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CAG's COMPLIANCE AUDIT REPORT UNION GOVERNMENT (COMMERCIAL) PRESENTED IN PARLIAMENT

The Report no. 33 of 2022 of Comptroller and Auditor General of India (C&AG) on Compliance Audit Observation was laid in Parliament here today. The report includes important audit findings noticed as a result of test check of accounts and records of Central Government owned companies and corporations conducted by the officers of the C&AG under Section 143(6) of the Companies Act 2013 or the statutes governing various corporations.

2. The Report contains 26 individual observations relating to 23 Central Public Sector Enterprises (CPSEs) under seven Ministries/Departments. Total financial implication of individual audit observations is ₹4,068.64 crore.

3. **Highlights of some significant paragraphs included in the Report are given below:**

Payment of allowances in contravention of DPE guidelines

Department of Public Enterprises (DPE) issued (August 2017) guidelines which stated that the perks and allowances admissible to different categories of the Executives under 'Cafeteria Approach' would be subject to a maximum ceiling of 35 *per cent* of the basic pay. Audit observed that NLCIL approved non-monetary perquisite of Concessional Electricity over and above the common allowance of 35 *per cent* of the basic pay to the executives of NLCIL and its subsidiaries in contravention of DPE guidelines and the directions of Ministry of Coal. This resulted in irregular and recurring payment of perks in contravention of DPE guidelines to the extent of ₹17.22 crore to the executives of NLCIL and its subsidiaries.

(Para 1.1)

Avoidable expenditure of ₹16.93 crore due to delay in renewal of lease

Bharat Petroleum Corporation Limited (Company) had taken a land on lease for establishment of Haldia Coastal Installation for storage and distribution of petroleum products from Syama Prasad Mookerjee Port (Port) for a period of 20 years and the same expired in February 2013. The Port rejected the Company's proposal (January 2013) for renewal of the lease due to non-payment of enhanced lease rent of ₹6.03 crore along with its interest of ₹1.81 crore. Later on the Company took 21 months to convey (November 2017) its acceptance to the Port's offer (March 2016) for renewal of the above lease for 30 years at a payment of upfront premium of ₹36.71 crore. In the meantime, total upfront premium including tax towards renewal of above lease was increased to ₹53.64 crore due to upward revision of Schedule of Rent and introduction of the Goods and Service Tax. Thus, delay in acceptance of offer of the Port for renewal of lease by the Management resulted in in avoidable expenditure of ₹16.93 crore.

(Para 2.1)

Undue benefit to the executives in the form of payment of 'running and maintenance' expenses of vehicles

Indian Oil Corporation Limited, ONGC Limited, GAIL (India) Limited and ONGC Videsh Limited extended undue benefit of ₹2,609.47 crore to its executives by paying running and maintenance expenses of vehicles over and above the limit prescribed under the guidelines of Department of Public Enterprises.

(Para 2.3)

Loss due to non-realisation of export subsidy

Government of India notified (12 September 2019) a scheme, wherein the maximum admissible export quantity fixed for each sugar mill was determined and an amount of ₹10,448 per tonne fixed as assistance for expenses on export of sugar. Government of India determined maximum admissible export quantity of HPCL Biofuels Limited sugar mills at 13,266 tonnes. NCDEX e Market Limited was engaged by HPCL Biofuels Limited to carry out the work of vendor empanelment, verification of documents, collection of Earnest Money Deposit, finalisation of tender and online auction. Sri Venkateswara Global Trading Pvt Limited emerged as the H1 bidder and Export Sugar Sale Agreement was executed (30 December 2019).

The exporter lifted 13,266 tonnes of sugar between 1 January 2020 and 3 March 2020 and accordingly HPCL Biofuels Limited realised ₹27.86 crore on account of sugar sale. However, the exporter did not deposit the documents required for the claim of subsidy. Due to non-submission of required export documents by the Exporter, HPCL Biofuels Limited could not claim subsidy of ₹13.86 crore from the Government, under the maximum admissible export quantity scheme. HPCL Biofuels Limited suffered loss of ₹13.76 crore on account of its failure to verify the authenticity of the successful bidder and acceptance of post-dated cheque as Performance Bank Guarantee.

(Para 2.4)

Infructuous expenditure on creation of Propylene handling facilities

Creation of additional Propylene handling facilities at Visakh Refinery of Hindustan Petroleum Corporation Limited, despite being aware that the only customer - M/s Andhra Petro Chemicals Limited was lifting the product through dedicated pipeline directly from Visakh Refinery, resulted in infructuous expenditure of ₹11.50 crore.

(Para 2.5)

Opportunity foregone to conserve energy

Delay in implementation of Continuous Capacity Control systems in Net Gas Compressors of Continuous Catalytic Regeneration Unit at Visakh Refinery of Hindustan Petroleum Corporation Limited resulted in loss of opportunity to save ₹10.59 crore towards conservation of energy during June 2014 to November 2018.

(Para 2.6)

Infructuous expenditure of ₹145 crore due to participation in a low hydrocarbon and risky exploration & production block

Indian Oil Corporation Limited (company) acquired two onshore Type-S Exploration Blocks for exploration & production (E&P) in Cambay Basin, Gujarat with 100 *per cent* participating interest & operatorship by ignoring the reservations expressed by in house consultant as well as third party consultant regarding prospectivity of blocks, presence/absence of basic elements indicating availability of viable reserves of hydrocarbons, especially when the Company was not having any operatorship experience in the E&P activities. Due to non-discovery of hydrocarbon in acquired block, it was decided (August 2015) to relinquish the block which resulted in infructuous expenditure amounting of ₹145 crore (inclusive of liquidated damages amounting to ₹37.32 crore on account of non-completion of Minimum Work Programme and interest of ₹15 lakh on late payment of liquidated damages).

(Para 2.7)

Avoidable expenditure on unviable NELP blocks after their relinquishment

Government of India awarded two NELP blocks, viz., MN-DWN-98/3 and MN-OSN-2000/2 in Mahanadi Basin to ONGC in April 2000 and July 2001 respectively. Audit observed that despite adverse economic viability of the project and failure to carry out the Drill Stem Test required for approval of Declaration of Commerciality as per CCEA approved Testing Requirement Policy, 2015, ONGC incurred avoidable expenditure of ₹23.12 crore on two of its NELP blocks after their relinquishment.

(Para 2.8)

Imprudent decision making in finalisation of tender for sale of condensate resulted in short realisation of revenue

Despite availability of sufficient quantity of condensate and interested bidders, OIL cancelled the tender and eventually, blended the condensate with crude oil. OIL thus lost the opportunity to earn additional revenue as it merely fetched the price of crude oil as a result of blending, which was much lower than the prices of condensate. OIL by accepting the offers of the valid bidders could have fetched an additional revenue of ₹24 crore.

(Para 2.9)

Loss due to non-compliance to statutory requirements

Damodar Valley Corporation (DVC) applied (December 2014) for extension of Mining Lease from 1 January 2016 to District Mining Office, Bokaro. The extension of Mining lease was not granted because DVC did not have valid mining plan. DVC awarded (September 2016) the work for deployment of heavy earth moving machineries for removal of overburden and transportation of coal from Bermo Mines to M/s BKB Transport Private Limited (contractor) at a cost of ₹14.11 crore. Office of the Deputy Commissioner cum Magistrate, Bokaro made online challans mandatory for dispatch of ores from 1 November 2016. These online challans could not be generated by DVC as it did not have approved mining plan. Hence, DVC had to stop mining work since august 2017 citing non-transportation of coal for want of online challans. The Corporation paid ₹7.78 crore to the contractor for overburden removal. Thus, awarding of a mining contract for Bermo Mines without having a valid mining lease resulted in loss of ₹7.78 crore towards cost of overburden removal along with loss of 59,850.10 metric tonnes of coal valuing ₹17.95 crore.

(Para 3.1)

Avoidable expenditure of ₹85.35 crore

Nabinagar Power Generating Company Private Limited and Power Grid Corporation of India Limited entered (18 March 2016) into an Implementation Agreement wherein the transmission line was to be commissioned by 30 April 2019. Company however requested (March 2016) Power Grid Corporation of India Limited to commission one transmission line matching with commissioning of the first unit by September 2017. Power Grid Corporation of India Limited completed the transmission line in May 2018 but Nabinagar Power Generating Company could not utilise the line as Unit 1 was not commissioned by then. Consequently, being a generating Company it had to bear the transmission charges as per Implementation Agreement. Nabinagar Power Generating Company incurred avoidable expenditure of ₹85.35 crore on account of payment of idle transmission charges to Power Grid Corporation of India Limited due to its inability to assess the time required for completion of its power generating units and failure to complete the project in synchronisation with the transmission line.

(Para 3.2)

Loss of ₹13.09 crore by NHPC, Muzaffarpur

NHPC was selected as an executing agency and a tripartite agreement was entered into (31 August 2004) between National Hydroelectric Power Corporation Limited, Rural Development Department, Government of Bihar and Ministry of Rural Development, Government of India to construct/upgrade rural roads in Bihar under the PMGSY. NHPC received fee of ₹127.98 crore during 2008-09 to 2014-15 for the above work. However, Service Tax on the above fee was not deposited by the Company timely on the assumption that services rendered by them as an executing agency for construction and maintenance of road projects in Bihar was free from Service Tax. NHPC suffered loss on account of avoidable payment of interest and penalty of ₹13.09 crore for the period between 2008-09 and 2014-15 due to non-payment of Service Tax within the stipulated time.

(Para 3.3)

Infructuous expenditure on gas conversion

Conversion of Naphtha based Rajiv Gandhi Combined Cycle Power Project of NTPC-Kayamkulam to multi-fuel based Plant which can use Natural Gas or Regasified Liquefied Natural Gas or Naphtha as fuel, without ensuring availability of gas, resulted in infructuous expenditure of ₹17.27 crore.

(Para 3.4)

Erosion of investments due to non-adherence to 'stop loss' limits

General Insurance Corporation of India (GIC) has laid down Annual Investment Policies approved by Board, which inter alia included 'stop loss' limits to minimise loss of capital by monitoring the equity portfolio on a continuous basis and to take timely exit decisions. Audit observed that GIC did not exit from scrips even though stop loss limits were triggered, on the ground that the scrips were thinly traded. The equity portfolio of the Company contained 123 scrips with book value of ₹4,541.89 crore which depreciated to ₹1,701.28 crore (depreciation ranging from 20 *per cent* to 99.87 *per cent*) as on 31 March 2020. Out of 123 scrips, 20 scrips with a book value of ₹216.28 crore had depreciated by more than 90 *per cent* of book value as on 31 March 2020. Audit analysed these 20 scrips with respect to stop loss parameters laid down by GIC and stock market data, for the period from 2016-17 to 2020-21. Audit noticed that these scrips were not thinly traded on stock exchanges and GIC could have earned minimum approximate amount ranging from ₹134.89 crore, ₹66.22 crore, ₹28.03 crore, ₹8.49 crore and ₹9.19 crore during the years 2016-17 to 2020-21 respectively, had it offloaded these scrips, even at the least market price, below the average book price. Non-offloading of eroded scrips has resulted in further loss of capital/interest.

(Para 4.1)

Loss of Input Tax Credit against Goods and Services Tax

Delhi Regional Office-I of National Insurance Company Limited, which is the designated nodal office for the purpose of payment of Goods and Services Tax (GST) on behalf of all the Regional Offices of the Company operational in Delhi, did not reconcile the input service invoices with the GST Portal to ascertain the correct amount of Input Tax Credit which could be availed by it. Further, there was absence of functionality in its IT system for entering the base value of the invoices and the GST component separately, which led to constraint in reconciling the substantial difference between the Input Tax Credit claimed by it (through Form GSTR-3B) and that reflected on the GST Portal (in Form GSTR-2A). Consequently, it could not avail the eligible Input Tax Credit and incurred a loss of ₹97.44 crore during 2017-18 to 2020-21.

(Para 4.2)

Short charging of motor insurance premium

Motor Vehicles Act, 1988 provides for mandatory insurance of motor vehicles against third party risks relating to injury, death of third parties or damage to their property. Motor vehicles are also insured against 'Own Damage', which is optional and is given in conjunction with Third Party cover. Commercial vehicles are grouped into various categories, wherein the Public and Private

Goods Carrying Vehicles (Type 'A') carry higher amount of Third Party premium than those classified under other categories. In NIACL, out of 42,333 motor insurance policies (Type 'D') across 10 Operating Offices, a sample of 4,863 policies were selected (11.48 *per cent*) for audit scrutiny. Audit observed that in 1,433 policies where insurance premium applicable to Type 'D' vehicles was charged; the vehicles were registered as Goods Carrying Vehicles in the Registration Certificates (RC) of the respective vehicles. The incorrect classification of the vehicles at the time of underwriting by NIACL has resulted in short charging of Third Party premium by ₹2.96 crore and Own Damage premium by ₹2.07 crore. In OICL, there were 23,79,450 policies (14,11,746 Goods Carrying Vehicles) issued during 2016-17 to 2018-19. Audit extracted 10,59,755 policies (5,91,936 Goods Carrying Vehicles) for further analysis and observed that in 5,175 policies (3,400 vehicles) where the premium should have been charged as per the rates of Type 'A' for 'Goods Carrying Vehicles', it was charged as per the rates of Type 'D' - Miscellaneous and Special Type of Vehicles'. Out of the 5,175 policies, 2,577 policies (1,703 vehicles) were issued to a Company (M/s Delhi Baroda Road Carrier Ltd.) operating carrier business and having goods carrier vehicles, for which Third Party premium required to be charged was ₹8.59 crore. Against this, Third Party premium of only ₹1.37 crore was charged resulting in short charging of premium of ₹7.22 crore. In balance 2,598 policies (1,701 vehicles) issued to others, the Third Party premium required to be charged was ₹3.12 crore. Against this, Third Party premium of only ₹1.32 crore was charged resulting in short charging of premium of ₹1.80 crore.

(Para 4.3)

Imprudent financing resulting in loss of ₹26.87 crore

MSTC Limited (Company) entered into a Memorandum of Agreement with Global Coke Limited, (Party), for financing the procurement of hard coking coal under facilitator mode in December 2009. After expiry of the above agreement in December 2011, the Company extended the same from time to time inspite of being aware of the poor financial condition of the party. The Company did not undertake the risk sale of pledged material of the Party to recover its outstanding dues of ₹31.37 crore considering submission of the party to clear its outstanding dues by July 2019. Further, despite favourable arbitration award, the Company did not take action to implement the same. The Party went to the National Company Law Tribunal, Kolkata and the National Company Law Tribunal finally ordered (May 2018) for liquidation of the Party. The Company ultimately received (September 2019) only ₹1.35 crore from the liquidator as proceeds from disposal of pledged material and recognised the outstanding dues of ₹26.87 crore from the Party as bad debts in its books of accounts considering the same as irrecoverable.

(Para 5.1)

Loss on account of deficiencies in project management

Project for installation of 'Hot Metal Desulphurisation Station in Steel Melting Shop-II' at SAIL/Bokaro Steel Plant was approved (July 2008) and was awarded to a consortium of M/s. Tata Projects Limited (Contractor) and M/s Danieli Corus BV in October 2008 at a contract price of ₹51.21 crore and Euro 1,696,979. The project was to be completed by April 2010. SAIL spent

₹53.55 crore on the project till 31 March 2015 (after which only arbitration award payment and some milestone payments were made) and cost increased to ₹67.82 crore till July 2021. The commissioning and Performance Guarantee test of the project could not be done even after the lapse of more than 11 years from the scheduled date of completion mainly due to non-completion of various upstream and downstream facilities which had to be got done by SAIL. SAIL/Bokaro Steel Plant blocked funds of ₹67.82 crore on account of its deficient project management which led to non-completion of Hot Metal Desulphurisation Station project and consequent loss of interest of ₹33.34 crore (upto December 2021). Additional expenditure of ₹15.21 crore was also incurred on account of prolongation cost paid to the Contractor. Further, the equipment installed 7-8 years back requires refurbishment at an estimated cost of ₹57.75 crore.

(Para 5.2)

Loss due to idling of Gas holder installed at Rourkela Steel Plant

Gas holders installed at SAIL/Rourkela Steel Plant during 1960 had outlived their useful life of 18 years and accordingly SAIL Board accorded (October 2006) in-principle approval for installation of a 1,00,000 cubic meters Coke Oven gas holder as replacement. The work order was issued (July 2007) at a cost of ₹99.37 crore and the new gas holder was commissioned (August 2010). It was in operation till 7 November 2012, when an incident occurred due to which the equipment was not in operation. Coal and Chemicals Department of Rourkela Steel Plant initiated a proposal (January 2015) for repair of the gas holder but no decision was taken by Rourkela Steel Plant on the proposal. A multi-disciplinary committee was constituted (June 2020) which recommended (September 2020) to appoint consultant to explore alternative technologies for modification of gas holder. However, revival of gas holder was not pursued as in view of improved Coke Oven gas position after Modernisation and Expansion of Rourkela Steel Plant, gas holder was no longer needed for Coke Oven gas network. Failure of the Management to assess the need for new Coke Oven gas holder in the light of its upcoming Modernisation and Expansion Programme led to the gas holder installed at a cost of ₹99.37 crore becoming redundant after only 27 months of use and idling for more than nine years.

(Para 5.3)

Inability of NHAI to recover damages of ₹693.24 crore from the concessionaire

Government of India, Ministry of Road Transport and Highways authorised (February 1999) National Highways Authority of India for strengthening the existing 2-lane road in Satara-Kagal Section of NH-4 in the State of Maharashtra. Audit observed that NHAI was unable to recover damages of ₹693.24 crore (as calculated by Independent Engineer) imposed on the Concessionaire (Maharashtra State Road Development Corporation Limited) for its failure to undertake repairs and maintenance of highway, due to NHAI's failure to enforce the terms of the Concession Agreement, especially its failure to enter into escrow agreement.

(Para 7.1)

Loss of toll revenue

NHAI awarded work of four laning of UP/Haryana Border-Panchkula section of NH-73 under three packages on EPC mode with two toll plazas proposed on the stretch. Scheduled completion date of two stretches (Package-I and II) were in May 2018 and April 2018 whereas one stretch (Package-III) was delayed with scheduled completion date in November 2018. One toll plaza (TP-1) was planned to be constructed on Package-I and another toll plaza (TP-2) on Package-III. NHAI sent proposal to MoRTH for fee notification of TP-1 alongwith TP-2, which was on incomplete stretch, due to which fee notification for TP-1 was delayed. Further, NHAI was having option to construct temporary toll plaza by shifting TP-2 from Package-III to Package-II, however, despite knowing the fact that construction of Package-III was delaying, NHAI failed to take corrective action and since Package-III was constructed with delay of more than 15 months from its scheduled completion date, Package-II remained un-tolled for a period of more than 20 months. This has resulted in loss of revenue amounting to ₹39.92 crore to NHAI/Exchequer.

(Para 7.2)

Doubtful recovery of toll charges due to non-enforcement of contractual provisions

Failure of National Highways Authority of India/its Special Purpose Vehicle in enforcing contractual provisions to effect recovery of outstanding dues, including penalties, resulted in doubtful recovery of ₹21.35 crore from a Contractor in four Toll Plazas.

(Para 7.3)