EXECUTIVE SUMMARY

I Introduction

1. This Report includes important audit findings noticed as a result of test check of accounts and records of Central Government 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 53 individual observations relating to 31 Central Public Sector Enterprises (CPSEs) under 13 Ministries/Departments. The draft observations were forwarded to the Secretaries of the concerned Ministries/Departments under whose administrative control the CPSEs are working to give them an opportunity to furnish their replies/comments in each case within a period of six weeks. Replies to 39 observations were not received even as this Report was being finalised as indicated in para 3 below. Earlier, the draft observations were sent to the Managements of the CPSEs concerned, whose replies have been suitably incorporated in the report.

3. The paragraphs included in this Report relate to the CPSEs under the administrative control of the following Ministries/Departments of the Government of India:

Ministry/Department (CPSEs involved)		Number of paragraphs	Number of paragraphs in respect of which Ministry/Department's reply was awaited
1.	Chemical and Fertilizers (FACT and MFL)	1	1
2.	Civil Aviation (AASL, AAI and AIL)	7	6
3.	Coal (BCCL, CCL, NLC India Ltd.)	5	3
4.	Commerce and Industry (MMTC and PEC Ltd.)	2	0
5.	Finance (Cent Bank Home Finance Ltd., IFCI Infrastructure Development Ltd., India Infrastructure Finance Company Ltd., and OICL)	5	5
6.	Heavy Industries and Public Enterprises (BHEL and Hindustan paper Corporation Ltd.)	2	1
7.	Housing and Urban Affairs (DMRC)	1	1
8.	Mines (Hindustan Copper Ltd.)	1	1

9.	Petroleum and Natural Gas (Balmer Lawrie & Co. Ltd., BPCL, GAIL (India), HPCL, IOCL, ONGC, ONGC Petro additions Ltd.)	13	8
10.	Power (NTPC Ltd., NTPC-SAIL Power Co. Pvt. Ltd., PGCIL)	3	3
11.	Road Transport and Highways (NHAI)	8	5
12.	Steel (SAIL)	4	4
13.	Textiles (NHDC)	1	1
Total		**53**	**39**

4. Total financial implication of audit observations is ₹4578.15 crore.

5. Individual Audit observations in this Report are broadly of the following nature:

- ❖ Non-compliance with rules, directives, procedure, terms and conditions of the contract etc. involving ₹730.53 crore in 14 audit paragraphs.
- ❖ Non-safeguarding of financial interest of organisations involving ₹1917.70 crore in 18 audit paragraphs.
- ❖ Defective/deficient planning involving ₹1894.40 crore in 19 audit paragraphs.
- ❖ Inadequate/deficient monitoring involving ₹35.52 crore in 02 audit paragraphs.

6. The Report contains a Chapter on “Recoveries & corrections/rectifications” by CPSEs at the instance of audit. The Chapter contains two paragraphs viz. (a) recoveries of ₹72.10 crore made by 20 CPSEs at the instance of Audit, and (b) corrections/rectifications carried out by 4 CPSEs at the instance of Audit.

II Highlights of some significant paragraphs included in the Report are given below:

At the time of sanction of loan of ₹900 crore to M/s Jaypee Infratech Limited, India Infrastructure Finance Company Limited (IIFCL) failed to realistically assess the expected revenue from real estate development of 2500 hectares of land along the 165 km expressway between Noida and Agra even though the real estate component in the project was critical for its viability. IIFCL sanctioned and disbursed the loan at a time when the real estate industry was in strain and real estate development of the project was stalled due to restrictions imposed by the National Green Tribunal on construction activities around 10 km radius of Okhla Bird Sanctuary. IIFCL also unduly relaxed pre-commitment conditions and disbursed the loan amount though the project company was under severe financial crunch. These led to doubtful recovery of dues of ₹1089.89 crore.

(Para 5.3)

The Commission paid to the distributors of LPG by Indian Oil Corporation Limited included two components namely, establishment cost and delivery charges. Delivery charge was not to be charged to customers who collected the cylinders from the premises of the distributors and hence should have been excluded from the price paid by the consumers. Non-exclusion of delivery charges by Indian Oil Corporation Limited while communicating Retail Selling Price of LPG to its Rajiv Gandhi Gramin LPG Vitrak (RGGLV) distributors resulted in additional burden on the consumers and extension of undue favour to the distributors of RGGLV to the tune of ₹280.45 crore during October 2012 to March 2017.

(Para 9.6)

Non-adherence to the guidelines issued by the Ministry of Finance requiring Public Sector Life Insurance Companies to charge premium adequate to cover the incurred claims and other expenses while underwriting the group health insurance policies by Oriental Insurance Company Limited resulted in under charging of premium by ₹145.26 crore during 2014-15 to 2016-17.

(Para 5.5)

Delhi International Airport Limited (DIAL) charged an amount of ₹115.63 crore (till 31 March 2016) to Passenger Service Fee (Security Component) Escrow Account towards rent in respect of accommodation provided to Central Industrial Security Force (CISF) at Monkey Farm, Mahipalpur, New Delhi, on notional basis i.e. without incurring any cost for providing the accommodation. Charging rent for CISF accommodation on notional basis was against the provisions of State Support Agreement and Standard Operating Procedure for Accounts/Audit of Passenger Service Fee (Security Component). This resulted in a deficit to PSF (SC) Escrow Account by ₹115.63 crore.

(Para 2.3)

At the time of internal credit appraisal for sanction of loan to four Special Purpose Vehicle companies incorporated by M/s Concast Infratech Limited, IIFCL assigned different risk scores against the financial and execution capabilities of the core promoter for the four projects, though it was based on same set of information. This led to sanction of loan to technically and financially weak promoter. Disbursement of loan without adhering to Reserve Bank of India guidelines led to release of funds disproportionate to the actual progress of the projects. Eventually, the projects were terminated and loan disbursals of ₹76.46 crore had to be written off.

(Para 5.4)

National Highways Authority of India (NHAI) completed a project relating to strengthening and upgradation of Karur-Coimbatore Section of National Highway-67 in June 2010 at a cost of ₹279.14 crore. Two toll plazas were constructed on the stretch at a cost of ₹7.35 crore and a gazette notification for commencement of toll collection was issued in December 2014. However, the toll collection was not commenced due to instructions received (March 2015) from the Ministry of Road Transport and Highways directing that NHAI should carry out substantial improvement on the stretch as per Rule 4(11) of its notification dated December 2013. Despite the fact that NHAI had already carried out substantial improvement as defined in the notification of December 2013, it did not bring this fact to the notice of the Ministry and complied with the latter's instructions not to commence toll collection. This resulted in loss of revenue of ₹142.28 crore from 31 January 2015 i.e. the scheduled date of commencement of toll collection to 31 December 2017.

(Para 11.8)

National Highways Authority of India (NHAI) entered into (March 2012) a concession agreement (CA) for six laning of Vijayawada-Gundugolanu section of National Highway- 5. As the concessionaire did not commence the work till August 2016, NHAI issued a notice of termination to the concessionaire on 26 August 2016. By that time, an amount of ₹99.27 crore had become recoverable from the concessionaire on account of damages due to non-achievement of project milestones (₹79.82 crore) and damages on account of maintenance obligations (₹19.45 crore). Though NHAI had security in the form of Performance Bank Guarantees aggregating to ₹84.20 crore deposited by the concessionaire and a balance of ₹56.08 crore as fixed deposits in the Escrow account, it neither encashed the bank guarantees nor recovered the dues from the Escrow account. Consequently, damages of ₹99.27 crore along with interest thereon as per the applicable provisions of the agreement remained unrecovered (November 2017).

(Para 11.1)

National Highways Authority of India (NHAI) entered into (March 2006 to September 2007) concession agreements in respect of four projects related to widening of the existing two-lane portion to four lanes on the National Highway 7 in the State of Andhra Pradesh. The projects were completed between March 2009 and June 2010. The concessionaires did not commence the work relating to renewal of wearing surface of the roads within five years of the completion of projects as stipulated in the concession agreements. The renewal work was completed belatedly in three projects and was yet to be completed in one project. However, NHAI failed to recover from the concessionaires damages amounting to ₹85.19 crore leviable under the agreements for delayed/non-completion of work.

(Para 11.2)

Non-finalisation of tender for a pipeline project by Indian Oil Corporation Limited within the validity period of the bid resulted in lowest bidder refusing to extend the validity period of the offer resulting in retendering. The award of work on the basis of retender resulted in extra cost of ₹63.86 crore.

(Para 9.7)

Bharat Coking Coal Limited (BCCL), one of the coal producing subsidiaries of Coal India Limited is engaged in mining, washing and distribution of coal to meet the energy requirement of its consumers. BCCL mines steel grade coal which is precious, fetches higher revenue and is sold without washing due to lower ash content (below 18 *per cent*). BCCL, however, blended steel grade coal with inferior washery grade coal in its four washeries during 2013-14 to 2015-16 instead of supplying the steel grade coal directly to customers. This has resulted in loss of additional revenue of ₹95.09 crore worked out on a conservative basis.

(Para 3.1)

Bharat Coking Coal Limited (BCCL), a subsidiary of Coal India Limited (CIL), is engaged in mining of coal from opencast and underground mines. In the opencast mines of BCCL, departmental production is carried out with the help of Heavy Earth Moving Machineries such as shovels, dumpers, dozers etc. BCCL procured 100 tippers of 35 tonne capacity (December 2013 to January 2014) replacing dumpers of the same capacity. The decision to purchase tippers for replacing dumpers without assessing technical feasibility of such change and obtaining technical views on the advisability of such change resulted in poor utilisation of the newly procured tippers. This led to improper expenditure of ₹79.59 crore.

(Para 3.2)

Nagaland Pulp and Paper Company Limited (NPPCL), a subsidiary of Hindustan Paper Corporation Limited (HPCL) was declared a sick industrial company in August 1998 by BIFR. Government approved the revival package of NPPCL in June 2013. Accordingly, HPCL, being the promoter company, received (September 2013) ₹100 crore from Government for implementing the revival plan of NPPCL, with instructions to follow an escrow account mechanism for ensuring proper utilisation of the sanctioned funds. While sanctioning the funds, Government had mandated explicitly that no fund would be diverted under any circumstances and utilisation certificate was to be furnished by HPCL within a period of one year from the date of issue of the sanction. Audit observed that an amount of ₹47.63 crore has been utilised on implementation of revival package in NPPCL and the balance amount of ₹52.37 crore has been diverted by HPCL. Neither was the escrow account mechanism followed nor was utilisation certificate submitted by HPCL in violation of Government orders. The diversion, besides being improper, adversely affected implementation of the revival process of NPPCL.

(Para 6.2)

Out of the three compressors installed at Gas Compression Plant (GCP) of Central Tank Farm (CTF) Ankleshwar Area-1 one compressor with capacity of 1.17 LCMD suffered major breakdown in July 2014. Due to delay in dismantling process to identify defects in the engine and tendering, the engine could be replaced only after one year (June 2017) from the date of breakdown. In the meantime, an alternative arrangement should have been in place by December 2014 to compress the associated gas received at the CTF. Company however, initiated action to hire a compressor only in November 2015 gas compressor was commissioned only in March 2016. Delay in hiring of low pressure gas compressor by Oil and Natural Gas Corporation Limited, led to avoidable flaring of gas and consequent loss of revenue of ₹9.83 crore during the period from March 2015 to March 2016.

(Para 9.10)

Cent Bank Home Finance Limited (CBFFL) did not adhere to its own laid down credit policy while sanctioning and disbursing loans to individual borrowers. Documents based on which loans were sanctioned had deficiencies which were not considered. Loans were sanctioned without adequate security or checking repaying capacity of the borrowers. Due diligence was not carried out to ascertain indebtedness, credit-worthiness and credit exposure of the borrowers. This led to the loan accounts becoming NPA and their subsequent write-off.

(Para 5.1)

The Airports Authority of India (AAI) is entrusted with the responsibility for creating, upgrading, maintaining and managing civil aviation infrastructure both in air and on surface in the country. AAI operates 137 airports (including international, domestic, custom and civil enclaves at defence airfields). AAI has been modernizing the airports and undertaking construction and repair and maintenance work for creating world class facilities at airports. Audit reviewed 11 out of 18 construction contracts exceeding ₹10 crore, executed by AAI in its Northern Region, over the 5 years from 2012-13 to 2016-17.

Audit observed that the projects executed by AAI resulted in time overrun arising due to non-availability of complete land without hindrance before award of work, delays in obtaining mandatory clearances and approvals from DGCA and changes in the site already selected for a work. Audit also observed that AAI also undertook construction of unviable airport projects using its internal resources. This was in contravention of the provisions of the 'Policy on Airport Infrastructure' (November 1997). Cases of non-adherence by Management of AAI to the conditions of Notice Inviting Tender, contractual provisions and the provisions of AAI Works Manual were also noticed, which indicated ineffective managerial control of the construction works.

(Para 2.2)

Airline Allied Services Limited (AASL) operates in the domestic market and provides connectivity between Tier 2 and Tier 3 cities in synergy with its parent company Air India, as a feeder airline to its network. The Company received viability gap funding (VGF) for its operations in North-East and other parts of the country. The Company had submitted its proposal under the Regional Connectivity Scheme announced (October 2016) by Ministry of Civil Aviation for 26 routes against which 15 routes, where no other bidders had submitted bids, were awarded to AASL. AASL had accumulated losses of ₹1746 crore as on 31 March 2017 and its net worth was fully eroded and was (-) ₹1344 crore.

Audit observed that the losses incurred by the Company and its negative net worth could be attributed to deficiencies in assessment of economic viability of leased aircrafts, extensive grounding of aircrafts due to shortage of pilots and lack of spares. The absence of support agreement and float engine agreements resulted in prolonged grounding of aircrafts and payment of infructuous lease rental of ₹29.63 crore apart from potential revenue losses. Audit further observed that inadequate provisions in the agreements governing payment of viability gap funding resulted in outstanding dues of ₹72.95 crore from State Governments, North Eastern Council and other agencies. Deficiencies in maintenance of the aircrafts and failure to engage approved agencies for maintenance resulted in redelivery conditions not being met and the company being compelled to opt for expensive buyouts, long disputes with the lessor of aircraft and infructuous lease rental payments of ₹22.73 crore during the intervening period. This also resulted in retention of significant amount of Maintenance Reserves by the lessor.

(Para 2.1)

Power Grid Corporation of India Limited had diversified into telecom business in October 1998. Diversification into telecom business by the Company was commendable and enabled the Company to operate in two important service areas viz. Power and Telecom. However, the Company could not achieve the projected market share in telecom business and though the business has been earning profits since 2009-10, it is yet to achieve payback which was anticipated by 2007. There were inadequacies in the pricing methodology followed by the Company. The multiplication factor adopted to scale up tariff for higher capacities was low, which adversely impacted revenue. Pricing of Indefeasible Right to Use contracts was inconsistent with different methods applied for different contracts, leading to lower revenue for the business. The discounts offered by the Company on ceiling tariff were neither transparent nor non-discriminatory. Shortcomings were noticed in sharing of revenue with State transmission utilities for using transmission assets for telecom business.

The financial impact of observations worked out to ₹412.88 crore.

(Para 10.3)

The five integrated steel plants of Steel Authority of India Limited (SAIL) held a total land of 101598 acres. SAIL possessed title deeds of only 48.15 *per cent* of the available land. One steel plant did not possess title deeds for its entire land. Audit noted that 4016 acre land was under encroachment while 16492 acre was vacant and unused as of 31 March 2017. Apart from this, 8500 acre land was under lease. About 50 *per cent* of the encroached land was held by one steel plant.

No signboards/ barbed wire fencing/ compound wall were installed/ constructed to prevent encroachment, despite Board's directives in July 2015/2016. The Company did not take adequate measures to evict the encroachments though it was aware of it and even after eviction orders had been passed by the Estate Court. In a number of cases, existing lessees of the Company had encroached area outside the leased area and instances were noticed where lease holders were running restricted trades or had undertaken unauthorised construction. Company failed to enter into formal lease agreements with a number of lessees while in other cases it failed to renew existing leases.

The townships in the five integrated steel plants had 122814 quarters of which 13.48 *per cent* were either vacant, damaged or under unauthorised occupation as on 31 March 2017. Estate dues amounting to ₹144.87 crore were outstanding as on 31 March 2017 out of which ₹94.94 crore was due from private parties. The Board's decision to recover electricity and water charges from their employees was not fully implemented by steel plants. Transmission and distribution losses were far in excess of the norms in four steel plants during 2014-17 resulting in extra expenditure of ₹371.93 crore. Two steel plants also extended undue benefits amounting to ₹36.27 crore and ₹6.69 crore respectively to their employees/ third parties due to non-recovery of property tax.

The financial impact of audit observations worked out to ₹596.18 crore.

(Para 12.3)

Steel Authority of India Limited (SAIL), generates secondary and by-products like blooms and rails, cuttings of rail/rod/coil, tar, benzol etc. during the process of production of steel which need to be stored and disposed in a timely, efficient and transparent manner, to maximise returns to the Company. These products are sold through e-auction, tender, fixed price and inter-plant transfer by the Marketing departments of the respective steel plants as per the guidelines issued by the SAIL Corporate Material Management Group (CMMG) from time to time.

Audit observed that reserve prices for auction of these products were often un-realistic leading to repeated auctions and eventual loss to the Company. In case of sale of material at fixed prices, the prices were fixed injudiciously, often without considering prices discovered through e-auction. Delays were noticed in disposal of secondary/ by-products, which led to deferment of revenue as well as deterioration of quality. In two steel plants (IISCO and Durgapur), there was no separate stockyard for storing secondary products leading to their mixing with primary products. Significant differences were observed in delivery order and dispatch advice at Bokaro Steel Plant, which could not be explained by management leaving open the possibility of unauthorised diversion and under-reporting of material.

The financial impact of the audit observations regarding sale of secondary and by-products in the sample scrutinized is ₹107.19 crore.

(Para 12.2)

Steel Authority of India Limited (SAIL) requires about 15 MMT (Million Metric Ton) coking coal annually, of which 12-13 MMT is imported either through global tenders or through Long Term Agreements. The Company's Coal Import Group (CIG) is responsible for import of coal while the Transport and Shipping Department (TSD) is responsible for chartering of vessels for overseas transport of imported materials. Value of annual coal imports ranged between ₹6937 crore to ₹11,656 crore during 2013-14 to 2016-17, which was 15 to 22 *per cent* (approx) of the Company's total expenditure annually.

Audit observed that the vendor base for imported coal remained almost static over last seven years and there were considerable delays in processing of responses received from prospective vendors. It was also noticed that the Company did not exercise its right to independently verify the quality of coal nor ensured rotation of Inspection Agencies. Low levels of production from existing captive mines (Jitpur and Chasnalla) and delay in development of Tasra coal mines contributed to increased dependence on imported coal. Audit observed poor management of tenders for handling imported material. The possibility that competition had been compromised in all four tenders floated by the Company for handling limestone and coal in Paradip and Haldia during 2012-16 could not be ruled out. Audit also observed that the Company failed to recover demurrage charges, idle freight and overloading charges paid by it to the vessel owners/Railways from the handling agents. Transit losses in transportation of coal from the port to the steel plant were also in excess of the norms, with high loss in 8 out of 12 months annually during 2015-16 and 2016-17 from Paradip port.

The financial impact of audit observations cited in the para is ₹319.98 crore.

(Para 12.1)

Government of India introduced Yarn Supply Scheme in 2011-12 to make available all types of hank yarn at the price at which it was available at the Mill Gate to the eligible handloom weavers so as to facilitate regular supply of raw material to the handloom weavers and to achieve the full employment potential of the sector.

The National Handloom Development Corporation Limited is the designated national level Agency for implementation of above scheme for which the Corporation received ₹302.72 crore as assistance including subsidy for road transportation charges and service charges for the period 2014-15 to 2016-17. Review of implementation of above scheme during the period 2014-15 to 2016-17 revealed that the envisaged objectives of Yarn Supply scheme were not fully achieved since only 4.58 lakh handlooms were covered under the scheme out of 23.77 lakh handlooms in the country as per census 2009-10. Majority of share of subsidy was passed on to the exporters and large Co-operative societies rather than to individual weavers even though they own 45 per cent of the handlooms in the country. The main reasons for low coverage of the individual weavers were insufficient infrastructure facilities such as depots, mobile vans etc., lack of publicity and awareness about the scheme and inadequate marketing facilities. Resultantly, individual weavers were deprived of the benefit of purchasing smaller quantity of yarn from the nearest depots within minimum delivery time and remained dependent on the master weavers and handloom societies for marketing of their products. During 2014-15 to 2016-17, the Company reimbursed ₹53.68 crore as depot charges to exporters registered as beneficiaries in Haryana and Tamil Nadu though these exporters were using all the yarn for their internal consumption without any further supply to individual weavers. The monitoring mechanism of the scheme was also not effective, which resulted in delay in supply of yarn.

(Para 13.1)