# Chapter III

## 3. Compliance Audit Observations

Important audit findings emerging from test check of transactions made by the State Government Companies are included in this Chapter.

## Odisha State Beverages Corporation Limited

### 3.1 Depot Management

#### Introduction

**3.1.1** Odisha State Beverages Corporation Limited (Company) was incorporated (November 2000) as a wholly owned Government company to control wholesale distribution of foreign liquor and Country Spirit (CS). Government of Odisha (GoO) conferred (February/May 2001) on the Company the exclusive right and privilege of importing, exporting and carrying out the wholesale trade and distribution of foreign liquor[48] and CS. Company is under the administrative control of Excise Department of GoO. The Head Office (HO) of the Company is located at Bhubaneswar and there are seven depots[49] for storing and selling foreign liquor and CS.

#### Scope of Audit

**3.1.2** Activities of wholesale trading and distribution of all kinds of liquor in the State of Odisha were entrusted to the Company as per requirement of section 20 A of the Bihar and Odisha Excise Act, 1915 (BOE Act) to provide transparency in distribution and supply system and to garner revenue to State Exchequer. As no other person is entitled to any privilege or licence for importing, exporting and supplying liquor in wholesale or distributing the same for whole or any part of the State, audit of Depot Management of the Company was conducted to assess whether depots of the Company were managed in an effective and efficient manner.

Audit was conducted during April to July 2013 and covered activities of Company in management of its depots during the period 2010-13. Audit findings were based on test check of records maintained at HO, four[50] out of seven depots selected on the basis of their turnover and Superintendent of Excise (SE), Khurda. Audit findings were discussed (29 October 2013) in Exit conference with Excise Department and Managing Director (MD) of the Company. Replies received (October 2013) from the Management have been appropriately incorporated in the report.

[48] India Made Foreign Liquor (IMFL)/Foreign Made Foreign Liquor (FMFL)/Beer
[49] Angul, Balasore, Berhampur, Cuttack, Khurda, Rayagada and Sambalpur
[50] Angul, Berhampur, Cuttack and Khurda

## Audit Findings

### Establishment of depots

**3.1.3** Company had six depots in the State for storage/sale of foreign liquor and CS upto May 2009 when GoO sanctioned establishment of three additional depots at Angul, Bolangir and Keonjhar. Company opened two depots at Angul (April 2011) and Keonjhar (August 2012). Keonjhar depot, however, was closed on the day of opening due to law and order situation. Subsequently, through the Annual Excise Policy (AEP) 2012-13, GoO instructed the Company to open at least 12 more depots.

**Despite increase in sale of liquor additional depots/storage space were not created**

Audit scrutiny revealed that though sale of liquor increased from 5.62 lakh cases during 2000-01 to 188.02 lakh cases during 2012-13, Company established only one new depot at Angul during this period. Due to inadequate depots and lack of storage space in the existing depots, suppliers' vehicles were detained upto 60 days at the depots for unloading their consignments.

Management while accepting audit observations stated that decision had already been taken at Government level to open additional depots and also to increase the storage area in the existing depots.

## Procurement of liquor

**3.1.4** Liquor Sourcing Policy, 2009-10 (LSP) of the Company prescribes procedures for procurement of liquor. As per Clause 9 of the LSP, suppliers are required to enter into an agreement with the Company for supply of liquor. Quantity to be procured from time to time depends upon demand for the product. It is the duty and responsibility of supplier to market its brands.

Irregularities in procurement of liquor are discussed in the following paragraphs.

### *Failure in monitoring supplies of liquor against permits*

**3.1.5** As per Clause 4.1 and 4.2 of LSP, liquor is to be supplied to depots of Company only under valid import permits issued by Superintendent of Excise (SE), Khurda[51]. Before permit is delivered to the Company, suppliers have to advance money equivalent to Import Fee (IF)/Excise Duty (ED). The Company then remits the same to SE, Khurda and obtains required permits. Finally permits are handed over to suppliers for supply of liquor within stipulated time. Supplies, on arrival at the depots, are entered in the Gate Entry Register (GER) recording permit number, time of entry, vehicle number, etc. Thereafter, depot in charge verifies currency date of permits along with other required documents and allows vehicles to be unloaded whereupon Goods Receipt Note (GRN) is prepared manually as well as through a computerised system.

[51] The Superintendent of Excise (SE), Khurda is the sole authority to issue permits in the State

**Failure in monitoring supplies of liquor against the permits resulted in loss of revenue to Company as well as the Government**

Scrutiny of GRN database of the Company vis-à-vis the permit issue register of SE, Khurda revealed that 2,289 permits for supply of 16.98 lakh cases of liquor were not recorded in GRN database of the Company during 2010-13 which resulted in loss of ₹ 48.03 crore towards Company's margin (₹ 9.19 crore), Value Added Tax (₹ 36.65 crore) and tax collected at source (₹ 2.19 crore). Test check of GERs of two depots[52] for the months of May and December 2012 with reference to GRN database revealed that out of 933 permits entered in the GERs, 19 permits were not recorded in GRN database which were part of the 2,289 permits. This indicated that there was no system of cross-checking of permits issued by SE, Khurda with reference to GER of the depots and the corresponding GRN entries in database.

While accepting audit observations, Management in Exit conference stated that there was no system to reconcile supply of liquor against permits issued. It also added that maintenance of records manually for reconciliation had been started and steps were taken for implementation of a new software in consultation with NIC as there were several deficiencies in the existing software. Regarding loss pointed out by audit, Management stated that an inquiry would be initiated to find out the lapses and fix responsibility.

***Non-collection of differential Import Fee/Excise Duty***

**3.1.6** As per section 17 of BOE Act, 1915, no intoxicant shall be removed from any distillery, brewery, warehouse or other place of storage unless duty is levied and paid. Thus, suppliers, in order to supply their liquor stocks, were required to pay IF/ED in advance as per rates prescribed in AEPs of respective years. If suppliers failed to supply liquor within permit validity period, they had to apply for revalidation/cancellation of permits maximum within six months of expiry of permits as per Clause 24 (xii) of LSP. However, in case of increase in IF/ED in subsequent financial years when supplies are made under revalidated permits, suppliers have to pay the differential IF/ED.

**Differential IF/ED of ₹ 3.15 crore was not collected against revalidated permits**

Audit scrutiny revealed that Company did not follow any method of collecting the differential IF/ED from suppliers for supply of liquor against revalidated permits. Analysis of GRN database for 2012-13 revealed that stock entries were made for receipt of 2,00,135 cases of IMFL and 5,05,950 cases of Beer against 1,169 permits which were issued during 2011-12 and subsequently revalidated during 2012-13. As rate of IF/ED was increased in AEP 2012-13, Company was liable to collect differential IF/ED from suppliers against these permits. However, the differential IF/ED of ₹ 3.15 crore in respect of the 1,169 revalidated permits was not collected from the suppliers and deposited with Government.

Management while accepting audit observations stated that suitable control mechanism would be evolved to collect and deposit differential ED/IF into Government Account.

[52] Cuttack and Khurda

### *Irregular supply of Excise Adhesive Labels*

**3.1.7** As per provisions of Rule 115- B of Board's Excise Rule (BER), 1965 Excise Adhesive Label (EAL) on each bottle/can of IMFL/Beer and on each pouch/container of CS was to be affixed. The Rule stipulates that Excise Commissioner shall post an officer of the rank of Inspector of Excise (Inspector) in HO of the Company for receipt and distribution of EALs in case of IMFL and Beer imported from outside the State. Company, in each case of import permit, shall present the permit to Inspector with a requisition for issue of required number of EALs to ensure that no bottle/can is received without affixure of EAL and taken to depots of the Company. The Inspector will maintain detailed accounts of EALs received/issued/used and damaged. EAL account shall be maintained in such a manner that it shall allow tracking of individual EALs from the manufacturer's point to retailer's point.

**EALs were issued in deviation of Provisions of BER, 1965**

Audit scrutiny revealed that during 2010-13, SE, Khurda issued 1,546.40 lakh EALs to suppliers for which no requisition was presented by the Company on the plea that Inspector was not present at HO of the Company. However, Company imported 1,495.11 lakh foreign liquor bottles from suppliers during the above period. Thus, the Company failed to ensure that no bottle/can was received from outside the State without affixure of EAL and taken to its depots. Further, non-reconciliation of number of EALs issued and number of bottles imported resulted in excess issue of 112.78 lakh EALs to 20 suppliers and less issue of 61.49 lakh EALs to 10 suppliers. Excess issue of EALs issued to suppliers involved risk of misutilisation of EALs for circulation of illicit liquor. Less issue of EALs indicates sale of liquor without affixure of EAL which led to loss of Government revenue in shape of EAL fee amounting to ₹ 21.52 lakh[53].

Management stated that EALs are directly supplied by office of SE, Khurda to suppliers and Company is not in a position to provide information in this regard. While accepting the fact in Exit conference, Management, stated that the provisions of BER, 1965 would be complied with.

## Storage of liquor

**3.1.8** Clause 11 (A) and (K) of LSP stipulates that the supplier shall ensure that Beer supplied against permits has been delivered within three weeks of its manufacture and Beer more than six months old from the date of manufacture shall be destroyed at the liberty of the Company after obtaining permission from EC. Non-adherence to provisions of LSP regarding receipt of Beer stocks are discussed in the following paragraphs.

### *Receipt of Beer stocks after prescribed time limit*

**3.1.9** Scrutiny of records of four test checked depots revealed that 47 consignments[54] involving 46,950 cases of Beer were received during

[53] 61,49,083 X ₹ 0.35 = ₹ 21,52,179

[54] Angul, Berhampur & Cuttack : 40 consignments (2012-13) and Khurda : 7 consignments (2010-12)

2010-13 at depots with a delay of one to 19 weeks beyond prescribed limit of three weeks from date of their manufacture. It was also noticed that dates of manufacture were not entered in the GRN database to watch expiry period of the stock.

Management while accepting audit observation stated that Company is in process of modifying the LSP and there is a proposal to amend time frame for supply of Beer from the date of manufacture.

***Liability of the Company to pay fines on sedimented Beer***

**3.1.10** As per Rule 39-A (7) (b) of BER, 1965, if any stock of foreign liquor becomes unfit for human consumption owing to long storage or for other factors, licensee shall be squarely responsible and shall be liable to pay fine equal to five times the duty payable to Government on the stock so spoiled. Further, clause 10(E) of the LSP stipulates that if any stock is not sold within 120 days from the date of receipt at depot, Company shall be at liberty to take such steps as deemed proper. Clause 11(K) of LSP stipulates that Beer which is more than six months old from date of manufacture shall be destroyed at the liberty of the Company after obtaining permission from the EC, Odisha.

**Non-compliance of the provisions of LSP made the Company liable for payment of penalty of ₹ 6.35 crore on destruction of Beer**

Scrutiny of records revealed that during 2010-13, Company destroyed 62,030.94 cases of Beer in its depots which were stored beyond six months and were unfit for human consumption due to sedimentation. Thus, Company failed to comply with provisions of LSP to identify stocks as non/slow moving and to return stocks which were not sold within the stipulated time. This resulted in accumulation of Beer stocks beyond six months which were destroyed later and thereby made the Company liable for payment of fine amounting to ₹ 6.35 crore.

Management stated that though EC had given direction for destruction of sedimented Beer, there was no mention regarding any fine/penalty. Fact remains that Company as well as EC had not acted as per the provisions of BER, 1965.

***Reprocessing of Beer***

**3.1.11** Clause 11(K) of LSP stipulates that Beer which is more than six months old from the date of manufacture shall be destroyed at liberty of the Company after obtaining permission from EC, Odisha.

**Issue of permission for reprocessing of Beer was irregular**

Scrutiny of records revealed that Company obtained (October 2012) permission from EC for reprocessing of 7,064 cases of Beer supplied by a firm which were more than six months old from their dates of manufacture. Against the above quantity it supplied 6,671 cases of reprocessed Beer. Thus, reprocessing of 6,671 cases of Beer instead of destruction in terms of LSP, was irregular.

Management in Exit conference stated that it has acted with permission of EC. It was also stated that steps would be taken to stop such practice. However, the Government suggested to MD of the Company for recovery of fine from the supplier.

***Non-fixation of norms for transit breakage and godown wastage***

**3.1.12** As per Rule 79 of the BER, 1965, prescribed wastage in respect of CS received in depots of Company is fixed at 0.50 *per cent* on the quantity stored therein. Company shall be responsible for excess wastage for any negligence on part of any officer working on its behalf but the Rule is silent about wastage of IMFL and Beer stored in warehouse. Further, Clause 5.2 and 11(M) of LSP, stipulates that suppliers would be responsible for all loss in transit as well as at depots on account of shortages and breakages of goods supplied.

**Company did not fix any norm for transit shortages/breakages**

Analysis of GRN database for all depots revealed that during 2010-13, Company received 457.02 lakh cases of IMFL/Beer against despatched quantity of 458.61 lakh cases. Short receipt of 1.59 lakh cases against 1,390 consignments was due to shortages (0.18 lakh cases) and transit breakages (1.41 lakh cases) which ranged from one to 89 *per cent.* Besides, 5,907.59 cases of IMFL and 28,072.97 cases of Beer were shown as godown breakage at different depots.

Audit scrutiny revealed that though quantity of shortage/breakage in respect of supply of CS remained within prescribed limit, percentage of shortage/breakage of IMFL/Beer ranged upto 89 *per cent.* Reasons for shortages were not recorded in database for analysis and fixation of responsibility.

Thus, due to non-fixation of any norm, there was no control over shortage/breakage quantity of IMFL/Beer.

In the Exit conference, Management agreed to take action for fixing a norm for such breakages/shortages.

***Sale of liquor without unloading at Depots***

**Company sold liquor violating the prescribed rules of the LSP**

**3.1.13** Clause 29 of LSP stipulates that after unloading of stock at depots GRNs are to be prepared for reflecting the stock for sale. Physical verification (24 May 2013) of stock of five items[55] of liquor at Berhampur depot by Branch Manager (BM) of depot and OIC, Excise Department in presence of Audit revealed that as against book balance of 3,549.91 cases of liquor, actual physical stock at depot was only 333 cases leaving shortage of 3,216.91 cases (90.62 *per cent*).

[55] AC Neat whisky (750), AC Neat whisky (375), AC Neat whisky (180), Carlsberg Elephant Supreme Strong SP Beer and Kingfisher strong Beer (New) (650)

BM, Berhampur while accepting the fact stated (May 2013) that in order to facilitate sales due to heavy demand, dummy GRNs were made at time of arrival of consignments and stocks were directly transferred from suppliers' vehicles to retailers' vehicles without unloading the same in depots. After the sale is effected, actual GRNs are prepared at a later date by modifying the dummy GRNs. Audit observed that such practice is a system lapse as it violates the provisions of Clause 29 of the LSP. Further, this practice would lead to selling of fresh stocks whereas the existing stocks remain unsold.

In the Exit conference, Management stated that the implications of the same are serious and such practice would be discouraged in future.

## Sale of liquor and realisation of sale proceeds

***Acceptance of cheques/defective instruments in violation of extant Rules***

**3.1.14** Clause 29 of LSP stipulates that retailers who have valid licences are entitled to purchase stock as per availability of brands in the depots, after submitting requisite amount in shape of DD in the name of the Company. After deposit of DD at depot level, an invoice is raised in name of the retail licensee, reflecting amount deposited and details of goods sold against the DD. At the end of the day, depot Management prepares a statement of receipt of sale proceeds which are sent to HO through e-mail. The sale proceeds collected are sent to HO which is deposited in three different banks[56].

Audit scrutiny revealed as under:

- During 2010-13, the depots received ₹ 6,921.54 crore as sale proceeds from the retailers which included cheques in violation of Clause 29 of the LSP.

- Receipt of sale proceeds was neither verified at depot level nor at HO to check validity of instruments. As a result, cheques were dishonoured by Banks due to different reasons. Though a register/file was maintained at HO to record cheques which were returned from Banks, date of final realisation was not recorded.

**Acceptance of sale proceeds in shape of cheques in place of DDs resulted in loss**

- Analysis of softcopy of Bank Statements of IDBI Bank revealed that cheques valuing ₹ 12.44 crore deposited with IDBI Bank during 2010-13 were dishonoured due to various reasons from one to nine times. Even though Company presented these cheques to Bank from time to time it could not realise (May 2013) ₹ 1.02 crore against 45 instruments.

- Similarly, 110 instruments amounting to ₹ 2.63 crore were dishonoured by SBI during 2012-13 and returned to the Company. Realisation there against could not be verified in audit in absence of details regarding subsequent presentation of these instruments in the bank.

[56] Union Bank of India (UBI), State Bank of India (SBI) and IDBI Bank

Thus, receipt of cheques in violation of LSP at depots and non-monitoring of the instruments dishonoured by the Banks resulted in non-realisation of ₹ 1.02 crore as per test check conducted by audit.

Management in the Exit conference, while accepting audit observations, stated that the matter was viewed very seriously and steps were taken to stop such practice after being pointed out by audit.

***Delayed deposit of DDs with banks led to loss of interest***

**3.1.15** Sale proceeds received in the form of DDs from retailers are sent to HO by depots through private courier service and deposited into bank accounts. Test check of data on deposit of sale proceeds during January to June 2012 revealed that 15,634 DDs amounting to ₹ 199.19 crore were deposited in bank accounts with delays ranging from 05 to 19 days excluding date of sale and deposit. Delay in depositing DDs resulted in loss of interest amounting to ₹ 0.25 crore[57].

Management while accepting the fact stated that delay occurred due to collection of instruments through courier service and further stated that action would be taken to introduce e-payment system in future to avoid such delay.

***Irregularities in supply of liquor to CSD Canteen***

**3.1.16** As per instructions (November 2001) of EC, Odisha, foreign liquor stock at Berhampur depot was to be issued to retail licensees of Ganjam, Phulbani, Gajapati and Boudh districts. As per Clause 29 of LSP, those retailers who have valid excise licences for the year are entitled to purchase stock after depositing requisite amount. Supplies to Defence Canteens involving concessional ED is effected on the basis of pass issued by SE of the concerned district.

Audit scrutiny of district-wise liquor lifting statement at Berhampur depot, revealed that 3,996.00 London Proof Litre of IMFL was issued during 2010-11 to CSD canteen, Badmal in Bolangir district which was not covered under Berhampur depot. The stock, however, was not received by the canteen. Preliminary inquiry (June 2010) by EC also indicated irregularity in supply. Audit observed that there was no system to identify the valid licensees while issuing liquor from depots and obtaining written requisitions from the retailers except verbal indents at the time of lifting.

Management stated that investigation is being conducted and on completion report would be submitted to audit.

[57] Calculated at minimum rate of interest of 7 *per cent* per annum earned on flexi deposit account.

## Deployment of staff in the Depots

**3.1.17** GoO in Excise Department sanctioned (July 2002) 9 Branch Managers, 18 Assistant Managers and 18 Attendants for nine depots. Considering increase in business, the Company from time to time proposed (August 2010 to October 2012) manpower requirement of depots. The latest proposal (October 2012) included one BM, three AMs, two Data Entry Operators, three Depot/Office Assistants, three Depot/Office Attendants, seven Civil Guards and six Arm Guards for each depot.

Scrutiny of actual men-in-position of three[58] out of four test checked depots revealed that 48 officials posted were either on deputation or through outsourcing and were 36 *per cent* below the proposal (75). Further, the SE/Deputy SE being entrusted with additional charge of BM at the three depots, no control was exercised towards quarterly/annual physical verification of stock at depots.

Management stated that HR restructuring taken up by Public Enterprises Department, GoO and Business Plan of the Company would be implemented.

## Internal Control

**3.1.18** Internal control is a management tool which helps Management to draw reasonable assurance that its objectives are being achieved in an efficient and effective manner. Following deficiencies were noticed in the internal control system being followed by the Company.

The Company had no system to cross verify number of permits issued during a particular year with corresponding stock entry to ensure that liquor stock supplied by the manufacturers/suppliers actually reached the depots. Further there existed no system to cross verify entries in GER with GRN database.

Depot authorities did not record batch number and date of manufacture of Beer stocks in GRN database and received Beer stocks after prescribed time limits fixed in LSP indicating week internal control in force.

No system of obtaining written requisitions from retailers was in vogue except verbal indents of retailers for specific brands at time of lifting. Thus, in absence of advance requisitions the Company was not in a position to assess actual demand for specific brands and to streamline procurement.

During 2012-13 stock entries were made in the GRN database for supply of 14,806 cases of liquor against 33 permits which were not tallying with permit numbers issued by SE, Khurda. As proper validation/input controls were not inbuilt in the GRN database to avoid manipulation of data/incorrect entries, Company failed to ensure correctness of these stock entries.

In Exit conference Management accepted the lapses in its internal control mechanism.

[58] Angul, Berhampur and Cuttack

## Conclusion

Company being the exclusive right holder for wholesale distribution of liquor had not established adequate number of depots, nor increased storage space. There were gaps in manner in which entire supply/distribution of IMFL, Beer and Country Spirit were made. Weak internal control system resulted in violation of provisions of LSP and other statutes by depot authorities which led to loss of revenue to the Company/Government besides restricting the Company in carrying out its mandate effectively.

## Recommendations

**The Company may consider the following recommendations:**

- **taking adequate steps to establish required number of depots;**
- **ensuring that entire supplies of liquor be made through the depots;**
- **proper mechanism be developed for timely receipt and disposal of Beer stock at the depots;**
- **sale proceeds must be accepted through DDs as per relevant provisions;**
- **Internal control system be strengthened.**

### *3.2 Undue benefit to retailers*

**Inappropriate determination of Maximum Retail Price of IMFL and Beer led to undue benefit to retailers by ₹ 75.01 crore.**

Company is engaged in wholesale trade of beverages like India Made Foreign Liquor (IMFL) and Beer in the State. It enters into agreements with registered manufacturers/suppliers for procurement of beverages and sells it to licensed retailers. As per Excise Policy of Government of Odisha (GoO), the Price Fixation Committee constituted (April 2003) by GoO consisting of five members including a representative of the Company, decides landing cost of beverages. Company determines price to the retailers based on issue price[59] plus value added tax (VAT) and Tax Collected at Source (TCS) at the rate of 1 *per cent* thereon. The retailers' margin, fixed in terms of the Annual Excise Policy, is added to the price to retailers to determine Maximum Retail Price (MRP) at which liquor is sold to consumers.

Audit observed that during 2010-13, Company sold 4.53 lakh cases of Beer and IMFL and collected ₹ 62.51 crore as TCS from retailers at the time of sale and deposited it with Income Tax authorities. Retailers obtained certificates towards TCS from the Company to avail credit against assessment of their income tax liability and also recovered the same from consumers through

[59] Landing cost plus Excise Duty plus Company's margin

MRP. TCS being a direct tax under provisions of Income Tax Act, 1961 should have been collected separately from retailers instead of being a part of MRP. Due to inclusion of TCS in determination of MRP, burden of income tax of retailers was passed on to consumers. Further, inclusion of TCS component in issue price, inflated retailers' margin by ₹ 12.50 crore[60], which was also a burden to consumers.

Thus, consideration of TCS as a cost component for retailers and allowing retailers' margin on TCS component in determination of MRP for IMFL/Beer on sales effected during 2010-13 resulted in extension of undue benefit to retailers by ₹ 75.01 crore at the cost of the consumers.

Management/Government while accepting (September 2013) the fact stated that the MRP has been revised (September 2013) excluding the TCS amount. Reply, however, is silent regarding recovery of undue benefit already extended to retailers.

## The Odisha Mining Corporation Limited

### *3.3* Unwarranted excess production of iron ore

***Excess production of iron ore in violation of statutory provisions resulted in accumulation of stock of 80.35 lakh MT with consequential blocking of fund, shortages of physical stock, payment of additional royalty, extension of unintended benefit to contractor and liability for payment of penalty.***

Company produces iron ore from its mines mainly by engaging ore raising contractors by stipulating annual production targets with a condition for reduction in target. Annual production target was to be limited to minimum of the limits stipulated in approved mining plans, environmental clearance and consent to operate issued under various Rules/Acts[61].

Company executed (August 2005/June 2006) agreements with a contractor for raising of iron ore at its Kurmitar Iron Ore Mines (KIOM) and Gandhamardan Block B Iron Ore Mines (GIOM). Agreements were extended from time to time upto July 2010 and June 2011 by enhancing the annual targets of production from 4.20 lakh to 28 lakh MT and from 5 lakh to 25 lakh MT for KIOM and GIOM respectively on the grounds of good performance of the contractor and steady sale of iron ore. Agreements for GIOM included that for excavation of sub-grade ore over and above 25,000 cum for every 5 lakh MT of ore production, the contractor would be paid ₹ 60 per cum. During 2008-13, as against production of 201.82 lakh MT, Company could sell 164.66 lakh MT leaving a stock of 80.35 lakh MT including opening stock of 43.19 lakh MT.

[60] At an average of 20 *per cent* of ₹ 62.51 crore being TCS component included in issue price

[61] Mineral Conservation and Development Rules, 1988, Environment (Protection) Act, 1986 and Consent to Operate issued by Odisha State Pollution Control Board

Audit observed the following:

- Non-reduction in production targets led to accumulation of stock to 80.35 lakh MT of which a minimum quantity of 72.37 lakh MT raised at a cost of ₹ 88.99 crore was retained for a period upto 32 months resulting in loss of interest of ₹ 15.67 crore as of March 2013.

- Due to excess production of 107.63 lakh MT during 2000-10 beyond the statutory limits, Government of Odisha (GoO) claimed (October/December 2012) penalty of ₹ 2,833.24 crore. Company's protest (February 2013) against the penal claim, has not been resolved yet (December 2013).

- Despite contractual stipulation for levy of penalty for short production of ore including sub-grade ore, additional payment of ₹ 60 per cum for excavation of extra sub-grade ore of 18.76 lakh cum during 2008-13 and accumulation thereof at GIOM led to extension of an unintended benefit of ₹ 11.25 crore to the contractor.

- There were shortages of 1.01 lakh MT of iron ore/fines valued at ₹ 45.44 crore beyond the approved norm of one *per cent* during 2008-13 except for the years 2011-13 and 2009-13 for KIOM and GIOM respectively where physical verification of iron ore fines was not done due to huge stock holding which were not in a measurable shape.

- Due to excess production, Company could not stack the materials in stacks of 1,000 MT as per the statutory provisions. It requested the Director of Mines (DoM), GoO to dispense with such provisions. DoM accepting the request directed (August 2012) to pay royalty at the highest prescribed rate. Accordingly, Company incurred additional expenditure of ₹ 4.27 crore on sale of 3.45 lakh MT of iron ore during September to November 2012, which could not be collected from the buyers.

- Due to stacking of 50.21 lakh MT of iron ore/fines produced at GIOM in the restricted forest area, forest authorities suspended (December 2011) sale thereof. Subsequently, on direction (May 2012) of the GoO, Company sold (November 2012 to March 2013) 4.02 lakh MT of materials at ₹ 61.09 crore and deposited it in a separate bank account in a nationalised bank opened in the name of Director of Mines leaving a balance of 46.19 lakh MT.

Thus, excess production of iron ore in violation of statutory provisions resulted in accumulation of stock of 80.35 lakh MT with consequential blocking of funds (₹ 150.08 crore), shortage of physical stock (₹ 45.44 crore), payment of additional royalty (₹ 4.27 crore), extension of unintended benefit to contractor (₹ 11.25 crore) and penal claim (₹ 2,833.24 crore) by Government of Odisha.

Management stated (July 2013) that accumulation of stock was mainly due to inadequate market demand and absence of infrastructural facilities to synchronise production with sales. It also stated that shortage of stock would be regularised. As regards payment of higher royalty it stated that payment was unavoidable and was in business interest of the Company. It also added that stacking of iron ore/fines in restricted forest area was due to acute shortage of space at GIOM.

Company had in fact neither limited its production adhering to statutory provisions nor synchronised production with sales which resulted in accumulation of stock leading to blocking of funds/shortage of physical stock/imposition of penalty.

The matter was reported to Government (July 2013); their reply had not been received (January 2014).

## 3.4 *Infructuous expenditure*

**Inadequate follow-up in exploring coal mine identified as source of fuel for upcoming thermal project not only led to losing the source of fuel but also resulted in financial loss of ₹ 12.60 crore**

Ministry of Coal (MOC) allotted (July 2007) Mandakini-B coal block in Odisha, with estimated coal reserves of 1,200 million MTs to the Company and three[62] Public Sector Undertakings (PSUs) of other States. The allotment with equal share to each of the PSUs required that allottees should jointly or through a separate company formed for this purpose, apply for Prospecting Licence (PL) and also jointly furnish Bank Guarantee (BG) equivalent to ₹ 97.50 crore within three months of allotment. Milestones[63] for development of the block were also prescribed with a condition that in case of slippage in adherence to the milestones, the allotment would be cancelled and 50 *per cent* of the BG would be invoked.

Review in audit of progress achieved in exploration of coal block revealed that from date of allotment, joint efforts taken by PSUs were insufficient and the project became a non-starter as none of the critical milestones was adhered to. Even though formation of a separate company jointly by all four allottees was the first step for applying for PL, the Joint Venture (JV) Company namely the Mandakini-B Coal Corporation Limited (MBCCL) was formed only in February 2009 *i.e.*, after a delay of more than 15 months. Further slippages in achieving other milestones like purchase of geological report, filing application for mining, submission of mining plan, request for forest clearance, land acquisition *etc*., involving delays ranging from eight to 32 months resulted in MOC issuing three show cause notices (October 2009,

[62] Assam Mineral Development Corporation Limited, Meghalaya Mineral Development Corporation Limited and Tamil Nadu Electricity Board

[63] Milestones *inter alia* included (i) purchase of Geological report by October 2009, (ii) obtaining approval for mining plan by June 2010, (iii) obtaining forest clearance by April 2011 and (iv) obtaining Mining Lease by October 2011.

October 2010 and May 2012) to the allottees and finally cancelling the allotment itself in December 2012. Fifty *per cent* of the BG equivalent to ₹ 48.75 crore was duly invoked (December 2012) as per the conditions of allotment.

Subsequently, Board of Directors of MBCCL decided (February 2013) for taking up the matter with respective State Governments for its dissolution. As the BG was equally shared by four allottee PSUs, Company lost its share of ₹ 12.19 crore alongwith a loss of ₹ 0.41 crore being the share of loss towards pre-operative expenses incurred (₹ 1.65 crore upto 31 March 2012).

Thus, inadequate follow-up by the allottee PSUs including the Company in developing and exploring the coal mine which was identified as a source of fuel for upcoming thermal project (Odisha Thermal Power Corporation Limited) not only resulted in losing the source of fuel but also in financial loss of ₹ 12.60 crore to Company.

Management while accepting the fact stated (August 2013) that the main reasons for delay in development of the coal block was difficulty in co-ordination among PSUs of four different States for policy decisions.

Fact, however, remained that Company failed to pursue the matter with GoO to get necessary clearance though it was entrusted with the task of obtaining clearances through an MOU signed (March 2008) between the JV partners.

Matter was reported (July 2013) to Government; their reply had not been received (January 2014).

## *3.5 Non-availment of CENVAT credit*

**Failure in availment of CENVAT credit led to loss of ₹ 3.44 crore**

Company produces chrome concentrate at its Chrome Ore Beneficiation Plant (COBP) by utilising chrome ore raised and transported from its South Kaliapani (Quarry D and F) and Sukrangi mines by raising and transport contractors. Consequent upon imposition (June 2007) of Service Tax (ST) on mining activities, Company reimburses Service Tax (ST) on raising and transportation cost of chrome ore to contractors. As per Central Value Added Tax Credit Rules 2004 (CCR), COBP of the Company is entitled to avail benefit of input credit in respect of ST paid on input services like raising and transportation charges of chrome ore transported to COBP. Benefit of Central Value Added Tax (CENVAT) credit would be available subject to COBP or the mines availing a separate registration as Input Service Distributor[64] (ISD) from the Central Excise Authority as required under Sub-section (2) of section 69 of the Finance Act, 1994. Further, in terms of Rule 9(1) of CCR, COBP could

[64] Under Rule-2(m) of CCR, 2004 it is an office or establishment of a manufacturer of excisable goods or provider of taxable service which receives tax paid invoices/bills of input services procured (on which CENVAT credit can be taken) and distributes such credits to its units providing taxable services or manufacturing of excisable goods.

have availed CENVAT credit against the invoice/bill/challan issued by mines to it containing their ISD registration numbers.

Audit observed that although mines of the Company were reimbursing ST component to raising contractors since June 2007, they applied (June 2012) and got registered as ISD during August 2012 only. They had also not issued invoice/bill/challan along with required particulars as per CCR. This resulted in non-availment of benefit of input credit of service tax to the extent of ₹ 3.44 crore towards ST paid on raising cost of 3.99 lakh MT of chrome ore supplied to COBP during June 2007 to March 2012. Further, though CCR provides for adjustment/refund of service tax paid prior to ISD registration, due to delayed registration as ISD coupled with non-issue of invoice/bill/challan, Company could not avail benefit of CENVAT credit.

Management while accepting the fact stated (July 2013) that due to shortage of manpower to maintain required records and to follow prescribed procedure, CENVAT credit could not be availed by obtaining registration for ISD. It also stated that steps are being taken for claiming CENVAT credit for the period from June 2007 to July 2012 by assigning the work to a professional agency.

Considering benefit of CENVAT credit, Management should have taken appropriate steps in time to safeguard its financial interest.

Matter was reported to Government (June 2013); their reply had not been received (January 2014).

## Odisha Hydro Power Corporation Limited

### *3.6 Loss of revenue*

**Lack of proper planning for repair and maintenance of generating units led to prolonged shut down of units with consequential loss of revenue of ₹ 18.19 crore towards capacity charges**

Hirakud Hydro Electric Project (HHEP) of the Company has seven units with total installed capacity of 275.5 MW of which Unit II, having installed capacity of 49.5 MW was under shut down from 1 May 2011 due to profused water leakage. Company engaged (May 2011) a contractor to rectify problem within 52 days. Unit on synchronisation (13 August 2011) after an outage of 104 days went on further shut down (20 November 2011) due to water leakage. Company awarded (17 April 2012) rectification work belatedly to the Original Equipment Manufacturer (OEM) and the unit was synchronised (10 August 2012) to grid after an outage of 264 days.

Similarly, four out of eight units of Balimela Hydro Electric Project (BHEP) of the Company went out of order from 27 July 2011 (Units III, IV and V) and 27 August 2011 (Unit I) due to problems in their thrust bearings. Company engaged (18 August 2011) a contractor to resolve problems of Units III, IV and V with a stipulation to complete the work within 127 days and took up repair work of Unit- I by itself. These units were synchronised to grid between

November 2011 and August 2012 after being on outage for periods ranging from 76 to 380 days.

As per Central Electricity Regulatory Commission (CERC) (Terms and Conditions of Tariff) Regulation 2009, annual fixed cost of a power station shall be recovered through capacity charges (CC) and energy charges on 50:50 basis and CC would be recovered on availability of units for generation irrespective of actual units generated. Further, Clause 54 of OERC order (November 2010) stipulates that while computing the plant availability, capacity of generating units under capital maintenance requiring a maintenance period of more than 45 days may be deducted from the installed capacity of the power station after approval of OERC.

Audit observed that though Company was aware that maintenance work would take more than 45 days it had not sought approval from OERC for reduction of installed capacity of generating units which were under outage for a period ranging from 76 to 380 days. This resulted in avoidable loss of capacity charges of ₹ 18.19 crore (HHEP-₹ 4.82 crore and BHEP-₹ 13.37 crore). Further, non-maintenance of required spares to meet unforeseen incidents despite it being allowed by OERC, led to delay in synchronisation of the units.

Thus, absence of proper planning for repair and maintenance of units coupled with non-maintenance of required spares led to prolonged shut down of units with consequential loss of revenue of ₹ 18.19 crore towards capacity charges.

Government stated (June 2013) that forced outage of a machine could not be planned and approval thereof could not be taken beforehand from OERC. It also stated that spares are procured as and when required considering the slow moving items and involvement of cost.

However, Company could have moved OERC considering nature of the problem and period involved. Further, since tariff fixed by OERC included cost of spares for maintenance of units, Company should have kept the required spares in stock.

## *3.7 Improper release of funds*

**Improper release of funds for peripheral development in contravention to its objectives and extant policies**

Corporate Social Responsibility (CSR) is a Company's commitment to operate in an economically, socially and environmentally sustainable manner while recognising interest of its stakeholders. As a part of CSR, Company was extending funds, with approval of its Board of Directors (BoD), for Peripheral Development (PD) of its units/power stations.

Company formulated (February 2006) principles for sanction of funds for PD which included:

- one *per cent* of profit of preceding year shall be earmarked as ceiling for PD and if Company incurs loss in a year, no fund will be sanctioned in succeeding year;

- funds sanctioned shall be utilised in adjoining areas within eight KMs radius from power stations/units; and

- proposals of PD referred to and recommended by District Administration (DA) only would be eligible for funding.

Government of Odisha in Revenue and Disaster Management Department also issued (July 2011) a comprehensive guideline, which *inter alia* envisaged that PD funds would be utilised in specified area and for projects as approved by Rehabilitation and Periphery Development Advisory Committee (RPDAC) with an objective to improve physical quality of life of residents of peripheral area to bring about perceptible and visible improvement in periphery area.

During 2006-13, Company sanctioned ₹ 8.07 crore and released ₹ 6.97 crore towards PD works at its eight power stations/units which included civic amenities like water supply, electrification, communication, grants to schools/colleges, cultural programmes etc,.

Audit observed the following:

- Company in violation of its principles released ₹ 5.27 crore over and above the norm of one *per cent* of profit of preceding year which includes ₹ 2.05 crore released in 2006-07 when Company suffered loss during 2005-06. Further, recommendations of DA/RPDAC, if any, prior to funding were not on record.

- In absence of any periodicity for utilisation of PD funds, out of ₹ 6.97 crore released, Utilisation Certificates (UCs) were received for ₹ 1.37 crore only and UCs for balance amount of ₹ 5.60 crore are pending for 1 year to 7 years with DAs.

- Although PD fund was to be utilised in adjoining areas within eight KMs radius of the power stations, distance factor was not apprised to BoD nor had the BoD considered the same while according sanctions. In absence of these details, ₹ 1.46 crore (as identified by audit) was released for seven[65] PD works in violation of above parameter.

Management while accepting the fact stated (July 2013) that DAs were regularly approached for submission of UCs, failing which no further fund would be released to any future projects.

Matter was reported (August 2013) to Government; their reply had not been received (January 2014).

[65] Electrification work (5 Nos) : ₹ 1.14 crore, Upkeep of Monuments of Jagannath Temple : ₹ 0.10 crore and Procurement of Alguni dike ghat in Manchagam GP : ₹ 0.22 crore

## *3.8 Short realisation of revenue*

**Short realisation of ₹ 3.56 crore towards cost of power and interest on defaulted payment**

Company supplied power to Madhya Pradesh State Electricity Board (MPSEB) from its Hirakud Hydro Electric Project (HHEP), in terms of the modalities decided (December 2004) in a meeting chaired by the Chief Secretary to Government of Odisha. As per the minutes of the meeting Company was supplying power upto 5 MW to MPSEB from February 2005 at cost of generation as per the audited accounts of HHEP. Consequent upon formation of Chhattisgarh State, power supply was made to Chhattisgarh State Electricity Board (presently Chhattisgarh Power Distribution Corporation Limited) (CSPDCL) instead of MPSEB from 06 September 2006 by virtue of the order (August 2006) of Ministry of Power (MoP), Government of India. As per the orders of MoP, CSPDCL was allocated with liabilities and contractual obligations related to HHEP. In terms of minutes of the meeting, Company was to recover cost of power calculated at audited cost of generation of respective years through irrevocable revolving Letter of Credit (LC) for one month's dues. In case of direct payment, CSPDCL was to pay within 30 days along with interest at the rate of 15 *per cent* per annum and for default in payment, power supply was to be stopped and not to be resumed till entire outstanding amount along with interest for the period of default was paid.

Audit observed that during 2006-13 Company sold 107.51 MU of power to CSPDCL. CSPDCL settled the bills of 2006-08 at the annual cost of generation of respective years. However, from 2008-09 CSPDCL settled the bills at the cost of generation of 2007-08 instead of at cost of generation of respective years on the plea that the claim amount was higher than the tariff fixed by OERC. The contention of CSPDCL was not accepted by Company on the ground that tariff fixation by OERC had no relation with the audited cost of generation of power of HHEP at which CSPDCL was liable to make the payments. Further as per section 86 of the Electricity Act, 2003, determination of tariff by OERC is applicable within the State. As such against the billed amount of ₹ 8.02 crore during 2008-13, CSPDCL settled ₹ 5.66 crore leaving a shortfall of ₹ 2.36 crore. Besides, outstanding dues of ₹ 50.38 lakh as of March 2008 was settled during April 2010. Company neither entered into Power Purchase Agreement with CSPDCL to safeguard its financial interest nor claimed interest of ₹ 1.20 crore towards default in timely payment for 2006-08 and for short payment during 2008-13.

Thus, failure of Company either to enter into PPA with CSPDCL or to enforce the terms and conditions of minutes of the meeting resulted in short realisation of ₹ 3.56 crore towards cost of power and interest on defaulted payment.

Government, while accepting the fact, stated (May 2013) that they are hopeful to sort out the issue through mutual discussion and in the event of no response from CSPDCL, matter would be taken up with Chattisgarh Government.

## The Industrial Development Corporation of Odisha Limited

### *3.9 Unintended benefit to the bidder*

**Failure to include a safety clause in bid document led to consequential avoidable liability of ₹ 15.40 crore towards consent fee apart from unintended benefit to preferred bidder**

Company on the advice (April 2008) of Government of Odisha (GoO) to develop a five star hotel through Public Private Partnership (PPP) on Build, Operate and Transfer (BOT) basis on its unutilised lease hold land, sought permission of GoO for sub-leasing the land in favour of the selected developer and invited (22 July 2008) open bid. Out of nine bidders, H1 bidder (Consortium) deposited (November 2008) a sum of ₹ 18.07 crore towards land premium. The consortium thereafter formed a new company. Subsequently, Company intimated (December 2008) GoO to pay consent fee as applicable towards transfer of leasehold land.

GoO in General Administration (GA) Department while according (October 2009) permission for transfer of land, directed the Company to deposit ₹ 1.50 crore towards consent fee and to submit draft tripartite agreement within 60 days from the date of receipt of letter through Industries Department. Company, however, submitted (January 2010) the draft agreement without depositing consent fee on the ground that same would be deposited after signing the said agreement.

Consequent upon revision of rate of consent fee, GA Department raised (December 2010) a revised demand of ₹ 10 crore. Company in turn demanded (January 2011) the same from the H1 bidder who refused (January/February 2011) to pay on the ground that they would be a sub-lessee only. Considering that non-payment of consent fee would create further complications, Company requested (October 2011) GA Department for approval of the tripartite agreement for execution on payment of consent fee of ₹ 1.50 crore. Pending re-examination of the issue of payment of revised consent fee and on direction (April 2012) of the Chief Secretary Company deposited (April 2012) ₹ 5 crore with GA Department. The same was, however, refunded (February 2013) to Company with a direction to deposit a revised consent fee of ₹ 15.40 crore within a period of 60 days and to amend the agreement. Company, however, requested (February/April 2013) the Chief Secretary and GA Department to exempt it from payment of revised consent fee and to extend time for payment up to 30 June 2013.

Audit observed that Company invited (22 July 2008) open bid without obtaining permission from GA Department to sub-lease the land. Further, despite being aware of the need for payment of consent fee, non-inclusion of liability clause in bid document for payment of consent fee by the preferred bidder led to extra burden on Company apart from extension of unintended benefit to bidder. This resulted in Company being burdened with an avoidable liability of ₹ 15.40 crore as the same was not accepted by the bidder.

Thus, failure to include a safety clause in bid document led to consequential avoidable liability of ₹ 15.40 crore towards consent fee apart from unintended benefit to preferred bidder.

Management stated (September 2013) that consent fee was not leviable as it was a case of sub-lease and inclusion of such a clause in tender condition would have reduced the bid value.

However, Management had gone (July 2008) for bid invitation without awaiting the permission of GoO for sub-leasing the land. Also it had to demand (January 2011) revised consent fee of ₹ 10 crore from H1 Bidder.

Matter was reported (August 2013) to Government; their reply had not been received (January 2014).

## Odisha State Seeds Corporation Limited

### *3.10 Extra financial burden on procurement of paddy seeds*

**Injudicious decision of Company for revision of procurement price of certified paddy seeds led to extra financial burden of ₹ 3.20 crore**

Company procures breeder paddy seeds from different agencies for producing foundation seeds[66] through registered seed growers/MoU firms[67] which in turn are processed into certified seeds[68] and are sold to the farmers for raising crops on large scale.

Company fixes procurement price of certified seeds on the basis of recommendation of its Pricing Committee considering the Minimum Support Price (MSP) fixed by Central Government or prevailing market price, whichever is higher adding thereto cost incurred towards certification. The proposed price structure is sent to the Director of Agriculture and Food Production (DAFP), who in turn sends its recommendation to Government in Agriculture Department for approval of cost structure and fixation of sale price through State Seeds Pricing Committee (SSPC).

For Khariff 2010 (April to September 2010) produce, Pricing Committee of the Company recommended (02 September 2010) procurement price for early and medium/long categories of certified paddy seeds at ₹ 1,500 and ₹ 1,400 per quintal respectively to be procured from registered growers and at ₹ 1,630 and ₹ 1,530 to be procured from MOU firms. Price for MoU firms was based on grower's price with additional cost components borne by them. The recommended price of the Company was submitted to SSPC through DAFP for fixation of selling price. The SSPC while reviewing the proposed price structure recommended (7 September 2010) to reduce the price of early

[66] Seeds having genetically 99 *per cent* purity
[67] Private seed growers executing Memorandum of Understanding
[68] Seeds certified by Odisha State Certification Agency

and medium/long variety paddy to be procured from growers to ₹ 1,420 and ₹ 1,320 per quintal on the ground that proposed prices were on higher side. Accordingly, Company reduced (September 2010) grower's price and based on reduced grower's price, MoU firms' price was also reduced (October 2010) to ₹ 1,570 and ₹ 1,470 per quintal.

Subsequently, on the request (April 2011) of Orissa Seed Growers Farmers Union, Company enhanced ( April 2011) the prices for both the growers and MoU firms by ₹ 80 per quintal each. Company procured four lakh quintals of early and medium/long variety of certified seeds from registered growers (2.64 lakh quintals) and MoU firms (1.36 lakh quintals) out of Khariff 2010 produce which were sold in subsequent two seasons[69].

Audit observed that since procurement price of Khariff 2010 produce was already fixed and accordingly State Government had fixed sale price, revision of procurement price upwards by ₹ 80 per quintal without obtaining Government approval was unwarranted. This resulted in extra financial burden of ₹ 3.20 crore to the Company on procurement of four lakh quintals of certified paddy seeds.

Management stated (July 2013) that Company had not incurred any loss and there was no excess financial burden. However, since the procurement price was revised upwards without obtaining approval of Government it reduced the gain of the Company by absorbing the additional financial burden.

Matter was reported (May 2013) to the Government; their reply had not been received (January 2014).

## General

### *3.11 Follow-up action on Audit Reports*

### *Explanatory Notes outstanding*

**3.11.1** Audit Reports of the Comptroller and Auditor General of India represent culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in 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 Audit Reports within three months of their presentation to the Odisha Legislative Assembly (OLA), without waiting for any notice or call from the Committee on Public Undertakings (COPU).

[69] Rabi 2010-11 and Khariff 2011.

Though Audit Reports (Commercial/PSUs) for the years 1999-2000 to 2011-12 were presented to the OLA during August 2001 to March 2013, 13 out of 18 Departments featuring in those Reports did not submit explanatory notes on 55 out of 234 paragraphs/performance audits as on 30 September 2013. Department-wise analysis is given in **Annexure 13**. Public Sector Undertakings under Industries, Energy, Steel and Mines and Public Enterprises Department were largely responsible for non-submission of explanatory notes.

### *Compliance to Reports of Committee on Public Undertakings outstanding*

**3.11.2** As per Rule 213-B (1) of Rules of Procedures and Conduct of Business in the OLA, the Departments are required to submit Action Taken Notes (ATNs) on the recommendations made by COPU in its Reports within six months from their presentation to OLA. The time limit was reduced (April 2005) by OLA to four months.

ATNs to 45 recommendations for seven Departments pertaining to nine Reports of COPU presented to OLA between August 2001 and September 2012 had not been received as on 30 September 2013 as detailed vide **Annexure 14**.

### *Response to Inspection Reports, Draft Paragraphs and Performance Audits*

**3.11.3** Audit observations, not settled on the spot during audit, are communicated to the heads of PSUs and the administrative departments concerned of State Government through Inspection Reports (IRs). As per Regulation 197 of Regulations on Audit and Accounts, 2007, the heads of PSUs are required to furnish replies to IRs through respective heads of departments within a period of four weeks. IRs issued up to March 2013 pertaining to 35 PSUs disclosed that 1,706 paragraphs relating to 408 IRs remained outstanding at the end of 30 September 2013. Even initial replies were not received in respect of 106 IRs containing 577 paragraphs. Department-wise break-up of IRs and paragraphs outstanding at the end of 30 September 2013 is given in **Annexure 15.**

**3.11.4** Similarly, as per Regulation 207 of Regulation on Audit and Accounts, 2007, draft paragraphs and draft performance audit reports 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. Out of 17 draft paragraphs and two draft performance audit reports forwarded to various departments between April and October 2013, replies to ten draft paragraphs were awaited (December 2013) as detailed in **Annexure 16**.

It is recommended that the Government investigate reasons for failing to send replies to Inspection Reports/draft paragraphs and ATNs on recommendations of COPU as per the prescribed time schedule and initiate action to recover loss/outstanding advances/overpayments in a time-bound manner.

Bhubaneswar
The

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The

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