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 Orissa 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 Orissa.

3. Audit of the accounts of Government companies is conducted by the Comptroller and Auditor General of India 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 Comptroller and Auditor General of India 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 2007-08 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 2007-08 have also been included, wherever necessary.

6. Audits have been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Overview

1. Overview of Government companies and Statutory corporations

As on 31 March 2008, the State had 63 Public Sector Undertakings (PSUs) comprising 60 Government companies and three Statutory corporations. Of these, 29 Government companies and three Statutory corporations were working and the remaining 31 were non-working Government companies. In addition, there were three companies under the purview of Section 619-B of the Companies Act, 1956 as on 31 March 2008. Of these two companies were non-working.

(Paragraphs 1.1 and 1.36)

The total investment in working PSUs decreased from Rs. 9,398.67 crore as on 31 March 2007 to Rs. 8,124.56 crore as on 31 March 2008. The total investment in non-working PSUs decreased from Rs. 154.71 crore as on 31 March 2007 to Rs. 140.69 crore as on 31 March 2008.

(Paragraphs 1.2 and 1.15)

The budgetary support in the form of capital, loans, grants and subsidy disbursed to the working PSUs decreased from Rs. 283.38 crore in 2006-07 to Rs. 142.03 crore in 2007-08. As on 31 March 2008, guarantees of Rs. 1,633.23 crore were outstanding against nine working Government companies and one Statutory corporation.

(Paragraph 1.6)

The accounts of 27 working Government companies and two Statutory corporations were in arrears for periods ranging from one to seven years as on 30 September 2008. The accounts of 11 defunct non-working Government companies were in arrears for periods ranging from one to 37 years as on 30 September 2008. Only two working Government companies and one Statutory corporation finalised their accounts for the year 2007-08 by September 2008.

(Paragraphs 1.7 and 1.19)

According to the latest finalised accounts, 19 working PSUs (16 Government companies and three Statutory corporations) earned aggregate profit of Rs. 1,317.75 crore. Against this, 11 working Government companies incurred aggregate loss of Rs. 35.81 crore. Of the loss incurring working Government companies, eight companies had accumulated losses amounting to Rs. 263.34 crore which exceeded their paid-up capital of Rs. 33.97 crore.

(Paragraphs 1.8 and 1.10)

2. Performance reviews relating to Government companies

Performance reviews relating to 'Production, Inventory and Cash Management' by **Orissa Mining Corporation Limited, '**Production and Sale of Pig Iron' by **IDCOL Kalinga Iron Works Limited,** 'Recovery of loans' by **Industrial Promotion and Investment Corporation of Orissa Limited**, 'Implementation of State Excise Policy and Trading in India Made Foreign Liquor, Beer and Country Spirit' by **Orissa State Beverages Corporation Limited** and IT review on 'Implementation of Enterprise Resource Planning System' of **Orissa Power Generation Corporation Limited** were conducted and some of the main findings are as follows:

Production, Inventory and Cash Management by Orissa Mining Corporation Limited

Though Orissa Mining Corporation Limited was in existence for more than 50 years it could explore only 63 *per cent* of the total mines area leased to it by the State Government. It failed to achieve the targeted production during 2003-08 in spite of fixation of low target, due to shortfall in production by contractors which resulted in loss of contribution. Improper inventory management system of the Company resulted in non-disposal and shortage of ores as well as increase in slow moving and non-moving store items. There was delay in repayment of loans leading to extra expenditure.

Some of the important points noticed are as under:

- Failure of the Company to install a new chrome ore beneficiation plant to process low grade chrome ore of 9.86 lakh MT to chrome concentrate deprived it and the Government of India the opportunity to earn additional revenue of Rs. 555.81 crore and export duty of Rs. 90.55 crore respectively.

- Increase in target of production without evolving corresponding marketing strategies led to accumulation of stock of 22.54 lakh MT valued at Rs. 71.53 crore resulting in blockage of funds of Rs. 41.59 crore.

- Repayment of loan in deviation from the terms and conditions resulted in extra expenditure of Rs. 22.44 crore.

(Chapter 2.1)

Production and Sale of Pig Iron by IDCOL Kalinga Iron Works Limited

IDCOL Kalinga Iron Works Limited had four low shaft Blast Furnaces to produce pig iron. Though the Company undertook modernisation of the Blast Furnaces to increase the production capacity, it could not be augmented due to mismatch in related infrastructure facilities. The Company failed to take timely action on the recommendations of the consultant to enhance the productivity. It also neither analysed nor took remedial measure to arrest the production of low grade material. There was also lack of planning in procurement of coke, a major raw material, leading to avoidable expenditure.

Some of the important points noticed are as under:

- Despite investment of Rs. 22.56 crore on capacity enhancement in modernisation scheme, the production remained far below the augmented capacity. Due to shortfall in production, the Company sustained loss of contribution of Rs. 45.75 crore during 2003-08 and also could not avail sales tax benefit of Rs. 6.51 crore.

- The Company sustained loss of Rs. 50.62 crore due to consumption of coke in excess of the norm.

- The Company sustained loss of Rs. 21.68 crore during 2003-08 on account of processing loss, higher generation of scrap and lower grade output.

- Due to unplanned procurement of coke and uneconomical conversion of coal, the Company sustained loss of Rs. 19.55 crore.

(Chapter 2.2)

Recovery of loans by Industrial Promotion and Investment Corporation of Orissa Limited

The performance of Industrial Promotion and Investment Corporation of Orissa Limited with regard to recovery of loans was found to be not effective since targets for recovery could not be achieved in spite of fixing low targets to net realisable demand. Improper monitoring of defaulting units resulted in non-recovery of overdues which contributed to increase in non-performing assets. There was shortfall in realisation of dues due to delay in seizure and disposal of securities and non-realisation of shortfall amount due to non-filing and delay in filing of suits as per relevant sections of the State Financial Corporations Act, 1951.

Some of the important points noticed are as under:

- Inadequate monitoring of defaulting borrowers resulted in non-recovery of overdues of Rs. 51.96 crore from 32 defaulting units.

- One Time Settlement schemes finalised by the Company were neither consistent with the RBI guidelines nor in the best interest of the Company which resulted in settlement of dues, foregoing Rs. 18.75 crore in 23 cases.

- The Company failed to take timely action for seizure and disposal under Section 29 of the SFCs Act as a result of which dues amounting to Rs. 143.39 crore relating to 106 units remained unrealised.

- The Company failed to file suits under Section 31 of the SFCs Act for realisation of shortfall amount of Rs. 49.59 crore which arose due to seizure and sale of assets from 54 units under Section 29 of the SFCs Act.

(Chapter 2.3)

Implementation of State Excise Policy and Trading in India Made Foreign Liquor, Beer and Country Spirit by Orissa State Beverages Corporation Limited

Orissa State Beverages Corporation Limited, holding the exclusive right and privilege, was to control the wholesale trade and distribution of IMFL, Beer and Country Spirit in the State. The Company was thus responsible for implementing the state excise policies to the extent applicable to it. It failed to achieve the excise revenue target set for it by the Government. The Company's performance also suffered from delayed formulation of export policy and inappropriate fixation of price of beverages causing loss to Government. The belated as well as inappropriate fixing of maximum retail price for beverages provided the retailers undue benefit.

Some of the important points noticed are as under:

- Non-consideration of entry tax and non/delayed enhancement of offer prices resulted in short-realisation of Rs. 3.98 crore towards Government revenue and the Company's margin.

- Inappropriate determination of MRP resulted in undue favour of Rs. 36 crore to the retailers.

- Application of inappropriate lower slabs for excise duty in the fixation of issue prices resulted in short-realisation of Company's margin of Rs. 0.42 lakh and Government revenue of Rs. 3.50 crore.

- Lack of co-ordination between the Company and the Government as well as absence of policy for export of beverages resulted in loss of Rs. 2.83 crore towards Government revenue and the Company's margin.

(Chapter 2.4)

Implementation of Enterprise Resource Planning System of Orissa Power Generation Corporation Limited

The computerisation of different activities of the Company suffered from improper business mapping and codification which were vital for assuring effectiveness of the system. The system did not have adequate logical access control especially due to deficient number of user licenses which led to lack of accountability on part of the users. As a result, the system remained with deficient data without serving as a reliable Management Information System.

Some of the important points noticed are as under:

- The system had not been designed properly resulting in generation of conflicting data.
- Inadequate input and validation controls resulted in lack of data integrity and incorrect MIS.
- The Company did not explore the utilisation of the facilities though available in the system.

(Chapter 2.5)

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 revenue of Rs. 30.52 crore in six cases due to irregularities in award of work, injudicious decision to sell ore, non-realisation of rent, short recovery of supervision charges, sale of high grade minerals as low grade and improper loading coupled with ineffective supervision.

(Paragraphs 3.1, 3.7, 3.10, 3.12, 3.18 and 3.20)

Undue favour of Rs. 8.95 crore was extended to contractors and client in five cases due to non-imposition of liquidated damages, upward revision of rate of transportation, non-availing cheaper loan, non-realisation of supervision charges and non-recovery of holding charges from Custom Millers.

(Paragraphs 3.3, 3.8, 3.11, 3.13 and 3.16)

Avoidable expenditure of Rs. 14.47 crore in three cases towards guarantee commission, payment of compensation and payment of water cess.

(Paragraphs 3.2, 3.6 and 3.14)

Excess reimbursement/non-realisation of service tax and interest in two cases resulted in loss of Rs. 3.35 crore and in one case Rs. 0.50 crore was recovered at the instances of audit.

(Paragraphs 3.4, 3.9 and 3.19)

Investment of funds in violation of guidelines of Government and inadequate documentation and post disbursement follow-up in two cases resulted in non-realisation of Rs. 5.08 crore.

(Paragraphs 3.15 and 3.17)

Idle investment of funds in one case resulted in loss of interest of Rs. 44.71 lakh besides cost overrun of Rs. 91 lakh.

(Paragraph 3.5)

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

Failure of **Orissa Hydro Power Corporation Limited** to award the work to the Original Equipment Manufacturers as per Government directive led to avoidable loss of Rs. 21.06 crore besides laxity in recovery of liquidated damages of Rs. 48.43 lakh from Bharat Heavy Electricals Limited.

(Paragraph 3.1)

Failure of **Orissa Hydro Power Corporation Limited** to reduce the Government guarantee against the loan repaid from time to time would result in avoidable expenditure of Rs. 7.46 crore towards Guarantee Commission.

(Paragraph 3.2)

Failure of the Management of **Orissa Hydro Power Corporation Limited** to impose liquidated damages timely resulted in non-realisation of Rs. 5.46 crore.

(Paragraph 3.3)

Injudicious decision of **Industrial Development Corporation of Orissa Limited** to sell low grade chrome ore without beneficiation despite availability of plant capacity deprived the Company of additional revenue of Rs. 5.40 crore.

(Paragraph 3.7)

Delay in payment of service tax and failure to claim service tax along with supervision charges from the clients by **Orissa Power Transmission Corporation Limited** resulted in avoidable payment of interest of Rs. 0.40 crore and non-recovery of service tax of Rs. 1.54 crore.

(Paragraph 3.9)

Investment of funds in violation of the guidelines of the Government and lack of effective pursuance by **Orissa Rural Housing and Development Corporation Limited** resulted in non-realisation of Rs. 2.63 crore.

(Paragraph 3.15)