**PRESS RELEASE**

# OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

**NEW DELHI**
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# CAG AUDIT REPORT ON COMPLIANCE AUDIT OBSERVATIONS (COMMERCIAL) PRESENTED IN PARLIAMENT

The Union Audit Report of the Comptroller and Auditor General of India on Compliance Audit Observations (Commercial), Report No. 9 of 2017 was tabled in Parliament 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 Comptroller and Auditor General of India under Section 143 (6) of the Companies Act, 2013 or the statutes governing the particular Corporations.

**2.** The Report contains 57 individual observations relating to 36 Central Public Sector Enterprises (CPSEs) under 17 Ministries/Departments. Total financial implication of audit observations is ₹8,375.13 crore. The Report also contains a Chapter on 'Irregularities in payment of entitlements (₹108.50 crore) and recoveries (₹66.28 crore) & corrections/rectifications by CPSEs at the instance of audit.

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

Failure by ONGC Campos Limitada (subsidiary of ONGC Videsh Limited) in submitting Operational Safety Documents prior to 90 days of starting of drilling, as required, led to idling of rig for 118 days and consequently a wasteful expenditure of ₹134.73 crore was incurred during June to October 2011.

**(Para 10.10)**

Weighbridges installed by Steel Authority of India Limited (SAIL) at its Meghahatuburu and Kiriburu Iron Ore Mines remained non-functional because these weighbridges were either not as per Railway specifications or were derecognised by the Railways. SAIL continued to load wagons/ rakes at the mines on estimation basis and the company had to incur expenditure on penalty/idle freight on over/under loading of iron ores amounting to ₹101.97 crore during the period from 2011-12 to 2015-16.

**(Para 15.4)**

Steel Authority of India Limited purchases a range of materials for steel making either through domestic sources or through import. Audit examined purchase orders representing 63.19 *per cent* of total procurement value (excluding coal) of the five steel plants and the Corporate Material Management Group of the company covering three years (2012-15). The audit examination revealed that SAIL made limited use of Open/Global tenders with 24.4 *per cent* of the total value of procurement being made on limited tender basis and another 29 *per cent* on single tender basis. Although annual purchases of the plants up to ₹2 crore were about ₹1,851 crore, there were inadequate controls and absence of uniform procedures to deal with such purchases. There was lack of uniformity in purchase processes followed across the steel plants. Instances were noticed of costlier purchases on single tender basis. The Company procured Low Silica Lime Stone at significantly higher cost and incurred extra expenditure of ₹484.15 crore on purchases made during 2012-16. Rourkela Steel Plant (RSP) purchased dolomite from another Public Sector Undertaking and incurred extra expenditure of ₹88.04 crore due to dependence on this single source. Bokaro Steel Limited (BSL) incurred an avoidable extra expenditure of ₹235 crore by using three time costlier pellets from a Public Sector Undertaking as substitute of iron ore lump and sinter. The Company also resorted to avoidable use of pellets and incurred an extra expenditure of ₹25.14 crore. BSL incurred extra expenditure of ₹8.41 crore by opting road transport for dolomite chips instead of cheaper railways freight.

**(Para 15.9)**

The State Trading Corporation of India Limited (STC) signed (4 April 2005) a tripartite agreement with M/s. Global Steel Works International Inc. (GSWII) and GSHL (Umbrella Company of GSWII) for supply of raw material to steel plant of GSWII in Philippines. Non-adherence to trading guidelines of STC, fixing of exposure limit at an exorbitantly higher side, ignoring the defunct status of the plant, failure to exercise effective control through collateral management agency over the material lying in the plant of GSWII, failure to sell material on cash and carry basis (as approved by Board of Directors), avoidable conciliation agreement with the party, etc., resulted in blockage of funds amounting to ₹2,101.45 crore including interest of ₹1,129.15 crore and additional trade margin of ₹220.99 crore.

**(Para 4.1)**

National Highways Authority of India (NHAI) could not realise toll at various toll plazas due to delay in approval and issue of fee notification (₹301.80 crore), delay in start of toll operations (₹204.87 crore), delay in revision of user fee rates (₹141.25 crore) and other procedural lapses in issue of fee notification (₹7.72 crore). Audit further noticed loss of toll revenue due to inefficient bidding process for engagement of toll collecting agencies (₹26.35 crore). NHAI did not adhere to guidelines of Ministry of Road Transport and Highways (MoRTH) regarding maintenance of project wise balance sheet and cash flow.

**(Para 12.4)**

National Highways Authority of India extended undue benefit to a concessionaire as it failed to initiate timely steps to encash the Bank Guarantee received as Performance Security or to terminate the agreement which lead to accumulation of dues to the tune of

₹209.20 crore as of August 2016 against which the Performance Security available in the form of Bank Guarantee was only for ₹48.60 crore.

**(Para 12.1)**

HUDCO declined loan to M/s Nagarjuna Oil Corporation Limited in February 2007 since its internal guidelines did not permit sanction of loan to agencies if their previous track record of repayment was not good and concerns existed regarding the long term viability of the project. In July 2007, HUDCO sanctioned a loan to the same borrower/promoter though their earlier concerns remained un-addressed. The promoter failed to bring in required equity and the refinery project did not achieve financial closure, resulting in stoppage of the project in December 2011. Efforts to bring in international and domestic strategic investors also did not fructify. The estimated project cost increased manifold from ₹4,790 crore in February 2007 to ₹18,830 crore in August 2015. The project viability is doubtful at present and HUDCO faces a potential loss of ₹628.47 crore (principal ₹349.88 crore and interest ₹278.59 crore up to 30 June 2016).

**(Para 9.1)**

Disbursement of loans by North Eastern Development Finance Corporation Limited (NEDFI/Company) decreased from ₹348.73 crore in 2012-13 to ₹302.99 crore in 2015-16, while the Non-Performing Assets (NPAs) increased from 7.24 *per cent* to 17.54 *per cent* during this period. Audit noticed deficiencies in the due diligence of loan proposals of the borrowers in a significant number of cases. Industry and company specific issues were not given due consideration at the time of appraisal of the projects, which led to financing unviable projects, continuous default by the borrowers and loan accounts eventually becoming NPA. Fresh loans were sanctioned and/or disbursements made even when the borrowers did not repay dues of earlier loans. Loans were sanctioned to companies belonging to a group without considering their overall exposure with the Company as well as with other financial institutions and the track record of member companies in repaying loan instalments in respect of existing loans. Delay in transferring NPA accounts for initiating legal action and delays in filing legal suit was also noticed. This effectively deferred recovery process to the detriment of the interests of the Company.

**(Para 5.1)**

Bharat Petroleum Corporation Limited and Hindustan Petroleum Corporation Limited did not exclude the delivery charges while communicating Retail Selling Price of Liquefied Petroleum Gas (LPG) to distributors of Rajiv Gandhi Grameen LPG Vitraks (RGGLV). This resulted in additional burden on the RGGLV consumers and undue financial benefits to the RGGLV distributors to the tune of ₹168.04 crore for the period October 2012 to March 2016.

**(Para 10.3)**

Coal India Limited (CIL) and its subsidiaries failed to apply due diligence for correct fixation of reserve price for sale of G6 grade non-coking coal through e-auction to non-regulated sectors. Though G6 grade was superior to G7 grade of coal, the reserve price of

G6 grade was fixed lower than that of the G7 grade on the basis of the notification of CIL. This resulted in avoidable loss of revenue of ₹68.16 crore during the period from April 2012 to September 2015.

**(Para 3.2)**

Airports Authority of India extended undue benefit by allowing credit facilities violating the terms of contract which resulted in non-recovery of dues. Further, by not issuing notice for vacating advertising sites after the contract period was over, the Authority suffered a loss of revenue amounting to ₹41.68 crore.

**(Para 2.1)**

Examination of the Non-Performing Assets accounts of the Canbank Factors Limited as at the end of 2013-14, 2014-15 and 2015-16 revealed the following:

- Factoring limits to the tune of ₹35.29 crore were sanctioned/disbursed to clients in excess of their eligibility.

- Factoring limits were sanctioned without considering the limits availed by the clients from other factors/banks which resulted in sanctioning of excess limits to the tune of ₹71 crore.

- In 4 accounts, the existing sanctioned factoring limits continued despite the Company being aware of adverse financial health, irregular operations and incipient sickness of the Client. An amount of ₹14.88 crore was disbursed in these cases.

**(Para 7.1)**

IFCI Venture Capital Fund Limited failed to exercise due diligence before sanctioning/disbursing loan to M/s Shri Lakshmi Defence Solution Limited (SLDSL) as the loan was sanctioned despite the fact that the holding company of SLDSL (Shree Lakshmi Cotsyn Limited), whose shares were pledged as security for the loan, had defaulted on repayment of an existing loan to IFCI Limited (parent organisation of the Company). This led to non-recovery of dues of ₹14.92 crore.

**(Para 7.2)**

Audit of operation and maintenance of the dredgers by Dredging Corporation of India Limited (DCI) for the period from 2010-11 to 2014-15 revealed the following:

- Loss of ₹155.39 crore was incurred in Phase-II Capital Dredging work of Ennore Port Limited on account of failure to conduct pre-bid survey, under-performance of dredgers, improper planning in deployment of dredgers and short billing for the work done.

- In respect of the contract entered into with Cochin Port Trust for the period from 2011-15 for maintenance dredging, excess expenditure to the tune of ₹15.91 crore as against the estimates was incurred due to frequent changes in deployment of dredgers. Further, failure to deploy dredgers of the required capacity and not maintaining depth as per the contract resulted in levy of liquidated damages and penalty to the tune of ₹12.80 crore.

- In respect of a dredging contract with Kandla Port Trust for the period from February 2013 to March 2015, penalty of ₹27.80 crore was paid due to non removal of backlog quantity.

- Due to delay in validation of statutory certificates and sailing of dredgers without ensuring the availability of dry dock slots, the dredgers had to be kept idle thereby resulting in loss of opportunity to earn revenue of ₹18.31 crore.

- The failure of DCI to identify the defects before inviting Flag State Inspection (FSI) resulted in stoppage of dredge XI for 23 days and loss of revenue of ₹5.85 crore.

**(Para 14.1)**