

OVERVIEW

This volume of Audit Report contains reviews on nine selected areas of operation involving eight Public Sector Undertakings under five Ministries. These areas were selected in audit for review on the basis of their relative importance in the functioning of the concerned organisation. The total financial implication of these reviews is Rs.6269.79 crore.

MINISTRY OF COMMERCE

Export Credit Guarantee Corporation of India Limited

❖ Selected guarantee and policy products

Export Credit Guarantee Corporation of India Limited (ECGC) provides risk cover to exporters against loss in exports of goods and services and offers guarantees to banks to cover the risk of insolvency or protracted default by foreign buyer to enable exporters to obtain better facilities from banks. It offers 31 types of guarantees and policy products through its five regional offices and 43 branches.

As three of the 31 products together constituted 63.43 *per cent* and 83.40 *per cent* of the premium income and claims business of the ECGC during 2007-08, a Performance Audit was conducted of three products *viz* (i) Export Credit Insurance Guarantee for banks-Whole Turnover Packing Credit, (ii) Export Credit Insurance Guarantee for Banks-Whole Turnover Post Shipment Credit and (iii) Shipment (Comprehensive Risk) Policy.

The review revealed that the ECGC had a well laid down procedure for sanction of insurance coverage and processing of claims. There was scope for further engagement of the ECGC in the following areas:

- urging banks to verify the credit worthiness of foreign buyers to reduce the incidence of claims arising;
- strengthening the arrangement of effecting recovery through banks;
- instituting a mechanism to introduce objectivity and transparency to the in-house examination of reports of credit information agencies on individual buyers before policies are extended so as to avert avoidable claim payments.

The ECGC agreed to address the above issues beginning April 2009.

MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY

Bharat Sanchar Nigam Limited

❖ Follow up of audit recommendations of previous reviews

The performance audit on follow up of audit recommendations of previous reviews relating to Bharat Sanchar Nigam Limited (BSNL) primarily focuses on the effectiveness and compliance of remedial measures taken/assurances given by the Ministry/Company in its Action Taken Notes (ATNs) submitted to Audit for vetting.

This performance review covers the following three past reviews that appeared in Audit Reports of Union Government, Commercial:

- “Working of Telecom Maintenance Wing in BSNL” Report No. 5 of 2004
- “Information Technology Audit of DotSoft Package in BSNL” Report No. 5 of 2005
- “Cellular Mobile Telephone Services (CMTS) in BSNL” Report No. 10 of 2007

The purpose of this performance audit was to obtain reasonable assurance that the Company had acted on audit recommendations in case of the three chosen reviews. It also attempts to assess that there was a mechanism to monitor implementation of remedial measures and that the measures implemented have actually been successful.

Detailed audit probe and data analysis of the ATNs relating to the three selected reviews revealed that none of them were submitted within the prescribed time schedule of six months from the date of presentation of the concerned Audit Reports in the Parliament. As of August 2008, out of 86 ATNs due for submission by Ministry/BSNL, 30 ATNs pertaining to the three reviews selected for follow up were pending.

BSNL while submitting ATNs had given assurances to take appropriate measures in implementing the audit recommendations and addressing audit observations. It had issued instructions to its field units/circles for rectifying the deficiencies. While some corrective action had been taken by BSNL, especially in cases of revenue recoveries, but in a number of cases action was either pending or ineffective at the field/circle level. Consequently, the remedial measures implemented were not successful and the assurances given in the ATNs were not met. Hence there was lot of scope for improvement in the timely submission of ATNs and compliance to audit observations and recommendations at the field level.

At present ATNs are submitted by the BSNL Corporate office to the Ministry and sent to CAG for vetting. In order to make this entire process effective and to have accountability on the assurances given in the ATNs, the confirmation of the same from the concerned Heads of Departments at the Corporate office/telecom circle level as well as the concerned Internal Auditors could be appended to the ATNs. This may facilitate better corporate governance and go a long way in providing assurance to all the stakeholders regarding Management action on audit paras/recommendations placed in the Parliament.

❖ **Functioning of telecom project circles**

In BSNL optical fibre cable is used in large scale for creation of digital transmission network throughout the country and is a vital component of telecom infrastructure. Local area network which is confined to Revenue Districts is established and maintained by Secondary Switching Areas under territorial circles whereas long distance transmission network covering different circles are established by the Telecom Project circles (TPCs). After commissioning, these long distance transmission networks are handed over to the concerned territorial circles and Telecom Maintenance Regions for its maintenance and utilisation. In addition the TPCs are responsible for commissioning of Broadband and Narrowband Digital Microwave systems, Satellite Based Voice systems, and Satellite Based High Speed Data Network.

The performance audit on ‘ Functioning of Telecom Project Circles in BSNL’ was conducted with a view to examine planning, execution and monitoring of projects executed by TPCs, covering four circles viz., WTP, STP, ETP, and NTP from 2003-04 to 2007-08.

Against the primary objective of New Telecom Policy-1999 to create a modern and efficient telecommunications infrastructure to propel India to the forefront in the global telecom scenario, Audit observed systemic deficiencies in planning, procurement of equipment and stores, execution and monitoring of long distance transmission network projects/schemes by the TPCs. Audit also found delay in commencement, completion and commissioning of these projects and their delayed handing over to the user circles. Besides, Audit noticed compliance deficiencies in TPCs, its divisions and sub-divisions such as violation of corporate office instructions, delegation of financial powers and provisions of procurement manual. All these shortcomings undermined the overall performance of the TPCs and the Company.

These deficiencies are to be addressed urgently by the Company for achieving the objective of National Telecom Policy and to have a competitive edge over private telecom service providers.

MINISTRY OF PETROLEUM AND NATURAL GAS

Chennai Petroleum Corporation Limited

❖ **Capacity expansion and creation of infrastructure at Cauvery basin refinery**

Chennai Petroleum Corporation Limited (Company) commissioned a 0.5 Million Metric Tonne Per Annum (MMTPA) refinery at Cauvery basin (near Nagapattinam) in November 1993 at a total cost of Rs.196 crore for processing low sulphur crude produced by Oil and Natural Gas Corporation Limited from the Cauvery basin (onshore). The Company expanded (September 2002) the capacity of the Cauvery basin refinery (CBR) to 1.00 MMTPA at a cost of Rs.24.31 crore and commissioned (March 2003) a jetty at a cost of Rs.91.58 crore. The expansion of CBR was not commensurate with the projected deficit of products in the market zone served by CBR. There was delay in award of work relating to construction of jetty resulting in additional expenditure of Rs.6.75 crore on transport of 475462 MT of crude from Chennai. The under utilisation of capacity resulted in excess consumption of steam and power to the extent of Rs.4.05 crore and over absorption of fixed overheads by Rs.16.59 crore. Further, transportation of crude in smaller parcels than the projected size of 15000 MT resulted in additional shipments leading to extra expenditure towards transportation cost by Rs.5.46 crore during the period 2003-04 to 2007-08. The Company incurred a loss of Rs.172.23 crore during 2004-05 and 2005-06 on sale of intermediate residual crude oil (RCO) as Low Sulphur Heavy Stock due to absence of secondary process unit. The Company could have generated additional revenue of Rs.38.63 crore during 2005-06 and 2006-07 had the intermediate RCO been processed in secondary process unit of the Company’s refinery at Chennai.

Indian Oil Corporation Limited

❖ LPG operations

Indian Oil Corporation Limited (Company) is India's largest public sector oil marketing company and had a market share of 49 *per cent* of the Liquefied Petroleum Gas (LPG) market during 2007-08. The performance audit of the LPG operations of the Company disclosed that the Company was mixing butane and propane to form LPG in different proportions other than the one considered for subsidy claims resulting in loss of Rs.40.97 crore during five years ended March 2008. Actual operating cost in more than 50 *per cent* bottling plants was less than the cost ceiling fixed under the subsidy scheme which indicated a need to revise the cost ceiling under the subsidy scheme based on the standard and normative conditions. The Company not only had excess deployment of manpower *vis-à-vis* benchmarks but was also paying overtime entailing financial bearing in terms of higher operating cost of the bottling plants. Despite adoption of Industry Logistics Plan (ILP) system for distribution of LPG to meet the market demand, the Company failed to use the suggested ILP linkages, leading to frequent deviations/manual interventions that remained unevaluated through ILP. Due to wide gap between the prices of subsidised LPG and commercial LPG an effective system to curb diversion of domestic LPG for commercial usage was required. The Company failed to exercise effective control in the absence of adequate customer master database integrated with other OMCs which led to issuance of multiple and possible fake connections. The Company adopted a lenient approach in following the marketing discipline guidelines for penalising dealerships which led to increasing indiscipline in the distribution channel. Similarly the cases of tampering of tare weight of cylinders were not dealt with as per the guidelines.

Oil and Natural Gas Corporation Limited

❖ Onshore exploration activities

- Exploration of hydrocarbon reserves in the blocks awarded by the Government of India (Nomination blocks) and Directorate General of Hydrocarbon (New Exploration Licensing Policy - NELP blocks) and development of proved reserves for production, is the main activity of the Oil and Natural Gas Corporation Limited (Company). To carry out exploration activities, the Company acquires, processes and interprets the seismic data, releases and drills exploratory locations to establish hydrocarbon for future exploitation.
- The Company acquired 67 nomination blocks and 23 NELP blocks. In addition, the Company was a consortium partner in eight NELP blocks.
- The Company had not completed the committed work programme in 15 nomination blocks. The Company also could not establish prospectivity of the area in two basins, after incurring an expenditure of Rs.404.89 crore. The Company had also not completed the minimum work programme in seven NELP blocks, resulting in payment of penalty of Rs.1.68 crore.
- The Company had not fixed standards/norms for total field days in a field season, normal non-production days towards camp establishment and winding up, experimental/topographical survey days and productivity of geophysical parties, resulting in wide variance in different basins. Similarly, the Company had also not

fixed norms for production testing in terms of number of days to be spent per object of testing.

- The Company had delayed the finalisation of shot hole drilling contracts which resulted in under achievement of data acquisition targets by 207 Ground Line Kilometer and 49.29 Square Kilometer (SKM), besides idling of the geophysical parties for 463 days with nugatory expenditure of Rs.1.85 crore.
- The Company did not ensure availability of ready drill sites, further drilling programme, equipment and spare parts, *etc.* before deployment of drilling rigs resulting in idling of rigs for 1566 days, incurring an expenditure of Rs.40.83 crore.

❖ **Production and surface facilities in western onshore areas**

- The western onshore of Oil and Natural Gas Corporation Limited (Company) consists of three Assets at Ankleshwar, Ahmedabad and Mehsana which are responsible for production of oil and gas from the explored and developed reservoirs. The main production and surface facilities for production of crude oil and gas included Group Gathering Station (GGS), Gas Compression Plant (GCP), Effluent Treatment Plant (ETP), Central Tank Farm (CTF), Desalter Plant, *etc.* The performance of these facilities was assessed in audit with particular reference to planning and implementation of projects pertaining to these facilities as also adherence to stipulations of health, safety and environment.
- Though 47 out of 120 facilities in the three Assets were more than 25 years old, the Company did not have a standard policy for replacement of critical equipment for the surface facilities.
- There were delays in construction of GGSs at three locations as a result of which produce of the wells in absence of there being a nearby GGS continued through hired road tankers, exposing the Company to the vulnerabilities associated with road movement including safety and environmental risks and malpractices.
- Accumulation of oily sludge continued at 51 installations at Ahmedabad and Mehsana Assets in violation of the stipulations of Gujarat Pollution Control Board. Frequent cases of leakages in pipeline were noticed which also had adverse implications on the environment. Mehsana Asset had not taken effective steps for arresting emission of hydrogen sulphide gas into the environment.
- During the period 2004-08, all the three Assets did not achieve the norms of transit loss of one *per cent* in transportation and handling of crude oil resulting in a loss of Rs.73.38 crore. Stipulations of statutory bodies such as Directorate General of Mines Safety were not attended to by the Company. Despite being in operation for over 30 years, an updated surface plan indicating pipelines and other infrastructure was not in existence in the three Assets.

MINISTRY OF POWER

North Eastern Electric Power Corporation Limited and NHPC Limited

❖ **Implementation of 10th Plan hydel projects in North Eastern and Eastern regions**

NHPC Limited (NHPC) and North Eastern Electric Power Corporation Limited (NEEPCO) planned for capacity addition of 642 Mega Watt (MW) and 85 MW respectively in North Eastern and Eastern regions during the 10th Five Year Plan (10th Plan) period (2002-2007). NEEPCO could add only 25 MW capacity against the 10th Plan hydel capacity addition target of 85 MW and could spend only Rs.983 crore (March 2008) against 10th Plan outlay of Rs.2,509 crore. NHPC could not make any capacity addition in the North Eastern and Eastern Region against the proposed hydel capacity addition of 642 MW in the 10th Plan. Teesta Stage –V of 510 MW was commissioned in April 2008. Further, NHPC could spend only Rs.5165 crore (March 2008) against the 10th Plan outlay of Rs.12,755 crore for hydel projects to be executed in these regions. Such shortfalls were on account of delays in environmental and forest clearance, delays in investment decisions, delays in signing of Memorandum of Understanding (MOU)/Memorandum of Agreement (MOA) with the State Governments, natural calamities, geological surprises, law and order problems, *etc.* The Detailed Project Reports were also found to be deficient. Delay in obtaining requisite clearances had affected most of the projects. The Companies should adopt fast track mechanism for obtaining the requisite clearances.

MINISTRY OF TEXTILES

National Textile Corporation Limited

❖ **Sale of surplus land and buildings**

National Textile Corporation Limited (Company) incorporated in April 1968 was managing 119 textile mills taken over by the Government of India, through its nine subsidiaries. All these subsidiaries were declared sick under the Sick Industrial Companies (Special Provisions) Act 1985. Revival schemes (2002) and a modified revival scheme (2006) were approved by the Board for Industrial and Financial Reconstruction/Government of India which had envisaged closure of unviable mills and revival of viable mills. According to these schemes, 77 unviable mills were to be closed, 40 viable mills were to be revived (22 through modernisation and 18 through public private partnership) and two mills in Pondicherry were to be transferred to the State Government. The scheme was self-financing, the funds realised from sale of surplus assets were to be utilised for revival/modernisation.

After analysing the whole process of sale and disposal of land and buildings, it was observed that:

- The Board for Industrial and Financial Reconstruction/Government of India guidelines for determination of reserve price were not followed in certain cases.
- Reports of consultants were not evaluated resulting in under fixation of reserve price by Rs.493.46 crore in five cases.
- Tender documents had certain irregularities resulting in loss of Rs.185.10 crore in three cases.
- Properties were sold below registration/circle rates resulting in loss of opportunity to earn Rs.10.43 crore in six cases.
- Properties were sold below reserve price and without following the tender process in contravention of BIFR/GOI guidelines.
- No prescribed procedure for valuation of building structures was in existence.
- There were inconsistencies among the guidelines issued by BIFR/GOI and the procedure laid down by the Company.