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 42 individual observations relating to 31 Central Public Sector Enterprises (CPSEs) under 13 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 34 observations were not received even as this Report was being finalised as indicated in para 3 below. 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.	Chemicals and Fertilizers (Rashtriya Chemicals and Fertilizers Limited)	1	1
2.	Civil Aviation (Airports Authority of India, Air India)	4	4
3.	Coal (Mahanadi Coalfield Limited, NLC India Limited, NLC Tamil Nadu Power Limited)	3	2
4.	Commerce and Industry (Government E-Marketplace)	1	1
5.	Finance (IIFCL, NABFINS Limited, National Insurance Company Limited, Oriental Insurance Company Limited, SBI Global Factors Limited, United India Insurance Company Limited, IFCI Factors Limited)	10	6

6.	Heavy Industries and Public Enterprises (BHEL, HEC Limited, Tungabhadra Steel Products)	4	4
7.	Housing and Urban Affairs (NBCC (India) Limited)	1	1
8.	Mines (Hindustan Copper Limited)	1	1
9.	Petroleum and Natural Gas (BCPL, ONGC, IOCL, BPCL, HPCL)	5	1
10.	Power (Damodar Valley Corporation, NTPC-SAIL Power Company Limited)	2	2
11.	Road Transport and Highways (NHAI)	4	4
12.	Shipping (Dredging Corporation of India Limited)	1	0
13.	Steel (MECON Limited, RINL, SAIL)	5	5
Total		**42**	**34**

4. Total financial implication of individual audit observations is ₹1,243.20 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 ₹462.13 crore in 16 audit paragraphs.
- Non-safeguarding of financial interest of organisations involving ₹227.41 crore in 14 audit paragraphs.
- Defective/ deficient planning involving ₹440.80 crore in three audit paragraphs.
- Inadequate/ deficient monitoring involving ₹112.86 crore in nine audit paragraphs.

6. The Report contains a Chapter on “Recoveries & corrections/ rectifications” by CPSEs at the instance of audit. The Chapter contains two paragraphs viz. (a) recoveries of ₹51.43 crore made by 9 CPSEs at the instance of Audit, and (b) corrections/ rectifications carried out by 3 CPSEs at the instance of Audit.

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

Department of Public Enterprises (DPE) vide its Office Memorandum (OM) dated 26 November 2008, stipulated that the payment of performance related pay (PRP) would be directly linked to the profits of CPSE and performance of executives. CPSE was required to adopt 'Bell Curve Approach' in grading the officers so that not more than 10 *per cent* to 15 *per cent* executives are 'Outstanding/ Excellent' and 10 *per cent* of executives would be graded as 'Below Par' and not paid any PRP. However, AAI modified the grading of last 10 *per cent* of 'Below par' category of employees in three sub-categories, i.e., Very Good, Good and Below Good and paid the PRP benefits at the rate of 60 *per cent*, 30 *per cent* and NIL, respectively. Thus, only limited number of employees, sub-categorised as below good, did not receive PRP instead of all the employees under the last 10 *per cent* 'Below par' category. As a result of non-adherence to the condition of 'Bell Curve Approach', payment of PRP amounting to ₹38.78 crore during 2010-11 to 2016-17 to ineligible employees, which was in violation of DPE guidelines.

(Para 2.1)

Air India SATS Airport Services Private Limited (AISATS), the joint venture company of Air India Limited (AIL) is providing Ground Handling (GH) services to International and Domestic airlines including Airline Allied Services Limited (AASL), a subsidiary of AIL, at Delhi, Bangalore, Hyderabad, Trivandrum and Mangalore. AIL borne the differential amount of GH charges to the tune of ₹44.88 crore for the services availed by AASL despite the fact that the revised lower rate was approved by Chairman, AISATS. The differential charges absorbed by AIL do not have approval of Audit Committee of AIL as required under Section 177(4) of the Companies Act, 2013.

(Para 2.3)

NLC India Limited entered into an outsourcing contract for lignite excavation in respect of Mine-II, while the opening stock of lignite, actual quantity of lignite excavated from Mine II and lignite transported from Mine IA was sufficient to meet the requirement of both the Thermal Power Stations, linked with Mine-II, for the years 2015-16 and 2016-17. Outsourcing excavation contract resulted in expenditure of ₹28.74 crore which was avoidable. Further, quantity excavated through outsourcing contract resulted in overstocking of inventory and ultimately deterioration in the quality of lignite.

(Para 3.2)

Government e-Marketplace (Special Purpose Vehicle) was incorporated on 17 May 2017 under the Companies Act 2013 with responsibility for building, operating and maintaining the GeM platform to provide an end-to-end online marketplace for Central and State Government Ministries/ Departments, Central & State Public Undertakings (CPSUs & SPSUs), autonomous institutions and Statutory & Constitutional Bodies, for procurement of common use goods and services. Purchases through GeM by Government users was authorised and made mandatory by the Ministry of Finance vide Rule (No. 149) in the General Financial Rules, 2017. The GeM application (new version) (also termed as GeM Version 3.0) has been operational since 26 January 2018.

Audit observed that although GeM has been successful in implementing an on-line solution for government procurement. However, STQC audit for compliance with "Guidelines for compliance to Quality requirements of e Procurement Systems" of Ministry of Electronics & Information Technology not conducted due to which Audit is unable to derive assurance about the authenticity, non-reputability and integrity of the e-bidding module of GeM, (the electronic equivalent of the manual 'sealed bid' process). There were deficiencies in the input controls for buyer and seller registration and the process of registration and verification of users needed further strengthening along with regular cleaning and updation of legacy data and wrong data. The objectives of faster procurement, efficiency and speed in procurement process remained partially achieved since there were numerous delays at different stages of the procurement process, especially about delays in payment. Similarly, there were inadequate controls to ensure achievement of objective of transparency and there were deficiencies with regard to achievement of objective of economy and price reasonability. Despite being mandatory for all central government offices, high number of dormant or inactive users indicated that universal acceptance may not have been achieved. There were deficiencies in the mapping of the GFR and Government of India (GoI)'s other rules and regulations and Business Requirement Documents. There were also significant delays in the incident resolution mechanism. Although GeM had intended to introduce procurement of services through GeM, however, various services were yet to be introduced on GeM. As regards economy, Audit felt that the methodology used by GeM to indicate savings did not give an accurate picture. The application lacked ease of usage due to absence of functionalities and assistance. The application was also not benchmarked as per the requisite number of users leaving the application slow and in continuous breakdown.

(**Para 4.1)**

In road sector, the projects do not have physical assets to provide as security against loan. Viability of the project is the only comfort for securing the quality of loan asset. As such, due diligence on the project before signing of common loan agreement (CLA), ensuring compliance to the conditions set in the CLAs before disbursement of loan and monitoring of project work progress for timely corrective action are vital activities to be undertaken by lenders for financing the road projects.

Lenders including IIFCL did not give due cognizance to the major risk of RoW availability to Projects. In seven out of nine NPA cases, non-availability of required RoW was the leading factor for non-completion of projects and turning of the loans into

NPA. In one NPA case, unrealistic traffic projection affected the project's commercial viability.

The loans were disbursed, in many cases including NPA cases, without ensuring the compliance to the CLA conditions relating to environment/ forest/ tree cutting clearances, infusion of required equity through escrow account and funding of cost overrun/ IDC by promoters. This led to delay in work progress, risk of misuse of fund by promoters and avoidable additional loan to badly managed projects.

Monitoring of project progress was weak due to inadequacies in internal control systems established by the lenders, particularly the incomplete/ deficient information contained in LIE reports and CA certificates relating to the RoW availability, the equity infusion by promoters, the changes in shareholding pattern, the physical work progress vis a vis funds available with the project and the advances released/ unadjusted/ unrecovered release of advances to EPC contractor without any security and misutilisation of such advances. The deficiency in monitoring led to the promoter taking undue benefits out of project fund, at the cost of project work progress.

The above deficiencies led to loan of ₹1,895.50 crore to nine projects out of 32 projects examined in audit becoming NPA which indicate that IIFCL still has a long way to go to achieve its mission of adopting best practices and developing core competencies for facilitating infrastructure development.

(Para 5.1)

IIFCL sanctioned and disbursed two loans under Takeout Finance Scheme without ensuring compliance of critical requirement of obtaining 'No Objection Certificate' from Concessioning Authorities, and without ensuring required debt servicing capacity of the borrowers. Resultantly, IIFCL ended up lending of ₹26.20 crore in already terminated projects.

(Para 5.2)

NABFINS Limited was formed with the objective to provide financial services in the areas of agriculture and micro finance. The Company operates loan disbursements in three major business verticals, viz., Second Level Institutions (SLIs), Business and Development Correspondents (B&DCs) and Direct Lending (DL) to borrowers. During audit of Non-Performing Assets (NPAs) in NABFINS Limited, it was observed that:

- The Company incorrectly included the thrift of members of Second Level Institutions (SLIs) in the calculation of their net worth while determining their loan eligibility. Consequently, loans aggregating to ₹299.80 lakh were sanctioned to six SLIs, even though five of them were not eligible for any loan and one was eligible for a loan of ₹0.15 lakh only against ₹50 lakh sanctioned to it.

- There were deficiencies in appraisal of loans as the list of book debts provided by the SLIs were not certified by the auditor and the third party guarantees or personal guarantees of promoters were not obtained.
- The findings of investigative audits of Business & Development Correspondents (B&DCs) were not properly recorded. Post disbursement visits in respect of loans disbursed were not conducted as per the Operations Manual of the Company.
- The follow-up mechanism in respect of the NPA accounts was weak and needed to be strengthened.

(Para 5.3)

NICL, nationalised in 1972, has been servicing in the general insurance industry. Thematic Audit was undertaken to review the performance of underwriting of GMPs as Incurred claim ratio (ICR) under the GMPs was consistently adverse over the years.

Para highlights the deviations/ violations of instructions of IRDA and of its own laid down norms. Audit noticed instances of:

- issuance of policies without approval of HO
- Non-adherence to IRDA guidelines and non-revision of prices of its products despite adverse ICR
- Short collection of premium against the premium approved by HO
- short charging of premium due non-adherence to the underwriting guidelines for GMPs
- Cases of unauthorised and excess payment of brokerage/ commission

Non-adherence to the circulars/ instructions of IRDA and of its own laid down norms guidelines indicate deficiencies in the monitoring and control mechanism in the organisation.

(Para 5.4)

SBI Global Factors Ltd, sanctioned domestic factoring facility worth ₹35 crore to M/s. Fabtech Projects & Engineers Ltd (FPEL). The facility showed early warning signals of stress such as delays in payments, direct payments, downgrading of credit rating, adverse remarks in Auditor's report etc.. The Company continued to factor the invoices submitted by FPEL and made payments to them instead of taking affirmative action to reduce and exit from the facility. The asset became a NPA in March 2019 and dues amounting to ₹28.37 crore were not recovered.

(Para 5.8)

Non adherence to guidelines of Ministry of Finance for pricing of group health insurance policies by United India Insurance Company Limited led to forego the revenue of ₹112.28 crore during 2016-17 to 2018-19.

(Para 5.9)

IFCI Factors Limited (IFL) is registered as a NBFC-Factor with Reserve Bank of India (RBI) and is primarily engaged in the business of factoring and short term corporate loan. It is a subsidiary of IFCI Limited.

As asset quality of Company had deteriorated over last five years, audit was taken up covering a period of 2014-15 to 2018-19 with objectives to examine compliance with the annual Credit Policy and business plan of the Company, review the credit appraisal mechanism and examine whether due diligence has been exercised in sanction and disbursement of loans, and examine the efficiency of credit monitoring mechanism.

Following were major audit observations:

- 20 out of 26 cases of sanctioning and disbursement reviewed in Audit were approved with one to seven deviations
- In eight cases of Corporate Loans, Company unduly upgraded/ notched up the rating of the clients by two points on the basis of comfort of security, despite collateral security being basic and essential eligibility criteria for sanction of Corporate Loans.
- Out of 25 cases of NPA and write offs (17 NPA and 8 Write Off cases) reviewed by Audit, non-compliance of credit policy was observed in 21 cases with respect to sanctioning and monitoring of the facility which led to these accounts turning into NPA or being written off. Out of 25(sample), recovery in 15 cases of ₹212.31 crore was doubtful.
- Company continued to fund the clients by way of debit note funding despite invoices being in recourse (30 days above due payment date). This practice of debit note funding leads to knocking off/ settling of the old overdue/ recourse invoices and allows funding against the new invoices received thereby delaying the classification of an account as NPA and ever greening such accounts.
- Company did not classify the account as NPA in 16 cases where the overdue were more than the prescribed period in violation of RBI guidelines.
- In four cases company reported a fraud committed by the client/ debtors whereby company had to incur a loss (doubtful recovery) of ₹50.33 crore. The major lapses on part of the company were (i) Sanctioning the credit facility to the client who did not meet the eligibility criteria, (ii) Lack of due diligence at the time of sanctioning and addition of new debtor, (iii) Non-monitoring of the account as per

the procedure laid down in the credit policy, (iv) Delay in declaration of the account as NPA by reassignment of invoices and debit note funding and (v) Non-compliance with the terms of sanction as per sanction letter, disbursement condition and waiver of crucial pre disbursement conditions.

(Para 5.10)

BHEL suffered a loss of Euro 3.83 million (₹28.35 crore) due to failure to deliver performance as per the contractual provisions and resultant invocation of bank guarantee by the client

(Para 6.1)

The Heavy Power Equipment Plant, Hyderabad of BHEL failed to avail 50 *per cent* rebate in sewerage cess on water charges, as extended by the Hyderabad Water Supply and Sewerage Board, which resulted in avoidable extra expenditure of ₹21.24 crore during January 2012 to March 2019.

(Para 6.2)

Tungabhadra Steel Products Limited gave incorrect treatment to the waiver of Government of India loan and interest thereon in the books of accounts for the year 2016-17. Consequently, the Company made avoidable payment of Income Tax to the tune of ₹55.38 crore with a further tax liability of ₹41.18 crore.

(Para 6.4)

Hindustan Copper Limited (HCL) was approached by the Asset Reconstruction Company (India) Limited, Mumbai (ARCIL) seeking the interest of the Company in the acquisition of the plant of Jhagadia Copper Limited (JCL), Gujarat which was closed since was September 2009 for want of working capital. Though apprised of the threats regarding operational aspects as well as constraints for availability of raw materials for the plant, HCL acquired (February 2015) JCL plant at a price of ₹210 crore from ARCIL as a single bidder and renamed it as Gujarat Copper Project (GCP). The capacity utilization of GCP was only 20 percent of the total capacity of the plant during the period from November 2016 to March 2019 primarily due to non-availability of raw materials. As a result, HCL suffered a loss of ₹102.49 crore during the above period by operating GCP. In the meantime, the Company made a total investment of ₹303.18 crore in GCP (including acquisition cost) till March 2019.

(Para 8.1)

Oil and Natural Gas Corporation Limited (ONGC) initiated a project called Information Consolidation for Efficiency (ICE) in October 2003 to realign its business processes under a common Enterprise Resource Planning (ERP) system with the objective of optimizing and standardizing business processes for integrated information availability on real time basis and to eliminate duplication of activities to increase efficiency and transparency by capturing data at source point.

Audit observed that data on location and custodian of assets was not properly populated in the master records and 571 ex-employees continued to be denoted in the system as custodians of assets valuing ₹87.43 crore. Incorrect bank keys and duplicate vendor records were identified in vendor master. Further, Audit noted that repetitive payments were made to vendors classified as one-time vendors and overdue payments continued without any reason attributed in the payment block key (upto 1,096 days). Audit also observed that uniform practice is not followed across the Company for adoption of allocation of drilling costs.

(Para 9.2)

ONGC entered (April 2002) into a MoU with IOCL and BPCL for sale of crude oil. The sale price was subject to discount at slab rates, in case Basic Sediment & Water (BS&W) content in the crude oil exceeded 0.2 *per cent* by volume. The oil produced from Assam fields of ONGC has high BS&W content, due to which further processing of crude oil is required to bring down the BS&W content level below 0.2 *per cent* before supply to the refineries. Audit observed that Assam Renewal Plan was conceptualized way back in December 2005 with an estimated cost of ₹2,465.15 crore. One of the major deliverables of the project was to control the BS&W level below 0.2 *per cent*. Though the project was scheduled to be completed in March 2013, the work is still on. Crude oil contained BS&W ranging from 0.164 - 0.417 *per cent* during April 2013 to October 2019 resulting price discount/ loss of revenue to ONGC amounting to ₹27.06 crore.

(Para 9.3)

The prices of Petrol (MS) and Diesel (HSD) which form major part of the sale of petroleum products of the Oil Marketing Companies (OMCs) were deregulated by the GoI in June 2010 and October 2014 respectively. OMCs effected daily change in Retail Sale Price (RSP) of MS and HSD with effect from 16 June 2017 as against fortnight revision being followed till then. Audit test checked 188 Retail Outlets (ROs) to review the implementation of daily pricing and observed inadequacies in OMCs' preparedness at the time of implementation of daily price revision in terms of automation of ROs and provision of sustained connectivity at the ROs. In some of the automated ROs, the dealers were found to be manually changing the daily prices. The dealers were also not prompt in changing the prices leading to over/ undercharging of prices to the customers. Audit noticed inadequate monitoring of the price changes, reduced inspections of ROs by field officers of OMCs and inadequate reporting by field officers in their inspection reports.

(Para 9.4)

Damodar Valley Corporation (DVC) entered into a PPA with Kerala State Electricity Board Limited (KSEBL) for supply of 150 MW from Raghunathpur Thermal Power Station-I (RTPS-I) for a period of 25 years. Due to increase in project cost, DVC and KSEBL mutually agreed (July 2015) to reduce the quantum of power from RTPS-I in respect of the above PPA from 150 MW to 50 MW and a fresh PPA for supply of 100 MW of power from its existing other units. However, no such PPAs were entered into with KSEBL.

The scheduling of power from RTPS-I was commenced from May 2016. Thus, the Corporation was not in a position to recover capacity charges of ₹78.15 crore from May 2016 to March 2019 in respect of RTPS-I corresponding to 100 MW of power from KSEBL. Additionally, the Corporation has to absorb recurring loss of ₹3.53 crore per month till new consumer for purchasing of 100 MW of power is firmed up.

(Para 10.1)

Even though the responsibility of collection of toll dues from TNSTC buses was of the concessionaire, NHAI accepted the claim of the concessionaire, amounting to ₹28.92 crore, which was not permissible as per the article 22.8 of the Concession Agreement. Also failure of the NHAI to maintain the stretch of the project highway resulted in a Public Interest Litigation and subsequent interim order of Hon'ble High Court of Madras for reducing the toll rates by half. This has resulted in revenue loss of ₹20.38 crore.

(Para 11.1)

NTPC Limited awarded (February 2017) work of External Coal Handling Plant for North Karanpura Super Thermal Power Project to MECON. Delay in commencement of work by MECON Limited and inability to ensure submission of Bank Guarantee by its foreign associate, to execute External Coal Handling Plant Project awarded by NTPC, resulted in termination of contract and encashment of BG by NTPC and loss of ₹42.26 crore to MECON.

(Para 13.1)

RINL had a Thermal Power Plant (TPP) with five Turbo Generators (TGs) and Auxiliary Power Generating Units with an overall installed capacity 542.48 MW as of 31 March 2019. During audit of Energy Management in RINL, it was observed that:

- Plant Load Factor achieved by the Main TPP was less than the norm prescribed by CERC. Even assuming the operation of TPP at PLF of 80 *per cent*, savings to the extent of ₹85.48 crore would have accrued to the Company towards the cost of power imported from APEPDCL.

- RINL curtailed TPP generation due to shortage of boiler coal and blended high cost Medium Coking Coal with boiler coal without envisaging for alternate source of procurement of boiler coal leading to increased cost of power generation. Savings to the extent of ₹145.21 crore were lost by the Company due to improper blending of MCC with indigenous boiler coal.
- The utilisation of Auxiliary Power Generation units was poor due to faulty design/ insufficient heat recovery from Sinter Machine/ insufficient top gas pressure resulting in shortfall in generation of power with consequential purchase of power from APEPDCL.
- Auxiliary Power Consumption, beyond the norms prescribed by CERC, resulted in avoidable expenditure of ₹230.56 crore.
- The excess consumption of steam during 2014-15 to 2018-19, beyond the stipulated norms, accounted for 29.91 lakh tons of steam which when converted to monetary terms valued ₹382.48 crore.

(Para 13.2)

Audit examined records of all captive mines of SAIL for the period 2014-19 to assess the management of captive mines and compliance with safety and environmental laws. It was noted that SAIL did not apply technical due diligence and conduct techno-commercial viability study to assess viability before the allotment of Parbatpur and Sitanala Coal Blocks, which had to be surrendered subsequently. The amount spent on development of these coal mines thus became infructuous. Production lower than the planned levels at Dalli, Rajhara and Barsua mines, led to transfer of iron ore from distantly located mines by BSP and RSP with extra expenditure on freight differential. At Barsua mines, the non-compliance of Forest Conservation Act, 1980, on account of use of forest land for non-forest purpose, without approval led to payment of penal NPV and CA. Non-compliance of Odisha Minerals Rule, 2007 by Bolani mines led to additional expenditure on differential royalty. Additional royalty payments were made at Manoharpur mine, as Iron ore was graded at the highest grade and at Nandini mines on rejected limestone chips that were not suitable for iron making. Government of Odisha and Government of Jharkhand demanded compensation on account of mining beyond quantity permitted under Environmental Clearance/ Consent to operate by the Iron ore and Limestone mines under Raw Material Division. Delay in surrender of excess Railway land at Bolani at Meghahatuburu mines led to avoidable expenditure. There was 41 *per cent* shortfall in statutory manpower against the requirement in mines.

(Para 13.3)

Audit examined records relating to safety policy and environment management of SAIL for the period 2014-19 to assess the compliance to stipulated Act/ Rules/ Regulations and Standard Operating Practices (SOP) and whether social responsibilities related to environmental and pollution control, safety standards and application of the best industrial practices was followed. It was noted that SAIL Safety Organisation did not develop any plan or frame timeline to implement its recommendations. Out of 686 recommendations, 258 were yet to be complied. Rupture in pipelines in Pump House at BSP led to fall in water pressure and Blast Furnace Gas spread into Pump House causing death of six persons. Laxity in taking safety measures and unsafe practice of doing De-Blanking job of CO Gas Line on charged pipelines caused accident at BSP where 14 people died. There were less number of Safety Officers posted in plants than the statutory requirement. Non-disposal of fly ash and slag dump and non-setting up of sewage treatment plant led to delay in issue of EC in absence of which work for Sinter Plant and SMS-I packages at BSL was stopped. CO_2 emission in SAIL was higher than international standards as well as TATA Steel. Delay in completion of air pollution control system led to flaring up of gases in the environment. Average Specific Energy Consumption in SAIL was more than the world average as well as Tata Steel and RINL.

(Para 13.4)