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 143 (6) of the Companies Act, 2013 or the statutes governing the particular Corporations.

2. The Report contains 32 individual observations relating to 20 PSUs under 11 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 22 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 (NPCIL)	1	1
2. Civil Aviation (AAI)	5	5
3. Coal (ECL and NLCL)	2	1
4. Commerce and Industry (ECGC)	1	1
5. Consumer Affairs, Food and Public Distribution (FCI)	5	5
6. Fertilizers (MFL, FACT and RCF)	2	1
7. Finance (IFCI Factors Ltd., STCI and UIICL)	4	-
8. Health And Family Welfare (HLL)	2	-
9. Heavy Industries and Public Enterprises (BHEL)	3	3

10. Housing and Urban Poverty Alleviation (HUDCO)	1	-
11. Power (DVC, PFCL, NEEPCO, NTPC and REC)	6	5
Total	**32**	**22**

4. Total financial implication of audit observations is ₹ 5,936.76 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 ₹ 2,858.12 crore in 14 audit paragraphs.
- ❖ Non safeguarding of financial interest of organisations involving ₹ 638.46 crore in 10 audit paragraphs.
- ❖ Defective/deficient planning involving ₹ 2,389.95 crore in seven audit paragraphs.
- ❖ Inadequate/deficient monitoring involving ₹ 50.23 crore in one audit paragraphs.

6. The Report also contains a paragraph relating to recoveries of ₹ 49.19 crore made by five PSUs and another paragraph relating to corrections/rectifications carried out by two PSUs at the instance of Audit.

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

The renovation and modernization activities of 18 power stations of NTPC Limited were planned to be carried out during 2004-19 as per the R&M Policy 2002 and Business Process 2006. The actual expenditure incurred on renovation and modernization stood at ₹ 4147.02 crore up to March 2015 as against ₹ 8327.40 crore sanctioned between July 2007 and March 2015. Audit observed delay of three to 109 months in completing activities relating to R&M works in 19 out of 20 schemes selected in nine power stations. Out of 335 contract packages, only 197 contract packages were awarded. Out of 107 packages completed, 41 packages were delayed as on 31 March 2015. NTPC had to forgo tariff recovery of ₹ 199.65 crore in four power stations due to non-completion of works within tariff period 2004-09, as the norm for tariff recovery was modified by CERC for tariff period 2004-09 and refunded tariff along with interest of ₹ 23.42 crore since some projects against which tariff recovery was allowed could not be completed within the tariff period 2009-14. There was avoidable or extra expenditure of ₹ 54.45 crore and generation loss of ₹ 269.78 crore due to defective systems, as implementation of R&M works for their replacement was delayed. Excess coal consumption of ₹ 881.89 crore due to poor thermal efficiency, generation loss of ₹ 489.29 crore on account of forced outages and non-adherence of environment norms due to non-completion of projects in time even after their initiation were also noticed.

(Para 11.5)

Housing and Urban Development Corporation Limited (HUDCO) mobilised ₹ 37128.32 crore during the period 2010-11 to 2014-15. The share of Loans which carried higher interest rates was high among different source of funds. In assessing fund requirement, critical elements of fund inflow/outflow were not given due cognizance resulting in excess mobilization of funds and additional interest burden of ₹ 30.39 crore. Lower credit rating due to higher Non-performing assets and lower net interest margin resulted in higher coupon rate and consequent additional financial burden of ₹ 134.97 crore. In lending operations, the disbursement ranged between 38.40 and 69.72 *per cent* of loans sanctioned during the five years ended 2014-15. Violations of directions issued by the regulator National Housing Bank, deficiencies in internal guidelines, and deficiencies in appraisal mechanism, system of disbursement, monitoring of financed projects and waiver of critical pre-disbursement conditions led to non-performing assets, which increased from ₹ 1227.60 crore in 2010-11 to ₹ 2029.33 crore in 2014-15 and ranged between 5.46 *per cent* and 6.76 *per cent of* gross outstanding loans, during the same period.

(Para 10.1)

A review of the marketing activities of five divisions of HLL Lifecare Limited, for three years from 2012-13 to 2014-15 was taken up with a view to assess the efficiency and effectiveness of those operations. Some of the observations are given below:

- All the four domestic divisions failed to achieve their respective sales targets, particularly in the last two years. The shortfall in achievement of targets was in spite of substantial funds spent by HLL from 2012-13 to 2014-15 on marketing of its products.

- HLL had no uniform structure for grant of credit limit and credit period to its clients. Outstanding dues beyond credit period at ₹ 312.92 crore as on 31 March 2015 was significant.
- The sales volume decreased despite HLL offering quantity discount ranging between 19.81 *per cent* and 300.88 *per cent*.
- HLL had no method of conducting customized market research for product change and development, to meet competition and to plan for improvement in market share.
- Although, HLL has undertaken expansion of production facilities, capacity utilisation was mainly dependent on government orders. Further, the delay in timely receipt of subsidy claims adversely affected its funds position.

(Para 8.1)

Food Corporation of India (FCI) implemented Financial Accounting package (FAP) in collaboration with Tata Consultancy Services (TCS). Two core components of FAP are Accounting Module and Payroll Module. Audit examined the adequacy of programming logic and mapping of business rules. The major audit findings are as shown below:

- The roll out of FAP (Payroll module) was started w.e.f. 01 October 2010 and the "Go live" certificate (w.e.f. 01 December 2013) for FAP was issued by the Management to TCS in February 2014 even though certificates for completion of FAP were not issued by any of the pilot locations. Inspite of non-fulfilment of contractual condition for issue of completion certificate by the pilot locations, FCI/TCS rolled out the package and full payment of ₹ 12.53 crore was made to TCS.
- Virtual Private Network connectivity was not provided to district offices which were the prime end users of the FAP project. Thus, the district offices were forced to depend upon other sources like data card services and individual broadband services in an unstructured manner. This rendered the expenditure of ₹ 4.02 crore unfruitful.
- No provision was made for interface of FAP with stock accounting in violation of terms and conditions of contract. As a result the entries were made manually in FAP from the monthly stock accounts statement sent by various depot offices.
- Enterprise Resource Planning (ERP) application developed at a total cost of ₹ 21.84 crore (including hardware and software) was not generating the financial statements as per requirement of the Companies Act, 2013.
- Audit noticed number of inconsistencies and discrepancies in the FAP data. Besides, several deficiencies were also noticed in the Financial Accounting Module and Payroll Module which are discussed in detail in the para.

(Para 5.2)

The Cabinet Committee on Economic Affairs (CCEA) approved export of 65 lakh Metric Tonnes (MTs) of wheat from Central Pool stocks of FCI through three Central Public

Sector Undertakings. An audit of export of wheat by West Zone of FCI was taken up from May 2015 to July 2015 which revealed the following:

- Inclusion of an additional clause in tender on the request of Port Authority resulted in elimination of other registered bidders for Handling and Transport (H&T) contracts. In six cases insufficient time was allowed for submission of tenders by Empowered Committee (EC).
- While the EC compared offered rates of ports in respect of three cases with the rates of wheat received in other ports in nine cases, the EC neither made any such comparison nor made any efforts for maximizing the rate even when the offered price was lower as compared to other ports on the same date.
- For similar job Clearing and Handling Agents (CHAs) at the Mundra and Pipavav private ports charged higher handling charges compared to those charged by M/s Rishi Shipping (CHA at Kandla port).
- After completion of Phase I and Phase II of Export, balance quantity of wheat stock was transported to different depots in Gujarat which resulted in avoidable expenditure of ₹ 20.67 crore.
- Mines and Metals Trading Corporation (MMTC) withheld ₹ 60.99 crore of the realised amount as adjustment in respect of old dues pertaining to the year 1991 receivables from FCI.
- Adani Port & SEZ Limited (APSEZ) failed to clean the cargo of wheat within the stipulated period upto the specified level resulting in cancellation of the tender. Thus, due to cancellation of order an amount of ₹ 2.83 crore was foregone.
- Full charges were reimbursed/paid to the CHAs resulting in additional expenditure to the tune of ₹ 8.01 crore, even though FCI carried out the handling operations which was the responsibility of CHA appointed by CPSUs.

(Para 5.1)

The audit of fertilizer products by Fertilisers and Chemicals Travancore Limited (FACT) and Madras Fertilisers Limited (MFL) for the period 2012-13 to 2014-15 revealed the following:

- The Companies did not achieve targets prescribed in Memorandum of Understanding (MoU) entered into with Government of India for production and sales. Non-achievement of the production and sales target, as per MoU, was one of the reasons for FACT being given an adverse credit rating by the bankers leading to higher interest rate being charged on cash credit facilities availed by the Company.
- There were cases of non-adherence to the guidelines of Central Vigilance Commission (CVC) in finalisation of bids. FACT was hiring permanent godowns without following usual tendering process and was renewing the agreements at the end of the existing agreement period at renewed rates after negotiation with the owners of the godown. Non-finalization of permanent railhead contracts/non-tendering of hiring of godowns, led to lack of transparency in procurement procedures. MFL negotiated with all the Lowest contractors of railhead awarded

for 35 locations in 2012-13, 20 locations in 2013-14 and 44 locations in 2014-15 even though instructions of CVC (January 2010) prohibited post tender negotiations with L1, except in certain exceptional situations.

- There were delays in claiming and follow up of subsidy from Government of India due to which the Companies faced liquidity crunch. As on 31 March 2015, subsidy amount of ₹ 740.12 crore and ₹ 448.23 crore was pending to be received from the Government by MFL and FACT respectively.

(Para 6.1)

The due diligence conducted by the committee constituted by Rural Electrification Corporation Limited for screening loan application justified a loan of ₹ 45 crore only, whereas the Board of Directors approved ₹ 250 crore. Although the Board directed management to take a considered and independent view irrespective of the decision of lead/other lenders, the risk mitigating measures contemplated as part of pre-disbursement conditions were relaxed by way of extension of time for their compliance, and most of the conditions have not been complied with throughout the period of loan disbursement between August 2007 and March 2010 and as on December 2015. The loan was classified as non-performing asset in June 2011 due to continuous default of the borrower in servicing the loan since December 2010 and categorised as doubtful in January 2013. Thus, decision to sanction and disburse the loan disregarding the risk associated with financially weak promoters, after relaxing pre-disbursement conditions resulted in risky exposure of ₹ 250 crore.

(Para 11.6)

Decision by Power Finance Corporation Limited (PFC) to relax pre-disbursement conditions and release of instalments of loan disregarding the provisions of Common Loan Agreement that permitted PFC to take independent decision on release of instalments irrespective of the decision of other consortium partners led to risky loan exposure of ₹ 239.36 crore and the loan became a sub-standard asset. There were uncertainties surrounding the project arising from apparently fraudulent allotment of Coal block for the project.

(Para 11.2)

STCI Finance Limited, a Non-Banking Financial Company (NBFC) registered with Reserve Bank of India, failed to declare loans as NPAs, recall defaulting loans, enforce the security, explore options to sell the NPA to Asset Reconstruction Company and file civil suit against defaulter loanees within the prescribed time, as per the provisions of its lending policy and terms and conditions of facility agreements with lenders. Consequently, funds to the extent of ₹ 152 crore remained blocked in bad loans and suffered loss of interest of ₹ 39.36 crore thereon during March 2010 to June 2015.

(Para 7.3)

Bharat Heavy Electricals Limited (BHEL) designed transformers without ascertaining the actual operational requirements of a foreign client assuming that the transformers would be operated on equal loading basis, and failed to undertake corrective measures to address the premature failure of transformers supplied by it even within three years from the notice of default. As a result, the client initiated arbitration proceedings and the Tribunal awarded in favour of the client. BHEL paid compensation of ₹ 163.17 crore towards replacement cost of transformers supplied by it.

(Para 9.1)

Nuclear Power Corporation of India Limited paid Transport Allowance renamed as City Conveyance Allowance (CCA), for Headquarters and Site Conveyance Allowance (SCA) for sites, to officers/staff who were already provided with independent cars/ transport facility from residence to place of towns. The said CCA/SCA was calculated at 40 *per cent* of the rate of conveyance allowance proposed for employees not provided with transport facility (base rate). The payment of CCA/SCA to officers/staff was in violation of the established principle of conveyance allowance and led to consequential extra expenditure of ₹ 105.47 crore during September 2008 to March 2015.

(Para 1.1)