providing adequate resources for the work and inadequate control over the functioning of JV and construction work it incurred a loss of ₹16.64 crore.

(Para 17.1)

14. On the proposal of a US based company *viz.* ETON, Bharat Electronics Limited undertook contract for manufacturing of 19,110 satellite radio receivers for supply to ETON. However, the Company failed to enter into any contract/agreement with ETON with specific terms and conditions detailing, inter-alia, the obligations and responsibilities of the buyer.

The Company manufactured and dispatched 11,748 radios to ETON during June 2005 to June 2006 as per the design, test procedures, quality checks and clearance by the agency designated by ETON. The radios failed in the field due to battery leakage, display failure, *etc.* ETON recalled radios and returned 3,718 radios to the Company during June 2006 to September 2008 for rectification. ETON did not make full payment even for the 8,030 radios retained. Even after rectification by the Company, ETON did not lift the radios on the ground of slump in the market and introduction of 'Regulations on Hazardous Substances' in July 2006 in USA and Europe.

Besides raw material, the Company ended with an inventory of 3,774 finished radios, 5,944 semi-finished radios. The radios could not be put to alternate use as the Company did not have license and necessary back up required for effective usage in India. In the absence of an agreement with ETON, the Company could not force the former to compensate it for the radios manufactured and not lifted and loss incurred by the Company due to defects in the design prescribed. As a result, the Company had to incur avoidable loss of ₹ 16.39 crore.

(Para 7.1)

15. Mumbai International Airport Private Limited (MIAL) –private operator of the Chatrapathi Shivaji Mumbai International Airport had been collecting Passenger Service Fee (PSF) from embarking passengers.

As per orders of the Government of India (GOI), Ministry of Civil Aviation ₹ 130 crore of the PSF was required to be deposited in an Escrow Account for payments to be made to Central Industrial Security Force (CISF). Any surplus in the Escrow Account is transferable by MIAL to the Airport Authority of India for making payments to CISF at other airports. Aviation security is an activity reserved for the GOI.
During the year 2007-08 and 2008-09 MIAL had withdrawn ₹ 15.22 crore from the PSF (SC) for deploying private security agencies at the airport, consultancy charges and for

purchase of X-ray screening machine in violation of the orders of the GOI regulating operation of the Escrow Account and resulted in loss to the GOI.

(Para 2.5)