

OVERVIEW

I Introduction

1. This Report includes important Audit findings noticed as a result of test check of transactions of Central Government Companies and 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 included in a separate volume.

2. The Report contains 96 paragraphs relating to 44 PSUs. The draft paragraphs 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 six weeks. Replies to 59 paragraphs were not received even as this report was being finalised in January 2007. Earlier, the draft paragraphs were sent to the Management of the PSUs concerned - in respect of two paragraphs, they did not respond despite being reminded.

3. The paragraphs 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	Financial implication in the paragraphs (Rs. in crore)	Number of paragraphs in respect of which Ministry reply was awaited
1. Atomic Energy (5/1)	1	7.48	1
2. Banking (8/1)	1	2.93	0
3. Bio-Technology (2/1)	1	9.09	1
4. Civil Aviation (11/4)	11	178.54	11
5. Coal (10/5)	8	20.92	8
6. Commerce and Industry (12/2)	2	4.62	1
7. Consumer Affairs, Food and Public Distribution (3/2)	8	1351.59	4
8. Defence (10/2)	2	9.55	2
9. Fertilizers (10/1)	2	1.30	2
10. Finance (9/4)	13	39.95	12

11. Heavy Industries (55/1)	2	28.71	1
12. Mines (4/1)	1	2.63	0
13. Petroleum and Natural Gas (21/8)	23	589.25	13
14. Power (16/3)	5	142.16	0
15. Department of Public Enterprises (♣/♦)	1	15.52	0
16. Railways (11/1)	1	1.40	1
17. Shipping (9/1)	2	561.43	0
18. Steel (19/4)	10	1576.03	1
19. Textiles (22/2)	2	4.53	1
Total (237/44)	96	4547.63	59

The audit observations 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.2724.44 crore in 54 paras.
- ❖ Idle investment, blocking of funds and accumulation of stock *etc.* amounting to Rs.1717.17 crore in 19 paras.
- ❖ Loss of Rs.51.25 crore due to shortloading of insurance premium, under charging of premium, lacuna in the policies, procedures *etc.* in 15 paras.
- ❖ Delay in commissioning of projects, non recovery of dues from customers/employees, deficiency in debtor control *etc.* resulted in loss of Rs.39.25 crore in seven paras.
- ❖ Rs.15.52 crore were recovered at the instance of Audit in one para.

II Highlights

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

- Non-disposal of 35.04 MMT of iron ore fines accumulated at Gua Ore Mines of **Steel Authority of India Limited** resulted in non-realisation of revenue of **Rs.1507 crore upto March 2005.**

(Para 18.4.1)

* All the PSUs are under the Department of Public Enterprises

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

- **Food Corporation of India** incurred extra expenditure of **Rs.348.61 crore** due to hiring of godowns from State Warehousing Corporations under the Seven Year Guarantee Scheme at the higher rates payable to Central Warehousing Corporation. The storage space acquired was also not properly utilised resulting in idle/surplus capacity valued at **Rs.287.90 crore** for the period **February 2002 to March 2006**.

(Para 7.2.1)

- In spite of expected favourable returns and adequate demand for Very Large Crude Carriers, the **Shipping Corporation of India Limited** deferred the procurement of two VLCCs. Subsequent procurement resulted in extra expenditure of **Rs.553.69 crore**.

(Para 17.1.1)

- Additional transportation charges were disbursed by **Food Corporation of India** without considering the charges already paid provisionally resulting in excess payment of **Rs.406.21 crore** to State Governments and their agencies in Punjab and Haryana for the years **1998-99 to 2002-03**.

(Para 7.2.2)

- Delay on the part of **Oil and Natural Gas Corporation Limited** in award of a contract resulted in re-tendering and award of the contract at a cost higher by **Rs.235.51 crore**.

(Para 13.8.1)

- **Indian Oil Corporation Limited (IOCL)** and **Bharat Petroleum Corporation Limited (BPCL)** inaccurately calculated advance income tax payable resulting in avoidable payment of interest of **Rs.130.91 crore** by **IOCL** during the previous years **1999-2000 and 2001-02 to 2004-05** and **Rs.34.84 crore** by **BPCL** during the previous years **2000-01 and 2002-03 to 2004-05**.

(Para 13.6.1)

- **Food Corporation of India** allowed transportation charges to rice millers for delivery of levy rice within eight kilometres resulting in avoidable payment of **Rs.160.39 crore** during **1999-2000 to 2002-03**.

(Para 7.2.3)

- **NTPC Limited** made irregular payment of *ex-gratia* in the form of special incentive amounting to **Rs.116.88 crore** during the **nine years ending 2004-05** to its employees whose wages/salary exceeded the limit as stipulated under the Payment of Bonus Act.

(Para 14.2.1)

- Due to lack of planning in the procurement and maintenance of inventory of spares, **Indian Airlines Limited** incurred avoidable expenditure of **Rs.68.40 crore** on outsourcing of repair and overhaul of engines/modules and on leasing of engines. The Company lost revenue of **Rs.45.96 crore** due to grounding of aircraft from **July 2005 to June 2006**.

(Para 4.3.1)

- Acceptance of inflated transportation bills by **Food Corporation of India** in respect of Hill Transport Subsidy resulted in excess payment of transportation charges amounting to **Rs.67.40 crore** to Government of Arunachal Pradesh during **2002-03 to 2004-05**.

(Para 7.2.4)

- Foodgrain stock was released on credit to the State Government of Jammu & Kashmir in contravention of Government of India instructions. Non-recovery of outstanding dues from State Government resulted in excess interest liability of **Rs.48.53 crore upto March 2005 on Food Corporation of India**.

(Para 7.2.5)

- Barytes being an insurance item, **Oil and Natural Gas Corporation Limited** was required to maintain a buffer stock of 5,000 MT and a minimum stock holding in a rig at the level of 100 MT to 150 MT to meet any exigency. However, delay by the Company in awarding a tender for procurement of barytes resulted in suspension of rig operations and consequent loss to the extent of **Rs.37.18 crore** during **September 2004 to January 2005**.

(Para 13.8.2)

- Non-availability of left hand drill pipes of required specifications for resolving complications faced in production testing of an exploratory well led to unproductive expenditure of **Rs.27.14 crore** during **July 2001 to April 2003** by **Oil and Natural Gas Corporation Limited**.

(Para 13.8.3)

- **Oil and Natural Gas Corporation Limited** incurred wasteful expenditure of **Rs.26.02 crore** by ignoring the past experience, the recommendations of its drilling section and the Institute of Drilling Technology for vertical drilling of an exploratory well instead of directional drilling during **June 2002 to October 2004**.

(Para 13.8.4)

- **Airports Authority of India** did not levy royalty as per Court's directive on gross ground handling revenue earned by the operating agencies at international

airports and incurred a loss of **Rs.18.48 crore** for the period from **April 2002 to March 2006**.

(Para 4.2.1)

- Due to failure in adhering to the directions of the Government of India by **Food Corporation of India** excess foodgrains were issued in Andhra Pradesh under mid-day meal scheme during **2004-05** resulting in subsidy burden of **Rs.18.06 crore** on the Government of India.

(Para 7.2.6)

- **Indian Airlines Limited** and **Pawan Hans Helicopters Limited** paid bonus/*ex-gratia* to ineligible employees in contravention of the Department of Public Enterprises instructions and without the approval of the Administrative Ministry, resulting in irregular payment of **Rs.16.44 crore** during the period **April 2000 to March 2005**.

(Para 4.4.1)

- Award of civil works by **Oil and Natural Gas Corporation Limited** to a contractor in May 2003 on a land not belonging to it led to extra expenditure of **Rs.16.04 crore** due to termination of the contract in **October 2004** and re-tendering thereof in **June 2005**.

(Para 13.8.5)

- **Thirteen PSUs** recovered **Rs.15.52 crore** during **2005-06** on account of non billing, short billing, excess payment, undue benefits to private parties *etc.* at the instance of Audit.

(Para 15.1.1)

- **Bharat Heavy Electricals Limited** took 36 months in deciding to replace the existing captive power station with a Diesel Generator set. As a result, it incurred extra expenditure of **Rs.14.77 crore** on account of higher cost of in-house generation of power for the years **2003-04 and 2004-05**.

(Para 11.1.1)

- **Bharat Heavy Electricals Limited** made excess payment of **Rs.13.94 crore** to its employees due to adoption of 26 days as a month instead of 30 days for computation of encashment of leave during the period from **24 January 2004 to 31 August 2006**.

(Para 11.1.2)

- Misinterpretation by **Indian Oil Corporation Limited** of the leviability of additional sales tax for the period from **August 2000 to March 2002** resulted in avoidable loss of **Rs.13.44 crore** to Oil Marketing Companies.

(Para 13.5.1)

- In July 1998 the Oil Co-ordination Committee informed **Indian Oil Corporation Limited** that consequent on the commissioning of Numaligarh Refinery, Assam crude would not be available for processing at Barauni Refinery and instead, low sulphur imported crude would be supplied. Due to the low wax content of the imported crude it was economically unsuitable for production of slack wax. Despite this, the Company placed an order with a foreign supplier in December 1999 for retrofitting 10 chillers. The work was completed in May 2001 at a cost of **Rs.12.76 crore**. The operation of the Solvent Dewaxing unit was stopped in **November 2001** due to non-availability of Assam crude, making the investment infructuous.

(Para 13.5.2)

- **MECON Limited** acquired additional office accommodation without proper assessment of requirement resulting in unfruitful expenditure of **Rs.11.08 crore** besides payment of interest and operation and maintenance charges amounting to **Rs.1.59 crore upto January 2006**.

(Para 18.1.1)

- Due to a decision to enter into a contract with an agency without proper business credentials and inadequate supervision of the activities of the agency **MSTC Limited** suffered a loss of **Rs.11.66 crore** during the year **2002-03 to 2005-06** in financing the purchase of castor seeds and export of castor oil.

(Para 18.2.1)

- Land purchased by **Central Warehousing Corporation** for construction of godowns, container freight stations and inland container depots lying idle for periods ranging between three and seven years resulted in blocking of funds of **Rs.8.57 crore** with consequential loss of interest of **Rs.2.19 crore upto March 2006**.

(Para 7.1.1)

- **Oil and Natural Gas Corporation Limited** ignored the results of pilot study and awarded works to contractors whose technology had either failed in the pilot study or had not been tested at all. It also delayed identification of wells for the use of the technology which resulted in the use of shelf-expired chemicals. Thus, it incurred an unfruitful expenditure of **Rs.10.06 core** during the period **October 2001 to November 2004** on application of the new technology.

(Para 13.8.6)

- **Steel Authority of India Limited** purchased Moly Oxide on piecemeal basis at higher cost disregarding the rising price trend and incurred extra expenditure of **Rs.10.04 crore** during **2004-05**.

(Para 18.4.2)