Overview

1. Overview of Government Companies and Statutory Corporations

Audit of Government Companies is governed by Section 619 of the Companies Act, 1956. Accounts of Government Companies are audited by Statutory Auditors appointed by the CAG. These accounts are also subject to supplementary audit conducted by the CAG. Audit of Statutory Corporations is governed by their respective legislations. As on 31 March 2013, the State of Odisha had 37 working PSUs (34 Companies and 3 Statutory Corporations) and 28 non-working PSUs (all Companies), of which working PSUs employed 0.21 lakh employees. Working PSUs registered a turnover of ₹11,294.70 crore for 2012-13 as per their latest finalised accounts as on 30 September 2013. This turnover was equal to 4.37 per cent of State GDP indicating an important role played by State PSUs in the economy. Working PSUs earned an aggregate profit of ₹890 crore for 2012-13 and had accumulated profits of ₹1,764.14 crore as on 31 March 2013.

Investment in PSUs

As on 31 March 2013, investment (capital and long term loans) in 65 PSUs was ₹10,471.51 crore. It increased by 26.69 per cent from ₹8,265.25 crore in 2007-08 to ₹10,471.51 crore in 2012-13. Increase in investment was mainly due to increase in capital and loan in power sector. Share of investment in power sector marginally increased from 76.55 per cent in 2007-08 to 81.18 per cent in 2012-13.

Performance of PSUs

During 2012-13, out of 37 working PSUs, 23 PSUs earned profit of ₹1,888.39 crore and seven PSUs incurred loss of ₹998.39 crore as per their latest finalised accounts as on 30 September 2013. One PSU prepared its accounts on 'no profit no loss' basis while six PSUs have not yet started their operation/commercial production. Major contributors to profit were The Odisha Mining Corporation Limited (₹1,383.46 crore), Odisha Power Generation Corporation Limited (₹250.24 crore), Odisha State Beverages Corporation Limited (₹72.32 crore) and Odisha Hydro Power Corporation Limited (₹58.92 crore). Heavy losses were incurred by GRIDCO Limited (₹936.81 crore), Orissa Rural Housing and Development Corporation Limited (₹31.71 crore), IDCOL Kalinga Iron Works Limited (₹27.54 crore).

Losses are attributable to various deficiencies in the functioning of PSUs. A review of three years' (2010-13) Audit Reports of the CAG reflect losses to the extent of ₹ 12,493.70 crore and infructuous investments of ₹15.04 crore by State PSUs.

Quality of accounts

Quality of accounts of PSUs needs improvement. All 35 accounts finalised during October 2012 to September 2013 received qualified certificates from Statutory Auditors. There were 44 instances of non-compliance with Accounting Standards in 19 accounts. Reports of Statutory Auditors on internal control of companies indicated several weak areas.

Arrears in accounts and winding up

Thirty working PSUs had arrears of 47 accounts as of 30 September 2013, of which 17 accounts pertained to earlier years and the remaining were 2012-13 accounts. There were 28 non-working PSUs including 17 under liquidation. Government may expedite closing down non-working PSUs for which closure/liquidation orders were already issued and for balance PSUs take appropriate action after exercising due diligence.

(Chapter 1)

2. Performance Audit relating to Government Companies

Performance Audit relating to '**Activities of GRIDCO Limited including Power Purchase Agreements (PPAs) with Independent Power Producers (IPPs)**' and '**Activities of The Industrial Development Corporation of Odisha Limited and its two subsidiaries viz. IDCOL Kalinga Iron Works Limited & IDCOL Ferro Chrome and Alloys Limited**' were conducted. Executive summary of the Audit findings are given below:

Activities of GRIDCO Limited including PPAs with IPPs

GRIDCO, as a wholly owned Government Company, is engaged in the business of bulk purchase of energy from generators of Central/State Government and Independent Power Producers (IPPs)/Captive Generating Plants (CGPs) for bulk supply to DISCOMs. The Company is a deemed licensee to carry out power trading under section 14 of the Electricity Act, 2003 (EA 2003) subject to regulations of OERC. Performance Audit of the Company for the period from 2008-09 to 2012-13 was conducted to assess efficiency, economy and effectiveness of its operations with special emphasis on PPAs.

Planning

The Company neither prepared the corporate plan in terms of the MoU with DoE nor prepared the business plan as required under the Regulations of OERC.

In absence of proper planning and due to inaccurate demand projections in ARRs submitted to OERC, Company procured 5,989.20 MU of CGP power during 2008-13 beyond the approval of OERC incurring additional expenditure.

Procurement of Power

As the State designated agency, the Company signed PPAs with IPPs for generating capacity of 39,010 MW by 2016-17 against an estimated requirement of 6,362 MW in the State without any corresponding arrangement for evacuation of power. PPAs with IPPs were signed on cost plus route in violation of EA 2003 requiring bidding route. Suboptimal operationalisation of PPAs resulted in payment of higher price to the IPPs to the extent of ₹554.80 crore.

Irregularities in procurement of power from CGPs like adoption of higher rate and unjustified determination of CGP status led to incurring extra expenditure. Non-procurement of cheapest hydro power as per merit order policy as well as for procurement of renewable power below the target resulted in incurring extra expenditure of ₹372.70 crore. Besides, Company procured power from OPGC paying higher cost due to its failure in obtaining approval of PPA from OERC.

Financial Management

Sale of power to DISCOMs is the main source of revenue for the Company. Despite escrow agreement, not collecting its dues regularly resulted in outstanding of ₹3,372.29 crore as of March 2013. Company has allowed rebate of ₹155.40 crore to DISCOMs without recovering the delayed payment surcharge of ₹706.80 crore. The Company borrowed ₹4,505.22 crore to pay the generators.

Trading of Surplus Power

While approving the ARRs OERC did not allow full cost of the Company to be recovered through tariff and instead directed the Company to meet the gap through trading of surplus power. The Company, however, could earn ₹498.18 crore only during 2008-13 as against the revenue gap of ₹5,914.43 crore in the tariff orders. Shortfall was partly attributable to delay in decision making and absence of required policy framework.

Manpower Management and Internal Control

The Company is yet to have its own organisation structure. Despite assessment of manpower and formulation of organisation structure etc., by engaging ASCI in 2008, the Company did not consider/implement recommendations till 31 December 2013.

There were deficiencies in internal control system prevailing in the Company.

PA contains five recommendations on the need to:

Prepare corporate plan as well as the business plan for achieving its long term goals/objectives and to submit the ARR with current picture of demand and supply of power; Operationalise the PPAs effectively safeguarding its financial interest; Streamline its power trading activities with adequate policy frame work; Enforce escrow mechanism to recover its dues from the DISCOMs to avoid borrowings and strengthen its internal control mechanism.

(Chapter 2.1)

Activities of The Industrial Development Corporation of Odisha Limited and its two subsidiaries viz. IDCOL Kalinga Iron Works Limited & IDCOL Ferro Chrome and Alloys Limited

IDCOL was incorporated as a wholly owned Government Company in March 1962 to promote industrial development of Odisha and to carry out mining, buying and selling of mineral products. Though IDCOL established 13 subsidiaries and one joint venture (JV) company during 1963-98, 10 subsidiaries and the JV Company were hived off during 1993-2010 due to heavy losses. Balance three are working, of which IKIWL is engaged in mining of iron ore and production of pig iron and spun pipe while IFCAL is engaged in production of chrome based products like HCFC. Functions of IDCOL are now limited to mining of chrome ore and overseeing activities of three subsidiaries.

Modernisation/expansion of IKIWL & IFCAL

Pig iron plant of IKIWL and ferro chrome plant of IFCAL were established in 1963 and 1969 respectively and are running with old technology. IDCOL could neither inject funds nor carry out modernisation and expansion to utilise mineral resources and make them competitive. Disinvestment proposal initiated in October 2005 is yet to materialise.

Exploration of minerals

Due to delayed action by IDCOL to obtain environmental and forest clearance, mining lease obtained for Tailangi B mines from GoO remains unoperated. This has resulted in scarcity of chrome ore for IFCAL with consequent loss of production and productivity of plant, higher consumption of raw material and fines, utilisation of chrome concentrate in place of ore. Deficient monitoring of raising contracts and despatch plan by IDCOL, IKIWL and IFCAL resulted in loss of ₹47.09 crore. Besides, GoO imposed penalty of ₹222.63 crore for operation of Tailangi A mines without obtaining EC till April 2010.

Production and sale of finished products

Capacity utilisation at IKIWL was only 27 per cent while at IFCAL it was 82 per cent. Due to low plant availability, lower production and productivity and high cost of operation, IKIWL and IFCAL sustained loss of ₹65.75 crore and ₹68.14 crore respectively. Likewise, due to deficient sale procedure, incorrect sales decisions and inadequate monitoring, sales realisation could not be maximised and there was accumulation of inventory.

Monitoring and Internal Control

Monitoring mechanism was not adequate. Audit Committees have not met as per norms and did not review internal control system and internal audit reports. Internal audit was not conducted regularly.

Conclusion and Recommendation

IDCOL needed to expand/modernise existing plants of its subsidiaries to optimise use of mineral resources. Use of inferior quality raw material, higher cost of sales and lower sales realisation increased its loss. Sales activities of IKIWL and IFCAL were not commensurate with production activities and did not adequately address market demand. Performance Audit contains four recommendations to improve performance of Companies which include expansion/modernisation of existing industries as per mandate; optimise utilisation of mineral resources; reduction in cost of production of finished products; and strengthening internal control and monitoring mechanism.

(Chapter 2.2)

3. Compliance Audit Observations

Compliance audit observations included in this Report highlight deficiencies in management of PSUs, which resulted in financial implications. The irregularities pointed out are broadly of the following nature:

Loss of ₹ 3,142.41 crore in six cases due to non-compliance with rules, directives, procedures and terms and conditions of contracts.

(Paragraphs 3.1.6, 3.1.10, 3.1.14, 3.2, 3.3 and 3.4)

Loss of ₹ 22.41 crore in four cases due to non-safeguarding financial interests of organisations.

(Paragraphs 3.1.15, 3.8, 3.9 and 3.10)

Loss of ₹ 21.63 crore in two cases due to defective/deficient planning.

(Paragraphs 3.5 and 3.6)

Loss of ₹ 55 crore in two cases due to inadequate/deficient monitoring.

(Paragraphs 3.1.5 and 3.7)

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

Failure in monitoring supplies of liquor against permit by **Odisha State Beverages Corporation Limited** resulted in loss of ₹ 9.19 crore to the Company and ₹ 38.84 crore to Government.

(Paragraph 3.1.5)

Receipt of cheques by **Odisha State Beverages Corporation Limited** in violation of the LSP at depots and non-monitoring of instruments dishonoured by Banks resulted in non-realisation of ₹ 1.02 crore.

(Paragraph 3.1.14)

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

(Paragraph 3.2)

Excess production of iron ore in violation of statutory provisions by **The Odisha Mining Corporation Limited** 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 liability for payment of penalty (₹ 2,833.24 crore).

(Paragraph 3.3)

Failure in availment of CENVAT credit by **The Odisha Mining Corporation Limited** led to loss of ₹ 3.44 crore.

(Paragraph 3.5)

Lack of proper planning for repair and maintenance of generating units by **Odisha Hydro Power Corporation Limited** led to prolonged shut down of units with consequential loss of revenue of ₹ 18.19 crore towards capacity charges.

(Paragraph 3.6)