Chapter-III

3. Miscellaneous Topics of Interest relating to Government Companies and Statutory Corporations

3A. Government Companies

3A.1 INDUSTRIAL PROMOTION AND INVESTMENT CORPORATION OF ORISSA LIMITED (IPICOL)

Loss due to unfruitful investment

Investment of borrowed funds in OVCF without actual requirement resulted in loss of interest of Rs.1.45 crore.

The Orissa Venture Capital Fund (OVCF) was set-up (February 1996) as a twelve year close ended trust fund with a corpus of Rs.10 crore to be contributed by South Asia Regional Apex Fund (SARA) (Rs.5 crore), IPICOL (Rs.1 crore) and the private sector including banks (Rs.4 crore) to meet the funding requirement of ancillaries and down stream projects of large industrial units in Orissa. Since only Rs.1.50 crore was committed from the private sector, the Company approached (January 1996) the Empowered Committee of State Government constituted to monitor utilisation of the steel bonds issued by the State Government to grant Rs.2.50 crore from the steel bond funds to IPICOL for investment in the OVCF. The proposal was approved (January 1996) and the Company invested (July 1996) an additional amount of Rs.2.50 crore from the steel bond funds in OVCF. The borrowing from the steel bond funds carried an interest of 15.5 per cent per annum.

Futile investment of borrowed funds resulted in loss of Rs.1.45 crore.

It was observed in audit (May 2000) that there was no immediate requirement of funds by OVCF for investment. In fact, out of the total corpus of Rs.10 crore available with OVCF including Rs.3.50 crore from IPICOL, OVCF had invested (December 2000) only Rs.1.50 crore in Orissa. The rest of the funds were parked in short-term fixed deposits. As such, there was clearly no need for the Company to have borrowed Rs.2.50 crore for investment in OVCF. This injudicious decision of the Company resulted in loss of interest of Rs.1.45 crore calculated at the rate of 15.5 per cent per annum for the period from July 1996 to August 2001 after deducting dividend of Rs.52.50 lakh received by the Company up to August 2001. Further, the purpose of establishment of OVCF was defeated as the funds of only Rs.1.50 crore were invested up to August 2001 in the State against a projected investment of Rs.8 crore.

Government stated (September 2001) that steps would be taken to make the fund more effective and useful failing which the size of the fund would be reduced. The fact remains that the Company had neither taken any steps during the last five years for better investment of the funds of OVCF nor attempted for down sizing the fund even though it was not properly utilised.

3A.2 ORISSA SMALL INDUSTRIES CORPORATION LIMITED

3A.2.1 Extra payment on closure compensation

Adoption of wrong procedure for closure of KSRL resulted in extra payment of compensation to the workers to the tune of Rs.0.18 crore.

Kanti Sharma Pottery Development Centre came under the management of the Company (August 1987) and was converted (November 1994) into a wholly owned subsidiary company in the name of Kanti Sharma Refractories Limited (KSRL). Due to stiff competition in the market and non-upgradation of technology to produce high-tech refractory material required by the steel plants, the performance of the Unit deteriorated after 1994-95 and KSRL was unable to meet its statutory obligations including payment of around Rs.4 lakh per month for salary and wages of its employees since October 1997. Hence, Board of Directors of KSRL proposed (December 1997) the closure of the Company. At that point of time, there were 157 permanent employees in the Company. The matter was referred (January 1998) to the Industries Department which after three months placed the issue before the Public and Co-operative Enterprises Re-structuring Committee (PCERC) of the State Government headed by the Chief Secretary which recommended (April 1998) the closure of KSRL as per provisions of the Industrial Disputes Act, 1947. Thereafter, the Industries Department communicated the decision for closure of KSRL to the Company in July 1998 viz. after lapse of three months. The Company thereafter applied (August 1998) to Labour and Employment Department for closure under Section 25 FFA[*] of the Industrial Disputes Act, 1947, instead of under Section 25 (O) which was applicable in this case. Consequently, the application was returned by the Labour and Employment Department. The Company again applied (September 1998) to Labour and Employment Department under Section 25 (O) of Industrial Disputes Act and the closure was permitted by them in November 1998 and payment of closure compensation was made for Rs.1.14 crore for the period from 1 February to 4 December 1998.

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[*] Section 25FFA is applicable to undertakings engaging more than 50 but less than 100 workmen per working day in the preceding 12 months

Adoption of wrong procedure for closure of KSRL resulted in extra expenditure of Rs.0.18 crore.

It was observed in audit (June 2000) that according to Section 25 (O) of the Industrial Disputes Act, an industrial undertaking employing 100 or more workmen per working day in the preceding 12 months on an average can be closed by obtaining prior permission of the Government at least 90 days before the date on which the closure was to be effective and if the Government does not communicate the order granting or refusing to grant permission within a period of 60 days from the date of application, the permission applied for shall be deemed to have been granted. Had the Company applied to Labour and Employment Department invoking provisions of Section 25 (O) of Industrial Disputes Act in April 1998 itself, viz. immediately after approval by the PCERC, KSRL would have been deemed to have been closed by July 1998.

Inordinate delay in processing the case and adoption of wrong procedure for closure even after approval of the competent administrative authority led to extra payment of compensation to the workers to the tune of Rs.18.26 lakh for the period from August to December 1998.

Government stated (February 2001) that Board's decision regarding closure could not be implemented without administrative approval of the Government. On receipt of advice of the administrative Department, the matter was referred to Labour and Employment Department for closure of KSRL.

The reply is not tenable in view of the delay involved at every stage and since the Labour and Employment Department should have been approached immediately under Section 25 (O) of the Industrial Disputes Act after decision for closure was taken by the PCERC to avoid extra payment of compensation.

3A.2.2 Loss due to undue favour shown to the Loanee

Due to undue favour shown to a defaulter loanee by disbursement of loans time and again without obtaining required security the Company sustained a loss of Rs.0.47 crore.

Sri Durga Cables (P) Limited (SDCL), a Small Scale Industry engaged in the manufacture of PVC wires and cables, was availing financial assistance from the Company since 1987-88 against deposit of margin money having the loan dues of Rs.25.82 lakh (April 1996). Though the credentials of SDCL were questionable due to its past conduct, it was extended a further financial assistance of Rs.29.02 lakh (April 1996) exceeding the maximum financial limit of Rs.50 lakh under the Raw Material Credit Scheme (RMC) against the executed agreement for Rs.45 lakh. As per the terms of the agreement, SDCL was to avail the assistance of Rs.19.50 lakh against mortgaged security of Rs.26.30 lakh and the balance on production of Bank Guarantee (BG) or post dated cheques of equal value.

Disbursement of loan to a defaulter loanee without adequate security and non-adherence to the terms of scheme led to loss of Rs.0.47 crore.

It was observed in audit that the additional assistance of Rs.29.02 lakh (April 1996) under RMC Scheme was disbursed (Rs.20.03 lakh in April 1996 against post dated cheques and Rs.8.99 lakh between August 1996 to September 1997 against BG worth Rs.10 lakh) in violation of the terms of the Scheme (RMC) which provides for extension of financial assistance only against production of BG/Letter of Credit and deposit of Margin money.

Further, the additional assistance was extended to SDCL on the condition that the unit would repay the old outstanding dues of Rs.25 lakh alongwith accrued interest in four instalments between 15 August 1996 and 10 April 1997 against which the Company could recover (August 1996 to September 1998) only Rs.19.75 lakh (Principal of old loan Rs.7.64 lakh and Interest Rs.12.11 lakh).

The Company, instead of taking any recovery action, allowed (December 1998) extension of time for repayment of loans by replacing post dated cheques with fresh cheques and extending the validity period of BG upto June 1999.

The outstanding dues as on May 2000 stood at Rs.83.01 lakh (principal Rs.80.77 lakh including Rs.33.57 lakh of interest converted into principal and interest Rs.2.24 lakh) against which security worth only Rs.36.30 lakh was available with the Company. Thus, against the maximum financing limit of Rs.50 lakh, the credit limit was exceeded gradually upto Rs.80.77 lakh as at May 2000.

The Management accepted the facts and figures and stated (July 2001) that as a promotional agency it had allowed re-phasement of repayment from time to time and action under Negotiable Instruments Act had been initiated for dishonour of cheques. It was added that the Banking Ombudsman had been approached for non-payment of BG amount who had directed the concerned Bank for releasing payment with interest. For the balance amount, legal action would be initiated. The fact remains that the Company should not have extended facility to a defaulter violating the extant provisions of RMC Scheme.

The matter was reported to Government (May 2001); their reply was awaited (December 2001).

3A.3 IDCOL CEMENT LIMITED

Undue benefit to agent

Sale of cement to agent at rates applicable to bulk consumers instead of that applicable to stockist led to loss of Rs.0.28 crore.

The Company appointed (January 1999) Shri J.K. Jena (JKJ), Chandikhol, as stockist for distribution of cement among the different Blocks in the districts of Cuttack, Kendrapara, Jagatsinghpur, and Jajpur at the rate of Rs.1,800 per MT

(Portland Slag Cement-PSC), Rs.1,950 per MT {Ordinary Portland Cement (OPC-33)} and Rs.2,050 per MT (OPC-43) valid up to February 1999. The offer was extended upto March 1999 with revised rate of Rs.1,900 per MT (PSC), Rs.2,050 per MT (OPC-33), and Rs.2,150 per MT (OPC-43). It was observed in audit (November 2000) that the above rates were applicable to bulk consumers and contractors and the rate for stockist ranged between Rs.2,540 and Rs.2,850 per MT. This resulted in extension of undue benefit of Rs.4.92 lakh on supply of 616 MT of cement.

Subsequently, the Company engaged (April 1999) JKJ as order collection agent from the District Rural Development Agency (DRDA) of Kendrapara and Jagatsinghpur districts with the condition that supply of cement is to be made at the rates approved by DRDA and JKJ would be paid Rs.150 per MT towards service charges. Further, the Company would directly transport cement to DRDA authorities who would acknowledge receipt of cement and reimburse the cost of transportation. However, the Company on its own allowed JKJ to transport cement to DRDA and JKJ was to submit receipt from DRDA authorities towards proof of delivery of cement. During April 1999 to March 2000, the Company supplied 8,127 MT of cement to DRDA authorities through JKJ and claimed Rs.1.52 crore from JKJ towards the cost of cement.

Audit scrutiny (November 2000) revealed that instead of supplying cement to DRDA authorities, JKJ sold the 8,127 MT of cement in the open market. This could happen as JKJ was allowed to transport cement and the Company did not properly verify the receipted challans of DRDA. Though the fact of irregular sale of cement by JKJ was known (October 1999) to the Company, higher rate applicable to stockist was not claimed from JKJ (Rs.1.76 crore for 8,127 MT) which resulted in extension of undue benefit to the tune of Rs.23.54 lakh.

Thus, selling cement to JKJ at rates applicable to the contractors and bulk consumers instead of rates applicable to stockist in the above two instances resulted in loss of Rs.28.46 lakh to the Company.

Government stated (July 2001) that complaint cases had been filed against JKJ in the Court for breach of agreement and legal action was being taken for recovery of the amount. The fact remains that had the Company not allowed JKJ to transport cement and properly verified the receipted challans of DRDA this loss could have avoided.

3A.4 GRID CORPORATION OF ORISSA LIMITED

3A.4.1 Loss due to unplanned procurement of material

Procurement of material without ensuring adherence to installation schedule resulted in the Company having to bear interest liability of Rs.2.66 crore for the material lying with the suppliers.

As part of the Orissa Power Sector Reforms Project financed by a World Bank Loan, the Company had to procure Transmission and Distribution material and erect new lines. The project plan strategy prepared (September 1997) by the Project Monitoring Unit (PMU) of the Company envisaged that the procurement strategy should ensure that expensive items such as transformers, circuit breakers, etc. are procured strictly according to their installation programmes. Accordingly, international tenders were invited (October 1997) for procurement of transmission transformers and circuit breakers and contracts were entered into (July and August 1998) with different suppliers for supply of aforesaid material during June 1999 to October 2002 (Transformers) and May 1999 to March 2002 (Circuit Breakers) to be used in sub-stations. The contracts envisaged strict adherence to delivery schedule.

It was noticed in audit (April 2001) that despite the suppliers' readiness (June 1999 to September 2000) to deliver the material in time, the Company was unable to accept the material as the respective sub-stations where the material was to be used were not ready. Hence, the Company proposed storage of the material with the suppliers till their actual requirement at the work site. The suppliers claimed payment as if the material were despatched by them and the Company released payment to them during the period from July 1999 to September 2000 while these were actually lying at the site of the suppliers. The Company thus failed to co-ordinate the procurement of material with the actual requirement which resulted in blocking up of borrowed funds ranging from Rs.1.21 crore to Rs.6.57 crore for a period from 7 to 22 months upto April 2001 with consequential loss of interest of Rs.2.66 crore.

Non-recasting of delivery schedule to suit the installation programme led to loss of Rs.2.66 crore.

Thus, the Company incurred an interest liability of Rs.2.66 crore by paying for the material out of loan funds without any corresponding benefit from the project. No attempt was made to recast the delivery schedule so as to avoid unnecessary drawal of loan and incurring of interest burden. The Company had also not fixed a revised date of completion of the project or utilisation of the material (August 2001).

Government stated (August 2001) that due to non-availability of land, the sub-station works were delayed and turnkey order for erection of substation was placed in June 1999. Hence, the manufacturers were requested to store the material till requirement in order to save price variation. The reply is untenable in view of the fact that the Company should have placed orders for transformers and circuit breakers after the issue of turnkey orders for erection of sub-station in order to avoid the loss of interest.

3A.4.2 Unjustified waiver of liquidated damages

Inspite of delay in supply of material by the party, the Company waived LD of Rs.0.99 crore violating the extant provisions of the contract.

The Project Management Unit (PMU) of the Company invited international bids (August 1997) for procurement of distribution transformers of various ratings to be funded by IBRD loan. Three Notifications of Award (NOAs) were placed on Marsons Limited, Calcutta (supplier), for three packages DT-A2 (June 1998), DT-A3 (September 1998) and DT-B3 (June 1998). The supply order stipulated that in case of delay in supply, the purchaser shall deduct as liquidated damages (LD) a sum equivalent to half percent (0.5 per cent) of the delivered price of the delayed goods for each week of delay or part thereof until actual delivery or performance upto a maximum of ten per cent. On the other hand, if the purchaser fails to make payments on the respective due dates, the purchaser shall have to pay to the supplier interest on amount of such delayed payment.

It was observed in audit (April 2001) that the supplier failed to comply with the delivery schedule in all three contracts as detailed below:

Contract Number	Ratings of transformers	Quantity scheduled to be delivered by due date	Quantity actually delivered by due date	Quantity not delivered within due date	Percentage of non-execution
DT-A2	3.15 MVA	129 by March 2001	52	77	60
DT-A3	5 MVA	70 by March 2001	45	25	36
	8MVA	24 by March 2001	12	12	50
DT-B3	200 KVA	500 by March 2001	395	105	21
	500 KVA	115 by October 1999	79	36	31

Thus, 21 to 60 per cent of the ordered quantity could not be delivered within the scheduled time for which the Company was entitled to deduct Rs.1.05 crore as LD. The supplier however insisted (July 1999 to January 2001) for re-scheduling of the delivery without imposition of LD and offered to forego the claim for interest towards delay in payments of their dues in lieu of waiver of LD.

The Task Force (Committee of the Board) approved (February 2001) waiver of LD on the plea that the transformers already received were yet to be installed and utilised fully. The supplier in turn was not to claim any interest on the delayed payment. The supplier was informed in March 2001.

Waiver of LD amounting to Rs.0.99 crore inspite of delay in supply of material lacks justification.

Acceding to the request of the supplier for waiver of LD (Rs.1.05 crore) in view of his willingness to forego the claim of interest of a mere Rs.6.27 lakh lacks justification.

Government stated (August 2001) that failure of the Company to honour the obligation towards timely payment to the supplier and issue of way bills in terms of the contract created a Force Majeure situation and under such condition, the supplier was not liable for payment of LD. It was added that interest clause was applicable only for direct payment of final 10 per cent. The reply is not tenable since delay in payment or issue of waybills can not be deemed to be a Force Majeure condition.

3A.4.3 Restoration works on EHT lines affected during Cyclone

Delay in restoration works in cyclone affected areas despite availability of funds defeated the purpose of immediate restoration of power supply besides resulting in revenue loss of Rs.13.12 crore. Lack of adequate supervision and non-enforcement of contractual clauses also resulted in loss of Rs.0.74 crore besides avoidable interest burden of Rs.1.48 crore on unutilised loan funds.

Government of Orissa (Department of Energy) granted (November 1999 to January 2000) Rs.19 crore (Rs.4 crore as grant and Rs.15 crore as loan) to the Company for urgent restoration of both transmission and distribution systems which had been disrupted due to the cyclone of October 1999. The restoration works were to be completed on emergent basis by March 2000.

Delay in restoration work despite availability of funds resulted in revenue loss of Rs.13.12 crore.

Audit scrutiny of the utilisation of the funds revealed that out of 13 EHT lines and 7 grid sub-stations damaged in the cyclone, only 2 EHT lines and one sub-station could be repaired within the stipulated time though funds were not a constraint. There was considerable delay ranging from 3 to 16 months in respect of six cases (Chaudwar, Kendrapara, Bidanasi, Jagatsinghpur, Berhampur, and Ganjam sub-stations) thereby resulting in the loss of potential revenue of Rs.13.12 crore to the Company on estimated short-fall of load of 154.37 MU at the bulk supply rate of Re.0.85 per unit.

Audit scrutiny of repair of Narendrapur-Mohana DC line revealed that work order for Rs.25.96 lakh was entrusted (December 1999) to Jyoti Structures Limited (JSL) for completion by March 2000. After delay in taking up the work, JSL abandoned the work midway on the plea that approach to the work site was blocked which was not tenable as the conditions prevailing in the work site should have been known to them at the time of acceptance of the work. The work was entrusted to other contractors and ultimately completed in September 2000. Despite the delay of six months caused by abandonment of the work by JSL on untenable grounds, no action was taken to recover Rs.2.19 lakh as penalty from the defaulting contractor as per clause 14 of the contract. It was observed that the contractor failed to return material valued at Rs.42.96 lakh including 6.58 MT of

Tower members, 15.80 MT of ground wire and 48.44 MT of conductors after dismantling them from the affected line. It was further observed in audit that before the contractor abandoned the work, material worth Rs.29 lakh issued to him (mainly conductors) were apparently stolen from the work site (January to August 2000) but no action was taken for recovery of its cost from the contractor.

Government while accepting the factual position of the delay stated (August 2001) that there was no extra cost in executing the above cited work and nothing was due from the contractor except 7.5 km of ground wire and 16.4 km of conductors which was stolen from the site for which FIR had been lodged. Action for recovery of the cost of any material would be taken after receipt of police report.

The reply is not tenable since there was no justification for foregoing the penalty stipulated in the contract as time was clearly the essence of the contract. Further, the unit records verified in audit indicated failure of the contractor to return material the cost of which was recoverable from him. In so far as the stolen material is concerned, safe custody of the material was the responsibility of the contractor and hence the loss should have been recovered from him as per clause 17 of the contract.

There was avoidable interest burden of Rs.1.48 crore on unutilised loan funds.

Out of Rs.19 crore received for restoration works, only Rs.9.27 crore had been spent upto March 2001. However, the Company incurred interest liability of Rs.1.48 crore at the rate of 13 per cent per annum for 14 months (March 2001) on the loan portion which could have been avoided by re-scheduling of drawal of the loan according to cost estimates and actual requirement. Further, as against Rs.9.27 crore booked as expenditure (March 2001) by the corporate office, the units have booked only Rs.7.87 crore leaving Rs.1.40 crore unreconciled even after lapse of one year.

Hence, delay in restoration works despite availability of funds defeated the very purpose of the allocation of Rs.19 crore besides resulting in revenue loss of Rs.13.12 crore. Lack of adequate supervision and non-enforcement of contractual clauses also resulted in loss of Rs.74.15 lakh besides avoidable interest burden of Rs.1.48 crore on unutilised loan funds.

3A.5 ORISSA HYDRO POWER CORPORATION LIMITED

Avoidable expenditure on payment of ex-gratia

Payment of ex-gratia to ineligible employees resulted in avoidable expenditure of Rs.0.18 crore.

In order to reduce redundant manpower, the Company introduced (November 1999) a scheme offering the employees in the Nominal Muster Roll establishment/contingent khalashis an opportunity to seek separation with commensurate monetary benefits. The scheme stipulated inter-alia that the employee seeking separation by December 1999 would receive an ex-gratia payment of Rs.1.25 lakh provided he had put in five years continuous service without break in the Company as on 1 January 1999. Accordingly, the Company paid ex-gratia to 668 employees in January 2000.

Payment of ex-gratia to persons ineligible as per criteria fixed by the Company led to loss of Rs.0.18 crore.

A test check of 216 cases revealed (August 2000) that 14 employees who were paid Rs.17.50 lakh towards ex-gratia were not deemed to be in continuous service in the Company for five years as on 1 January 1999 as per the criteria fixed by the Company (December 1999). This resulted in avoidable payment of ex-gratia to ineligible employees. In the remaining 452 cases, ex-gratia was paid on the basis of an eligibility certificate furnished by the Division which was not supported by details of qualifying services. The supporting records in respect of these 452 cases could not be made available to audit though called for (January 2001). In the absence of these details, audit was unable to verify the correctness of the payments made.

Government stated (August 2001) that there was no irregular payment of ex-gratia to any ineligible person. The reply is untenable as ex-gratia payment was made to persons who were not in continuous service as per the criteria fixed by the Company.

3A.6 ORISSA POWER GENERATION CORPORATION LIMITED

3A.6.1 Blockade of funds due to injudicious purchase

Purchase of Chlorination Plant disregarding environmental stipulations along with defective terms in the Purchase Order resulted in potential loss of Rs.0.15 crore.

In August 1985, the Thermal Power Approval Committee (TPAC) of the Union Ministry of Environment & Forest had, after visiting the site, stipulated installation of a closed water cooling system for condenser to prevent water pollution at Ib Thermal Power Station. Ignoring the above said stipulation, the Company placed (December 1993) orders with Babubhai Narotamdas and Company (BNC), Mumbai, for supply, erection and commissioning of a Chlorination Plant (CP) for the Power Plant involving a "Once Through Cooling System" instead of 'Closed Water Cooling System' as stipulated by the TPAC. The cost of the Plant was Rs.16.50 lakh and it was scheduled to be commissioned by May 1994. The firm completed the supply of material by November 1994 and awaited instruction from the Company for its erection and commissioning. In January 1995, BNC requested the Company to intimate the readiness of site for commissioning of the Chlorination Plant. However, the Plant could not be installed till today due to the environmental objection.

It was also observed in audit that though the price was inclusive of erection, commissioning and testing, a clause was included in the Purchase Order stipulating release of 90 per cent of the ordered value against despatch of documents. In pursuance of this clause, 90 per cent of the value of the contract amounting to Rs.14.85 lakh was released (November 1994) without any verification of the material received. Subsequently after 2½ years from the date of supply, a joint verification was conducted by the Company and representatives of BNC which revealed short supply of some material. Inspite of several requests by the Company till March 1999, the supplier failed to supply the remaining material. Hence, inclusion of a clause providing for release of 90 per cent value without verification of material and without obtaining any security like Bank Guarantee was clearly injudicious and placed the Company at a disadvantageous position in the event of breach of contract by the supplier.

It was further noticed in audit that BNC furnished Bank Guarantee for Rs.0.87 lakh and Rs.1.65 lakh towards Security Deposit and Performance Guarantee but the Company failed to take any steps to validate the Bank Guarantee which expired in June 1997.

Government admitted (September 2001) that the Chlorination Plant was redundant due to the environmental objections and that there had been blockage of funds from 1994 to 2001. It was added that efforts were being made to utilise the system in Sewerage Treatment Plant for Ib Thermal Power Station employees colony depending upon technical suitability.

Thus, placement of orders for Chlorination Plant disregarding environmental stipulations resulted in purchase of a system which could not be utilised for the intended purpose. Further, incorporation of a clause stipulating payment of 90 per cent of value before verification or installation of the system was clearly injudicious. No responsibility has been fixed for the injudicious purchase and consequent blockage of funds.

3A.6.2 Loss due to receipt of inferior quality of coal

Despite receipt of inferior quality of coal the Company did not raise claims against MCL which resulted in loss of Rs.47.82 crore.

Coal requirement of Ib Thermal Power Station (ITPS), Banharpalli, is met from Mahanadi Coal Fields Limited (MCL). In order to ensure supply of quality coal to ITPS, a meeting of the officers of ITPS and MCL was held in January 1997 wherein it was decided inter alia that (i) samples of coal shall be collected at the loading point from the loaded wagons during day time (8 A.M. to 4 P.M.), (ii) analysis of samples shall be done at MCL laboratory jointly by the representatives of MCL and ITPS and (iii) Credit Note or Supplementary Bill shall be issued on the basis of monthly weighted average. Joint sampling of coal was resorted to with effect from April 1997. As per the joint sampling, the Useful Heat Value (UHV) of coal for the month of April 1997 was 2,712 K Cal/Kg. However, the UHV as per boiler feed coal quality test by the Company was found to be 2,204 K Cal/Kg mainly due to (a) drawal of sample during day time was only 30 per cent of the total coal sampled and hence there remained the possibility of supply of inferior quality of coal in the balance 70 per cent coal left untested and (b) samples taken were not adequately representative of the lot.

Receipt of low quality of coal led to loss of Rs.47.82 crore during April 1998 to August 2000.

For settlement of issues arising out of supply of inferior quality coal, a meeting was held (May 1997) in the chamber of Principal Secretary, Energy Department, Government of Orissa, wherein it was decided that (i) MCL would re-consider the bills raised against the Company on account of supply of lower grade coal and (ii) regular meetings would be held between Company and MCL to sort out the problems. Subsequently, due to supply of inferior grade of coal, MCL accepted (March 1998) the claim of the Company amounting to Rs.3.90 crore for 1997-98. It was observed in audit (November 2000) that inspite of supply of inferior quality of coal during the period April 1998 to August 2000, the Company failed to raise any claim against MCL amounting to Rs.47.82 crore. Further, the Company also did not insist upon suitable revision of the method of sampling at joint inspection to provide for continuous sampling of coal during the whole day with adequate representation of the samples taken from the quantity of coal supplied for ensuring better quality of coal. It was further noticed that due to use of bad quality coal, the Company sustained loss of generation of 362.09 MU of power valued at Rs.57.56 crore during 1998-99 and 1999-2000. Had the Company claimed the cost of bad quality coal from MCL, this loss would have been reduced to that extent.

Government stated (August 2001) that it was a fact that MCL supplied low-grade coal ('G' grade) but payments were made on the monthly weighted average of Gross Calorific value supplied by MCL and individual lots were not considered for payment. It was added that it had been decided in December 2000 for joint sampling in two shifts during which time the Company would lift its entire requirement of coal and there is continuous improvement in the terms of supply. The fact remains that had the Company taken such steps from April 1998 onwards or payment made to MCL on the basis of actual monthly weighted average of UHV of coal received, it could have avoided the loss on account of receipt of inferior quality of coal.

Thus, failure of the Company to ensure proper joint inspection and sampling of coal supplied by MCL followed by raising of claims for supply of inferior grade coal led to loss of Rs.47.82 crore as the chance of getting the amount reimbursed from MCL after a lapse of more than two years appears to be remote.

3A.7 ORISSA STATE CIVIL SUPPLIES CORPORATION LIMITED

3A.7.1 Procurement of Moong Dal for Cyclone Relief Programme

Procurement of moong dal for cyclone relief work in excess of requirement as well as at higher than prevailing market rate led to extra expenditure of Rs.3 crore.

In the aftermath of the super cyclone which struck coastal parts of Orissa in October 1999, the High Level Committee of Government of Orissa set up to monitor cyclone relief works entrusted the Company with the procurement of moong dal for free kitchens in the cyclone affected areas of the State. The Company procured 22,887 quintals of moong dal valued at Rs.6.40 crore during the period from 5 to 23 November 1999. Audit scrutiny of the procurement and distribution of the dal revealed the following:

(a) Avoidable extra expenditure on procurement at higher rate

The Company placed orders from 3 to 16 November on five co-operative firms and three private traders for supply of 20,500 quintal of moong dal at rates ranging from Rs.2,373 to Rs.2,950 per quintal. It was observed in audit (November 2000) that the orders were placed and payments made without reference to the prevailing market rate of Rs.2,650 per quintals which should have been readily available with the Company. The absence of any effort by the Company to adhere to the market price and its readiness to procure moong dal at any price enabled the traders to raise the rates in an ad hoc manner resulting in extra avoidable expenditure on procurement of 17,825 quintals of moong dal.

Purchase of Moong Dal at higher than the market rate resulted in avoidable expenditure of Rs.0.36 crore.

Management stated (March 2001) that spot purchases were made adopting emergent procedure as an agent of Special Relief Commissioner (SRC) duly approved/reimbursed by SRC. It was added (July 2001) that no market price was available with the company nor was it communicated by anybody and negotiation was held with the parties to reduce the price to Rs.2,850 per quintal against Rs.2,880 per quintal offered by National Agricultural Co-operative Marketing Federation of India Limited (NAFED). The reply is not tenable since the prevailing market price of moong dal was readily ascertainable and in fact it was stated by DM-CSO, Cuttack, to be Rs.2,400 per quintal as per report of Market Intelligence Wing which was submitted to the Estimate Committee of the Orissa Legislative Assembly in June 2000. State Government has informed (July 2001) that the prevailing market rate was Rs.2,650 per quintal at that time. Hence, negotiations should have taken these rates into account. Further, in view of the purchase of Moong Dal from NAFED at the rate of Rs.2,750 per quintal on 9

November 1999, negotiation at the rate of Rs.2,850 per quintal was not a prudent decision.

Thus, procurement of moong dal without reference to the available market rate resulted in avoidable expenditure of Rs.35.52 lakh.

(b) Procurement in excess of requirement

Avoidable expenditure of Rs.3.20 crore due to purchase of excess quantity

Revenue Department instructed (3 November 1999) the Company to supply 500 quintals of moong dal per day. As per data subsequently furnished (11 November 1999 and 25 January 2000) by Revenue Department to Central Relief Commissioner, Government of India, 11,43,105[#] people were fed as part of the relief effort during November 1999. Based on norms of 100 gms. of moong dal per head per day fixed by the High Level Committee, the actual requirement/distribution works out to 11,647 quintals.

As against the above, the Company placed orders for 20,500 quintals and ultimately accepted 22,887 quintals resulting in excess procurement of 11,240 quintals valued at Rs.3.20 crore.

Out of the 22,887 quintals procured, 22,762 quintals were dispatched to the 6 affected districts of which 20,486 quintals were utilised for the relief effort and 2,276 quintals were subsequently transferred to the Mid Day Meal programme to avoid deterioration in quality. Out of the remaining 125 quintals (22,887 - 22,762), 117 quintals were auctioned at a rate of Rs.1,600 per quintal and there was wastage of 8 quintals.

Management stated (March 2001) that orders were placed and supplies accepted as per instructions of Revenue Department and actual requirements. It was added (July 2001) that local purchase was made on orders of Chief Secretary and purchases were concluded on 14 November 1999 and only the quantity in the pipeline was perceived by Audit as excess supply.

The reply of the Management was not tenable as the Company had not only placed orders far in excess of the actual requirement of 11,647 quintals but had also thereafter accepted supply in excess of its own purchase orders the last of which was placed on 16 November 1999. Further, the utilisation of 8,839 quintals (viz. 22,887 - 11,647 - 2,276 - 125 quintals) valued at Rs.2.46 crore could not be ascertained in audit as the details as to its actual distribution through the relief kitchens are not available.

Government, in its reply (July 2001), has admitted that the prevailing market rate of moong dal during the period was Rs.2,650 per quintal as per the Market Intelligence Report.

[#] 414000 people from 5 to 11 November 1999 & 729105 from 12 to 23 November 1999 for a total period of 19 days

Thus, improper assessment of requirement coupled with procurement at higher rate than the prevailing market rate led to avoidable expenditure of Rs.3 crore (less Rs.55.88 lakh recovered through sale of 117 quintals and 2,276 quintals transferred to MDM programme) on procurement of moong dal. Further, utilisation of 8,839 quintals valued at Rs.2.46 crore supplied by the Company to the districts could not be verified in audit due to lack of details of utilisation.

3A.7.2 Loss due to non-collection of differential incremental cost of APL Wheat and Rice from the storage agents

The Company suffered a loss of Rs.0.18 crore towards differential cost as it failed to intimate to FCI the fact of sale of APL rice and wheat to ultimate consumers.

The Central Issue Prices (CIP) of wheat and rice relating to Above Poverty Line category (APL) were revised (29 January 1999) by Government of India (GOI) with effect from 28 January 1999 from Rs.450 per quintal of wheat to Rs.650 per quintal and Rs.700 per quintal of rice to Rs.905 per quintal (rice grade 'A'). As per the GOI order, Food Corporation of India (FCI) would realise the new rates from the State Government in respect of release orders issued from 22 to 28 January 1999 when their agencies/nominees lifted the stocks. In January 1999, FCI clarified that the revised CIP would be effective from 29 January 1999 and the revised CIP would be applicable to stock in pipeline i.e. the stock which was already lifted by State Government and their agencies at the old prices and were lying in their godown or in transit or lying in fair price shops but still not issued to the ultimate consumers. This stock was to be frozen.

Accordingly, Government of Orissa (GOO) directed (January and March 1999) all District Collectors as well as the Company to verify the stocks of rice and wheat held by storage agents and retailers at the closing of 28 January 1999 and to make payment of the differential price to FCI for the release orders issued from 22 to 28 January 1999. The Company issued instructions (February and May 1999) to the District Managers on the above lines and directed them to recoup/collect the differential price from the storage agents.

During the audit of three divisions viz. Balasore (May 2000), Dhenkanal (February 2001) and Khurda (March 2001), it was observed that the differential cost of 4,183 quintals of rice and 4,627 quintals of wheat held in pipeline during the period from 22 to 28 January 1999 amounting to Rs.17.91 lakh was not recovered by the Company from the storage agents because the stock had already been sold to the consumers. However, this fact was not intimated to FCI and the Company paid Rs.14.70 lakh to them (March 1999 to August 2000). The balance amount of Rs.3.21 lakh is yet to be paid (March 2001).

The Unit management stated (February 2001) that since the stocks had already been issued to the ultimate consumers at pre-revised price during the pipeline period, it was not possible to collect the differential amount from the consumers and there was 'Nil' stock as on 28 January 1999 with the storage agents/retailers. The Management added (July 2001) that recovery of differential cost from storage agents on stocks which had been passed on to the retailers/consumers was not justified and proper.

The reply is not tenable in view of the fact that the Company should have brought the fact of 'Nil' stock as on 28 January 1999 to notice of FCI in which case it would not have had to pay the differential cost to FCI as per their instruction of 30 January 1999.

Thus, the Company suffered a loss of Rs.17.91 lakh as it failed to intimate FCI the fact of sale of APL rice and wheat as on 28 January 1999 to ultimate consumers.

The matter was reported to the Government (May 2001); their reply was awaited (December 2001).

3A.7.3 Loss due to deviation from extant instructions of Government

The Company incurred extra expenditure of Rs.0.42 crore due to failure to adhere to Government instructions while entering into agreements with storage agents.

Food Supplies and Consumer Welfare Department, Government of Orissa directed (August and October 1997) the Company to procure 41,000 MT of rice to meet the shortfall in allotment by Government of India under Targeted Public Distribution System (TPDS). The rice so procured was to be kept in the godowns of the Orissa State Warehousing Corporation (OSWC). It was stipulated in the Government order that incidental charges were to be paid at the rate of Rs.2 per quintal to OSWC and no incidental charges were payable to storage agents. The Government order was silent on payment of shortage charges to OSWC and storage agents. The Company procured 40,895 MT of rice during September to November 1997. The Company incurred a total expenditure of Rs.76.75 lakh which inter alia included payment of shortage charges to storage agent (Rs.15.38 lakh) and OSWC (Rs.15.38 lakh) as well as incidental charges to storage agents (Rs.13.27 lakh). The Company also paid incidental charges to OSWC at the rate of Rs.4 per quintal as against Rs.2 per quintal provided by Government. However, Government allowed only Rs.34.62 lakh as a result of which the Company incurred an extra expenditure of Rs.42.13 lakh.

After the point was raised in audit, the Company requested (June 1999) the Government to reimburse the extra expenses as subsidy. No response has been received from Government so far (July 2001).

Expenditure in violation of Government instructions led to loss of Rs.0.42 crore.

Thus, by incurring expenditure in violation of Government instructions, the Company had to suffer a loss of Rs.42.13 lakh.

The Management stated (July 2001) that in the economic costing of PDS stock, Government had approved Rs.2 per quintal towards incidental charges for one operation. Since OSWC conducted two operations (loading and unloading), Rs.4 per quintal was allowed and agreement was made accordingly. It was added that storage charges and incidental charges to storage agents were released as per Storage Agency Agreement made with them. The reply is untenable since the Company should have made agreement with the storage agents as per the instructions issued by Government in order to avoid the loss. Further, the Company also paid incidental charges at the rate of Rs.2 per quintal to OSWC for similar operation in May 1997.

The matter was reported to Government (May 2001); their reply was awaited (December 2001).

3A.8 ORISSA FOREST DEVELOPMENT CORPORATION LIMITED

3A.8.1 Commercial Plantations

Despite investment of Rs.24.59 crore in cashew, rubber and mixed commercial plantation which were expected to yield revenue of Rs.18.22 crore during 1996-97 to 2000-01, the Company could obtain only Rs.2.94 crore due to non-maintenance, delay in harvesting and inadequate horticultural operations.

Up to 1992-93, the Company took up commercial plantations over an area of 64,071 ha comprising of pure cashew (11,054 ha), mixed cashew (7,275 ha) and other commercial species including Eucalyptus, Accacia, Simaruba and Bamboo (45,742 ha). The cashew plantations were expected to start yielding from the fifth year till 30 years while the other commercial plantations were to mature for harvesting after the seventh year. It was noticed in audit (April 2001) that the actual yield in cashew plantations were far below the projected yield and there was inordinate delay in harvesting of commercial plantations leading to loss of revenue as discussed in subsequent paragraphs.

(a) Cashew plantation

The project report approved (March 1978) by the Government of Orissa envisaged survival of 148 seedlings (95 per cent) out of 156 planted per ha. and an average annual yield of two kg. per tree. In Bhubaneswar 'A' Division, the survival percentage of trees declined from 47 (1996-97) to 39 (1999-2000) due to non-maintenance of the plantation as no funds were provided by the Corporate office as depicted below:

Crop Year	Area in ha.	No. of trees at 95% survival rate as per project report	No. of trees actually survived (percentage of survival)	*Anticipated net revenue on trees actually available	Revenue realised (actual)	Loss of revenue on available trees
		(Trees in lakh)		(Rupees in lakh)		
1996-97	10170	15.05 (95%)	7.09 (47)	729.44	62.47	666.97
1997-98	10091	14.93 (95%)	7.08 (47)	311.51	69.66	241.85
1998-99	10091	14.93 (95%)	6.83 (46)	361.78	76.70	285.08
1999-2000	10126	14.99 (95%)	5.80 (39)	345.84	85.23	260.61
Total				**1748.57**	**294.06**	**1454.51**

Revenue of Rs.14.55 crore was lost due to low survival and lesser yield than the norms on account of poor maintenance.

It was noticed in audit that as against the anticipated net revenue of Rs.17.49 crore based on the actual survival, the Company earned a meagre Rs.2.94 crore. The low revenue realisation was due to low yield on account of non-maintenance of plantations. Had the plantations raised at an investment of Rs.3.26 crore been properly maintained, the Company could have earned a net revenue of Rs.17.49 crore on the actually surviving trees against which only Rs.2.94 crore was realised resulting in loss of revenue of Rs.14.55 crore.

(b) Loss on account of low survival

Plants valued at Rs.9.57 crore were lost due to survival below the prescribed norm.

A test check of records of six (out of eight) Divisions revealed that the survival percentage of other commercial plantations over an area of 32,858 ha. created at an expenditure of Rs.18.02 crore ranged between 0 and 48 per cent (against the norm of 75 per cent) after maintenance period. The expenditure incurred in plants lost in excess of norms worked out to Rs.9.57 crore.

Management stated (July 2000) that the low survival rate was due to illicit felling and biotic interference. The reply is not tenable as the Management should have provided proper watch and ward to prevent illicit felling and maintenance of the plantations should have been made properly to achieve the survival percentage as per norm since huge expenditure was incurred for raising the same. Government confirmed (August 2000) that though biotic factors are important, the executing agency cannot be absolved of the responsibility in case of low survival.

* Anticipated net revenue =No. of trees x 2 Kg. x rate per Kg. obtained on sale of cashew for the year - maintenance cost.

(c) Loss due to delay in harvesting

During the period 1980-81 to 1992-93, the Company raised commercial plantations over 53,017 ha. (in 701 locations) other than pure cashew at a total investment of Rs.21.20 crore. These plantations were taken-up without approval of the Forest Department as prescribed in Orissa Forest Act, 1872. The Company decided (December 1992) to harvest the commercial plantations which were more than five years old. The Company was to take-up enumeration of commercial plantations to identify the trees available for exploitation. This was expected to be completed by May 1994. Due to delay in completion of enumeration, the Company could submit proposals only in February 1996 for harvesting-cum-replanting schemes over an area of 6,525 ha. The Government directed (June 1996) the Company to proceed with the harvesting by calling for open tenders. Open tenders obtained (September 1996) by the Company fetched a highest price of Rs.2.73 crore which was much below the offset price of Rs.4.91 crore fixed by the Company. Though the Company subsequently decided (April 1997) to proceed with the harvesting/re-planting through its commercial divisions, this could not be implemented due to delay in obtaining necessary clearance from Government.

Company's investment of Rs.21.20 crore was blocked due to delay in harvesting.

Government of Orissa intimated (December 1998) the Company that harvesting proposals had to conform to the working plan for the respective forest areas. The Company accordingly submitted (January 1999) proposals for harvesting 35,862 ha. (including the 6,525 ha. indicated above) raised during 1980-81 to 1992-93 which was found (January 1999) by the Government of India to be not in conformity with the working plan. The Company re-submitted (October 1999) the proposal which was awaiting sanction of GOI (August 2001). No proposal has been submitted for the balance area of 17,155 ha.

It was observed in audit that the Company failed to get any return on the investment of Rs.21.20 crore invested in these commercial plantations due to its failure to adhere to the provisions of the Forest Act and subsequent delay in finalising proposals for harvesting in tune with the working plan of the area. There was no sense of urgency though the Company was aware that illicit felling was rampant in these areas since February 1996. Thus, delay in harvesting had not only left scope for continued illicit felling but also locking up of huge sums which would have otherwise been realised through auction sales and re-plantation could have been undertaken utilising internal resources. The whole plantation has not been harvested so far (August 2001).

(d) Loss of revenue due to non-maintenance of rubber plantations

Investment on Rubber Plantations Rs.0.13 crore remained unfruitful

The Company took up rubber plantations in Keonjhar district in three locations over an area of 34 ha. during the year 1988-89 to 1990-91 at a cost of Rs.13.36 lakh. As per norms of the Rubber Board:

(i) rubber plantations mature at the age of seven years on attaining the minimum specific girth of 45 cm.,

(ii) tapping of trees should commence from the seventh year till the 25th year of plantation and it should yield five kilograms of rubber per year,

(iii) it is uneconomical to commence tapping unless at least 70 per cent of the trees in a given area achieve the minimum girth of 45 cm., and

(iv) the minimum stand (number of standing trees) per ha. should be 380 plants of 45 cm. girth during seventh year.

As per the above norms, the Company was expected to earn a revenue of Rs.73.49 lakh between March 1996 (seventh year) and March 2001.

It was observed in audit that out of 14,465 rubber trees planted during 1988-89 to 1990-91 viz. 425 per ha., the average number of surviving plants was only 262 per ha. in December 1996 (seventh year of plantation) which decreased to 215 per ha. in March 2001. Further, the number of tappable trees per ha. ranged from 13 to 32 trees during the years from December 1996 to March 2001 as against 297 trees per ha. required for economically viable tapping as per norm of the Rubber Board (minimum 70 per cent of 425 per ha.).

Non-maintenance of plants led to loss of Rs. 0.73 crore

The low survival and low stand of tappable trees was attributed (June 1997 and February 1998) by the Rubber Board to improper maintenance and inadequate horticultural operations. Thus, the Company lost potential revenue amounting to Rs.73.49 lakh (as on March 2001) and the expenditure of Rs.13.36 lakh in respect of the plantation was rendered largely unfruitful as tapping of trees was yet to be commenced.

Thus, out of investment of Rs.24.59 crore in cashew, rubber and mixed commercial plantation which were expected to yield revenue of Rs.18.22 crore during 1996-97 to 2000-01, the Company could obtain only Rs.2.94 crore due to non-maintenance, delay in harvesting and inadequate horticultural operations.

Government stated (August 2001) that yield depends on meteorological and environmental factors along with age of the plants and the projected revenue calculated by audit is on "critical basis which did not appear to have any nexus to the practical bearing." It was added that harvesting of commercial plantation would be taken up after getting clearance from Government of India. The reply is not tenable since the company clearly failed to take adequate measures to prevent illicit felling and ensure proper maintenance of harvesting to earn the expected revenue. As the plantations were purely a commercial venture, the Company should not have made huge investments unless it was in a position to ensure remunerative returns.

3A.8.2 Loss in Plantation Activity in Khandagiri-Udaygiri Hills

Failure to harvest the plantation in time resulted in loss of income of Rs.0.20 crore.

The Forest Department prepared (1987) a scheme for developing the landscape at Khandagiri-Udaygiri Hills at an estimated cost of Rs.28.80 lakh over a period of five years and directed the Company to implement the scheme from its own resources. The Company prepared (June 1992) a project report on the scheme *Ecological Plantation for Environmental Protection* at an estimated cost of Rs.50 lakh during a span of five years with anticipated revenue of Rs.5 lakh per annum from 1996-97 onwards. The Company incurred expenditure of Rs.19.28 lakh on 22,415 plants upto 1991-92. Due to funds constraint, the Company requested (November 1997) the Government to takeover the project and to reimburse the expenditure incurred by it. The project work was stopped (March 1998). The proposal for reimbursement was not accepted by the Government (May 1998).

The Company was to harvest the plantations raised for the development of landscape at Khandagiri-Udaygiri hills annually from 1996-97 onwards to earn Rs.6.72 lakh per annum (at the rate of Rs.30 per plant from 22,415 plants). However, the Company failed to harvest the above plantations. After the super cyclone in October 1999, the plantations were damaged and the Company harvested the plantation for the first time in January 2000 earning revenue of only Rs.1.14 lakh against the estimated revenue of Rs.20.16 lakh for three years from 1996-97 to 1998-99. The income did not cover even the annual recurring establishment expenses of Rs.1.58 lakh.

Failure to harvest the plantation in time resulted in loss of income of Rs.0.20 crore.

Thus, developing a project without adequate planning and without ensuring availability of the required funds and failure to harvest the plantation in time resulted in loss of income of Rs.20.16 lakh on the above plantation.

The Management stated (June 2000) that the Scheme was undertaken by the Company at the behest of Government of Orissa to improve the natural beauty of the hills, attract Jain ascetics and develop the place as a centre for meditation and religious rites. Government added (August 2001) that the Company is not only a commercial organisation but they had some social objectives for improvement of ecological and environmental development. However, the devastation caused by the super cyclone was beyond the control of the Company. The reply is not tenable as the Scheme was taken up without specific commitment of finance or adequate planning, the project could not be completed and project objectives remained unrealised.

3A.9 ORISSA AGRO INDUSTRIES CORPORATION LIMITED

Futile investment in Joint Sector Project

Lack of monitoring of investment in the Joint Sector Project resulted in loss of Rs.0.19 crore.

The Project Approval Committee of the State Government approved (May 1995) a proposal for establishment of a pickle manufacturing unit in Joint Sector with Odyssy Pickles Limited (OPL) in Keonjhar district at an estimated cost of Rs.98.40 lakh .

The Company entered into an agreement with OPL in July 1995. The project cost was subsequently revised to Rs.1.07 crore by Bank of India (BOI) at the time of appraisal which was to be contributed by the promoter (Rs.20.23 lakh), the Company (Rs.18.65 lakh), the National Horticulture Board (Rs.24 lakh) and through a term loan (Rs.44 lakh). Accordingly, the Company invested (January to May 1996) Rs.18.65 lakh in the project towards equity and the project started commercial production in September 1997.

Inadequate follow-up action led to futile investment of Rs.0.19 crore.

It was observed in audit (November 2000) that the Company had not received the share certificate so far against the equity participation. OPL also had neither prepared its annual accounts since inception nor complied with the standing provisions of the Companies Act, 1956, with respect to allotment of shares, submission of returns, holding of meetings, etc. as a result of which the assets and liabilities of OPL is not known to the Company. Though the Board of Directors of the Company authorised (January 1996) the Managing Director to watch the progress of the project and to bring to the notice of the Board any discrepancy, no action was taken in this regard inspite of poor performance of OPL. Further, in the absence of share certificate, no action could be initiated by the Company for disinvestment of its equity holding in OPL as per the terms of the agreement. The Company also failed to take up the matter regarding non-compliance to the provisions of Companies Act with the Company Law Board or Registrar of Companies. Due to unsatisfactory performance of OPL and with the financial position nearing insolvency, BOI intimated (September 2000) the recall of the term loan (Rs.56.93 lakh) and working capital (Rs.1 crore).

Thus, poor monitoring of the project by the Company inspite of presence of its three nominees including Chairman in the Board of OPL resulted in futile investment of Rs.18.65 lakh. The chance of recovery is remote in view of the terms of the agreement that in case the project does not come up, the expenses would be borne by the respective parties.

The matter was reported to the Management (February 2001) and Government (March 2001); their replies were awaited (December 2001).

3A.10 ORISSA CONSTRUCTION CORPORATION LIMITED

Loss due to improper cash management

Investment in short-term deposit in violation of extant guidelines resulted in differential loss of interest of Rs.0.15 crore.

As per extant guidelines of State Government (November 1996), Public Sector Undertakings (PSUs) should not invest their funds at a particular rate of interest for a particular period of time while at the same time resorting to borrowings at an equal or higher rate of interest for their requirements.

Investment of surplus funds in STDs instead of parking the same against cash credit account resulted in differential loss of interest of Rs.0.15 crore.

It was noticed in audit (December 2000) that the Company had been availing of Cash Credit facility during the period from 20 April 1998 to July 2000 ranging from Rs.69.19 lakh to Rs.1.09 crore at an interest rate of 16.75 per cent per annum. During the same period, the Company invested its funds in short-term deposits (STDs) ranging from Rs.1 crore to Rs.1.50 crore at a rate of interest ranging from 5.4 to 7 per cent per annum in violation of the above cited guidelines. This resulted in excess expenditure of Rs.15.13 lakh towards differential loss of interest. Had the Company followed the instruction of the State Government and parked the surplus funds in the Cash Credit account, additional interest burden amounting to Rs.15.13 lakh could have been avoided.

Government stated (April 2001) that since there was a time lag between amount spent on the works and amount received from the contractees, the Company kept the surplus money in STDs for a period of 32 to 45 days instead of keeping in Current Account. It added that had the Company resorted to re-payment of cash credit, it would have affected the works and the Company would have earned a bad name.

The reply is untenable as the Company kept the surplus funds in STDs for a period of 45 to 205 days which could have been parked in Cash Credit Account and drawn at the time of actual requirement for execution of works in order to reduce the interest burden.

3A.11 ORISSA LIFT IRRIGATION CORPORATION LIMITED

Delay in execution of Lift Irrigation Projects under Drought Mitigation Programme

In spite of availability of funds, the Company could not implement the Drought Mitigation Programme defeating the purpose of the programme and resulting in depriving irrigation facility to 2,500 acres.

As per decision (28 April 1999) of the Committee for administration of Calamity Relief Fund, the Company submitted (28 April 1999) an Action Plan to the State Government for utilisation of drought grant in the affected districts of the State towards installation of 119 new lift irrigation projects at a cost of Rs.5 crore during April to June 1999. Accordingly, the Special Relief Commissioner (SRC), Orissa, approved (14 May 1999) construction of 100 new Lift Irrigation (LI) Projects at a cost of Rs.4 crore to be completed by end of June 1999 and the amount was released to the Company in June 1999. The Managing Director of the Company committed (June 1999) to install all the projects by 15 July 1999 in order to provide water to the cultivators during the Khariff season for 1999 (June to October). The Company had instructed (3 June 1999) the Lift Irrigation Divisions to form Water User Associations (WUA) in each of the LI projects and get the same registered so as to hand over the projects to the WUAs on completion. The Company released (11 June 1999) Rs.1 crore (at the rate of Rs.1 lakh for each project) to the concerned divisions for taking up the work including deposit of service connection charges for supply of LT line. It was also instructed that WUAs must be formed and registered before deposit of cost of service connection charges.

A review in audit (May 2001) of implementation of the programme in 6 out of 19 divisions (i.e. 50 out of 100 projects) revealed the following:

(a) The projects to be completed in June 1999 were actually completed between November 1999 to March 2001 resulting in delays ranging from 5 to 21 months. Though funds were available with the Company and advance action was initiated in April 1999, none of the projects could be completed by July 1999 to provide water to the cultivators during the khariff season for 1999 (June to October 1999). Hence, there was loss of irrigation potential of 2,500 acres for that year.

The delay in implementation of the project was due inter alia to (i) delayed supply of material by the suppliers, (ii) failure of the beneficiaries to form WUAs in time, and (iii) delay in drawal of power lines by GRIDCO. Evidently, the Management did not take adequate steps to implement the 71 projects (other than in the coastal areas where installation of 29 tube well was not possible due to early monsoon rain fall) in time considering the emergent situation as a result of which the purpose of release of funds by SRC was defeated. Further, the works executed by the Company upto 20 July 1999 was only for Rs.29.28 lakh against Rs.315.04 lakh (excluding Rs.84.96 lakh relating to GRIDCO) which is a clear indicator of the lackadaisical approach of the Company in execution of the work. The Company also deposited only Rs.46.89 lakh with GRIDCO towards cost of service connection charges which was 55 per cent of total expenditure.

(b) In Keonjhar, Dhenkanal, Bolangir and Bhawanipatna divisions, 13 projects were not ready even for the next Rabi season (November 1999 to May 2000) as a result of which there was further loss of irrigation potential of 650 acres during that season. Of these 13 projects, 11 projects were also not ready for the next Khariff season (June to October 2000) and thus another 550 acres of land was deprived of irrigation facility.

(c) Though formation of WUAs was a pre-condition for taking up the LI projects, in case of 9 projects (Koraput - 3 and Bolangir - 6) WUAs were not formed. Those projects though completed in December 1999 to December 2000 remained inoperative and thus the expenditure of Rs.33.14 lakh remained unfruitful. Besides, in Phulbani district, 8 projects completed between November 1999 to January 2000 could not be handed over to the WUAs as they were not willing to take over the project in view of no demand from the beneficiaries due to lack of agricultural knowledge and poor financial condition. Hence, taking up of the projects at a cost of Rs.34 lakh needs justification. Further, in case of 8 projects installed at a cost of Rs.34.50 lakh in Bhawanipatna, the reasons for non-handing over to WUA is not on record.

(d) Out of Rs.2.15 crore sanctioned for the 50 LI projects in the 6 divisions, the Company incurred expenditure for Rs.2.05 crore and a balance amount of Rs.0.10 crore is lying unutilised (April 2001).

Thus, delay in implementation of the projects by the Company resulted in non-achievement of Drought Mitigation Programme despite availability of funds.

The Management stated (October 2001) that out of 100 projects, 99 projects had since been installed by March 2001 of which 7 projects were awaiting energisation. It was added that the delay in installation of tube wells was due to super cyclone which occurred during October 1999. The reply is untenable in view of the fact that the projects were to be completed by June 1999 so as to ensure water to the cultivators during Khariff 1999 i.e. June to October 1999, viz. much before the super cyclone. Due to the lackadaisical approach of the Company in execution of the work, there was delay in completion of the projects and as a result, the purpose of release of the funds was defeated.

The matter was reported to Government (May 2001); their reply was awaited (December 2001).

3A.12 ORISSA MINING CORPORATION LIMITED

Loss due to supply of iron ore on credit basis without any agreement or security

Due to supply of material without entering into agreement and without security the Company sustained a loss of Rs.0.45 crore.

Mideast Integrated Steels Limited (MISL), a private sector Company which was part of MESCO Group, approached (October 1992) the Company for supply of iron ore lumps and fines for its steel plant from 1995-96. The Company decided (March 1995) to supply the ore to MISL on the condition that MISL should open a Letter of Credit (LC) amounting to 15 days supply. Accordingly, the Company sent (August 1995) a draft agreement to MISL for their acceptance. MISL did not accept the agreement inspite of reminders issued by the Company. Meanwhile, MISL requested (October 1995) for supply of a small quantity of 2,000 MT on 30 days credit. The Company considered it as a special case and supplied 2,001 MT of lumpy ore between 21 November and 2 December 1995 on the condition that MISL should settle the bills on presentation. The bills were raised on 29 March 1996 after lapse of more than 3 months. The reasons for the delay in raising bills were not on record. Though the earlier bills were not settled, the Company again supplied 6,876 MT between December 1995 and March 1996 and further 2,267 MT between April and 20 May 1996 to MISL and the bills were raised in March and June 1996 respectively. Since no payment was received as committed by MISL in May 1996 against supply of 11,144 MT of ore valued at Rs.35.18 lakh, the Company intimated MISL on 20 May 1996 that further supply would be considered depending on opening of LC and clearance of outstanding dues. However, despite non-fulfillment of the above conditions, the Company again supplied 3,000 MT of ore valued at Rs.9.85 lakh during 21 May to July 1996 without any recorded reasons. Payment for the entire supply of 14,144 MT of ore amounting to Rs.45.03 lakh was not yet received by the Company (April 2001).

Supply of iron ore despite non-payment for earlier supplies and without entering into agreement resulted in likely loss of Rs.0.45 crore.

It was noticed in audit (February 2001) that though the Company had decided while supplying the first lot that further supplies shall be governed as per the agreed terms and it shall not be cited as precedent, yet further supplies were made without entering into agreement and even without insisting for payments for earlier supplies or opening of LC. Further, in a meeting held on 27 January 2000 with the MISL, the Company sought payment for earlier supplies by February 2000 and committed to supply about 5 lakh MT of ore during 2000-01 but did not insist on entering into agreement for the supplies. Since the steel plant which was scheduled to be completed by 1994 was not yet commissioned and supplies were made without agreement as well as security, the chance of recovery of dues of Rs.45.03 lakh is bleak. Thus, supply of iron ore without any agreement or security despite continuous non-payment of pending bills constituted undue favour to MISL and resulted in likely loss of Rs.45.03 lakh.

The Management stated (September 2001) that material was supplied to MISL on good faith and money could not be realised till date due to non-execution of the contract. The fact remains that the Company should not have supplied material on credit repeatedly without ascertaining the credit worthiness of the purchaser.

The matter was reported to Government (May 2001); their reply was awaited (December 2001).

3B. Statutory Corporations

3B.1 ORISSA STATE FINANCIAL CORPORATION

3B.1.1 Avoidable payment of Underwriting Commission

Payment of underwriting commission to the subscriber of bonds who performed no underwriting function resulted in loss of Rs.0.20 crore.

Small Industries Development Bank of India (SIDBI) permitted the Corporation to raise funds through issue of bonds in January 1998, January 1999 and June 2000 under the market borrowing programme for the years 1997-98 to 1999-2000.

As against the allotment of Rs.95.53 crore, the Corporation raised only Rs.62 crore. The terms of allotment of SIDBI permitted brokerage (0.12 per cent) and underwriting commission (0.38 per cent). The Company did not appoint any brokers or underwriters for these issues and went ahead collecting subscriptions from banks through direct placement. However, the Corporation paid Rs.26.53 lakh towards brokerage (Rs.6.37 lakh) and underwriting commission (Rs.20.16 lakh) to these subscribing banks. As the issue was not subscribed through appointment of underwriters and was in fact under-subscribed to the extent of Rs.33.53 crore, the question of payment of underwriting commission does not arise and that too to the subscribers directly for no underwriting functions performed by them.

The Management stated (March 2001) that as per the terms and conditions of the bond issue, the Corporation paid brokerage and underwriting commission as an incentive and the Corporation had the option to negotiate with the prospective subscribers. The Management added (May 2001) that the Corporation was trying to avoid payment of brokerage and underwriting commission. However, for taking into cognizance the long-term benefit of bond subscriptions, the Corporation had agreed to the conditional subscription of the subscribers by allowing underwriting commission.

While the contention of the Corporation regarding payment of brokerage is acceptable as an incentive paid to the subscribers as per practice, the payment of underwriting commission to the subscribers is not tenable since underwriters are appointed to raise funds and also to make good shortfall, if any, in allotment. In this case, the Corporation could not makeup the shortfall in allotment yet paid the commission to the non-entitled subscribers. Further, there was no clause in the Bond prospectus for payment of underwriting commission.

Thus, payment of underwriting commission to the subscribers in the absence of any commitment to make good the shortfall in allotment resulted in avoidable payment of Rs.20.16 lakh and undue favour to the subscribers at the cost of the Corporation.

The matter was reported to Government (April 2001); their reply was awaited (December 2001).

3B.1.2 Loss due to injudicious purchase of premises

Injudicious decision to purchase seized premises without any requirement resulted in blockage of funds of Rs.0.33 crore besides loss of interest of Rs.0.13 crore.

The Corporation seized (November 1990) Hotel Alankar (P) Limited, Cuttack, under Section 29 of the State Financial Corporations Act, 1951. The National Institute of Rehabilitation Training and Research (NIRTAR), who were using a large portion of the building on rent before the seizure, were allowed to continue as tenant after seizure. The Corporation advertised (March 1997) for sale of the premises against which four offers were received the highest being Rs.31.11 lakh. Instead of accepting the offer, the Corporation decided (March 1997) to purchase the premises at a cost of Rs.32.50 lakh for its own office use. However, instead of using the building for the purpose for which it was purchased, the Corporation entered into a fresh agreement with NIRTAR to continue them as a tenant at a monthly rent of Rs.27,000 for the period from April to September 1997 for which no justification has been recorded. NIRTAR vacated the premises in September 1998 and thereafter it was kept vacant. In December 1999, the Board of Directors decided to dispose of the premises and fixed the reserve price of Rs.32.50 lakh which had not yet been materialised (August 2001).

It was observed (February 2001) in audit that the Board had decided earlier (January 1996) to construct a seven storied building to accommodate all the departments of the Corporation. Four floors of the building has since been constructed and the ground floor occupied by OSFC. Hence, there was no requirement for the premises and the Corporation never utilised the purchased premises for its own use. Had the Corporation accepted (March 1997) the offer of Rs.31.11 lakh, it could have earned a minimum interest of Rs.17.18 lakh upto August 2001. Thus, injudicious decision of the Corporation to purchase the premises resulted in blockage of funds of Rs.32.50 lakh for more than 4 years besides loss of Rs.12.59 lakh excluding the rent received from NIRTAR.

The Management stated (September 2001) that the premises could not be used due to resistance offered by the ex-loanee and the Corporation was trying to find a prospective buyer to sell the property on as is where is basis. The reply is untenable in view of the fact that there was never any need for the building and it should not have purchased the premises. Further, legal action could have been contemplated to counter the resistance offered by the ex-loanee.

The matter was reported to Government (April 2001); their reply was awaited (December 2001).

3B.1.3 Unfruitful expenditure on implementation of computerisation project

Inadequate technical support, undue favour to the supplier and delay in completion of the computerisation project led to unfruitful expenditure of Rs.0.48 crore.

Computerisation of various activities of the Corporation started during 1989-90 with the procurement of a mini computer system and four personal computers. Subsequently in Septemeber 1997, the Corporation framed a project at an estimated cost of Rs.1.20 crore for augmentation of the system with online connectivity between the head office and its other sections through Local Area Network (LAN) and branch offices to head offices through Wide Area Network (WAN). As the Corporation did not have any IT trained personnel, it decided to develop the application software with the help of an approved nodal agent of the State Government for implementation of computer software viz. Orissa Computer Application Centre (OCAC). The Corporation borrowed Rs.1.20 crore (Rs.90 lakh from Small Industries Development Bank of India and Rs.30 lakh from other banks) at the rate of 13 per cent interest per annum for completion of the project by September 1998. The Corporation had spent Rs.1.31 crore as on March 2001.

(a) Orders placed on Zenith Computer Limited

The Corporation invited open tenders (July 1997) for delivery, installation and commissioning of computer hardware and software. Out of the 24 offers received, 6 firms were short-listed. Though the lowest offer for Rs.46.90 lakh of the package was from Oricom System Private Limited (ORICOM), the Corporation, on the recommendations of Technical sub-Committee, placed the order (September 1997) with Zenith Computer Limited (ZCL) at Rs.52.08 lakh who was the second lowest offerer on the ground that ZCL would provide free benefits valued at Rs.12.80 lakh. The material was to be delivered and installed by 30th November 1997 but was actually received only in January 1998 and installed in October 1998 after a delay of 42 weeks.

(b) Order on OCAC for software development

The work of system integration and application software development was awarded (December 1997) to OCAC at a cost of Rs.20 lakh. As per the work order, the system integration was to be completed within one month from the date of delivery of hardware and software development by September 1998. Though the Corporation paid Rs.13 lakh to OCAC from March 1998 to April 2001, the work has not been completed so far (August 2001).

In this connection the following was observed in audit (April 2001):

(i) The Corporation awarded the work to ZCL in view of their offer for free benefits valued at Rs.12.80 lakh. Analysis of these items revealed that except for training of two persons and utilisation of Domino 4.5 (2) in intranet valued at Rs.1.20 lakh, other items of free benefits were not availed. Further, no negotiation was done with ORICOM who was the lowest offerer. Hence, by not accepting the lowest offer, the Corporation incurred an extra expenditure of Rs.5.17 lakh.

(ii) ZCL completed the work after a delay of 42 weeks. As per the terms of the contract, penalty at the rate of 0.5 per cent per week subject to maximum of 5 per cent of the contract price (Rs.51.52 lakh) was to be levied. However, such penalty amounting to Rs.2.57 lakh was not recovered from ZCL.

(iii) For WAN connectivity, ZCL was to supply (September 1997), CISCO AS 5100 ACCESS Terminal server with 4 quad modems to establish dial up connectivity with all the branches and headquarters valued at Rs.6.47 lakh. However, ZCL supplied (March 1999) only one quad modem valued at Rs.2.87 lakh. ZCL also did not supply cabinet for the CISCO which was purchased by the Corporation at a cost of Rs.0.19 lakh. Since the components supplied by ZCL were inadequate to achieve WAN connectivity and the product had since become obsolete, the expenditure of Rs.3.06 lakh was rendered infructuous. The Corporation also did not impose penalty amounting to Rs.0.14 lakh for delayed supply as per the terms of the contract nor did it examine the utility of the purchase at this belated stage.

(iv) Corporation paid Rs.13 lakh to OCAC from March 1998 to April 2001 for work of system integration and development of application software. However, there was no penal clause in the contract for levy of damages for delay in completion of work. There was inordinate delay of 3 years in completion of the task which has not only rendered the investment of Rs.13 lakh unfruitful till date but the Company was also precluded from levying any damages for the delay. OCAC had not completed the work of system integration and application software development so far (August 2001) even after lapse of 2 years. Since there is no penal clause for delay in completion of work by OCAC and the Corporation felt that IT professionals of OCAC did not have detailed knowledge of the intricacy of a system, the expenditure made for development of software amounting to Rs.13 lakh was rendered unfruitful.

(v) The Corporation blocked its fund of Rs.1.20 crore resulting in loss of interest of Rs.26.55 lakh besides not achieving the objective.

Thus, taking up the computerisation project in the absence of adequate technical support and delay in completion of the project led to unfruitful expenditure/loss of Rs.47.78 lakh to the Corporation besides denying it the anticipated reduction in cost. Besides this loss, the Corporation did not levy penalty of Rs.2.71 lakh.

Government stated (August 2001) that the work was awarded to ZCL in view of their reputation and additional facilities offered by them. Since the machinery was procured with the principle "just in time" and to avoid litigation, penalty was not levied on ZCL. It was added that in the absence of additional quads, the WAN connectivity is not adversely affected and the system had been developed but delayed due to problems in process re-engineering in the intervening period to achieve optimum level by use of limited resources. The reply is not tenable since the Corporation should have negotiated with ORICOM as they were among the 6 firms short listed by the Technical sub-Committee and were also awarded the work of upgradation of RAM capacity which could not be done by ZCL. The WAN connectivity to 16 branches at a time from head office is not possible in the absence of 4 quads having 16 modems. Further, penalty should have been levied as per terms of the contract and a penalty clause should have been added in the contract with OCAC by which the Corporation could have recovered the amount paid to them in case they failed to complete the project.

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