

EXECUTIVE SUMMARY

I Introduction

1. This Report includes important audit findings noticed as a result of test check of accounts of records of Central Government Companies and Corporations conducted by the officers of the Comptroller and Auditor General of India under Section 619(3) of the Companies Act, 1956 or the statutes governing the particular Corporations.
2. The Report contains 31 individual observations relating to 28 PSUs under 7 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 15 observations were not received even as this Report was being finalised. Earlier, the draft observations were sent to the Managements of the PSUs concerned, whose replies have been suitable 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 in respect of which Ministry/Department's reply was awaited
1. Atomic Energy (BHAVINI, NPCIL and UCIL)	3	1
2. Civil Aviation (AAI, AICL, ACIL and AIL)	8	7
3. Coal (BCCL and SECL)	3	1
4. Commerce and Industry (NINL, MMTC, PEC, STC and STCL)	5	1
5. Consumer Affairs, Food and Public Distribution (CWC and FCI)	5	1
6. Development of North Eastern Region (NERAMAC)	1	0
7. Finance (IIFCL, MCX-SX, NIAC and SPMCIL)	4	2

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8. Irregularities in payment of entitlements by CPSEs (CIL, MCL, ECL, NCL, WCL, CCL and CMPDIL)	2	2
Total	31	15

4. Total financial implication of audit observations is ₹ 6,179.35 crore.
5. Individual Audit observations in this Report are broadly of the following nature:
 - ❖ Non-compliance with rules, directives, procedure, terms and conditions of the contract etc. involving ₹ 4,931.56 crore in 16 paras.
 - ❖ Non safeguarding of financial interest of organisations involving ₹ 808.29 crore in nine paras.
 - ❖ Defective/deficient planning involving ₹ 432.37 crore in three paras.
 - ❖ Inadequate/deficient monitoring involving ₹ 1.41 lakh in one para.
 - ❖ Non-realisation/partial realisation of objectives involving ₹ 7.13 crore in two paras.
6. The Report also contains a para relating to recoveries of ₹ 56.60 crore made by seven PSUs at the instance of Audit.

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

Ministry of Civil Aviation (MoCA) and Airports Authority of India (AAI) failed to bring to the notice of Airports Economic Regulatory Authority (AERA) the provisions of Shareholders Agreement which mandated affirmative vote of AAI till AAI held 10 *per cent* equity shares in Delhi International Airport Limited (DIAL), in respect of special resolution under the Companies Act, 1956 and Reserved Board Matters. This led to levy of Development Fee by DIAL, resulting in additional burden on the travelling public of ₹ 3,415.35 crore out of which an amount of ₹ 2,841 crore has been collected upto March 2014 and the balance will be collected upto April 2016.

(Para 2.2)

Trade in agro commodities by the State Trading Corporation of India Limited (STC), PEC Limited and MMTC Limited highlighted mismanagement, possible fraud, negligence and absence of financial prudence. As the entire activity of identifying supplier, buyer, storage, arranging for shipment, etc. was performed by the associates which are private parties, it is a moot point whether these would qualify to be termed as 'trading activity'. In fact, the three CPSEs failed to assess credit worthiness of associates and have been involved in providing finance to risky ventures without adequate safeguards. Resultantly, they suffered losses because of inadequate security against the amount financed and they were also not able to secure the pledged stock safely. Inordinate delays in disposal of un-lifted material and in taking decision to invoke the 'risk sale' clause as also release of stock on the basis of PDCs indicated culpability on the part of the Management. Though each CPSE has Government nominees on the Board of Directors, nothing came to notice to show that they had effectively protected the interests of the Government by insisting on adequate safeguards.

(Para 4.1)

The MCX Stock Exchange Limited (the Company) was incorporated on 14 August, 2008. Multi Commodity Exchange of India Limited (MCX) and Financial Technologies (India) Limited (FTIL) were its promoters. The Company had entered into long term agreements with its related party FTIL that entailed various restrictive clauses as well as high costs. Further, the PSU Banks had 67 *per cent* shareholding as on 31 March 2010 and had their nominees on the Board of the Company during 30 April 2010 to 20 September 2012. These nominees of PSU banks on the Board of the Company did not review these unfavourable agreements and failed to protect the interests of the banks they represented. Despite present action by new management, by way of suspension of various agreements with FTIL, the liability due to restrictive clauses in these agreements would continue as only interim action to suspend only a few agreements has been taken (January 2015).

(Para 7.2)

India Infrastructure Finance Company Limited (Company) conducted its operations of borrowing funds and lending the same for various infrastructure projects under SIFTI.

Audit observed that funds borrowed by the Company were not based on detailed working of requirements and resulted in excess borrowings. Moreover, funds were borrowed at higher cost upto ₹ 37.56 crore by issuing bonds for 25 years' tenor¹ instead of 15 years' and 20 years' tenor. Besides, the borrowing from LIC was done at higher than prevailing market rates incurring extra cost of ₹ 21.57 crore.

Audit further observed that under lending operations the Company

- Compromised on compliance of guidelines regarding appraisal of the loan proposal by the lead bank, obtaining guarantee for recovery of loan from lead bank and failed to protect its financial interests.
- Was likely to suffer a loss of ₹ 8.11 crore due to absence of standard operating procedures to safeguard its interests against quitting of lead/other lenders of the consortium.
- Lost business opportunity to the extent of ₹ 1,064.94 crore in 13 loans by not agreeing to finance the cost overruns, though the loans were restructured by the Company after having ensured their financial viability.

Despite having been modified a number of times, both the Refinance scheme and the Takeout finance scheme remained unattractive.

(Para 7.1)

Air India Charters Limited (Company) renewed dry lease of four aircraft disregarding the rationale for acquisition of 18 new aircraft, shortage of crew and loss making routes which led to unfruitful expenditure of ₹ 405.83 crore between March 2011 and May 2014 towards lease related charges.

(Para 2.5)

Lapses in implementation of post shipment finance scheme by STC led to non-recovery of dues of ₹ 347.70 crore. Discounting of export documents of dubious legality conceded by EXIM Bank, were also noticed besides infructuous expenditure on insurance premium of ₹ 17.07 crore.

(Para 4.4)

AAI did not take action as per its credit policy and allowed M/s Kingfisher Airlines Limited to continue its operations on credit basis even after withdrawal of the credit facility. AAI also did not act timely on the advice of MoCA to take all legal means beside encashing bank guarantee of the airlines. This resulted in loss of revenue of ₹ 172.69 crore apart from loss of interest of ₹ 117.03 crore (up to February 2014).

(Para 2.3)

There was inordinate delay in formulation of a policy regarding levy of airport charges and allotment of land to flying clubs and the attempt of framing policy in 2007, did not bear any result even till August 2014. In the absence of timely action and mechanism to verify the eligibility under Category I or II flying clubs, which were involved in other commercial activities and also otherwise not entitled to avail the benefits of concessional rates, these continued to enjoy the same. Further, in the absence of any agreement with the parties, most of the flying clubs raised disputes regarding rates and did not clear their

¹ *Implies tenure or period of loan or bond as used by the Company in its records.*

dues. Moreover, AAI suffered losses due to delay in identification of sites and issue of required clearances.

(Para 2.1)

Dankuni Coal Complex (DCC) was established at a cost of ₹ 147 crore in 1990 as a unit of Coal India Limited (CIL) based on the recommendations of the Fuel Policy Committee, 1974 of Government of India (GOI), and the Working Group Nos. 9 and 10 of the Planning Commission (1974). Later, CIL handed over DCC to South Eastern Coalfields Limited (SECL) for running the plant on operating lease basis in April 1995 and renewed the lease subsequently at an annual lease rent of ₹ 7.50 crore followed by further renewal of lease w.e.f. 1 April 2010 at ₹ 1 per annum.

Audit observed that DCC did not operate efficiently since inception so as to achieve financial viability. DCC did not take effective measures to control environmental pollution. The Unit has been sustaining substantial loss (₹ 650.97 crore as on 31 March 2014). Audit examination revealed:-

- Operation far below installed capacity as there was no capital infusion for revival/capital rehabilitation of the plant
- Outdated technology
- Poor offtake of gas by customer
- Non-remunerative price obtained from customer
- Poor sale of by-products
- Absence of marketing strategy.

Neither DCC, nor SECL or CIL took any coordinated and productive steps to address the core issues pointed out above which would have helped DCC to get its financial health restored.

(Para 3.3)

Audit reviewed activities and other matters relating to execution of purchase orders in Bharatiya Nabhikiya Vidyut Nigam Limited (BHAVINI). Audit examination revealed that:

- As BHAVINI had entrusted (December 2003) all the activities to CMM, NPCIL pertaining to its procurement contracts, it had paid ₹ 46.07 crore till March 2014, as service charges excluding taxes.
- BHAVINI had not formulated an independent procurement manual so far (November 2014) and procurement manual of NPCIL was being followed on the grounds that the same was found adequate and comprehensive.
- No timeline was prescribed for various stages of the procurement processes such as for placement of purchase orders after receipt of indents and for receipt of materials after placement of purchase orders. There was delay in the placement of 100 purchase orders (76 per cent) out of a sample of 131 Purchase orders selected for audit. The delay ranged from one day to 1092 days with a median delay of 158 days.
- Norms with regard to mode of tendering were not strictly followed. Out of 131 purchase orders, in 125 purchase orders the value exceeded ₹ 50 lakh each for

which only public tenders were to be called. However, public tenders were called only in 71 cases (57 per cent).

- Though BHAVINI had set up its own CMM division in May 2004, the same had not yet taken over the activities from NPCIL due to lack of in-house expertise in the matter.

(Para 1.1)

Audit reviewed the policy framework of Uranium Corporation of India Limited (UCIL) for managing different types of contracts, the tendering system and the post-contract management. Audit observed that:

- UCIL had no works contract manual for contract finalization, delegation of powers, post-contract management, etc.
- UCIL was required to commence e-procurement in respect of all procurements in excess of ₹ 10 lakh from the month of May 2013. The Company went about implementation of e-procurement in a haphazard manner with inadequate preparatory work and assigned (April 2014) the job to M/s ITI which was in progress (January 2015).
- There were delays at various stages of purchase order finalisation process as compared to the time limits prescribed in its purchase manual. Delay was noticed in 59 to 83 per cent cases selected for audit which was in the range of one to 768 days.
- Though UCIL had prescribed a norm of 180 days in its purchase manual for finalising public tender, it did not lay down any timeline for finalisation of works contracts. Audit observed that there were delays ranging from 12 to 541 days in finalisation of 16 out of 29 works contracts selected for Audit.
- UCIL evaluated performance of vendors and classified them as 'Excellent', 'Very Good' and 'Good'. However, there was no 'Poor' rating. Further, the entire exercise of vendor rating proved futile as these were not considered at the time of placement of purchase orders.

(Para 1.2)

A review of procurement contracts in Nuclear Power Corporation of India Limited (NPCIL) revealed that it did not:

- make proper assessment of the available material before floating tenders for manufacture of steam generators for Kakrapar Atomic Power Project - 3&4. As a result, material valuing ₹ 17.51 crore, which could be issued to the suppliers as free issue material (FIM), remained blocked in its inventory;
- ensure economy in the tendering process as it had incurred additional expenditure of ₹6.01 crore due to non-consideration of the impact of local taxes during evaluation of bids and non-placement of purchase order on a supplier within the validity period of his price bid and subsequent placement of order on a different supplier at a higher price; and
- prescribe any time frame for completion of tendering procedure after receipt of an indent due to which the completion dates stipulated in the contracts did not match with the desired dates of delivery given in the indents.

(Para 1.3)

There are co-insurance arrangements between the PSU insurance companies and the private insurance companies. Under co-insurance, one Company (known as the “lead insurer”) underwrites the insurance business and shares a part of that business with other public/private insurance business.

Significant audit findings in the Co-insurance arrangements entered into by New India Assurance Company with the private insurance companies are as under:

- Company has no specific policy or guidelines for co-insurance business where role of the lead insurance Company and that of the client are significant in determining the terms and conditions of the insurance contract.
- The Company assumed risk without recording the most vital information like Incurred Claims Ratio and details of the risk such as location of the risk, total exposure, break up of Sum Insured etc.
- Risk inspection was not carried out by the Company nor was the Inspection report of the lead insurer obtained before acceptance of the risk. The Company paid an amount of ₹ 21.78 crore in settlement of 6 out of 25 such claims.
- Justification notes with the approval of the Competent Authority, for the acceptance of the risk, were not available in 38 cases reviewed by Audit and 12 out of them were having Sum Insured (SI) exceeding ₹ 500 crore.
- Co-insurance risk was accepted at a rate lower than that quoted by the Company at the time of participation in the tender for 100 *per cent* share in nine out of 38 cases. The difference in premium amounted to ₹ 2.02 crore and the Company settled 3 claims for ₹ 2.27 crore.

(Para 7.4)

Review of implementation of Passenger Reservation and inventory system in Air India Limited, Mumbai revealed the following:-

- Lack of (i) integrated single IT platform and (ii) required linking to Finance Module with manual interventions due to absence of automated interfaces resulting in the underlying risk to data integrity.
- Pricing, despite being the key element of Passenger Reservation System, was out of scope of the system. The risk of manual errors (either intentional or unintentional) could not be ruled out.
- System design deficiencies and lacunae in customization resulted in un-reconciled revenue of ₹ 136.84 crore and long outstanding debts of ₹ 113.94 crore.
- Lack of in-built relational integrity between related data resulted in a situation whereby the system allowed purchases without proper user requests, purchase quantity exceeding the requirement and materials received before placing orders.
- Non mapping of business rules in the system resulted in accounting ₹ 5.35 crore as revenue contrary to its Accounting Policy and blocking of bookings under higher priced tickets in companion free scheme.

(Para 2.7)

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10 CPSEs did not adhere to the DPE guidelines with respect to payment of allowances and perks to its employees by restricting the same within the maximum ceiling of 50 *per cent* and made irregular payment of ₹ 573.10 crore for the years 2007-08 to 2013-14.

(Para 8.1)