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 Comptroller and Auditor General of India under Section 619(3) (b) of the Companies Act, 1956 or the statutes governing the Corporations.

2. The Report contains 40 individual observations relating to 39 PSUs under 18 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 23 observations were not received even as this report was being finalized in April 2014. Earlier, the draft observations were sent to the Managements of the PSUs concerned, whose replies have been suitably incorporated in the report.

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 (Number of PSUs involved)	Number of paragraphs	Number of paragraphs/ thematic studies in respect of which Ministry reply was awaited
1. Atomic Energy (UCIL)	1	-
2. Chemicals and Fertilizers (HOCL, RCF)	2	-
3. Civil Aviation (AIL)	1	1
4. Coal (CCL)	1	1
5. Commerce and Industry (MMTC, PEC, STCL)	2	2
6. Consumer Affairs, Food and Public Distribution (FCI)	1	1
7. Defence (HAL)	1	-
8. Development of North Eastern Region (NERAMAC)	1	-
9. Ministry of Finance (OICL, NIAC)	2	1
10. Mines (HCL)	1	1
11. Petroleum and Natural Gas	10	8

(BPCL, HPCL, GAIL, IOCL, ONGC)		
12. Power (NTPC)	1	-
13. Department of Public Enterprises (NALCO, BHEL, HUDCO, GAIL, NHPC, NTPC, PFC, PGCIL, SJVN, THDC, IOCL, ONGC, MECON, REC, BDL)	2	2
14. Road Transport and Highways (NHAI)	3	1
15. Department of Scientific and Industrial Research (CEL)	1	-
16. Shipping (SCL, DCIL, SCI)	3	-
17. Steel (KIOCL, MSTC, SAIL)	6	4
18. Textiles (NTC)	1	1
Total	**40**	**23**

4. Total financial implication of audit observations is ₹ 2946.39 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 ₹ 766.22 crore in seven paras.
- ❖ Non-safeguarding of financial interest of organisations involving ₹ 1854.97 crore in 22 paras.
- ❖ Defective/deficient planning involving ₹ 321 crore in eight paras.
- ❖ Non-realisation/ partial realisation of objectives involving ₹ 4.20 crore in three paras.

6. The Report also contains a para relating to recoveries of ₹ 115.53 crore made by eight PSUs and another para relating to corrections/rectifications carried out by four PSUs at the instance of Audit.

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

Central Coalfields Limited, a subsidiary of holding company Coal India Limited (CIL) did not recover washery charges from 'e-auction' consumers, unlike the practice followed by Bharat Coking Coal Limited, another subsidiary of CIL, leading to loss of opportunity to earn ₹ 418.58 crore during April 2008 to December 2012.

(Para No. 4.1)

The MMTC Ltd and PEC Ltd, both being trading members, since May 2011 and December 2010, respectively, on National Spot Exchange Limited (NSEL), dealt in trading in spot contracts for purchase and sale of agro commodities with physical delivery of commodities which were settled on T+2 and T+25 days, respectively. Pursuant to directions issued by the Department of Consumer Affairs, GOI, vide letter dated 12 July 2013, the NSEL changed the settlement procedure for the trades. All contracts being settled so far by delivery and payment beyond 11 days were to be settled with effect from 23 July 2013 on 'T+10' days basis. Subsequently, due to reduction in trade at NSEL there was a mismatch of obligations and as a result it suspended (31 July 2013) trading and postponed the settlement of all one day forward contracts.

An amount of ₹ 218.53 crore was still recoverable (November 2013) by MMTC Ltd. from NSEL for the trading period of 26 June 2013 to 26 July 2013 whereas PEC Ltd. was to recover ₹ 123.19 crore from NSEL for transactions falling between 25 June 2013 and 25 July 2013. The amount was recoverable due to the time gap between purchase payments and sales realization as per trade practice on the exchange. NSEL defaulted continuously in paying its dues to both the Companies from August 2013.

Audit observed that the Companies were trading and dealing on the NSEL which was a spot exchange under investment/financing mode where no effective delivery of goods was intended. Audit further observed that instructions for physical verification of stocks in NSEL warehouses were issued by MMTC Ltd. in December 2012 after 18 months of commencement of trading whereas PEC Ltd. did not do any physical verification of commodities at all. Neither of the Companies tried to ascertain the counter party details with whom they were entering into trade and there were no documents of title received either from NSEL or from counter party against the purchase of commodities.

Thus MMTC Ltd. and PEC Ltd. continued trading on the NSEL in spite of deficiencies which resulted in blocking of ₹ 341.72 crore of the two Companies. From the chain of events, recovery of the same appears remote.

(Para No. 5.1)

North Eastern Regional Agricultural Marketing Corporation Limited failed to upgrade its processing plants and wipe out its accumulated losses as envisaged in the revival scheme due to diversion of funds of ₹ 3.96 crore meant for meeting its capital expenditure towards working capital requirements and cash losses. Further the company could not achieve its main objective of providing marketing support to the farmers of the North-eastern region as it had to shift its focus from the procurement and sale of agro-horticultural products to supply of agricultural inputs under Government schemes due to shortage of working capital and lack of financial support from the Government.

(Para No. 8.1)

Indian Oil Corporation Limited awarded (Feb 2010) contract for Captive Power Plant to Bharat Heavy Electricals Limited on nomination basis at a price higher than the estimate by 17.41 *per cent* and relaxed General Conditions of Contract on price reduction for delay and mobilization advance. The extra cost attributable to the said relaxations was ₹ 194.10 crore, whereas the basic objective of timely completion of CPP by awarding the contract to BHEL on nomination basis at a higher value than estimates, remained unfulfilled.

(Para No. 11.3)

Foreign Trade Policy exempted the High Flash High Speed Diesel (HFHSD) from payment of excise duty under deemed exports for consumption in petroleum operations in eligible areas falling under petroleum exploration licence (PEL) / mining licence (ML), pre-NELP and NELP blocks, if such HFHSD was purchased through international competitive bidding(ICB). Oil and Natural Gas Corporation Limited (Company) purchased HFHSD during 2006-13 for its petroleum operations in the eligible areas without resorting to ICB by paying excise duty and later through ICB with an option to the supplier to quote at a price inclusive of excise duty, stating that refund of excise duties would be claimed by the company on which no refund was received by it from DGFT. Such lack of awareness on the part of the Company was not justifiable, particularly when its failure to avail of DEB in procurement of oil well cement under identical provisions had been highlighted in C&AG's Report No 11 of 2007. The Company was also aware as PMTJV was availing of such an exemption where the Company is having 40 *per cent* participating interest. The avoidable expenditure due to non-availing of deemed export benefit was ₹ 326.75 crore during 2006-13.

(Para No. 11.7)

NTPC Limited (Company) awarded contracts to M/s. FGUP "VO" Technopromexport, Russia (TPE) and M/s. Power Machines (PM) for Main Plant Package (Part-A and Part-B respectively) at Barh Super Thermal Power Project (Stage-I). The contracts stipulated price escalation for both foreign and indigenous materials, subject to a ceiling of 20 *per cent* of its contractual value. TPE approached the Company for extension of the contractual delivery schedule and removal of price variation ceiling of 20 *per cent* due to delay by the Company in accepting change of legal status of TPE. PM also pursued the Company with a similar request on the ground of inflationary trends in material cost and unfavourable exchange rates.The Company sought permission from Ministry of Power (MoP) for termination of the contract on grounds of infringement of contractual provisions and to complete the contract at the cost and expenses of TPE. MoP directed the Company not to terminate the contract with TPE and to revise the completion schedule by removing price variation ceiling of 20 *per cent* since 2005. The Company, accordingly, amended the contracts with TPE and PM, by removing the above price variation ceiling retrospectively and extending completion schedules. These amendments resulted in extension of undue benefit to the contractors for which the Company had to bear an additional expenditure of US$ 31.53 million (₹ 142.33 crore) and additional liability of US$ 3.51 million towards foreign materials supplied within the original contractual period. There was also denial of level playing field as removal of the important parameter on restriction to price variation conferred a post contractual advantage to TPE and PM.

(Para No. 12.1)

Five CPSEs's (NALCO, BHEL, HUDCO, GAIL and IOCL) leave rules/ policy for encashment of sick leave or of earned leave with HPL exceeding 300 days, on

superannuation, violated the DPE guidelines and resulted in irregular payment of ₹ 138.58 crore during the period January 2006 to March 2013. Further, seven CPSEs (BHEL, NHPC, NTPC, PGCIL, THDC, SJVN, PFC) made irregular contributions of ₹ 23.42 crore on account of provident fund in respect of leave encashment to employees during 2008 to 2012 and did not adjust excess contribution amounting to ₹ 38.70 crore made prior to March 2008 in violation of the judgement (March 2008) of Hon'ble Supreme Court of India and instructions of Employees Provident Fund Organisation.

(Para No. 13.1)

Five CPSEs's (ONGC, MECON, RECL, BHEL and BDL) did not adhere to the DPE guidelines with respect to payment of PRP and made an irregular payment of ₹ 202.95 crore for the years 2008-09 to 2012-13.

(Para No. 13.2)

Against 45 days stipulated in National Highways Fee (Determination of Rates and Collection) Rules, 2008, for start of collection of toll from the date of completion, the toll collection at Allahabad Bypass project on NH-2 could be started after delay of about three years (November 2009 to July 2012) resulting in loss of revenue of ₹ 150.09 crore.

(Para No. 14.1)

The Sethusamudram ship channel project proposed to create a shipping channel along the territorial waters of India linking the Palk Bay and the Gulf of Mannar. The project envisaged reduction in the journey time for ships sailing between the east and west coasts of India and other countries. Sethusamudram Corporation Limited (SCL) was incorporated in December 2004 as a special purpose vehicle for the project and Tuticorin Port Trust (TPT) was nominated as nodal agency for undertaking the pre-project activities.

The Supreme Court of India passed an interim order in September 2007 directing that "the dredging activity may be carried out, but the alleged Adams Bridge/Rama Setu shall not be damaged in any manner." The entire dredging work in Adams Bridge area was suspended from September 2007 onwards. The case is at present sub judice. Dredging work however continued at Palk Strait till Dredging Corporation of India (DCI) withdrew their dredgers in July 2009. Thereafter, there has been no activity in the project and an expenditure of more than ₹ 800 crore has been incurred on dredging partial quantity.

The Project was conceived and approved on the basis of traffic projections which were not entirely realistic. The project was approved in May 2005 at a cost of ₹ 2427.40 crore with debt equity ratio of 1.5:1. Equity through private placements and debt from the market as envisaged in the note to the Cabinet Committee on Economic Affairs never materialised. The revised cost of ₹ 4,504.09 crore as of December 2008 had not been approved and this could undergo further escalation.

Dredging was the principal activity of the project. For the purpose of dredging, the stretch was divided into four Works A, B, C & D.

Ministry of Shipping took the approval of the Cabinet Committee on Economic Affairs in May 2005 to award the Work 'D' on nomination basis to DCI in the interest of starting the project at the earliest. Not only the contract was awarded on nomination basis but even the rates were not finalised.

It was also noticed that due to lack of adequate soil data, the first round of international competitive bidding for Works A, B and C did not bear any fruit. DCI did not participate in the first round of bidding due to shortage of dredgers. In the second round, they participated as consortium with Dredging International for Work C at Palk Strait and A-B section at Adams Bridge area.

Audit noted that TPT did not update the old estimates which were prepared in November 2004 even in the second round of bidding in February 2006. This resulted in unrealistic evaluation of the reasonability of the rates obtained in the second round of bidding. The second tender was also dissolved in July-August 2006 on grounds of high rates quoted by tenderers.

Despite DCI's constraints in terms of the manpower, technology and equipment for executing dredging work in Adam Bridge area, the Ministry submitted the note for Cabinet Committee on Economic Affairs on 19 September 2006 seeking approval to the proposal of nominating DCI for dredging in all the sections within the revised escalated dredging cost of ₹ 2171.40 crore. The Ministry awarded the entire work of dredging to DCI on nomination basis in October 2006. Thus the Ministry nominated DCI for Work D in June 2005 and for all the remaining segments viz. Works A, B and C in October 2006 and the method of determination of rates payable was “prevailing market rates”.

DCI chartered dredgers through Transchart, the chartering wing of Ministry of Shipping. Transchart issued the specifications given by DCI to various agents, brokers and shipping companies and obtained their quotes. No tendering was resorted to and the price discovery process was based on negotiations by DCI with suitable dredgers and lacked transparency. Also the dredgers were engaged without finalising the basic information for technical specifications and without analysing the reasons as to why the two attempts at international competitive bidding in which international firms had participated had failed.

The dredging completed was only 20 *per cent* of the target of in-situ quantity of 48 million cum to be dredged in Adams Bridge area. This should also be viewed in the light of the fact that DCI also had confirmed in its letter dated 16 September 2006 that for work in the Adams Bridge area, it had no equipment or manpower other than one CSD Aquarius. Dredger Aquarius also failed.

Between February and September 2007, an in situ quantity of 9.52 million cum was dredged in the northern side of Adams bridge area and dumped in the channel alignment between chainage 30-35 km. Such dumping was unauthorised.

The decision to dump the dredged material in the channel alignment itself was a violation of the conditions imposed in the environmental clearance. Dumping in a site that has not been assessed for environmental impact cannot rule out serious disturbances to the marine eco system there. It has been estimated that nearly 5 million cum out of 9.52 million cum of dredged and dumped material needs to be re handled. Therefore, further threat of disturbances to the eco system looms large.

Work D in Park Strait area to be completed in July 2007 was completed in January 2009. For Work C in Park Strait area, only 38 *per cent* of the dredging work was completed by July 2009, when the work was stopped.

For Adams Bridge area interim survey, though stipulated in the MOU between DCI and SCL, was not done by DCI for the period between February and September 2007 and the dredged materials were dumped in the alignment itself.

After suspension of dredging work in July 2009 in Palk Strait area, NHO conducted survey in August/September 2009 and certified a dredged quantity of 18.9 million cum, as against dredged quantity of 21.43 million cum assessed by DCI in its survey in January 2009. This was due to the siltation process.

The rate structure for DCI considered four *per cent* additional quantity, on the basis of Detailed Project Report (DPR), to cater to siltation and over-dredging. However, the siltation was later assessed to be 10 *per cent* per annum by an expert engaged by DCI.

Thus, preparation of DPR was not accurate.

(Para No. 16.1)

National Textile Corporation's decision to conclude the sale of land of Bharat Textile Mills, Mumbai (September 2010) at a rate lower than the sale concluded a week earlier for an adjacent land, without exercising the option of negotiation as per BIFR guidelines, resulted in loss of opportunity to earn ₹ 156.97 crore more from sale of land.

(Para No. 18.1)