Chapter-III

Transaction Audit Observations

Government companies

Orissa Mining Corporation Limited

3.1 Undue benefit to the contractor

The Company extended undue benefit of Rs.14.82 crore to the contractor due to payment of dewatering charges disregarding the actual deployment of pumps.

The Company was executing the work of excavation, drilling, blasting and dewatering for raising of chrome ore in South Kaliapani 'D' quarry through a contractor, Arvind Construction Company (ACC) since January 1985 continuously. The contractor had been awarded the work from time to time without inviting tenders.

The Company renewed (April 1998) the agreement with ACC for excavation of 60 lakh cum of chrome ore and removal of overburden in South Kaliapani 'D' quarry, effective from 1 January 2000 for a period of five years upto December 2004. The agreement was again extended (June 2002) for one year up to December 2005 for excavation of revised quantity of 94.60 lakh cum (±10 *per cent*) of chrome ore. The contractor was to be paid excavation charges at the rate of Rs.64.10[*] per cum with escalation formulae for wages, POL and spare parts introduced since April 1992. The Board of Directors of the Company decided (September 2005) to extend the contract for a further period of two years with effect from 1 January 2006 at the same rates and terms and conditions. Though there was changes in quarry dimension causing extra time and efforts due to higher lead and lift, the Company did not increase the basic rate on the ground that ACC had a permanent set up of machineries and infrastructure at site which enabled it to absorb such nominal increase in cost within the basic rate. ACC excavated 92.18 lakh cum between January 2000 and March 2006 and was paid Rs.129.38 crore which included Rs.21.40 crore towards dewatering charges.

[*] The rate of excavation of Rs.64.10 per cum includes basic rate of Rs.51.50 per cum with effect from 1 April 1992 (considering running of 605 HP pumps for 20 hours per day for 365 days) *plus* Rs.6.60 with effect from 1 April 1995 towards dewatering (for running additional 735 HP) *plus* Rs.4.00 with effect from 1 July 1997 (for running of additional 920 HP) *plus* Rs.2.00 per cum towards extra hauling cost with effect from 1 July 1997.

Audit scrutiny revealed the following:

- The annual returns submitted[*] by the Company to Indian Bureau of Mines indicated that ACC actually engaged 1,121 HP (10 pumps) from January 2000 to March 2003, 1,181 HP (10 pumps) from April 2003 to March 2005 and 1,994 HP (12 pumps) from April 2005 to March 2006 for dewatering. Considering the actual deployment of pumps by ACC, the dewatering charges worked out to Rs.6.58 crore. Hence, the extra payment towards dewatering on excavation of 92.18 lakh cum worked out to Rs.14.82 crore (Rs.21.40 crore less Rs.6.58 crore).
- The Company did not take steps to revise the rate of excavation despite being aware that ACC was utilising pumps in the range of 1,121 HP to 1,994 HP as against 2,260 HP pumps considered for computing the rate of excavation i.e. Rs.64.10 per cum.

The Management stated (August 2006/July 2007):

- The contract did not provide for calculating actual cost of each individual operation like excavation, transportation, disposal of overburden, dewatering, stacking of ore, etc. which comprised the composite work for evaluation of the running bills. ACC was paid only on the final output i.e. cubic metre excavated from the mines observing all contractual stipulations. In the contract, there was no provision for recovery/extra payment for variation in the cost of any activity forming part of the composite work during the course of execution.
- Elaborate information on additional pumps, which were kept as standby and those which were under repair, were generally not reflected in IBM returns. A correct picture on use of the pumps could be obtained from the information submitted by ACC and certified by the Mines Manager, which indicated that during the period 1995-2005, pumps of 2,340 HP were in operation. At the same time, it was also stated that the Mines Manager was not required to record the hours of each pumps utilised by ACC throughout the year as the same did not form part of contractual requirement and for settlement of running bills. Besides, pumps sent for repairs, down time date, etc. maintained by ACC were not inspected by the Mines Manager as a matter of routine.

The reply is not tenable in view of the following:

- The cost of dewatering has been considered separately and was included in the basic rate though the work was a composite work.
- In the case of dewatering, the basic rate has been calculated for 2,260 HP pumps working on an average of 20 hours a day for 365 days in a year. So there should be a mechanism to watch that the pumps were used for the estimated hours. In its absence, use of pumps for the estimated hours can not be ensured and there is scope for excess payment being made. Thus, non-provision for payment to be made on

[*] Submitted under Rule-45 of Mineral Conservation and Development Rules, 1988.

operation of pumps for the estimated basis is a deficiency in the contract.

- As the returns are submitted to IBM to give information on use of pumps under the Mineral Conservation and Development Rules, 1988, these should reflect the true picture to comply with the rules. If the statutory returns do not give the true picture, as replied by the Management, it is irregular and liable to attract penalty.
- Management in reply, stated that the correct picture on use of pumps can be obtained from the information submitted by ACC and certified by the Mines Managers. At the same time, it also stated that the Mines Managers were not required to record the hours of each pump utilised by ACC. Thus, both the statements given by the Management are contradictory.
- It was further noticed that despite a comment relating to the same contract on extension of undue benefit to ACC on payment towards higher wage component under paragraph 3.7 of the Report of the Comptroller and Auditor General of India (Commercial), Government of Orissa for the year ended 31 March 2005, the contract has not been reviewed. The Company only obtained (July 2005) a legal opinion from an advocate of the Supreme Court on an order (27 October 1990) of Hon'ble Orissa High Court and extended the contract for two more years in September 2005. Being a Government company, the matter has neither been referred to the Law Department nor the opinion of the Advocate General of the State obtained.

Thus, failure of the Company to revise the basic price despite knowing the fact that the contractor is engaging pumps of less capacity for dewatering was tantamount to extension of undue favour to the contractor which resulted in excess expenditure of Rs.14.82 crore.

The above matter was reported to the Government (April 2007); their reply had not been received (October 2007).

3.2 Loss of revenue due to delayed action

Failure of the Management to make timely arrangement for transportation of chrome ore led to loss of revenue of Rs.2.30 crore.

The Company exports high grade chrome ore through Mines and Mineral Trading Corporation Limited (MMTC) from Paradeep port. MMTC allocates the quantity to be exported on a quarterly basis and shipment of chrome ore is carried out from the port as per agreement entered into with MMTC from time to time. Through a tender (January 2004), the Company engaged (1 March 2004) Paradeep Cargo Carriers (PCC), being the L_1 tenderer, for transportation of 2 lakh MT of ore to Paradeep from 1 March 2004 to 31 August 2004. PCC transported only 627.62 MT up to 18 March 2004 and discontinued the transportation thereafter.

MMTC allocated (24 March 2004) a quantity of 13,000 MT of 50-52 grade chrome ore to the Company for export at a rate of US$ 214.17 per MT pertaining to the first quarter of 2004-05. Since the Company could not confirm the cargo readiness by 29 April 2004, MMTC diverted the quota (29 April 2004) to other producers.

The Company, through a fresh tender, awarded (5 May 2004) the work of transportation to Kandoi Road Lines (KRL[#]) for two months with a target of 30,000 MT. KRL transported 35,959 MT to Paradeep during 10-26 May 2004. The transported quantity of stock was exported in October/ December 2004 when the price came down to US$ 175 per MT. As a result, the Company could not export 13,000 MT of chrome ore at US$ 214.17 per MT as allocated by MMTC on 24 March 2004 and was deprived of revenue of Rs.2.30[*] crore.

Audit scrutiny revealed the following:

- The Company awarded the work to PCC without signing any agreement though there was shortfall of Rs.11.06 lakh in initial security deposit by PCC. Further, although PCC discontinued transportation from 18 March 2004, the Company did not expedite the process of making alternative arrangements for transportation to meet its export commitment.
- In spite of the urgency of the work, the Company did not negotiate with L_2 or L_3 party of earlier tender of January 2004 for carrying out the transportation work and instead went in for a fresh tender. Further, though the fresh tender was opened on 6 April 2004, the contract was finalised and awarded only on 5 May 2004 i.e. after lapse of a month during which the stock could have been transported.

The Management stated (July 2007) that due to hike in rates by the local truck association, PCC discontinued the transportation of ore. It was also stated that the work was awarded to KRL after observing the required formalities which should not be construed as delay. The reply is not acceptable, as the steps taken by the Company were not sufficient considering the urgency of the work, which reflected the lackadaisical attitude of the Management.

Thus, failure of the Management to make timely arrangement for transportation of chrome ore resulted in loss of revenue of Rs.2.30 crore.

The above matter was reported to the Government (May 2007); their reply had not been received (October 2007).

[#] The L_3 tenderer in the earlier tender of January 2004.
[*] 13,000 MT x (US$ 214.17-US$ 175) x Rs.45.24 (exchange rate).

3.3 Loss of revenue

Sale of lump iron ore by the Company without crushing resulted in loss of additional revenue of Rs.61.12 lakh.

The Company awarded (June 2003) the contract for excavation/raising and transportation of lump iron ore from the Company's SGBK Mines to a private contractor, K.D. Sharma, for a period of three years. In terms of the contract, the contractor was required to convert the excavated quantity of lump iron ore into Calibrated Lump Ore (CLO) of 5-18 mm size. The scope of work also included installation of own crusher and screening unit by the contractor. It was further stipulated that the contractor would raise 2.52 lakh MT of lump ore in the first year of contract, out of which it would crush 1.52 lakh MT at its own crusher and transport the balance 1 lakh MT to the designated crusher of the Company for converting into CLO.

During July 2003 to June 2004, as against the target of 2.52 lakh MT, the contractor raised 1.10 lakh MT of lump ore and transported 85,520 MT. Of this, it transported 36,778 MT to the Company's designated crusher and 27,450 MT to its own crusher for converting into CLO. The Company sold the balance 21,292 MT of lump ore at a price ranging from Rs.855 to Rs.921 per MT without converting into CLO. During the same period, the price of CLO ranged from Rs.1,875 to Rs.1,980 per MT. Considering the additional cost of Rs.180.60 per MT towards crushing expenses, it was a favourable proposition to sell CLO instead of lump ore.

Audit scrutiny revealed the following:

- During July 2003 to June 2004, the Company sold 21,292 MT of lump ore which could have been crushed into 13,840[*] MT of CLO. Considering the higher prices of CLO and additional cost of crushing, the Company was deprived of additional revenue of Rs.61.12 lakh due to sale without crushing.
- Though there was shortfall in excavation/ raising and transportation by the contractor, the Company recovered only Rs.1.11 lakh towards penalty from the contractor against Rs.31.56 lakh leviable as per the terms of the agreement for non-fulfilment of contractual obligations.

The Management stated (July 2007) that the shortfall in achieving targeted quantity by the contractor was due to delay in installation of crusher, space constraints for handling ores, labour problems and dispute between the raising and the crushing contractors. The reply is not tenable since the Company awarded the work without ensuring installation of crusher by the contractor.

Thus, due to sale of lump iron ore without crushing despite keeping the crusher idle, the Company sustained loss of Rs.61.12 lakh.

[*] Being 35 *per cent* (7,452 MT) is generated as fines and 65 *per cent* (13,840 MT) is CLO.

The above matter was reported to the Government (April 2007); their reply had not been received (October 2007).

3.4 Excess payment of wages

Failure of the Company in ensuring actual quantity of production before making payment led to excess payment of Rs.41.16 lakh towards wages.

The Company undertakes the work of excavation, breaking, sorting, sizing and stacking of iron ore in Jagar quarry of Gandhamardan Iron ore mines departmentally through engagement of workers. The workers were paid on the basis of piece rate. The Company fixed (July 2002) piece rate of Rs.87.50 per 36 cubic feet (cft) for the above work which was made effective retrospectively from 1 October 2001. In actual practice, the Company measures the work done by the workers through a box of 18 cft and payment was made at Rs.43.75 per box.

In December 2003, the Company constituted a Committee for determining the weight-volume ratio with a view to ascertain and record the figures of actual production of iron ore. The Committee determined (January 2004) the weight of one cubic meter of iron ore as 2.5 MT. As such, the weight of iron ore of one box is worked out to 1.275* MT.

Audit scrutiny revealed the following:

- Although the Committee had determined (January 2004) the weight-volume ratio, the Company had never made any effort to reconcile the actual output vis-à-vis the payments made for number of boxes.
- The actual production of iron ore in Jagar quarry was 3,84,739 MT (January 2004 to March 2007), which in terms of boxes worked out to 3,01,921 boxes.
- As against the actual production of 3,01,921 boxes, the Company made payment for 3,96,000 boxes resulting in excess payment for 94,079 boxes amounting to Rs.41.16 lakh (at a rate of Rs.43.75 per box).

The Management stated (July 2007) that the weight-volume ratio might have been determined for use in various technical aspects and there would be gap between volumetric figure and actual weight due to unavoidable reasons like unevenness of the ground on which boxes are kept, varying degree of void in the ore, etc.

The reply is not tenable since the weight-volume ratio had been determined for the purpose of recording production figure. This fact has also been confirmed by the Management. Thus, there can not be any bias in the weight-volume relationship established by the Committee. It is the responsibility of the Management to ensure proper measuring of boxes to avoid excess payment of wages.

* Since 1 cubic meter is 35.31338 cubic feet.

Thus, failure of the Company in ensuring actual quantity of production before making payment led to excess payment of wages of Rs.41.16 lakh.

The matter was reported to the Government (April 2007); their reply had not been received (October 2007).

Orissa State Beverages Corporation Limited

3.5 Loss of revenue due to delayed/non-implementation of revised price

Delay in implementation of upward revised prices of 180 ML size IMFL and non-revision of prices of 375 ML size IMFL by the Company led to loss of revenue of Rs.48.73 lakh.

The Company was incorporated (November 2000) for implementing the Excise Policy formulated by the State Government from time to time with a view to check evasion of Excise Duty and Sales Tax. The wholesale trade of Indian Made Foreign Liquor (IMFL) was also entrusted to the Company by an amendment of Bihar and Orissa Excise Act, 1915. The State Government constituted (April 2003) a Price Fixation Committee (PFC) for fixation of price of IMFL supplied through the Company. For arriving at the issue price of IMFL, Entry Tax, State Excise Duty, margin of the Company and Sales Tax are added to the price fixed by PFC. The Company remits Entry Tax, State Excise Duty and Sales Tax to the State Government. Audit scrutiny of price fixation and its implementation revealed the following:

- The PFC observed (June 2005) that the cost of sale of 180 ML of IMFL should be more in comparison to the cost of sale of 750 ML size and 375 ML size packs due to incidence of additional packing cost[*] in smaller size bottles.
- Based on the above analogy, PFC increased (18 July 2005) the offer price of 375 ML size of only one supplier (viz. Kaleast Bottling (P) Limited) by 1.4745 *per cent* compared to the offer price of same brand of 750 ML size packs. The PFC, however, did not revise the offer prices of 375 ML size packs of all other suppliers of IMFL. Though the Chairman-cum-Managing Director of the Company was the convenor of the PFC, he did not bring this fact to the notice of PFC. As a result, the Company sustained loss of Rs.36.77 lakh during the period 19 July 2005 to 31 March 2006 on sale of IMFL of 375 ML size of other suppliers.
- The PFC also increased (6 August 2005) the offer price of 180 ML size by 1.7831 *per cent* compared to the price of 375 ML. The Company, however, implemented the enhanced price only from 1 September 2005 causing loss of revenue of Rs.11.96 lakh.

[*] Cost of bottles, labels, caps, stickers, etc.

The Government/ Management stated (April/ July 2007) that the process of implementation of the revised price took time for complying with the procedural formalities viz. preparation of minutes, authentication by the members of the PFC, computerisation of the data and communication to depots for implementation. It, however, assured for speedy implementation henceforth. Regarding non-revision of price of 375 ML size bottles, it was replied that the decision to hike the landing price of 375 ML size bottles of only Kaleast Bottling (P) Limited was taken considering various factors which was the prerogative of PFC.

The reply is not tenable in view of the fact that there should not have been any delay in implementation at the cost of the Government exchequer. Further, the price of smaller size bottles of all suppliers should have been increased in proportion to the price of bigger size bottles, considering PFC's own observation in this regard. The Company also failed to bring this fact to the notice of PFC.

Thus, delay in implementation of upward revised prices of 180 ML size IMFL and non-revision of prices of 375 ML size uniformly in respect of all the suppliers resulted in loss of Rs.48.73 lakh to the Company.

Orissa Hydro Power Corporation Limited

3.6 Loss due to injudicious decision

Non-acceptance of bonds for Rs.250 crore by the Company in the first instance led to loss of interest of Rs.127.50 crore.

Orissa Hydro Power Corporation Limited (OHPC) generates electricity from its various hydroelectric projects and has been selling the same to the Grid Corporation of Orissa Limited (GRIDCO) since 1 April 1996. GRIDCO, however, could not pay the energy bills to OHPC and the dues on this account accumulated to Rs.149.50 crore as of October 1998. To enable part liquidation of the dues, GRIDCO allotted (February 1999) bonds worth Rs.50 crore to OHPC carrying interest at 15 *per cent* per annum. The rate of interest, however, was reduced to 8.5 *per cent* retrospectively from April 2001 as per the orders (June 2003) of Orissa Electricity Regulatory Commission (OERC).

In accordance with the recommendations of the Committee of Independent Experts[*] and corrective measures suggested by OERC, the State Government decided (January 2003) for securitisation of all outstanding dues payable to OHPC by GRIDCO till 31 March 2001 through issue of power bonds. As per the records of OHPC, the outstanding dues payable by GRIDCO as on 31 March 2001 amounted to Rs.278.39 crore (excluding Rs.50 crore for which bonds had already been issued by GRIDCO). The figure of the outstanding

[*] Sovan Kanungo Committee.

dues is, however, yet to be reconciled between OHPC and GRIDCO due to disagreement over dues towards hydrology failure[∇] and secondary energy[∇∇].

Audit scrutiny revealed that GRIDCO proposed (July 2003) for issuing bonds worth Rs.250 crore towards outstanding dues payable (subject to reconciliation) as on 31 March 2001 at interest rate of 8.5 *per cent* per annum. OHPC, however, refused (September 2003) the proposal on the ground that the value of the bond was less than the outstanding dues as on 31 March 2001 and insisted for Government guarantee on bonds as given by GRIDCO to National Thermal Power Corporation Limited earlier (October 2000 and October 2001) in issuing bonds.

Although in its revised proposal, GRIDCO offered (October 2003) bonds for Rs.310 crore covering the outstanding dues up to 31 March 2003, the proposal offered zero interest on the bond amount citing the orders (23 June 2003) of OERC. OHPC did not accept the proposal and requested (28 October 2003) the State Government to issue directions to GRIDCO to issue interest bearing bonds equal to the outstanding receivable as on 31 March 2001. No direction had so far been issued (October 2007) by the State Government. As a result, the outstanding dues of OHPC as on 31 March 2001 were yet to be cleared/ securitised.

It was observed that since the contentious issues of hydrology failure and secondary energy were still under the consideration of OERC, it was in the financial interest of OHPC to accept the bonds for Rs.250 crore offered by GRIDCO in first instance as this was subject to reconciliation of dues as on 31 March 2001 at a later stage. Thus, non-acceptance of the offer of GRIDCO resulted in loss of Rs.127.50[*] crore towards interest for the period 1 April 2001 to 31 March 2007.

The Government/ Management stated (May/July 2007) that the matter regarding non-reconciliation of accounts had been taken up with GRIDCO and would be settled at the earliest. The fact, however, remained that the Administrative Department was yet to issue any direction to GRIDCO to issue interest bearing bonds equal to outstanding dues of OHPC as on 31 March 2001 and the reconciliation was pending (October 2007).

3.7 Loss due to delay in installation of transmission line

Failure of the Company in taking timely action to install its own transmission line for drawing power from its generating station for use in its colonies resulted in loss of Rs.7.01 crore.

The Company sells its generated power to GRIDCO who, in turn, sells the same to the four power distribution companies for retail distribution of

[∇] Failure to generate quantum of energy as committed during fixation of tariff due to scarcity of water.

[∇∇] The quantum of energy generated in excess of the design energy on per year basis at the generating station. As such, the generation of secondary energy is a matter of incidence.

[*] Calculated at 8.5 *per cent* from 1 April 2001 to 31 March 2007 on Rs.250 crore.

electricity to the ultimate consumers. Prior to June 2005, the Company was not authorised to draw and supply electricity from its own generation for consumption in the housing colony and township of its staff. The Union Ministry of Power (MoP) issued (June 2005) a notification that a generating company shall not be required to obtain license under Electricity Act, 2003 to supply power to its housing colonies and townships. As such, the Company could meet the requirements of its housing colony and township after June 2005 from its own source.

3.7.1 The Company draws power from Southern Electricity Supply Company of Orissa Limited (SOUTHCO) for consumption in its housing colony and township through its distribution network at general tariff of Rs.3 per unit. On the other hand, the Company sells the power generated in its hydro power station at Mukhiguda to GRIDCO at Re.0.4638 per unit.

Audit scrutiny revealed the following:

- It was economical for the Company to use its own power. The Company, however, after a lapse of one year, assessed (July 2006) that drawing of 2 KMs long 11 KV line along with some minor modifications to the existing line would be required. The cost of the work was estimated (August 2006) at Rs.5.20 lakh.
- Giving three months for construction of the proposed 2 KMs of 11 KV line, the Company could have started using its power from October 2005 onwards. During the period October 2005 to March 2007, the Company purchased 23.79 million units for Mukhiguda colony @ Rs.3 per unit. As a result, the Company incurred avoidable expenditure of Rs.6.03[*] crore.

The Management/Government while accepting the fact stated (July 2007) that they were taking steps to segregate and hand over the load of non-OHPC consumers[#] for the existing transmission line to the concerned power distribution company after which they would meet their power requirement from their own generation.

3.7.2 In respect of power requirement for Bariniput staff colony, the Company was drawing power @ Rs.2.30 per unit. The Company belatedly decided (May 2006) to retain the distribution network for exclusive supply of electricity from its own generation. Accordingly, it was agreed (May 2006) in a meeting of the Company, SOUTHCO and GRIDCO that SOUTHCO would carry out the necessary technical modifications in transmission lines for this purpose within three months (i.e. by 1 October 2006). However, the modifications had not yet been carried out (October 2007).

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[*] Being the difference of cost of power purchased (Rs.3 per unit) and cost of generation (Re.0.4638 per unit for 2,37,92,901 units consumed.

[#] Represent the consumers not among Company's staff but drawing power through the transmission line of Company's housing colony/township.

Audit scrutiny revealed the following:

- OHPC took up (May 2006) the issue with GRIDCO and SOUTHCO after almost one year after MoP notification. However, OHPC did not execute any formal agreement with SOUTHCO nor pursued the matter after expiry of agreed period of three months in October 2006. OHPC also failed to take steps on its own to modify the system.
- Supply of power from its generation would have been possible at the rate of Re.0.1372 up to March 2006 and Re.0.1635 per unit thereafter. OHPC, however, paid @Rs.2.30 per unit to SOUTHCO and the extra expenditure on this score worked out to Rs.98.19 lakh for the period from July 2005 to March 2007.

The Management stated (May 2007) that OHPC had constantly pursued the issue with SOUTHCO to take up the work but SOUTHCO did not respond. It was further stated that the estimate for carrying out the necessary modifications by the Company itself had already been approved (May 2007) by the competent authority. The reply is not acceptable as the Company should have taken the timely action for carrying out the necessary technical modifications by itself instead of waiting long for SOUTHCO's response as the saving involved on this account was significant.

Thus, failure of the Company in taking timely action to install its own transmission system for drawing power from its generating station for use in the staff colonies resulted in loss of Rs.7.01 crore. These units of the Company would continue to incur extra expenditure till the distribution system for its colonies is taken over from SOUTHCO and timely action is not taken for carrying out the technical modifications.

The above matter was reported to the Government (April 2007); their reply had not been received (October 2007).

3.8 Loss due to defective tariff proposal

Failure to claim Electricity Duty on auxiliary consumption for secondary energy coupled with non-inclusion of Electricity Duty at the enhanced rate in the tariff proposal resulted in loss of Rs.47.14 lakh to the Company.

As per Orissa Electricity Duty Act, 1961, the consumption of electricity attracts Electricity Duty (ED) payable to the State Government. The Company is required to pay ED on its auxiliary consumption[#] and to get it reimbursed from the Grid Corporation of Orissa Limited (GRIDCO) in addition to the approved tariff. The auxiliary consumption is allowed at 0.5 *per cent* of gross generation (actual quantum of generation before adjustment of auxiliary consumption) by the Orissa Electricity Regulatory Commission (OERC). The rate of ED was Re.0.12 per unit up to 9 October 2001 and Re.0.20 per unit

[#] Energy consumed for generation of electricity by power generating companies.

thereafter. The tariff proposals for primary[*] energy as annually submitted by the Company for the years 2001-02 to 2005-06 were approved by OERC. Further, OERC approved (July 2001) the tariff of secondary[∇] energy (inclusive of ED) at 5 *per cent* of average rate of tariff of primary energy in respect of old power stations.

During the period 2001-02 to 2005-06, gross generation of the Company was 27,430.968 MU including 2,261.784 MU of secondary energy. The auxiliary consumption for generating secondary energy was 11.31 MU. The ED payable by the Company on the auxiliary consumption in respect of gross generation worked out to Rs.2.61 crore, out of which, the Company paid Rs.2.42 crore to the State Government. As against this, the Company could recover Rs.2.14 crore through tariff from GRIDCO resulting in short recovery of Rs.47.14 lakh.

It was observed that the Company, while submitting the tariff proposals for the years 2001-02 to 2005-06 to OERC, included ED on auxiliary consumption on primary energy only and failed to include ED on auxiliary consumption on generating secondary energy and therefore, it remained excluded from the tariff. The Company also failed to include ED at the enhanced rate of Re.0.20 per unit in the tariff proposal for the years 2001-02 and 2002-03. In the absence of any provision for raising bills towards ED on secondary energy, the Company could not raise a claim of Rs.22.30 lakh towards ED on 11.31 MU of auxiliary consumption for generating secondary energy. The Company also could not claim the amount towards enhanced ED for the period 10 October 2001 to 31 March 2003 on its gross generation amounting to Rs.24.84 lakh as it had not included the same in the tariff proposal.

Since OERC had already approved tariffs of GRIDCO and distribution companies for the years up to 2006-07 based on the approved tariffs of the Company, chances of recovering the differential ED for prior periods from GRIDCO are remote.

The Management stated (July 2007) that GRIDCO had been requested to reimburse the balance ED. The reply of the Management indicates the undue burden of ED on the Company which was due to submission of faulty tariff proposal.

Thus, due to failure to claim ED on auxiliary consumption for secondary energy coupled with non-inclusion of ED at the enhanced rate in the tariff proposal, the Company sustained loss of Rs.47.14 lakh.

The above matter was reported to the Government (June 2007); their reply had not been received (October 2007).

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[*] The quantum of energy generated up to the design energy on per year basis at the generating station

[∇] The quantum of energy generated in excess of the design energy on per year basis at the generating station. As such, the generation of secondary energy is a matter of incidence.

Orissa Power Transmission Corporation Limited

3.9 Loss in letting out feeder bays

Absence of any defined policy of the Company in letting out its assets for use by the consumers resulted in loss of Rs.1.44 crore.

The power transmission activities in the State were managed by the Grid Corporation of Orissa Limited (GRIDCO) up to 31 March 2005. The Orissa Power Transmission Corporation Limited (Company) was incorporated (29 March 2004) and the activities of GRIDCO relating to the power transmission in the State were transferred to the Company with effect from 1 April 2005.

Jindal Stainless Limited (JSL) entered (November 2003) into an agreement with GRIDCO to utilise feeder bay Nos.9 and 10 of 400/220 KV New Duburi substation for drawing electricity. As per the agreement, JSL was required to construct and hand over two feeder bays viz. No.11 and 12 to the Company before availing power supply from 400/220 KV New Duburi substation. At the request of JSL, the Company allowed (12 September 2005) power supply through feeder bay No.10 with an undertaking from JSL to complete the above bays (11 and 12) by 30 September 2005. The Company, however, did not fix any hire charges payable by JSL for use of bay No.10. JSL completed and handed over the two feeder bays (No.11 & 12) on 20 November 2006.

In another case, it was observed that Rohit Ferro Tech Limited (RFTL) requested (October 2006) the Company for use of a feeder bay of the above transmission line as per the conditions to be laid down by the Company. The Company allowed (21 November 2006) use of bay No.12 for two months with an undertaking from RFTL that bay no.13 would be completed and handed over by them within two months from the date of power supply, but without fixing the hire charges for use of the bay. RFTL continued to use the feeder bay of the Company through periodic requests and was yet to complete the construction of bay No.13 (October 2007). The Company asked (20 March 2007) RFTL to deposit the hire charges of Rs.49.48[*] lakh for the period 21 November 2006 to 30 April 2007. RFTL, however, deposited (31 March 2007) Rs.12.29 lakh only for the period 22 March 2007 to 30 April 2007 and requested to waive the hire charges of Rs.37.19 lakh for the period 21 November 2006 to 21 March 2007 as they had not received any prior intimation to this effect while receiving permission to use the feeder bay of the Company.

Audit scrutiny revealed the following:

- The Company did not have any laid down policy including charges recoverable for letting out its assets for use by outside parties. It allowed JSL and RFTL to use the Company's bays before construction of bays by them.

[*] Hire charges of Rs.30,734 per day based on rate of depreciation and interest on capital cost of the feeder bay as allowed by Orissa Electricity Regulatory Commission in fixation of tariff.

- The Company did not impose any hire charges on JSL for the period of 435 days (viz. 12 September 2005 to 20 November 2006) it used bay no.10. Considering the methodology adopted in calculating per day charges in respect of RFTL, JSL should have been charged Rs.1.07 crore (Rs.24,491 per day) as hire charges.
- In case of RFTL, in the absence of any provisions in the agreement, the possibility of recovery of hire charges of Rs.37.19 lakh for the period 21 November 2006 to 21 March 2007 was remote.

Thus, absence of any policy for letting out its assets for use by the consumers and deficiency in terms and conditions in letting out the feeder bay resulted in loss of Rs.1.44 crore to the Company.

The above matter was reported to the Management/ Government (June/ July 2007); their replies had not been received (October 2007).

3.10 Loss due to sharing of cost of a deposit work

Acceptance of deposit work on 50 *per cent* cost sharing basis in deviation from its standard practices would result in avoidable expenditure of Rs.87.25 lakh.

One of the towers of 132 KV line running from Paradeep grid substation to Paradeep Port Trust (PPT) was located inside the premises of Paradeep Phosphate Limited. Due to deposit of chemical effluent emitted from PPL around the conductor, there was frequent power interruption. PPT requested (June 2003/February 2004) the Company to relocate the tower and further submitted (May 2005) a revised proposal for re-routing of the 132 KV line in view of its expansion plan. While submitting the drawing of the work, PPT requested (May 2005) the Company to share 50 *per cent* of the cost of the work. The Company estimated (November 2005) the cost of the work at Rs.1.74 crore. The Company agreed (April 2005) to bear 50 *per cent* of the cost of the work on the ground that PPT had provided (February 1996 to June 2000) interest free advance of Rs.15 crore for construction of a different line from Duburi to Paradeep. The Board of Directors approved (May 2006) the sharing of 50 *per cent* of the cost of the work. PPT deposited (July 2006) Rs.87.25 lakh (being 50 *per cent* of the estimated amount). The tendering of the work was yet to be finalised (August 2007).

Audit scrutiny revealed the following:

- The re-routing was proposed by PPT considering its expansion plan and for its own convenience. Hence, as per the Company's standard practice, the work was falling under the category of deposit work and PPT was liable to bear the full cost of the work.
- For construction of 220 KV Duburi-Paradeep line, PPT had deposited Rs.13 crore upto August 1998 and Rs.2 crore (June 2000). The Company, however, could not complete the work and as per agreement, the Company adjusted (between September 1998 and August 1999) the advance of Rs.13 crore from the energy bills of PPT

and balance Rs.2 crore (between August and September 2000) against the cost of restoration of lines damaged in the super cyclone.

The Management/Government stated (July 2007) that since the commitment to construct 220 KV Duburi-Paradeep line could not be fulfilled despite deposit of interest free advance by PPT, sharing of cost was agreed to. The reply is not tenable in view of the fact that the interest free advance received by the Company from PPT had already been set off through adjustment against dues of PPT. Thus, the issue had already been settled without creating any further liability on the Company.

Sharing of cost of the deposit work subsequently in deviation from its standard practice not only lacked justification but also would result in avoidable expenditure of Rs.87.25 lakh.

3.11 Avoidable expenditure

Non-conducting of periodic inspection and maintenance of towers coupled with delayed action for the replacement of missing tower members resulted in avoidable expenditure of Rs.73.18 lakh.

The stability of a transmission tower (220 KV and 132 KV) mainly rests on the members attached to the tower and failure to take timely repair/replacement action of tower members could make the towers weak. The Company issued instructions* from time to time to the EHT (O&M) Divisions for carrying out the necessary repair/replacement work of tower members immediately after detection of defects.

Between April and September 2004, there were thefts of tower members valued at Rs.1.11 lakh at locations Nos.497 to 503 of Theruvali-Bhanjanagar 220 KV line. The EHT (O&M) Division, Bhanjanagar did not replace the tower members. In a whirlwind (April 2005) in the area, 13 towers at locations 493 to 505 collapsed causing disruption of power supply on the route. The General Manager (Electrical) attributed (May 2005) the collapse to theft of tower members. The Company executed (May 2005) the work of replacement of the towers at a cost of Rs.73.18 lakh.

It was observed that the EHT (O&M) Division, Bhanjanagar failed to replace the missing tower members on the identified locations despite repeated instructions by the Head Office. Further, though the laid down procedure of the Company envisaged periodic inspection and maintenance of towers, the same was not adhered to. The reasons for such deviations were not on record. The Company also did not fix the responsibility nor initiated action against the erring officials. As a result, the Company had to incur avoidable expenditure of Rs.73.18 lakh.

The Management stated (August 2007) that the ageing factor and the wind pressure design aspect might be the causes for twisting of the towers. The

* 19 July 2004, 4 August 2004, 18 August 2004, 27 August 2000, 8 September 2004, 27 September 2004 and 19 November 2004.

reply substantiates the fact that vigorous actions for replacement of tower members should have been taken considering the aging factor of these towers. Further, the tower members are meant to withstand the wind pressure by the tower irrespective of its age.

Thus, lack of timely action for replacing the missing tower members resulted in avoidable expenditure of Rs.73.18 lakh.

The above matter was reported to Government (June 2007); their reply had not been received (October 2007).

Orissa Hydro Power Corporation Limited and Orissa Power Transmission Corporation Limited

3.12 Avoidable burden on consumers due to short drawal of power

Shortfall in drawal of power by the State power sector companies resulted in avoidable burden of Rs.36.40 crore towards additional cost of power on the consumers.

The State Government was entitled to draw 30 *per cent* of the energy generated by Machkund Hydro Electric Project (MHEP) which was jointly owned by Orissa and Andhra Pradesh. The State Government entered (December 1978) into an agreement with the Government of Andhra Pradesh for purchasing 20 *per cent* of the energy generated in MHEP at Re.0.08 per unit in addition to its share. The erstwhile Orissa State Electricity Board (OSEB) was the operating agency for Orissa's share of the project since its inception and with effect from 1 April 1996, Orissa Hydro Power Corporation Limited (OHPC) became the operating agency. The Grid Corporation of Orissa Limited (GRIDCO) was holding the responsibility of monitoring the grid operations of the State up to 31 March 2005 when this work was transferred to Orissa Power Transmission Corporation Limited (OPTCL) as per the Electricity Act, 2003. Andhra Pradesh Generation Corporation Limited (APGENCO) off takes the power from MHEP and transmits the same to Andhra Pradesh Transmission Corporation Limited.

It was noticed that as against total net generation of 10,177.8505 MU during 1992-93 to 2006-07 by MHEP, 4,727.1584 MU could be drawn against Orissa's share of 50 *per cent* (5088.9253 MU) leaving a shortfall of 361.7669 MU. Out of this, the short drawal of power relating to the period 2003-04 to 2006-07 was 168.6845 MU.

Audit scrutiny revealed the following:

- There was difference in view between OHPC and OPTCL as regards responsibility for ensuring full drawal of power by the State from MHEP. OHPC was of the view that OPTCL, being the grid operator, should ensure full drawal of energy. OPTCL held that OHPC should furnish the hourly generation data and day ahead availability of power data of MHEP by fax to OPTCL on daily basis for enabling it to draw full share of power, which OHPC failed to comply with. GRIDCO, who was the grid operator prior to 1 April 2005, stated that the entitled power could not be drawn due to system constraints.

- APGENCO attributed (February 2006) the reasons for short drawal by Orissa to inadequate demand in grid since there was no control mechanism in the powerhouse to restrict drawal by Orissa. APGENCO, however, agreed (January 2006) to compensate the short drawal of power by Orissa for the year 2005-06 by the end of March 2006.
- A decision was taken (January 2006) in the meeting of Power Sector Co-ordination Committee to explore the feasibility of synchronisation of MHEP generation with the Eastern Region System and exchanging with APGENCO share through central sector allocation of power to Andhra Pradesh. This has not yet been finalised (October 2007).
- Since GRIDCO (the bulk supplier of the power) purchased power from National Thermal Power Corporation Limited at unit price ranging from Rs.2.2112 to Rs.2.3091 during 2003-04 to 2006-07, failure to avail 168.6845 MU during 2003-04 to 2006-07 resulted in additional expenditure of Rs.36.40 crore and consequential burden of differential cost of power on the consumers.

The Government/Management of OHPC stated (June/July 2007) that they had no role in drawal of power from MHEP. The reply is not tenable in view of the fact that the Company had failed to comply with the requirements of OPTCL in furnishing required data for facilitating drawal of State's full share of power from MHEP.

Thus, shortfall in drawal of power by the power sector companies of the State from Machkund Hydro Electric Project resulted in additional expenditure of Rs.36.40 crore and consequential avoidable burden of differential power cost on the consumers.

The above matter was reported to OPTCL (May 2007); their reply had not been received (October 2007).

Industrial Development Corporation of Orissa Limited

3.13 Undue benefit to buyers

Non-adherence to the terms of the sales order by the Company and sale of chrome ore at price below the prevailing market price led to loss of revenue of Rs.2.11 crore.

After inviting (March 2006) open tenders, the Company issued (24 April 2006 and 6 May 2006) sales orders to 12 buyers for disposal of 27,500 MT chrome ores (30-32 *per cent*) at the highest rate of Rs.1,100 per MT. The terms of the sales orders, *inter alia*, envisaged that the buyers would deposit the full provisional value of the materials in advance and lift the materials within 30 days from the date of obtaining stack removal permission from the Deputy Director of Mines of the State Government, failing which no claim from the buyers would be entertained to lift the materials at the agreed price. In that situation, the sales order would be automatically cancelled and the amount deposited towards provisional sales value would be forfeited.

Accordingly, all the buyers deposited the full provisional sales value for 27,500 MT of chrome ores and stack removal permission was granted between 22 April 2006 and 12 May 2006. Hence, all the buyers were required to lift their respective allotted materials by 11 June 2006.

Audit scrutiny revealed the following:

- Within the stipulated date, five buyers did not lift 6,968 MT out of the allotted quantity of 14,000 MT. The Company, however, neither cancelled the sales order nor forfeited their deposits as per the terms of the sales order. Instead, it allowed (between July and October 2006) these five buyers to lift the unlifted quantity of 6,968 MT at the agreed price of Rs.1,100 per MT though the market price during this period was prevailing at Rs.2,282[*] per MT resulting in loss of Rs.82.36 lakh.
- The Company noticed (April 2006) additional chrome ore lying beside the stacks put to sale in the tender of March 2006. For selling these ores of 10,917 MT, the Company did not resort to open tender for sale, instead it sold (June-September 2006) the same to the six buyers of the earlier tender (March 2006) at a rate of Rs.1,100 per MT against the prevailing market price of Rs.2,282 per MT leading to loss of Rs.1.29 crore.

The Management/Government stated (June/August 2007) that due to operation of its weighbridge in a single shift, priority was accorded to despatch of chrome ores for export and captive consumption and hence the trucks of the parties were not allowed to operate. It also added that due to heavy rain and non-availability of sufficient number of trucks to the buyers, there was delay in lifting of chrome ore by the buyers. It was further stated that since the Company did not have the required capacity for beneficiation of low grade ore to chrome concentrate, the loss calculated in audit is hypothetical.

The reply is not tenable as the constraints in despatch of material adduced by the Management have no recorded evidence. The problems relating to heavy rain and insufficient trucks should have been taken care of by the buyers. Further, the loss was worked out by Audit on the same methodology as was adopted by the Management while fixing the reserve price of chrome ore.

Thus, non-adherence to the terms of the sales order and sale of chrome ore without inviting open tenders led to extension of undue benefit to the buyers resulting in loss of additional revenue of Rs.2.11 crore.

[*] Derived from the market price of chrome concentrate in the corresponding period.

3.14 Undue favour to buyers

Injudicious decision of the Company to increase the quantity and lifting period resulted in loss of Rs.2.10 crore.

The Company issued (January 2005) sales order for stack no.153/04 and stack no.154/04 of chrome ores (34.52 and 34.23 *per cent* chrome content respectively) in favour of Visa Industries Limited (VIL) and Pradhan Industries Private Limited (PIPL) for a quantity of 11,000 MT each at Rs.1,107 and Rs.1,105 per MT respectively. As per the terms of the sales order, the buyers would lift the entire quantity of ores in the allotted stack by 31 January 2005 even if ores were available in excess of 11,000 MT.

VIL and PIPL could lift only 7,800 MT and 7,183 MT by 31 January 2005. The Company subsequently found (February and March 2005) additional quantities in the stacks and allowed the buyers (February and March 2005) to lift the additional quantities. VIL and PIPL lifted total quantity of 19,800 MT and 16,043 MT respectively by the end of March 2005. Thus, the buyers were allowed to lift 20,860 MT beyond the stipulated period.

Audit scrutiny revealed the following:

- Though the buyers did not lift the allotted quantity by the stipulated date i.e. 31 January 2005, the Company did not terminate the contract nor forfeited the security deposit as per terms of the sales order. Instead, the Company increased (February and March 2005) the agreed quantity of sale to VIL and PIPL by 8,800 and 5,043 MT respectively.
- Since the price of identical grade chrome ore (34 *per cent* grade) was Rs.2,113 per MT in February 2005, the decision of the Company to increase the quantity as well as its lifting period was unjustified. As a result, the Company sustained loss of revenue of Rs.2.10 crore.
- The legal opinion obtained by the Company also suggested that the tenure of the contract ceased after 31 January 2005 and the buyer had no right to lift materials after such date.

The Management/Government stated (April 2006 and August/September 2007) that due to transporter's strike in January 2005 both the buyers could not lift the material within the due date and extension was granted at their request. It was also stated that since additional chrome ores were noticed, allotted quantities of the buyers were increased as per the terms of the sales orders. The reply is not factually correct as during the month of January 2005, ores from four stacks of the Company were transported by the respective buyers. Further, the buyers had no right to lift the additional quantities after the stipulated date as also suggested by the legal opinion obtained by the Company.

Thus, injudicious decision of the Company to increase sales quantity and lifting period disregarding the market price and in deviation from the terms of sales order resulted in loss of revenue of Rs.2.10 crore.

3.15 Extra expenditure

Non-acceptance of the lowest tender by the Company resulted in excess expenditure of Rs.1.06 crore.

The Company invited (October 2004) an open tender for excavation of ores from Quarry-I of its Tailangi Chromite Mines on turnkey basis including complete initial dewatering. After negotiation (March 2005) with the L_1 bidders, the rate was agreed at Rs.1,250 per MT of high grade ore to be raised with periodic escalation considering base date as 15 November 2004. The Company sent (May 2005) the proposal to the State Government for approval. The State Government sought (December 2005) compliances on certain procedural deficiencies in the tender, which the Company did not comply with nor awarded the contract.

Meanwhile, the Company engaged (November 2005) the contractor working in another quarry of the Company at Rs.124 per cubic meter (cum) of excavation (excluding cost of dewatering) with periodic escalation as an *ad hoc* arrangement. After a lapse of one year, the Company invited (November 2006) fresh tender in order to engage a contractor formally and awarded the work at Rs.163* per cum to the L_1 bidder for execution of an estimated quantity of 6 lakh cum. The approval of the Government for this rate, however, was not on record.

Audit scrutiny of the above case revealed the following:

- The contractor engaged on *ad hoc* basis excavated 3,45,477.620 cum during November 2005 and July 2006 which fetched 32,475 MT of high grade chrome ore. The Company paid Rs.4.85 crore to the contractor and also incurred expenditure of Rs.0.47 crore towards initial dewatering. The Company did not use the option to get the work done through the tenderer of October 2004, on *ad hoc* basis, at the then agreed price of Rs.1250 per MT. In that case, the Company would have to incur Rs.4.26 crore (including cost of dewatering) for raising 32,475 MT of high grade chrome ore. As a result, the Company incurred extra expenditure of Rs.1.06 crore.
- Further, the Company awarded the work to the lowest bidder in November 2006 at Rs.163 per cum of excavated quantity. Correspondingly, the rate worked out to Rs.1,365.94** per MT of high grade ore raised. As against this, the rate per MT of the previous lowest bidder of October 2004 worked out to Rs.1,272.62 per MT after applying periodic escalation as on March 2005. Thus, the Company had to bear excess expenditure of Rs.93.32 per MT towards cost of raising. Since the contractor had been entrusted to raise estimated quantity of six lakh cum, the Company would incur extra expenditure of Rs.66.82 lakh on the basic price only.

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* Excluding Rs.20 per cum towards Service Tax.

** At the ratio of ore to excavation at 1:8.38 as adopted by the Company for evaluation of offer.

The Management/Government stated (August/September 2007) that the average ratio of overburden to high grade ore after completion of the entire excavation work is expected to be about 6.75:1 as against 8.38:1 considered by audit. After completion of the entire excavation work, therefore, there would be no extra expenditure. The reply is not tenable as audit has considered the ratio adopted by the Company for evaluation and the ratio of 6.75:1 is based on assumption. Moreover, the Company while awarding the contract at first instance to the L_1 bidder of October 2004 referred it to the Government for approval which was not necessary and had caused awarding of contract at higher rate.

Thus, due to non-acceptance of the lowest tender, the Company incurred excess expenditure of Rs.1.06 crore and would incur further excess expenditure of Rs.66.82 lakh on execution of full awarded quantity.

IDCOL Ferro Chrome and Alloys Limited

3.16 Loss of revenue

Injudicious decision of the Company to utilise chrome concentrate in the production of HCFC instead of low cost HGCO resulted in loss of revenue of Rs.1.67 crore.

The main product of the Company was High Carbon Ferro Chrome (HCFC). The HCFC having chromium content of 60 *per cent* or above was easy to market and fetched a higher price. In order to produce HCFC of this grade, the chromium and iron (Cr and Fe) content in ore was required to be in the ratio of 2.5:1. High Grade Chrome Ore (HGCO) having chromite of 50 *per cent* and above fulfils this parameter and was suitable to produce HCFC having chromium content of 60 *per cent* or above. Tailangi Chromite Mine (TCM) was the captive mine for the Company's plant. When the chromite content of ore obtained from TCM was of 40 to 45 *per cent* (medium grade), the Company procured HGCO from outside sources for blending with its medium grade ore so as to obtain the required ratio of 2.5:1. The low grade chrome ore fines (having chromite content of less than 42 *per cent*) raised from TCM were utilised in the Chrome Ore Beneficiation Plant (COBP) of the Company to produce chrome concentrate for export. The Company had been using concentrate in place of HGCO for blending with medium grade ore since 2003-04.

The Company requested (August 2004) Orissa Mining Corporation Limited (OMC) for allotment of 5,000 MT of HGCO. OMC agreed to supply 5,000 MT of ore (50-52 *per cent* chromite) during December 2004 to March 2005. In addition, OMC further agreed (April/ June 2005) to supply 3,000 MT of HGCO per month for the year 2005-06. During the period January 2005 to November 2005, the Company procured only 10,385 MT of HGCO from OMC and utilised 9,995 MT of chrome concentrate generated from its COBP for production of HCFC.

Audit scrutiny revealed the following:

- The analysis of the Production Department of the Company revealed that blending of medium grade ore with chrome concentrate yielded low chromium-iron ratio (less than 2.5:1) leading to low power efficiency, less recovery of chromium, higher consumption of coke, damage to furnace lining, melting of ores and increase of slag volume in the furnace.
- The price of HGCO ranged between Rs.3,122 and Rs.5,742 per MT during January 2005 to November 2005. During this period, the Company exported 22,852 MT of chrome concentrate at prices ranging from Rs.6,238 per MT to Rs.7,635 per MT. As a result, the Company sustained loss of Rs.1.67 crore due to utilisation of 9,995 MT of chrome concentrate in production of HCFC, instead of HGCO.

The Management/Government stated (April/August 2007) that during January to March 2005 the short procurement of HGCO from OMC was due to its non-availability. It was further added that due to the declining market of chrome concentrate after July 2005, it was not economical to procure HGCO from OMC which was almost at par with the prevailing sale price of chrome concentrate. The reply is not tenable since there was no recorded evidence to substantiate the Company's plea of non-availability of HGCO. The Company also did not explore the possibility of procuring HGCO from TISCO. Further, even though there was fall in the market price of chrome concentrate from July 2005, its sale price was still higher by Rs.496 to Rs.674 per MT compared to purchase price of HGCO from OMC during July 2005 to November 2005.

Thus, the injudicious decision of the Company to utilise chrome concentrate in lieu of HGCO in the production of HCFC resulted in loss of revenue of Rs.1.67 crore.

3.17 Loss due to low power efficiency

Use of low grade ore resulted in unfruitful expenditure of Rs.1.16 crore towards cost of electricity charges.

The Company produces High Carbon Ferro Chrome (HCFC) in its plant at J.K. Road. The Company entered (June 2005) into an agreement with Northern Electricity Supply Company of Orissa Limited for supply of power to the said plant, which was valid for a period of three years with retrospective effect from 1 April 2005. As per the terms of the agreement, the Company would draw power at the contract demand of 10,700 KVA and also would maintain the load factor (units to be consumed) of at least 80 *per cent* with reference to the contract demand or the maximum demand, whichever was higher.

In the 13* months period from April 2005 to December 2006, the contract demand and maximum demand was in the range of 10,700 KVA to 12,192 KVA. During this period, although the Company consumed 58.4851 MU of electricity, it paid electricity charges for 63.5422 MU since the actual consumption was lower than the minimum guaranteed consumption by 5.0571 MU. As a result, the Company incurred unfruitful expenditure of Rs.1.16 crore for 5.0571 MU (@ Rs.2.30 per unit).

In this connection, audit scrutiny revealed the following:

- For production of HCFC, chrome ores having chromium-ferrous ratio of 2.5:1 (high grade ore) was the suitable grade not only for achieving higher quantity of production but also for obtaining qualitative output. On the other hand, low/medium grade chrome ores slow down production process and yield less quantity. Since the Company was to make payment for guaranteed units of electricity, use of high grade of chrome ore would enable it to consume and utilise the guaranteed units towards higher quantity of qualitative production. The Company, however, used low grade chrome ores having chromium-ferrous ratio in the range of 2.15:1 to 2.42:1, after blending the same with the chrome concentrate, which was being produced in Company's Chrome Ore Benefication Plant for export.
- The Energy Audit Reports for the years 2005-06 and 2006-07 of the Company also attributed the reasons for low load factor to the inferior quality of raw materials and also recommended for use of high grade chrome ore.
- Despite availability of high grade chrome ore in the market, the Company did not procure the required quality of chrome ore disregarding the recommendations of the production department and the Energy Audit Team. As a result, the Company could not achieve the guaranteed load factor.

The Management/Government admitted (May/August 2007) that use of high grade ore, procured from outside sources, would have enabled them to attain the desired load factor. However, due to comparative higher cost of high grade ore, there would have been additional expenditure. The reply is not acceptable since the Management had not considered the extra revenue that would have been earned had the chrome concentrate been exported without using this at their plant. Further, the cost of high grade chrome ore actually used in the plant had also not been taken into account.

Thus, use of low grade ore by the Company disregarding the recommendations of the production department and Energy Audit Team led to unfruitful expenditure of Rs.1.16 crore.

* April 2005, August 2005 to February 2006 and August 2006 to December 2006.

3.18 Loss of revenue due to injudicious decision

Failure of the Company in putting the materials to tender despite increase in the market price resulted in loss of revenue of Rs.41.35 lakh.

The Company invited (October 2004) open tender for sale of four* stacks containing approximately 24,000 cum (6,000 cum in each stack) of Friable Chrome Ore (FCO) of 32-34 *per cent* grade from Tailangi Chromite Mines. The reserve price of the materials of all the stacks was fixed (November 2004) at Rs.1,100 per MT. The Company received (November 2004) offers from Visa Steels Limited (VSL) and Pradhan Industries Limited (PIL). During negotiations (December 2004), VSL and PIL agreed to lift stack nos. 153 and 154 (11,000 MT each) at the prices of Rs.1,107 and Rs.1,105 per MT respectively. During negotiations, VSL had also indicated their willingness to lift the materials of stack nos.151 (32.78 *per cent* grade) and 152 (32.85 *per cent* grade) at a mutually agreed price after lifting of the materials of stack no.153.

Audit scrutiny revealed the following:

- VSL, after lifting the material from stack no.153, requested (April 2005) the Company to sell two stacks (151 and 152) at a mutually agreed price. The Company, however, did not act upon the request of VSL, the reason for which was not on record.
- The Company sold (10 May 2005) 1,000 MT of chrome ore of 33.29 *per cent* (stack no.220) at Rs.2,400 per MT through open tender. Although the two unsold stacks of 151 and 152 were lying in the stack yard, the Company did not put these stacks in the said tender.
- VSL again requested (December 2005) the Company for lifting 5,000 MT from stack no.151 at a price of Rs.48 per MT for each percentage of chrome. The Company agreed to the request and sold 5,000 MT of chrome ore at a price of Rs.1,573 per MT (equivalent rate of 32.78 *per cent* of chrome content). The Company, however, did not resort to open tender for selling this stack. Thus, the Company suffered loss of Rs.41.35 lakh$^{\nabla}$ by not selling through the open tender of May 2005.

The Management/Government stated (July/August 2007) that even if the stack nos.151 and 152 were put to tender, there might not have been any response as there was no buyer for this stack. The reply is not tenable as during the tender floated in May 2005 for sale of low-grade chrome ore (having chromium content of 29.77 to 35.76 *per cent*), the Company was able to dispose of 8,576 MT out of 13,000 MT put to tender including stack No.220 of 1,000 MT having chrome content similar to stack No.151 at a higher rate of Rs.2,400 per MT. Further, there was upward trend in the market price from first quarter (January to March 2005) to second quarter (April to June 2005) as observed

* Stack Nos.151, 152, 153 & 154 of 2004.

$^{\nabla}$ 5000MT X (Rs.2400 –Rs.1573)= Rs.41.35 lakh.

from the selling price of chrome ore of OMC which increased from Rs.2,037 to Rs.3,463 per MT.

Thus, the Company sustained loss of Rs.41.35 lakh due to its failure to offer the materials for sale in the tender despite increase in the market price.

IDCOL Kalinga Iron Works Limited

3.19 Loss due to sale at lower rates

Acceptance of lower rates by the Company for supply of CI pipes ignoring the rise in the market price of pig iron resulted in loss of revenue of Rs.88.31 lakh.

The Company manufactures Cast Iron (CI) spun pipes of different sizes by using the pig iron as main input material. The prices of the CI pipes were governed by the rate contract of the Director General of Supplies and Disposal (DGSD) finalised from time to time. The rate contract of DGSD was finalised up to 30 November 2004 (validity effective from 20 July 2004). There was, however, no valid DGSD rate contract beyond 30 November 2004. Pending finalisation of rates by DGSD, the Company supplied CI pipes to Housing & Urban Development Department (HUDD), Government of Orissa during 2004-05 at a price less than 10 *per cent* of DGSD rates.

In May 2005, the Company quoted price of CI pipes to the Bhubaneswar Development Authority (BDA) at less than 17 *per cent* of approved rate of DGSD of July 2004. The order, however, could not materialise. The Company offered (3 August 2005) price of CI pipes at a rate less than 12 *per cent* of the approved DGSD rate of July 2004 to HUDD. HUDD, however, requested (12 August 2005) the Company to reduce the offer price at par with the rate offered to BDA. The Company reduced (16 August 2005) the price to 17 *per cent* less than the DGSD rates.

Audit scrutiny revealed the following:

- The Company participated in tender floated by the Government of Bihar/Jharkhand in March 2005 and supplied CI spun pipes at the DGSD rates effective from July 2004.
- The Company offered price at less than 17 *per cent* of DGSD rate to BDA considering the market price of pig iron, being used as main raw material, at Rs.12,500 per MT in anticipation of fall in the price of pig iron. The Company's presumption, however, proved wrong and the market price of pig iron stood at Rs.14,300 per MT. The Company, despite being aware (3 August 2005) of the facts, did not bring these aspects to the notice of HUDD before agreeing to the request of HUDD for lowering the price of CI spun pipes at less than 17 *per cent* of DGSD rate. Thus, reduction of price to 17 *per cent* on the basis of rates quoted to BDA was against the financial interest of the Company.
- During 2005-06, the Company supplied to HUDD 4,832.489 MT of CI pipe at a reduced price of 17 *per cent* of DGSD rates. Comparing these

prices with the prices (10 *per cent* less than that of DGSD rates) at which supplies were made to HUDD during 2004-05 and 2006-07, the Company lost revenue of Rs.88.31 lakh.

The Management stated (April 2007) that keeping in view the then market price and blocking entry of competitors, the price quoted to BDA was less than 17 *per cent* of DGSD approved rates, which was adopted by the Government as the base price for the year 2005-06. It was further stated that due to increase in the price of pig iron, the rate was revised to 10 *per cent* less than DGSD price for the year 2006-07.

The reply is not tenable in view of the fact that the price to BDA was quoted expecting a fall in price of pig iron, but the fall was not to the expected extent. Though the Company was aware (3 August 2005) of the fact that falling of price of pig iron was not to the expected extent, this fact was not brought to the notice of HUDD and the Finance Department of Government of Orissa for fixation of price for the year 2005-06.

Thus, acceptance of lower rates by the Company for supply of CI pipes ignoring the rise in the market price of pig iron resulted in loss of revenue of Rs.88.31 lakh.

The above matter was reported to the Government (July 2007); their reply had not been received (October 2007).

Industrial Promotion and Investment Corporation of Orissa Limited and Orissa State Financial Corporation

3.20 Doubtful recovery

Failure of IPICOL and OSFC in taking timely and appropriate recovery measures led to recovery of Rs.7.05 crore doubtful.

Aqua Resin (P) Limited (ARL), Balasore was jointly financed by Orissa State Financial Corporation (OSFC) and Industrial Promotion and Investment Corporation of Orissa Limited (IPICOL) for manufacturing epoxy resin. OSFC disbursed two term loans of Rs.39.67 lakh between December 1993 and March 1998. IPICOL disbursed (March 1995) a term loan of Rs.45 lakh, the terms and conditions of which envisaged that the loan would be secured by first charge on the fixed assets of ARL ranking *pari passu* with OSFC. ARL, however, could not start regular production for want of working capital. Both IPICOL and OSFC, therefore, rephased the loans and funded (August 1998 and February 1999) the overdue interest to facilitate the unit to get working capital from bank. ARL, however, still could not arrange adequate working capital and therefore, production was not regular. The plant and machinery of the unit were damaged in the super cyclone of October 1999. For restoration of damaged assets and smooth production from the unit, IPICOL and OSFC advised (April 2000) the promoter of ARL to induct a resourceful private promoter, which was not complied.

Due to unsatisfactory repayments by the promoter and failure to have regular production, IPICOL issued (November 2000) recall notice to the promoter for payment of total outstanding dues of Rs.97.89 lakh (Principal: Rs.45.00 lakh, funded interest: Rs.18.25 lakh and interest Rs.34.64 lakh). OSFC also issued (February 2001) notice under section 29 of the State Financial Act, 1951 for seizure of the unit. It, however, did not seize the unit for reasons not on record.

On the other hand, in addition to the term loan, OSFC sanctioned (March 2001) a flood loan of Rs.18.51 lakh of which Rs.4.51 lakh was disbursed. The balance amount of Rs.14 lakh was adjusted towards outstanding interest of term loans. Although IPICOL issued (19 October 2001) an advertisement in the Economic Times for sale of the unit and responses were received from six firms, the unit could not be disposed of due to absence of any prospective buyer. Further, the request of IPICOL (December 2001 and October 2002) to the promoter to avail One Time Settlement (OTS) also did not yield any response. The Company issued another recall notice only in August 2004 for payment of dues of Rs.2.17 crore outstanding as on 15 May 2004. The promoter informed (February 2005) of the occurrence of theft/ dacoity in the factory in the third week of January 2005. IPICOL, however, inspected the factory in July 2005 only. Meanwhile, OSFC also asked (December 2003) the unit to repay the defaulted dues (as on September 2003) of Rs.1.72 crore within 15 days, failing which the entire outstanding loan would be recalled. It issued notice recalling the entire liability only on 4 October 2006 and seized (December 2006) the unit. The land and building was valued at Rs.38 lakh. The assets were put to sale in February/March 2007, but could not be disposed of.

Audit scrutiny revealed the following:

- The promoter had not paid any amount towards repayment of loan of both the financers since inception. OSFC recovered Rs.23.20 lakh only by way of adjustment. Even after non-response by the loanee to the recall notice of August 2004, IPICOL did not take steps for seizure of assets. OSFC also did not take steps for seizure of the assets though it asked the promoter for payment of defaulted dues. Thus, none of the two PSUs took timely action under Section 29 and 31 of SFC Act, 1951.
- OSFC informed (20 October 2004) the promoter that they had abandoned the unit leaving the financial assets vulnerable to damage which was a breach of agreement and endorsed a copy to IPICOL for information and necessary action. Both the PSUs, however, did not take action to protect the mortgaged assets which were vandalised in third week of January 2005. OSFC proposed only follow-up inspection of the unit on 26 October 2004 and on 6 January 2005.
- The Management of OSFC issued (October 2004) instructions to take action under the Recovery of Dues due to Banks and Financial Institutions Act (RDBFI), 1993 as an alternative measure in addition to the recovery measures under SFC Act, 1951. As per these instructions, it was necessary for proceeding against promoters/ directors/ mortgagers/ guarantors in enforcing their personal liability by attaching

and sale including attachment of bank account as the loanee had defaulted in repayment of loans and the value of the mortgaged assets had eroded due to removal or efflux of time. The Corporation, however, did not take recourse to this measure though these conditions had been fulfilled in the instant case.

- Due to failure to take timely action, the assets became obsolete. As a result, OSFC did not get offers to purchase the assets when these were put to sale in February/ March 2007.
- In case of IPICOL, the outstanding amount rose to Rs.2.50 crore as on 31 March 2007 and in case of OSFC the outstanding amount stood at Rs.4.55 crore as on 30 June 2007. Since appropriate timely recovery measures were not taken by both the PSUs, the prospects of recovery of Rs.7.05 crore are remote.

IPICOL/OSFC/Government stated (August/October 2007) that they did not take over the unit earlier as the promoter was trying to revive the unit. It was also stated by them that their efforts for disposing the assets of the unit were in vain due to technical obsolescence of the plant and machinery. IPICOL further stated that since the RDBFI Act is not applicable, action would be taken for recovery of balance dues after disposal of the immovable property. The reply is not tenable as IPICOL failed to seize the assets till the seizure was done by OSFC in December 2006 though they were aware of the diminution in value of assets.

Thus, failure of both the PSUs in taking timely and appropriate recovery measures led to recovery of Rs.7.05 crore doubtful.

GENERAL

3.21 Analytical study of loss making companies

Introduction

3.21.1 The State Government formed large number of public sector undertakings (PSUs) with the objective of assisting in acceleration in economic growth, reducing economic imbalance, preventing the growth of monopolies, etc. There were 68 Government companies (33 working and 35 non-working) in the State at the end of 31 March 2002. As against this, at the end of 31 March 2007, there were 61 Government companies comprising 29 working companies and 32 non-working companies.

As per the latest finalised accounts as on 30 September 2007, 17 working Government companies registered accumulated losses aggregating to Rs.1,427.89 crore as against their paid up capital of Rs.756.55 crore. The position of finalisation of accounts, working results, etc. of these companies are detailed in **Annexure-13**. Of these, six[*] companies have been incurring losses continuously for more than five years while 11 companies have registered losses for one to four years as per their five latest audited accounts.

[*] Sl. Nos.1, 3, 4, 5, 11 and 12 of Annexure-13

Due to continuous losses, nine[@] companies have fully eroded their paid up capital.

Reform measures

3.21.2 In October 1995, the State Government constituted a Committee to examine the functioning of the loss making PSUs and recommend various measures including privatisation/joint venture, if necessary, for improvement in their performance. The Government of Orissa (GoO) and the Department of Expenditure, Ministry of Finance, Government of India signed (11 October 2001) a Memorandum of Understanding to achieve fiscal sustainability under the Medium Term Fiscal Reform Programme for 2001-05 which included the Public Enterprise Restructuring Programme (PERP). The measures chalked out included disinvestment/privatisation and restructuring of the PSUs. For taking up reform measures, the Government categorised the State PSUs into core and non-core enterprises and scheduled the reform programme in two phases with the time frame 2002-05 as the first phase and 2005-07 as the second phase.

3.21.3 Out of the 17 companies having accumulated losses, the GoO identified (October 2001) five[∇] companies for disinvestment up to 74 *per cent* or more and two companies (namely, Kalinga Studios Limited and hotel units of Orissa Tourism Development Corporation Limited) for privatisation during 2002-05. Further, two companies viz. Orissa Lift Irrigation Corporation Limited and Orissa Forest Development Corporation Limited were scheduled for substantial restructuring during 2002-05 and 2005-07 respectively. No material progress had, however, been made in this regard so far (October 2007).

The reasons for losses incurred for five consecutive years by four companies (Orissa Small Industries Corporation Limited, Orissa Forest Development Corporation Limited, Kalinga Studios Limited and Orissa Agro Industries Corporation Limited) were analysed in audit and the findings are discussed in the succeeding paragraphs. The reasons for incurring losses by the other 12[#] companies out of 17 companies having accumulated losses are summarised in **Annexure-14**. The remaining two out of six companies which incurred losses for five consecutive years were excluded from detailed audit analysis since one company (ELMARC Limited) had finalised its accounts only up to 2000-01 (as on 31 March 2007) and performance of the other company (Orissa Bridge and Construction Corporation Limited) was separately reviewed and findings included in this Audit Report.

Orissa Small Industries Corporation Limited

3.21.4 The main objective of the Company was to provide raw material assistance and necessary marketing support to small-scale industries. The main

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[@] Sl. Nos. 1, 3, 4, 5, 7, 8, 11, 12 and 13 of Annexure-13.
[∇] Sl.Nos.1, 13, 15, 16 and 17 of Annexure-13.
[#] Orissa Power Transmission Corporation Limited was excluded since the Company was incorporated only on 29 March 2004 and finalised only one year's accounts.

source of income of the Company was sale of iron/steel material and plastic materials. The Company finalised its accounts upto 2004-05 till 30 September 2007. The audited accounts for five years from 2001-02 to 2004-05 revealed that the Company incurred losses each year ranging from Rs.1.98 crore to Rs.3.10 crore. The accumulated loss of Rs.14.62 crore as on 31 March 2005 completely eroded the paid up capital of Rs.9.66 crore. The reasons for the losses as observed in audit are as follows:

Heavy interest charges

3.21.5 The Company had outstanding loan of Rs.42.10 crore as on 31 March 2002 which increased to Rs.49 crore at the end of 31 March 2005. As against this, the annual interest burden against these loans was Rs.5.77 crore in 2001-02 which decreased[>] marginally to Rs.5.07 crore in 2004-05. During this period, however, the net operating income of the Company ranged between Rs.2.24 crore and Rs.3.30 crore which was far less than the actual annual interest liability. Thus, the income of the Company was not enough even to service the borrowings.

The increase in borrowings was mainly due to non-realisability of old outstanding dues amounting to Rs.11.69 crore from private parties and its own units, which the Company was in the process of writing off. The extension of non-selective credit and subsequent poor management in the recovery were the major reasons leading to non-realisability of debts. Besides this, out of total loan and advances of Rs.38.90 crore as on 31 March 2005, an amount of Rs.16.62 crore (42.72 *per cent*) was also non-recoverable. Though the Company had initiated a number of certificate cases against the defaulters, in most of the cases there had not been any recovery for want of property details.

Swapping of high cost borrowings

3.21.6 The borrowings (besides cash credit availed from banks, loan from Government of Orissa and SIDBI) included Rs. 20 crore raised through issue of bonds with the Government guarantee in 1999-2000 for a period of five years ending 15 March 2005 at an interest rate of 13.75 and 13.90 *per cent* per annum. In order to take advantage of the fall in market rate of interest, the Company decided (March 2003) to go for swapping of bonds exercising the call option that was available after expiry of three years i.e. with effect from 16 March 2003. The swapping of bonds was to be done through issue of fresh bonds at a lower rate of interest. The Company, accordingly, sought (August 2003) the permission of the Government to utilise the existing guarantee against fresh issue of bonds for swapping of principal of Rs.20 crore and unpaid interest. The Government however, permitted (December 2003) to utilise the guarantee only for principal. Thus, issue of fresh bonds could not materialise in the absence of adequate Government guarantee. It, therefore, again approached (December 2003) the Government for unconditional irrevocable guarantee for both principal and interest but the Government turned down (January 2004) the request. The Company's proposal (July 2004) for issue of fresh guarantee of Rs.26 crore for swapping the existing bonds

[>] The decrease in annual interest charges was due to fall in interest rate on the borrowed funds.

was also not agreed to (December 2004) by the Government. The entire amount of Rs.20 crore (principal) remained outstanding (July 2007) alongwith the interest of Rs.11.64 crore as on 31 March 2007. Thus, for want of adequate Government guarantee the swapping of high cost bonds could not materialise and the Company continued to shoulder the interest burden at a higher rate. The differential amount of interest that the Company could have saved by swapping the bonds with effect from 16 March 2003 to 31 March 2007 worked out to Rs.3.34 crore.

Lower margin due to competition

3.21.7 The sales turnover of the Company from its trading activities constituted 71.82 to 84.51 *per cent* of its total turnover during the period 2001-02 to 2004-05. Despite increase in the sales turnover of the Company from Rs.49.50 crore in 2001-02 to Rs.72.33 crore in 2004-05, the gross margin on sales decreased from Rs.3.39 crore in 2001-02 to Rs.2.76 crore in 2004-05. The decrease in gross margin was mainly due to retention of low margin to compete with the private traders who allowed attractive credit facilities and discounts.

High establishment expenses

3.21.8 The percentage of employee cost to the gross margin during the years 2001-02 to 2004-05 varied from 78 to 107. This indicated that there was disproportionately excess manpower. The Company appointed (June 2005) SRB & Associates, Chartered Accountants, to prepare a comprehensive financial restructuring plan of the Company. The firm in their report, *inter alia*, recommended (December 2005) reduction of the staff strength to 155 as against the then existing strength of 246. However, as on 31 March 2007, the actual staff strength of the Company was 242, which indicated that the Company had not taken any action to downsize the manpower.

The Management stated (May 2007) that they were changing the market strategy viz. introducing project and retail sales and appointing more dealers in different places to boost the turnover so as to face competition from private parties. It also added that though the Government had approved to swap bond amount of Rs.20 crore after paying accrued interest thereon, the Company could not materialise the option due to fund constraints. Regarding high employee cost, the Management stated that the recommendation of the consultant would be submitted to the State Government for necessary action at their end. The fact, however, remained that the Company had not taken timely action for arranging funds for swapping of loans for reduction in the interest burden, increasing the gross margin and reducing the manpower for improving its financial performance.

Orissa Forest Development Corporation Limited

3.21.9 The main activities of the Company were trading in timber, kendu leaf, sal seed, bamboo and mahua flower besides creation of plantations for regeneration of forests. The main source of income was trading of the forest produce as well as marketing of kendu leaves on commission basis. The

Company finalised its accounts up to 2005-06. The accumulated loss of the Company was Rs.140.12 crore as on 31 March 2006, which fully eroded the paid-up capital of Rs.1.28 crore. Audit analysis revealed the following reasons for persistent losses:

Decrease in sales turnover

3.21.10 The sales turnover of the Company relating to timber and timber products decreased from Rs.27.58 crore in 2001-02 to Rs.20.11 crore in 2005-06. The ban on felling of trees by the Government of Orissa and subsequent permission (November 1994) for only salvage operation of dead and fallen trees reduced the timber and firewood operations by 90 *per cent* of its capacity.

Delay in lifting/disposal of forest products

3.21.11 Delay in lifting and disposal of various forest products led to deterioration in the quality of products with the passage of time and consequential sale at lower price. In case of kendu leaves, crops produced during the period 1997 to 2004 valued at Rs.333.64 crore were sold belatedly during 2000-01 to 2005-06 at Rs.195.43 crore only due to deterioration in their quality. As a result, the Company lost income of Rs.5.53 crore towards commission besides loss of revenue of Rs.138.21 crore to the Government.

In respect of round timber, stocks pertaining to the period upto 2001-02 valued at Rs.9.78 crore were lying unsold. Similarly, bamboo stock relating to the crop years 1995 to 2001 valued at Rs.72.29 lakh remained unsold and was assigned zero value in the accounts.

Surplus unskilled manpower

3.21.12 Following the merger of three[*] forest based companies and a subsidiary with the Company in October 1990 and April 1992, a large number of unskilled employees continued on the pay roll of the Company. On account of shortage of work for their productive utilisation, these employees remained idle. The Company was having total staff strength of 4,931 as on 31 March 2002 which reduced to 4,035 as on 31 March 2006. The employee cost of the Company in 2000-01 amounted to Rs.35.90 crore, which decreased to Rs.32.07 crore in 2005-06. The percentage of employee cost to total turnover, however, increased from 56.23 in 2000-01 to 73.17 in 2005-06. Hence, the reduction in employee cost did not yield the desired result due to inadequate turnover.

The Company submitted (February 2006) a restructuring plan to the Public Enterprises Department, Government of Orissa which was approved only in April 2007. The approved plan, *inter alia*, contained extension of VRS to 1,132 employees in the first phase by March 2007 and 250 to 400 employees in the second phase by September 2007 considering these employees as

[*] Orissa Plantation Development Corporation Limited, Similipahar Forest Development Corporation Limited and Orissa Composite Board Limited.

redundant. As of May 2007, the Company approved separation of 403 employees in the first phase leaving a surplus staff of 729. Thus, delayed action on the restructuring plan contributed to the loss of the Company.

Kalinga Studios Limited

3.21.13 The Company was incorporated with the objective of promoting the growth and development of the film industry in the State. The main source of income of the Company was hire charges from infrastructure facilities. Its accumulated loss amounting to Rs.2.70 crore fully eroded its paid-up capital of Rs.1.75 crore as per latest audited accounts for 2004-05. Audit analysis revealed the following:

- The earnings of the Company decreased from Rs.37.53 lakh in 2000-01 to Rs.24.33 lakh in 2004-05. The decline in income of the Company was mainly due to severe competition and easy availability of latest technical facilities to the producers from other parties and inadequate production of films in the State.
- The employee cost was Rs.27.36 lakh in 2000-01, which was reduced to Rs.18.19 lakh in 2004-05 due to implementation of VRS. Despite the said decrease in employee cost, its percentage to income of the Company remained at 75. Hence, the objective of implementation of VRS did not yield the desired result.

As against the Cabinet sub-committee's recommendation (1996) for converting the Company into a Joint Venture with private participation for better performance, no material steps were taken for almost five years. In November 2002, the Cabinet approved the sale of assets and business of the Company within a time bound programme by 31 March 2003. This had, however, not been implemented so far (October 2007) for want of Record of Right (RoR) of land with the Company. In spite of the fact that the Company took advance possession of the land, where its studio complex has been constructed, between September 1980 and December 1982 and the Government decision for sale of the Company's assets and business, neither the Company nor the Administrative Department had taken timely action for obtaining RoR of land in the Company's favour. The Company, only in July 2006, submitted the application to the Industries Department.

Since the process of disinvestment was getting delayed, the employees were getting idle salary without any work. The Board of Directors of the holding Company suggested (November 2006) for taking steps to downsize the manpower under Industrial Disputes Act, 1947 but no action had been taken so far (October 2007). The salary and wages and other dues to the employees of the Company for the last five years ended March 2005 amounted to Rs.1.12 crore.

Thus, due to delay in implementing the reform measures either through privatisation or restructuring, the Company continued to incur losses year after year.

Orissa Agro Industries Corporation Limited

3.21.14 The main objectives of the Company were to manufacture and distribute agricultural machinery, equipment and tools, manufacture and market cattle and poultry feeds and bio-fertilisers and distribute agricultural inputs. The main source of income of the Company was from sale of farm machineries, cattle feed and fertilisers. The Company had finalised its accounts only upto 2001-02. As per its latest finalised accounts, the accumulated loss of Rs.43.64 crore had completely eroded its paid-up capital of Rs.7.15 crore. Audit scrutiny revealed the following:

- During the period 1997-98 to 2001-02, the annual interest liability payable by the Company was in the range of Rs.1.84 crore to Rs.1.98 crore. The low equity base, non-availability of adequate working capital and blockade of dues were the compelling factors for the Company to resort to borrowings leading to higher interest charges.
- Though the Company made a gross profit for the years 1997-98 to 2001-02, ranging from Rs.3.08 crore to Rs.4.58 crore, the employee cost during this period was in the range of Rs.4.02 crore to Rs.4.93 crore. Thus, high incidence of employee cost put the Company into loss.

As part of the reform measures for state PSUs, the State Government identified (October 2001) the Company for privatisation through disinvestment of 74 *per cent* or more of its shares in 2002-05. The Company, however, submitted the restructuring proposal to the Government only in October 2005.

As it was not possible to get a strategic entrepreneur to acquire its shares, the State Government decided (November 2005) to improve the performance of the Company through financial and organisational restructuring. It was decided to appoint one specialist advisor by December 2005 to submit a report on the probable financial and organisational strategies to be adopted. The State Government again reviewed (December 2006) the matter of disinvestment of the Company and decided to get the reform option study conducted by the project consultant. Besides, the Company was asked to notify VRS for its employees. The Company invited (February 2007) applications from employees intending to avail voluntary retirement scheme on or before 31 March 2007 against which no application was received. As regards the proposed reform option study, no further progress had also been made (October 2007).

To sum up

The State PSUs operating in almost all the sectors have been incurring losses mainly due to:

- excess manpower,
- heavy interest burden,
- low turnover due to lack of strategic marketing,

- stiff competition from the private sector.
- delay in implementation of reform measures as to restructuring (financial/business and organisational/right sizing manpower).

The above matter was reported to the Government (June 2007); their reply had not been received (October 2007).

3.22 Follow-up action on Audit Reports

Explanatory Notes outstanding

3.22.1 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 2005-06 were presented to the State Legislature, seven out of 18 departments which were commented upon did not submit explanatory notes on 30 out of 303 paragraphs/reviews as on 30 September 2007, as indicated in the following table.

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	1
1994-95	March 1996	24	Nil
1995-96	March 197	23	Nil
1996-97	July 1998	27	Nil
1997-98	July 1999	15	Nil
1998-99	July 2000	26	Nil
1999-2000	August 2001	29	2
2000-01	March 2002	25	1
2001-02	March 2003	17	2
2002-03	December 2003	24	2
2003-04	March 2005	27	7
2004-05	February 2006	17	2
2005-06	March 2007	21	13
Total		**303**	**30**

Department-wise analysis is given in **Annexure 15**. PSUs under the Industries, Public Enterprises and Steel & Mines Departments were largely responsible for non-submission of explanatory notes. The Government did not respond to even reviews highlighting important issues like system failures, mismanagement and non-adherence to extant provisions.

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

3.22.2 Action Taken Notes (ATNs) to 87 recommendations pertaining to five Reports of the COPU presented to the State Legislature between April 1999 and July 2007 had not been received as on 30 September 2007 as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of recommendations where ATNs not received
1999-2000	2	34
2000-01	1	44
2001-02	1	8
2007-08	1	1
Total	**5**	**87**

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

Response to Inspection Reports, Draft Paragraphs and Reviews

3.22.3 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 2007 pertaining to 30 PSUs disclosed that 2,745 paragraphs relating to 658 Inspection Reports remained outstanding at the end of 30 September 2007. Of these, 352 Inspection Reports containing 1,511 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 2007 is given in **Annexure-16**. 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 four draft performance reviews forwarded to the various departments between April and July 2007, as detailed in **Annexure-17**, replies to one performance review and 10 draft paragraphs were awaited (October 2007). 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/ performance 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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