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 37 individual observations relating to 18 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 27 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. Heavy Industries and Public Enterprises (BHEL, CCIL, HPCL and SSL)	8	6
2. Mines (HCL)	2	2
3. Petroleum and Natural Gas (IOCL, OIL, ONGC and OPAL)	13	11
4. Power (DVC, PGCIL and REC)	5	2
5. Steel (SAIL)	6	3
6. Textiles (NTC)	1	1
7. Water Resources, River Development and Ganga Rejuvenation (NPCCL)	1	1

8. Irregularities in payment of entitlements by CPSEs (BPCL, GAIL and EIL)	1	1
Total	**37**	**27**

4. Total financial implication of audit observations is ₹ 2,854.78 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 ₹ 1,150.76 crore in 12 paras.
- ❖ Non safeguarding of financial interest of organisations involving ₹ 653.47 crore in 13 paras.
- ❖ Defective/deficient planning involving ₹ 997.29 crore in seven paras.
- ❖ Inadequate/deficient monitoring involving ₹ 5.82 crore in one para.
- ❖ Non-realisation/partial realisation of objectives involving ₹ 47.44 crore in four paras.

6. The Report also contains a para relating to recoveries of ₹ 27.59 crore made by 4 PSUs and another para relating to corrections/rectifications carried out by three PSUs at the instance of Audit.

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

Water Injection platform (WIN) commissioned in 1984 is the main water injection hub in Mumbai High North field of Oil and Natural Gas Corporation Limited (ONGC). Non-synchronization of WIN revamping project with repair/ replacement of its associated pipelines and delay in overhauling of Main Injection Pumps led to non-achievement of the designed water injection capacity even after incurring an expenditure of ₹ 726.50 crore.

(Para 3.8)

ONGC (Company) awarded a contract in November 2004 for Engineering and Construction works as part of development of a deepwater and a shallow water oil and gas bearing field, and subsequently (June 2007) terminated the contract due to stalling (June 2006) of work by the contractor and initiated action to encash performance bank guarantee (PBG) furnished by the contractor. The contractor took up (June 2007) the matter of termination of contract and invoking of PBG for arbitration. The Company also filed a petition in the High Court of Mumbai for obtaining, *inter alia*, the custody of equipment and material that had remained with the contractor. The Company entered into a Settlement Agreement with the defaulting contractor without conducting due diligence whereby it obtained a reduction of only USD 0.7 million while it ended up paying a settlement sum of USD 32 million (₹ 149.37 crore) to the contractor through 'out of court' resolution of disputes, besides incurring additional expenditure of USD 66.34 million (₹ 342.34 crore) in implementing the agreement in deviation of the approval accorded by its Board in October 2008. The expenditure (₹ 342. 34 crore) was irregular as it did not have approval of the Board and was not in the financial interests of the Company. In addition, the Company incurred an avoidable expenditure of USD 13.7 million (₹ 63.79 crore) on payment of rental for tools which was included within the amount paid for the work completed by the contractor under the already terminated contract. The project for development of the oil and gas fields remained incomplete (January 2015) as against the revised target date of April 2010 while projected revenues of ₹ 1,500 crore per annum remained unrealised.

(Para 3.6)

National Textiles Corporation Limited entered into settlement agreement for sharing of land with the erstwhile owner ignoring the fact that it was prime freehold land, without ascertaining commercial viability, which resulted in a loss of ₹ 205.01 crore to the Company.

(Para 6.1)

ONGC Petro additions Limited (Company) entered into defective contracts with three contractors and extended interest free advances during March 2009 to November 2011 and linked the recovery of these advances to progress of the related project in violation of CVC guidelines instead of effecting recovery in a time-based manner and, thus, lost interest of ₹ 49.63 crore from August 2012 to October 2014. Besides this, the Company was yet to recover advances of ₹ 144.20 crore from the contractors as on October 2014 sustaining further loss of interest.

(Para 3.13)

Steel Authority of India Limited (SAIL) had 23 Joint Venture Companies (JVCs) as on 31 March 2014 with total investment of ₹ 778.82 crore. Only seven were fully functional of which only three were generating profits. Four JVCs were being wound up. SAIL had formed two JVCs, one at Bhilai and other at Bokaro with Jaypee Cement Limited (JCL) which used slag, a by-product produced in SAIL's steel plant for making cement. It was noted that SAIL under an agreement was supplying slag to the JV at prices much below the market price, as a result of which SAIL lost ₹ 156.58 crore up to 2013-14.

(Para 5.1)

Rural Electrification Corporation Limited suffered loss of ₹ 153.36 crore upto December 2014 as it did not approach Ministry of Power to reimburse the differential interest on soft loans it had extended under Rajiv Gandhi Grameen Vidutikaran Yojana (RGGVY).

(Para 4.5)

Investment amounting to ₹ 6.38 crore made by Damodar Valley Corporation (Corporation) for implementation of modernised metering system remained unproductive and ineffective resulting in non-fulfilment of objectives. The Corporation did not adhere to the time frame of the tariff petition as prescribed by CERC which was one of the reasons for the accumulation of huge outstanding dues from consumers. The Corporation did not collect disconnection and reconnection charges (₹ 4.33 crore) from its consumers allowed under Electricity Act, 2003 and also did not install meters at the premises of most of LT consumers which prevented the Corporation from ascertaining the actual consumption of electricity and resulted in non recovery of ₹ 142.72 crore towards electricity charges during 2010-11 to 2013-14.

(Para 4.1)

Oil India Limited failed to create facilities in time to contain basic sediments and water content in crude oil supplies within the prescribed limit. This resulted in loss of revenue of ₹ 105.55 crore during 2008-09 to 2013-14.

(Para 3.5)

There are 33 Coke Oven Batteries (COBs) in the five integrated steel plants operated by SAIL. COBs convert coal into coke which is the primary fuel used in the Blast furnaces for production of hot metal.

It was noticed that on account of delays in the repairs and maintenance of the COBs, their performance was far below the norms set by SAIL. There was a shortfall in production of coke by 3.320 MT during the period 2009-14. Similarly, there was shortfall in availability of Coke oven gas, which is generated as a by-product during carbonization of coal in COBs, resulting in production loss of 2.430 MT of saleable steel and additional procurement of furnace oil at a cost of ₹ 202.85 crore during 2009-13. It was also noticed that even where repair and renovation had been carried out, the performance of the COBs was below the guaranteed performance parameters.

(Para 5.2)

Follow-up IT Audit of implementation of Material Management module of ONGC Limited revealed the following:-

- There were inadequacies of input controls, validation checks and internal control procedures to ensure accurate and timely capture of data. This resulted in lack of data integrity and incorrect MIS.
- Deficiencies in the internal control mechanism and lack of user awareness resulted in stock issues, receipts and consumption not getting captured in a timely manner leading to incorrect material accounting.
- There were deficient input controls, validation checks and internal control procedures to ensure accurate and timely capture of data and compliance of business processes related with physical verification of assets. This resulted in incomplete physical verification of assets, stores and spares, incorrect MIS and lack of data integrity.
- Material Requirement Planning remained subjective as it was being carried out manually even after implementation of ERP system.

(Para 3.7)

Hindustan Copper Limited implemented Oracle E-Business Suite R12 ERP system after investing ₹ 13.22 crore towards cost of software and hardware. It was, however, noted that the IT System did not have documented IT policies, and logical access control. The quality of Master Data was also found to be poor. We noted deficiency in the system on application of depreciation of fixed assets requiring manual intervention in financial records and delay in implementation of payroll module.

(Para 2.1)

Leave rules/policy for encashment of sick leave or of earned leave with HPL exceeding 300 days on superannuation, were in violation of the DPE guidelines and resulted in irregular payment of ₹ 157.91 crore during the period April 2006 to March 2014 in respect of four CPSEs. Further, two CPSEs (IOCL and GAIL) made irregular contributions of ₹ 12.15 crore on account of provident fund in respect of leave encashment to employees. Further, GAIL did not adjust the employer's share of contribution amounting to ₹ 14.94 crore on leave encashment paid prior to March 2008.

(Para 8.1)