

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 Audit are included in a separate volume.

2. The Report contains 94 paragraphs relating to 50 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 43 paragraphs were not received even as this report was being finalised in November 2007. Earlier, the draft paragraphs were sent to the Management of the PSUs concerned - in respect of one paragraph, 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	5.65	1
2. Banking (7/4)	2	22.24	1
3. Chemical and Petrochemicals (16/2)	2	3.76	0
4. Civil Aviation (12/3)	14	124.23	13
5. Coal (10/6)	5	101.14	3
6. Commerce and Industry (12/1)	1	119.14	1
7. Consumer Affairs, Food and Public Distribution (3/1)	8	473.83	4
8. Defence (10/2)	5	28.58	2
9. Fertilizers (10/2)	2	2.08	1
10. Finance (6/4)	10	19.03	4

11. Heavy Industries (54/2)	4	11.89	4
12. Mines (4/1)	1	2.76	0
13. New and Renewable Energy (1/1)	1	30.28	0
14. Petroleum and Natural Gas (20/6)	22	375.59	3
15. Power (23/4)	3	9.66	1
16. Public Enterprises (^{1/2})	1	20.71	0
17. Railways (11/1)	1	3.39	1
18. Road Transport and Highways (2/1)	2	3.30	0
19. Shipping (9/3)	3	4.46	2
20. Steel (19/4)	6	42.60	2
21. Textiles (13/1 ³)	0	0.00	0
Total (247/50)	94	1404.32	43

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:

- ❖ Loss of revenue of Rs.465.39 crore due to non- maintenance of proper records, non-compliance of rules, regulations and control weakness *etc.*, in 23 paras.
- ❖ Violation of contractual obligations, undue favour to contractors *etc.*, amounting to Rs.378.84 crore in four paras.
- ❖ Overpayments, wasteful, excess and avoidable expenditure *etc.*, amounting to Rs.256.01 crore in 46 paras.
- ❖ Irregular payment to employees, short accountal of inventory and non-disposal of shares *etc.*, amounting to Rs.250.46 crore in 17 paras.
- ❖ Idle investment and blocking of funds *etc.*, amounting to Rs.32.91 crore in three paras.
- ❖ Rs.20.71 crore were recovered at the instance of Audit in one para.

¹ All the PSUs are under the Department of Public Enterprises.

² PSUs covered in the para are appearing in the respective Ministry/Department.

³ Para has been included in the consolidated para on 'Recoveries at the instance of Audit'.

II Highlights

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

- Inclusion of ‘miscellaneous/special element’ in the procurement price of levy rice resulted in undue benefit of **Rs.326.21 crore** being passed on to the rice millers by **Food Corporation of India** in Andhra Pradesh, Punjab and Haryana during **2003-04 and 2004-05**.

(Para 7.1.1)

- **The State Trading Corporation of India Limited** failed to ensure proper monitoring of the dispatches by a technically competent, independent agency resulting in non-recovery of **Rs.119.14 crore**.

(Para 6.1.1)

- Failure to upgrade and create facilities by **Oil and Natural Gas Corporation Limited** to contain the basic sediments and water content in the crude oil supplies within limits resulted in loss of revenue of **Rs.96.96 crore** during **April 2004 to October 2007**.

(Para 14.7.1)

- Implementation of a new incentive scheme by **Hindustan Petroleum Corporation Limited** on the basis of performance already attained by the employees and paid for under an existing incentive scheme led to payment of unproductive incentive of **Rs.76.26 crore** during **2006-07**.

(Para 14.4.1)

- Short accountal of storage gain in wheat valuing **Rs.58.17 crore** in **Food Corporation of India** Punjab region as compared with Haryana region during **2004-05 and 2005-06**.

(Para 7.1.2)

- Recovery of burnt oil below the achievable level of 47.70 *per cent* by seven subsidiaries of **Coal India Limited** resulted in loss of revenue to the extent of **Rs.55.30 crore** during the period **2002-03 to 2006-07**. Moreover, spilling of toxic waste would cause irreparable damage to the environment.

(Para 5.3.1)

- The maintenance cost guarantee claims of **Rs.51.74 crore** lodged in **January 2002** by **Indian Airlines Limited** were rejected by M/s. International Aero Engines as the Company failed to furnish cost records for material and labour consumed by the Company.

(Para 4.3.1)

- Oil Marketing Companies *viz.*, **Indian Oil Corporation Limited, Bharat Petroleum Corporation Limited, Hindustan Petroleum Corporation Limited** incurred avoidable loss of revenue of **Rs.47.14 crore** on sale of liquefied petroleum gas at concessional rate to ineligible category of customers during **July 2002 to April 2003**.

(Para 14.6.1)

- **Indian Airlines Limited** made an irregular payment of Productivity Linked Incentive of **Rs.19.35 crore per annum** to officers of the Company in violation of the scheme approved by the Board of Directors resulting in an extra financial burden on the Company of **Rs.43.54 crore** from **January 2005 to March 2007**.

(Para 4.3.2)

- Expenditure of **Rs.43.29 crore** incurred in **March 2001** by **Indian Oil Corporation Limited** on infrastructure for production of Butene-I proved unfruitful due to failure to ensure the guaranteed quality of feed stock.

(Para 14.5.1)

- Actual period of custody and maintenance was not considered for fixation of interest charges for wheat procured by **Food Corporation of India** from State agencies in Punjab and Haryana resulting in avoidable payment of **Rs.38.68 crore** during **2002-03 and 2003-04**.

(Para 7.1.3)

- **Indian Renewable Energy Development Agency Limited** suffered a loss of **Rs.30.28 crore** between **February 2000 and April 2002** due to disbursement of loan to an ineligible borrower in contravention of its financial guidelines.

(Para 13.1.1)

- **Central Coalfields Limited** sustained a revenue loss of **Rs.29.27 crore** during the years **2003-04 to 2006-07** due to shortfall in dispatch of raw coal feed to Gidi washery from the linked mines, thereby foregoing the price advantage in supplying washed coal.

(Para 5.2.1)

- **Indian Oil Corporation Limited** incurred a wasteful expenditure of **Rs.28.44 crore** due to lack of due and diligent risk assessment before participating in an exploration and production joint venture in **2001**.

(Para 14.5.2)

- Interest charges at **9.10 per cent** in place of **Food Corporation of India** rate of interest at **8.15 per cent** was paid to the State Agencies for procurement of

Custom Milled Rice resulting in excess payment of **Rs.26.03 crore** during Kharif Marketing Season **2004-05 and 2005-06**.

(Para 7.1.4)

- **Indian Oil Corporation Limited** failed to assess the design parameters of available inputs realistically resulting in idle investment of **Rs.19.79 crore** since **November 2005** in Sulphur Recovery Unit and an interest liability of **Rs.1.99 crore** on the investment.

(Para 14.5.3)

- During the years **2004 and 2007 the Steel Authority of India Limited** made irregular payment of cash reward amounting to **Rs.21.29 crore** to its employees in contravention of the guidelines issued by Department of Public Enterprises.

(Para 20.3.1)

- Sixteen PSUs recovered **Rs.20.71 crore** during **2006-07** on account of non-recovery, short recovery, undue payment, excess payment, excess allowance of discount *etc.*, at the instance of Audit.

(Para 16.1.1)

- **Food Corporation of India, Haryana** suffered a loss of **Rs.5.39 crore** in disposal of bajra during **2003-04** due to delay in fixation of rates. An opportunity to realise **Rs.9.57 crore** more on sale of bajra during **2004-05** was also lost due to non-consideration of market rates.

(Para 7.1.5)

- **UTI Asset Management Company Private Limited** did not allocate indirect sales administration expenses of **Rs.13.37 crore** incurred by it during **February 2003 to March 2006** to the mutual fund schemes resulting in loss of revenue.

(Para 2.2.1)

- **Bokaro Power Supply Company (Private) Limited** imported 0.46 lakh MT of coal during **2005-06** on the ground of acute shortage without reviewing the actual availability and consumption pattern, resulting in avoidable extra expenditure of **Rs.12.31 crore**.

(Para 20.1.1)

- In disregard of the recommendations of the Committee on Public Undertakings, **Air India Limited** had not quantified the excess amount paid during the years **1998-99 and 1999-2000** to a sales agent; continued to extend undue favour to the same party; did not recover an amount of **Rs.11.66 crore** out of Rs.13.82 crore.

(Para 4.1.1)

- **Air India Limited** did not finalise the tender for cabin crew accommodation despite securing a tender at rates lower than the rates payable as per the existing contract and consequent extension of prevailing contract for three years resulting in extra expenditure of **Rs.10.87 crore** for the period from **December 2004 to November 2007**.

(Para 4.1.2)