Chapter-III

Transaction Audit Observations

Government companies

Industrial Development Corporation of Orissa Limited

3.1 Loss of revenue

Failure of the Management in increasing the crushing capacity of lump ore deprived the Company of additional revenue of Rs.7.67 crore.

The lump iron ores raised from the mines of the Company is crushed to calibrated lump ores (CLO) through contractors. The Company increased the monthly target of raising of ore from mines from 12,000 MT to 20,000 MT in November 2002 and further to 30,000 MT in October 2004. The Company had entered (December 1998) into a contract with a contractor to crush 10,000 MT of ore per month for a period of five years. The Company awarded (August 2003) the work of installation of another crusher to some other contractor to crush minimum 8,000 MT of ore per month. The second crusher was commissioned in May 2004. The contract with the first contractor expired in April 2004 and was not renewed thereafter. Thus, the crushing capacity available remained at 8,000 MT per month since 2004-05.

During the years 2004-05 and 2005-06, the Company raised 7,44,234.82 MT of lump iron ore, of which, 5,45,356.72 MT was sold as lump ore and 1,69,849.98 MT was delivered to the contractor for crushing (balance 29,028.12 MT being the transit/ weighment loss, own consumption, etc.).

Audit scrutiny revealed the following:

- The Company had earned additional net revenue (additional revenue less crushing expenditure) of Rs.425.25 and Rs.356.75 per MT by selling CLO as compared to lump ore in the years 2004-05 and 2005-06 respectively. Therefore, it was a better proposition to sell CLO to the maximum possible extent.

- Though the Company increased the capacity of raising of ore by 8,000 MT (November 2002) and by another 10,000 MT (October 2004), the crushing capacity was not increased in tandem with increase in capacity. Besides, one of the crushing contracts, which expired in April 2004, was not renewed nor were steps taken to invite other contractors for installation of crusher.

- The contractor of the second crushing unit was to crush minimum 8,000 MT per month as per the terms of the Letter of Intent (LOI). As

against the target of crushing minimum 1,84,000 MT during the period May 2004 to March 2006, the contractor crushed only 1,40,144 MT. As such, there was a shortfall of 43,856 MT in crushing resulting in avoidable loss of additional net revenue of Rs.1.72 crore. The Company did not impose any penalty on the contractor for the shortfall in crushing as per the terms of LOI.

- As the Company did not take step to enhance the crushing capacity with the increase in raising of ores, it sold 5,45,356.72 MT lump iron ore and could crush only 1,40,144 MT during 2004-05 and 2005-06. By maintaining the crushing capacity at 18,000* MT per month, the Company could have crushed an additional 1,95,544** MT of CLO and generated additional revenue of Rs.7.67 crore.

The Management/ Government stated (March/July 2006) that there was constraint in selling the entire quantity as crushed ore inside the State and their railway siding was capable of handling only 10,000 MT of ore per month which restricted their outside sales. It further stated that the loss due to shortfall in crushing by the contractor would be recouped through imposition of penalty on the contractor. The reply is not tenable as the Management is expected to optimise its revenue realisation and to overcome the constraints, if any. Further, there appeared enough scope for selling CLO as the Orissa Mining Corporation Limited had sold 6,45,335.52 MT ex-mine of CLO during 2004-05 and 2005-06 in Barbil region only and the goods handling capacity at railway siding of the Company available during the years 2004-05 and 2005-06 had also not been utilised fully.

Thus, failure of the Management to take steps for increasing the crushing capacity of lump ores deprived the Company of additional revenue of Rs.7.67 crore.

3.2 Excess payment to the raising contractor

Failure of the Management in ensuring actual number of mandays utilised by the contractor before making payment resulted in excess payment of Rs.2.71 crore.

The Company engaged (June 1998) Sri Pradeep Bal Samant, a contractor, to raise chrome ore from Talangi Chromite mines of the Company. As per the terms of the contract, the contractor was to be paid Rs.138 per cubic metre (cum) of excavation. The Company revised (May 2002) the rate of excavation into two different rates and fixed it at Rs.173.20 per cum and Rs.117 per cum for manual raising and mechanical raising respectively. The quantity of manual raising was limited to 26,000 cum per month. Raising of chrome ore by manual method is undertaken to maintain quality of ore through sorting, grading, cleaning of slurry, stacking, loading, etc. The Management

* Total of crushing capacity of the first contractor (10,000 MT) and second contractor (8,000 MT).
** 67 *per cent* of 2,91,856 MT (33 *per cent* being loss in crushing).

assessed (November 2003) that raising of ore through manual labourers up to 26,000 cum per month was on the higher side considering the actual manpower available with the contractor and revised the ceiling of manual raising downwards to 11,000 cum per month from May 2004. On expiry of the contract, the work was entrusted (November 2004) to the same contractor at the rates of Rs.277.36 per cum and Rs.124.47 per cum for manual and mechanical raising respectively.

Audit scrutiny revealed the following:

- Though the rate for manual raising was significantly higher than that for mechanical raising, the Company continued to make payment for manual raising as claimed by the contractor without ascertaining the actual quantity of manual raising.
- As per the terms of the agreements, the output per man shift (OMS) was fixed at 0.7 cum. During the period May 2002 to March 2006, the contractor had actually utilised 6,51,812 mandays. Considering OMS of 0.7 cum, excavation through manual raising would work out to 4,56,268 cum while the Company paid for 8,77,000 cum at manual raising rate. This resulted in excess payment of Rs.2.71 crore.

The Management/ Government stated (June/ July 2006) that the scope of manual work includes hiring of earth moving machineries, dewatering through pumps, collection of chrome ore, sorting of rejects at mines, etc., hence the rate for manual working should not be construed to include labour component only. It was stated that the OMS of 0.7 cum was specified in the contract for revision of rate only consequent upon change of minimum wages.

The reply is not tenable as the Company did not ascertain the actual quantity of manual raising and made payment to the contractor as per his claim. Audit has adopted OMS of 0.7 cum only to arrive at indicative excess payment in the absence of any better alternative. The fact remains that the Management paid the higher rate for manual raising without ascertaining the actual quantity of ore manually raised.

IDCOL Kalinga Iron Works Limited

3.3 Avoidable extra expenditure on procurement of iron ore

Procurement of iron ore at higher rates from private parties resulted in avoidable extra expenditure of Rs.1.82 crore.

The Company procures iron ore from Orissa Mineral Development Company Limited (OMDC) as well as from other private parties. The Company entered (August 2003) into a Memorandum of Understanding (MoU) with OMDC for procurement of 10,000 MT of calibrated iron ore per month for a period of five years with effect from October 2003. The MoU further envisaged that the Company would deposit full payment in advance for the indented quantity and

liquidate the outstanding dues relating to prior procurements within three months of the agreement.

Audit scrutiny (March 2006) revealed the following:

- The Company procured only 40,350.45 MT valued at Rs.2.40 crore from OMDC against the contractual quantity of 1,50,000 MT (10,000 MT per month for 15 months) during the period April 2004 to June 2005 leaving a shortfall of 1,09,649.550 MT. During the same period, it purchased 1,73,596.390 MT from private parties ignoring the order of the Managing Director (May 2004) to procure maximum quantity from OMDC from the economy point of view.

- The rate of iron ore of OMDC was Rs.552.42 per MT up to December 2004 and Rs.721.86 per MT from January 2005 as against Rs.750 (up to March 2005) and Rs.975 respectively in case of private parties. As a result, the Company incurred excess expenditure of Rs.1.82 crore on purchase of 1,09,649.550 MT (shortfall quantity) at higher rates from private parties.

- As per the terms of the MoU with OMDC, the Company was required to release advance in full for the quantity to be lifted. During the period April 2004 to June 2005, the Company released less advances to OMDC against receipt of materials leading to accumulation of outstanding dues, which stood at Rs.40.62 lakh at the end of June 2005. On the other hand, larger advances were released to private parties resulting in accumulation of dues recoverable from them, which stood at Rs.1.42 crore as on June 2005.

The Management/ Government stated (May/ June 2006) that the OMDC could not supply the contractual quantity inspite of payment of advances. It was also stated that in the absence of any assurance for supply of specific quantity and frequent revision of rates, the Company opted for procuring from private parties to safeguard the interest of the Company.

The reply is not tenable in view of the following:

- The Company did not deposit the required amount for indented quantity for securing supply nor liquidated the outstanding dues as per the terms of the MoU with OMDC whereas larger advances were released to private parties.

- The flow of supply and revision of rates was governed by the MoU and there was no need for any further assurance from OMDC besides the terms of the MoU. OMDC had also not deviated from the terms of contract in regard to supply and the rates charged by them were also cheaper than that charged by private suppliers.

Thus, the Company incurred avoidable extra expenditure of Rs.1.82 crore by procuring iron ore at higher rates from private parties.

3.4 Undue favour to buyer

Reduction of sales price by the Company in deviation of the terms of the sales order resulted in loss of Rs.37.67 lakh (on sales realisation) and extension of undue favour to the buyer.

The Company placed (May 2004) a sale order on Alok Ferro Alloys Limited (AFAL) to sell 5,000 MT of breeze coke on "as is where is basis and no complaint basis" with the condition that the price would be Rs.2,500 per MT (exclusive of duties and taxes) and the full value of quantity to be lifted alongwith sales tax at the rate of 4 *per cent* would be deposited in advance.

AFAL deposited Rs.1.30 crore towards sales value of 5,000 MT breeze coke including sales tax thereon. AFAL, after lifting 1013 MT valued at Rs.25.33 lakh (up to August 2004), requested for refund of the balance amount stating that the quality of the material was not good. After prolonged correspondence and meetings, the Managing Director of the Company agreed (June 2005) to reduce the price to Rs.1450 per MT for the remaining quantities to be lifted. The revised supply order was placed accordingly and the supplier lifted 3587 MT up to November 2005.

Audit scrutiny revealed that as per the terms of the offer, AFAL was to lift the entire quantity within two months on "as is where is basis and no complaint basis". Since the offer was accepted by AFAL, the Company should not have acceded to the request of AFAL and reduced the sales price to Rs.1450 per MT. Hence, downward revision of price lacked justification and was an extension of an undue favour to the buyer.

The Management/Government stated (June/ July 2006) that AFAL was the only party who procures bulk quantity from the Company and since there was no encouraging response from any other parties, the price was reduced to settle the dispute and to retain the buyer. The reply is not tenable since the percentage of off-take by AFAL during 2004-05 and 2005-06 ranged between 34 and 37 *per cent* and the buyer was bound to lift the material within the stipulated period as per the terms of the offer.

Thus, reduction of sales price in deviation of the terms of the sales order resulted in extension of an undue favour to the buyer and loss of Rs.37.67 lakh (on sales realisations) to the Company.

3.5 Undue favour to supplier

Acceptance of High Ash Metallurgical coke as Low Ash Metallurgical coke resulted in extension of undue favour to the supplier to the extent of Rs.25.33 lakh.

The Company placed (August 2004) a purchase order (PO) on Utkal Moulders Limited (UML) for supply of 1000 MT of Low Ash Metallurgical (LAM) coke at Rs.15,250 per Metric Tonne (MT). The PO, *inter alia*, envisaged that

the ash content of the coke should be 13 *per cent* ± 1 *per cent*. In case of the ash content exceeding 14 *per cent*, pro rata deduction at the rate of Rs.100 per MT for excess percentage of ash was to be made and coke containing ash in excess of 16 *per cent* was to be rejected. The sampling and analysis conducted in the laboratory of the Company in the presence of the representative of the supplier would be final and binding. UML supplied 994.80 MT coke during August/ September 2004 with ash content of 21.20 *per cent*.

Audit scrutiny revealed the following:

- The Company accepted the material though the material should have been rejected as per the terms of the PO, as the ash content was in excess of 16 *per cent*.
- The Company, at the request of the UML, disregarded the laboratory analysis of ash content being 21.20 *per cent* and treated the ash content as 17.30 *per cent* with imposition of penalty. Thus, the Company extended an undue favour to the supplier.
- In another PO (August 2004), coke with ash content above 20 *per cent* was considered as High Ash Metallurgical (HAM) coke and the rate of HAM per MT was Rs.11,832. The material supplied by UML being of 21.20 *per cent* ash content was actually HAM coke and not LAM coke. Considering the differential rate between LAM coke and HAM coke, the undue favour extended to the seller works out to Rs.25.33[*] lakh.

The Management/ Government stated (May and June 2006) that due to very low stock position, the lot could not be rejected. It was also added that the higher ash content might be due to contamination of samples at the laboratory for which the ash content was considered at a reduced level at the request of the supplier. The reply is not tenable as the Company accepted inferior quality of coke. Further, treating the sample quality as contaminated merely on the request of the supplier lacked justification.

Thus, acceptance of material which was liable to be rejected resulted in extension of undue favour to the supplier to the extent of Rs.25.33 lakh.

3.6 Extra expenditure due to underloading of coke

Failure to include penalty clause in the purchase order for underloading of coke resulted in extra expenditure of Rs.20.73 lakh.

The Company placed (April 2003) a purchase order on Durgapur Projects Limited (DPL) for supply of 5400 MT of Low Ash Metallurgical (LAM) hard coke per month. As per the terms of the purchase order, DPL was to supply a rake load of coke at a time and load it into wagons at Durgapur to their full

[*] Being the difference of value between LAM coke (Rs.131.30 lakh) and HAM coke (Rs.101.87 lakh) less penalty recovered (Rs.4.10 lakh).

permissible capacity so as to avoid idle railway freight. The railway authorities charge for the chargeable weight of coke in BOX 'N' wagon as 47 MT or actual weight carried whichever is higher.

Audit scrutiny revealed the following:

- During the period 2003-04 and 2004-05, the Company received 45,115.10 MT in 1,110 wagons and paid freight charges for 52,170.20 MT of coke to the Railways based on the chargeable weight of 47 MT per wagon. As DPL had not loaded coke into wagons to their full capacity, 1,110 wagons were utilised against required 960 wagons. As a result, the Company paid idle freight of Rs.20.73 lakh for 7055.10 MT at the rate of Rs.293.90 per MT to Railways.

- Though the purchase order issued by the Company required DPL to ensure full loading of coke in wagons, it did not stipulate penalty for underloading. As a result, the Company could not recover the idle freight of Rs.20.73 lakh from DPL.

The Management/ Government stated (June/July 2006) that the underloading of wagons could not be avoided due to lack of facility for weighment though it was pointed out to the supplier. Further, considering size, density and less weight of LAM coke, it was not possible to load the wagons into their full permissible capacity. The reply is not tenable since it was the responsibility of the supplier to ensure proper loading and the supplier should have arranged the means for weighment. As the railway authorities had fixed the chargeable weight of wagon as 47 MT in case of coke, the contention about it not being possible to load wagons up to full permissible capacity is devoid of logic.

Thus, due to non-inclusion of a penalty clause in the purchase order for underloading of coke in wagons and failure to ensure full loading, the Company had to incur extra expenditure of Rs.20.73 lakh.

IDCOL Ferro Chrome & Alloys Limited

3.7 Loss due to delay in sale of chrome ore

Failure to effect sale of chrome ore in time resulted in revenue loss of Rs.1.89 crore.

The Company owns Talangi chromite mines and the chrome ore extracted is utilised for its own consumption and is also sold through tendering. The ore is analysed and graded according to the chrome content and reserve price is fixed accordingly before opening of tenders. The Company sold 2,430 MT of chrome ore having chrome content of 34.15 *per cent* at Rs.3,000 per MT through tender in February 2004. The Company sold another stack[*] of chrome

[*] Stack No. 176/03

ore of 15,000 MT (chrome content 33.22 *per cent*) through tender in May 2004 at the rate of Rs.1740 per MT.

Audit scrutiny revealed that the Chairman of the Company had directed (16 February 2004) the Managing Director to complete stacking of 15,000 MT to 20,000 MT of chrome ore within a week's time so that it could be put up for sale in the tender by 20 February 2004. In the tender dated 24 February 2004, the Company, however, put only 10,752 MT for sale and a stack of chrome ore of 15,000 MT having 33.22 *per cent* chrome content though ready in 2003 was not put to sale in that tender. This stack was sold in May 2004 at the rate of Rs.1,740 per MT and the Company suffered loss of Rs.1.89[*] crore due to belated sale of ore.

The Management/ Government stated (May 2006) that due to problem in the approach road to the stack and lack of demand for the ore, the ore could not be disposed of. The reply is not tenable in view of the fact that the stack nos. 162/03, 22/03, 23/03 and 25/03 which had surrounded the stack no.176/03 and restricted its access to approach road were put to tender in February 2004. The stack no.176/03, therefore, could have been put to tender along with these surrounding stacks. The Management's assertion of poor demand for the grade of the ore stacked in stack no.176/03 is not convincing since the stack had never been put to tender before nor had the demand for it been ascertained by the Company.

Thus, failure of the Management to effect sales in time resulted in revenue loss of Rs.1.89 crore.

Grid Corporation of Orissa Limited

3.8 Avoidable payment of penalty

The Company, despite being aware of the shortfall in availability of power, entered into power supply agreement which led to payment of penalty of Rs.5.69 crore for short supply of power.

The Company entered (28 March 2005) into an agreement with Power Trading Corporation of India Limited, New Delhi (PTC) for sale of power. The terms of the contract, *inter alia*, envisaged that the Company would supply 453.66 million units (MU) of electricity between 01 April and 30 June 2005 and both the seller and purchaser would respectively deliver and off-take at least 80 *per cent* of the contractual quantity. In the event of the failure of the Company to deliver at least 80 *per cent* of the contractual quantity (i.e. at least 362.93 MU), it would pay compensation to the buyer at the rate of 50 paise per unit (Kwh) for the shortfall.

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[*] 15,000 MT x (Rs.3,000-Rs.1,740)

The Company could supply only 249.18 MU resulting in shortfall of 113.75 MU for which PTC recovered penalty of Rs.5.69 crore from the bills of the Company.

Audit scrutiny revealed the following:

- The Company was procuring power from Orissa Hydro Power Corporation Limited (OHPC). As per the generation programme for the month of April 2005 submitted (16 March 2005) by OHPC there would be reduction in generation of power from 701 MW to 520 MW i.e. by 181 MW. Besides, there was strong probability of reduction in hydel generation in subsequent months due to the onset of summer.
- Orissa's share of energy from the Eastern Region Electricity Board (EREB) is normally availed of from thermal plants of National Thermal Power Corporation Limited (NTPC). The Company was well aware (January 2005) of NTPC's proposal for shutting down of one of its units (Talcher Super Thermal Power Plant, Kanhia) during April-May 2005 for overhauling. The supply from NTPC was reduced from 532 MW to 356 MW with effect from 31 March 2005.

The Management/Government stated (May/ July 2006) that there was shortfall in hydel generation due to delayed monsoon, outage and shutting down some of the thermal units for annual maintenance and due to shortage of coal for which the contractual quantity of power could not be supplied.

The reply is not acceptable since the Company was aware of the reduction of hydel generation and outage of thermal unit while entering into the contract with PTC. Thus, due to injudicious planning, the Company failed to meet the minimum contracted quantity and had to pay penalty of Rs.5.69 crore.

3.9 Loss of revenue

Failure of the Management to revise the rate of rebate from the date of commencement of the extended period of the agreement resulted in revenue loss of Rs.29.73 lakh.

The Company entered (July 2003) into an agreement with the Power Trading Corporation of India Limited (PTC), New Delhi to sell power for a period of one year. The agreement was extended up to December 2004. For allowing rebate for payment on or before the due date, the Company adopts the norm prescribed by the Central Electricity Regulatory Commission (CERC) from time to time. Accordingly, it was agreed to allow rebate of 2.5 *per cent* of bill amount for payment on or before the due date.

CERC revised (March 2004) the rate of rebate to 2 *per cent* effective from 1 April 2004. The Company, however, decided (May 2004) to adopt the revised rate of rebate from June 2004. Accordingly, the Company informed (May 2004) PTC of the revised rate of rebate. PTC requested (May 2004) the Company to continue with rebate of 2.5 *per cent* till they obtain the

concurrence of their buyers and paid bill for the period June 2004 to September 2004 considering rebate at the rate of 2.5 *per cent*.

Audit scrutiny disclosed that the agreement with PTC had expired on 4 July 2004 but the Company continued to sell power up to September 2004 by extending the contract. During the extended period of the contract, the Company did not revise the rate of rebate. For the period from July to September 2004, as against the CERC prescribed rebate of Rs.98.90 lakh at the rate of 2 *per cent*, PTC made payment considering rebate at Rs.128.63 lakh (at 2.5 *per cent*). As a result, the Company conceded additional rebate amounting to Rs.29.73 lakh for the period from July to September 2004.

The Management/ Government stated (March/ July 2006) that in view of bilateral agreement with PTC in force up to September 2004, there was difficulty in implementing the reduced rate of rebate. The reply is not tenable since the Company had an opportunity to revise the rate of rebate after the agreed period of supply expired on 4 July 2004.

Thus, failure to revise the rate of rebate downward after the expiry of the contract period resulted in revenue loss of Rs.29.73 lakh to the Company.

Orissa Power Transmission Corporation Limited

3.10 Loss due to unplanned procurement of conductor

Procurement of conductors without obtaining forest clearance resulted in blockage of funds of Rs.2.90 crore with consequential interest burden of Rs.2.10 crore.

The Orissa Power Transmission Corporation Limited (the Company) was incorporated on 29 March 2004 to take over the power transmission activities from Grid Corporation of Orissa Limited (GRIDCO). The Company commenced its business with effect from 1 April 2005.

The work of erection and commissioning of 220 KV D/C 2nd line from Ib Thermal to Budhipadar sub-station was entrusted (June 1996) to Utkal Galvanisers Limited (UGL). The work consisted of construction of 101 towers (19 towers fall under forest area) covering a distance of 28 kms (revised to 25.74 kms). It involved diversion of 16.20 hectares of forest land for which the clearance of Government of India (GoI) as well as Government of Orissa (GoO) was necessary. The estimated cost of the project was Rs.13 crore, of which 70 *per cent* was to be financed by the Asian Development Bank (ADB) at an interest rate of 14.50 *per cent* per annum. The stipulated date to complete the work was 30 June 1998 which was later extended up to 31 March 2003 and again extended up to 30 June 2005.

Audit scrutiny revealed the following:

- GRIDCO obtained (May 2001) forest clearance for construction of transmission lines from GoI subject to compliance of conditions like

forest area demarcation, compensatory plantation, felling of trees, width clearance work and action plan for fire protection measures. The work of demarcation of forest area was completed only in September 2005 and the enumeration and compensatory plantation was yet to be done. As a result, the forest clearance from GoO could not be obtained (July 2006).

- While the clearances from Government of India and Forest and Environment Department, Government of Orissa were awaited, GRIDCO went ahead and purchased full requirement of 175 KMs of conductor valued at Rs.4.03 crore between August 2000 and March 2001. Till June 2005, construction of 77 towers (including eight towers falling under forest area) and stringing of 5.8 KMs outside the forest area were completed in which 35.42 KMs of conductor valued at Rs.81.63 lakh were utilised. The Company diverted 13.70 KMs of conductor valued at Rs.31.57 lakh to flood restoration work. Thus, the Company procured full requirement of conductors disregarding the pace of the execution and consequently 125.88 KMs of conductor valued at Rs.2.90 crore was lying idle at site since March 2001 resulting in blockage of funds.

The Management/ Government admitted (May/ July 2006) that there was delay in complying with the conditions of forest clearance and further stated that in order to avail the ADB loan, materials (conductors) were procured before execution of work.

The procurement of conductors by the Company without obtaining forest clearance from GoO was not in the financial interest of the Company and resulted in blockage of funds of Rs.2.90 crore since March 2001 with consequential interest burden of Rs.2.10[*] crore.

3.11 Wasteful expenditure

Imprudent procurement of Vacuum Interrupters resulted in wasteful expenditure of Rs.69.02 lakh.

The 11 KV grid sub-station of the Company at Joda was equipped with eight Vacuum Circuit Breakers (VCB). Each VCB comprises of three Vacuum Interrupters (VIs). Hence, there were 24 VIs attached to the VCBs at the sub-station.

In order to replace the damaged and ageing VIs (24 nos.) and to maintain a stock of 12 VIs, the Company placed (March 2001) a purchase order on Power System Engineers (agent of Siemens) for 36 Siemens make VIs at the rate of Rs.1.21 lakh per VI (ex-works price). Meanwhile, the supplier informed (June 2001) that the production of the specified type of VIs ordered by the Company would be stopped and advised the Company to procure additional quantity for

[*] Calculated at 14.50 *per cent* per annum for 2001-02 to 2005-06.

maintaining life time stock. Accordingly, the Company revised (September 2001) the quantity to 54 nos. at the same price. The consignment of 54 VIs costing Rs.69.02 lakh was received at Joda sub-station in February 2002 but none of these VIs could be utilised.

Audit scrutiny revealed that these VIs were meant only for such 11 KV systems where Siemens make VIs were in use. So these VIs could be used only at Joda and Jharsuguda sub-stations where Siemens VIs were in use. As the Company had contemplated (April 1999) replacement of 11 KV systems by 33 KV system and had abolished (July 2004) the 11 KV system, it was not prudent on the part of the Company to procure VIs in such large numbers.

Further, since the Company managed 11 KV systems without utilising these 54 VIs, their procurement lacked justification. In the meantime, Joda sub-station had been upgraded (July 2004) to 33 KV, thus, there was hardly any scope for utilisation of these VIs.

The Management/ Government stated (June/ July 2006) that there were ten 11 KV systems in service during 1997 and considering the necessity for maintaining these transformers 54 VIs were purchased which would be utilised in the existing 11 KV systems. The reply is not tenable since out of five 11 KV systems presently existing, one 11 KV system at Jharsuguda only is of Siemens make where there are already 33 nos. of VIs. Hence, the chance of further utilisation of these VIs is remote.

Thus, injudicious procurement of VIs resulted in wasteful expenditure of Rs.69.02 lakh.

Orissa Hydro Power Corporation Limited

3.12 Loss of revenue

Failure of the Company to take timely remedial measures resulted in loss of revenue of Rs.22.12 crore.

In pursuance to the Orissa Electricity Reforms Act, 1995, generation of electricity in the State of Orissa was separated from transmission and distribution. The Company was incorporated in April 1995 with the objective of generating electricity. The Company sells electricity to Grid Corporation of Orissa Limited (GRIDCO), which was incorporated in April 1995 for transmission and distribution of power in the State. Subsequently, the distribution activity was undertaken (November 1998) through four subsidiary distribution companies of GRIDCO. In Balimela, the distribution activity remained with Southern Electricity Supply Company of Orissa Limited (SOUTHCO), a subsidiary company of GRIDCO up to 31 March 1999 and was privatised thereafter. Thus, since November 1998, the Company's role is to generate electricity and sell it to GRIDCO who in turn sells to the distribution companies. The Company was earlier not authorised to supply

power even to its own residential colonies. It was, however, permitted to supply power to its residential colonies with effect from June 2005.

Audit scrutiny revealed as under:

- The Company, despite being aware that they were not authorised to distribute electricity, continued to supply power from its Power House Auxiliary System to its own colony, colony of Water Resources Department (DoWR) and other private consumers from its Balimela Power Station. The Company did not approach Orissa Electricity Regulatory Commission (OERC) for grant of license for supply of power to these consumers.
- The Company raised bills against GRIDCO for the power supplied to the latter excluding the power directly supplied to its own colony, colony of DoWR and other private consumers. The Company, however, did not raise (after 1996) any bills and no amount was collected for the cost of electricity supplied to its own colony, DoWR colony and other private consumers.
- Though GRIDCO/SOUTHCO did not buy or pay for power supplied from the Auxiliary Power System to the Company's colony, the colony of DoWR and private consumers, these companies wrongly collected/ adjusted Rs.22.12 crore from the Company, consumers residing in the colony of DoWR and other private consumers on account of power supplied by the Company from April 1996 to September 2005. The Company requested (July 2001 and December 2005) SOUTHCO for refund of Rs.22.12 crore on the ground that they did not assume any responsibility for construction, operation and maintenance of distribution lines, substations and service connections and power supply was made from the Auxiliary System of the Company.
- SOUTHCO refused (May 2003) to honour the claim of the Company in the absence of any agreement and also on the ground that the Company is not an authorised power distributing agency.
- As per the notification (June 2005) of the Government of India (Ministry of Power), license was not required to be obtained for supply of electricity for colony consumption of the Generator. But distribution of electricity to DoWR colony and private consumers was unauthorised. The Company has not taken any corrective action till date.

Thus, failure of the Company in handing over the distribution system to SOUTHCO or to approach the OERC in time for grant of licence for sale of power to these consumers resulted in loss of revenue of Rs.22.12 crore.

The Management/ Government while admitting (July 2006) the fact of adjustment of energy bills by GRIDCO/ SOUTHCO stated that they had decided to move OERC for settlement of the above dispute. The action of the Management is deficient to the extent that non-obtaining of license from OERC for colony consumption had put the Company to the loss of revenue.

Orissa Mining Corporation Limited

3.13 Non-collection of Entry Tax

Failure to collect Entry Tax from the buyers at the time of sale resulted in avoidable burden of Rs.2.35 crore on the Company.

The Company operates mines and sells ores in the open market. As per the Orissa Entry Tax Act, 1999, Entry Tax (ET) is payable by the buyer at the time of entry of scheduled goods in the local area of the State where goods are carried for consumption, use or sale. Further, as per Section 26 of the Act, which came into effect from 01 June 2004, every manufacturer of scheduled goods who is registered under the Sales Tax Act in respect of sale of its finished products to a buying dealer shall collect Entry Tax and deposit the same into Government Treasury.

Audit scrutiny revealed the following:

- Though, after amendment of the Entry Tax Act with effect from 01 June 2004, the responsibility of collecting ET rests with the seller, the Company failed to collect ET from the buyers while raising bills against them.
- The Sales Tax Authority raised (March 2005) a demand and also directed the Company to file revised Sales Tax return. As per the revised return filed (May 2005) by the Company, the taxable turnover of the Company for the period June 2004 to March 2005 was Rs.235.40 crore on which Entry Tax at the rate of 1 *per cent* worked out to Rs.2.35 crore which was required to be collected from the buyers.
- The Company had already deposited Rs.1.50 crore and assured (May 2005) the Sales Tax Authorities that it would verify if any of the buyers had paid ET at their end and after getting such information, the revised ET payable would be worked out. No effective action was, however, taken by the Company to get the information or make recovery from the buyers.

The Management stated (May 2006) that the amendment to Section 26 of the Act was brought to their notice by the Sales Tax Department only in March 2005 due to which ET could not be recovered from the buyers from June 2004. They further stated that loss as pointed out was not correct since the actual ET to be collected from the buyers was not determined at that time.

The reply is not tenable as ignorance of law can not be a ground for immunity. It is the responsibility of the Company to take due note of the existing laws and rules including any amendments which are relevant to its functioning.

Thus, non-collection of ET from the buyers at the time of sale resulted in avoidable burden of Rs.2.35 crore.

The above matter was reported to the Government (April 2006); their reply is awaited (October 2006).

3.14 Unauthorised sale

Issue of delivery orders without ascertaining currency of Letter of Credit led to non-realisation of Rs.62.59 lakh.

The Company issued (March 2004) a supply order for the supply of 10,000 MT of iron ore to Ores Enterprise Private Limited (OEPL). The terms of the supply order, *inter alia*, provided that OEPL may lift the ore against valid sight Letter of Credit (LC) duly approved by the Company's Barbil office.

OEPL had earlier opened (December 2003) a revolving LC of Rs.30 lakh (valid up to 19 December 2004) on Bolangir Anchalika Gramya Bank (the issuing bank), Basanti Colony, Rourkela in favour of the Company for payment through SBI, Barbil Branch (negotiating bank/ advice bank). The LC stipulated that the revolving value once utilised partly or fully would be available again only on reinstatement of LC advice.

Audit scrutiny revealed that the Company issued (May to September 2004) delivery orders to OEPL on four occasions for lifting of 6,260 MT of iron ores and raised bills for Rs.76.85 lakh. These bills could not be negotiated at the negotiating bank due to non-receipt of LC reinstatement advice from the issuing bank. Against the bill amount of Rs.76.85 lakh, only an amount of Rs.14.26 lakh lying at the credit of OEPL was adjusted and the balance amount of Rs.62.59 lakh remained unrealised. There was no further transaction with the party thereafter and the Company filed (October 2005) a money suit for realisation of dues.

It was observed in audit that even though the revolving LC value was available only on reinstatement of the LC, the Company issued delivery orders without checking out the LC status. In fact, the LC issuing bank had advised (June 2004) the negotiating bank not to negotiate any bill without receiving LC reinstatement advice from them. The Company, despite being aware of such advice of the LC issuing Bank, issued two delivery orders in August 2004 for lifting of 4,000 MT of iron ores in favour of OEPL without verifying receipt of LC reinstatement advice by the negotiating bank.

The Management, while accepting the observations of Audit, stated (January 2006) that disciplinary proceedings had been (April 2005) initiated against the defaulting officials and a money suit was filed (October 2005) against OEPL for recovery of dues. It was, however, noticed that the four officials who were placed (April 2005) under suspension were reinstated in October 2005.

Thus, issue of delivery orders without confirming reinstatement of LC led to non-realisation of Rs.62.59 lakh.

The above matter was reported to the Government (April 2006); their reply is awaited (October 2006).

Orissa State Civil Supplies Corporation Limited

3.15 Avoidable payment of interest

Injudicious decision to invest surplus funds in Short-Term Deposits without repaying higher interest bearing loans resulted in avoidable expenditure of Rs.55.91 lakh on payment of interest.

The State Government (Public Enterprises Department) instructed (November 1996) Public Sector Undertakings (PSUs) that they should not invest their funds while at the same time resorting to borrowings at an equal or higher rate of interest.

The Company received (November 2000 to October 2002) Rs.7.70 crore as loan and Rs.7.70 crore as subsidy from the Government of India (GoI) through Government of Orissa (GoO) for construction of godowns for the Public Distribution System in the State. The loan carried 12.5 *per cent* interest to be repaid within a period of five years commencing from December 2001. The Company repaid Rs.6.38 crore (principal) and Rs.2.33 crore (interest) up to March 2005.

Audit scrutiny revealed the following:

- Though the Company had surplus funds during the period from April 2003 to March 2006, the Company instead of repaying the loan dues (which were at interest rate of 12.50 *per cent* per annum) resorted to investment of these surplus funds in short-term deposits (STDs) at lower interest rates as per the decision taken by the Managing Director. The monthly balance of STDs during April 2003 to March 2006 ranged from Rs.12.69 crore to Rs.59.59 crore at interest rate ranging from 4.25 *per cent* to 6 *per cent* per annum.

- Investment of surplus funds in STDs without repaying higher interest bearing loans by the Company resulted in avoidable expenditure of Rs.55.91 lakh towards differential interest on outstanding loans from April 2003 to March 2006.

The matter was reported to the Management/ Government (April 2006); their replies are awaited (October 2006).

Statutory corporation

Orissa State Financial Corporation

3.16 Loss due to poor recovery action

Poor follow-up for recovery of dues coupled with inadequate punitive measures for seizure of financed assets led to doubtful recovery of Rs.28.71 crore.

Orissa State Financial Corporation was formed to provide financial assistance to medium and small scale industries. The main source of funds of the Company was borrowings from IDBI/SIDBI under refinance facilities, the State Government and Banks. The timely recovery of loans plays a vital role in ploughing back of funds to be used for extending financial assistance to a large number of entrepreneurs. The recovery performance of the Corporation was last reviewed and commented on vide paragraph 3B.6 of the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2000, Government of Orissa. The Report is yet to be discussed in COPU (October 2006).

It was further noticed in audit that the Corporation failed to take timely action for recovery of dues which resulted in non-recovery of dues as discussed in the following three cases.

3.16.1 The Corporation disbursed nine loans of Rs.5.96 crore to three[*] units of a promoter between October 1997 and March 2001. The amount overdue as on 31 March 2006 was Rs.19.55 crore (principal: Rs.6.63 crore and interest: Rs.12.92 crore).

Audit scrutiny (September 2005) revealed the following:

- As on 30 June 2002, overdue amount was Rs.5.40 crore (principal: Rs.1.98 crore and interest: Rs.3.42 crore). The loanee had, however, repaid only Rs.42 lakh up to August 2002 which included Rs.32.57 lakh adjusted from loans disbursed. Even though the loanee stopped paying after August 2002, the Corporation did not initiate any concrete action to safeguard its interest. The Corporation in October 2002 merely informed the loanee to pay Rs.5 lakh immediately and to submit a proposal for repayment of dues by March 2003. The loanee neither paid any amount nor submitted the proposal for repayment. The overdue amount as on 30 September 2004 had increased to Rs.10.05 crore (principal: Rs.3.02 crore and interest: Rs.7.03 crore). The Default Review Committee of the Corporation decided as late as December 2003 to seize the units under section 29 of SFC Act and the same were seized only in November 2004. The Corporation, after

[*] Swami Marine Product (P) Limited (SMPL) : Rs.2.78 crore, Swami Plastic (P) Limited (SPL): Rs.1.68 crore and Swami Net (P) Limited (SNL): Rs.1.50 crore.

seizure of the units noticed that some of the financed assets were missing and assets worth Rs.4.46 crore were available. The First Information Report (FIR) was lodged with the Police on 6 January 2005.

- Though the loanee was a wilful defaulter within the meaning of Reserve Bank of India (RBI) guidelines, the Corporation did not initiate proceedings in the Debt Recovery Tribunal (DRT) under Section 19 of the Recovery of Debt Due to Bank and Financial Institution Act, 1993.
- As the dues outstanding against the party as on 31 March 2006 were Rs.19.55 crore (principal:Rs.6.63 crore and interest:Rs.12.92 crore) against which the Corporation was having industrial security of Rs.4.46 crore only, the Corporation would sustain a loss of Rs.15.09 crore towards unrealised dues.

The Management stated (June 2006) that the units were not seized earlier in view of the difficulties in disposing of the seized units. The units were seized subsequently to avoid further removal of financed assets. It was further added that the exit route of Section 29 was preferred to DRT since the outcome of claims filed in DRT had not yielded expected results and filing of case in DRT would be considered after disposing of the seized units.

The reply is not tenable as the Corporation had failed to take timely action for realisation of dues which is evidenced from the fact that no concrete action was taken for more than two years from September 2002 to October 2004 despite default on the part of the loanee. Further, even after noticing missing of assets during seizure, the Corporation did not initiate proceedings in DRT.

3.16.2 The Corporation had disbursed four loans amounting to Rs.2.50 crore to a loanee[*] between December 1996 and December 1998. In addition, the Corporation sanctioned (February 2001) two cyclone loans of Rs.63.28 lakh, out of which Rs.46.15 lakh was adjusted towards outstanding dues. The loanee had made repayment of Rs.1.17 crore (principal: Rs.47.44 lakh and interest Rs.69.16 lakh) up to February 2001 including Rs.46.15 lakh adjusted by the Corporation. The loanee stopped repayment from March 2001 and defaulted in payment of dues amounting to Rs.9.64 crore (principal: Rs.2.66 crore and interest: Rs.6.98 crore) as on 31 December 2004. The Corporation seized the unit on 4 January 2005 but found that the plant and machinery were missing and only industrial land of 5.53 acres at Malipada, Khurda was available. The First Information Report (FIR) was lodged with Police on 10 January 2005. The Bhubaneswar Branch informed (February 2005) the Default cum Disposal Advisory Committee (DDAC) of the Corporation that the promoter had abandoned/closed the project.

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[*] Shradha Foods and Protein (P) Limited for production of hatchery feed.

Audit scrutiny revealed the following:

- In the memorandum for sanction of Short-Term Working Capital loan (December 1998), the Corporation had valued the industrial assets of the unit at Rs.2.13 crore which included building valuing Rs.1.28 crore. During seizure, however, neither the plant and machinery nor the building were available. The Branch Manager had never informed the fact of non-existence of Building and Plant & Machinery to the Head office though considered as industrial security for the Short-Term Working Capital loan.

- Though the loanee did not make any repayment from March 2001, the Corporation seized the unit only in January 2005. Between March 2001 and December 2004, the Corporation did not take any action for realisation of dues. The reports of inspection of the unit by the officers of the branch during the above period were not made available to Audit. The Corporation also did not take recovery action through the Debt Recovery Tribunal (DRT).

- The available industrial security was only of the value of Rs.6.84 lakh as of February 2005 while the dues outstanding amounted to Rs.12.31 crore (Principal:Rs.2.66 crore, funded interest:Rs.0.90 crore and Interest Rs.8.75 crore) as on 31 March 2006. Since the Corporation failed to take recovery measures in time and in the absence of adequate security, the chances of recovery of outstanding amount of Rs.12.24 crore are remote.

The Management stated (June 2006) that recovery measures could not be initiated due to constraints in disposal of assets at a reasonable price since the unit had locational disadvantage and there was low demand for the hatchery feed producing units. It was further added that after disposal of assets, a case would be filed under section 31 of SFC Act for realisation of dues.

The reply of the Management is not tenable since the facts regarding locational disadvantages of the unit etc. should have been considered at the time of sanctioning of the loan.

3.16.3 The Corporation disbursed Rs.78.58 lakh between March 1998 and April 2000 to Alco Industries (P) Limited (AIL) for setting up an aluminium collapsible tube manufacturing unit, which was to be repaid in 16 half-yearly instalments with a moratorium of one and a half years. AIL repaid Rs.20.96 lakh between July 1998 and September 2001.

AIL stopped repayment after September 2001. The outstanding amount as on June 2002 increased to Rs.1.04 crore (Principal: Rs.74.30 lakh and Interest: Rs.29.27 lakh) including overdue amount of Rs.49.57 lakh (Principal: Rs.20.30 lakh and Interest: Rs.29.27 lakh). The Corporation recalled (15 November 2002) the entire dues of Rs.1.04 crore under Section 30 of State Financial Corporation's Act, 1951 (SFCs Act, 1951).

As against outstanding amount of Rs.1.82 crore as on 30 September 2005, the Corporation decided (December 2005) to settle the loan for Rs.1.14 crore under One Time Settlement (OTS) at the request of the loanee. AIL deposited (September 2005) Rs.24 lakh as initial deposit of OTS after selling a portion of the mortgaged land and building of the unit.

Audit scrutiny revealed the following:

- AIL had been defaulting in repayment and stopped repayment after September 2001. The Company, however, did not seize the unit under section 29 of SFC's Act even after knowing that AIL had shifted the machineries to its sister unit. It served (November 2002) only a recall notice and did not initiate any concrete action against the loanee.
- AIL paid only Rs.25.50 lakh against OTS amount of Rs.1.14 crore which was to be paid by 30 March 2006. The Corporation has not withdrawn the OTS till date and did not also take recovery action through the Debt Recovery Tribunal (DRT) for realisation of the dues inspite of having information about other industrial assets of the loanee.
- As industrial security of only Rs.20.39 lakh (Land Rs.11.45 lakh and Building Rs.8.94 lakh) is available with the Corporation, there is risk of loss of Rs.1.38 crore in view of the default in payment of OTS dues by the loanee.

The Management/ Government stated (June/ July 2006) that recall notice was issued as a pressure tactic for recovery of loans and the unit was not seized as it was under the process of revival. It was also stated that the assets were only shifted to its sister unit which was also mortgaged to the Corporation, hence, there was no criminal breach of trust and the unit was eligible under OTS.

The reply is not tenable since a unit could not be considered under the process of revival when its plant and machineries were being shifted. Further, the Corporation holds lien on those industrial securities which are confined within the premises of the financed unit and any change of place of these securities amounts to criminal breach of trust.

Thus, failure of the Management in taking timely action for realisation of the dues resulted in loss of Rs.28.71 crore.

The above matters were reported to the Government (May and June 2006); their replies are awaited (October 2006).

GENERAL

3.17 Persistent non-compliance with Accounting Standards in preparation of financial statements

Accounting Standards (AS) are the accepted standards of accounting recommended by the Institute of Chartered Accountants of India and

prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards under Section 210A of the Companies Act, 1956. The purpose of introducing the AS is to facilitate the adoption of Standard Accounting Practices by companies so that the annual accounts prepared exhibit a true and fair view of the affairs of the company and also to facilitate the comparability of the information contained in published financial statements of companies. Under Section 211(3A) of the Companies Act, 1956, it is obligatory for every company to prepare the financial statements (profit and loss account and balance sheet) in accordance with the AS. The Auditors are also required to report under Section 227(3)(d) of the Companies Act, 1956 whether the accounts have been prepared in compliance with the AS.

The extent of compliance with the AS in State Government companies was examined by Audit with a view to identifying cases of persistent non-compliance with the Accounting Standards in preparation of annual accounts by State Government companies.

The audited accounts of 14 out of 30 working State Government companies as on 31 March 2006 revealed persistent non-compliance with the Accounting Standard (AS) as pointed out in the Statutory Auditors' Report and comments of the Comptroller Auditor General of India (CAG) under section 619(4) of the Companies Act, 1956 (**Annexure-15**). The particulars/ nature of persistent non-compliance with the AS by the respective PSUs in preparation of their accounts as pointed out by the Statutory Auditors and the CAG are summarised in **Annexure-16**.

It would be seen from the **Annexure-15** and **16** that:

- As per **AS-1**, all significant accounting policies followed in preparing and presenting financial statements should be disclosed and if the fundamental accounting assumptions (viz. going concern, consistency and accrual basis of accounting) are not followed, the fact should be disclosed. One company, however, did not follow the accrual system of accounting for sales tax payments/ refunds but did not disclose the fact. Another company had not formulated any policy on capitalisation of nursery activities.

- Four companies did not comply with the requirement of **AS-2** to determine and record the value of the inventories in financial statements at the lower of cost or net realisable value;

- As per **AS-4**, the amount of loss in value of assets should be provided for, if it is probable that future events will confirm it and a reasonable estimate of loss can be made. One company, however, did not provide for the loss in receivable amounts from debtors whose assets had been seized and sold.

- **AS-7** deals with accounting for construction contracts in the financial statements of contractors. As per the standard, for accounting of construction contracts, the enterprise has to follow either the percentage of completion method or the completed contract method.

One company recognised the contract income on the basis of certificates furnished by project managers without actual measurement.

- **AS-9** deals with the principles for recognition of revenue in the statement of profit and loss of an enterprise. As per the standard if at the time of raising of any claim, it is unreasonable to expect ultimate collection, revenue recognition should be postponed. Four companies, however, recognised income though their realisation was uncertain.

- **AS-10** which deals with accounting of Fixed Assets requires that for machinery spares which can be used only in connection with an item of fixed assets and whose use is expected to be irregular, the total cost should be allocated in a systematic basis over a period not exceeding the life of the principal assets. Two companies, however, persistently defaulted in complying with Accounting Standard by not allocating the cost of machinery spares over the useful life of the principal assets.

- **AS-12** deals with accounting of Government grants. As per the standard, the accounting policy adopted for Government grants including methods of accounting should be disclosed. One company did not disclose this in its accounts.

- **AS-12** also stipulates that Government grants towards promoters contribution should be disclosed under capital reserve. In case of one company, though grant-in-aid was received to create assets (i.e. setting up of a production unit), it was classified under Capital Reserve instead of Grants-in-aid.

- **AS-13** which deals with Accounting of Investments, stipulates that permanent diminution in value of investments should be taken into account for valuation of long term investments. Three companies did not comply with the standard.

- **AS-15** requires accounting of retirement benefits to employees such as gratuity/ leave encashment on superannuation on actuarial valuation basis. Four companies persistently violated AS-15 by accounting for these retirement benefits on cash basis while one company did not disclose the method of treatment of retirement benefits.

- **AS-17** requires that an enterprise dealing in multiple products/ services (termed as 'business segment') and operating in different geographical areas (termed as 'geographical segment') should furnish financial information segment wise along with the consolidated financial statement. One company violated AS-17 as it did not compile segmental information.

- **AS-29** requires that when there is a present obligation of the enterprise arising from past events and the settlement of which is expected so that the enterprise has to discharge the obligation, provision should be made in accounts. Five companies did not make provisions in accounts though there were such obligations.

- **AS-29** also requires that where there is a possible obligation that arises from past events and existence of which will be confirmed only by occurrence or non-occurrence of one or more future uncertain events not wholly within the control of enterprises, the fact should be disclosed in accounts. Three companies have not disclosed such obligations.

To sum up

Most of the State Government companies did not fully comply with the requirements of the AS in preparation of the financial statements, in spite of repeated comments by the Statutory Auditors and the CAG. With a view to ensure 'true and fair view' of the transactions in the annual accounts and to enhance credibility, it is necessary to enforce compliance with the Accounting Standards.

3.18 Follow-up action on Audit Reports

Explanatory Notes outstanding

3.18.1 The Comptroller and Auditor General of India's Audit Reports represent the 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 2004-05 were presented to the State Legislature, 9 out of 18 departments which were commented upon did not submit explanatory notes on 62 out of 282 paragraphs/reviews as on 30 September 2006, 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	1
1995-96	March 197	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	1
2001-02	March 2003	17	7

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
2002-03	December 2003	24	8
2003-04	March 2005	27	15
2004-05	February 2006	17	7
Total		**282**	**62**

Department-wise analysis is given in **Annexure 17**. 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 Projects.

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

3.18.2 Action Taken Notes (ATNs) to 131 recommendations pertaining to 11 Reports of the COPU presented to the State Legislature between April 1993 and March 2006 had not been received as on 30 September 2006 as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of recommendations where ATNs not received
1993-94	2	2
1997-98	1	2
1999-2000	3	45
2000-01	2	65
2001-02	1	8
2004-05	1	3
2005-06	1	6
Total	**11**	**131**

The replies to 131 recommendations were required to be furnished within six months from the presentation of the Reports.

Response to Inspection Reports, Draft Paragraphs and Reviews

3.18.3 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 2006 pertaining to 35 PSUs disclosed that 3407 paragraphs relating to 729 Inspection Reports remained outstanding at the end of 30 September 2006. Of these, 441 Inspection Reports containing 2105 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 2006 is given in **Annexure-18**. 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 20 draft paragraphs and four draft performance reviews forwarded to the various departments between February and August 2006, as detailed in **Annexure-19**, replies to these performance audit reviews and three draft paragraphs were awaited (September 2006). It is recommended that the Government should ensure that (a) procedure exists for action against the officials who fail 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 audit observations is revamped.

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