OVERVIEW

This volume of Audit Report represents reviews on 14 thematic areas of operation involving 13 Public Sector Undertakings under ten Ministries. These themes were selected in audit for review on the basis of their relative importance in the functioning of concerned organisation. The total financial implication of these reviews is Rs.5720.57 crore.

MINISTRY OF CHEMICALS AND FERTILIZERS
DEPARTMENT OF CHEMICALS AND PETROCHEMICALS

Hindustan Organic Chemicals Limited

❖ **Manpower Analysis**

- The review of manpower analysis of the Company revealed that high incidence of expenditure on employee cost over and above the industry norms in Rasayani unit and non-implementation of voluntary retirement scheme (VRS) after April 2002 due to financial constraints impinged heavily on the economic running of the plants. Besides this, due to the absence of data relating to plant-wise recruitment of manpower and their deployment, effective utilisation of the manpower could not be ensured.

- The Company suffered a total loss of Rs.459.19 crore in the operation of the Rasayani unit during the last five years upto 2003-04 mainly on account of old technology and high cost of manpower in comparison to industry norms.

- The Company had not reviewed plant-wise requirement of manpower and its effective utilisation after the closure of seven plants of Rasayani unit during 1999-2003.

- The delay in implementing the rolling back of retirement age from 60 years to 58 years after its clearance by the Board in August 1999 resulted in additional outgo of Rs.59.92 lakh.

- The Company could not derive the benefit of annual savings to the extent of Rs.77 lakh pending acceptance of VRS applications received from 33 employees in April 2002 for want of financial assistance amounting to Rs.3.26 crore from the Government of India.

- The Company identified (April 2004) surplus man-power to the extent of 500 employees in Rasayani unit on whom it was incurring recurring expenditure of Rs.14 crore per annum. However, the final decision to reduce it was still awaited (October 2004).

- Due to failure to formulate any suitable VRS for certain categories of workers like Mathadi, Society and Canteen workers, the Company had to pay idle wages to the extent of Rs.3.21 crore during the last three years.

- Against the industry's norm of six to seven per cent of manpower cost to sales realisation, the manpower cost in Rasayani unit ranged between 24 and 40 per cent during the period from 1999-2000 to 2003-04 resulting in an extra expenditure of Rs.126.98 crore.

- The Company's failure to exercise proper control over the appointment of staff through its representatives in the Advisory committee of the management of the Hindustan Organic Chemical school in earlier years resulted in an avoidable expenditure of Rs.1.53 crore during March 2001 to December 2003.

MINISTRY OF CIVIL AVIATION

Air India Limited

❖ **Inadequate Expenditure Control in Regional Office of Air India at New York**

Air India's Regional office at New York incurred an avoidable expenditure aggregating to Rs.5.74 crore on account of delay in award of contract for security service and consequent increase in rates, non-maintenance of records for ascertaining the time devoted by security personnel provided by the contractor, failure to secure discounts/incentives available under contract for catering, hiring of transport services for crew/passengers at uncompetitive rates and excessive lay over period provided to cabin attendants at New York. This included the extra expenditure of Rs.4.74 crore, in respect of hiring of the transport services and the excessive lay over period, which was of recurring nature every year. Further, non-maintenance of adequate accounts at the Regional Office led to uncontrolled accumulation of debtors and the risk of omitting non-cash transactions in the financial statements.

MINISTRY OF COAL

Bharat Coking Coal Limited

❖ **Madhuband Coal Washery**

- The construction of Madhuband Coal Washery was awarded to Mining and Allied Machinery Corporation Limited in December 1985 at a cost of Rs.72.50 crore as against the lowest bid of Rs.54.35 crore. A review by Audit revealed that the Company had failed to attain the objective of production and supply of washed coking coal to the steel plants in order to narrow the gap between the demand and supply of washed coal from indigenous sources. Several causes for delay in setting-up of the washery at the total capital investment of Rs 197.23 crore inclusive of substantial cost-overrun, lack of adequate feasibility study, improper selection of the contractor and poor performance of linked mine were noticed.

- The washery was put to operation in incomplete shape without addressing the deficiencies and bypassing some of its production circuit. This led to gross under-utilisation of capacity and the uneconomical operation. The washery sustained a loss of Rs.127.03 crore over last five years of its operation ending 31 March 2004.

- In view of failure to arrange raw coking coal for feeding to the washery, a decision was taken to convert the washery for washing non-coking coal for supply of 'washed power coal' to powerhouses instead of coking coal for which it was designed. The decision frustrated the basic purpose for which it was constructed.

Western Coalfields Limited

❖ **IT Review on Asset Management System**

The Asset Accounting System in the Western Coalfields Limited served the limited purpose of calculation of depreciation and generation of asset register. It was not a complete system in itself and was not linked to the Financial Accounting System. It was running in different languages at different units with end-users having unlimited authority to effect changes in module and alter entries in asset register. Further, no built-in checks were developed in the system to ensure data integrity and compliance of accounting principles.

MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION

Food Corporation of India

❖ **Export of foodgrains**

The Government of India (GOI) permitted the Food Corporation of India (FCI) to offer wheat and rice for export due to heavy accumulation of stocks in central pool. This was due to increased procurement neither justified from the production point of view nor from off-take. FCI issued 33.24 million MT of wheat and rice for export during the period from November 2000 to February 2004.

- The fixation of lower export price for wheat due to adoption of lower economic cost and higher carrying cost resulted in additional subsidy burden of Rs.1608.63 crore.

- The exporters were allowed pick and choose policy in lifting the stocks of wheat and rice leading to unwarranted inland movement of foodgrains involving heavy freight charges at the cost of FCI. The freight charges incurred in 22 districts test checked in Audit worked out to Rs. 516.36 crore.

- The high incidence of freight charges on inland movement also had the effect of reducing the net realization from exports which fell below the BPL rate.

- The FCI reimbursed transportation charges of Rs.105.27 crore without obtaining the prescribed documents as directed by the Ministry.

- The exporters to Bangladesh were given an unintended benefit of Rs.44.25 crore in transportation of foodgrains by rail.

- The exporters were given undue benefit of Rs.20.20 crore by allowing them to lift the foodgrains after price revision.

- There were many deficiencies in export operations, besides non-compliance of instructions of the Ministry such as reimbursement of road transportation charges without proper proof of payment, giving allowances when not required, extending undue benefit to exporters, issue of foodgrains at pre-revised rates after price revision etc. There were also instances of irregularities, that is, non-recovery of penalties, non-submission of export documents, doubtful cases of exports and non-existence of adequate internal control mechanism.

DEPARTMENT OF DEFENCE PRODUCTION AND SUPPLIES

Bharat Electronics Limited

❖ **Project Implementation, Production Planning, Marketing Activities and Internal Controls**

- The Company’s investment of Rs.27.40 crore in seven projects was largely idle/unproductive due to preparation of unrealistic feasibility reports, under utilisation of capacity due to unwarranted expansion, non-receipt of anticipated orders, inability to capture market and non safeguarding of its interests.

- The Company could not achieve its objective of self-reliance through indigenisation as it continued to import 73 per cent of the raw materials and components.

- The Company could not withstand the competition in non-defence sector resultantly its sales (non-defence sales to total sales) decreased from 26.06 per cent in 1999-00 to 22.85 per cent in 2003-04. It also incurred loss of Rs.8.57 crore in taking up four products meant for civilian sector.

- There was delay in raising sales invoices from 12 to 424 days resulting in loss of interest of Rs.3.93 crore.

- The Company’s existing internal control procedures were not adequate to keep pace with increasing business activities and change in technology.

Bharat Electronics Limited

- **Information Technology Audit on the computerisation of inventory management at Bangalore Complex**

- The primary objective of implementation of Integrated Information System with particular emphasis on scalability and upgradeability was not achieved.

- Discrepancies to the tune of Rs.67.75 crore existed in the comparable data between Manufacturing Resource Planning System-II (MRP-II) and Integrated Finance Accounting System (IFAS); 350 items valued at Rs.26.07 crore appearing in IFAS did not appear in MRP-II.

- Alteration of financial data in IFAS for reversal of sale of Rs.29.78 crore was done but no alterations took place with stock position.

- The criterion adopted by the system for fast, slow and non-moving inventories analysis was flawed and consequently material worth Rs.2.16 crore which had not moved for one to two years was identified as fast-moving in one of the divisions.

- Right of access had been given to employees without analysis of minimum access requirement.

Garden Reach Shipbuilders and Engineers Limited

- **Shipbuilding Activities**

- The Government of India acquired the erstwhile Joint Stock Company under the name and style of Garden Reach Shipbuilders and Engineers Limited (GRSE) in April 1960 to cater to the defence requirements relating to shipbuilding and ship repair. The company has three functional divisions namely ship division, engineering division and engine division. Of these, ship division carries out the main activity of shipbuilding.

- Shipbuilding is essentially a manufacturing-cum-assembly industry and the capacity of shipbuilding should be judged taking into account all aspects of ship construction. It should be measured in terms of a single parameter like "Standard Ship Unit" (SSU). Though other Companies involved in shipbuilding activities under the Ministry of Defence have adopted this parameter, GRSE has, in spite of being in operation for the last 44 years, failed to measure its capacity in terms of SSU.

- While the Company has been earning profits, this has been essentially on account of 'cost plus' contracts where the customer ensures a margin over the actual cost.

- Of the vessels delivered by the Company in the last six years, there was a time overrun ranging from one to 125 months. There was a cost overrun of Rs.1669.88 crore in the construction of 15 ships. In addition, the Company has incurred liquidated damages amounting to Rs.7.35 crore due to delays that occurred on the part of the Company.

- The Company incurred an avoidable expenditure of Rs.14.28 crore on salary and wages for idle mandays

Hindustan Aeronautics Limited

❖ **Information Technology Audit on computerisation of integrated material management system**

- The Local Area Network (LAN)/Wide Area Network (WAN) established in March 2003 in three Divisions of the Company at a cost of Rs.2.53 crore were not being utilised optimally due to non-compatibility with Central Network Server Systems.

- There was absence of a well laid down password policy and logical access control mechanism rendering the system vulnerable to abuse besides making it difficult to fix responsibility in case of manipulation/ corruption of the database.

- Various deficiencies in application control resulting in incomplete, inaccurate and unreliable data were observed for want of required level of input controls, absence of validation checks/constraints at data entry level, duplication of work without compensating controls, duplicate material codes, duplicate part numbers, error in programme logic, non-inclusion of key fields, numerous manual interventions and non-devising of monitoring system.

- Helicopter Division charged off a sum of Rs.22.64 crore to consumption and cost of sales on an adhoc basis through a dummy work order.

- There were negative balances in the material ledger due to deficiencies in system logic/applications; as such adjustments had to be carried out for Rs.51.38 crore and Rs.67.47 crore in 2002-03 and 2003-04 respectively.

- The Company had not formulated any IT Policy.

DEPARTMENT OF ECONOMIC AFFAIRS-
INSURANCE DIVISION

National Insurance Company Limited
Oriental Insurance Company Limited

❖ **Special Category Insurance Policies to cover risk of Mobile handsets by Insurance Companies**

- The review of Special Contingency Policies (SCPs) on mobile handsets revealed that the National Insurance Company Limited (NIC) and the Oriental Insurance

Company Limited had underwritten the risks associated with mobile handsets without careful evaluation of the risk factor involved and other technical aspects, which resulted in heavy losses to these companies. An analysis by audit revealed that SCPs issued were devised primarily to suit the requirements of the insured, without safeguarding the insurers' interest owing to non-adoption of the prudent underwriting guidelines.

- The failure on the part of the management to obtain reinsurance protection, ensure the compliance of IRDA/GIPSA guidelines as well as non-inclusion of the loading clause deprived the Company of the opportunity to reduce its losses in all the SCPs issued during 2002-03 to 2004-05 which resulted in huge loss amounting to 142.63 crore (NIC Rs.126.58 crore and OIC Rs.16.05 crore) and made GIC suffer loss amounting to Rs.41.37 crore.

- The system of internal control which existed in the Company was inadequate and needed to be strengthened.

MINISTRY OF HEAVY INDUSTRY AND PUBLIC ENTERPRISES

HMT Limited

❖ **Mid term Review on Turnaround Plan**

- Turnaround Plan conceived only the reorganisation of the business and did not attempt turning around the fortunes of the ailing Company. Thus, the failure of the Turnaround Plan was mainly due to unrealistic and overly optimistic projections with insufficient financial support which both the Company and Government of India were well aware of. The projections in the Turnaround Plan were not supported by actual trends preceding the period covered in the Turnaround Plan and concrete action plan to achieve them. An unwritten objective of the entire subsidiarisation process was to avoid a reference to the Board for Industrial and Financial Reconstruction.

- Even though the Company agreed in the Memorandum of Understanding not to seek further financial assistance/concessions from the Government of India, the Company obtained loans amounting to Rs.190.02 crore till October 2004 for settlement of Voluntary Retirement Scheme payments and Rs.87.38 crore for payment of arrears of salaries and wages of the subsidiaries upto July 2004.

- Ministry has not given due importance to the implementation of the Turnaround Plan in the Company. The posts of important functional Directors of HMT Limited and other Directors of the Subsidiaries were kept vacant during the crucial period of implementation of the Turnaround Plan.

- Various Committees constituted in the Company, either specifically to oversee the implementation of the Turnaround Plan or monitor the performance of the Company in the normal course of business, were not effective.

MINISTRY OF SHIPPING

Dredging Corporation of India Limited

❖ ***Dredge Repairs***

- The Company incurred Rs.374.42 crore during 1999-00 to 2003-04 on repairs and maintenance of its dredgers, which constituted 34 per cent of the total operating expenditure.

- Delay in dry-docking beyond the prescribed period of 18 months led to decline in production of 35.58 lakh M^3 in six cases.

- Delays in obtaining statutory clearances led to idling of the dredgers and increased repair time resulting in loss of revenue of Rs.7.12 crore.

- There were cost overruns involving an additional expenditure of Rs.13.13 crore in nine dry-docks and time over runs in 13 cases involving a loss of revenue of Rs.14.40 crore after adjusting Rs.9.30 crore recovered towards liquidated damages from the repair firms.

- The company lacked ability to prepare cost estimates for dry-dock package in house though it was in the business for the last 28 years.

- Incorrect evaluation of tenders resulted in ignoring the lowest offers of PSU shipyards in two cases and in one case the Company cancelled the global tender and sought a fresh quotation on nomination basis which resulted in a total loss of revenue of Rs. 3.19 crore.

- Non-invoking the provisions of the security clause in the contract against premature failures of repairs resulted in the Company absorbing the entire repair cost besides incurring a revenue loss of Rs.4.41 crore in one case.

- The Company allowed vessels to sail without first ascertaining the availability of dry-dock slots. This led to idling of the dredgers and avoidable expenditure on voyage and loss of time and revenue of Rs.1.72 crore in two cases.

- Although the Company spent Rs.185.13 crore on spares and stores during 1999-00 to 2003-04, it did not have proper system of inventory controls.

- Value of stores and spares on board the dredgers was not accounted for as inventory. The Company continued to dispatch materials to dredgers without ascertaining consumption. This led to substantial accumulation of inventory on board, which stood at Rs.77.08 crore as of March 2004.

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MINISTRY OF SMALL INDUSTRIES & AGRO & RURAL INDUSTRIES

National Small Industries Corporation Limited

❖ **Loan assistance and Recovery Performance**

- The Company was incorporated in February 1955 to provide financial assistance to small industrial units for industrial development of the country. However, due to the deficiencies in pre-sanction appraisals and weak recovery mechanism a very large percentage of its debts have become bad and doubtful. Accumulated losses as on 31 March 2004 stood at Rs.143.52 crore**.**

- Recovery performance being poor, the Company had to avail a loan of Rs.70 crore from Small Industries Development Bank of India leading to payment of interest of Rs.22.95 crore during the period 1998-99 to 2003-04, which could have been avoided.

- Due to poor recovery performance, the Non Performing Assets (NPA) stood at Rs.184.97 crore (86 percent) of the total outstanding loan of Rs.215.56 crore as on 31 March 2004.

- In 24 cases test checked in audit, deficiencies were noticed in appraisal, sanction and follow up which led to non-recovery of Rs.18.61 crore.

- 2053 civil suits/petitions for recovery of Rs.181.66 crore are pending in various courts. The Company could not execute decrees in 816 cases involving Rs.36.51 crore due to ineffective follow up. Further in 12 cases chances of recovery of Rs.37.34 crore are remote.

- The Company lost Rs.1.89 crore due to failure in monitoring the disposal of seized machinery.

MINISTRY OF TEXTILES

National Textiles Corporation (APKK&M) Limited

❖ **Sale of Surplus land and building**

- By not considering latest index formula of Income Tax department, government guidance rates and by applying unjustified deductions for various charges the Company worked out the reserve price as Rs.173.70 crore instead of Rs.279.89 crore as worked out in Audit. This resulted in lower fixation of reserve price by Rs.106.19 crore.

- According to the guidelines issued (August 2002) by National Textile Corporation Limited (Holding Company), reserve price was to be fixed at the highest of

Registration, Central Board of Direct Taxes, Central Public Works Department's or Registered Valuers' valuation. However, the Holding Company revised (December 2002) the method of computation of reserve price to average of the three valuations. This resulted in fixation of lower reserve price by Rs.199.56 crore. On this being pointed out in Audit, the Holding Company again changed the method of computation to highest valuation of the valuers.

- Due to fixation of lower reserve price, one party managed to purchase 18.69 acres of land of Mysore Mills on single bid basis for Rs.79.16 crore only, which was even below the Government guidance value as admitted by the purchaser himself. This resulted in loss of Rs.67.65 crore to the Company.

- In respect of Minerva Mills and Netha Mills the Company had foregone a potential revenue realisation of Rs.23.26 crore and Rs.5.50 crore respectively due to fixation of lower reserve price.

- Non-consideration of remunerative offer from Karnataka Housing Board, Bangalore, resulted in foregoing of opportunity to sell the surplus land for a higher consideration to the extent of Rs.55.61 crore.