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 21 individual observations relating to 11 PSUs under five 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 16 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. Petroleum and Natural Gas (BPCL, GAIL, HPCL, IOCL and ONGC, OPal)	12	11
2. Road Transport and Highways (NHAI)	3	-
3. Scientific and Industrial Research (CEL)	1	1
4. Shipping (IWAI)	1	1
5. Steel (HSCL and SAIL)	4	3
Total	**21**	**16**

4. Total financial implication of audit observations is ₹ 9,736.69 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 ₹ 308.42 crore in six audit paragraphs.
- ❖ Failure in safeguarding of financial interest of organisations involving ₹ 632.61 crore in five audit paragraphs.
- ❖ Defective/deficient planning involving ₹ 3,531.30 crore in five audit paragraphs.
- ❖ Inadequate/deficient monitoring involving ₹ 117.86 crore in two audit paragraphs.
- ❖ Non-realisation/partial realisation of objectives involving ₹ 5,146.50 crore in three audit paragraphs.

6. The Report also contains a paragraph relating to recoveries of ₹ 6.38 crore made by three 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:-

Oil and Natural Gas Corporation (ONGC) acquired 90 *per cent* stake in the KG-DWN-98/2 block in 2005 and balance in 2012 under first round of New Exploration Licensing Policy. The Company availed several extensions to explore and appraise its discoveries at a cost of ₹ 8,402.56 crore (March 2015). The Company also suffered a major setback in view of the expert confirmation regarding substantial migration of reserves from this area and their exploitation by RIL through its KG-DWN-98/3 block. Besides, the Company had considered a higher gas price while considering the viability of the block in December 2013. Under the New Domestic Gas Pricing Guidelines the gas price was fixed at a much lower price, which would further adversely affect the financial viability of the block. The Company has notified total of 11 discoveries in the block till August 2015.

(Para 1.7)

Oil and Natural Gas Corporation (ONGC) acquired 9 blocks of *Coal Bed Methane (CBM) Blocks* out of the 33 blocks awarded by Government of India during the period from 2001 to 2003. It relinquished five blocks on the grounds of poor prospects. Because of delayed acquisition of land due to various reasons and ONGC's failure in completing the committed Minimum Works Programme in the blocks, Exploration Phase of the blocks was affected and ONGC had to seek repeated extensions of time from GOI. Repeated extensions had the effect of reducing the Development Phase of five years. It also failed in promptly obtaining Mining Leases and Environmental Clearances which are pre-requisite for commencement of development operations. Thus ONGC spent ₹ 1,217.86 crore on the four CBM blocks without achieving the objective of acquiring it.

(Para 1.8)

Considering the wide range of applications of petrochemicals and resultant demand, GAIL (India) Limited and Indian Oil Corporation Limited (IOCL) entered into the petrochemical industry in 1999 and 2004 respectively. Audit of 'Petrochemical Production and Project Management by GAIL and IOCL' covered the operations of Petrochemical Plant at Pata of GAIL and Naphtha Cracker Plant of IOCL at Panipat for the period from 2009-10 to 2014-15. Audit was conducted to assess feedstock availability, consumption of feedstock and other inputs/utilities as per industrial norms and effectiveness of project implementation *etc*. Some of the significant audit findings were as under:

- Mismatch between upstream and downstream production capacity led to loss of opportunity for production (Pata Plant of GAIL).
- Creation of capacity of utilities in excess of requirement led to underutilisation of these utilities (Panipat plant of IOCL).
- Consumption of feedstock, chemicals and steam in excess of industrial norms/design standards led to increase in cost of production (Panipat plant of IOCL).
- Non-maintenance of grade-wise cost by GAIL and IOCL.

- Delay in execution of capacity enhancement project of GAIL led to production loss.

(Para 1.3)

Hindustan Steelworks Construction Limited is engaged mainly with the execution of construction projects for iron and steel works and ancillary plants. Audit of execution of jobs showed that the process of award of work based on Approved Rate Structure (ARS) was not competitive and lacked transparency because in majority of cases work was given on nomination basis without inviting quotations from empanelled contractors. 14 contracts awarded to the company valuing ₹ 133.59 crore were split into 160 contracts and offloaded to 32 contractors mostly on the basis of Limited Tender Enquiry or ARS. Procedures governing invitation of bids were not conducive in attracting wider response from the prospective contractors. Audit observed delays ranging from 10 days to 288 days over permissible time in submission of Performance Bank Guarantee by the contractor in 35 contracts valuing ₹ 241.46 crore. The company could not realize ₹ 21.85 crore as centage charges/PMC fee from the client due to deficiencies in the agreement.

(Para 5.1)

Review of the marketing activities of Central Marketing Organisation (CMO) of SAIL revealed the following:

- Delay in capacity addition, resulted in reduction of market share from 18.5 *per cent* in 2009-10 to 14.2 *per cent* in 2014-15 despite increase in steel consumption in India by 30 *per cent* during 2009-15.
- The company did not have an effective strategy for seeking business through participation in tenders and it was not successful in 69 tenders out of 224 tenders in which it participated primarily due to quoting higher prices.
- Absence of active dealership base adversely impacted the growth in retail sales and overall market share of the company. SAIL disbursed dispensation of ₹ 26,058 crore in last 6 years and average dispensation per ton increased from ₹ 2241/- in 2009-10 to ₹ 5764/- in 2014-15.
- Net Sales Realisation increased by 13.43 per cent over 5 years whereas the cost of sales increased by 31.16 per cent. SAIL's cost of raw material to total expenditure was 7-9 and 9-17 percentage points higher than that of Jindal Steel & Power Limited and TATA Steel Company Limited respectively.
- There were instances of misuse of the company's supplies and SAIL brand name by Conversion Agents and Wet Leasing Agents.

(Para 5.2)

Indian Oil Corporation Limited and GAIL (India) Limited own a large network of oil & gas pipelines for transporting crude oil, Natural Gas, Liquefied Petroleum Gas and various other petroleum products. Audit of 'Safety preparedness of Oil and Gas Transmission Pipelines' of Indian Oil Corporation Limited and GAIL (India) Limited, covering operations from April 2012 to March 2015 was conducted to assess the safety preparedness of their pipeline operations. Some of the significant audit findings are as under:

- Non compliance with recommendations of External Safety audits conducted by Oil Industry Safety Directorate (OISD) in IOCL/GAIL for more than two years.
- The Companies failed to take effective measures to prevent/evict encroachment of Right of Use.
- Non-compliance with various Oil Industry Safety Directorate standards (Indian Oil Corporation Limited) and Petroleum and Natural Gas Regulatory Board regulations (Gas Authority of India Limited) leading to frequent pipeline failure, pipeline deterioration and frequent accidents.
- Inadequate maintenance practices coupled with non-formulation of/deviation from SOPs leading to ineffective handling of several incidents.

The failures led to loss of lives, property and damage to environment from accidents.

(Para 1.2)

Hindustan Petroleum Corporation Limited (HPCL) initiated the Diesel Hydro Treater (DHT) project in 2007 for meeting the statutory quality specifications (Euro IV) of diesel at a cost of ₹ 1,969.59 crore ignoring the existing Diesel Hydro de-sulphurisation (DHDS) plant, which was capable of producing similar quality of diesel. Subsequently, the DHDS project was taken up for upgradation (2009) to enhance its capacity. The revamped DHDS was capable of meeting the Euro IV requirement of Mumbai Refinery of HPCL. This resulted in avoidable expenditure of ₹ 1,969.59 crore as well as creation of excess capacity in production of diesel.

(Para 1.4)

Oil & Natural Gas Corporation Limited (ONGC) made advances against equity to Oil and Natural Gas Corporation Petro Additions Limited (OPaL) during April 2007 to May 2013. OPaL delayed the conversion of the advances into equity shares. OPaL also offered rights issue (March 2015) to ONGC. However, OPaL did not issue the shares with the intention of avoiding the Company becoming a CPSU. ONGC again paid (June 2015) money towards instalment against equity shares which is yet to be issued. Thus, ONGC made available interest free funds to OPaL without any commensurate benefit. This resulted in loss of interest of ₹ 408.15 crore to ONGC.

(Para 1.9)

Review of the status of utilisation of infrastructure created by Inland Waterways Authority of India (IWAI) in National Waterways (NW) 1, 2 and 3 showed that infrastructure created at a cost of ₹ 284.20 crore remained under utilised. In the case of NW-1 a High Level Jetty was constructed at Gaighat, Patna at a cost of ₹ 27.54 crore in addition to the existing Low Level Jetty constructed at a cost of ₹ 30.29 crore. Total cargo movement during the period from 2012-13 to 2014-15 from both the jetties was only 0.3 lakh Metric Tonnes leading to significant under utilisation of infrastructure created at a total cost of ₹ 57.83 crore. Jetty II constructed at Garden Reach, Kolkata in

NW 1 at a cost of ₹ 36.59 crore also remained under utilised since the cargo handled in the jetty was only 0.02 lakh Metric Tonnes during 2014-15.

In NW 2, infrastructure consisting of a Low Level Jetty and a High Level Jetty at Pandu Terminal constructed at cost of ₹ 37.91 crore and ₹ 43.85 crore, respectively, remained under utilised since the cargo movement was only 314 Metric Tonnes during the period from 2009-10 to 2014-15. Further, a broad-gauge railway link between Pandu Terminal and Guwahati Railway Station constructed at a cost of ₹ 12.59 crore remained idle due to operational constraints pointed out by Railways.

NW 3 could not be made fully navigable due to non completion of two stretches viz. Kayamkulam-Edapallikota and Edapallikota-Kollam. The benefit of ₹ 73.97 crore spent on capital dredging and ₹ 21.46 crore on construction of Terminals could not be availed due to non-completion of these two stretches.

(Para 4.1)

Oil & Natural Gas Corporation (ONGC) (transporter) did not get its legitimate claim towards gas transportation charges due to dispute between the seller Panna Mukta Tapti Joint Venture (PMTJV) and buyer GAIL (India) Ltd. (GAIL) on delivery point, this led to inordinate deferment of its dues (US$ 21.54 million) and consequent loss of interest thereon amounting to ₹ 157.05 crore (US$ 24.93 million) between 1998 and 2005.

(Para 1.10)

Steel Authority of India Limited (SAIL) decided (2007) to set up a Steel Processing Unit (SPU) at Bettiah, Bihar. The Board approved (July 2008) the project at a total cost of ₹ 116.24 crore. The Pipe/Tube mills and facilities for Galvanised Pipes/Galvanised Corrugated Sheets were to be installed in Phase I which could not be completed as scheduled by January 2010. The SPU was finally completed by December 2012 with a delay of about three years at a total cost of ₹ 140.16 crore. Due to the higher cost of production compared to the market price, the company did not increase the production beyond the required level for testing and to keep the mills operational. Production was less than one per cent of mill's capacity during the period from 2011 to 2015. Thus the investment of ₹ 140.16 crore in SPU Bettiah became non-performing and 137 officials (out of initially appointed 145 officials) specifically recruited for the SPU, were remaining idle (January 2016). Director (Technical) of the Company in a review meeting (29 April 2014) opined that sale of SPU at Bettiah would be a better option than closing down the same, which was endorsed by the then Joint Secretary (MoS) and Secretary (Steel) of GoI. The management, however, has not taken any action for implementation of this decision (January 2016).

(Para 5.3)

Indian Oil Corporation Limited made an irregular payment of ₹ 110.40 crore for the years 2012-13 and 2013-14 towards 'Performance Related Pay' due to non-adherence to the guidelines issued by Department of Public Enterprises.

(Para 1.5)