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 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 57 individual observations relating to 36 Central Public Sector Enterprises (CPSEs) under 17 Ministries/Departments. The draft observations were forwarded to the Secretaries of the concerned Ministries/Departments under whose administrative control the CPSEs are working to give them an opportunity to furnish their replies/comments in each case within a period of six weeks. Replies to 37 observations were not received even as this Report was being finalised. Earlier, the draft observations were sent to the Managements of the CPSEs concerned, whose replies have been suitably incorporated in the report.

3. The paragraphs included in this Report relate to the CPSEs under the administrative control of the following Ministries/Departments of the Government of India:

Ministry/Department (CPSEs 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 and AIL)	6	3
3.	Coal (BCCL, CIL & its subsidiaries, ECL, NCL, NLC India Ltd. and WCL)	6	1
4.	Ministry of Commerce and Industry (STC)	1	1
5.	Development of North Eastern Region (NEDFI)	1	1
6.	Fertilizers (RCF)	1	1
7.	Finance (Canbank Factors Ltd., IFCI Venture Capital Fund Ltd., NICL and UIICL)	5	3

8.	Heavy Industries and Public Enterprises (BHEL)	1	1
9.	Housing and Urban Poverty Alleviation (HUDCO)	1	1
10.	Petroleum and Natural Gas (GAIL Gas Ltd., GAIL (India) Ltd., HPCL, IOCL, ONGC, ONGC Videsh Ltd.)	10	8
11.	Power (DVC, NHPC and REC)	5	5
12.	Road Transport and Highways (NHAI)	4	2
13.	Scientific and Industrial Research (CEL)	1	1
14.	Shipping (DCI and SCI)	3	1
15.	Steel (MSTC, NMDC and SAIL)	9	6
16.	Textiles (NJMCL)	1	0
17.	Water Resources, River Development and Ganga Rejuvenation (NPCC)	1	1
Total		**57**	**37**

4. Total financial implication of audit observations is ₹8,375.13 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 ₹1,613.09 crore in 22 audit paragraphs.
- Non-safeguarding of financial interest of organisations involving ₹3,016.19 crore in 15 audit paragraphs.
- Defective/deficient planning involving ₹3,700.72 crore in 18 audit paragraphs.
- Inadequate/deficient monitoring involving ₹45.13 crore in 02 audit paragraphs.

6. The Report also contains a Chapter on 'Irregularities in payment of entitlements and recoveries & corrections/rectifications by CPSEs at the instance of audit. The Chapter contains four paragraphs viz. (a) undue benefit of ₹64.38 crore extended by four CPSEs to their executives in the form of shift allowances, (b) excess payment of performance related pay of ₹44.12 crore by two CPSEs to their employees, (c) recoveries of ₹66.28 crore made by thirteen CPSEs at the instance of Audit, and (iv) corrections/rectifications carried out by four CPSEs at the instance of Audit.

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

HUDCO declined loan to M/s Nagarjuna Oil Corporation Limited in February 2007 since its internal guidelines did not permit sanction of loan to agencies if their previous track record of repayment was not good and concerns existed regarding the long term viability of the project. In July 2007, HUDCO sanctioned a loan to the same borrower/promoter though their earlier concerns remained un-addressed. The promoter failed to bring in required equity and the refinery project did not achieve financial closure, resulting in stoppage of the project in December 2011. Efforts to bring in international and domestic strategic investors also did not fructify. The estimated project cost increased manifold from ₹4,790 crore in February 2007 to ₹18,830 crore in August 2015. The project viability is doubtful at present and HUDCO faces a potential loss of ₹628.47 crore (principal ₹349.88 crore and interest ₹278.59 crore up to 30 June 2016).

(Para 9.1)

Failure in submitting Operational Safety Documents by ONGC Campos Limitada (subsidiary of ONGC Videsh Limited) prior to 90 days of starting of drilling, as required, led to idling of rig for 118 days and consequently a wasteful expenditure of ₹134.73 crore was incurred during June to October 2011.

(Para 10.10)

An audit paragraph on “System of collection and accounting of freight and other charges from agents of The Shipping Corporation of India Limited (SCI)” was included in Report No. 9 of 2007 of the Comptroller and Auditor General of India which highlighted failure of the Company in ensuring opening of separate collection and disbursement accounts by agents, timely submission of voyage accounts and furnishing of bank guarantee. In the Action Taken Notes submitted on this paragraph, the Ministry stated (September 2010/March 2015) that these issues will be addressed through implementation of a new ERP package and the Global Cash Management System. In the context of these assurances, a follow up audit was conducted and it was noticed that Company had not complied with the assurances given by the Ministry.

In violation of the contractual provisions, 57 agents did not open separate disbursement accounts and 39 agents did not open dedicated freight accounts under Global Cash Management System. Two agents (viz. M/s Oceanmasters, Dubai and M/s Escombe Lambert Limited, United Kingdom and Ireland), who were covered under Global Cash Management System did not remit the freight collected by them during the period 2011-14. SCI terminated the agreements with these agents and the amount outstanding from them was ₹9.80 crore and ₹28.60 crore respectively (March 2016). The Company also failed to implement any system to ensure that agents uploaded the voyage disbursement accounts within 35 days as prescribed in the Agency agreement. Though auto closure was introduced, the Company did not levy penalty of ₹30.54 crore in respect of 837 auto closure cases. Further, as against the bank guarantees of ₹43.50 crore required to be obtained from the agents, an amount of ₹8.92 crore only was available with the Company (March 2016). Even after a lapse of five years since the implementation of SAP ERP system, SCI failed to revise its Agency agreements accordingly.

(Para 14.3)

Weighbridges installed by Steel Authority of India Limited (SAIL) at its Meghahatuburu and Kiriburu Iron Ore Mines remained non-functional because these weighbridges were either not as per Railway specifications or were derecognised by the Railways. SAIL continued to load wagons/ rakes at the mines on estimation basis and the company had to incur expenditure on penalty/idle freight on over/under loading of iron ores amounting to ₹101.97 crore during the period from 2011-12 to 2015-16.

(Para 15.4)

Steel Authority of India Limited approved (January 2008) installation of new Cold Rolling Mill (CRM) complex in Bokaro Steel Plant (BSL) to produce 1.2 million tonne of saleable steel at a total estimated cost of ₹2,524.04 crore. Deficient project management led to delay of six years in completion of CRM project which has not been fully commissioned (December 2016). The delay resulted in additional interest of ₹580 crore as from April 2012 to 31 August 2016 during construction of the project.

Further, the delay in commissioning of Acid Regeneration Plant (ARP) also resulted in avoidable expenditure of ₹10.59 crore on account of payment made to a contractor under O&M contract (during February 2014 to March 2015) for the ARP package.

(Para 15.5)

Bokaro Steel Plant (BSL) and Rourkela Steel Plant (RSP) of Steel Authority of India Limited produce flat saleable steel product in their rolling mills. The process involves production of slabs which are used as input for producing flat steel. The optimum requirement of slabs for continuous operation of downstream rolling mills is 7 to 15 days stock of slabs. Deficient production planning led to accumulation of slab stock causing avoidable stock carrying cost of ₹391 crore.

(Para 15.8)

Steel Authority of India Limited (SAIL or Company) purchases a range of materials for steel making either through domestic sources or through import. Audit examined purchase orders representing 63.19 *per cent* of total procurement value (excluding coal) of the five steel plants and the Corporate Material Management Group of the company covering three years (2012-15).

SAIL made limited use of Open/Global tenders with 24.4 *per cent* of the total value of procurement being made on limited tender basis and another 29 *per cent* on single tender basis. Although annual purchases of the plants up to ₹2 crore were about ₹1,851 crore, there were inadequate controls and no uniform procedures to deal such cases. There was lack of uniformity in purchase processes followed across the steel plants. Instances were noticed of costlier purchases through single tender basis. The Company procured Low

Silica Lime Stone at significantly higher cost and incurred extra expenditure of ₹484.15 crore on purchases made during 2012-16. RSP purchased dolomite from another Public Sector Undertaking (PSU) and incurred extra expenditure of ₹88.04 crore due to dependence on this single source. BSL incurred an avoidable extra expenditure of ₹235 crore by using three time costlier pellets from a PSU as substitute of iron ore lump and sinter. The Company again resorted to avoidable use of pellets and incurred an extra expenditure of ₹25.14 crore. BSL incurred extra expenditure of ₹8.41 crore by opting road transport for dolomite chips instead of cheaper railways freight. The Company did not exploit production facilities of its refractory units to fullest to optimise its cost and ordered materials on other suppliers at higher cost. There were doubts on the credibility of purchases made through reverse auction. The Company had a high holding period of stores and spares as compared to its prescribed policy. The Company's efforts in implementing Public Procurement Policy of Government of India on Micro & Small Enterprises (MSEs) needed to be strengthened.

(Para 15.9)

The State Trading Corporation of India Limited (STC) signed (4 April 2005) a tripartite agreement with M/s. Global Steel Works International Inc. (GSWII) and GSHL (Umbrella Company of GSWII) for supply of raw material to steel plant of GSWII in Philippines. Non-adherence to trading guidelines of STC, fixing of exposure limit at an exorbitantly higher side, ignoring the defunct status of the plant, failure to exercise effective control through collateral management agency over the material lying in the plant of GSWII, failure to sell material on cash and carry basis (as approved by Board of Directors), avoidable conciliation agreement with the party, etc., resulted in blockage of funds amounting to ₹2,101.45 crore including interest of ₹1,129.15 crore and additional trade margin of ₹220.99 crore.

(Para 4.1)

Right of collection of user fee on National Highways developed by National Highways Authority of India (NHAI) under engineering, procurement, and construction (EPC) mode had been entrusted to NHAI by the Government. Audit noticed that NHAI could not realise toll at various toll plazas due to delay in approval and issue of fee notification (₹301.80 crore), delay in start of toll operations (₹204.87 crore), delay in revision of user fee rates (₹141.25 crore) and other procedural lapses in issue of fee notification (₹7.72 crore). Audit further noticed loss of toll revenue due to inefficient bidding process for engagement of toll collecting agencies (₹26.35 crore). NHAI did not adhere to Ministry of Road Transport and Highways (MoRTH) guidelines regarding maintenance of project wise balance sheet and cash flow. The reduced rate of toll user fee being dependent on complete recovery of capital expenditure, MoRTH/NHAI would not be in a position to fix the correct date of commencement of such reduced rate of recovery accurately, in the absence of correct project wise costs.

MoRTH in its reply (17 February 2016) stated that they had taken corrective action for timely processing of cases in MoRTH/NHAI and timely issue of fee notification and hiring of toll collection agencies. MoRTH further stated that recoverable capital cost of all OMT projects was being reviewed by NHAI to comply with MoRTH guidelines. The impact of the above corrective steps taken by MoRTH/NHAI with regard to toll operations would be assessed in future audits.

(Para 12.4)

National Jute Manufactures Corporation Limited was registered under the Companies Act 1956 in June 1980 after Government of India took over the management of six jute mills (June 1980) and vested the same in the Company. The Company had been suffering losses since inception and was referred (August 1992) to Board for Industrial and Financial Reconstruction (BIFR). BIFR declared (June 1993) the Company sick and subsequently, approved its revival scheme in April 2011. The revival scheme envisaged revival of three mills viz. Khardah, Kinnison and RBHM and closure of three other mills viz. Alexandra, National and Union mills and aimed at turnaround of the Company in a time bound manner. Achievement of the targets set out in the scheme was a pre-requisite for successful implementation of the revival scheme. Audit observed that none of the targets set out in the scheme could be achieved by the Company so far. Surplus land and other assets, though identified, could not be disposed which affected the turnaround plan. The Company invested meagre funds in renovation and modernisation of the mills. Repair work was of poor quality. As a result, the productivity of the three running mills remained low and the Company continued to suffer losses.

(Para 16.1)

North Eastern Development Finance Corporation Limited (NEDFI/Company) was incorporated in 1995 for providing financial assistance for accelerating industrial and infrastructure development in the North East Region. NEDFI is categorised as a Non-Banking Financial Company under the administrative control of Ministry of Development of North Eastern Region. Disbursement of loans by the Company decreased from ₹348.73 crore in 2012-13 to ₹302.99 crore in 2015-16, while the Non-Performing Assets (NPAs) increased from 7.24 *per cent* to 17.54 *per cent* during this period. Considering the increasing trend of NPA, the audit was carried out to analyse the causes that led the loan accounts to become NPA.

Audit noticed deficiencies in the due diligence of loan proposals of the borrowers in a significant number of cases. Industry and company specific issues were not given due consideration at the time of appraisal of the projects, which led to financing unviable projects, continuous default by the borrowers and loan accounts eventually becoming NPA. Fresh loans were sanctioned and/or disbursements made even when the borrowers did not repay dues of earlier loans. Loans were sanctioned to companies belonging to a group without considering their overall exposure with the Company as well as with other financial institutions and the track record of member companies in repaying loan instalments in respect of existing loans. Delay in transferring NPA accounts for initiating legal action and delays in filing legal suit was also noticed. This effectively deferred recovery process to the detriment of the interests of the Company.

(Para 5.1)

Damodar Valley Corporation (Corporation) was established in July 1948. It aimed at securing unified development of Damodar river valley falling within the states of Jharkhand (erstwhile Bihar) and West Bengal. The Corporation has four dams located at Tilaiya and Maithon on river Barakar, Panchet on river Damodar and Konar on river Konar and one barrage located at Durgapur on river Damodar. The water is used for generation of hydel power, irrigation and water supply for industrial and municipal purposes.

Audit observed that water resources of the Corporation were not optimally utilised. Storage capacity of the four reservoirs depleted by 22 *per cent* with corresponding reduction in flood storage capacity by 15 *per cent* due to siltation, coupled with absence of an integrated programme for soil conservation. Dams were not operated as per the prescribed guidelines, entailing revenue loss due to lower generation of hydel power. Systemic lapses were noticed in repair and maintenance of dams, particularly inoperative under-sluice gates which affected de-siltation works, apart from causing power generation and revenue loss. Deficiencies in allocation of water for Municipal and Industrial purposes and in monitoring actual drawal of water led to potential revenue loss.

(Para 11.3)

Ministry of Petroleum and Natural Gas (MoPNG) directed (October 2009), Oil & Natural Gas Corporation (ONGC) to procure 23 Immediate Support Vessels (ISVs) from its own funds for operations by Indian Navy for security of offshore assets. The cost of this was to be shared by all companies engaged in Exploration and Production (E&P) of oil, having a foot print in offshore areas. Though ONGC purchased all 23 ISVs at a total cost of ₹349 crore and delivered them to the Navy in July 2015, MoPNG had not finalised the cost sharing mechanism of the ISVs by other private and public sector E&P Operators. This resulted in blocking of funds of ONGC to the tune of ₹136.84 crore relating to share of capital expenditure pertaining to other Operators and loss of interest thereon to the tune of ₹15.39 crore.

(Para 10.9)

Bharat Petroleum Corporation Limited and Hindustan Petroleum Corporation Limited did not exclude the delivery charges while communicating Retail Selling Price of Liquefied Petroleum Gas (LPG) to distributors of Rajiv Gandhi Grameen LPG Vitraks (RGGLV). This resulted in additional burden on the RGGLV consumers and undue financial benefits to the RGGLV distributors to the tune of ₹168.04 crore for the period October 2012 to March 2016.

(Para 10.3)

Coal India Limited (CIL) and its subsidiaries failed to apply due diligence for correct fixation of reserve price for sale of G6 grade non-coking coal through e-auction to non-regulated sectors. Though G6 grade was superior to G7 grade of coal, the reserve price of G6 grade was fixed lower than that of the G7 grade on the basis of the notification of CIL. This resulted in avoidable loss of revenue of ₹68.16 crore during the period from April 2012 to September 2015.

(Para 3.2)

Airports Authority of India extended undue benefit by allowing credit facilities violating the terms of contract which resulted in non-recovery of dues. Further, by not issuing notice for vacating advertising sites after the contract period was over, the Authority suffered a loss of revenue amounting to ₹41.68 crore.

(Para 2.1)

National Highways Authority of India extended undue benefit to a concessionaire as it failed to initiate timely steps to encash the Bank Guarantee received as Performance Security or to terminate the agreement which lead to accumulation of dues to the tune of ₹209.20 crore as of August 2016 against which the Performance Security available in the form of Bank Guarantee was only for ₹48.60 crore.

(Para 12.1)

Audit conducted an examination of the Non-Performing Assets accounts of the Canbank Factors Limited as at the end of 2013-14, 2014-15 and 2015-16 on a test check basis. Such examination revealed the following:

- Factoring limits to the tune of ₹35.29 crore were sanctioned/disbursed to clients in excess of their eligibility.

- Factoring limits were sanctioned without considering the limits availed by the clients from other factors/banks which resulted in sanctioning of excess limits to the tune of ₹71 crore.

- Company sanctioned factoring facility to clients even where the sales were to the allied/related parties of these clients. The bills factored pertaining to related/allied parties which became non-performing amounted to ₹2.76 crore.

- As per pre-disbursement conditions attached to the sanction letter, branches were to allow withdrawals to the extent of 25 *per cent* of the fresh Customer Sub-Limits and balance 75 *per cent* was to be released after satisfactory operation/ payment of the first cycle of operations. Contrary to this, in two cases, the Company released ₹12.25 crore as against permitted release of ₹3.55 crore without completion of first cycle of operations.

- Audit noticed that in 4 accounts, the existing sanctioned factoring limits continued despite the Company being aware of adverse financial health, irregular operations and incipient sickness of the Client. An amount of ₹14.88 crore was disbursed in these cases.

(Para 7.1)

As of March 2016, NLC India Limited operated four open cast lignite mines (three at Neyveli in Tamilnadu and one at Barsingsar in Rajasthan) to generate power through five pithead thermal power stations (TPS) having an aggregate capacity of 3240 MW. Operational performance of three power plants viz. TPS-I, TPS-I Expansion & TPS-II and their linked lignite mines during the period from 2011-12 to 2015-16 and that of Barsingsar Thermal Power Station (BTPS) from 2012-13 to 2015-16 was reviewed in Audit which revealed the following:

- BTPS could not achieve full capacity utilisation upto 2015-16. Resultantly, the capacity utilisation of the linked mines during the period from 2012-13 to 2015-16 was below the norms fixed by CERC which resulted in under-recovery of cost of ₹79.78 crore.

- Due to inadequate supply of lignite in TPS-I and TPS-I Expansion during the period from 2011-12 to 2015-16, the plants could not operate at full load which resulted in loss of ₹160.64 crore.
- Under recovery of cost to the tune of ₹1044.57 crore was observed in respect of the above plants of the Company in different period from 2012-13 to 2015-16 due to the cost of generation being more than the norms fixed by Central Electricity Regulatory Commission (CERC). The reasons for higher cost of generation included:
    - Lower achievement of Plant Load Factor and Plant Availability Factor in BTPS and TPS-I.
    - Higher consumption of lignite due to excess Station Heat Rate (SHR) in respect of BTPS.
    - Extra expenditure on Operation & Maintenance of plants.
    - Excess auxiliary power consumption as against the norms fixed by CERC.

(Para 3.5)

Audit of operation and maintenance of the dredgers by Dredging Corporation of India Limited (DCI) for the period from 2010-11 to 2014-15 revealed the following:

- Loss of ₹155.39 crore was incurred in Phase-II Capital Dredging work of Ennore Port Limited on account of failure to conduct pre-bid survey, under-performance of dredgers, improper planning in deployment of dredgers and short billing for the work done.

- In respect of the contract entered into with Cochin Port Trust for the period from 2011-15 for maintenance dredging, excess expenditure to the tune of ₹15.91 crore as against the estimates was incurred due to frequent changes in deployment of dredgers. Further, failure to deploy dredgers of the required capacity and not maintaining depth as per the contract resulted in levy of liquidated damages and penalty to the tune of ₹12.80 crore.

- In respect of a dredging contract with Kandla Port Trust for the period from February 2013 to March 2015, penalty of ₹27.80 crore was paid due to non removal of backlog quantity.

- In January 2011, delivery of a Cutter Suction Dredger, procured at a cost of ₹269.58 crore from Mazagaon Dock Limited, was taken without successful trial run. The physical performance of the dredger was poor with a capacity utilization of only 22 *per cent* till March 2015.

- Due to delay in validation of statutory certificates and sailing of dredgers without ensuring the availability of dry dock slots, the dredgers had to be kept idle thereby resulting in loss of opportunity to earn revenue of ₹18.31 crore.

- During 2010-11 and 2011-12, Dredge XI remained inoperative for 303 days on account of failure to take timely action in rectifying the defects in the auto lube filter system and not following the Planned Maintenance Schedule which resulted in loss of revenue of ₹97.09 crore.

- The failure of DCI to identify the defects before inviting Flag State Inspection (FSI) resulted in stoppage of dredge XI for 23 days and loss of revenue of ₹5.85 crore.

(Para 14.1)