

Chapter-III

Transaction Audit Observations

Government companies

Orissa Power Generation Corporation Limited

3.1 Undue benefit to contractors

The Company extended undue benefit of Rs.1.82 crore to the contractors by paying compensation in violation of the settlement.

The operation and maintenance of various units of Ib Thermal Power Station (ITPS) of the Company was entrusted (July 1996) to the contractors who employed contract labourers for these activities. The Government of Orissa abolished (April 2002) contract labour system in six* process areas. Workers of these contractors went on indefinite strike (November 2002) demanding continuance of uninterrupted service. A Memorandum of Settlement (MoS) was signed (5 September 2003) by the Company (principal employer), the contractors (employer) and Ib Thermal Labour Union in the presence of the District Collector-cum-Magistrate and Superintendent of Police of Jharsuguda. As per the MoS, the contractors (employer) were to pay one-time ex-gratia to the labourers depending on their length of service. Clause 6 of the MoS further envisaged that under the settlement, the contractors would not have any subsisting cause of action against the principal employer.

Audit scrutiny revealed that the Company paid Rs.1.82 crore to the contractors between September and December 2003 as compensation for payment of ex-gratia to the labourers contrary to the provisions of MoS on the ground of commercial understanding with the contractors though there was no documentary evidence in support of it. Even if, there was any understanding with the contractors, it was against the provision of Clause-6 of MoS.

Company/ Government in reply admitted (April/August 2005) that the Company was not legally bound to pay any compensation; the same was, however, paid on humanitarian ground after judging the prevalent situation. The reply is not tenable in view of the fact that the MoS was reached to the conclusion by all concerned after taking into account peculiarity of the situation and humanitarian consideration.

* Ash Handling Plant, Boiler & T.G, Coal Handling Plant, Mechanical and Electrical maintenance of ITPS and Water Treatment Plant.

Thus, payment of compensation to the contractors in violation of the settlement resulted in undue benefit to the contractors amounting to Rs.1.82 crore.

3.2 Avoidable expenditure

Unplanned procurement of materials resulted in avoidable expenditure of Rs.56.96 lakh.

The Company has a 220 KV switch yard at Ib Thermal Power Station (ITPS) with 11 Bays for evacuation of power to Grid Corporation of Orissa Limited (GRIDCO) from the existing unit-1 and 2 and the proposed unit-3 and 4, feeding back for operation of generators and for bus transfer and bus coupler. The Bays were constructed as common facility for both existing unit-1, 2 and proposed unit-3 and 4. These Bays include one Bay i.e. Bay no.8 meant for supplying power to colony and Ash Water Recycling Plant and four Bays (viz. 1,3,7 and 12) meant for evacuation of power to GRIDCO.

Audit scrutiny revealed that:

- Out of four Bays meant for supply of power to GRIDCO, only two Bays (viz. 1 and 3) were used to evacuate power from unit-1 and 2 since unit-3 and 4 were pending construction (June 2005). As a result, two Bays (viz. 7 and 12) constructed during October 1994 at a cost of Rs.1.65 crore were not used for supply of power to GRIDCO.
- Pending charging of Bay no.8, Bay no.7 was being used for supplying power to colony and Ash Water Recycling Plant since April 2001. Bay no.12 continues to remain idle. Even though Bay no.7 was catering to the colony and Ash Water Recycling Plant and Bay no.12 remaining idle, the Company procured material worth Rs.56.96 lakh during 2001-2003 to make Bay no.8 operational.

As Orissa Electricity Regulatory Commission was not convinced about customers for power from unit-3 and 4, the construction of these units was yet to be decided (July 2005). The Company should have continued to utilise the Bay no.7 for supplying power to colony and expenditure of Rs.56.96 lakh, incurred for making Bay no.8 operational, could have been avoided.

Management/Government stated (February/August 2005) that Bay no.7 and 12 were the stand-by Bays. The reply is not tenable as the Bay no.7 and 12 were proposed to be connected to GRIDCO for evacuation of power and not as stand-by Bays. The Company was managing supply of power to the colony by utilising Bay no.7, which otherwise was remaining idle.

Thus, unnecessary procurement of materials resulted in avoidable expenditure of Rs.56.96 lakh.

Grid Corporation of Orissa Limited

3.3 Wasteful expenditure

The Company failed to commission DGA equipment which resulted in wasteful expenditure of Rs.1.12 crore.

The Company placed (May 2000) purchase order (PO) with Varian India Private Limited for design, manufacture, testing and supply of four Dissolved Gas Analysis (DGA) Test Equipment with four sets Gas Generators at a cost of Rs.1.23 crore including all taxes and duties.

The supplier submitted (November 2000) a composite bank guarantee (BG) of Rs.12.27 lakh valid up to 31 March 2002 towards full payment, performance guarantee and security deposit. The equipment were delivered, installed and commissioned in September, October and December 2001 respectively. Defects were noticed (January 2002) in the equipment and the supplier attended the complaints between June and October 2002 but failed to rectify the same. In a joint meeting (October 2002), the supplier though agreed to replace/modify certain parts of the equipment and also attended the complaints (between September 2003 and February 2004) yet again failed to rectify the defects. Meanwhile, between May 2001 and April 2002, the Company released the payment of Rs.1.09 crore (including taxes and duties) to the supplier. In April 2004, the supplier disowned his responsibility in discharging the contractual obligation. The Company issued (July 2003) a legal notice and also filed money suit (February 2005) for recovery of loss.

In this regard following deserve mention:

- As per the terms of PO, the Company was entitled to withhold 25 per cent of the cost of material (Rs.28.36 lakh) till successful commissioning of the equipment. The Company, however, released the payment between February and April 2002 despite the fact that defects noticed in January 2002 were persisting.
- The Company did not invoke the BG of Rs.12.27 lakh within the validity period (March 2002) and also failed to get the BG extended.
- The Company incurred idle expenditure of Rs.14 lakh (up to January 2005) towards salary and wages of the staff engaged on operation and maintenance of the equipment.

Management/Government stated (June 2005) that balance 25 per cent of the cost of the materials was released after commissioning of the equipment as per the terms of the purchase order. It further added that in order to get support from the supplier for rectification of the equipment, extension of BG was not insisted. The reply is not tenable since the terms of the purchase order stipulate release of balance amount only after successful commissioning of the

equipment. Since the BG was the only security available with the Company, there was no commercial prudence in non-insistence of BG.

Thus, failure to provide adequate safeguards for protecting its interest, the Company was saddled with uncommissioned DGA equipment resulting in wasteful expenditure of Rs.1.12 crore coupled with idle establishment expenditure of Rs.14 lakh. Further, the absence of equipment would not only affect the upkeep of the transformers but the risk of frequent breakdown of transformers also can not be ruled out. The loss could have been reduced by Rs.40.63 lakh had the Corporation not favoured the supplier by releasing Rs.28.36 lakh before successful commissioning and non-invocation of BG for Rs.12.27 lakh.

3.4 Avoidable expenditure towards interest

Injudicious decision of the Company to convert interest free advance to interest bearing advance resulted in avoidable expenditure of Rs.29 lakh.

In order to cater to the increased demand for power supply to the upcoming industries in Duburi and Balasore, the Company felt the necessity of early completion of 400 KV DC Meramundali-Duburi (cost: Rs.40 crore) and 220 KV DC Kalabadia-Balasore (cost: Rs.35 crore) transmission lines to meet the demand. The Company felt that it was difficult to mobilise the required fund from its own sources. The Company, therefore, arranged a meeting (16 April 2004) with the representatives of the upcoming industries, NESCO* and others which was presided by the Principal Secretary, Energy Department. The Chairman-cum-Managing Director (CMD) of the Company proposed the upcoming industries to deposit Rs.10 lakh per mega watt with the Company as interest-free advance adjustable in 60 equal monthly instalments from the energy bills of NESCO. All the representatives agreed to the proposal.

The matter for securing deposits was placed for approval of the Board of Directors in August 2004. The Board was informed (August 2004) that in pursuance to a decision taken in a subsequent meeting of Chief Secretary with CMDs of the Company and IPICOL**, the deposits by the upcoming industries would bear simple interest of six per cent per annum and the accrued interest would be repaid after full repayment of principal amount (the minutes and date of the said meeting were, however, not available with the Company). The Board approved (August 2004) the proposal of six per cent per annum interest bearing loan of Rs.10 lakh per MW. The Company had received Rs.15 crore between November 2004 and June 2005 from two*** industries as against requirement of Rs.75 crore.

* North Eastern Electricity Supply Company of Orissa Limited, which is a power distribution company under private management.

** Industrial Promotion and Investment Corporation of Orissa Limited.

*** Jindal Stainless Limited and Rohit Ferro Tech Limited.

The Audit scrutiny revealed the following:

- Representatives of six industries had specifically agreed (April 2004), in principle, for payment of interest free advance to the Company and none of the industries disputed the agreement subsequently. This fact was not brought to the notice of the Board while submitting proposal to pay interest on the said advances.
- The CMD of the Company initially ordered (August 2004) for obtaining minutes of the meeting before signing the agreement. However, the agreements with two parties were subsequently signed (November 2004 and March 2005) without the minutes.

Thus, the decision of the Company to go ahead with interest bearing advance despite the fact that industries agreed to extend interest-free advance lacked justification. The Company had already incurred avoidable expenditure of Rs.29 lakh (up to June 2005) towards interest on the advances received. The annual interest liability on deposit already received worked out to Rs.90 lakh. As it would be difficult to mobilise interest-free advance, annual interest liability of Rs.4.50 crore may have to be borne when entire deposit of Rs.75 crore was mobilised.

The above matter was reported to the Management (March 2005) and Government (April 2005); their replies have not been received (October 2005).

3.5 Implementation of Information Technology System

Introduction

3.5.1 Grid Corporation of Orissa Limited (GRIDCO) was formed on 1 April 1996. Implementation of IT applications in the areas of Finance, Human Resources Department, Inventory, Payroll, BST billing, etc., commenced from September 1997, to provide right information at the right time to the management for decision making. Though the IT functions are looked after in IT Department, the functional directors of the Company decide the priority areas for implementing Information Systems at different levels. The IT Department is headed by a Senior General Manager, who is assisted by two Managers, one Deputy Manager, three Assistant Managers, four Junior Managers and three non-IT officers.

Audit analysed the system already developed in the areas of inventory control, financial control, human resources control, etc. to examine the effectiveness vis-à-vis actual requirement of the application and the change management controls. The analysis of data furnished by the management with respect to

* Jindal Stainless Limited and Rohit Ferro Tech Limited.

Corporate Payroll Information System (CPIS) and Human Resource (HR) Information System was made using IDEA* software.

Procurement and Maintenance

Procurement

3.5.2 The Company did not have an IT procurement policy. No needs analysis for procurement of hardware and software was undertaken. A few instances are as below:

- The Purchase Committee of GRIDCO decided (August 2002) to procure hardware and software items on Director General of Supply and Disposal (DGS&D) rate contract basis from HCL Info systems. Scrutiny in audit revealed that DGS&D contract with HCL expired (13 September 2002) at the time of placing order with HCL (16 September 2002). The scrutiny of new rate contract entered with HCL by DGS&D (9 January 2003) revealed that rate of hardware and software was lower than the earlier rate contract. Audit observed that due to delay in placing purchase order the price reduction clause in the rate contract became inoperative and the Company could not avail of the reduction in market price to the extent of Rs.2.19 lakh.

The Management stated (September 2004) that the purchase order was signed within the validity period of the rate contract (13 September 2002), but it was actually issued after the validity period was over which was beyond the control of IT Department. The reply is not tenable in view of the fact that the DGS&D rate contract valid till 13 September 2002 contained the provision of passing on future reduction in prices to the purchaser, but as the order was dated 16 September 2002, this clause became inoperative as the DGS&D rate contract lapsed on 13 September 2002.

- The Company procured seven hardware items valued Rs.8 lakh on limited tender basis (February, 2003). Scrutiny in audit revealed that out of seven items procured, three items were available at DGS&D contract at a lower price. Thus, due to non-procurement at DGS&D rate the Company incurred loss of Rs.1.20 lakh.

Management stated (September 2004) that purchase order was placed (February 2003) much before the Company could get a copy of DGS&D rate contract. The reply is not tenable as DGS&D rate contract was issued in January 2003. Management also stated that the server configuration available in DGS&D rate contract did not provide requisite connectivity, ports and security provisions. The reply of the management is not acceptable in view of the fact that all these server system configurations were available in the DGS&D rate contract.

* Interactive Data Extraction and Analysis, software developed by CASEWARE IDEA INC. as a computer assisted auditing tool.

Maintenance

3.5.3 The Company had been re-entering into Annual Maintenance Contract (AMC) on the same terms and conditions with the same firm continuously for the last four years without inviting tenders. In order to get a competitive price and reduce the number of parties, the Purchase Committee decided (January 2003) to rationalise the AMC with effect from July 2003. The actual agreements, however, were entered into only in August and October 2003. The delay in implementation of decision of the Committee had resulted in avoidable payment of Rs.1.26 lakh as the new AMC charges were lower than the previous contract.

Management stated (September 2004) that as the officer in charge proceeded on leave, the tendering process was delayed. The reply is not acceptable in view of the fact that the Management should have tendered in time to safeguard the interest of the Company.

System Audit

3.5.4 The Company had developed five application software in-house in different areas of operation namely Stores Accounting, Payroll, GRIDCO Financial, HR Database and Cash Management. Price Waterhouse Coopers (PWC) developed Energy Billing Software. The deficiencies in some of the application software are discussed below:

Stores Accounting and Valuation Information system.

3.5.5 Software for valuation of closing stock in respect of Extra High Tension (EHT) materials for construction, stores and maintenance wing was developed. The software has been in operation since 1998-99. Each wing has been divided into divisions, which were further divided into sub-divisions. The end user of the system is basically the finance department as software has been mainly used to find out the value of closing stock of stores at the end of the year. The valuation of stores has been done on the basis of weighted average (WA) rate method.

A review of general controls and application level risks of the software on the basis of test check of stores price Ledger in respect of six work/site/project of construction and maintenance wing for the year 2002-03 revealed the followings:

- Though provision for separation of scrap/obsolete stores has been included in the software, separate accounting of scrap/obsolete was not being done. As observed, in case of L705 EHT (M), Burla section, scrap tower material was valued at Rs.1.14 lakh and taken into closing stock as on 31 March 2002. Similarly, empty barrels, old/used transformer oil, etc., those were scrap materials, were also taken into account as standard stores.
- Non-inventory items like items in the nature of fixed assets, furniture and fixtures were included in the stores. Since the valuation of stores

was done on the basis of WA method, these items were also valued subject to valuation as per WA method, which was contrary to accepted accounting principles. This indicates the software was not designed considering the accepted accounting principles. As financial accounts were prepared on the basis of price stores ledger (prepared as per the software), the above inclusions of non-inventory items resulted in understatement of fixed assets and overstatement of stores and spares by Rs.80.88 lakh. Depreciation was understated with corresponding overstatement of profit for the year 2002-03 by Rs.16.12 lakh*.

- The software was developed as web enabled so that all units can access to the server available in main computer center. Accordingly, all units are provided with computers and modems. It was, however, found that the software is yet to be used in field units and the units networked with the central server at headquarter.
- In case of L705 SEC. EHT (M) BURLA, the opening balance of 2.875 KM of ACSR Panther Cable as on 1 April 2001 was valued at Rs.8.63 lakh having unit rate of Rs.3 lakh. Subsequently, during September 2001, 1 KM of cable was issued whereas 0.1 KM was shown as issued in computerized store price ledger. This resulted in undercharging of repair and maintenance by Rs.2.70 lakh and overstatement of closing balance of stores and spares as well as profit for the year 2001-02 by Rs.2.70 lakh.

Thus, the stores accounting and valuation information system was completely input dependant for the accuracy of outputs. However, validation controls were not present in the application to automatically detect input errors and impart reliability and integrity to the system.

Improper validation control in the Human Resources software

3.5.6 To ensure better Human Resource (HR) planning and development, the Company had developed a HR information system in October 2001. Even after a lapse of four years, the integrity and reliability of the software is questionable. Audit observed the following:

- As per rule, the retirement age of employees in the category** of A01, A02, T01 and T02 grade is 60 years and for others it is 58 years. Scrutiny of database revealed that status of 28 employees in A01, 6 employees in A02, 39 employees in T01 and 21 employees in T02, who had already retired as on 1 September 2004, was indicated as INSERVICE. Similarly, in case of other employees whose retirement age was 58 years, and who had already retired as on 1 September 2004, the status of 203 employees has been shown as INSERVICE. Proper

* Year of purchase, receipt and issue over the year has not been considered due to non-availability of specific informations.

** A01-Attendant, Peon, Watchman, etc. A02- Daftary, Diarist, Record Supplier, Zamadar, etc. A03-Helper. A04- Carpenter, Khansama, Junior Artisan, Mason, etc.

validation control can ensure exclusion of retired employees from the current database.

The above matters were reported (August 2005) to Management/Government; their replies have not been received (October 2005).

Orissa Hydro Power Corporation Limited

3.6 Loss of Revenue due to defective meter

Company's failure in making proper metering arrangements as per PPA led to loss of revenue of Rs.2.38 crore due to under-billing of energy sold.

The Company executed (August 1998) a Power Purchase Agreement (PPA) with GRIDCO for transmitting the energy generated from its Upper Indravati Hydro Electric Project (UIHEP). As per Clause 8 of the PPA, two sets of recording type electronic tri-vector meters were to be installed by the Company to measure the energy generated and the energy delivered. One set of such meters was to be designated as Main Meter and the other set as Check Meter. Each set shall consist of export and import meters. These meters shall be static meters of class of accuracy of 0.2 per cent. The first Unit of UIHEP was commissioned in September 1999.

Audit scrutiny revealed that the reading of Check Meter was more than that of Main Meter. The Main Meter, therefore, was retested (October 1999) by State Testing Laboratory (STL). This showed an error of (+) 0.41 per cent which was more than the specification (i.e. 0.2 per cent) of PPA. GRIDCO did not accept (May 2000) the request of the Company to consider the billing as per the meter installed at the delivery point (PGCIL) by treating it the Check Meter on the ground that the same was not installed in the Power House premises. The billing of sale of power to GRIDCO was, therefore, being done as per readings of Main Meter at power house end despite its lower reading and erroneous status.

The Company installed a new Main Meter in March 2001 and a Check Meter in September 2001 at Power Station in Indravati PGCIL 400 kV feeder. The joint reading of the Check Meter, however, was not taken for comparison with the reading of Main Meter. As this Check Meter showed erroneous reading, GRIDCO requested (July 2002) the Company to install a Check Meter at the Power Station to avoid confusion in measurement of energy.

It was further observed (May 2004) in Audit that meetings were held between GRIDCO and the Company on reconciliation of energy at UIHEP on different dates in January and October 2001 and in May and July 2002. It was finally decided (April 2003) that the meter readings of the old Main Meter should be considered for billing purpose from September 1999 to February 2001 without

applying the correction factor of 0.41 per cent and from March 2001 to April 2003 on the basis of new Main Meter (installed in March 2001).

Considering the differential energy (38.516 MU) between the exportable energy (6090.157 MU*) as per provisions of PPA and energy actually billed (6051.641 MU), the Company suffered a loss of revenue of Rs.2.38 crore between September 1999 and April 2003 (at rates ranging from 59.07 paise to 64.96 paise per unit from time to time). Management has also suggested for this method of computation in the meeting held with GRIDCO in July 2002.

Management/Government replied (April/May 2005) that the energy reconciled from March 2001 to April 2003 as per Main Meter installed in March 2001 is correct and there is no loss to OHPC. The reply is not tenable as the Company was incurring continuous losses for under-billing of energy due to its failure in making proper metering arrangements, as envisaged in the PPA for more than five years.

Orissa Mining Corporation Limited

3.7 Undue benefit to a contractor

Company extended undue benefit of Rs.15.52 crore to a contractor due to payment of higher wage component.

The Company awarded (April 1998) excavation of ore at South Kaliapani D quarry to Arvind Construction Company Limited (ACC), New Delhi. The rate for excavation was fixed at Rs.64.10 per cubic metre (cum) with an escalation clause for five years effective from 1 January 2000. As stipulated in the escalation clause, 20 per cent of the excavation rate fixed represents the wage component.

The contractor excavated 75.97 lakh cum between January 2000 and March 2005. Payment to the contractor included Rs.22.96 crore towards estimated wage component of 20 per cent of the excavation rate (including escalation charges of Rs.13.22 crore).

Scrutiny of monthly returns, furnished by the Company to Steel and Mines Department of the State, revealed that to excavate 75.97 lakh cum, the contractor actually paid (January 2000 to March 2005) wages of Rs.7.44 crore only to the workers. The Company, however, failed to revise the excavation rate and continued to make payments to contractor at fixed labour component rate (20 per cent of the excavation rate) despite knowing the fact of huge difference in the labour component as fixed and that actually incurred by the contractor. This had resulted in excess payment of Rs.15.52 crore to the contractor towards wage expenditure.

* Gross generation (6151.674 MU) less 1 per cent (61.517MU) towards auxiliary consumption and transformation loss

Management/Government stated (July 2005) that wage component was not 20 per cent of the basic rate but the same was to be used as weightage of labour component for working out the escalation. The reply is not tenable since it was mutually agreed that the basic rate would constitute 80 per cent for variable components including 20 per cent wage component.

Thus, due to allowing higher rate in regard to wage component in the rates, the contractor was extended undue benefit of Rs.15.52 crore.

Orissa State Seeds Corporation Limited

3.8 Loss due to improper production planning

Production of certified seeds without assessing the demand resulted in loss of Rs.5.40 crore.

The Company supplies foundation seeds of paddy to the registered growers by an agreement for production and supply of certified seeds. Certified seeds so procured by the Company are provided to the small and marginal farmers through the Agriculture Department, Government of Orissa. The Company submits its production programme to the Government through Agriculture Department for approval. The Company procures the required quantity of the certified seeds on the basis of the approved programme. The Government places indent with the Company for lifting of the seeds on the basis of the demand from the beneficiaries. The Company, however, did not execute any formal agreement with the Government of Orissa regarding off-take of the certified seeds indicated in the approved programme. Since, the certified seeds of paddy become sub-standard on expiry of 9 to 15 months from the date of certification, the Company was required to prepare the production programme by properly assessing the demand position of certified seeds by the farmers.

Audit scrutiny revealed the following:

- The Company did not maintain the data bank of the number and requirements of small and marginal farmers so as to assess the actual demand. The proposals of production programme, therefore, were submitted without proper assessment of demand for arriving at the proposed quantity of production.
- Audit noticed that during the four years ending 31 March 2004, against procurement of 6,75,096 quintals, the State Government lifted only 5,36,017 quintals rendering 1,39,079 quintals surplus which became sub-standard subsequently (i.e. after expiry of 9 to 15 months).
- Due to excess procurement, 1,75,301.12 quintals of certified seeds of paddy valued at Rs.15.60 crore had become sub-standard as on 31 March 2004; out of which 1,39,621 quintals of seeds valued at Rs.12.44 crore were disposed of at Rs.7.04 crore resulting in loss of

Rs.5.41 crore. The balance 35,680 quintals, valued at Rs.3.16 crore, were yet to be disposed off (May 2005).

The Management stated (May 2005) that they followed the approved programme for production and were proposing to Government some corrective measures including permission to sell the certified seeds in open market. The reply is not tenable as the Government approved the programme on the basis of proposal of the Company which should have been prepared after assessing the actual demands. Further, the Company's intention of taking corrective measures substantiates the audit observations. Thus, production of certified seeds without assessing the demand resulted in loss of Rs.5.40 crore.

The above matter was reported to the Government (June 2005); their replies have not been received (October 2005).

Orissa Small Industries Corporation Limited

3.9 Undue favour to a sub-contractor

Undue favour to a sub-contractor and failure of the Company to take action to recover the dues led to loss of Rs.63.73 lakh.

Ranjeeta Steelex Industry (RSI) signed (August 1997) a Memorandum of Understanding (MOU) with the Company to execute the work of South Eastern Railway (SER), as a sub-contractor, with a clear margin of five per cent to the Company. SER issued (September 1997) Letter of Acceptance (LOA) to the Company at Rs.1.85 crore with stipulation to complete the work within 12 months from the date of issue of LOA. Accordingly, the Company issued (October 1997) Letter of Intent (LOI) to RSI for commencement of work by November 1997.

The sub-contractor could not complete the work in time and SER granted extension up to March 2002 with token penalty of Rs.5,000 per month. RSI left the site in October 2002 without completing the work. SER passed (February 2003) payment of Rs.1.80 crore for total works executed up to 14th RA bill and withheld Rs.6.02 lakh against the balance incomplete work (estimated at Rs.0.73 lakh).

Audit scrutiny revealed the following:

- The Company neither executed any agreement with RSI nor issued any work order for execution of the work in terms of LOI.
- The Company supplied materials worth Rs.1.44 crore* and extended interest bearing advances of Rs.50.40 lakh to RSI between November

* Including statutory levies to be borne by sub-contractor.

1997 and September 2002 without agreement and without any security. The Company could adjust only Rs.1.70 lakh against interest of Rs.42.10 lakh, leaving un-recovered balance of Rs.40.40 lakh.

- The Company paid cash/material advances more than the value of the work executed up to the 14th RA bill resulting in excess payment of Rs.23.33 lakh after considering the margin of the Company (Rs.9.01 lakh).

The Company had not taken any remedial steps to recover either the excess payments or the interest on advances though Audit pointed it out in March 2002.

The Management/Government stated (March 2005) that the execution of the project was the responsibility of the Company for which interim advance payments were made and materials were issued progressively. It was further stated that RSI had completed the balance work and passing of the final bill was underway. The reply is not tenable since the amount of advances were more than the value of work done. This indicated that the advances were extended without evaluating the value of the work done. Further, the possibility of recovering excess advances (Rs.23.33 lakh) was remote since the amount of the bill pending for clearance by SER was estimated at Rs.6.02 lakh only.

Thus, extension of undue favour to the sub-contractor and failure of the Company to take protective action for the dues resulted in loss of Rs.63.73 lakh towards excess payment (Rs.23.33 lakh) and outstanding interest (Rs.40.40 lakh).

Hirakud Industrial Works Limited

3.10 Loss due to delayed and short delivery of conductors

The Company paid liquidated damages of Rs.32.01 lakh due to non-adherence to the delivery schedule and failure to supply the ordered quantity.

The Company received (May 2001) a supply order from Madhya Pradesh State Electricity Board (MPSEB) for supply of 700 KMs of Aluminum Conductor Steel Reinforced (ACSR) Moose Conductor at Rs.1.53 lakh per KM. Though the party made frequent references for intimating dates of testing of conductors, the Company did not respond. The MPSEB later restricted (April 2003) the order for supply of 300 KMs by May 2003.

The Company manufactured and kept ready first lot of 100 KMs and the second lot of 101.313 KMs by 15 April 2003 and 25 May 2003 respectively. The MPSEB inspected (10 to 13 May 2003) the first lot and requested

(20 May 2003) supply of the second lot also. The Company, however, supplied only 99.810 KMs of first lot in June 2003. The second lot of 101.503 KMs was supplied between November 2003 and December 2003 i.e. after expiry of scheduled delivery date of May 2003. The Company attributed the delay to non-receipt of payment in time against supply of first lot. MPSEB cancelled (May 2004) the order for the balance quantity of 98.687 KMs conductor stating that they were not in a position to keep alive the contract for unexecuted portion of supply. The MPSEB also recovered liquidated damage of Rs.16.91 lakh towards delay in supply and Rs.15.10 lakh towards failure in supply from the bills of the Company (February/ May 2004).

As regards delay in supply of materials of second lot, the Management stated (April 2005) that there was scarcity of funds to meet statutory liabilities due to delay in payment against the first lot. The contention of the Management was not acceptable since it received payments against first lot in July 2003 (Rs.82.36 lakh) and September 2003 (Rs.1.23 crore) and delivery of second lot was started only after 15 November 2003. Further, the Company accepted the purchase order without insisting for a suitable clause for timely payment of dues.

Thus, due to non-adherence to the manufacturing and the delivery schedule of supply order without valid reasons, the Company not only lost the order for supply of 400 KMs of conductor worth Rs.6.12 crore but defaulted in regard to completion of supply of truncated order of 300 KMs resulting in further loss of order of 98.687 KMs valued at Rs.1.51 crore besides paying liquidated damage of Rs.32.01 lakh.

The above matter was reported to Government (June 2005); their replies have not been received (October 2005).

Orissa State Police Housing and Welfare Corporation Limited

3.11 Injudicious investment of surplus funds

Non-compliance of Government instructions by the Company led to loss of interest of Rs.75.40 lakh.

The Government of Orissa (Finance Department) in September 1997 instructed all the Public Sector undertakings to invest adequately their surplus funds in the Orissa State Co-operative Bank (OSCB), which was a scheduled bank. The Government reiterated (September 1999) that any deviation from investing in the OSCB without Government approval would be dealt with severely.

Audit scrutiny revealed that the Company did not make any investment of surplus funds in OSCB for the period between February 1999 and September 2004. In violation of Government instructions, the Company

parked the surplus funds in fixed deposits with other commercial banks without approval of the Government for the periods ranging between 21 and 919 days. A comparison of the rates of interest of the fixed deposits made in other banks with the rate of interest offered by OSCB in the corresponding period revealed that interest offered by OSCB was higher by 0.5 to 5.5 per cent. As a result, the Company sustained loss of interest of Rs.75.40 lakh.

The Management stated (April 2005) that investments were being made considering all the aspects like safety, liquidity, convenience, etc.; hence, there was no loss to the Company. The reply of the Management is not tenable in view of the fact that the investments in commercial banks were made in violation of Government's directives and ignoring the opportunity of earning higher interest.

The non-compliance of the Government instructions by the Company and failure to take advantage of higher rate of interest led to loss of interest of Rs.75.40 lakh.

The above matter was reported to the Government (April 2005); their replies have not been received (October 2005).

Statutory corporations

Orissa State Financial Corporation

3.12 Non-surrender/non-closure of Government Guarantee

Non-surrender of Government Guarantee on unavailed/ repaid loans resulted in avoidable expenditure of Rs.1.03 crore towards guarantee commission.

Government of Orissa sanctioned Government Guarantee to the extent of Rs.120.28 crore to the Corporation for availing ad hoc borrowing from Reserve Bank of India (Rs.22.95 crore) and refinance from financial institutions (Rs 97.33 crore). The Corporation availed loan of Rs.115.71 crore against the guarantee and balance guarantee of Rs.4.57 crore remained unavailed as on 31 March 2005. The Corporation repaid (up to February 2004) Rs.72.23 crore to the lenders against the availed loan of Rs.115.71 crore.

The Company was liable to pay guarantee commission @ 0.5 per cent per annum to State Government on the entire value of guarantee sanctioned unless the unavailed/ repaid portion of loan is duly surrendered/ closed. The proposal for surrender/closure of the Government Guarantee was to be submitted to Finance Department alongwith the documents as prescribed in Finance Department circular of November 2002.

Scrutiny of the records revealed (April 2005) that the Corporation did not take any action to surrender; but forwarded (February 2004) a proposal to the State Government for waiver of outstanding guarantee commission against unavailed/ repaid portion of loan without fulfilling the requirements of the Finance Department circular of November 2002. No response was received from the Government (June 2005) against the proposal. As a result, the guarantee of Rs.76.80 crore (unavailed loan: Rs.4.57 crore and repaid loan: Rs.72.23 crore) remained outstanding against which the Corporation was liable to pay guarantee commission of Rs.38.40 lakh per annum.

The guarantee commission paid/ payable by the Corporation for the period from 1999-2000 to 2004-05 stood at Rs.1.03 crore on unavailed loan (Rs.0.13 crore) and repaid portion of loan (Rs.0.90 crore). On being pointed out in audit, the Corporation submitted (June 2005) the proposal for the surrender of guarantee on unavailed/ repaid portion of loan on which Government's response was awaited.

The Corporation while accepting the views of the Audit stated (September 2005) that it was taking corrective measures for surrender of Government Guarantees on unavailed/ loan repaid.

Thus, due to non-surrender of Government Guarantees on unavailed/ loan repaid, the Corporation incurred avoidable expenditure of Rs.1.03 crore.

The above matter was reported to Government (June 2005); their replies have not been received (October 2005).

Orissa State Warehousing Corporation

3.13 Loss due to adoption of incorrect method of calculation for Storage charges

Adoption of incorrect method for computation of warehouse reservation charges led to loss of Rs.64.05 lakh.

The Corporation has been accepting the Food Corporation of India (FCI) stocks at various godowns in consideration of storage charges notified by them. Such storage charges payable by FCI with effect from 1 April 2001 were fixed by Government of India at Rs.3.02 and Rs.2.49 per month per bag of 95 Kg of foodgrains for reservation of Par* and non-Par* godowns respectively.

Audit scrutiny revealed that the reservation was made by FCI for Corporation's godowns (both Par and non-Par) in terms of metric tonne and the Corporation was converting the aforesaid rate of per bag to rate per

* The facilities of the godowns which conforms to the CWC standards are Par godowns and others are non-Par godowns.

metric tonne. It was noticed that in absence of a uniform method, the units of the Corporation adopted two different methods for billing the storage charges:

- (i) Reservation charge of one MT was adopted at 10 times of the rate fixed for each bag of 95 Kg i.e. Rs.30.20 per month in Par godowns (Rs.3.02 X 10) and Rs 24.90 (Rs. 2.49 X 10) per month in non-Par godowns.
- (ii) One MT was converted into numbers of bags of 95 Kg ($1000/95=10.53$) and bills were being raised @ Rs.3.02 and Rs.2.49 per bag of 95 Kg per month for Par and non-Par godowns respectively (as fixed by the Government of India). The monthly reservation charges per MT worked out to Rs.31.80 and Rs.26.20 for Par and non-Par godowns respectively.

It was observed in audit that the method of calculation under (ii) above was in conformity with the rate fixed by the Government of India. While the Jagatpur Unit of the Corporation had raised bills under method (ii) above during the period between 1 April 2001 and 31 March 2004 and claims were accepted by FCI, other Unit offices were raising the bills under the calculation method (i) above which was incorrect. As a result, there was a loss of Rs.1.60 and Rs.1.30 respectively per MT per month.

During the period from 1 April 2001 to 31 March 2004, 38,15,095 MT in Par godowns and 2,31,620 MT in non-Par godowns were reserved in respect of which the storage charges were billed at Rs.30.20 per MT and Rs.24.90 per MT respectively by different Units (other than Jagatpur). The claim at the lower rate resulted in a loss of Rs.64.05* lakh to the Corporation.

Management while accepting the fact that the Jagatpur Unit had obtained higher rate from FCI, stated (May 2005) that such rate was at variance with the rates as per the circular dated 17 July 2003 of FCI. Therefore, the recovery of higher rate by FCI might not be ruled out. The reply is not tenable in view of the fact that Jagatpur Unit was raising the bills continuously for three years (1 April 2001 to 31 March 2004) under the same method which were passed by the FCI without any objection. As the space was reserved in MT and the rate was circulated in terms of bags, there was a necessity for conversion of rates in correct manner. Further, the Bhubaneswar Unit of Central Warehousing Corporation, to whom the tariff is also applicable, claimed storage charges during 2001-02 by adopting the method (ii) stated above.

Thus, due to not following the correct method for computation of reservation charges, the Corporation sustained a loss of Rs.64.05 lakh.

The above matter was reported to the Government (April 2005); their reply has not been received (October 2005).

* $(38,15,095 \text{ MT} \times \text{Rs.}1.60) + (2,31,620 \text{ MT} \times \text{Rs.}1.30)$

General

3.14 Corporate Governance in State Government companies

Introduction

3.14.1 Corporate Governance is the system by which companies are directed and controlled by the management in the best interest of the shareholders and others ensuring greater transparency and better and timely financial reporting. The Board of Directors are responsible for governance of their companies.

3.14.2 The Companies Act, 1956 was amended in December 2000 by providing, inter alia, Directors' Responsibility Statement (Section 217) to be attached to the Directors' Report to the Shareholders. According to Section 217 (2AA) of the Act, the Board of Directors has to report to the shareholders that they have taken proper and sufficient care for the maintenance of accounting records; for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

Further, according to Section 292A of the Companies Act, 1956, notified in December 2000, every public limited company having paid-up capital of not less than Rs.5 crore shall constitute an Audit Committee, at the Board level. The Act also provides that the Statutory Auditors, Internal Auditors, if any, and the Director in charge of Finance should attend and participate in the meetings of the Audit Committee.

3.14.3 The main components of the Corporate Governance are:

- Matters relating to the Board of Directors;
- Directors' Report; and
- Constitution of the Audit Committee.

3.14.4 Out of 31 working State Government Companies, Audit reviewed 26* Companies (**all Unlisted**) as detailed in the **Annexure-13**.

Board of Directors

3.14.5 The responsibility for good governance rests on the Corporate Board who has the primary duty of ensuring that principles of Corporate Governance both as imbibed in law and regulation and those expected by stakeholders are voluntarily complied with and the stakeholders' interests are kept at utmost high level. For this purpose, every company should hold the meetings of the Board of Directors at regular intervals. Every Director should attend these

* Four Companies viz. Kalinga Studios Ltd., Orissa State Electronics Development Corporation Ltd., ELMARC Ltd. and Orissa Power Generation Corporation Ltd. did not furnish the required records/data. One company (Orissa Power Transmission Corporation Ltd.) was established only on 29 March 2004; hence excluded for the purpose of this study.

Board meetings to share the expertise and knowledge and to guide the affairs of the company.

Meeting of Board of Directors

3.14.6 Section 285 of the Companies Act, 1956, provides that “in the case of every company, a meeting of its Board of Directors shall be held at least once in every three months and at least four such meetings shall be held every year.”

Board meetings were not held regularly.

Audit revealed that 13 out of 26 companies (as detailed in **Annexure-14**) had violated the provisions of this section. During the period from April 2000 to January 2005, these companies had violated the provisions of Section 285 for one to seven times and there was a maximum gap of up to 14 months and 4 days between two meetings in case of Orissa Lift Irrigation Corporation Limited (OLIC). This indicated that managements of companies failed to comply with the legal provisions.

Attendance of Directors in the meetings of the Board

Directors’ participation in Board meetings was absent.

3.14.7 During the period April 2000 to January 2005, 62 Directors of 20 companies did not attend any Board meeting during their tenure while 18 Directors attended only one to three meetings of the Board, out of 6 to 32 meetings of the Board held during their tenure (detailed in **Annexure-15**). This indicated that the Directors did not actively participate in the management of affairs of the companies and in the decision-making processes to safeguard the interests of the company.

Frequent changes of Managing Directors and vacancies of Directors

Cases of frequent changes in incumbency of Managing Director and Directors noticed

3.14.8 Frequent changes of the top executives always adversely affect smooth functioning of the company. Audit noticed that during the period of nearly five years from April 2000 to January 2005, 10 companies (Sl. Nos.1, 2, 3, 4, 7, 9, 10, 17, 18 and 19 of **Annexure-13**) had five or more Managing Directors (tenures ranging from one day to two years three months). Vacancy position of Directors in PSUs, as indicated in **Annexure-16**, further indicates that in case of seven companies, posts of 1 to 10 Directors were lying vacant for two to 50 months during the period of study.

Directors’ Report to shareholders

Directors’ Responsibility Statement not included in the Annual Report.

3.14.9 The Companies Act, 1956 {Section 217 (2AA)} requires that a report of the Board of Directors including a Directors’ Responsibility Statement is to be attached to every balance sheet laid before a company in Annual General Meeting. Scrutiny of records revealed that five companies (OTDC, ISL, OSSC, OSCDC and OPGC) out of 19 companies, which finalised their accounts for 2000-01 and subsequent years, did not comply with the above requirement of the Act.

Audit Committee

Role and functions

3.14.10 The main functions of the Audit Committee are to assess and review the financial reporting system, to ensure that the financial statements are correct, sufficient and credible. It follows up on all issues and interacts with the statutory auditors before finalisation of Annual Accounts. The Committee also reviews the adequacy of Internal Control System and holds discussion with Internal Auditors on any significant finding and follow up action thereon. It also reviews the financial and risk management and evaluates the findings of internal investigation where there is any suspected fraud or irregularities or failure of Internal Control System of material nature and reports to the Board.

Composition of Audit Committee

3.14.11 Out of 26 companies reviewed by Audit, Section 292A of the Companies Act was applicable to only 14 companies (Sl. No. 1 to 14 of **Annexure-13**). Following deficiencies were observed in the composition of Audit Committees.

Constitution of Audit Committee delayed in many cases.

- Out of 14 companies, four companies (Sl. Nos. 1, 2, 3 and 5 of **Annexure-13**) did not constitute the “Audit Committee” even after a lapse of more than four years from the date (December 2000) the provision of the Act came into force.
- Two companies (Sl. Nos.8 and 9 of **Annexure-13**) constituted the Committee after a lapse of 24 and eight months respectively.
- As the number of members of the Committee of OSIC fell below (December 2001) the minimum requirement (three numbers), the Committee was required to be re-constituted. The Audit Committee, however, was yet to be reconstituted (March 2005).
- The Chairmen of IKIW and IFCAL though not members of the Committee were invited to attend the Audit Committee meeting and elected as the Chairman of the Committee and presided over the meetings in contravention of the provisions of the Act.

Terms of reference

3.14.12 The Board of three companies (OHPC, IPICOL and HIW) failed to specify the terms of reference of Audit Committee in writing, except mentioning the words “as provided under the Companies Act, 1956.” The terms of reference of remaining seven companies did not specifically empower the Audit Committee to deal with fraud and fraud related risks. Thus, it could not be ensured that the committees had specifically dealt with frauds and fraud related risks. It was further noticed that two cases of fraud detected by the Internal Auditor of OSIC were not brought to the notice of the Audit Committee.

Meetings of Audit Committee

3.14.13 Following observations are made:

- One company (ORHDC) held no meeting of the Audit Committee since its constitution,
- Audit Committee of three companies (IDCOL, IPICOL and OSIC) held two meetings during the period of four years,
- In spite of the resolution by the Board of Directors of OAIC that at least one meeting of Audit Committee should be held in each quarter, the Company held only one meeting of the Audit Committee in three and half years,
- One company (HIW) held only one meeting in two years,
- In six companies where quorum was not spelt out by the Board, Audit Committee meetings were held in the absence of one or more members of the Committee as detailed in the **Annexure-17**,
- HIW, OAIC, OSIC, IPICOL, IKIW and IDCOL did not invite the statutory auditors to attend the meetings of Audit Committee. GRIDCO, OHPC and IFCAL invited their statutory auditors to only one, two and one meeting out of five, eleven and two meetings respectively,
- None of the above nine companies invited the internal auditors to the Audit Committee Meetings.

Discussion by the Audit Committee

3.14.14 The Act (Section 292A (6)) requires that the Audit Committee should have discussions with the auditors periodically about the Internal Control Systems, the scope of audit including the observations of the auditors and review the half-yearly and Annual Financial Statements before submission to the Board and also ensure compliance of Internal Control Systems.

Audit scrutiny revealed that:

Audit Committee did not discuss the Internal Control System.

- The Audit Committees of IKIW, OAIC, OSIC, IPICOL, HIW and IDCOL did not hold any discussion with the statutory auditors regarding the Internal Control System or the Audit observations.
- Committees of OHPC and GRIDCO did not discuss the aspects relating to Internal Control System with statutory auditors.

Even accounts not reviewed by Audit Committee before submission to Board.

- Annual Financial Statements of IKIW, HIW, OAIC, OSIC and IDCOL were never reviewed by the Audit Committee before submission to the Board.

- Annual Financial Statements of IPICOL for the years 2000-01 and 2001-02 were not reviewed by the Audit Committee before submission to the Board.

Non-implementation of recommendations of Audit Committee

Recommendations of Audit Committee were not considered by the Board.

3.14.15 According to sub-section (8) of Section 292A of the Act, the recommendations of the Audit Committee on any matter relating to financial management including the Audit Report shall be binding on the Board. Audit observed that the Audit Committees of IPICOL, OAIC and HIW did not make any recommendations to the management/ Board. In case of OSIC, none of the following recommendations of the Audit Committee were implemented nor brought to the notice of the Board, reasons for which were not on record:

- Suitable computerisation of transactions at Head Office alongwith raw materials depot through networking to improve the Management Information System in the Company.
- Preparation of Accounts and Systems Manual.
- Implementation of daily reporting system of stock movement, cash collection, debtors' collection, credit sales, and bank remittances from the existing fortnightly reporting system.

No reasons were ever communicated to the shareholders for non-implementation of said recommendations by OSIC, as required under sub-section 9 of section 292A of the Act.

General

3.14.16 As per Section 383(A) of Companies Act, 1956, all companies having paid-up capital of not less than Rs.2 crore shall have a whole time Company Secretary. Six* companies did not comply with these provisions. In case of OSCSC, OSIC, HIW, and OTDC, the post of Company Secretary was vacant since February 1999, April 2002, June 2003 and June 2003 respectively.

Attendance of Directors in the Annual General Meetings (AGMs)

3.14.17 The attendance of Directors in AGMs of the companies under review was negligible. Scrutiny revealed that during the period from April 2000 to January 2005, 20 Directors of eight** companies did not attend any of the AGMs while 15 Directors of four*** companies attended only one to two AGMs out of 4 to 19 AGMs held during their tenure.

* Sl.No.1,2,3,6,8 and 16 of **Annexure-13**.

** Sl. No.1, 9, 10, 11, 15, 24, 25 and 26 of **Annexure-13**.

*** Sl. No.9, 10, 11 and 22 of **Annexure-13**.

Sum up

- Board meetings were not held regularly in most of the companies in violation of the provisions of the Companies Act, 1956.
- Directors' Responsibility Statements were not annexed to the Annual Reports of the companies in several cases.
- Delays were noticed in constitution of Audit Committees. In several cases where Audit Committees were constituted, the aspects relating to Internal Control System were not discussed and even the annual accounts of companies were not reviewed before submission to the Boards. The committees either did not make any recommendations or wherever recommendations made, the same were not implemented.

3.15 Follow-up action on Audit Reports***Explanatory Notes outstanding***

3.15.1 The Comptroller and Auditor General of India's Audit Reports represent culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various offices and departments of Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance Department, Government of Orissa issued instructions (December 1993) to all Administrative Departments to submit explanatory notes indicating corrective/remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Though the Audit Reports for the years 1993-94 to 2003-04 were presented to the State Legislature, 14 out of 17 departments which were commented upon did not submit explanatory notes on 69 out of 265 paragraphs/reviews as on 30 September 2005, as indicated below.

Year of the Audit Report (Commercial)	Date of Presentation	Total Paragraphs/ Reviews in Audit Report	No. of paragraphs/ reviews for which explanatory notes were not received
1993-94	September 1995	28	2
1994-95	March 1996	24	3
1995-96	March 1997	23	2
1996-97	July 1998	27	3
1997-98	July 1999	15	Nil
1998-99	July 2000	26	11
1999-2000	August 2001	29	5
2000-01	March 2002	25	2
2001-02	March 2003	17	8
2002-03	December 2003	24	10

Year of the Audit Report (Commercial)	Date of Presentation	Total Paragraphs/ Reviews in Audit Report	No. of paragraphs/ reviews for which explanatory notes were not received
2003-04	March 2005	27	23
Total		265	69

Department-wise analysis is given in **Annexure-18**. Energy, Industries, Information Technology and Steel & Mines Departments were largely responsible for non-submission of explanatory notes. Government did not respond to even reviews highlighting important issues like system failures, mismanagement, non-adherence to extant provisions and poor implementation of Power Sector Reconstruction Project.

Compliance to Reports of Committee on Public Undertakings (COPU) outstanding

3.15.2 Action Taken Notes (ATNs) to 146 recommendations pertaining to 12 Reports of the COPU presented to the State Legislature between April 1993 and March 2002 had not been received as on 30 September 2005 as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of recommendations where ATNs not received
1993-94	3	4
1997-98	1	2
1999-2000	3	45
2000-01	3	81
2001-02	2	14
Total	12	146

The replies to 146 recommendations were required to be furnished within six months from the presentation of the Reports.

Response to Inspection Reports, Draft Paragraphs and Reviews

3.15.3 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and the concerned administrative departments of State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective heads of departments within a period of six weeks. Inspection Reports issued up to March 2005 pertaining to 40 PSUs disclosed that 4,213 paragraphs relating to 817 Inspection Reports remained outstanding at the end of September 2005. Of these, 471 Inspection Reports containing 2,450 paragraphs had not been replied to for one year to five years. Department-wise break-up of Inspection Reports and Audit observations outstanding at the end of September 2005 is given in **Annexure-19**.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that out of 22 draft paragraphs and three draft reviews forwarded to the various departments between February and August 2005, as per details in **Annexure-20**, replies to two reviews and 12 draft paragraphs were awaited (October 2005). The reviews were, however, finalised after discussion with the Management and the Government in the Audit Review Committee for Public Sector Enterprises Meetings held on 14 and 15 July 2005.

It is recommended that (a) the Government should ensure that procedure exists for action against the officials who failed to send replies to Inspection Reports/draft paragraphs/reviews and ATNs to recommendations of COPU as per the prescribed time schedule, (b) action is taken to recover loss/outstanding advances/ overpayments in a time bound schedule, and (c) the system of responding to the audit observations is revamped.

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