

OVERVIEW

I Introduction

1. This Report includes important audit findings noticed as a result of test check of transactions of Central Government Companies/Corporations, conducted by the officers of the CAG of India under Section 619(3)(b) of the Companies Act, 1956 or the statute governing the particular Corporations. The results of Information Technology (IT) Audit are also included in this Report.

2. The Report contains 145 paragraphs and two IT reviews relating to 63 PSUs. The draft paragraphs and IT reviews were forwarded to the Secretaries of the concerned Ministries/Departments under whose administrative control the PSUs are working to give them an opportunity to furnish their replies/comments in each case within a period of four weeks. Replies to 71 paragraphs/reviews were not received even as this report was being finalised in December 2005. Earlier, the draft paragraphs were sent to the Management of the PSUs concerned - in respect of six paragraphs, they failed to respond despite being reminded.

3. The paragraphs/reviews included in this report relate to the PSUs under the administrative control of the following Ministries/Departments of the Government of India:

Ministry/Department (Total number of PSUs/ PSUs involved here)	No. of Para- graphs/ IT Reviews	Financial Implication under the Paragraphs/ IT Reviews (Rs. in crore)	Number of Paragraphs/IT Reviews in respect of which Ministry reply was awaited
1. Atomic Energy (5/1)	1	3.40	0
2. Banking (8/1)	1	4.13	0
3. Chemicals and Petrochemicals (16/1)	1	18.17	0
4. Civil Aviation (10/3)	7	22.27	5
5. Coal (10/7)	8	139.82	1
6. Commerce (10/2)	2	10.81	1
7. Consumer Affairs, Food and	12	50.58	6

Public Distribution (3/2)			
8. Defence (10/5)	5	8.92	0
9. Development of North Eastern Region (2/1)	1	14.30	0
10. Fertilizers (10/2)	5	45.51	2
11. Finance (9/5)	21	87.33	13
12. Heavy Industries (47/5)	13	41.11	8
13. Non-conventional Energy Resources (1/1)	1	3.18	1
14. Petroleum and Natural Gas (20/8)	29	293.70	17
15. Power (14/3)	3	23.48	3
16. Department of Public Enterprises (♣/♦)	2	46.73	1
17. Railways (9/2)	2	4.24	0
18. Road Transport (2/1)	2	6.39	1
19. Science and Technology (1/1)	1	0.91	0
20. Shipping (7/3)	5	12.18	3
21. Social Justice and Empowerment (6/1)	1	0.52	1
22. Steel (15/6)	19	218.46	8
23. Tourism (8/1)	3	11.40	0
24. Urban Development and Poverty Alleviation (2/1)	2	79.64	0
Total (235/63)	147	1147.18	71

The audit observations/IT reviews included in this report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

- ❖ Overpayments, wasteful, excess, avoidable expenditure and undue favour to contractors etc. amounting to Rs.679.86 crore in 72 paras.

♦ All the PSUs are under the Department of Public Enterprises

♦ PSUs covered in the paras are appearing in the respective Ministries

- ❖ Idle investment, non-achievement of objectives, delay in commissioning of projects and blocking of funds etc. amounting to Rs.221.31 crore in 26 paras.
- ❖ Loss of Rs.81.85 crore due to fraud, inadequate internal controls, improper storage of material etc. in 13 paras.
- ❖ Loss of Rs.85.34 crore due to shortloading of insurance premium, under charging of premium, lacuna in the policies/procedures in 19 paras.
- ❖ Non recovery of dues from customers, delay in leasing, deficiency in debtor control etc. resulted in loss of Rs.59.69 crore in 14 paras.
- ❖ Rs.12.38 crore were recovered at the instance of Audit in one para.
- ❖ Financial implication of Rs.6.75 crore in two IT reviews

II Highlights

Gist of some of the important paragraphs and IT reviews included in the Report is given below:

- **New India Assurance Company Limited (NIA) and National Insurance Company Limited (NIC)** issued group policies to Golden Trust Financial Services (GTFS)/Golden Multi Services Club (GMSC) on irregular terms and conditions, inadmissible discounts and ambiguous group definitions. The entire business of NIC was booked with one agent who was the wife of an ex-officer of NIA (later became a partner in GMSC). In the process, NIA and NIC incurred loss of **Rs.21.57 crore and Rs.5.59 crore** respectively from **2001-01 to 2004-05**.

(Para 11.3.1)

- Lapse on the part of **Power Finance Corporation Limited** in not incorporating the enabling clause in the agreement for foreign currency loan and restructuring of rupee term loan in **April 2005** in relaxation of its policy resulted in undue benefit to a private party and loss of **Rs.13.48 crore** to the Company.

(Para 15.2.1)

- **Balmer Lawrie & Company Limited** contributed **Rs.15.07 crore** in **December 2003** to a superannuation fund required to be maintained solely by its officers and in which the company did not have any legal or contractual obligation to contribute, resulting in extension of undue benefit to a group of employees.

(Para 14.1.1)

- **Oil India Limited** purchased a project of petroleum properties from ONGC Videsh Limited without adequate assessment of its prospects. The project turned out to be unsuccessful due to absence of commercial gas zones leading to loss of **Rs.31.55 crore** during the period **March 2003 to April 2004**.

(Para 14.8.1)

- Injudicious investment of **Rs.38.83 crore** made by **Brahmaputra Valley Fertiliser Corporation Limited** in revamping of the ammonia plant became unfruitful as the plant was shut down from **September 2002** after running for four months since the operations became uneconomical.

(Para 10.1.1)

- **Indian Oil Corporation Limited** could not recover an amount of **Rs.13.69 crore** from Dabhol Power Company due to absence of system for timely flow of documents between its various departments and consequent delay in raising final bills against supplies of high speed diesel/naphtha during **September 1999 to May 2001**, and non-collection of 'C' forms in advance during **2001-02**.

(Para 14.6.2)

- Agra unit of **GAIL (India) Limited** sold natural gas as well as re-gasified liquid natural gas to various consumers in Agra and Firozabad. Due to tampering of meter skids by consumers, gas valuing **Rs.10.10 crore** was not billed during **January 2004 to February 2005**.

(Para 14.4.1)

- Due to shifting of bottling plant away from its refinery, **Hindustan Petroleum Corporation Limited** incurred an extra expenditure of **Rs.70.60 crore** between **2000-01** and **2004-05** on transportation of bulk Liquified Petroleum Gas from Mumbai to bottling plant at Usar and its re-transportation to Mumbai for sale to consumers.

(Para 14.5.1)

- **Rashtriya Ispat Nigam limited** could not recover the value of its Imported Coking Coal amounting to **Rs.34.70 crore** supplied to Indian Iron and Steel Company Limited during **March 2003 to January 2004**. It also failed to invoke the risk purchase clause to recover an additional expenditure of **Rs.18.49 crore** which it incurred on procurement of Blast Furnace Coke during **February 2004 to June 2004** when Indian Iron and Steel Company Limited failed to complete the supplies.

(Para 22.5.1)

- **Rashtriya Ispat Nigam Limited** procured US coal from **July 2004 to August 2004** without a correct assessment of its requirement and incurred an extra expenditure of **Rs.35.73 crore**.

(Para 22.5.2)

- **Oil and Natural Gas Corporation Limited** incurred an avoidable expenditure of **Rs.42.77 crore** during **October 2000 to March 2004** due to delay in award of contract for logging services and subsequent injudicious termination of the contract.

(Para 14.7.1)

- Non-compliance of the Government of India instructions resulted in unauthorised reimbursement of Hill Transport Subsidy by **Food Corporation of India** to the Government of Arunachal Pradesh during **July 2003 to March 2004**, resulting in loss of interest of **Rs.20.34 crore**.

(Para 7.2.1)

- **Kudremukh Iron Ore Company Limited** set up Vertical Shaft Pelletising Furnace Plant with defected technology resulting in non achievement of objective of expansion of the existing capacity. The Company wrote off the residual value of the Plant of **Rs.31.65 crore** in **2004-05**.

(Para 22.2.1)

- **Steel Authority of India Limited** incurred a loss of **Rs.30.84 crore** in procurement of silico manganese and ferro silicon during the procurement cycle **2003-04** due to not enforcing quantity tolerance of plus 25 per cent at buyer's option in terms of the contract

(Para 22.6.1)

- Despite being aware of the scarcity of hard coke due to price rise, **Steel Authority of India Limited** delayed advance payments resulting in an extra expenditure of **Rs.2.32 crore** during the period **September 2003 to February 2004** on account of production of saleable steel **upto March 2004**.

(Para 22.6.2)

- Due to adoption of 26 days as a month instead of 30 days for computation of encashment of leave **Hindustan Aeronautics Limited, Bharat Electronics Limited, Bharat Earth Movers Limited and Kudremukh Iron Ore Company Limited** made excess payment of **Rs.34.35 crore** to their employees **up to March 2005**.

(Para 16.1.1)

- Due to not retaining a call option in its infrastructure bonds issue, in spite of expert advice, **Housing and Urban Development Corporation Limited** incurred an avoidable interest expenditure of **Rs.30.46 crore** from **April 2002 to October 2005** and would further incur expenditure of **Rs.18.52 crore** till the maturity of the bonds in **April 2007**.

(Para 24.1.1)

- **Central Coalfields Limited** incurred an avoidable expenditure of **Rs.37.05 crore** for the unused energy from **1999-2000 to 2004-2005** as two Captive Power Plants commissioned by DLF Power Supply Company Limited at Rajrappa and Giddi in **July 1999** and **April 2000** respectively, to meet acute shortage of power, could not be synchronised with the grid of Damodar Valley Corporation.

(Para 5.2.2)

- **Housing and Urban Development Corporation Limited** did not consider the downward trend of interest rates and accepted over subscription of Rs.137.51 crore at higher rates of interest. Consequently, it incurred extra expenditure of **Rs.13.29 crore till October 2005** and committed future liability of **Rs.17.37 crore** towards interest over the remaining tenure of bonds.

(Para 24.1.2)

- **Central Coalfields Limited** invested **Rs.80.24 crore** for commissioning two Captive Power Plants at Kathara to ensure uninterrupted power supply. The plant, commissioned in **May 1995**, failed to give the desired output and remained completely idle since **May 2000** rendering investment on this project unfruitful.

(Para 5.2.1)

- **Eight PSUs** recovered **Rs.12.38 crore** during **2004 and 2005** out of Rs.13.82 crore pointed out by Audit.

(Para 16.2.1)

- **New India Assurance Company Limited and The Oriental Insurance Company Limited** lost premium of **Rs.12.26 crore** due to charging incorrect rate on the insurance of the compressors and terminals of GAIL (India) Limited during **April 2003 to March 2005**.

(Para 11.5.1)

- **Northern Coalfield Limited** incurred an avoidable expenditure of **Rs.14.34 crore** towards payment of excess statutory dues from **1998-99 to 2004-05**.

(Para 5.5.1)

- **Oil and Natural Gas Corporation Limited** suffered loss of **Rs.19.61 crore** between **October 2001 and October 2002** due to delay of 13 months in submission of application to Gujarat Electricity Board for wheeling of surplus power from its Hazira plant to Mehsana unit.

(Para 14.7.2)

- **Bharat Heavy Electricals Limited** suffered a loss of **Rs.12.40 crore** on account of payment of liquidated damages and penal interest because of delay in supply of equipment and spares during **1995 to 2001**, caused due to incorrect assessment of shop floor needs.

(Para 12.2.1)

- **Oil and Natural Gas Corporation Limited's** failure in arrangement of gas compression facility at the Group Gathering Station-II at Ankleshwar, resulted in avoidable flaring of gas valued at **Rs.10.65 crore** during the period from **April 2000 to April 2003**.

(Para 14.7.3)

- Lapse on the part of **Hindustan Organic Chemicals Limited** to implement the polyurethane project without making adequate arrangements for the major raw material rendered the investment of **Rs.18.18 crore** in PU system production facilities idle since **April 2004**.

(Para 3.1.1)

- **Airports Authority of India** did not synchronise its activities relating to planning, coordinating and execution of all related activities such as finalisation of site, acquisition of land, carrying out civil and electrical works etc. before placing orders for Doppler Very Frequency Omni Range in **July 2001 and July 2002**, which resulted in non-utilisation of navigational equipment of **Rs.11.75 crore** and loss of interest of Rs.86.81 lakh.

(Para 4.2.1)

- **Indian Oil Corporation Limited** installed Sulphur Recovery plant with unrealistic capacity and assumed higher sulphur content in High Speed Diesel feed stock. As a result the unit remained idle for two and a half years due to insufficient feed with

lower sulphur content and an investment of **Rs.13.05 crore** remained fruitless apart from loss of interest of **Rs.1.63 crore** during the period **January 2003 to June 2005**.

(Para 14.6.1)

- **North Eastern Development Finance Corporation Limited** financed a project in **April 2001** for setting up a call center at the time of recession in Information Technology industry, without any detailed investigation of the promoters' past record and technical feasibility of the project. As a result the finance of **Rs.9.07 crore** in DSS e Contract Limited became wasteful. Further, the Corporation could not recover the interest on the above loan and other charges amounting to **Rs. 5.23 crore** for the period **upto March 2005**.

(Para 9.1.1)

- Due to acceptance of supply order without price escalation clause, **Steel Authority of India Limited** suffered a loss of **Rs.10.15 crore** in the sale of steel blooms during the year **2003-04**.

(Para 22.6.3)

- **United India Insurance Company Limited** suffered a loss of **Rs.7.05 crore** during the period from **2000-01 to 2003-04** due to providing tailor made mediclaim policies in violation of its own guidelines.

(Para 11.7.1)

- **Oriental Insurance Company Limited** erroneously granted group discount at higher rate on the Group Mediclaim policy issued to the employees of Larson and Toubro Limited, which resulted in loss of premium of **Rs.6.62 crore** during the period from **February 2000 to December 2004**.

(Para 11.6.1)

- **United India Insurance Company Limited** issued tailor made group mediclaim policies in violation of its guidelines to cover the existing and retired employees of Bharat Electronics Limited during the period from **September 2002 to March 2005** which resulted in a loss of **Rs.5.53 crore**.

(Para 11.7.2)

- Wrong application of drirage percentage by **Food Corporation of India** resulted in undue benefit of **Rs.5.45 crore** to the millers during the period **2000-01 to 2003-04**.

(Para 7.2.3)

- **State Trading Corporation of India Limited** paid to the Associates the cost of sugar without restricting the same to the actual cost of procurement. It also paid freight in the export of rice, wheat, tea and sugar to the Associates without relating the same to the actual. This resulted in undue favour of **Rs.6.11 crore** during **2002-03 and 2003-04** at the cost of the Government.

(Para 6.2.1)

- On account of its failure to exercise freight option in time, **Rashtriya Ispat Nigam Limited** incurred an avoidable extra expenditure of **Rs.8.77 crore** in importing limestone from a foreign supplier during **November 2003 to March 2004**.

(Para 22.5.3)

- Though **Bharat Heavy Electricals Limited** had obtained a contract below cost in **November 2000**, it could not adhere to the delivery schedule so as to avoid levy of liquidated damages. By taking advance manufacturing action, it could have avoided loss to the extent of Rs.1.32 crore on account of liquidated damages imposed by the customer. Overall, the Company incurred loss of **Rs.7.66 crore** in the execution of the contract.

(Para 12.2.2)

- Incorrect estimation of taxable income and consequent short payment of advance income tax by **General Insurance Corporation of India** resulted in avoidable payment of interest to the tune of **Rs.7.10 crore** in respect of the financial year **2003-04**.

(Para 11.1.1)

- **Bharat Heavy Electricals Limited** failed to assess the advance tax liability correctly, which resulted in avoidable payment of interest of **Rs.6.14 crore** under section 234C of the Income Tax Act on short-payment of advance tax for **Assessment Years 2003-04 and 2004-05**.

(Para 12.2.3)

- The placement of the order in **March 2004** of additional dredger for National Waterways-2 by **Inland Waterways Authority of India** without adequate justification resulted in avoidable expenditure of **Rs.3.16 crore** besides future liability of **Rs.2.59 crore**.

(Para 20.2.1)

- **Oil and Natural Gas Corporation Limited** approved the Food Grade Hexane/Special Boiling Point solvent project without giving due consideration to the

current demand situation and unauthorised use of these products and awarded the contract for the project without studying the impact of the Government's 'Solvent Control Order' of 2000 on the consumption pattern of these products, which led to wasteful expenditure of **Rs.9.05 crore** between **1998-99 and 2001-02**.

(Para 14.7.4)

- **Oil and Natural Gas Corporation Limited's** failure to obtain prior clearance from forest authorities for drilling at a location forming part of 'Desert National Park' and non-provision of an alternative drilling location in its Annual Drilling Plan, led to idling of rig for 292 days in **2002** and wasteful expenditure of **Rs.7.21 crore**.

(Para 14.7.5)

- **NTPC Limited** could not recover interest on the excess funds blocked in coal stocks and suffered an avoidable interest loss of **Rs.9.20 crore** during three years ending **2003-04**, due to overstocking of coal beyond norms of Central Electricity Regulatory Commission.

(Para 15.1.1)

- Failure to implement the orders, issued in **March 2002** by the excise authority, in time due to inability to manage the software led to blockade of **Bharat Petroleum Corporation Limited's** fund of **Rs.7.67 crore** during **April 2002 to September 2002** and unnecessary litigation.

(Para 14.2.1)

- Flats purchased by **Central Warehousing Corporation** for staff at Jawaharlal Nehru Port, Navi Mumbai in **May 1998** could not be utilised and resulted in idle investment of **Rs.6.07 crore**.

(Para 7.1.1)

- **Food Corporation of India** failed to file complete claims of input tax for exports made during the years **2003-04** resulting in loss of interest of **Rs.5.67 crore**.

(Para 7.2.2)

- Failure of **India Tourism Development Corporation Limited** to follow its own credit policy, for recovery of debts coupled with ineffective recovery action resulted in accumulation of debtors of **Rs.6.68 crore**.

(Para 23.1.1)

- **GAIL (India) Limited** did not coordinate with ONGC and the Government of Tripura for laying and use of its Konaban-Rokhia pipeline resulting in a loss of revenue of **Rs.9.12 crore** during **April 1998 to February 2002**.

(Para 14.4.2)

- Due to lack of planning and commercial appreciation by **GAIL (India) Limited** and the Ministry of Petroleum and Natural Gas in investment of surplus funds from Gas Pool Account, there was a loss of interest of **Rs.6.72 crore** to Gas Pool during **March 1999 to March 2005**.

(Para 14.4.3)

- **PNB Housing Finance Limited** had not observed the basic checks in the sanction of individual housing loans amounting to Rs.2.89 crore during **September 2001 to November 2001**. Due to lack of proper verification of documents and inadequate monitoring, loans and interest amounting to **Rs.4.13 crore** including interest of Rs.1.24 crore had become doubtful of recovery.

(Para 2.1.1)

- **Food Corporation of India** incurred a loss of **Rs.2.63 crore** due to inadequate internal control and failure to conduct proper physical verification leading to misappropriation of stock at Food Storage Depot, Kokrajhar during **2002-2003**

(Para 7.2.1)

- Information Technology Report on the General Insurance System (GENISYS) Software in **National Insurance Company Limited**: Under GENISYS software introduced in **2001**, books were allowed to be kept open up to seven days after transactions. This is fraught with the risk as back dated entries can be made and policies with back date can also be generated. Some of the cheques entered in the 'Inward Remittance Register' of Division XI were not accounted for in GENISYS and no policy was issued against such cheques. Cheques and cash were held for periods ranging from one day to 343 days in 20,488 cases. In 111 cases cheque date was later than the Scroll date. GENISYS software does not have appropriate validation controls to ensure cancellation of the policy when claims were disbursed on 'Total Loss' basis leaving scope for further claim under the policy. In some cases effecting change in recovery of service tax at higher rate was delayed and the difference in collection amounted to **Rs.1.24 crore up to 31 May 2003**. There was no check, either manually or through computer system to see whether all the Cover Notes were accounted for and policies issued.

(Para 25.1)

- The absence of a structured information technology plan in **National Highways Authority of India Limited** resulted in a non coordinated approach in development and implementation of systems most suitable to its business needs. The systems were developed for the purpose of monitoring and evaluation on an on going basis, in accordance with the indicators satisfactory to the World Bank and not borne out of any cost benefit analysis undertaken by the Authority. In one case, where the preparation of Information Technology package was half way through, the Authority realised that the information was to be hosted on servers located in a foreign country and consequently the idea of developing the information solution had to be abandoned resulting in wasteful expenditure of **Rs.5.07 crore** upto **December 2005**.

(Para 27.1)