

## Preface

Government commercial enterprises, the accounts of which are subject to audit by the Comptroller and Auditor General of India (CAG), fall under the following categories:

- Government companies,
- Statutory corporations, and
- Departmentally managed commercial undertakings.

2. This Report deals with the results of audit of Government companies and Statutory corporations and has been prepared for submission to the Government of Odisha under Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, as amended from time to time. The results of audit relating to departmentally managed commercial undertakings are included in the Report of the Comptroller and Auditor General of India (Civil) - Government of Odisha.

3. Audit of the accounts of Government companies is conducted by the CAG under the provisions of Section 619 of the Companies Act, 1956.

4. In respect of the Orissa State Road Transport Corporation, which is a Statutory corporation, the CAG is the sole auditor. As per the State Financial Corporations (Amendment) Act, 2000, CAG has the right to conduct the audit of accounts of the Orissa State Financial Corporation in addition to the audit conducted by the Chartered Accountants, appointed by the Corporation out of the panel of auditors approved by the Reserve Bank of India. In respect of the Orissa State Warehousing Corporation, he has the right to conduct the audit of its accounts in addition to the audit conducted by the Chartered Accountants appointed by the State Government in consultation with CAG. In respect of the Orissa State Electricity Regulatory Commission, CAG is the sole auditor. The Audit Reports on the annual accounts of all these corporations are forwarded separately to the State Government.

5. The cases mentioned in this Report are those which came to notice in the course of audit during the year 2010-11 as well as those which came to notice in earlier years but were not dealt with in the previous Reports. Matters relating to the period subsequent to 2010-11 have also been included, wherever necessary.

6. Audits have been conducted in conformity with the Auditing Standards issued by the CAG.

## Overview

### 1. Overview of Government companies and Statutory corporations

*Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2011, the State of Odisha had 35 working PSUs (32 companies and 3 Statutory corporations) and 30 non-working PSUs (all companies), of which working PSUs employed 0.25 lakh employees. The working PSUs registered a turnover of ₹9,320.78 crore for 2010-11 as per their latest finalised accounts as on 30 September 2011. This turnover was equal to five per cent of State GDP indicating an important role played by State PSUs in the economy. The working PSUs earned an aggregate profit of ₹1,112.83 crore for 2010-11 and had accumulated profits of ₹2,524.48 crore.*

#### **Investments in PSUs**

*As on 31 March 2011, the investment (capital and long term loans) in 65 PSUs was ₹10,224.98 crore. It increased by 3.34 per cent from ₹9,894.44 crore in 2005-06 to ₹10,224.98 crore in 2010-11. The increase in investment was mainly due to increase in capital and loan in power sector. The share of investment in power sector marginally declined from 81.49 per cent in 2005-06 to 80.60 per cent in 2010-11.*

#### **Performance of PSUs**

*During the year 2010-11, out of 35 working PSUs, 24 PSUs earned profit of ₹1,400.25 crore and six PSUs incurred loss of ₹287.42 crore as per their latest finalised accounts as on 30 September 2011. The major contributors to profit were The Orissa Mining Corporation Limited (₹1,089.32 crore), Orissa Power Generation Corporation Limited (₹166.44 crore), Orissa Hydro Power Corporation*

*Limited (₹46.93 crore) and Orissa State Beverages Corporation Limited (₹40.02 crore). Heavy losses were incurred by GRIDCO Limited (₹146.53 crore) Orissa Power Transmission Corporation Limited (₹71.37 crore), IDCOL Kalinga Iron Works Limited (₹39.61 crore) and Orissa Rural Housing and Development Corporation Limited (₹28.68 crore).*

*The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of CAG shows that the State PSUs' losses of ₹2,409.93 crore and infructuous investments of ₹264.50 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and enhance profits/minimise losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for greater professionalism and accountability in the functioning of PSUs.*

#### **Quality of accounts**

*The quality of accounts of PSUs needs improvement. All 39 accounts finalised during October 2010 to September 2011 received qualified certificates. There were 42 instances of non-compliance with Accounting Standards in 12 accounts of Government companies. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.*

#### **Arrears in accounts and winding up**

*Twenty five working PSUs had arrears of 39 accounts as of September 2011. The Government needs to monitor and ensure timely finalisation of accounts in conformity with the provisions of the Companies Act, 1956. There were 30 non-working companies. As no purpose is served by keeping these PSUs in existence, these need to be wound up quickly.*

(Chapter 1)

### 2. Performance audits relating to Government companies

Performance audits relating to 'Procurement and distribution activities under Public Distribution System by **Orissa State Civil Supplies Corporation Limited**' and 'Construction activities of **The Orissa State Police Housing and Welfare Corporation Limited**' and Information Technology (IT) Audit on 'Implementation of Systems,

Applications and Products in Data Processing (SAP) by **The Orissa Mining Corporation Limited** were conducted. Executive summary of the audit findings are given below:

**Procurement and distribution activities under Public Distribution System by Orissa State Civil Supplies Corporation Limited**

The Company was incorporated in September 1980 with the main objective of procurement of paddy from farmers and supply of Custom Milled Rice (CMR) as well as procurement of rice/wheat and levy sugar from Food Corporation of India (FCI) and sugar mills respectively for distribution under Public Distribution System (PDS). The present performance audit was conducted with a view to assess performance of the Company with regard to effectiveness and efficiency in financial management of PDS operation, efficiency in management of food grain procurement operations, adequacy in planning for procurement, lifting and distribution of PDS commodities, adequacy in preference of subsidy claims and effectiveness of internal control and monitoring activities of top management.

**Financial management of PDS operations**

During 2006-11, the Company financed the paddy procurement operation by availing cash credit aggregating ₹8,494.73 crore which was recouped by sale proceeds of CMR and subsidy received from Government of India (GoI)/Government of Odisha (GoO). The financial management of the Company, however, suffered with several deficiencies causing adverse impact on Company's financial health. Instances of huge interest loss on availing higher cash credits were noticed on account of several reasons, like delays in remittance of funds by District Offices/ Primary Agricultural Co-operative Societies (interest loss: ₹8.23 crore), delays in preferring subsidy claims (₹52.20 crore) due to deficient documentation, non-finalisation of up-to-date KMS accounts, non-receipt (₹7.76 crore) of required documents from Custom Millers, etc.

**Inadequate planning for procurement of paddy**

There were deficiencies in procurement of paddy as well as conversion and delivery of CMR. In 10 selected districts the Custom Millers (CMs) delivered 4.31 lakh MT out of 14.45 lakh MT of CMR after delays of 6 to 510 days from the due date of delivery during KMS 2008-11 resulting in loss of interest of ₹20.28 crore on blockage of funds (₹627.86 crore) towards cost of corresponding quantity of paddy. Despite delay in delivery of CMR within the stipulated period, the Company waived ₹3.69 crore during

KMS 2006-07 to 2008-09 and did not impose holding charges of ₹9.88 crore on 111 CMs for KMS 2009-10. Mandi labour charges of ₹32.44 crore were paid in eleven districts during 2006-10 without obtaining requisite certificates and voucher/supporting documents from District Managers/ Custom Millers. There was undue benefit of ₹7.16 crore to the CMs due to irregular payment of joint custody charges and drriage. There was loss of ₹5.78 crore due to non-claiming of storage and handling loss of CMR from GoI at Rice Receiving Centers. Allowing irregular lifting of paddy by defaulting CMs resulted in loss of ₹4.57 crore.

**Distribution of PDS commodities**

Due to short-lifting of rice, wheat and sugar by the Company for distribution under GoI Schemes deprived 1.98 crore, 0.95 crore and 11.20 crore beneficiary families respectively of availing foodgrains at subsidised rates besides revenue loss of ₹11.09 crore to the Company. Further, short-lifting of APL rice by the Company during August 2008 to March 2011 for distribution to Below Poverty Line (BPL) and Above Poverty Line (APL) beneficiaries in Koraput-Bolangir-Kalahandi districts also resulted in avoidable financial burden of ₹53.95 crore to GoO.

Delay in cancellation of 66,525 bogus BPL cards led to irregular allotment of 4,574 MT of rice valuing ₹7.75 crore. Further, improper planning for transportation of PDS commodities resulted in avoidable expenditure of ₹6.57 crore.

**Man power deployment, internal control and monitoring by top management**

Due to shortage of man power the Company deployed employees on ad-hoc and daily wage basis which affected the updating of records, timely reconciliation of quantities of paddy delivered and rice obtained, finalisation of accounts, etc. There were deficiencies in internal control system prevailing in the Company. MIS data and monitoring by top management was also inadequate.

### **Conclusion and Recommendations**

Proper planning by the Company could have enabled it for procurement, lifting and distribution of commodities under the PDS for distribution to the poor and needy people. This performance audit contains four recommendations to improve the procurement, lifting and distribution of PDS commodities i.e. monitoring the transfer of surplus funds by District Offices and streamlining the procedure

for timely submission of claims with complete documents; strengthening the control mechanism on the functioning of the Custom Millers and release of payments to them as per guidelines; lifting and distribution of PDS commodities as per allotment for timely distribution to beneficiaries; and strengthening the Quality Control System, Monitoring Mechanism, Internal Control System and Manpower Deployment in line with the growing activities.

(Chapter 2.1)

### **Construction activities of The Orissa State Police Housing and Welfare Corporation Limited**

The Company was incorporated in May 1980 as a wholly owned Government company with the main objective to execute residential/ non-residential building projects of Police, Prison, Fire Services and Judiciary department of Government of Odisha (GoO) under different schemes of GoO and Government of India (GoI). The present performance audit covers activities of the Company for five years period from 2006-07 to 2010-11 with regard to planning, execution and handing over of residential/ non-residential building projects, utilisation of funds, monitoring by top management and internal control mechanism.

#### **Planning for execution of projects**

Though the Company was in existence for three decades, it did not evolve any long term plan for execution of projects. The first Perspective Plan prepared by the Company in September 2009 for 2009-14 was also not placed before the Board of Directors (BoD) for approval. The Company also did not formulate any action/working plan nor did it fix any yearly target with reference to the Annual Action Plans (AAPs) of User Departments of GoO in order to prioritise the execution of projects and to ensure optimum utilisation of funds. The Budgetary Control was deficient as Annual Budgets were prepared without obtaining inputs from GoO and without assessing adequacy of budget proposals based on physical parameters of works. The utilisation of available funds was poor ranging from 24 to 39 per cent during 2006-11.

#### **Execution of projects**

There were deficiencies in formulation of estimates and according Administrative Approvals (AAs). There were slippages in completion and handing over of projects. No time frame was fixed for submission of estimates by the Company and

according AAs by User Departments, there were delays of 4 to 390 days and 3 to 720 days at two stages respectively. These delays correspondingly delayed commencement and execution of the projects. Formulation of work estimates suffered with various deficiencies, like, non-consideration of prevailing Schedule of Rates (SoR), lump sum provision for external electrification, non-revision of estimates in line with the cost provided in AAs etc., which resulted in loss of ₹27.52 crore to the Company. The Company did not adopt transparent procedure for engagement of Job-workers and Architects. Payment of higher labour rates/fees to Job-workers and Architects led to loss of ₹2.89 crore.

#### **Project Management**

Project Management System of the Company had several deficiencies like, non-existence of Project Management Techniques, delays in commencement of works due to not engaging the job-worker in time, delay in placing orders for supply of materials, deficient monitoring in execution of works by contractors, etc. Against 3,014 projects awarded to the Company upto March 2011, 1,124 projects were either ongoing (731) or not started (393) which was indicative of inadequate co-ordination between the Company and the User Departments. Further, analysis of 1,645 projects out of 1,890 handed over projects during 2006-11 revealed that only 120 projects (seven per cent) were handed over within the stipulated period and 1,525 projects were handed over with delay ranging from 1 to 81 months. The delays in execution of projects led to extra expenditure of ₹24.25 crore. Execution of 37 pre-fabricated projects at higher rate resulted in extra expenditure of ₹2.32 crore. Due to deficiency in procurement of building material the Company incurred extra expenditure of ₹1.08 crore.

**Internal control and monitoring by top management**

The Company did not devise any mechanism to monitor the works under execution, periods of delay and data of physical and financial achievement so as to take remedial action.

**Conclusion and Recommendations**

Proper planning and co-ordination with the User Departments of GoO by the Company could have enabled it for execution of more number of building projects so as to meet the requirements of the User Authorities. This performance audit contains four recommendations to improve the

performance of the Company for execution of works, i.e., prepare Annual Action/Working Plan and set priorities for execution of works duly linked with the Annual Action Plans of the User Departments; prepare realistic estimates after considering all relevant factors to avoid cost over-run and accept funds towards project costs duly linked with actual progress of works; execute and hand over works as per schedule and within the cost provided in the Administrative Approvals; and strengthen the Monitoring and Internal Control Mechanism.

(Chapter 2.2)

**Implementation of Systems, Applications and Products in Data Processing (SAP) by The Orissa Mining Corporation Limited**

The Company, incorporated in May 1956 as a wholly owned Government Company for mining and selling of iron, chrome and manganese ores, implemented the System, Applications and Products in Data Processing-Enterprise Resource Planning (SAP-ERP) system in September 2004 with a view to streamline its production, sales and procurement activities. It incurred ₹11 crore towards implementation of five modules of the SAP-ERP system till March 2011. In order to examine the performance and effectiveness of the system it was desirable to conduct Information Technology (IT) Audit of 3 out of 5 modules of the SAP system during February to May 2011.

**Production Planning in Sales Operation Module**

The Company implemented this Production Planning in Sales Operation Module (PP-SOP) to facilitate capturing of daily posting of produced ore into the system which would give the stock overview on real time basis and better monitoring of sales activities. There were deficiencies in implementation of this Module with regard to input and validation control, customisation of accounting policies and limited use of the system in some key activities of production. The system was not customised to ensure timely posting of the materials into unanalysed and finished products as well as to prepare the bills of the raising contractors automatically on the basis of the production figures entered. As a result there was excess payment of ₹57.02 lakh to the contractor towards escalation charges in Khandadhar and Gandhamardan mines. Due to adoption of non-uniform rates for payment of wages escalation there was avoidable expenditure of ₹96.36 lakh in Gandhamardan mines. No alert was given in the

system to restrict the production within the statutory limit as a result of which there was accumulation of stock valued at ₹82.68 crore.

**Sales and Distribution Module**

The Company implemented the Sales and Distribution (SD) Module for effective control on sale of materials. There were deficiencies with regard to defective customisation and deviations from the accounting policies etc. Due to defective customisation of SD Module, lifting of ore was made upto 29 days in advance in 386 cases before generation of Delivery Order. Delay in billing and delay in preparation of invoices by the Company resulted in loss of ₹10.30 lakh towards interest.

**Non-implementation of SAP at weighbridges**

The Company did not integrate the weighbridges into the SAP system for recording of the production quantity on real time basis and production figures were fed to the system manually. The weighbridge software was deficient with respect to input and validation control. During April to September 2010, material of 1,655 MT worth ₹64.31 lakh was despatched without being recorded in the system.

**Financial and Controlling Module**

Financial and Controlling (FICO) Module was designed for management of the processes involved in preparation of accounts. Defective customisation and absence of input and validation controls were noticed in the FICO Module. The system had not been customised for automatic adjustment of sale proceeds against the advance payment made by the customers. Due to non-generation of sales order and invoices for scrap

*sales in SAP system, advance received from buyers of scrap was credited to Sundry Debtors Account. Lack of validation control and supervision to ensure the capture of narration in the text field compulsorily and correctly resulted in incomplete recording of transaction details for quality accounts. Valuation of finished goods was not done with the help of SAP system and calculation for finished stock was done manually for incorporation in the Annual Accounts.*

#### **Security Issues**

*The Company had not implemented a well documented IT Policy for important areas like User's Policy, Security & Backup Policy, Password Policy etc. There were irregularities in segregation of duties and responsibilities. Action needs to be taken to maintain User's database which should give complete and meaningful information.*

#### **Conclusion and Recommendations**

*The projected benefits of SAP could not be achieved to the full extent due to defective customisation of SAP with reference to the requirements besides deficiency in input and output controls which led to compromising with accuracy, reliability and integrity of data. Non-implementation of SAP at weighbridges also necessitated for manual input of data into the system as a result of which SAP-ERP system failed to meet the managerial and statutory requirements. The IT audit contains four recommendations for optimising the benefits of SAP system i.e., customisation and usage of the SAP system as per business/ statutory requirements, Government guidelines and policies of the Company; adoption of a suitable control mechanism for ensuring timely data entry to get real time information; integrating the weighbridges with SAP System; and formulation and implementation of a properly documented IT policy incorporating all the security related issues essential for continuity of the business.*

*(Chapter 2.3)*

### **3. Transaction audit observations**

Transaction 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 ₹5.36 crore in two cases due to non-compliance with rules, directives, procedures and terms and conditions of contracts.*

*(Paragraphs 3.1 and 3.2)*

*Loss of ₹4.97 crore in six cases due to non-safeguarding the financial interests of organisation.*

*(Paragraphs 3.3, 3.5, 3.6, 3.7, 3.10 and 3.13)*

*Loss of ₹3.95 crore in two cases due to defective/deficient planning.*

*(Paragraphs 3.8 and 3.9)*

*Loss of ₹1.53 crore in two cases due to inadequate/deficient monitoring.*

*(Paragraphs 3.4 and 3.12)*

*Loss of ₹0.30 crore in two case due to non-realisation/partial realisation of objectives.*

*(Paragraphs 3.14 and 3.11)*

Gist of some of the important audit observations is given below:

**The Orissa Mining Corporation Limited** incurred avoidable expenditure of ₹ 2.99 crore due to failure to avail abatement of service tax as per the statutory provisions.

*(Paragraph 3.1)*

**The Orissa Mining Corporation Limited** made avoidable payment of wharfage charges of ₹ 2.37 crore due to deficient planning for the export activities in line with the PPT target.

*(Paragraph 3.2)*

Improper fixation of target by **IDCOL Kalinga Iron Works Limited** for overburden removal coupled with lack of monitoring resulted in extra expenditure of ₹ 98.92 lakh.

*(Paragraph 3.3)*

Imprudent financial management and inclusion of same liaisoning work under two contracts awarded to a private party by **IDCOL Kalinga Iron Works Limited** led to avoidable interest payment of ₹ 21.76 lakh and extra expenditure of ₹ 63.83 lakh.

*(Paragraph 3.5)*

**Orissa State Beverages Corporation Limited** extended undue benefit of ₹ 83.97 lakh to suppliers due to failure in installation of an appropriate software to avail cash discount.

*(Paragraph 3.8)*

Absence of proper fund management system in **Orissa State Beverages Corporation Limited** and delayed transfer of funds from current accounts in **The Orissa Mining Corporation Limited** led to loss of interest of ₹ 2.07 crore and ₹ 1.04 crore respectively.

*(Paragraph 3.9)*

Due to lack of transparency and fairness in distribution of coal by **The Orissa Small Industries Corporation Limited** to Micro, Small and Medium Enterprises the objectives of New Coal Distribution Policy of Government of India could not be achieved.

*(Paragraph 3.14)*

